EFFECTS OF FINANCIAL PLANNING PRACTICES ON THE GROWTH OF SMALL MANUFACTURING FIRMS IN KISII COUNTY, KENYA

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Abstract

Financial planning is an important and challenging issue in the small manufacturing industry in Kenya. Inadequate application of financial planning practices is probably the stumbling block to the growth of small manufacturing firms in Kenya. The specific objectives of the study were to establish the extent to which cash control, cash processing and cash budgeting as a financial planning practices contribute to the growth of small manufacturing firms in Kenya. The study was guided by the Miller and Orr model and Stoney theory. The target population was 220 respondents; the sample size was 64.5% of the total population (142 respondents). The study employed a descriptive survey design. The questionnaire was used for data collection and data was analyzed using descriptive statistics and inferential statistics. The findings were based on specific objectives and cash control revealed that cash flow control was done because there were controls over cash received, cash collected and cash banked. It was revealed that cash processing practices plays an essential role in the growth of small manufacturing industries hence managers need to embrace it. Cash budgeting practice revealed that budgeting plays a key role in the growth of small manufacturing firms because it ensures that there is enough liquidity in the firm to meet the daily expenses. The recommendation of the study were based on cash control practice the study recommended that for effective cash control the managers of small manufacturing industry should control the credit period to consumers, match cash inflow and cash outflow and manage effectively payables and receivables.

Keywords: Financial planning, Cash management, Cash budgeting, Business growth, Kenya

INTRODUCTION

The small manufacturing industry is recognized as one of Africa's greatest but most under-invested assets. The Africa investor 2010 Wealth Cheque Report estimates that the small manufacturing industry market today is worth $49.90-billion, but has $203.7-billion of untapped potential with an estimated total market size of $253.5-billion. This is more than four times its current level in terms of potential, presenting rich opportunities for potential investors. But doing business in sub-Saharan Africa is not easy. The World Bank has often said the region has the worst investment climate in the world due to the many obstacles that make running businesses difficult. Other bottlenecks besides the legal and regulatory challenges are the inadequate infrastructure and undeveloped financial markets.

Dube and Renaghan (2012) further observed that the four countries of the East Africa Community have initiated the idea of re-evaluating and rating of small manufacturing firms using a new set of standards developed for the region. These are efforts aimed at streamlining the classification system in preparation for the launch of a common market protocol for the East African Community (EAC). The small manufacturing industry in Kenya operates within a liberalized economic environment that is characterized by active partnership between the Government and the private sector. While the private sector is expected to be the motive force, the Ministry of industrialization is charged with the responsibility of formulation and implementation of policies a kin to manufacturing as well as co-ordination of planning, development, promotion and marketing of small manufacturing firms (Abouzid, 2008).

The ideal economic condition of Kisii County offers an opportunity for the growth of small manufacturing industry, due to the high population density. The county is a beehive of agricultural and commercial activities which may boost small manufacturing industry. It is not just the stability in the town that is drawing customers and investors but also the potential market in the region as reported by (Kenya investment Board, 2012).

The Kisii town has recorded robust growth over the years, opening up opportunities for many investors; Kenya investment Board (2012) reported that the stability witnessed in the Kisii town has boosted its small manufacturing firms, putting Kisii among Kenya's industrial hub. The major Kenyan banks have branches in Kisii town indicating dynamic economic progress and business growth although, data from the industrialization Ministry report of 2009 indicate that small manufacturing firms in Kisii County has dropped by 23.7%, also, 43% of the small manufacturing firms industry in Kisii County more often change the trade name to remain in business and 33% have closed down in the past six years, most of the small manufacturing firms are under performing probably because of inadequate of capital, inadequate financial planning practice which is an integral part of running small manufacturing industry..

Statement of the Problem

Financial planning practice is an important and challenging issue in the small manufacturing industry in Kenya. Manufacturing firms manage their cash flow positively is essential to streamlining small industry operations and minimizing unnecessary financial costs which in turn influence its growth. Inadequate applications of financial planning practices are probably the stumbling blocks to the growth of small manufacturing firms in Kenya. Data from the industrialization Ministry report of 2009 indicate that small manufacturing firms in Kisii County has dropped by 23.7%, also, 43% of the small manufacturing firms industry in Kisii County more often change the trade name to remain in business and 33% have closed down in the past six years, most of the small manufacturing firms are under performing probably because of inadequate of capital, inadequate financial planning practice is an integral part of running small manufacturing industry. Financial planning management is an integral part of running small manufacturing industry; the firms fail due to liquidity problems to support their operations (Singh and Lakanatan, 2002). Firms with sufficient cash confidently focus on business operations constantly reexamining and modify its plans, exerting enormous energies to obtain and keep additional financing for purposes of increasing its market share. Though small manufacturing industry is the largest industry in Kenya in terms of gross revenue and foreign exchange earnings, the government has not adequately put in place strategies which can promote their proper management of financial resources (Kenya investment board, 2012). These studies therefore seek to assess the influence of financial planning practices on the growth of small manufacturing industry in Kenya with particular interest in Kisii County, Kenya.

Research Objectives of the Study

General Objective

The general objective of the study was to establish the effect of financial planning practices on the growth of small scale manufacturing industry in Kisii County, Kenya.

Specific Objectives

   i.   To establish the effect of cash control as a financial planning practice on the growth of small manufacturing firms in Kisii County, Kenya.
   ii. To establish the effect of cash processing as a financial planning practice on the growth of small manufacturing firms in kisii county, Kenya.
   iii. To establish the effect of cash budgeting as a financial planning practice on the growth of small manufacturing firms in Kisii County, Kenya.

RESEARCH METHODOLOGY

Research Design

According to Mugenda and Mugenda (2003) defines survey research as an attempt to collect data from members of a population in order to determine the current status of the population with respect to one or more variables. The study employed a Descriptive survey research design. Descriptive statistics utilize data collection and analysis techniques that yield reports concerning the measures of central tendency, variation, and correlation. The combination of its characteristic summary and correlation statistics, along with its focus on specific types of research questions, methods, and outcomes is what distinguishes descriptive research from other research types. Descriptive survey research design was used and it enabled the researcher to collect data and report the way things were without manipulating any variables besides being less time consuming and able to capture a lot of data within the contained time and resources.

Target Population

Mugenda and Mugenda (2003), describes target population as the totality of cases of people, organization or institutions, which pose certain characteristics. They further asserted that target population is a group of individuals, objects or items from which samples are taken for measurement. The target population for this study was 30 entrepreneurs, 40 managers, 82 clerical officers and 68 accountants of all small scale manufacturing firms within Kisii County. Entrepreneurs, managers, clerical officers and accountants were chosen since they are involved in the day to day running of small scale manufacturing firms especially in financial planning practices.

Table 1: Target Population

Category of respondents	Target Population
Entrepreneurs	30
Managers	40
Accountants	68
Clerical staff	82
Total	220

Source: Kisii County Office (Statistics, 2016)

Sampling Design

According to Mugenda and Mugenda (2003) a sample design is a set of information used to identify a sample population for statistical treatment. A sampling design includes a numerical identifier for each individual, plus other identifying information about characteristics of the

individuals, to aid in analysis and allow for division into further frames for more in-depth analysis. Kothari (2004) also noted that the sampling frame must be representative of the population and this is a question outside the scope of statistical theory demanding the judgment of experts in the particular subject matter being studied. A good sample frame includes all individuals in the target population, excludes all individuals not in the target population and includes accurate information that can be used to contact selected individuals.

Sample Size Determination

Kull (1984) noted that sampling is the process by which a relative small number of individual object or event is selected and analyzed in order to find out surrounding about the entire population from which it will be selected using some systematic form. Since the overall population is heterogeneous, stratified random sampling was used in the study to select the respondents. Yamane (1967) provides a simplified formula to calculate sample sizes. This formula was used to calculate the sample sizes as shown below.

$$n = \frac{N}{1 + N(e)^2}$$

Where n is the sample size, N is the population size, and e is the level of precisionor margin of error at 5% (standard value of 0.05). When this formula is applied to the above sample, we get;

$$n = \frac{220}{1 + 220(0.05)^2} = 142$$

Calculation below shows sample size representing 64.55% of target population in which sampling technique was used to group the target population into homogeneous strata. The percentage of the sample size was as illustrated below;

$$\text{Percentage of the sample size} = \frac{\text{Sample Size}}{\text{Target Population}} * 100\%$$

$$= \frac{142}{220} * 100\%$$

$$= 64.55\%$$

Data Collection Instruments

Structured questionnaire with close ended questions was used for data collection. The questionnaire was suitable because it offered considerable advantages in the administration. It also presents an even stimulus potentially to large numbers of people simultaneously. Anonymity helped to produce more candid answers than is possible in an interview.

ANALYSIS

Data analysis was done through descriptive and inferential statistics. Descriptive statistics involved the use of frequency tables and percentages. Product moment of correlation coefficient was also used to show the strength of association between financial planning practices and the growth of small scale manufacturing industry at 5% of confidence level. Simple regression analysis was used to establish the relationship of financial planning practices and the growth of the manufacturing firms.

Effects of Cash Planning Practices on the Growth of Small Manufacturing Industry

In assessing the capital assets and liabilities in small manufacturing firm industry the researcher sought to establish using the likert scale on the extent to which the planning practices influence the financial performance of the manufacturing firm industry. Table 4.12 below gives the ratings of the respondents on the extent to which the practices affect the performance of the manufacturing firm industry.

Table 2

Practice Extent	5-very great extent	4 – great extent	3-moderate extent	2- less extent	1- no	£fi	£wifi	£wifi/£fi
Management of payables	16	65	42	14	5	142	499	3.51
Management of receivables	8	82	30	14	7	142	493	3.47
Management of capital assets	22	62	50	6	2	142	522	3.67
Management of Capital liabilities	7	15	86	32	5	142	422	2.97
Delaying Payments	35	52	24	22	9	142	508	3.58
Making payments When asked	19	14	49	62	8	142	430	3.0
Capital assets and Liabilities affect Performance	9	41	32	51	9	142	416	2.93
Follow up actions in managing assets and liabilities	7	12	86	33	5	142	412	2.9
Management of Overhead expenses	30	85	17	8	2	134	559	3.94
Making payments When sales made	18	41	14	51	18	142	416	2.93

According to table 2 above the researcher established that management of capital assets contributes to a great extent (3.67) to the financial performance of the small manufacturing industry. Also, management of payables and receivables influence the financial performance of the manufacturing industry to a great extent (3.51) from this result the researcher can make a conclusion that for the small manufacturing industry to have sound financial performance. Management of payables, receivables and capital assets should be managed with care. From the data analyzed above (3.58) which is near a great extent agreed that delaying payments until its due date contributes positively to profitability while (3.0) were undecided whether making payments when sales are made or when asked to pay influence the profitability of the small manufacturing industry. Also, according to the result obtained in table twelve capital assets and liabilities affect financial performance of the small manufacturing industry to a moderate extent (3.64). From this observation the researcher can conclude that when there is follow up actions by management in management of assets and liabilities there is a moderate extent of financial performance of the firm industry which is (2.9). The researcher also established that (3.94) which are closer to great extent agree that financial planning and budgeting if well managed influences positively the financial performance of the small manufacturing industry. And this is in line with Martin and Morgan (1991) observed that financial processing is a process of estimating a firm's needs and arranging for them before the time when those funds will be needed. In this study the definition of John (2009) was adopted which defined that financial processing is a process of analyzing, projecting, formulating and monitoring of short-term and long-term choices in financial terms for the purpose of unraveling any inconsistency in order to arrive at a financial plan for the business.

CONCLUSION

The researcher drew the following conclusions from the study based on the research objectives:

Effects of Cash Control as a Financial Planning Practice on the Growth of Small Manufacturing Firm

The findings reaffirmed that financial control is essential for the industry's positive financial performance. Therefore more emphasis should be dwelt on cash control to ensure prudent use of resources in the industry. In addition to this, the careful elimination of the non-required costs, no-value added services to the customers could help small manufacturing firms in saving organizational portfolio for the customers may help firms in achieving the competitive advantages.

Effects of Cash Processing as a Financial Planning Practice on the Growth of Small Manufacturing Industry

Based on objective two on the effects of cash processing on the growth of small manufacturing firms it was found out that for the small manufacturing industry to grow faster, financial processing is necessary. It provides information of the financial performance and the various expressions related to the operations as well as allocation of funds to the different business departments. Small manufacturing firms should focus on making use of planning to fulfill the necessity of funds in unlike market considerations. Also financial processing helps in focusing on a transparent financial system in the firm industry.

Effects of Budgeting as a Financial Planning Practice on the Growth of Small Manufacturing Industry

Based on the findings of objective three on the effects of budgeting on the growth of small manufacturing firms it was found out that budgeting is an important aspect for the improvement and development of the financial capability of an organization. In order to keep the small manufacturing industry in course, there must be effective budgeting system and all the plans, objectives, and strategies could be translated in the budgetary and budgeting control process. The firm's operating budget which consists of all the income and expenditures, could be prepared as per the individual departments and activities which can further be merged in the projected profit and loss account. For the effectiveness of the firm's budgeting system, the capital budget can be included in the budgeted balance sheet which would be helpful in facing the impact of economic downturn. In order to have effective and accurate budgeting system, the actual results and budgeted results could be evaluated regularly as it is beneficial for making appropriate strategies and would increase budgeting system in the small manufacturing industry.

RECOMMENDATIONS

In order to manage the financial performance of the small manufacturing industry efficiently the researcher made the following recommendations.

Recommendation on Cash Control Practice

Based on the findings and conclusion on cash control the study recommends that for effective cash control the managers of small manufacturing industry should control the credit period to customers, match cash inflow and cash outflow and manage effectively payables and receivables for effective control of cash flow in the small manufacturing industry.

Recommendation on Cash Processing Practice

Based on the findings and conclusion the study recommends that for effective management of cash flow in the small manufacturing industry, processing of cash should be emphasized to have optimal cash balance which can be invested in other ventures, capital assets should be planned for and managed well for small manufacturing industry to realize their growth.

Recommendation on Budgeting Practice

Based on the findings and conclusion the study recommends that emphasis should be focused on budgeting on cash inflow for effective control of cash outflow within the firm and this will enhance effective growth in the small manufacturing industry.

LIMITATIONS OF THE STUDY

A study of this magnitude could not be possible without limitations. Some of the respondents were not willing to reveal the true information needed for the study. This was solved through explanation of the benefit of the study to the respondents. Further the study was limited within the context of financial planning practices in Kenya. Some respondents perceived the study as an unnecessary burden and offered little co-operation to the researcher. However, the researcher was able to assure them that the study was meant for academic purposes only.

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