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EFFECT OF FINANCIAL MANAGEMENT PRACTICES AND PROJECT PERFORMANCE IN UASIN GISHU COUNTY, KENYA

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Abstract

This paper sought to establish effect financial management practices on project performance in Uasin Gishu County, Kenya. The study was guided by the Theory of Planned behavior. Stratified and simple random sampling techniques were used to select a sample size of 87 top management employees from 31 projects in Uasin Gishu County. Data was collected using structured questionnaires. Test-retest technique was employed to test reliability of the data collection instruments at Alpha>0.7. The study adopted ex post facto research design. Descriptive and inferential statistics were used to analyze the data. Regression analysis was used to test the hypotheses at p<= 0.05. Findings revealed a positive influence of budgeting and financial reporting on project performance. This study recommends that project managers enhance the training on calculation of interest rate and need to have budget expertise. Similarly, there is need for employees to have the necessary reporting and analyzing skills.

Keywords: Budgeting, Financial Reporting, Project Performance, Financial Management, Analytical skills

INTRODUCTION

Project performance remains a prominent issue in project delivery all over the world. Most popular determinants of projects successes accepted by research community are-project mission, top management support, project schedule/plan, client consultation, personnel, technology to support the project, client acceptance, monitoring and feedback, channels of

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communication, troubleshooting expertise. Financial management practices have been shown to be essential in improving transparency, efficiency, accuracy and accountability resulting in the organizations achieving their objectives (Koitaba, 2013). Increasing the chances of performance among projects would have huge implications for the growth and socio-economic wellbeing of a country (Asian-Pacific Economic Cooperation, 2004). Thus, understanding predictors of performance in projects is critical. The creation of more performing project could potentially create new jobs, increase trade and consequently the Gross Domestic Product (GDP) of the country. Although it has been difficult to ascertain why in similar situations some entrepreneurs fail while others succeed, this study focuses on relationship between financial management practices and project performance's to offer a practical means of addressing the phenomenon.

Capacity building of project in terms of preparing financial statements, budgets and record keeping, as well as improving their financial literacy and management training, is shown to have positive impact on Project performance. Furthermore, strengthening the horizontal linkages with other project and vertical linkages with larger firms would improve project market access (Hogarth et al., 2002)

Effective implementations of financial management practices lead to improvement in Project performance due to improved ability to track business events from the record system (Siekei, et al., 2013). Most new business owners are daunted by the mere idea of recordkeeping and accounting including budgeting, financial reporting and analysis. The significance of projects performance in developing Kenya's economy has continued to grow since the sector was first brought to the limelight by the International Labor Organization (ILO) in 1972.

The success of the project depends on the variety of resources such as physical and financial capital, technology and human resource. However, the element of human resource is not given much importance at the time of project designing which is a wrong practice on the part of the project designers (Arindam Banik & Pradip, Bhaumik, 2006). In Kenya, county government's projects face problems, despite their great importance in terms of support provided to the national economy. It is noted that such projects confront barriers and challenges of a similar nature in most cases. Given the high failure rate and the pivot role played by the county projects in the country, it becomes vital to research on the factors required to enable the projects to survive and indeed progress to the growth phase of the organizational life cycle (Kamunge et al., 2014). This calls for financial management practices intervention to train the project managers and employees on how to use the available means of accessing financial services to improve their enterprises and also reduce cost of doing business. Financial management practices is one of the factors that impact positively on project performance because entrepreneurs with adequate financial literacy are better placed to adapt their

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enterprises to constantly changing business environments (King & McGrath, 2002). However, it is not clear whether financial management initiatives have translated to better performance (CMA, 2010; Wanjohi, 2011). Reviews of the literature on the effect of financial management practices on Project performance are limited. Where the same has been done, none has dealt with all the four variables and its direct impact on projects, more specifically in Uasin Gishu. This study intends to fill the gap by identifying effect of financial management practices and performance of projects in Uasin Gishu County, Kenya. Thus the study hypothesized that:

H_1: *There is an effect of financial reporting and analysis practice on project performance in Uasin Gishu County*

H_2: *There is an effect of budgeting practice and performance of projects in Uasin Gishu County*

THEORETICAL FRAMEWORK

The study was informed by Financial Literacy Theory. The theory argues that the behavior of people with a high level of financial literacy might depend on the prevalence of the two thinking styles according to dual-process theories: intuition and cognition. Dual-process theories (Evans, 2008) embrace the idea that decisions to have a high performing enterprise can be driven by both intuitive and cognitive processes. Dual-process theories have been studied and applied to many different fields; reasoning and social cognition (Evans, 2008).Financial literacy remains an interesting issue in both developed and developing economies, and has elicited much interest in the recent past with the rapid change in the financial landscape. According to this theory, Gallery, Newton and Palm (2011) framework in financial knowledge is a form of investment in human capital like the necessary financial management skills, and many empirical surveys establish that people need to know much more to become informed. The authors show how financial literacy, knowledge on financial management practices, shapes economic outcomes derived from performing firms.

Financial literacy theory argues that the behavior of people with a high level of financial management practices might depend on the prevalence of the two thinking styles according to dual-process theories: intuition and cognition. Dual-process theories (Idowu 2010) embrace the idea that decisions can be driven by both intuitive and cognitive processes. Dual-process theories have been studied and applied to many different fields, e.g., reasoning and social cognition (Idowu, 2010). Financial literacy, which embeds the financial management practices helps in empowering and educating investors and owners of businesses so that they are knowledgeable about financial management practices in a way that is relevant to their business and enables them to use this knowledge to evaluate products and make informed decisions that will lead to performing firm's. It is widely expected that greater financial management practices

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and knowledge would help overcome recent difficulties in advanced credit markets that inhibit Firms' performance (Lusardi and Oliver, 2006).

EMPIRICAL REVIEW

Financial Reporting and Analysis Practice and Performance

Turyahebwa, Sunday and Ssekajugo (2013) conducting a study on establish the relationship between financial management practices and business project performance in western Uganda with a view to establishing a coherent model directed at improving business performance and it was hypothesized that financial reporting positively influences Business performance. The study adopted a positivist (quantitative paradigm) with cross sectional and correlational designs. The study used a respondent sample of 335 FIRMs operating in Mbarara, Sheema and Bushenyi whose owners/managers were the unit of enquiry. Structural Equations Modeling with Analysis of Moment Structures were used to for statistical modeling. The findings in respect of the main purpose of the study indicated that financial management practices accounted for 33.8% of the variance in business project performance. The results also indicated that working capital management influences highly since it predicts over 22% of the variance in business performance. The present study supported a multi-theoretic approach in explaining business project performance in Uganda. The study supports the pecking order theory in explaining the financing of Firms together with resource based view as the theories that help in explaining business project performance. The study confirmed efficient financial management practices factor structure of observed variables and the latent variables.

Mathuva (2009) examined the influence of working capital management components on corporate profitability by using a sample of 30 firms listed on the Nairobi Stock Exchange (NSE) for the periods 1993 to 2008. The findings from his study revealed that there exists a highly significant negative relationship between the time it takes for firms to collect cash from their customers. The results also revealed that there exists a highly significant positive relationship between the period taken to convert inventories into sales (the inventory conversion period) and profitability, and there exists a highly significant positive relationship between the time it takes the firm to pay its creditors and profitability. The same results are not at variance with Uyar (2009) results which showed statistical significant between working capital and firm performance.

Muinde (2013) conducted a study on financial reporting and analysis practices adopted by small and medium enterprises in Kenya and to establish the relationship between financial reporting and analysis practices and financial performance in Kenya. The study adopted a descriptive cross-sectional research design. The target population comprised of the top 100

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Firms in Kenya for the year 2012. The researcher used simple random sampling to select 50 respondents. Primary data is information gathered directly from respondents and for this study the researcher used questionnaires. Quantitative data collected was analyzed by the use of descriptive statistics using SPSS and presented through percentages, means, standard deviations and frequencies. The information was displayed by use of bar charts, graphs and pie charts and in prose-form. The study found that there is a strong positive relationship between financial reporting, financial analysis, financial management and management accounting and financial project performance. The study was also limited to establish the financial reporting and analysis practices adopted by small and medium enterprises in Kenya and to establish the relationship between financial reporting and analysis practices and financial performance in Kenya.

Budgeting Practice and Performance

Warue and Wanjiru (2013) assessed factors affecting the budgeting processes among Small and Medium Enterprises (Firms) in the hospitality industry in Nairobi's Central Business district (CBD). Descriptive research design was used. Target population comprised 98,608 of all the registered small enterprises located within the CBD of Nairobi city. Stratified random sampling was employed in selecting the sample. The population strata were based on the nature of the business conducted by the FIRM in the Hospitality industry. The sample of 104 was shared proportionately among the 526 Firms in Hospitality industry in the CBD. Semi structured questionnaires of the Likert scale of 1 (for strong disagreement) to 5 (for strong agreement) and administered to Firms managers, was used to measure the study variables. The data was analyzed using panel data analysis. The study finds evidence that computerized accounting system contributes to budgeting process at a higher magnitude than firm size, participation of workers, skills and powers of managers and ownership structure.

A study conducted by Chidi & Shadare (2011) in Nigeria focusing on challenges confronting human capital development in Firms in Nigeria found that budgeting among Firms faced challenges by the businesses not taking ownership or not being accountable, there being a lack of cooperation and/or participation and a lack of understanding of the budgeting process or what's required. This was compounded by the inability to meet, deadlines, padding their budgets/providing unrealistic numbers and sheer ignorance of the importance of budgeting by the business owners. These researchers confirmed that the skill that managers have concerning budgeting affect the budgeting process. The influences of the managers inform whether the budget would be implemented as prepared or not.

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Based on Mahmood (2008), study, if the owners of Firms have clearly defined relationship with the business, the budgeting process becomes more formal, sophisticated and accurate due to the limited influence of the owners. Diamond & Khemani (2006) studied accounting systems among businesses in the developing countries, focusing on Africa deduced that budget execution and accounting processes were either manual or supported by very old and inadequately maintained software applications and hardware. He found that this had damaging effects on their functioning due to the consequent lack of reliable and timely revenue and expenditure data for budget planning, monitoring, expenditure control, and reporting negatively impacting budget management. Further, this study found that there was poorly controlled commitment of resources. This meant that the nature of the computerization of accounting affected the budgeting process to a large extend.

RESEARCH METHODOLOGY

The study employed Ex post facto design research design. The population of study comprised 155 top management employees from 31 projects in Uasin Gishu County, Kenya. Simple random sampling technique was used to select the 87 respondents out of the target population. The primary data was obtained from questionnaires. The Content Validity Index (CVI) was used to quantify the content validity. On this study, test-retest technique was employed. Pearson's product moment correlation coefficient and regression correlation was used to correlate the results.

The collected data was analyzed through the use of both descriptive and inferential statistics. Descriptive statistics were presented in form of frequencies, percentages, means and standard deviation. The researcher used inferential statistics viz. Pearson correlation and regression analysis to show the relationship between the variables.

FINDINGS AND DISCUSSION

Descriptive Statistics

In general, the results on financial reporting summed up to a mean of 3.0955 and standard deviation of 0.69073. The results on the budgeting practice summed up to a mean of 2.6652 and standard deviation of 0.78491. Firm performance summed up to a mean of 3.82 and standard deviation of 1.017. There was a strong relationship between financial reporting and Project performance (r = 0.530, p-value < .01). Also, the study exhibited a strong relationship between budgeting practice and Project performance (r = 0 .590, p-value < .01) (See Table 1).

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Table 1: Correlation Results

	Mean	Standard Deviation	Firm Performance	Financial Reporting	Budgeting Practice
Firm Performance	3.82	1.017	1		
Financial Reporting	3.08	0.69073	.530**	1	
Budgeting Practice	2.6652	0.78491	.590**	0.071	1

** Correlation is significant at the 0.01 level (2-tailed).

Hypothesis by Regression Analysis

The table 2 describes the significance of the financial management practice; financial reporting and analysis practice and budgeting practice in relation to Project performance. Results from (Table 2) its demonstrated that Independent variables: Financial Reporting and analysis practice as well as budgeting practice which are the variables ,since the null hypothesis for record keeping practices was accepted indicating that the alternate hypothesis was rejected , (sig 0.420 , $p > 0.05$) .

Moreover, financial reporting was also found to have a significant effect on Project performance. This means that through financial reporting, Firms are able to analyze their growth and secure essential growth funding as well as attract new and retain outside financial support from new equity holders. This is an essential ingredient for improved Project performance. Cognate to the results, Moore's & Mula's (2003) results clearly indicate increasing emphasis on financial reporting as businesses grow in employment terms and progress through the earlier stages. The eventual outcome for increased financial reporting is improved performance of the businesses. On the same note, Maingot and Zeghal (2006) observed that financial reporting for Firms results in improved Project performance. It is evident that much has not been done with reference to the relationship between financial reporting and Project performance. The study therefore adds significant insights on the positive effect of financial reporting on Project performance.

Budgeting practice has a significant effect on Project performance. This infers that budgeting provides a framework in which Firms spend their funds in the best way possible so as to realize profits. As such, preparation of budgets, budget expertise and participation of employees in the budget process enhance the overall project performance. In line with the results, Joshi et al (2003) examination of budgeting practices by a survey of 54 medium and large sized companies in Bahrain found that an increase in firm size lead firm to implementing a more comprehensive budgeting process to achieve a better performance. In a similar vein, a study conducted by Chidi & Shadare (2011) in Nigeria focusing on challenges confronting human capital development in Firms found that lack of understanding of the budgeting process

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was detrimental to the performance of the Firms. From the extant literature, it is evident that budgeting enhances Project performance. The results therefore augment prior findings that budgeting practice has a positive and significant effect on Project performance.

Table 2: Regression

	Unstandardized Coefficients	Standardized Coefficients			95.0% Confidence Interval for B	
	(B)	(Beta)	T	Sig.	Lower bound	Upper bound
a(Constant)	4.939		13.72	0	1.66	2.217
Financial Reporting & Analysis Practice	0.257	0.354	5.048	0.00	0.157	0.357
Budgeting practice	0.27	0.424	6.662	0.00	0.19	0.35

Dependent variable: Project performance

CONCLUSION AND RECOMMENDATIONS

Financial reporting is of essence in enhancing Project performance. Through financial reporting, FIRM owners are able to determine if they have the capacity to generate future profit. For instance, by analyzing and evaluating the growth of their accounts periodically, FIRM owners ensure that their expectations of the organization performance, based on knowledge of the business, are confirmed by the formally presented results. Reporting and analysing skills is an added incentive

Additionally, budgeting practice has a positive and significant effect on Project performance. The preparation of budgets coupled with budget expertise provides a spending plan for finances making it possible for availability of funds to enhance future growth and overall project performance. , budgeting practice as a predictor to performance has a very strong relationship hence has a very strong contribution to performance. This however requires the participation of employees in the budget process in order to realize improved performance

Financial information used in financial reporting and analysis is useful mainly in evaluating the success of past decisions and in determining present position. There is thus need for periodical reporting on the balances of their accounts. The growth of accounts also needs to be analyzed and evaluated periodically. Additionally, there is need for employees to have the necessary reporting and analyzing skills.

Budgeting practice has a positive and significant effect on Project performance. It is therefore necessary for employees to have budget expertise. Most importantly, FIRM owners need to have budget expertise since they dictate whether the budget would be implemented as

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prepared or not. Moreover, budgets should be prepared regularly with full participation of employees in the budget process.

Based on the findings the study recommends involvement of banks to train Firms on budgeting, and continuous improvement of managers' skills that covers all the variables in financial management practices for the benefit of the Firm's as well as financial institutions.

This study focused on the relationship between financial management practices and performance in Uasin Gishu County. It can be replicated with a larger, more representative sample. It is also recommended that this study be replicated in different business sectors within the North-Rift region. A similar study can also be carried out in other counties like Nairobi that is largely urbanized with elite and very diverse FIRM owners. Furthermore, it would be interesting to know whether the observed findings hold for other firms as well. More research is needed in this subject area to fully establish the effect of record keeping on Project performance since the study exhibited no significant effect. Major contextual and settings to be considered in future researches should consider insights from this study influencing Project performance including the three factors: 1) budget practice; 2) financial reporting 3) borrowing practice as playing an important role in enhancing Project performance.

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