

**THE RELATIONSHIP BETWEEN FINANCIAL PLANNING AND
FINANCIAL PERFORMANCE OF CEMENT MANUFACTURING
FIRMS IN KENYA**

BY

**MANTHI PASCAL MUTUNE
D63/60070/2013**

**A RESEARCH PROJECT SUBMITTED IN PARTIAL
FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF
MASTER OF SCIENCE IN FINANCE DEGREE BY THE
UNIVERSITY OF NAIROBI**

OCTOBER 2014

DECLARATION

I declare that this project is my original work and has not been submitted for examination in this or any other university.

Signature: _____ Date _____

MANTHI PASCAL MUTUNE

Reg. No. D63/60070/2013

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

Supervisor: MR. ABDULATIF ESSAJEE

Signature: _____ Date _____

DEDICATION

This research project is dedicated to my family and in particular my wife for her unconditional support and encouragement throughout the research period. I also dedicate it to my parents and friends for they provided me with much needed material, financial or otherwise support to make this project a reality.

ACKNOWLEDGEMENT

I wish to thank the Almighty God for giving me strength and taking care of me throughout the research period. This research project is heavily indebted to many people who had an input in it in one way or the other. But my supervisor, Mr. Abdulatif Essajee, Thematic coordinator, Mr. Mirie Mwangi and Chairman of the department, Mr. Herick Ondigo stand out uniquely. May God bless them all. Thanks too to my fellow students for their encouragement. Special thanks to the University of Nairobi for granting me the opportunity to use their facilities and also to my responded for their cooperation. God bless you all.

ABSTRACT

The study analyzed the relationship between financial planning and financial performance of cement manufacturing firms in Kenya. A census approach was used to study the relationship in all the six cement manufacturing firms in Kenya. The instrument of data collection was a semi-structured questionnaire having both open and close-ended questions. Data on the financial performance was gathered from past records and audited financial statements of the manufacturing firms. Secondary data was collected from audited financial statements of all the cement manufacturing firms in Kenya for the years in consideration. The study covered a five year period. Data was analyzed to establish the measures of central tendency that include the mean, mode, and median highlighting the key findings. Inferential statistics was used to establish the relationship between the variables of the study and qualitatively by content analysis. Analysis of variance (ANOVA) was used to determine the significant relationship, if any, of the variables. The study used regression analysis to determine the extent to which financial planning practices affects the financial performance of cement manufacturing firms. Findings of the study overwhelmingly support the hypothesis that financial planning practices play a big role in implementing most organizational policies. The failure of a firm to implement financial planning activities and business planning activities seemed to inhibit many of the cement manufacturing firms from making expected profits. Results also revealed that financial planning activities, business planning activities and frequency of financial planning techniques are the key factors that influence how well the company will perform in the industry. Factors like risk management practices, employee turnover, tax planning, contingency plans, monitoring the lead time, preserving excess stocks, monitoring stock levels, avoiding stock out costs, setting profits target periodically and minimizing holding costs came out to significantly influence the financial performance of a firm.

TABLE OF CONTENTS

DECLARATION	ii
DEDICATION	iii
ACKNOWLEDGEMENT	iv
ABSTRACT	v
TABLE OF CONTENTS	vi
List of tables	viii
List of figures	ix
Abbreviations and Acronyms	x
CHAPTER ONE: INTRODUCTION	1
1.1 Background of the Study	1
1.1.1 Financial Planning	3
1.1.2 Financial Performance	4
1.1.3 Financial Planning and Financial Performance	5
1.1.4 Cement Manufacturing Firms in Kenya	6
1.2 Research Problem	7
1.3 Objectives of the Study	9
1.4 Value of the Study	10
CHAPTER TWO: LITERATURE REVIEW	11
2.1 Introduction	11
2.2 Theoretical Review	11
2.2.1 Agency Theory	11
2.2.2 Transtheoretical Model of Financial Planning and Change	12
2.2.3 Signaling Theory	14
2.3 Financial Planning Practices	15
2.3.1 Contingency Planning	17
2.3.2 Tax Planning	17
2.3.3 Risk Management	18
2.3.4 Employee Turnover	19
2.4. Determinants of Financial Performance of Cement Manufacturing Firms	20
2.5. Empirical Review	22
2.6. Summary and Conclusion	25
CHAPTER THREE	27
RESEARCH METHDODOLOGY	27
3.1 Introduction	27
3.2 Research Design	27
3.3 Population of the Study	27
3.4 Data Collection	28
3.4.1 Data Collection Instruments	28
3.4.2 Data Collection Procedure	28

3.4.3 Reliability and Validity.....	29
3. 5 Data Analysis.....	29
3.5.1 Variables and Variable Measurement and Selection	29
3.5.2The Analytical Model	30
 CHAPTER FOUR:.....	 31
DATA ANALYSIS AND PRESENTATION OF FINDINGS	31
4.1 Introduction.....	31
4.2.Response Rate.....	31
4.3:Respondent Characteristics.....	31
4.4:Business Planning Activities	33
4.5:Business Planning Practices.....	34
4.6 Frequency of Financial Statement Review.....	36
4.7:Effects of Financial Planning on Performance	37
4.8: Discussion and Interpretation of Findings	40
 CHAPTER FIVE:	 42
SUMMARY, CONCLUSION AND RECOMMENDATIONS.....	42
5.1 Summary	42
5.2 Conclusion	42
5.3 Recommendations.....	43
5.4 Limitations of the Study.....	43
5.5 Suggestion for Further Studies.....	45
 REFERENCES	 46
APPENDICES	51
Appendix I: Management Survey Questionaire	51
Appendix II: Letter to Finance Directors of Cement Manufacturing Companies in Kenya.....	55
Appendix III Work Plan for 2014.....	56
Appendix IV Research Budget:	57

List of Tables

Table 4.1: Frequency at which Financial Planning are Practiced.....	34
Table 4.2: Mean and Std Deviations for use of Business Planning Practices.....	35
Table 4.3: Frequency of Time Interval between which Financial Statements are reviewed.....	36
Table 4.4: Model Summary.....	37
Table 4.5: ANOVA.....	37
Table 4. 6: Coefficients.....	38

List of Figures

Figure 4.1: Period served by the Respondents in the Organization.....	32
Figure 4.2: Percentage of Respondents Undertaking Financial Planning.....	33

Abbreviations and Acronyms

ANOVA.....	Analysis of Variance
CBD.....	Central Business District
CEO.....	Chief Executive Officer
ICT.....	Information Communication Technology
IT.....	Income Tax
KAM.....	Kenya Association of Manufacturers
MBA.....	Master of Business Administration
MSC.....	Master of Science in Finance
ROCE.....	Return on Capital Employed
ROE.....	Return on Equity
ROI.....	Return on Investment
ROS	Return on Sales
SME.....	Small and Medium size Enterprises

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

The contemporary business environment, characterized by risks and uncertainties, dictates that financial planning plays a critical role in the financial management function of organizations with the objective of maximizing profit and wealth of shareholders. Hence management should place greater emphasis on financial planning to secure and employ scarce resources in the amount and proportions necessary to increase the efficiency and effectiveness so as to increase value of investments.

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. It helps management avoid waste by furnishing policies and procedures which make possible a closer coordination between the various functions of the business (Donald, Thomas and Rebecca, 2001).

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

Awino, Muturia and Oeba (2011) argue that financial planning activity involves scanning the business environment; determining the business vision and objectives; identifying the types of resources needed to achieve these objectives; quantifying the amount of resource (labor, equipment, materials); calculating the total cost of each type of resource; summarizing the costs to create a budget; and identify any risks and issues with the budget set (Abdul Jalil, Dzuljastri and Ferdous Azam, 2013).

In a survey conducted by Moghimi & Anvari (2014) to evaluate financial performance of Iranian cement companies, it was concluded that financial planning was an important variable in 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.

According to Sarangarajan, Ananth and Lourthuraj (2012), Tamil Nadu's cement industry performance was good during 1997, 1998 and 2004 while for the rest of the years the industry performed poor. Sarangarajan, Ananth and Lourthuraj (2012) concluded that the cement companies in Tamil Nadu have to consider financial planning and consolidation in order to become strong and vibrant.

A mat-analysis was done on the effect of strategic financial planning and financial performance on fortune 500 manufacturing firms. The overall conclusion was that a small but positive relationship existed between strategic financial planning and performance (Hulbert and Farley, 1994).

1.1.1 Financial Planning

Financial planning is a continuous process of directing and allocating financial resources to meet strategic goals and objectives. The output from financial planning takes the form of budgets. Understanding past performance and translating that insight into forward-looking targets to align business results with the corporate strategy is key to driving shareholder value. A financial plan consists of sets of financial statements that forecast the resource implications of making business decisions. For example, a company that is deciding to expand e.g. by buying and fitting out a new factory will create a financial plan which considers the resources required and the financial performance that will justify their use (Arnold, and Chapman, 2004).

A budget is a detailed estimate (forecasted) of future transactions which are expressed in terms of physical quantities, money or both. The essence of a budget is that it is a target set for management to keep within, achieve or surpass it. The foundation for Budgeted Financial Statements is Detail Budgets. Detail Budgets include sales forecasts, production forecasts, and other estimates in support of the Financial Plan. Hilton and Gordon, (1988) defines financial planning as the adaption of the broad objectives, strategies and other plans of an organization into financial terms.

Planning models may consist of thousands of calculations. Oye (2006) indicate that typically these plans will be constructed with the aid of forecasting models and spreadsheets that can calculate and recalculate figures such as profit, cash flows and

balance sheets simply by changing the assumptions. For example, the business may want to do one set of calculations for low, medium, and high demand figure for its products.

1.1.2 Financial Performance

Performance, in a broad sense, refers to the accomplishment of a given task measured against preset standards of accuracy, completeness, cost, and speed. In other words, it refers to the degree to which an achievement is being or has been accomplished. The recommended measures for financial analysis that determine a firm's financial performance are grouped into five broad categories: liquidity, solvency, profitability, repayment capacity and financial efficiency.

According to Athanasoglou et al.(2008), it is important to remember that past and present financial information are not the only factors affecting a firm's financial performance rather measuring a group performance is more important than focusing on only one or two measures at the exclusion of others, (Crane, 2010). The common financial indicators of financial performance include: sales growth, return on investment (ROI), and return on sales, return on equity (ROE), and earnings per share. the popular ratios that measure organizational performance can be summarized as profitability and growth: return on asset (ROA), return on investment (ROI), return on equity (ROE), return on sale (ROS), revenue growth, market shares, stock price, sales growth, liquidity and operational efficiency (Drago, 1990).

A survey carried out by Thomas and Ramaswamy (1996), found that return on average assets (ROA) and return on equity (ROE) was used as financial measures in the banking industry. According to Dyer and Reeve (1995), outcome measurements included productivity, quality and service. Instead of productivity indicators, Delany and Huselid (1996) chose perceptual measures of the financial performance such as product quality, customer satisfaction and new product development.

1.1.3 Financial Planning and Financial Performance

Accounting and financial analysis assist in ensuring that a firm has what it needs to operate successfully. Budgeting allows a public administrator to plan, make proper choices, and decide on the mission and direction of an organization (Rosilyn, 2007). However, while plans and strategies are often stated in a number of elements, resource allocation has always remained the principal means of implementing them. Recently, an organization's budget which embodies its resource allocation decisions has become the only visible manifestation of its strategic planning process (Willoughby and Julia, 2001).

Performing Financial Planning is critical to the success of any organization. It forms the basis of a workable business plan that is measurable and achievable within a period of time. These fuels the need to work towards set targets from a financial perspective .It also helps the CEO to set financial targets for the organization and give targets to his subjects. In enhancing the level of motivation amongst employees' rewards and recognition are accorded to those who hit the targets as provided by the budget (Rubin, 2000). This leads to financial performance of firms due to motivation and the desire to meet set targets.

An essential purpose of financial planning is to assess the financial resources that will be required to implement the programs and activities to achieve the goals and targets of the plan, to ensure that funding is available as and when needed, and to monitor the efficient use of resources and of progress towards reaching the goals and targets (Rosilyn, 2007). Financial Planning lends a hand to focus the attention of the finance managers and subordinate staffs towards organizational objectives. It predetermines the objectives and defines the line of action to complete the work. Kathryn (2002) argues that good management is the management by objectives. Financial Planning serves as the blue print of the course of action and eliminates the unnecessary and useless activities. It focuses to priorities and facilitates to take right decision at the right time (Jennings and Allen, 2002).

1.1.4 Cement Manufacturing Firms in Kenya

In Kenya, there are six cement manufacturing firms which include: Bamburi Cement Limited, Rhino Cement Foundation, East African Portland Cement Company, Athi River Mining Limited, Savanna Cement Company Limited and National Cement Company Limited. Apparently, more than 90% of all cement manufacturers in Kenya today are located within Machakos County and mainly in Athi River. With a cement ready market in Nairobi and Machakos among many other adjacent towns in Kenya, there is really no doubt that cement companies in this part of Kenya will always continue to flourish (Ndetto, 2014). In reference to Dyer and Blair Report of (2012), the cement industry has a current installation of 5 rotary kilns with a capacity to produce 3.3 million tons of

clinker in a year and 14 cement grinding mills with an annual grinding capacity of 5.1 million tons of cement. Bamburi Cement Company leads other local firms in cement production and sales.

In an article, Ndetto (2014) indicate that cement in Kenya is of great importance in every construction projects. Each firm should ensure that it has enough stock at any given time and this can be achieved through proper financial planning mechanisms for example: proper budgeting procedures, capital adequacy, risk management strategies and a clear focus on organizational goals.

As a result of financial planning practices, some cement firms listed in the Nairobi securities exchange were able to occupy a great share of the market by making more sales in the year 2006-2011, According to Dyer and Blair Report (2012), this rise in production was driven by the entry of new cement producers, extensive capacity expansion and proper financial planning practices by existing players in response to increasing competition in order to enhance their financial performances.

1.2 Research Problem

Cement manufacturing firms are faced with various financial planning challenges attributed to high cost of electricity due to high tariffs as well as inadequate power supply, costly imported coal, small capacities for clinker and cement production, lobbying for the introduction of concrete roads in Kenya that will require plenty of cement and inadequate support from the government on policy issues. The industry is

also confronted by poor quality of power due to interruptions and outages leading to inefficiencies in production systems and breakdowns and high cost of transport caused by dilapidated roads leading to poor financial performance. This therefore, calls for financial planning and proper management of costs and revenues by the finance managers to improve financial performance of cement manufacturing firms (Dyer and Blair Bank, 2012).

Previous local studies, mostly unpublished MBA projects, investigating the link between financial planning and financial performance have focused mainly on the, public sector, service industry and SME's in Kenya. They include a study by Mwaura (2013) in which he set out to determine the effect of financial planning on the financial performance of automobile firms 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). Other researchers include; Macharia (2013), who sought to find out the relationship between financial planning and financial performance of public service organizations in Kenya, he conducted a census sampling procedure of 47 managers drawn from commercial oriented parastatals organizations; it was found that there existed a relationship between focusing on organization objectives, allocation of resources, risk management and financial performance.

On SME's perspective, Musando (2013) did an investigation on the relationship between financial planning and the Financial Performance of Small and Medium Enterprises in Nairobi City Centre Kenya. The target population of the study was 332 SME's operating in Nairobi CBD; the study found that most cement manufacturing companies practiced financial planning practices by such as periodical budget estimations, activity-based budgeting and financial analysis. These financial planning practices had positive impacts on the performance of the cement manufacturing companies' good maintenance of capital, managing risks, increased the efficiency of operations and expanded the capacity of the cement manufacturing companies to embrace opportunities.

From the above studies, little has been done on financial planning and financial performance of cement manufacturing firms in Kenya. A knowledge gap exists; therefore there is a compelling need to test whether there is any relationship between financial planning variables and financial performance of cement manufacturing firms in Kenya. Further, the study seek to fill the gap in the existing literature by trying to answer the following research question: what is the relationship between financial planning and financial performance of cement manufacturing firms in Kenya?

1.3 Objectives of the Study

The objective of the study was to determine the relationship between financial planning and financial performance of cement manufacturing firms in Kenya.

1.4 Value of the Study

Some manufacturing firms may use the findings of this study to improve their performance against their competitors that do not apply financial planning practices. Other firms will appreciate financial planning and its role in enhancing a firm's competitive advantage in managing risks and costs to achieve short term and long term financial goals.

Financial managers can use this study in making appropriate decisions concerning financial planning to improve financial performance of their firms. Financial planning can also be used as a blue print of a firm's future financial plans in terms of cash flow management, investments and expansion plans.

The study will serve as a point of reference for the researchers as they conduct studies in this and other related topics. The findings of this study will equally enable policy makers to devise financial planning policies that encourage firms to adapt financial planning practices.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The chapter presents a review of the available literature and researches that relate to the area of study. It also looks at financial planning practices by manufacturing firms and their effects on financial performance.

2.2 Theoretical Review

There are a number of theories which support financial planning practices and explain their effects on financial performance of manufacturing firms. These theories include the Agency theory, Transtheoretical model of financial planning and change and signaling theory.

2.2.1 Agency Theory

The agency theory postulates that the day to day running of a business enterprise is carried out by managers as agents who have been engaged by the owners of the business as principals who are also known as shareholders. The theory is on the notion of the principle of 'two-sided transactions' which holds that any financial transactions involve two parties, both acting in their own best interests, but with different expectations (Ang, Cole and Lin, 2000).

This theory has been observed to identify a few shortcomings in that: it shows information asymmetry where agents have information on the financial circumstances and prospects of the enterprise that is not known to principals; moral hazard where agents deliberately take advantage of information asymmetry to redistribute wealth to themselves in an unseen manner which is ultimately to the detriment of principals; and adverse selection where agents misrepresent the skills or abilities they bring to an enterprise, (Ang, Cole and Lin 2000). This theory provides useful knowledge in financial decisions concerning manufacturing firms; it also brings out considerable arguments on how a financial manager of manufacturing firms should relate with the owners of the business to serve the interests of all stakeholders in a firm (Matthews, & Scott, 2008).

2.2.2 Transtheoretical Model of Financial Planning and Change

Shockey & Seilling (2004). The theoretical planning involves five simple steps namely, setting your goals, analyzing and evaluating your situation, provide recommendations, implementation of the process and monitoring and evaluation of a firm's goals and as well as generating new ideas. These five steps allow a firm to identify its budget's potential as well as setting financial goals for an organizations' budget.

The theoretical approach also allows you to create an active plan that can help you reach your financial goals. Financial planning is ideal for those who want to eliminate personal debt or start saving money. Financial practitioners often use simple rules of thumb to set goals by making sure that they have financial plans to face financial difficulties that may arise. For example, they recommend that more risk-averse investors hold a higher ratio of bonds to stocks in their portfolio (Tibergien & Palaveer, 2001). In manufacturing firms

financial planning plays a fundamental role in ensuring that firms plan for the future through today's decisions. Through financial planning manufacturing firms are able to accumulate reserves and manage risks in all their activities, this highly contributes to efficiency since the firm is financial prepared any form of uncertainties.

Recent research attempts to apply theories from various fields to model the impact of financial planning. Transtheoretical model of change provide insight into how practitioners might help individuals change their financial practices. However, their applicability is limited by differences between the field from which they originate and the field of personal finance. The theories need to be modified to incorporate external factors for example exogenous financial shocks, limited access to financial services, and changes in the business environment that may prevent firms for example manufacturing firms from being able to change particular financial practices.

Kotlikoff (2006) explains that financial planning enables a firm to be financially prepared to take advantage of opportunities that might prevail in the market. A firm that practices financial planning is able to cope with the dynamics and uncertainties in the external environment. For instance, a financial manager of a manufacturing firm has to consider different alternatives before making an investment decision; a financially stable firm can easily take advantage of profitable investments that promise higher returns in future this enables the firm to meet its financial needs as well as opening better opportunities for growth and expansion.

2.2.3 Signaling Theory

The Signaling theory rests on the transfer and interpretation of information at hand about a business enterprise to the capital market, and the impounding of the resulting perceptions into the terms on which finance is made available to the enterprise. The flow of funds between an enterprise and the capital market highly depends on the available information between the two parties (Emery, Fowler, Hawkins and Preller, 1991). For instance the decision of the management to diversify its portfolios highly depends on its financial preparedness to take advantage of profitable investments that can accrue better returns in future.

The management of the firm can make an acquisition; repurchase outstanding shares as well as decisions by outsiders for example an institutional investor deciding to withhold a certain amount of equity or debt finance. The empirical evidence on the significance of signaling theory to quoted firms is accurately represented when investors make use of available information to invest in stocks that promise better returns in future through making a proper analysis of the available information in the market considering all the factors that can affect the performance of a firm.

This theory adds to the insights provided in modern theory on the importance of considering the market forces and the external environment before arriving at an investment decision. Keasey, Thompson and Wright (1992) write that of the ability of a firm to take advantage of important information in making key decisions against its competitors. The empirical evidence shows that one party the sender of this information

must choose whether to communicate or signal that information and the other party must choose how to interpret the signal. In regard to financial planning a firm should consider proper financial plans to take advantage of opportunities that can yield better returns in future

2.3 Financial Planning Practices

According to Veres (2002) financial planning is investing in the future and building that future in today's decisions so that the firm is able to overcome financial difficulties from the turbulent nature of business environment. Financial planning helps decision makers of a firm to determine their short term and long-term financial goals through creating a balanced plan to meet those goals. The purpose of a financial plan is to set you on a path to achieving your financial goals. A well-crafted, integrated plan is a road map showing an efficient way to get to your desired destination (Overton, 2007).

Mudit (2011) explains that financial planning is the backbone of a successful business. A financial plan is very helpful for business owners to withstand the bad times and excel during the good times (Markowitz, 1952). Warschauer (2002) states that there are some important points the company should seriously pay attention to, especially when it is dealing with the success of the financial field in their business. Every firm must be financial prepared to face any form of unforeseen contingencies in case of an eventuality.

A good and proper financial plan is useful especially when the company is faced with outstanding debt and rising cost. For a company to anticipate the condition in advance, it

should prepare for their financial plan in advance. To achieve this, a company should set up a financial plan from the beginning and do further acts like revising and updating the plan every quarter of the year so as to ensure that the company runs on the right and planned track (White, 1997) .A Company must be able to estimate the earnings for an upcoming period without which it may fail to retain its financial strength when it is faced by unforeseen contingency. Oye (2006) indicates that diversification also holds important role in the success of company financial plans.

Among the trend of niche market business, the financial planning can be very effective especially when it focuses on making investment of profits into a diversified portfolio. This way, the company will be given another stream of potential income. In the absence of proper financial planning, the firm cannot be able to save money and invest. If there is no investment, the firm is likely to face a liquidity problem. Creating a financial plan helps you see the big picture and set long and short-term life goals of the company which is a crucial step in mapping out the financial future. When you have a financial plan, it's easier to make financial decisions and stay on track to meet your goals (Pandey, 1985).

There are various financial planning practices employed by firms and businesses in order to maintain and boost their financial performance. However, this study focuses on the main financial planning practices which include but not limited to the following; contingency planning, tax planning, risk management and employee turnover.

2.3.1 Contingency Planning

Canner, Niko and Mankiw (1997) indicates that a firm that makes poor financing and investment decisions is likely to suffer financial loss which may negatively impact on financial performance of a firm. If the firm had not planned for such contingencies, it might be forced to use its long term investment to fund such crises. It is possible that long term investment may not give enough returns if withdrawn before maturity. There is also a possibility of capital erosion. In such a situation, all the financial plans made are of waste. With long term planning, an organization needs to take care of present situation in order to achieve financial goals.

2.3.2 Tax Planning

Tax planning is a component of financial planning that plays a fundamental role in maintaining the financial performance of a firm. A good plan is one which takes the maximum advantage of various incentives offered by the income tax laws of the country. Financial planning objective should be getting maximum advantage of various avenues. Rosilyn (2007) states that tax planning is a part and not financial planning itself. The Primary objective of a good financial plan is to maximize the wealth, not to beat the taxmen. Financial manager that are knowledgeable about the Income Tax (IT) Act can reduce income tax liability. Lundberg (1982) explains that financial managers can also decide where to invest and to claim deductions under various sections. The income earned is subject to income tax by the government. The rate of income tax is different for different income levels, and thus, the income tax payable depends on the total earnings in a given year.

2.3.3 Risk Management

Risk management is an essential component of financial performance. Broom (1995) lends a lot of credence that firms should diversify their portfolios to mitigate risks in their investment. Managing financial risk involves setting appropriate risk environment, identifying and measuring the risk exposure levels, mitigating risk exposure, monitoring risk and constructing controls for protecting the firm from financial risk. In order to properly manage risks, an institution must recognize and understand risks that may arise from both existing and new business initiatives; for example, risks inherent in lending activity include credit, liquidity, interest rate and operational risks.

In manufacturing firms, proper risk management practices are very key to both the organization and the employee. In most cases employees working in manufacturing firms especially in the production department risk injuries from cuts and falling objects in the process of executing their duties. Most manufacturing firms put proper controls to monitor any form of risks that may face the firm for example: stock out costs, obsolete stock and defective products. These risks may attract financial losses to the firm leading to financial difficulties (Azash, Ramarkrishnaiah and Venkateswara, 2012)

Risk identification should be a continuing process, and should be understood at both the transaction and portfolio levels (Willoughby and Julia., 2001). Warschauer (2002) notes that risk identification is the basic step of risk management., this step reveals and determines the potential risks which are highly occurring and other events which occur

very frequently. Risk is investigated by looking at the activity of organizations in all directions and attempting to introduce the new exposure which will arise in the future from changing the internal and external environment. Rahaman (2010) argues that correct risk identification ensures risk management effectiveness.

2.3.4 Employee Turnover

Employee turnover negatively impacts on the financial performance of a firm; this disrupts the financial plans of a firm especially when management employees leave the organization. Employee turnover is a key component of financial planning since management of employees is an important element of any organization that practices financial planning (Awino, 2011). Human capital is among the success pillars in most organizations.

Berry & Wechsler (1995) notes that an organization should develop a clear succession plan to encourage career growth and development. This is essential in minimizing employee turnover which negatively impacts on the financial performance of the firm. When a firm loses an influential employee it risks a financial loss. In most cases organizations incur huge costs through training and development programs. An employee who is well trained by an organization should show commitment and efforts in working towards achieving organizational goals. However, an organization risks a financial loss if that employee is hired by another organization before fully utilizing the skills and knowledge to the initial firm that trained the employee.

2.4. Determinants of Financial Performance of Cement

Manufacturing Firms

The main determinants of financial performance of manufacturing firms are but not limited to the following: size of the firm, capital adequacy, management efficiency and liquidity management (Tobias & Themba, 2011). The size of the manufacturing firm is also included to account for size related economies and diseconomies of scale. Size is the result of the firm strategy, but the variable alone does not guarantee the earning of excess returns. The size of manufacturing firm's leads to reduce cost of raising capital for the firm. An increase in size of manufacturing firm leads to a corresponding increase in profitability as a result of reduced cost of capital. The size of the business is measured using, the level of sales turnover, number of employees, the value of the business, the value of capital employed and market share of the business measured as a percentage. Capital ratio has long been valuable tool for assessing capital adequacy and should capture the general safety and soundness of manufacturing firms (Staikouras and Wood, 2004). Manufacturing firms with a sound financial stability face lower expected costs of financial distress this leads to financial performance of these manufacturing firms. Capital adequacy is measured using capital adequacy ratio expressed as a percentage of its risk weighted asset (Naceur & Goaid, 2008).

Management Efficiency is one of the key internal factors that determine the financial performance of a manufacturing firm. It is represented by different financial ratios like total asset growth, loan growth rate and earnings growth rate. Moreover, operational efficiency in managing the operating expenses is another dimension for management

quality (Tobias & Themba, 2011). The performance of management is often expressed qualitatively through subjective evaluation of management systems, organizational discipline, control systems, quality of staff, and others (Staikouras and Wood, 2004). Some financial ratios of the financial statements act as a proxy for management efficiency. Management efficiency will be measured using asset management ratios for example inventory turnover ratios which is measured using net sales divided by inventor (Molyneux and Thorton, 1992).

The capability of the management to deploy its resources efficiently, income maximization, reducing operating costs can be measured by financial ratios. One of this ratios used to measure management quality is operating profit to income ratio. The higher the operating profits to total income (revenue) the more the efficient management is in terms of operational efficiency and income generation. The other important ratio is that proxy management quality is expense to asset ratio (Short, 1979). The ratio of operating expenses to total asset is expected to be negatively associated with profitability. Management quality in this regard, determines the level of operating expenses and in turn affects profitability. Liquidity is another factor that determines the level of finance performance of manufacturing firms. Liquidity refers to the ability of the firm to fulfill its obligations, mainly of depositors. Liquidity management is measured using liquidity ratios for example current assets divided by current liabilities (Khrawish, 2011).

2.5. Empirical Review

A survey was carried out by Moghimi and Anvari (2014) to evaluate financial performance of 40 Iranian cement companies, a descriptive survey was carried out on the effects of financial planning on financial performance of cement firms. A sample of 25 cement companies was conducted; qualitative and quantitative data was used. A descriptive statistics method of data analysis was applied. The findings of the study revealed that financial planning is an important variable in 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.

Sarangarajan, Ananth and Lourthuraj (2012) carried out a cross sectional survey on the effects of financial planning practices on financial performance of 10 cement firms, secondary data was used for all the ten cement firms and analysis was done using descriptive statistics. The study found that there was a strong relationship between financial planning and financial performance in the cement industry in Tamil Nadu during 1997, 1998 and 2004. The authors concluded that the financial managers of cement companies in Tamil Nadu have to employ financial planning practices to achieve financial performance.

A mat-analysis was done on the effect of strategic financial planning and financial performance on fortune 500 manufacturing firms. A sample of 100 firms were investigated. Both qualitative and quantitative data was analyzed using descriptive statistics, mean and standard deviation. The overall conclusion was that a small but

positive relationship existed between strategic financial planning and performance (Hulbert & Farley, 1994).

Azash (2012) did a sample survey on the effects of financial planning on financial performance in selected cement companies in India. A sample of 30 selected cement companies was used and a semi structured question was used for data collection. Factors analysis was conducted to find out what were the main factors that attracted cement companies to practice financial planning and its relationship with financial performance. The results showed that there was a positive correlation between financial planning practices and financial performance of cement companies.

A number of local studies have been carried out investigating financial planning and financial performance. Bulle (2012) conducted a descriptive survey of 5 ICT firms; the objective of the study was to determine the relationship between strategic planning and financial performances of firms within the ICT sector in Kenya. The researcher adopted a multiple regression model to analyze the data. The results of the study revealed that there was a positive correlation between strategic planning and financial performance of ICT firms.

A study by Mwaura (2013) was carried out to determine the effect of financial planning on the financial performance of all automobile firms in Kenya; the study applied a descriptive research design. In addition both qualitative and quantitative methods were applied in data collection. A sample of 25 automobile firms was used. A regression

model was used to analyze secondary data; descriptive statistical analysis was used to analyze data collected from the questionnaires. 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 have an effect on the financial performance of a firm.

Musando (2013) carried out a study to determine the relationship between financial planning and the financial performance of small and medium enterprises in Nairobi city centre. A descriptive survey was applied in a target population of 332 cement manufacturing companies operating in the Nairobi CBD. A sample of 160 SME's was carried out; data was collected through a structured questionnaire. A multiple regression model was used for data analysis. The study found that most cement manufacturing companies practiced financial planning practices such as periodical budget estimations, activity-based budgeting and financial analysis. These financial planning practices had a positive impact on the financial performance of the cement manufacturing companies some of those practices include, good maintenance of capital, managing risks, increased the efficiency of operations and expanded the capacity of the cement manufacturing companies to embrace opportunities.

Macharia (2013) did a census-sampling procedure of forty seven (47) finance managers drawn from commercial oriented parastatal organizations to determine the relationship

between financial Planning and financial performance of Public Service Organizations in Kenya. Qualitative and quantitative data was used and a simple regression model was used for data analysis. The study established existence of a positive relationship between financial planning and financial performance of public service organizations in Kenya. This study laid more focus on the public service and did not determine the effects of financial planning on financial performance of cement manufacturing firms in Kenya. Thus, a knowledge gap exists; there is a compelling need to fill this gap; hence the need for the study.

2.6. Summary and Conclusion

Financial planning plays a critical role in enabling manufacturing firms to make financial arrangements through examining their organizational goals on the financial performance. From the literature review, there is convergence based on the findings of various scholars and researchers locally and globally. A study by Macharia (2013) found that that proper financial planning practices by public service organizations' led to financial performance. This is supported by Moghimi and Anvari (2014) who found out that there exists a positive relationship between financial planning and financial performance of Iranian cement firms. The study concludes that financial planning is key in analyzing financial flows of a firm for instance financing and dividend decisions.

Although various studies have investigated on the relationship between financial planning and financial performance, little has been done on cement manufacturing firms in Kenya.

This study therefore attempts to fill this gap guided by the following research question:
what is the effect of financial planning and financial performance of cement manufacturing firms in Kenya?

CHAPTER THREE

RESEARCH METHDODOLOGY

3.1 Introduction

This chapter describes the procedures used by the researcher to collect and analyze the data collected from the field in the study.

3.2 Research Design

Research design refers to how data collection and analysis are structured in order to meet the research objectives through empirical evidence (Cooper & Schindler, 2006). The study used a census descriptive research design. Descriptive design provides answers to the questions of who, what, when, where, and how associated with a particular research problem. This design is used to obtain information concerning the current status of the phenomena and to describe what exists with respect to variables or condition in a situation. The research design is preferred because it ensures complete description of the situation, making sure that there is minimum bias in the collection of data (Kothari 2003).

3.3 Population of the Study

Population refers to an entire group of individuals, events or objects having common characteristics that can be observed and measured (Yin, 2003). According to the Kenya

Association of Manufacturers (KAM, 2012) there are six cement manufacturing firms in Kenya as at the year 2014.

A census approach was used which included all the six cement manufacturing firms in Kenya namely: Bamburi Cement Limited, Rhino Cement Foundation, East African Portland Cement Company, Athi River Mining Limited, Savannah Cement Limited and National cement company Limited.

3.4 Data Collection

3.4.1 Data Collection Instruments

The instrument of data collection was a semi-structured questionnaire having both open and close-ended questions. Questionnaires are economical to administer. The semi-structured questionnaires were filled while data on the financial performance was gathered from past records and financial statements of the manufacturing firms which formed part of the study.

3.4.2 Data Collection Procedure.

Data was collected using questionnaires that were dropped and later picked from the respondents who were managers of the cement manufacturing firms in Kenya. This gave respondents ample time to fill the questionnaires. Secondary data was collected from audited financial statements of all the cement manufacturing firms in Kenya for the years in consideration. The study covered a five year period.

3.4.3 Reliability and Validity

The participants were briefed early in advance by the researcher on the need and importance of the study and permission sought for their participation in order to have their full support. Guidance on how to answer the questionnaire was available from the researcher. This ensured high completion rate and accuracy of the information provided. Audited financial statements were used to collect secondary data.

3.5 Data Analysis

Data was analyzed to establish the measures of central tendency that include the mean, mode, and median highlighting the key findings. Inferential statistics was used to establish the relationship between the variables of the study and qualitatively by content analysis. Analysis of variance (ANOVA) was used to determine the significance relationship of the variables. The study used regression analysis to determine the extent to which financial planning practices affects the financial performance.

3.5.1 Variables and Variable Measurement and Selection

Financial performance indicators are usually in form of ratios and they cover a number of concepts and are grouped as profitability, liquidity, Utilization, Financial strength and investment. For the purpose of this study, financial performance which was the dependent variable was measured by the levels of profits realized. The study used profits by cement manufacturing firms to measure financial performance.

Independent variables that were used to measure financial planning of cement manufacturing firms include: risk management, contingency plans, Tax planning and employee turnover. To achieve the objective of this study, the independent variables were measured using the frequency at which cement manufacturing firms use financial planning tools in carrying out their operations and the review of these tools to monitor their efficiency. Mean and Standard Deviation within a range of five points was used to measure all the independent variables.

3.5.2 The Analytical model

The study adopted a linear regression model to test the relationship between the variables in financial planning as the independent variables and financial performance of cement manufacturing firms as the dependent variable. The empirical model is thus:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \varepsilon$$

Where Y= Financial Performance was measured using return on equity

β_0 = intercept

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$ = coefficients

X_1 = Financial planning practices.

X_2 = Business planning practices.

X_3 = Frequency of financial planning practices.

X_4 = Size of the manufacturing firms measured using log of total assets.

ε = error term.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION OF FINDINGS

4.1 Introduction

Data collected from respondents was edited classified, coded and tabulated as per the objective of the study. Data analysis was based on the main objective of the study which was to determine the effect of financial planning on the financial performance of cement manufacturing companies in Kenya. The data was presented using pie charts, bar graphs as well as tables.

4.2. Response Rate

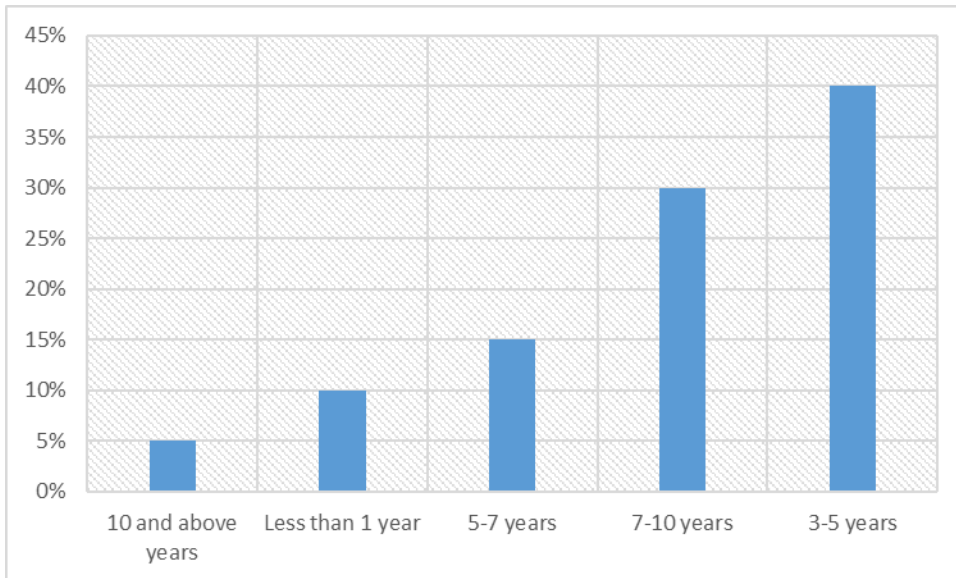
Response rate is the proportion of the population that participated as intended in all the research procedures. Out of the six cement manufacturing companies in Kenya, 5 returned the questionnaires complete, representing about 83% response rate. This response rate was deemed adequate for the study.

4.3. Respondents Characteristics

It was observed that 5% of the respondents had worked in the organisations for at least 10 years, 30% between 7 and 10 years, 15% between 5 and 7 years, 40% between 3 and 5 years and 10% less than 1 year. Thus the respondents who took part in the study were assumed to have a good understanding of the organization. It was also observed from the

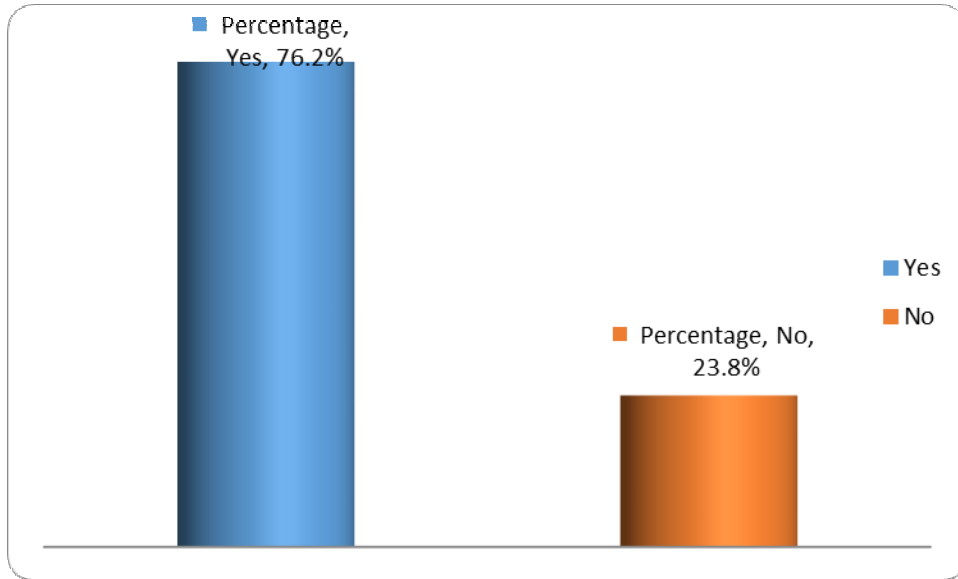
respondent response, as indicated in figure 4.2, that more of the cement manufacturing companies (76.2%) undertake financial planning. Only 23.8% of the cement manufacturing companies did not undertake financial planning.

Figure 4.1: Period served by Respondents in the Organization



Source: Researcher Survey 2014

Figure 4.2: Percentage of Respondents Undertaking Financial Planning



Source: Researcher Survey 2014

4.4 Financial Planning Activities

Data was collected on a number of financial planning activities carried out by the cement manufacturing companies were studied. The study collected data using likert scale and analyzed it using descriptive statistics such as mean and standard deviation. According to the scale, those variables which had a mean of between 5.0-4.0- represented ‘very great extent’, those which had a mean of between 4.0 and 3.0 represented “great extent”, those with a mean close to 3.0 and 2.0 represented ‘moderate extent’ while those which had a mean close to 1.0 represented ‘low extent’. Standard deviation was used to indicate the extent of dispersion and subsequently consensus.

Table 4.1: Frequency of Financial Planning Practices

	Mean	Std.Dev
Risk Management practices	3.33	1.27
Employee Turnover	2.57	0.97
Tax planning	3.48	0.51
Contingency plans	2.90	0.43

Source: Researcher Survey 2014

The information contained in table 4.1 and figure 4.2 above shows the extent to which financial planning practices were adopted by cement manufacturing companies. According to the findings, Tax planning (M=3.48), Risk Management practices (M=3.33) Employee Turnover (M=2.57) and Contingency plans (M=2.90).

4.5 Business Planning Practices

Respondents were asked to indicate, using a likert five-point scale, the extent to which the cement manufacturing companies engaged in business planning activities. Data collected was analyzed using descriptive statistics such as mean and standard deviation. According to the scale, those variables which had a mean close to 5.0 and 4.0 represented 'great extent' those which had a mean close to 3.0 and 2.0 represented 'moderate extent' while those which had a mean close to 1.0 represented 'low extent'.. Standard deviation was used to indicate the extent of dispersion and subsequently consensus.

Table 4.2: Mean and Std Deviations for use of Business Planning Practices

	Mean	Std.Dev
Monitoring the lead time	4.19	0.68
Preserving Excess stocks	3.19	0.60
Monitoring stock levels	3.43	0.67
Avoiding stock outcosts	3.76	0.53
Minimizing holding costs	3.86	0.57

Source: Researcher Survey 2014

Table 4.1 and figure 4.2 above shows the extent to which financial planning practices were adopted by cement manufacturing companies. According to the findings, of the financial planning practices, the cement manufacturing companies adopt to a very great extent monitoring the lead time (M=4.19), to a great extent minimizing holding costs (M=3.86), avoiding stock out costs (M=3.76), monitoring levels (M=3.43) and preserving excess stocks (M=3.19)

4.6 Frequency of Financial Statements Review

As per the data analysed, as presented in table 4.3 below, budgeting is done annually by most of the cement manufacturing companies (63%), proforma creation is not very commonly done by most of the cement manufacturing but those who do so do it on an annual basis.

Table 4.3: Frequency of time interval between which financial statements are reviewed

Business Activities	Frequency				
	Monthly	Quarterly	Annually	Every 2-5 yrs	Never
1 Budgeting Proforma Creation	5%	7%	63%	25%	-
2 Proforma Creation	-	-	69%	31%	-
5. Financial Analysis	-	8%	100%	32%	-
6. Minimizing holding costs	-	6%	64%	30%	-

Source: Researcher Survey 2014

4.7 Effects of Financial Planning on Financial Performance

This section of the paper presents the results of the data analysed on the effects of financial planning on financial performance of cement manufacturing companies. The analysis was based on data collected during the survey to determine the relationship between financial planning and financial performance of cement manufacturing firms in Kenya. The study ran a linear multiple regression test to establish the effects of each of the practices on performance. The findings are discussed in the following sections.

All the coefficients of dependent and independent variables as well as goodness fit of the regression model are reported. The dependent variable was the financial performance of the cement manufacturing company, measured by the return on equity. This was obtained by averaging the return on equity for the period 2009 - 2013 to get the proportion per year.

Table 4.4 Model Summary

R	R Square	Adjusted R square	Std Error of Estimate
0.841	0.707	0.583	0.24665

Source: Researcher Survey 2014

The results in table 4.4 above show the extent of variations on the profits which are explained by the independent variables. The R square value is 0.707. This means that the independent variables explain 70.7% of the variations in dependent variable. The 29.3% are explained by other factors.

Table 4.5 ANOVA

	Sum of Squares	Df	Mean Square	F	Sig
Regression	14453.840	4	5263.460	3.597	.004(a)
Residual	37450.731	35	1284.307		
Total	62904.571	39			

Source: Researcher Survey 2014

The results in table 4.5 above show that the independent variables are statistically significant in predicting the financial performance of the cement manufacturing companies. The study established a significant value of $p=0.004$ showing a statistical significant relationship.

Table 4.6 Coefficients

	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std.Error	Beta		
Constant	-28.519	12.043		-1.719	.094
Financial Planning Practices	17.400	6.352	.514	2.912	.005

Business Planning Activities	6.701	8.808	.200	.886	.0272
Frequency of Financial Planning Practices	7.713	7.704	.249	1.144	.0150
Size of the Manufacturing Firm	2.086	4.417	.118	.701	.0488

Results significant at 95%, 95%, 90%, 95% and 90% confidence intervals respectively

Source: Researcher Survey 2014

The results in table 4.6 above show the coefficients of the regression analysis results. According to the findings, financial planning activities (P=0.005), creation of business planning activities (p=0.0272), frequency of financial planning activities (p=0.0150) and the size of the manufacturing firm (p=0.0377) were all significant in predicting the financial performance of the cement manufacturing companies since all the p values were less than 0.05.

The resulting regression model was Y (return on equity) = -28.519 + 17.400 (Financial Planning Practices), + 6.701 (Business Planning Practices), + 7.713 (Frequency of Financial Planning Practices), and + 2.086 (Size of the Manufacturing Firms measured using log of total assets.) . The findings indicate that when all the factors are held constant, the return on equity will decline by -28.519 units. When all the factors are held constant one unit use of financial planning practices increases the return on equity by 17.4 units. When all the factors are held constant a unit increase in the use of Business

planning practices increases the return on equity by 6.701 units. Similarly, a unit increase in the use of Frequency of financial planning practices holding other factors constant increases the return on equity by 7.713 units. Size of the manufacturing firms holding the rest of factors constant increases the return on equity by 2.086 units. This shows that the use of financial planning practices have had a great impact on the performance of the cement manufacturing companies in terms of return on equity.

4.8 Discussion and Interpretation of the Findings

The study found that majority of the cement manufacturing companies (76.2%) operating in Kenya do engage in some financial planning practices in their operations. According to the study, Bamburi Cement with a formal planning system appeared to be a higher return on equity than those without. Smaller firms were identified to be less likely to have formal financial plans. This meant that cement manufacturing companies which have no formal financial planning are likely to be less profitable in Kenya..

The study also showed that cement manufacturing companies operating in Nairobi City practiced to a great extent four main types of financial planning activities: risk management practices (M=3.33), employee turnover (M=2.57), tax planning (M=3.48) and contingency planning (M=2.90).

The cement manufacturing companies business planning activities were found to be : monitoring the lead time (M=4.19) , preserving excess stocks (M=3.19), monitoring stock

levels (M=3.43), avoiding stock out costs (M=3.76), setting profit target periodically(M=19.43), and minimizing holding costs(M=3.86).

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Findings

The study established that financial planning ensures commitment of management and staff towards attainment of organizational goals and objectives. To a larger extent every member of staff needs to know the objective of the firm and strategy in place to achieve them. The study also established that financial planning is characterized by identification of basic goals and the objective of the firm. Once identified by all participants, there is need to work tirelessly towards realization of the same.

Financial planning facilitates assist in proper utilization of resources as indicated by the study. It also helps in determining resource requirement and how they can be outsourced effectively in order to achieve company goals and objectives.

5.2 Conclusion

The findings of the study overwhelmingly support the hypothesis that financial planning practices play a big role in achieving the goals of many manufacturing firms. It also encourages managers to harmonize the individual staff goals to those of the firm. The failure of a firm to implement financial planning activities, business planning activities frequency of financial planning techniques and size of the firm seemed to lock out many of them from making the required wealth creation.

The results also revealed that financial planning activities, business planning activities, frequency of financial planning techniques and size of the firm are the key factors that influence how much will the company will make. Factors like risk management practices, employee turnover, tax planning, contingency plans, monitoring the lead time, preserving excess stocks, monitoring stock levels, avoiding stock out costs, setting profits target periodically and minimizing holding costs came out to significantly influence the financial performance of a firm.

5.3 Recommendations

In light of these findings, it is therefore recommended that firms be sensitized on financial planning practices and policy makers should also promote these practices. Employing financial planning activities and business activities are key factors in enhancing the firms' financial performance. Management should first conceptualize the idea of practicing financial practices which support performance fully and ensure all other staff are guided in practicing the same so that the firms achieve their goals effectively.

5.4 Limitations of the study

The study was able to identify four limitations as below:

First, the study collected data from cement manufacturing companies operating in Kenya.

The study was limited to cement manufacturing companies that were fully operational as

at the time of the study. Failed enterprises were not considered. Thus the findings might be artificially inflated.

Secondly, the study findings are difficult to compare due to differences in the cement manufacturing companies in terms of enterprise size, or period of operation. Therefore it would be interesting to examine whether there are differences in the degree of financial planning with regard to industry affiliation.

Thirdly, the study analyzed the general relationship of the financial planning practices on the financial performance of the cement manufacturing companies. However, there are other indicators which the study never assessed such as sustainability, expansion, customer retention among others which have to be taken into account while making financial plans

Lastly, the time frame of five years within which the study was based was short and therefore the results may not be comprehensive and conclusive enough if cement manufacturing companies that have operated for more than 5 years or less than 5 years were studied.

5.5 Suggestion for Further Research

The study collected data from the cement manufacturing companies which are operating in Kenya. However, the findings on the financial planning practices in Kenya could be different compared with other regions. Thus a similar study should be undertaken in other regions to get a better understanding of the effect of financial planning and performance of the cement manufacturing companies.

The study recommends that other similar studies be done on an industry by industry basis so as to compare the effect of financial planning on performance of cement manufacturing companies. The study recommends that similar studies be done on the effect of the financial planning practices on other indicators of business performance such as sustainability, expansion, and market share and customer retention.

REFERENCES

- Abdul, J., M. D. Dzuljastri, A. R. & Ferdous, A. S.M. (2013). Exploring Factors Influencing Financial Planning: Structural Equation Modeling Approach. *American Journal of Applied Sciences*, 10 (3): 270-279, 2013
- Albert, A. & Modigliani, F. (1963). The Life Cycle Hypothesis of Saving: Aggregate Implications and Tests. *The American Economic Review*, 53 (1): 55–84
- Ang, J.S., Cole, R.A. & Lin, J.W. (2000), Agency Costs and Ownership Structure, *The Journal of Finance*, 55:(1), 81-106
- Arnold, J. & Chapman, S. (2004). *Introduction to Materials Management*, Pearson Prentice Hall. Fifth Edition
- Athanasoglou, P. P., Brissimis, S. N., & Delis, M. D. (2008). Bank-specific, industry-specific and macroeconomic determinants of bank profitability. *International Financial Markets Institutions & Money*, 18 (2008), 121-136
- Atieno, M. (2013). The Relationship between Financial Planning And the Financial Performance of Small AND Medium Enterprises In Nairobi City Centre Kenya, *Unpublished MBA Project*, University of Nairobi
- Awino, Z. B Muturia, J. M. & Oeba, L. K. (2011). Strategic Planning, Planning outcomes and Organizational Performance, An Empirical Study of Commercial Banks in Kenya. *Research Journal in Organizational Psychology and Educational Studies* 1(5):266-271
- Berry, F.S. & Wechsler, B. (1995). Experience with Strategic Planning: Findings from a National Survey. *Public Administration Review* 55(2)
- Broom, C.A. (1995). Performance-Based Government Models: *Building a Track Record: Public Budgeting and Finance* 15(4)
- Canner, Niko, N. Gregory, Mankiw, & David, N. Weil. (1997). An Asset Allocation Puzzle. *The American Economic Review*, 87 (1): 181–191
- Cooper, D.R. & Schindler. (2006). *Business Research Methods*, (5th Edition), Boston Irwin, McGraw Hill, Inc
- Crane, (2010). Small firm bankruptcy. *Journal of Small Business Management* (44)4, 493–512
- Crane, A. B. (2007, January Supplement). The wealth management debate: Is the latest planning Trend right for you. *Journal of Financial Planning*, 14-15.
- Deaton, J. & Angus. (2005). Franco Modigliani and the Life Cycle Theory of Consumption. *Banca Nazionale del Lavoro Quarterly Review*, 58 (233–234): 91–107

- Donald, C. G, Thomas, S. L. & Rebecca, C. T. (2001). A Partnership for Strategic Planning and Management in a Public Organization: *Public Performance and Management Review*,25:(2)
- Duey, R. (2008). Tipsv for New Planners. *Financial Planning*, 38 :(2), 87.
- Dyer and Blair Bank. (2012).Cement Manufacturing Firms in Kenya, http://dyerandblaironline.com/Research_Web/Company_Research/Kenya_Cement_Industry_Brief_211212.pdf
- Eadie, D.C. (1983). Putting a Powerful Tool to Practical Use. The Application of Strategic Planning in the Public Sector: *Public Administration Review*, 43(5)
- Evensky, H. (2005). The future ain't what it used to be. *Journal of Financial Service Professionals*, 59(1), 16-18
- Findlay, M., Hamilton, C., Messer, S., Yormark, J. (1979). Optimal real-estate portfolios, *AREUEA Journal*, 7:298-317.
- Friedman, H. (1970). Real-estate investment and portfolio theory, *Journal of Financial and Quantitative Analysis*, 861-74.
- Frisch, M.B. (2009). The Latest in Quality of Life Coaching. Invited presentation to the *International Society for Quality of Life Studies*. Florence, Italy.
- Gordon, J. (1991). European real estate's place in a portfolio, *Baring Investment Property*
- Goslings, J., Petri, V. (1991). The role of real estate in efficient investment portfolios, *Journal of Property Valuation & Investment*, 10,405-412
- Gresham, S. D., & Cooper, E. (2001, July). Measure your success. *Financial Planning*, 31 :(7), 93
- Gruber, M. (2007).Uncovering the value of planning in new venture creation: a process and contingency perspective. *Journal of Business Venturing*, 22:782–807
- Gruber, M. (2007). Uncovering the value of planning in new venture creation: a process and contingency perspective. *Journal of Business Venturing* 22:782–807.
- Hilton, RW, Gordon, L. (1988). A contingency framework for the design of accounting information systems. *Accounting, Organizations and Society*, 1, 59-70
- Hulbert, J. & Farley, J. (1994). Strategic Planning and Financial Performance, *Journal of Management Studies*, 31:1, 0022-2380
- Kenya Association of Manufacturers (KAM, 2012), Retrieved from <http://www.kam.co.ke/>

- Khrawish, H. A. (2011). Determinants of Commercial Banks Performance: Evidence from Jordan. *International Research Journal of Finance and Economics*, 81, 148-159.
- Kotlikoff, L. J. (2006). Is Conventional Financial Planning Good for Your Financial Health, <http://www.esplanner.com/Download/Financial%20Health%2002-16-2006?Pdf>
- Levin, R. (2001). How success is measured. *Financial Planning*, 31(1), 92
- Lown, J. (2007). Measuring Financial Planning Personality Type Based on the Stages of Change. *The Journal of Consumer Education*, 24, 28–39.
- Lundberg, G. A. (1982). Financial forecasting and planning Research, *Longmans Green and Company, New York*
- Lyons, A.C. (2005). Financial Education and Program Evaluation: Challenges and Potentials for Financial Professionals. *Journal of Personal Finance*, 4 (4): 56–68
- Macharia, N. (2013). The Relationship between Financial Planning and the Financial Performance of Public Service Organizations in Kenya, *Unpublished MBA Project*, University of Nairobi
- Markowitz, H.M. (1952). Portfolio Selection. *The Journal of Finance* 7 (1): 77–91
- Moghimi, R. & Anvari, A. (2014). An integrated fuzzy MCDM approach and analysis to evaluate the financial performance of Iranian cement companies, *The International Journal of Advanced Manufacturing technology*, 71:1-4, 685-698
- Molyneux, P. and J. Thornton (1992). The determinants of European bank profitability, *Journal of Banking and Finance* 16 (6), 1173-1178.
- Mudit, K. (2011). Meaning of financial planning and types of financial plans, *Journal of Economic Theory*, 71-78
- Musando, J. (2013). The Relationship between Financial Planning and the Financial Performance of Small and Medium Enterprises in Nairobi City Centre Kenya, *Unpublished MBA Project*, University of Nairobi
- Muske, G. & Winter, M. (2004). Personal Financial Management Education: An Alternative Paradigm. *Financial Counseling and Planning*, 15 (2): 79–88
- Mwaura, J. (2013). The effect of financial planning on the financial performance of automobile firms in Kenya, *Unpublished MBA Project*, University of Nairobi

- Naceur, S. B. & Goaid, M. (2008). The Determinants of Commercial Bank Interest Margin and Profitability: *Evidence from Tunisia. Frontiers in Finance and Economics*, 5(1), 106-130.
- Ndetto, J. (2014). Cement Industry Kenya; Retrieved From, <http://www.zakenya.com/business/cement-industry-in-Kenya-the-major-cement-companies.html>
- Overton, R. (2007). An empirical study on financial planning theory and practice, *American Economic Review* 73:89-95.
- Oye, A. (2006). Financial management (4th ed.), Lagos: El-Toda Ventures Ltd.
- Pandey, I. N. (1985). *Financial Management*, India, New Print India Ltd.
- Rahaman, A.S. (2010). Public Sector Accounting and Financial Management in a Developing Country Organisational Context: *A Three-Dimensional View: Armidale, University of New England*
- Rosilyn, H.O. (2007). Empirical Study of financial planning Theory and practice: “Value of Financial Planning” *longitudinal study*: London, Financial Planning Standards Council (FPSC)
- Sarangarajan, V., Ananth, A. & Lourthuraj, A. (2013). Financial Performance Efficiency of Select Cement Companies in Tamil Nadu, *International Journal of Advanced Research in Management (IJARM)*, ISSN 0976 – 6324(Print), ISSN 0976–6332, 4:1,
- Shockey, S. S., & Seiling, S. B. (2004). Moving into Action: Application of the Transtheoretical Model of Behavior Change to Financial Education. *Financial Counseling and Planning*, 15 (1): 41–52
- Short, B. K. (1979). The Relation between Commercial Bank Profit and Banking Concentration in Canada, Western Europe and Japan, *Journal of Banking and Finance*, 3, 209-219.
- Staikouras, Ch, and G.Wood. (2004). The determinants of bank profitability in Europe. *European Applied Business Research Conference, Venice.*
- Tibergien, M., & Palaveev, P. (2001). Study shows staffing is key to practice success. *Journal of Financial Planning*, 14(7), 44-47

- Tobias, O. & Themba, M. (2011). Effects of Banking Sectoral Factors on the Profitability of Commercial Banks in Kenya, *Economics and Finance Review* Vol. 1(5) pp. 01 – 30, July, ISSN: 2047 – 0401
- Veres, B. (2002). The external determinants of success. *Journal of Financial Planning*, 15(3), 24- 26
- Warschauer, M. (2002). The Role of Universities in the Development of the Personal Financial Planning Profession, *Financial Services Review*, 11, 201-216
- White, L. J. (1997). Technological change, financial planning and financial regulation, paper presented at the Financial Institutions Centre's conference on Performance of Financial Institutions, May 8-10, Stern School of Business, NYU
- Willoughby, K.G. & Julia, E. M. (2001). Performance Budgeting in the States In *Quicker, Better, Cheaper, Managing Performance in American Government*, edited by Dall Forsythe: Albany, NY, Rockefeller Institute Press,
- Yin, R. (2003). *Case Study Research: Design and Methods*, Applied Social Research 3rd ed. Sage Publication Inc

APPENDICES

Appendix I: MANAGEMENT'S SURVEY QUESTIONNAIRE

Introduction

Dear respondent,

This questionnaire aims at collecting data that will form part of the study on “The Relationship between Financial Planning and Financial Performance of Cement Manufacturing Firms in Kenya” This study is being conducted by Manthi Pascal Mutune, who is a Post graduate student at the University of Nairobi, Main Campus in the Department of Economics and Finance. You are kindly requested to assist in the attainment of the study objective.

With kind regards

Yours sincerely,

Instructions: Please fill the response(s) in the space provided after question or tick where appropriate

SECTION A: BACKGROUND INFORMATION

1. Indicate your title in the organization in the space provided

Finance Manager	[]
Assistant Finance Manager	[]
Finance officer	[]
Others	[]

2. How long have you served in this organization?

Less than 1 year	[]
3-5 years	[]

- 5-7 years []
 7-10 years []
 10 and above []

SECTION B: FINANCIAL PLANNING ACTIVITIES

1. Does your firm undertake any financial planning? Yes [] No []
2. Please indicate the extent to which your firm undertakes the following;

Financial Planning Activities	Extent				
	No extent	Small extent	Moderate extent	Great Extent	Very Great Extent
1 Risk Management Practices	(1)	(2)	(3)	(4)	(5)
2 Employee Turnover	(1)	(2)	(3)	(4)	(5)
3 Tax planning	(1)	(2)	(3)	(4)	(5)
4 Contingency Plans	(1)	(2)	(3)	(4)	(5)

3. If your response to 1 above is YES, please indicate who carries out the activities in your organization.

Financial Planning Activities	Person responsible (Position in organization)
1 Risk Management Practices	
2 Employee Turnover	
3 Tax planning	
4 Contingency Plans	

4. Please indicate the extent to which your firm undertakes the following business activities.

Business Activities	Extent
---------------------	--------

	No extent a	Small extent	Moderate extent	Great Extent	Very Great Extent
1 Monitoring the lead time	(1)	(2)	(3)	(4)	(5)
2 Preserving Excess Stocks	(1)	(2)	(3)	(4)	(5)
3 Monitoring Stock levels	(1)	(2)	(3)	(4)	(5)
4 Avoiding stock out costs	(1)	(2)	(3)	(4)	(5)
5. Setting profit target periodically	(1)	(2)	(3)	(4)	(5)
6. Minimizing holding costs	(1)	(2)	(3)	(4)	(5)

5. What other financial planning functions are carried out within your firm?

- (i)
- (ii)
- (iii).....
- (iv).....
- (v)

6. How often are the following financial planning techniques reviewed in your organization?

Business Activities	Period				
	Monthly	Quarterly	Annually	Every 2-5 yrs	Never
1 Budgeting Proforma Creation					
2 Proforma Creation					
3 Income Statement Creation					
4 Statement of financial Position (Balance					

Sheet) Creation					
5.Financial Analysis					
6. Minimizing holding costs					

THANK YOU FOR YOUR COOPERATION

Appendix II Letter to Finance Directors of Cement Manufacturing Companies

MANTHI PASCAL MUTUNE

University Of Nairobi,
P.O BOX 43844.

NAIROBI.

THE DIRECTOR,
CEMENT NAUFACTURING COMPANY,
P.O BOX.
NAIROBI

Dear Sir/Madam

REF: RESEARCH: REQUEST FOR ADMINISTRATION OF QUESTIONNAIRE

I am student of University Of Nairobi pursuing **Master Of Science in Finance**, a Kenya citizen of national ID number 22353830. In regard to the above mentioned subject, I am working on my Project entitled '**The Relationship Between Financial Planning And Financial Performance Of Cement Manufacturing Firms In Kenya**

It is for this reason that I kindly request to administer a questionnaire to the Finance managers, Assistant finance manager and finance officers in your Company

Your assistance will be highly appreciated

Yours sincerely

MANTHI PASCAL MUTUNE

Appendix III Work Plan for 2014

ACTIVITY	TIMEFRAME 2014						
	APR	MAY	JUN	JUL	AUG	SEP	OCT
1. Proposal development	X	X	X	X			
2. Correction and defense of proposal				X			
3. Pre-testing of data collection instruments				X			
4. Data collection					X		
5. Data analysis and project write-up					X	X	
6. Supervisors' corrections and final defense of the project							X

Appendix IV Research Budget

ITEM/ACTIVITY	PRICE UNIT (Ksh.)	PER QUANTITY	TOTAL COST(Ksh.)
1. Stationary			
a) Foolscaps	300/ream	3 reams	900
b) Pens	10/pen	20 pens	200
c) Markers	25/marker	10 markers	250
2. Typing Services	15/page	200 pages	3,000
3. Printing services	5/page	200 pages	1000
4. Binding Services	100/booklet	10 booklets	3000
5. Photocopying services	2/page	800 pages	1,600
6. Internet Services	1/minute	1500 minutes	1,500
7. Telephone Services	8/minute	500 minutes	4000
8. Travel expenses: assistant	500/day	40	20,000 50,000

researcher			
9. Research assistant (Per diem)	500/day	45	22,500
10. Miscellaneous expenses			30,000
TOTAL COST			137,950