A STUDY OF CRITICAL FINANCIAL PERFORMANCE SUCCESS FACTORS IN THE INDUSTRIAL AND ALLIED SECTOR OF THE N.S.E

BY

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OCTOBER, 2009
DECLARATION BY THE CANDIDATE
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DEDICATION

To the Lord God,

“For the Lord gives Wisdom” (Proverbs 2:6); “For the Lord is a God of knowledge” (I Samuel 2:3).
ACKNOWLEDGEMENTS

This research report contains the input of many people. My lecturers and college classmates had an important role to play in shaping my thinking during the course of the studies.

I would like to specifically acknowledge my parents Mr. and Mrs. Francis Yara, for encouraging me to undertake the MBA course and for providing the necessary support. My lecturers, Mr. Essajee and Mr. Kamasara had a great role to play, including suggestions for the research topic and how to go about it. My supervisor, Mr. Mohamed Mwachiti, had a great role to play in the entire project from its inception to the end, providing valuable guidance and critical review of major steps.

I would also like to acknowledge the input form the respondents in the industrial and allied sector for their time and the answers to the research questions, since without their input the report would not have been possible.

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ABSTRACT

The study set out to identify the critical financial performance success factors for the industrial and allied sector in the N.S.E. It entailed a census survey and a cross-sectional research design was used and the population of interest comprised all the seventeen players in the sector. Both primary and secondary data were collected. The data were analyzed by the use of descriptive statistics including mean and standard deviation using statistical package for social sciences (SPSS) version 12. The findings were presented in tables for discussion and interpretation. The findings revealed that the critical financial performance success factors for the industrial and allied sector included adequacy of cash flows, increased net sales over time, access to financial capital, earnings per share, quality of income, and assets turnover.

The respondents exhibited a high level of knowledge of the critical financial performance success factors of their individual companies. The companies also need to endeavour to ensure that their competencies are centered on these critical financial performance success factors for them to remain relevant and successful in the market. The researcher had difficulties getting financial statements for all the years intended for the study and adequate responses from some of the targeted managers and employees as they cited tight work schedules and hence could not give in-depth interviews, while others totally refused to divulge any financial information of their companies which proved to be a limitation to the study.
CHAPTER ONE
INTRODUCTION

1.1 Background to the Study

The concept of critical success factors was first introduced by Rockart (1979) as a mechanism to identify the information needs of Chief Executive Officers. Rockart asked what it takes to be successful in a business and concluded that the answer was critical success factors. He defined CSFs as limited number of areas in which results, if they are satisfactory, will ensure successful competitive performance for the organization. They are those things which must go right for an organization to achieve its mission: the critical factors or activities required for ensuring the success of the business. Thierauf (1982) stated that if the results in these areas are not adequate, the organization’s efforts for the period will be less than desired.

According to Sykes (1964), success means accomplishing what is aimed at. Critical success factors are those aspects of the firm’s performance that are essential to its competitive advantage and therefore to its success. These are therefore, where the organization must excel to outperform competition (Johnson and Scholes, 2002). Thompson, Strickland and Gamble (2008) reiterate that an industry’s critical success factors are those competitive factors that most affect industry members’ ability to prosper in the market place.

Critical success factors have been used significantly to present or identify a few key-factors that organizations should focus on to be successful. Rockart (1979) defined critical success factors as those few key areas of activity in which favourable results are absolutely necessary for successful competitive performance for an organization. “The limited number of areas in which results, if they are satisfactory, will ensure successful competitive performance for the organization” (pg 85). Consequently, Rockart (1979), stressed that these particular areas of activity should be constantly and carefully managed
by a company. Bruno and Leidecker (1984) defined CSFs as “those characteristics, conditions or variables that, when properly sustained, maintained, or managed, can have a significant impact on the success of a firm competing in a particular industry.” Bullen and Rockart (1981) observed that performing critical success factors satisfactorily ensures successful competitive performance and therefore a favourable competitive positioning in an industry.

The definition of critical success factors relates to financial performance success factors such as a strong balance sheet, access to financial capital and overall low costs (not just in manufacturing) so as to be able to meet customer expectations of low price (Thompson, Strickland and Gamble, 2008), making or exceeding the desired profits (Ndakwe, 2002), market value of the firm and rising profit margins and sales (Goryunov, 2003), financial leverage, financial structure, liquidity, capital turnover, solvency, net working capital, Return on equity, Return on assets, ability to finance operations. Ellegard and Grunert (1993) also defined CSFs as a qualification which accounts for a significant part of the observable differences in perceived value and/ or relative costs in the company’s relevant markets.

The industrial and allied sector is composed of seventeen companies including BOC (K), Bamburi, British American Tobacco, Carbacid, Crown Berger, E.A. Cables, E.A. Portland, E.A. Breweries, Eveready East Africa Ltd, Kenya Oil, Kenya Power & L., KenGen, Mumias, Sameer Africa Ltd, Total, Athi River Mining Company and Unga Ltd. The Kenyan industrial and allied sector is typically categorized into the large and small manufacturers. There are those who manufacture for both the local market and for export and others who mainly manufacture for the local market. Manufacturers can also be categorized between the indigenous firms with the majority shareholding being held by Kenyans, and the multi national firms, whose majority shareholding is foreign. In all these cases the manufacturers could be producing products whose inputs or raw materials are mainly local or others that have a high mix of local and low mix of foreign inputs and a low dose of local materials. All manufacturing firms whether local and foreign firms,
whether local or foreign owned, are subject to the same tax regulations, save for firms set up in the export processing zones who are duty exempt on what they produce for export.

The growth of the manufacturing industry in Kenya has been guided by government policy and as early as the 1920s when the colonial government attempted the first integration of East African states, Kenyan manufacturers were seen as being favoured over their counterparts in Uganda and Tanzania. Kenyan manufacturers have heavily relied on the East African Market for their products. The history of the manufacturing industry in Kenya is a history of protection. Even after independence, Kenya adopted an import substitution strategy by which the young manufacturing industry was assisted to produce for the market, in effect engendering a non-competitive spirit in the industry. The industry was however, assisted by the fact that out of the historical accident of the preference for Kenya by the British settlers, many of the industries were initially set up in the country thus making the industry more developed in the country.

The industrial and allied sector was considered one of the potential growth areas that could help bring about rapid economic development and has been therefore granted government protection from imported products which are cheaper or of superior technologies. The industry has contributed to the economy through creating employment opportunities, revenue and social responsibility activities. Problems facing players in the industry include high costs of fuel, raw material/production, fuel shortages, competition both locally and foreign, low demand due to low salaries, the existence of lower priced imports and shortage of foreign exchange for importation of raw materials. The way forward for the industry is that the players should look for alternative sources of power/fuel and produce high quality products to compete imports. The government must also take a firm stand on its protectionist policy so that the companies in the sector can survive in the heat of fierce competition.

Financial performance success factors are aspects of financial performance which are used by most businesses as a major yardstick of their success within their respective industries. They must go right, since they are required for ensuring the success of the businesses within the industry. According to Pearce and Robinson, (1997), a firm’s
success is tied inextricably to its survival and profitability, its ability to satisfy the principle claims and desire of employees and stockholders. Financial performance success factors are factors that enable the firm to achieve its financial goals and the market value of the firm.

Financial performance success factors are particularly critical for the industrial and allied sector players since knowledge of them by organizations enables success in the industry. Their knowledge is required for ensuring the success of the businesses within the sector. They concern what the sector members must be competent at doing or concentrate on achieving in order to be competitively and financially successful. Financial performance success factors include:

**Debt-to-Equity Ratio**

The capital structure of a company may consist of both share capital and loan capital and represent the long term finance available to the company. The debt to equity ratio expresses a company’s debt as a proportion of its owner’s equity in the firm’s capital structure. It is computed by dividing total liabilities by the owner’s equity. High ratios signal excessive debt, lower creditworthiness, and weaker balance sheet strength. Low ratios indicate greater capacity to borrow additional funds if needed. The relative amount of a company’s capital that was obtained from various sources is a matter of great importance in analyzing the soundness of the company’s financial position. Debt capital is risky because if bondholders and other creditors are not paid promptly, they can take legal action to obtain payment and force the company into bankruptcy. Equity capital is much less risky to the company because shareholders receive dividends only at the discretion of the directors and the shareholders cannot force bankruptcy.

**Increased net sales**

Increased net sales are driven by strong market demand both locally, regionally and internationally for a given firm’s products. The occurrence of increased sales is a result of the firm’s competitiveness in the industry, whereby the firm enjoys a larger market share coupled by a consistently strong market demand. Increased net sales means a strong operating profit for the company, which exhibits efficiency of management. It entails
good dividends for the shareholders on their investments in the company; prompt payment of the company’s debts and creditors, satisfaction of employees due to good salaries and a good public image of the company in terms of market value since its shares will be more attractive in the stock market.

**Internal cash flows**

Entail cash a company’s business is generating after payment of operating expenses, interest and taxes. Cash flows give the overall cash position of the company at the end of a particular period of time. Cash flow adequacy should be a major concern since cash is the fuel that keeps a business alive and determines the financial strength of a business. The generated cash can be used for dividend payment or funding capital expenditure. Cash flow adequacy allows for liquidity and solvency of the firm.

**Lower Production Costs**

Production costs are the costs that firms incur in the manufacturing of goods. The firm should remain in a favourable position in terms of costs. It should operate at costs lower than competitors to enjoy competitive advantage. The firm should exhibit lower costs in areas like raw materials, transport, fuel management and financing costs. The firm must determine the desired cost for a product on the basis of a given competitive price, such that the product will earn a desired profit.

**Speed in selling inventory**

Inventory turnover measures how quickly inventory is sold and is a measure of both liquidity and operating efficiency. It indicates the short run ability of the firm to pay its employees or meet maturing obligations to creditors and ensures sufficient cash of the firm. It also indicates operating efficiency which points out that the firm is in a favourable position in terms of reduced costs per unit of product, quality, service and speed, leading to enhanced strategic competitive advantage. This shows that the firm’s cash generated by revenue is greater than the cash spent for expenses.
Accessibility to financial capital

The level of funding of the firm both externally and internally will determine its success level since if a firm is well funded; it will automatically gain and enjoy advantage over competitors. Access to financial capital will enable the firm to carry out its operational activities comfortably, meet its obligations to creditors without any hardship and engage in promotional activities thus making it have an upper hand over its competitors.

For companies, good performance in the financial performance success factors points to successful competitive performance in the industry; This is because they are competitive factors that most affect members’ ability to prosper in the market place and point to the business being either a strong or weak competitor within the cement industry. The companies must excel in their financial performance success factors since if these are properly sustained and managed, will make the companies to outperform competition and satisfactorily ensure successful competitive performance for it. Knowing how well the companies’ capabilities in terms of their financial performance success factors measure up against the sector’s CSFs will determine just how financially and competitively successful the companies will be; and whether they have a favorable competitive position in the industry. Correct diagnosis of a company’s financial performance factors enables the company’s management to come up with a sound strategy for the company and thus right decision- making, planning and goal setting that brings about success through attaining desired profits, gaining market share and experiencing growth. The financial performance success factors will therefore enable the individual companies to develop the relevant core strengths and develop distinct capabilities that are unique to it and identify its areas of weaknesses and rectify these. Knowing the financial performance success factors will enable the companies’ stakeholders to gain satisfaction from the company’s successful financial and competitive performance which will in turn improve the company’s ultimate image in the corporate entity. The identification and control of financial performance success factors enables the management to take certain steps to improve the company’s potential to success. It will also spell the difference between profit and loss and between success and failure.
1.2 Statement of the Problem

In a competitive environment, understanding critical success factors has become greatly important. As a result, cement producers have moved from product centric to critical success factors to achieve their strategic objectives. According to Taylor (1995), when the competitive environment pushes an organization to its limits, the old mind set no longer holds. A continuous improvement in capability is needed, and that entails transformation. The ultimate and largely ignored task of management is one of creating and breaking paradigms. The trouble is 99% of managerial attention today is devoted to techniques that squeeze more out of the existing paradigm. Nowadays, industrial firms realize that it is more difficult to make their products different from those of their competitors. Therefore, they turn to seek differentiation in products by use of critical success factors. In this way, they seek more competitive success in building on critical success factors for superior performance like financial performance. Local studies have been undertaken on critical success factors, namely by Mbugua J.M. (2005) on petroleum products retailing in Nairobi. He found the key success factors to be location, use of effective financial controls and assessments of periodical returns, competitive product pricing and monitoring, efficient and effective customer service, consistent product quality offering, maintenance of an efficient credit management policy and diversification of services. Peter Muindi (2006) carried studies on hotels in Nairobi. He gave top five hotel industries CSFs as consistency, hygiene and quality, products, employees, and customer service. Mutuku J. Nzioki (2006) carried studies on heavy duty construction equipment dealers in Kenya. He found the Key success factors for dealers in the heavy duty construction equipment sector to be quality of after-sales service, product attributes, product availability and dealer resources. Maina T.C (2006) researched on the banking industry in Kenya. He gave the key success factors in the banking industry in Kenya as good service delivery, low cost of services, robust human resource management, offering a wide product range, use of modern technology and good corporate governance. Nyaga E. (2006) carried studies on resource planning systems in Kenya. He found the factors critical for successful implementation of Enterprise Resource planning to be team work and composition between the implementing partners, change in management programme and culture, availability of user training, education
and support, facilitating change and communication and leverage of corporate culture, top management support, business plan and vision, BPR and minimum customization; effective communication, project management, software development, testing and troubleshooting, monitoring and evaluation of performance, project champion, and appropriate business and IT legacy systems. The above studies that were previously undertaken by researchers on critical success factors in various sectors of the economy. All the previous researchers undertook their studies with their target populations consisting of all the stakeholders (producers) within a given locality that they chose to carry out studies on; for example, in Nairobi or Kenya. They also used the same research methodology – their research design being survey method (census survey) which entails study of all the elements in a population, collecting only primary data; and the study being descriptive in nature since it only tries to get and describe details about what the respondents from the concerned study populations perceive to be critical success factors and whether these are important in strategic management. What is known concerning the financial performance success factors in the industrial and allied sector is that there is competitive pricing which has enabled some firms within the industry to have an upper hand and therefore advantage over others. There are also high sales revenues enjoyed by some of the players in the sector due to increasing net sales over time. What is unknown concerning the financial performance success factors in the sector is in the areas of internal cash flows, access to financial capital, high speed in selling inventory, Debt-to-equity ratio, operating costs, profitability, financial leverage, liquidity, capital turn over, solvency, and net working capital.

Given that the identification and exploitation of critical success factors for organization success is inevitable, there is need to study them as they are applied by the industrial and allied sector firms to attain competitive success. Given the continuous changing environment in which the firms are operating in Kenya, the need to research into financial performance success factors and competitive success does arise. The question that arises therefore is, “Do firms in the industrial and allied sector leverage financial performance success factors in their success strategy?”

Research questions:
i) What are the key financial performance success factors for the industrial and allied sector of the N.S.E?

1.3 Objectives of the study
The objective of the study is:

i) To determine the critical financial performance success factors for the industrial and allied sector.

1.4 Importance of the study
The proposed study will be important and beneficial to the following users:-

Scholars: It will provide information to future scholars who might need to research on the financial performance success factors in the industry. The study will serve as a basis for future research - other scholars may want to test the existence of these factors in other industries. This is so because the proposed study will add to the existing literature in the field of critical success factors.

Management of the industrial and allied companies: The proposed study will provide the management of the companies with an overall picture of the financial performance success factors that can make them gain an upper hand over competitors. This will go along way in helping managers to prepare adequately for sound future strategies to be implemented by the company and where possible emphasize on the CSFs that provide greater success. This is because company strategists need to understand the industry landscape well enough to separate the factors most important to competitive success from those that are less important.

Stakeholders of the companies: The study will be useful to stakeholders especially shareholders and other interested parties (creditors etc) since it will lead them to make informed decision on the management of the companies.

Manufacturers: It will also provide other manufacturing firms with an opportunity to learn from the experience of the firms in the sector.
CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction
This chapter contains empirical studies on financial performance success factors. MBA Research reports, a section justifying the use of accounting measures of performance and conclusions from the literature reviewed in terms of the knowledge gap identified and the relevance of the current study and how the study differs from the reviewed studies.

2.2 Empirical Studies on Financial Performance Success Factors
Empirical studies have been undertaken to determine the extent to which financial ratios may be used to predict business failure. In a study using more powerful statistical techniques than used by his predecessors, Beaver (1966) found that financial ratios proved to be useful in the prediction of failure in that such failure could be predicted at least 5 years before the event. He concluded that ratios could be used to distinguish correctly firms which would fail from those which would not, with much more success than would be possible by random prediction.

One of his significant conclusions was that the most effective predictor of failure was the ratio of both short term and long term cash flow to total debt. The next best ratio was the ratio of net profit to total assets. One of Beaver’s most surprising findings was that the current ratio was among the worst predictors of failure. Turnover ratios were found to be at the bottom of the list of effective predictors. Generally, Beaver found that mixed ratios, which had profit or cash flows compared to assets or liabilities outperformed short term solvency ratios which had been believed traditionally to be the best predictors of failure.

In a latter study, Beavers (1968) suggested that business failure tends to be determined by permanent factors. He argued that if the basic financial position of a company was sound and profit prospects were good, it would recover from a temporary shortage of liquid
assets, but that if in the long term prospects in these areas were not good, business failure could not be prevented by a good liquid position.

Altman (1968, 1983) extended Beaver’s univariate (single-variable) analysis to allow for multiple predictors of business failure. He used a multiple discriminant analysis to the purpose of developing a linear function of a number of explanatory variables to predict failure. Altman used twenty two financial ratios based on data obtained one year before failure, and selected five financial ratios for the purposes of establishing his final discriminant function. These 5 ratios were:

- Working capital/total assets as an indicator of liquidity.
- Retained earnings/total assets as an indicator of the age of the firm and its cumulative profitability.
- Earnings before interest and tax/total assets as an indicator of profitability.
- Market value of the equity/book value of debt as an indicator financial structure.
- Sales/total assets as an indicator of capital turnover.

Altman’s five-variable model correctly identified 95 percent of the total sample of companies tested for bankruptcy. This percentage rate of success in predicting failure fell to 72 percent when the data used was obtained two years prior to failure. As earlier data was used in testing the model, so its predictive ability became more unreliable. Taffler and Tisshaw (1977; taffler, 1983) applied Altman’s multiple discriminant analysis to companies in the United Kingdom. They tested the predictive value of eighty different ratios in a variety of combinations. The best results were found when four ratios were combined in accordance with weighting which reflected their significance to the analysis of business failure. The ratios used by Taffler and Tisshaw and the weightings which they were given were as follows.

- Profit before a tax/current liability (53 percent); which is a profitability measure indicating the ability of an enterprise to cover its current liabilities through its earning power. If it has a low or negative value, its downside risk is clearly greater than that for the average company.
Current assets / total liabilities (13 percent), which is related to the conventional current ratio, and is a measure of the working capital position of the firm. The greater the ratio, the sounder the enterprise.

Current liabilities / total assets (18 percent), which measures the company’s current liabilities position and is a financial leverage ratio. The greater its magnitude, the more serious the problems the company has to face in financing the cost of its debt and the acquisition of new debt.

Immediate assets minus current liabilities / operating cash minus depreciation (16%) which calculates the time for which the company can finance its continuing operations from its immediate assets, if all other sources of short time finance are cut off, and is a ratio relatively new to the accounting literature and is akin to the acid test.

All these empirical studies present evidence to support the conclusion that firms which avoided failure had stronger ratios in areas of significant analysis than firms which failed. The measures used by Altman and Taffler and Tisshawer are expressed by a number known as a ‘Z score’, now available through on-line data services such as ‘Data screen’. Morris (1998) has drawn attention the limitations of financial ratio analysis which restrict the usefulness of financial ratios for predicting business failure. In particular, he argues that most failure prediction models probably tell potential users little they don’t already know. Furthermore, case study research shows that corporate failure is usually the result of an unfortunate and unforeseeable conjunction of event, and the underlying causes of financial distress differ at varying stages of the economic cycle. However, it seems likely that decision makers will continue to refer to failure prediction models. Ratio analysis were found to provide the most commonly used indicators to assess and compare the financial performance of company, both over time and as between different companies.

Even though critical success factors are important in management accounting, this area has not attracted many researchers and the aim of the present work seeks to gain insight on the financial performance success factors for the industrial and allied sector. Previous studies on critical success factors were carried out by Mbugua J.M. (2005) on petroleum
Peter Muindi (2006) carried studies on hotels in Nairobi. He gave top five hotel industries CSFs as consistency, hygiene and quality, products, employees, and customer service. Mutuku J. Nzioki (2006) carried studies on heavy duty construction equipment dealers in Kenya. He found the Key success factors for dealers in the heavy duty construction equipment sector to be quality of after-sales service, product attributes, product availability and dealer resources. Maina T.C (2006) researched on the banking industry in Kenya. He gave the key success factors in the banking industry in Kenya as good service delivery, low cost of services, robust human resource management, offering a wide product range, use of modern technology and good corporate governance. Nyaga E. (2006) carried studies on resource planning systems in Kenya. He found the factors critical for successful implementation of Enterprise Resource planning to be team work and composition between the implementing partners, change in management programme and culture, availability of user training, education and support, facilitating change and communication and leverage of corporate culture, top management support, business plan, and vision, BPR and minimum customization; effective communication, project management, software development, testing and troubleshooting, monitoring and evaluation of performance, project champion, and appropriate business and IT legacy systems. The above studies that were previously undertaken by researchers on critical success factors in various sectors of the economy. All the previous researchers undertook their studies with their target populations consisting of all the stakeholders (producers) within a given locality that they chose to carry out studies on; for example, in Nairobi or Kenya. They also used the same research methodology – their research design being survey method (census survey) which entails study of all the elements in a population, collecting only primary data; and the study being descriptive in nature since it only tries to get and describe details about what the respondents from the concerned study populations perceive to be critical success factors and whether these are important in strategic management. The studies used content
analysis and descriptive statistics analysis techniques were utilized (percentages and standard deviation) to transform obtained data into standard form for relative comparison and therefore conclusions on the critical success factors of the concerned study sectors.

2.3 Justification for the use of accounting measures of performance

The justification for using accounting and not market based measures of performance is the fact that accounting based indicators such as firm's return on asset and return on equity capture the firm's internal efficiency and result from internal organizational needs of excellent performance within the industry. Return on Assets is widely used by market analysts as a measure of firm performance as it measures the efficiency of assets in producing income while Return on equity measures the performance of the firm relative to share holder's investment. Accounting measures in some way capture only historical aspects of firm performance (McCuir, Schneeweis, & Hill 1986). They are subject to managers discretionally allocation of funds to different projects and policy choices and thus reflect internal decision making capabilities and managerial performance rather than external market responses to organizations. Therefore financial results in this case are affected by the firm's internal environment. Market based measures of corporate financial performance are affected by the industry and economy wide factors and are forward looking and focus on market performance. They are less susceptible to different accounting procedures and represent the investors' evaluation of the ability of a firm to generate future economic earnings (McGuire, J.B., A Sundgren & T. Schneeweis, 1988). They measure the market worth of a share of stock indicating how well the firm satisfies its owners and shareholders. They also reflect the notion that shareholders are primary stockholders group whose satisfaction determines the firm's fate (Cochran & Wood, 1984) and the bidding and asking process of stock market participants who rely on their perceptions of past, present and future stock returns and risk; determine the firm stock price and thus market value. But the stock -market based measures of performance also yield obstacles (Mcquire, Schneeweis, & Branch, 1986). According to Ullman (1985) for example, the use of market measures suggest that an investor's valuation of a firm's performance is a proper performance measure (McGuire, J.B. Sundgren, A. & T.
Schneeweis, 1988). Moore (2001) found that accounting based measures are better predictors for financial performance (Profitability) than market based measures.

2.4 Conclusions from the Literature Review

From the literature reviewed, it can be concluded that there is need to carry out studies concerning the performance of companies i.e. whether companies exhibit successful performance in their operations or not. The knowledge gap identified includes factors that lead to financial performance success in the industrial and allied sector that are yet unknown. The current study intends to fill the identified knowledge gap by seeking to discover the factors that cause financial performance success for firms in the manufacturing sector. The study will therefore in essence be giving a clearer picture of the financial performance success factors for companies in the sector as a whole. The study seeks to carry out ratio analysis for the companies to assess and compare their financial performance over time and also collect data from the companies’ employees on the factors they perceive as resulting into their company’s financial success. The current study differs from the reviewed studies in that they did not deal with financial performance success factors, but dealt with critical success factors for specific organizations.

2.5 Critical Success Factors in the industrial and allied sector.

Critical success factors are measures of those aspects of the firm’s performance that are essential to its competitive advantage and therefore to its success; the key areas of activity in which favourable results are absolutely necessary for successful competitive performance for an organization. The industrial and allied sector has its own particular characteristics associated with the provision of their products and therefore the measures used to assess industry performance should reflect the specific activities and kinds of products offered. Some of the critical success factors in the sector include:

Financial performance: most businesses rely on financial performance as a major yardstick of their success within their respective industries and the industrial and allied sector is no exemption.
Profitability is one of the CSFs of a firm (Wheelen, 1995); and is measured in terms of profit margin, that is, a mark-up above the cost of providing a firm’s value-adding activities. According to Pearce and Robinson (1997), a firm’s success is tied inextricably to its survival and profitability. Profit over the long term is the clearest indication of a firm’s ability to satisfy the principle claims and desire of employees and stockholders (Pearce and Robinson, 1997).

Internal Cash Flows of the company also matter. Cash flow is a quick and rough estimate of the cash a company’s business is generating after payment of operating expenses, interest, and taxes. Such amounts can be used for dividend payments or funding capital and expenditure. Cash flow gives the overall cash position of the company at the end of a particular period of time. Cash flow adequacy should be a major concern since cash is the fuel that keeps a business alive and determines the financial strength of a business. Cash flow adequacy allows for liquidity and solvency of the firm.

Competitive Pricing: Financial profits are a result of the pricing strategy used by the company. The company must perform an analysis of strategic factors in the pricing decision process. These factors may include competitor price reaction, price elasticity, market growth, economies of scale and experience. This will enable the company to strategically price its products so as to have success over competitors. The firm must know the prices offered by competitors and then strategize on how to charge a lower price than competition so as to increase customer loyalty and market share.

Lower costs: The firm should remain in a favourable position in terms of costs. The ability of the firm to undertake cost control initiatives so as to operate at lower costs per unit of product compared to competitors will dictate its competitive success. For firms within the industrial and allied sector, lower costs should be evident in transport costs, fuel cost, packaging costs, financing costs with regard to the forex rates issue and raw material costs.
High market share/demand for products: Market share is the ratio of sales revenue of the firm to the total sales revenue of all firms in the industry including the firm itself. Growth in market share is an indicator of the firm’s improved performance over the years whereas decreases in market share shows deteriorating performance (Rudelis, 1994). A positive image of the company and its products will result into a higher market share because of high demand for its products compared to competitors; and this will bring success to the company within the industry. Also the company must be capable of producing new varying products that satisfy the construction needs of customers.

Geographical coverage: Geographical coverage of the firm in terms of outlet and distribution will determine its competitive success since the firm will enjoy greater demand and market share within the industry.

Corporate social responsibility: The firm’s responsibility to the society is also a success factor in the cement industry. This is because studies indicate that consumers get more attracted to companies that are associated with social cause or issue. The extent to which the firm participates in societal matters gives it a positive public image within the society, creating awareness of its core values and therefore the product it offers thereby enabling it to enjoy relatively higher demand for its products and a larger market share. It also reduces the external pressures from social groups, politicians, government regulations and enforces achievement of the company’s long term strategy.
CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Research Design
The study entailed a census survey and a cross-sectional study design was used. The study was conducted within management levels of the companies within the industrial and allied sector and used both primary and secondary data sets captured from the members of staff and the company financial statements respectively.

3.2 Population and Sample
The target population was derived from employees of all the seventeen firms. The target respondents were the management which were divided into three different strata i.e. top management, middle level management (accounts and production departments) and lower level management. Two subjects for each strata were picked for questionnaire administration.

Table 3.1: Respondents of company population

<table>
<thead>
<tr>
<th>Management Level</th>
<th>Strata Size</th>
<th>Respondent Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top Level Management</td>
<td>20</td>
<td>2</td>
</tr>
<tr>
<td>Middle level management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts department</td>
<td>25</td>
<td>2</td>
</tr>
<tr>
<td>Production unit</td>
<td>30</td>
<td>2</td>
</tr>
<tr>
<td>Lower level management</td>
<td>25</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>8</td>
</tr>
</tbody>
</table>

Respondents required = 10

3.3 Data Collection
The study used structured questionnaire to secure factual information. Open ended questions were used to give respondents the freedom to give more detailed information
on the real situation on the ground. Matrix questions were used to enable the researcher compare responses given to different items. The research instrument was subjected to a pilot study to test validity before the comprehensive field survey. Efforts to ensure that the results obtained from the analysis of the data actually represent the phenomenon under study were undertaken in order to ensure that data obtained in the study accurately represents the variables of the study. For reliability purpose, a pre-test was conducted before the complete study to verify whether the research instrument captures the required data. The questionnaire was administered to the respondents through drop and pick method. For the respondents who were willing, the researcher used the questionnaire to interview them.

3.4 Tools and Methods of Data Analysis

Level 1

A Preliminary analysis that entailed a review of secondary data from all the firms' financial statements was done in terms of their financial performance. Consequently, the critical financial performance success factors that lead to the financial success (i.e. profitability in terms of Return on equity - ROE) of each company were determined from the results of the analysis.

Level 2

Primary data was collected through a questionnaire using a 3-point Likert scale to measure the importance/strength rating of each financial performance success factors. Structured questions were used to measure the influence of the critical financial performance success factors on the overall financial performance (profitability) of the firms. Descriptive Statistics analysis techniques were utilized and data from questionnaires were analyzed using statistical package for social sciences (SPSS) version 12. In the second stage, a multiple linear regression analysis was undertaken with financial success performance measure (profitability) as the dependent variable and performance factors (debt-to-equity ratio, increased net sales, internal cash flows, low product costs, access to financial capital, inventory selling) as the independent variables. The task was to assess the factors that lead to the successful financial performance of the firms.
Financial Performance Success factors

Figure 1: Summary of Financial Performance Success factors:
Source: Author (2009).
3.5 Linear Regression Formula

The linear regression formula: \[ Y = b_0 + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + b_6X_6 + e \]
was used to find out the coefficient variable (b) of each of the financial performance success factors depicted as (X) for each company in order to establish the extent of its influence on the company’s overall financial performance measure, that is, profitability depicted by (Y); e was the error term.

Predictor variables in the formula:
- \(X_1\) – debt-to-equity ratio
- \(X_2\) – Net sales over time
- \(X_3\) – Internal cash flow adequacy
- \(X_4\) – Lower product costs
- \(X_5\) – Speed in selling inventory
- \(X_6\) – Accessibility to financial capital

3.5.1 Further tests to describe the relationship between the independent and dependent variables.

Three Coefficients were used in the study to describe the relationship between the dependent and independent variables - the coefficient of multiple correlation, the coefficient of multiple determination, and the coefficient of multiple non-determination.

Coefficient of multiple correlation (R) was used to measured the strength of the association between the dependent variable and the independent variables. A coefficient of 0 indicated no correlation, values near 0 showed weak correlation, and values near 1 meant strong correlation.

\[ R = \frac{n (\Sigma x Y) - (\Sigma x) (\Sigma Y)}{\sqrt{[n (\Sigma x^2) - (\Sigma x)^2] [n (\Sigma Y^2) - (\Sigma Y)^2]}} \]

Where: \(n\) = sample size
- \(x\) = the x variables (independent variables)
- \(y\) = the dependent variable
Coefficient of multiple determination ($R^2$) was used to measure the proportion of total variation in $Y$ explained by or accounted for by the $X$s. It was found by squaring the coefficient of multiple correlation. $R^2$ near 0 showed a "very weak" association between the dependent and independent variables while $R^2$ toward 1 indicated a "very strong" association between the dependent and independent variables.

A global Test was used to investigate whether any of the independent variables had significant regression coefficients. A global test was conducted to determine whether or not all the independent variable had zero net regression coefficients and tests as to whether or not individual coefficients were not equal to zero were undertaken.

The null hypothesis was: All the regression coefficients were zero.

The alternate hypothesis was: At least one regression coefficient was not zero.

$$H_0: B_1 = B_2 = B_3 = B_4 = B_5 = B_6 = 0$$

$$H_1: \text{Not all the } B_5 \text{ was 0.}$$

If the null hypothesis was found to be true, it implied that the regression coefficients are all zero and are therefore of no use in predicting the dependent variable ($Y$) - profitability. To evaluate individual regression coefficients, the test for individual variables was carried out to determine which independent variables had non zero regression coefficients then the variables that had zero regression coefficients were dropped from the analysis. The test statistic used was the $t$-distribution with $n-(K+1)$ degrees of freedom. Coefficients for which $H_0$ could not be rejected were eliminated from the regression equation. The hypotheses were tested at 0.05 level and was a two-tailed test. The test statistic was the student $t$ distribution with $n-(k+1)$ degrees of freedom. The number of observations being $n$ and $k$ being the number of independent variables. The computed $t$ ratio was then used to either accept or reject the stated hypothesis. If the $t$ values fell in the rejection region, then the conclusion was that the regression coefficients were not zero. If the computed to ratios fell in the acceptance region, then the conclusion was that the independent variables were not significant predictors of the dependent variable.
CHAPTER FOUR
DATA ANALYSIS AND FINDINGS

4.1 Introduction
This chapter contains details of the organization and presentation of the research data obtained from the firms in the industrial and allied sector of the N.S.E. The primary data has been analyzed using SPSS version 12 and presented in tables to make interpretations.

4.2: Profiles of the respondents

4.2.1: Response rate

A total of 88 questionnaires were issued out. The completed questionnaires were edited for completeness and consistency. Of the 88 questionnaires used in the sample, 49 were returned. The returned questionnaires represented a response rate of 56%, which was considered adequate for the study.

4.2.2: Distribution of respondents on gender

As can be observed, in Figure 1, the respondents were made up of 65.2% male and 34.8% female.

Figure 2: Gender Composition
4.2.3: Distribution of respondents by age

As shown in table 4.1, the age distribution of the respondents varies from 30 years and below to 51 years and above. Majority (42%) of the respondents were in the age bracket of 41-50 years, 35% were in the age bracket of 31-40 years, 15% in the bracket of 30 years and below and a few 8% were 51 years and above.

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>30 years and below</td>
<td>11</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>31-40 years</td>
<td>25</td>
<td>35</td>
<td>50</td>
</tr>
<tr>
<td>41-50 years</td>
<td>30</td>
<td>42</td>
<td>92</td>
</tr>
<tr>
<td>51 years and above</td>
<td>5</td>
<td>8</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>71</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4.3 Critical Financial performance success factors

In this subsection, the company’s financial performance success factors were analyzed using mean values. The results are as shown below.
Table 4.2: Financial performance success factors

<table>
<thead>
<tr>
<th></th>
<th>EPS</th>
<th>Quality of income</th>
<th>Assets turnover ratio</th>
<th>ROE</th>
<th>ROA</th>
<th>Gross profit margin</th>
<th>Operating profit margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bamburi</td>
<td>9.345</td>
<td>1.55</td>
<td>1.23</td>
<td>0.195</td>
<td>0.52</td>
<td>0.395</td>
<td>0.195</td>
</tr>
<tr>
<td>Eveready</td>
<td>0.726</td>
<td>2.005</td>
<td>4.9</td>
<td>0.175</td>
<td>0.0685</td>
<td>0.039</td>
<td>0.103</td>
</tr>
<tr>
<td>East Africa cable</td>
<td>1.895</td>
<td>1.33</td>
<td>3.55</td>
<td>0.35</td>
<td>0.19</td>
<td>0.115</td>
<td>0.185</td>
</tr>
<tr>
<td>EABL</td>
<td>8.655</td>
<td>0.56</td>
<td>2.03</td>
<td>0.385</td>
<td>0.255</td>
<td>0.29</td>
<td>0.54</td>
</tr>
<tr>
<td>BAT</td>
<td>15.43</td>
<td>1.3</td>
<td>2.99</td>
<td>0.315</td>
<td>0.265</td>
<td>0.085</td>
<td>0.375</td>
</tr>
<tr>
<td>Mumias Sugar Co</td>
<td>0.85</td>
<td>0.905</td>
<td>1.23</td>
<td>0.115</td>
<td>0.113</td>
<td>0.195</td>
<td>4.31</td>
</tr>
<tr>
<td>Athi River mining</td>
<td>4.67</td>
<td>1.14</td>
<td>1.085</td>
<td>0.23</td>
<td>0.08</td>
<td>0.11</td>
<td>0.295</td>
</tr>
<tr>
<td>Unga group</td>
<td>2.49</td>
<td>1.405</td>
<td>4.95</td>
<td>0.145</td>
<td>0.055</td>
<td>0.02</td>
<td>0.032</td>
</tr>
<tr>
<td>Carbacid</td>
<td>13.8</td>
<td>0.835</td>
<td>0.45</td>
<td>0.35</td>
<td>0.325</td>
<td>0.405</td>
<td>0.6</td>
</tr>
<tr>
<td>Kenol Kobil</td>
<td>7.1</td>
<td>1.225</td>
<td>0.584</td>
<td>0.095</td>
<td>0.0605</td>
<td>0.0095</td>
<td>0.048</td>
</tr>
<tr>
<td>Kengen</td>
<td>1.65</td>
<td>1.1515</td>
<td>0.115</td>
<td>0.005</td>
<td>0.0385</td>
<td>0.31</td>
<td>-0.76</td>
</tr>
<tr>
<td>BOC Gas</td>
<td>11.095</td>
<td>1.145</td>
<td>0.82</td>
<td>0.165</td>
<td>0.1325</td>
<td>0.205</td>
<td>0.54</td>
</tr>
<tr>
<td>EA Portland</td>
<td>7.225</td>
<td>0.6</td>
<td>1.115</td>
<td>0.17</td>
<td>0.055</td>
<td>0.3</td>
<td>0.14</td>
</tr>
<tr>
<td>Total Kenya</td>
<td>3.505</td>
<td>2.65</td>
<td>17.5</td>
<td>0.12</td>
<td>0.065</td>
<td>0.015</td>
<td>0.05</td>
</tr>
<tr>
<td>KP&amp;L</td>
<td>21.45</td>
<td>1.165</td>
<td>0.9535</td>
<td>0.0825</td>
<td>0.0455</td>
<td>0.055</td>
<td>0.162</td>
</tr>
<tr>
<td>Crown Berger</td>
<td>2.175</td>
<td>5.15</td>
<td>3</td>
<td>0.1245</td>
<td>0.0295</td>
<td>0.023</td>
<td>0.155</td>
</tr>
<tr>
<td>Sameer Africa</td>
<td>0.485</td>
<td>0.585</td>
<td>1.5</td>
<td>0.07</td>
<td>0.065</td>
<td>0.0415</td>
<td>0.11</td>
</tr>
</tbody>
</table>

The findings indicate that the main financial performance success factors across the firms were EPS, quality of income and assets turnover ratio. At the same time operating profit margin was a significant financial performance success factor for 17% of the companies.

4.4: Regression analysis

The output from the regression analysis was displayed in tables as below:

The first step was analyzing the data through descriptive measures, this was done using SPSS. The results were as shown in Table 4.2. The mean of ROE was 0.1439 with a standard deviation of 0.0870. Amongst the predictor variables debt-to-equity ratio had the highest mean of 1.9091 while accessibility to financial capital had the least mean of 1.2727. There is a high variance amongst the predictor variables as indicated by the values of standard deviation.
### Table 4.3

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROE</td>
<td>.1439</td>
<td>.08700</td>
</tr>
<tr>
<td>Adequacy of internal cash flows</td>
<td>1.3636</td>
<td>.50452</td>
</tr>
<tr>
<td>Increased net sales over time</td>
<td>1.5455</td>
<td>.62020</td>
</tr>
<tr>
<td>Low product costs for the firm</td>
<td>1.7273</td>
<td>.46710</td>
</tr>
<tr>
<td>Accessibility to financial capital</td>
<td>1.2727</td>
<td>.46710</td>
</tr>
<tr>
<td>High speed in selling inventory</td>
<td>1.6364</td>
<td>.80904</td>
</tr>
<tr>
<td>Debt-to-equity Ratio</td>
<td>1.9091</td>
<td>.83121</td>
</tr>
</tbody>
</table>

### Table 4.4

<table>
<thead>
<tr>
<th>Pearson Correlation</th>
<th>ROE</th>
<th>Adequacy of internal cash flows</th>
<th>Increased net sales over time</th>
<th>Low product costs for the firm</th>
<th>Accessibility to financial capital</th>
<th>High speed in selling inventory</th>
<th>Debt-to-equity Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROE</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adequacy of internal cash flows</td>
<td>-.122</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increased net sales over time</td>
<td>.076</td>
<td>-.044</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low product costs for the firm</td>
<td>-.365</td>
<td>.039</td>
<td>-.095</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accessibility to financial capital</td>
<td>.348</td>
<td>.386</td>
<td>.095</td>
<td>.375</td>
<td>1.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>High speed in selling inventory</td>
<td>-.719</td>
<td>-.134</td>
<td>.178</td>
<td>-.024</td>
<td>-.505</td>
<td>1.000</td>
<td></td>
</tr>
<tr>
<td>Debt-to-equity Ratio</td>
<td>-.049</td>
<td>-.152</td>
<td>-.360</td>
<td>-.070</td>
<td>.070</td>
<td>.095</td>
<td>1.000</td>
</tr>
</tbody>
</table>

Using table 4.4, Correlation matrix was used to check on the possibility of multicollinearity amongst the predictor variables, that is, if any of the two predictor variables are related to each other. A factor of 0.5 was used. The results in table 4.3 which entails descriptive statistics shows that accessibility to financial capital and high speed in selling inventory are correlated hence one should be dropped from the predictive model.
Predictors: (Constant), Debt-to-equity Ratio, Accessibility to financial capital, increased net sales over time, low product costs for the firm, Adequacy of internal cash flows, High speed in selling inventory.

Table 4.5 on model summary, shows that the coefficient of determination ($R^2$) equals 0.887. This shows that debt-to-equity ratio, accessibility to financial capital, increased net sales over time, low product costs for the firm, adequacy of internal cash flows and high speed in selling inventory explain 88.7 percent of the ROE leaving only 11.3 percent unexplained. The P-value of 0.0201 implies that the model of ROE is significant at the 5 percent significance level.

Table 4.6 on coefficients of the regression equation, the trend line simple regression model using the regression coefficient gives the equation:

$$\text{ROE} = 0.410 - 0.058 X_1 + 0.06 X_2 - 0.094 X_3 + 0.069 X_4 - 0.064 X_5 - 0.009 X_6$$
Table 4.7 shows the results of individual statistical significance tests that were done using the t statistics, to test the predictor variables which are linearly related to ROE. It indicates that only three predictor variables (adequacy of internal cash flows, increased net sales over time and accessibility to financial capital) are linearly related to ROE. The new regression model becomes:

\[
\text{ROE} = 0.410 - 0.058 X_1 + 0.06 X_2 + 0.069 X_4
\]
CHAPTER FIVE  
DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction
This chapter contains discussion of the research findings, conclusions drawn from the study and recommendations and limitations that would be useful to players in the industrial and allied sector. The research objectives are restated and discussed according to the research findings.

5.2 Discussion
The study set out to meet the following objective: “To identify critical financial performance success factors for firms in the industrial and allied sector of the N.S.E.” Following the research study and the presentation of the findings in chapter four, a discussion of the results follows.

From secondary data analyzed, the study identified the EPS, quality of income and assets turn over ratio as the main financial performance success factors across the firms. On the other hand operating profit margin was a significant financial performance success factor for eighteen percent of the firms.

From the primary data collected and in view of the results from the regression analysis done, the coefficient of determination ($R^2$) which equals 0.887, indicated that debt-to-equity ratio, accessibility to financial capital, increased net sales over time, low product costs for the firm, adequacy of internal cash flows and high speed in selling inventory explain 88.7 percent of the ROE. The established model is also significant at 5 percent as indicated by the P-value.

The result also shows that only three predictor variables (adequacy of internal cash flows, increased net sales over time and accessibility to financial capital) are linearly related to ROE hence other non linearly related predictor variables were dropped from the final model. It can be concluded that the financial performance success factors have a major influence on the overall financial performance or profitability of the firms, since the
extent to which the factors affect financial performance/profitability/ROE is clearly depicted by the coefficient variables.

5.3 Conclusions

The study through an analysis of both the secondary and primary data brought out the critical financial performance success factors for the industrial and allied sector. In relation to the primary data collected, the respondents exhibited a high level of knowledge of their companies' financial performance success factors. This knowledge is useful in guarding and improving existing financial performance success levels/profitability of the companies since earnings per share, quality of income, assets turnover ratios, adequacy of internal cash flows, increased net sales over time, and access to financial capital emerged as the overall critical financial performance success factors. The firms must endeavor to ensure that their competencies are centered on these critical financial performance success factors for them to remain relevant and successful in the market. The company strategists should therefore design a strategy aimed at excelling in these particular factors as a fruitful competitive strategy approach in order to develop the relevant core strengths and develop distinct capabilities that are unique to the companies within the industry. This is because right decision making, planning and goal setting guarantee results and hence success (Ndakwe, 2002). The study brought out the critical financial performance success factors for firms in the industrial and allied sector. The respondents revealed a high level of knowledge of their company's debt-to-equity ratio, net sales, internal cash flow adequacy, product costs, speed in inventory selling, and accessibility to financial capital.

5.4 Policy Recommendations

The study came up with the following recommendations: firstly that the Kenya government provide a stable and conducive environment for undertaking business through the control of inflationary tendencies and peace and harmony initiatives in the country since an unstable environment in Kenya would have adverse ramifications, in particular dampened demand and increased costs for the companies. Secondly that the
Kenya government should set aside adequate amounts of foreign exchange reserves for companies for the purchase of raw materials.

Thirdly that the managements of the companies should embark on serious cost-control initiatives in terms of operating costs which include raw material and transport costs, fuel and power prices, in order to boost demand for their products and reduce costs so as to increase efficiency and also improve on its gross profit margins, a move that will satisfy all the stakeholders concerned. Fourthly, that the companies should also seek for quicker means of distributing their inventory and improve on their debt-to-equity ratios so as to have stronger balance sheets and enjoy more creditworthiness. Fifthly, the company management, in order to solve the problem of prevailing drought and power situation (leading to inadequate power supply for its plants) should seek for alternative sources of power and push for more speedy procurement of power generation units in order to stem the impact of power generation shortfall and loss of production time. Sixthly, that in order to counter aggressive competition and attain high market share both in Kenya and internationally, the companies should embark on quality improvement, greater efficiency and differentiation in terms of the products they offer relative to competitors. If these recommendations are effected by resolving the stated strategic issues, then the firms will be more financially and competitively successful in the years ahead.

5.4 Limitations of the Study
The study encountered the following limitations: firstly, some of the financial data required for the study was not readily available, in particular, the data for past years, and in a few cases for recent years. Secondly, Primary data obtained was subjective such as it was based on the particular respondent’s views and could not be verified independently. Thirdly, there was an issue of confidentiality where respondents were unwilling to cooperate and therefore withheld vital financial information citing management policy and that it was considered internal. Other companies claimed there was a management directive postponing research studies in their companies till next year. This was a limitation. The study also had difficulties getting adequate responses from some of the
targeted company managers and employees as they cited tight work schedules and hence could not give in-depth interviews.

5.5: Suggestions for further research

It is generally agreed that no research study is exhaustive enough and further study is therefore required. The study set out to seek information from companies in the industrial and allied sector and to determine their critical financial performance success factors. The findings of this research study can be used as a source of reference for research on the critical financial performance success factors for other companies or sectors of the economy such as banks, insurance companies, SACCOs, public and private hospitals and so on. Such studies would help in gaining better knowledge about success in the sectors.

Further research can also be carried out on the influence of the critical financial performance success factors on the competitive success of a given company or players within a given sector of the economy or the critical financial performance success factors in the financial service industry in Kenya as a whole.
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APPENDICES

Appendix I: QUESTIONNAIRE

This questionnaire seeks to collect information on response by your company to establish what the financial performance success factors are in the company. Please provide the information frankly and honestly.

SECTION A: Details of the Respondents

1. Respondent name (Optional)....................................................................................
2. Position held..............................................................................................................
3. Number of years in the position.................................................................................
4. Department ..............................................................................................................
5. Please indicate your gender, male { } Female { }
6. Please tick the age bracket in which you fall
   30 years and below { } 41-50 years { }
   31-40 years { } 51 years and above { }

SECTION B: Financial Performance Success Factors.

7. In the following table, please give the strength ratings for each of the listed financial performance success factors in relation to your firm, and then comment on the extent to which the factor has contributed to financial success/profitability of the firm within the industry.

NOTE: For strength/importance rating, use a 3-level likert scale of between 1-3. with 1 representing a factor that is very strong, of high importance for success or agreement in the company and 3 presenting a factor that is very weak and of low importance or disagreement for the company’s performance success in terms of the profitability it provides against competitors.
<table>
<thead>
<tr>
<th>Financial performance success factor measure</th>
<th>Importance/Strength rating (Give your Score – 1, 2, 3)</th>
<th>Briefly comment on the extent to which the factor has contributed to financial success (profitability) of the firm</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Adequacy of internal cash flows.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Increased net sales over time</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Low product costs for the firm</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Accessibility to financial capital</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. High speed in selling inventory</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Debt-to-equity Ratio</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

8. Please give any other comment you may have regarding the subject of this research.........................................................................................................................

........................................................................................................................................................................
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Appendix 2: Figure 3: Chart depicting secondary data

<table>
<thead>
<tr>
<th>Ratio</th>
<th>Basic Computation</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tests of profitability</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Return on equity (ROE)</td>
<td>Income / Average Owners' Equity</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Return on assets (ROA)</td>
<td>Income + Interest Expense / Average Total Assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Earnings per share (EPS)</td>
<td>Income / Average Number of Shares of Common Stock Outstanding</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Quality of income</td>
<td>Cash flows from Operating Activities / Net income</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Gross Profit Margin</td>
<td>Net income / Net Sales</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Operating Profit Margin</td>
<td>Gross Profit - Operating Expense / Sales</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. Asset turnover ratio</td>
<td>Net Sales Revenue / Average Net Fixed Assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tests of Liquidity</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10. Cash ratio</td>
<td>Cash + Cash Equivalents / Current Liabilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11. Current ratio</td>
<td>Current Assets / Current Liabilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12. Quick ratio</td>
<td>Quick Assets / Current Liabilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>13. Inventory turnover</td>
<td>Cost of Goods sold / Average Inventory</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tests of Solvency</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14. Times interest earned</td>
<td>Net income + interest + income Tax Expense / Interest Expense</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15. Debt-to-equity</td>
<td>Total Liabilities / Owner's Equity</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Author – from the literature reviewed.