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RELATIONSHIP BETWEEN FINANCIAL PLANNING PRACTICES AND PERFORMANCE OF SELECTED COUNTY GOVERNMENTS IN KENYA

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Abstract

County Governments experience financial distress in different forms. Counties have adopted several financial distress management practices but still there is limited knowledge on the relationship between financial planning practices and performance of Counties prompting the need to carry out this study. The study was anchored on financial distress theory. Correlation survey research design was used and targeted County Executive Committee Members, financial officers, Chief Officers and County accountants from various departments in Kericho, Bomet and Narok Counties. The target population was 207 respondents with a sample size of 136 respondents selected using stratified and random sampling technique. Primary and secondary data were used for the study where primary data was collected using questionnaires. Instrument validity was determined by use of the content experts and supervisors while instrument's reliability was determined by use Cronbach's alpha coefficient. Obtained data was analyzed using both descriptive and inferential statistical techniques. The study findings *revealed that financial planning practices has a positive relationship with performance of counties (R=0.749, β1 = 0.506). The study recommended that good budgeting and budget implementation practices should be put in place to help the county government to control, use and evaluate effective use of resources. The findings of this study could benefit County managements to turn around the financial fortunes and in dealing with their financial shortcomings. The study suggest further research to be conducted on other factors affecting performance of county governments since independent variables under study contributed 88.7% of the performance of county governments.*

Keywords: Financial planning practices, performance of selected County Governments, Kenya

INTRODUCTION

County Governments have the authority to offer services closer to people for easy accessibility. According to Nengwekhulu (2008), decentralization theorist postulates that all services meant for the public should be provided within a jurisdiction of minimal geographical coverage. They offer best health facilities, employment and boost the economy of the country. They also provide educational, cultural, political, commerce, research and management services (Magambo, 2004). In Kenya a new constitution was implemented in 2010 and it opened a new chapter of devolution. County Governments' devolution is self-directed when it comes to distinct functions in the implementation. Despite most countries having decentralization governance reforms, they have failed to reflect what they were intended to achieve. Reforms failure transpires in four key aspects that lead resource distribution hindrances. These aspects include personnel systems and management, capital investment and planning, fiscal and budget management, and lastly revenue and finances (Waikenda, 2020).

Financial distress refers to a situation where an organization cannot effectively meet its financial obligation on the process of its maturity or facing challenges as it grows. Usually, the situation is influenced by cash flow insufficiency, profit breaches, market value decline and low business growth (Andrade & Kaplan, 2013). Lin, Ko and Blocher (2016) explored that failures in business leads to economic consequences that are enormous. Business failure is experienced immediately after uncertain periods and when a company's financial status is significantly affected by financial distress the financial distress of an organization normally leads to cash flow situations that is tight and where these firms cannot pay on time their owned amounts. If prolonged, the phenomena result in the organization owing into experiencing forced liquidation and bankruptcy. It is complexed on the basis that some banking institutions may deny to fund those firms undergoing serious financial distress (Altman, 2013).

County Governments in Kenya

Devolution in Kenya came into place after the new constitution in 2010 promulgation after a successful referendum that created 47 county governments. The forty-seven (47) counties were given the mandate to establish close governance to the people as fronted by assumption the decentralization that avers every public entity needs to bring power and resources closer to the people in order to maximize on the benefits of devolution (Waikenda, 2020). The Constitution of Kenya, 2010 Fourth Schedule outlines the functions of both National Government and County Government. Functions such as Agriculture, County Roads, Health Services, Provision of Water, Early Childhood Development Education (ECDE), Polytechnics and Home Craft Centers among others have been devolved to counties. Transitional Authority (T.A.) was created as a constitutional body and tasked with a responsibility of ensuring that over the medium term, there was a seamless transition of functions from National Government to County Governments. The basis is resources should follow functions and thus counties are allocated money from the National Exchequer and are also expected to collect local revenue in order to provide service to the people, (Kenya & National Council for Law Reporting).

Sustained financial distress could also put the County governments at the risk of being taken over as provided for in the Constitution of Kenya 2010 by the National Government. This will be a draw back on the gains already made on devolution and self-governance. Since the adoption of the devolved system of governance, County Governments have been faced with immense challenges related with efficient management of financial resources. This has been due lack of efficient implementation of financial distress management practices, (CoG, 2019). These challenges influence efficient service delivery and performance of the County Governments.

Statement of the Problem

County governments should provide services effectively and efficiently since they are given the mandate and facilitations through exchequer funding to bring governance and services closer to the people. These services include infrastructure development, education, commerce and health services. However, County Governments' financial distress has been in existence in numerous forms. For example, county governments find it hard to sort their current liabilities which include short-term creditor obligation and salaries. County Governments have implemented various practices to manage financial distress. However, it is not clear how financial planning practices that have been implemented have influenced the performance of counties in Kenya. Further, there is limited knowledge on the relationship between these financial planning practices and performance of counties owing to limited studies. Hence this research intends to establish the relationship between management practices, financial distress and performance of county governments'. Specifically, the study investigated the relationship between financial planning practices and performance of Selected County Governments in Kenya.

LITERATURE REVIEW

Financial management is noted in both public and private sectors because it is significantly a substantial activity when it comes to sustainability and management of an institution. Defining financial management is usually based on institutional types and changes whether it is the government, a donor or the private sector. Financial management consists of both long term and short term management of financial. Short term involves managing items of the working capital which includes management of accounts receivable, inventory management, cash management among others (Aminu & Zainudin, 2015). Moreover, long-term management of financial refers to the management of financial that entails fundamentally every decision making which has an influence after one year or more than one year (Zietlow, Hankin, Seidner & O'Brien, 2018).

Ahmed, Nawaz, Usman, Shaukat and Ahmed (2010), notes that financial planning practices involve planning for the future of a business enterprise to ensure a positive cash flow. Financial management involves planning, organizing, directing and controlling the financial activities such as the procurement and the using up of funds of an enterprise. Therefore, from an institutional point of view, the process of financial management is associated with financial planning and financial control. Financial planning seeks to quantify various financial resources available and plan the size and timing of expenditures.

A study by Shuja and Abbasi (2015) sought to determine the impact of resource mobilization management practices on performance of banks continuity in Pakistan. Target population for the study involved the entire banks that were operating in Lahore where the study focused on all managers at different levels. Random sampling technique was utilized to acquire a sample size of 20 banks out of 160 banks. Primary data collection technique was adopted where questionnaires were used to gather information from the bank managers. Data was analyzed by use of descriptive statistics and inferential statistics with the aid of SPSS version 23 and presented inform of tabulated tables, figures and percentages. According to study findings, it was revealed that resource mobilization played a key role in implementing banks' continuity and management plans. In conclusion, resource mobilization had a positive significant effect on financial planning for banks continuity management practices. Therefore, this study will focus on financial resource mobilization and county government performance in Kenya.

Isaac, Lawal and Okoli (2015) carried a review on budgetary and budgeting control effectiveness in petroleum Cooperation in Nigeria. The study adopted survey research design and the study targeted all top and middle level managers where quota sampling technique was used to come up with a sample size. Both primary and secondary data collection techniques were used where structured and semi structured questionnaires were administered to obtain primary data and Nigerian National Petroleum Cooperation files, financial statements and national dailies were adopted to obtain secondary data. Percentage statistics techniques were used to analyze data. The study indicated that involvement of stakeholders in budgetary and budgeting process was vital for the purpose gaining effectiveness. Further it was revealed that, implementation of the budget required the officers to be responsible and faithful. The study recommended that budgetary and budgeting control enhances efficiency management and thus improves institutions performance and all stakeholders need to be blended in budget preparation processes until the last stage of implementation because it fosters attaining of the goals of the institution. It is for this reason the study sought to determine the relationship between budgeting and budgetary practices and financial distress of county government in Kenya.

A study by Mohamed Kerosi and Tirimba (2016) sought to determine the effect of budgetary control on Banks performance, a case of Dar-Salaam Bank. The study was based on both retrospective and descriptive research design where target population was 70 employees working in the bank. Census sampling technique was adopted because the number of employees in the bank was small and therefore all the 70 employees were used as respondents' fir the study. Data was collected by use of both primary and secondary methods wand data was analyzed by the aid of Statistical Package for Social Sciences and presented in form of charts, frequency and tables. The study revealed that Zero Based Budgeting and accounting improved control of budget and efficiency of banks. It was also noted that Variance cost analysis influenced decision making hence increase to banks performance. In conclusion, it was recommended that employee need to be taken for trainings in order to equip themselves with knowledge on budgetary control methods for wise decision making that will lead to improved performance due to efficiency. The study focused on the effect of budget control on banks, but this study will tend to address the relationship between Budgeting and budget implementation and financial distress of county governments in Kenya.

Mukaba (2016) did a study on the relationship between disclosure of financial statements and manufacturing companies' financial distress in Kenya. The study adopted Correlational research design where a target population of 9 companies which were listed in Nairobi Stock Exchange was used and census survey sampling technique was used to pick all the companies to be a sample size for the study. Secondary data collection method was used where the study relied on document check index instrument for data collection. Descriptive and inferential statistics were used to analyze data with the aid of SPSS and Microsoft excels and data was presented in form of tables and graphs. The study findings revealed there exist a positive and significant relation between financial and non-financial disclosure and manufacturing firms' financial distress. The study recommended organizations to disclose or present financial reports voluntarily for it will reduce the chances of being financially distressed. Therefore, because the study focused on manufacturing firms, there was a need to do a study on the same and focus mainly on financial distress in county governments in Kenya.

Contingency Theory

The theory was developed in 1986 by a scholar known as Pike. This theory explains different financial planning practices. It indicates the outcomes of ordinary investments history, competency of professional degree and the policy of capital budget control. On the other side, the contextual elements explain the reasons why accounting system differ from one institution to another. The explanation to this theory is that, firms have different accounting systems which give varying performance in terms of finance. To the argument of Pike (1986), financial planning practices need to consider various factors before allocating resources.

In relation to the study, this theory supports that organizations adopt different financial planning practices which tend to fit them. These differences are brought about because of external elements and corporate settings. In other words, financial planning practices have no universal standards set to be adopted by various organizations. Organizations can choose appropriate financial planning practices that can suit them best in order to attain its main purpose or goal for in existence. Therefore, this theory will support the first study objective of financial planning practices in relation to selected County Governments.

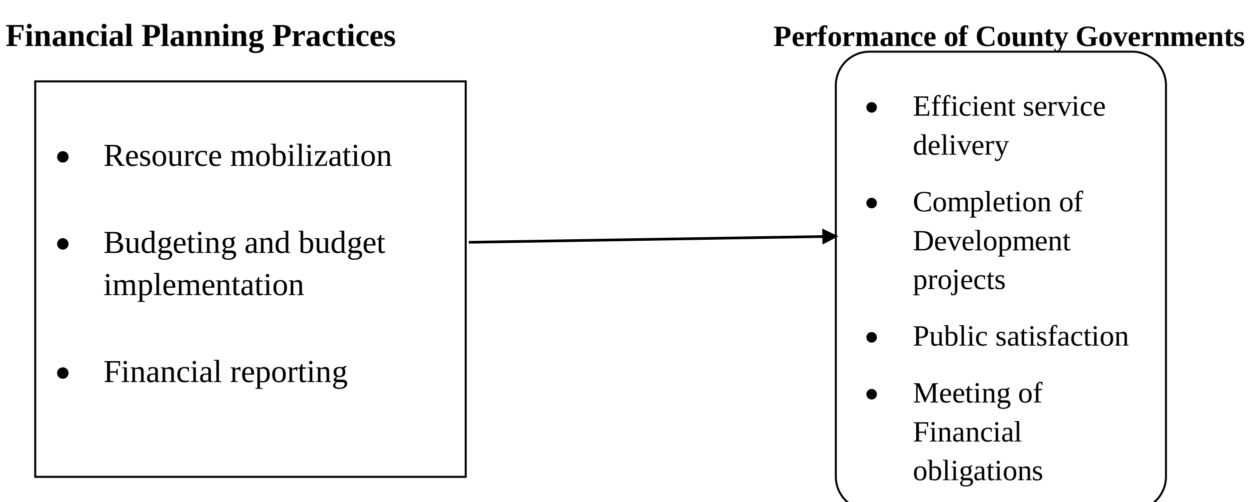

Figure 1: Conceptual Framework

County government performance was determined by financial planning practices. The financial planning practices assist county governments both in short and long term management of county governments finances. When there are proper financial planning practices in place, then the county government will be in a position to have financial resources available for efficient and effective service delivery to the citizens hence leading to good county government performance.

METHODOLOGY

This research adopted a correlation survey research design. This research design is used to collect information and establish the relationship and the nature of relationship between variables under study, (De Vaus, 2013). The design is also deemed appropriate because it helps to describe the state of affairs of issues under investigation. It will provide the basis of gathering data in order to investigate the financial distress management techniques and their effect on County Government performance of selected County Governments.

The research was conducted in Kericho, Bomet and Narok. These Counties was selected for the study because of similar financial planning practices and geographic variables. The Counties are majorly known for large scale farming simply because of favorable climate condition. From the auditor’s reports, the selected Counties also faced financial distress previously.

A target population refers to an entire group of individuals, events or objects having a common observable characteristic (Kothari, 2019). The study targeted all members of County Executive Committee, Finance Officers, Chief Officers and County Accountants from various departments in Kericho, Bomet and Narok counties. The target population was 207.

Table 1: Target Population

County Department	Target population
County executive committee	39
Finance officers	39
Chief officers	51
Accountants	78
Total	**207**

Source: Kericho, Bomet and Narok County Government Records, (2021)

The study adopted stratified sampling method to arrive at a sample that was used to study the entire population. Specific sections of departments within the County Government were identified as strata. These sections were relevant to the study because it is assumed that they possess the required data that assisted in responding to the research questions. The population for this study was considered to be finite and statistical formula application becomes imperative for coming up with a sample size.

Yamane Taro's formula was used to determine the size of sample. This is because the formula assumes a normal distribution. This formula is given as

$n = \frac{N}{1+Ne^2}$

Where, n is the size of sample, N is the targeted population and e is the precision level or error margin.

Therefore,

$207/1+207\ (0.05)^2$

n = 136 respondents.

This was distributed proportionately among the various sections in the departments as indicated in table 2.

Table 2: Sample Frame

County Department	Target population	Sample Size
County Executive Committee Members	39	26
Financial Officers	39	26
Chief Officers	51	33
Accountants	78	51
Total	**207**	**136**

Both raw and secondary data collection methods were employed. Primary method adopted self-designed questionnaires and Secondary method obtained data from the County Financial Statements (balance sheets and income statements) of Kericho County, Bomet County and Narok County for a three-year period 2016 to 2019. Structured questionnaires were closed- ended; this enabled the respondent to collect data that can be quantified to produce both descriptive and inferential statistics

Validity shows a distinct representation of measuring items considered for measurement, (Mugenda and Mugenda 2003). It explores the evaluation to make sure all the questions of the research are answered by the instrument (Kothari, 2019). Subject expert judgment was used to support validity content of this research; the scholars held a discussion related to the content and the format of the questionnaire with the supervisors, and experts' prior data collection. This promotes clear responses and unclear components in the questionnaire are eliminated or corrected through carrying out a pilot study.

Oso and Onen, (2008) defines reliability of an instrument as its ability to generate consistent results each time that it is used on a similar task. The instrument's reliability was determined by use cronbach's alpha coefficient. The study conducted a pilot study in Nyamira County where 13 questionnaires (which is 10% of the sample size) was issued randomly to the respondents from different sections. The study established a Cronbach coefficient 0.8652 which was considered sufficient for the study. A Cronbach's alpha tool was ideal in examining reliability of the instrument for this study because it is the commonly used tool for measuring internal consistence in social research.

RESULTS AND DISCUSSION

Demographic profile

The study collected demographic information of the respondents as part of demographic information and presented it using frequency tables.

Gender was examined and their results were presented in frequency table. This has been summarized in table 3.

Table 3: Gender of the Respondent

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	56	48.3	48.3	48.3
	Female	60	51.7	51.7	100.0
	Total	116	100.0	100.0	

Work experience was examined and the findings presented using frequency and percentage table. The summary results were presented in table 4.

Table 4: Work Experience of the Respondent

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	5 and below	16	13.8	13.8	13.8
	6-10	49	42.2	42.2	56.0
	11-15	39	33.6	33.6	89.7
	16-20	8	6.9	6.9	96.6
	21 and above	4	3.4	3.4	100.0
	Total	116	100.0	100.0	

Table above indicates working experience of the employees in the county government. From the analyzed data it was established that 42.2% had worked between 6-10 years, 33.6% had worked between 11-15 years, 13.8% respondents had worked for 5 years and below, 6.9% had worked between 16-20 years and lastly 3.4% of the respondents had worked for 21 years and above.

Descriptive statistics were summarized in frequency table, mean and standard deviation. The Likert scale with weights from 1 to 5 which represented strongly disagreed to strongly agree respectively was used to assess the extent to which the respondents agreed to various statements. A mean of 3 and above indicated agreeability otherwise disagree.

Descriptive statistics

Financial Planning Practices and Performance of County Governments

The study sought to assess financial planning practices that were adopted by the county government. The findings are presented using frequencies, mean and standard deviation. The descriptive results were presented in table 5.

Table 5: Frequency table and mean for Financial Planning Practices

Statement	SA 5	A 4	N 3	D 2	SD 1	Mean	SD
The county government mobilizes enough resources for execution of its activities	12 (10.3%)	58 (50.0%)	33 (28.4%)	11 (9.5%)	2 (1.7%)	3.5776	.86629
The county government has adopted proper budgeting and budget implementation practices	9 (7.8%)	43 (37.1%)	50 (43.1%)	14 (12.1%)	-	3.4052	.80194
The county government provides regular financial reports to enable better decision making	2 (1.7%)	71 (61.2%)	33 (28.4%)	10 (8.6%)	-	3.5603	.67616
The county government prepare and present annual audited accounts to the relevant bodies	8 (6.9%)	67 (57.8%)	39 (33.6%)	2 (1.7%)	-	3.6983	.62164
Proper financial planning ensures efficient service delivery	26 (22.4%)	58 (50.0%)	28 (24.1%)	2 (1.7%)	2 (1.7%)	3.8966	.82756

In Table 5, there was 12(10.3%) who strongly agreed, 58(50.0%) agreed, 33(28.4%) neutral, 11(9.5%) disagreed and 2(1.7%) disagreed that county government mobilizes enough resources for execution of its activities. A mean of 3.5776 reveals that government moderately mobilized enough resource for execution of activities. A standard deviation of 0.86629 revealed low variation indicating homogenous opinion.

In response to adoption of proper budgeting and implementation practice 9(7.8%) strongly agreed, 43(37.1%) agreed, 50(43.1%) neutral and 14(12.1%) disagreed. A mean of 3.4052 revealed that the county government moderately adopted proper budgeting and budget implementation practices. A standard deviation of 0.80194 implying similar opinion.

Majority of the respondents 71(61.2%) agreed that the county government provided regular financial reports to enable better decision making, 33(28.4%) neutral, 10(8.6%) disagree and 2(1.7%) strongly agreed (mean of 3.5603). A standard deviation of 0.67616 indicated low variation in response.

A mean of 3.6983 indicated that the county government somewhat prepared and presented annual audited accounts to the relevant bodies. There were 8(6.9%) who strongly agreed, 67(57.8) agreed, 39(33.6%) were neutral and 2(1.7%) disagreed. Its variation was low in preparing and presenting annual audited account (standard deviation of 0.62164).

According to the findings 26(22.4%) strongly agreed, 58(50.0%) agreed, 28(24.1%) neutral, 2(1.7%) disagreed and 2(1.7%) strongly disagreed that there was proper financial planning to ensure efficient service delivery. The mean of 3.8966 indicated proper financial planning sufficiently assisted in ensuring efficient service delivery. Its variation was low in service delivery (standard deviation of 0.82756).

The current study findings concurred with the findings of Isaac, Lawal and Okoli (2015) where both findings agreed that budget and budgetary implementation had positive effect on county government performance. Despite the findings indicating similar results, Isaac, Lawal and Okoli (2015) used survey research design while the current study relied on correlation research design. On the other hand, both studies used both primary and secondary data collection methods to

Performance of County Governments

Performance of county government was examined using mean and standard deviation derived from frequency table. Summary of the results were presented in the table 6.

Table 6: Frequency table and mean for Performance of County Governments

Statement	SA 5	A 4	N 3	D 2	SD 1	Mean	SD
There is efficient service delivery in the county government	-	31 (26.7%)	59 (50.9%)	20 (17.2%)	6 (5.2%)	2.9914	.80753
Development projects are completed in time	10 (8.6%)	36 (31.0%)	29 (25.0%)	19 (16.4%)	22 (19.0%)	2.9397	1.26001
Citizens are satisfied by the services rendered to them by the county government	13 (11.2%)	34 (29.3%)	36 (31.0%)	23 (19.8%)	10 (8.6%)	3.1466	1.12871
Financial obligations are met on time by the government	21 (18.1%)	36 (31.0%)	19 (16.4%)	25 (21.6%)	15 (12.9%)	3.1983	1.32021
Social programs have improved in the county	16 (13.8%)	52 (44.8%)	20 (17.2%)	18 (15.5%)	10 (8.6%)	3.3966	1.16380

In table 6, it was revealed that majority of the respondents 59(50.9%) were neutral that there was efficient service delivery in the county government. However, 31(26.7%) agreed, 20(17.2%) disagreed and 6(5.2%) strongly disagreed. A mean 2.9914 indicated that the service delivery in the county government was below average. With similar opinion indicated by standard deviation of 0.80753.

The results also indicated that 10(8.6%) strongly agreed, 36(31.0%) agreed, 29(25.0%) neutral, 19(16.4%) disagreed and 22(19.0%) strongly disagreed that development projects were completed in time. Development projects were below average as indicated with a mean of 2.9397. A standard deviation of 1.26001 indicated that high variation of heterogeneous opinion.

The citizens were satisfied by the services rendered to them by the county government with 13(11.2%) strongly agreed, 34(29.3%) agreed, 36(31.0%) neutral, 23(19.8%) disagreed and 10(8.6%) strongly disagreed. A mean of 3.1466 indicated that service rendered was above average where there was heterogeneous in opinion (standard deviation of 1.12871).

A mean of 3.1983 indicated that financial obligations were achieve on time by the government where 21(18.1%) strongly agreed, 36(31.0%) agreed, 19(16.4%) neutral, 25(21.6%) disagreed and 15(12.9%) strongly disagreed. However, there variation was not homogenous across the department based on a standard deviation of 1.32021.

According to the findings revealed that social programs had improved in the county to some extent (mean of 3.3966). This was due to 16(13.8%) respondents who strongly agreed, 52(44.8%) agreed, 20(17.2%) neutral, 18(15.5%) disagreed and 10(8.6%) strongly disagreed. A standard deviation of 1.1638 indicated heterogeneous response based on different departments.

Fjelstad *et al.,* (2004) found out that local governments in Tanzania, which operated proper financial management practices and government regulations posted a positive improvement in terms of resources utilizations, improvement of infrastructure and good service delivery to the public and some local authorities were financially stable. Njuguna (2010) found out that in Kenya, most government agencies are experiencing financial distress leading to majority of public corporations performing poorly. This is of different opinion according to the findings of the current study which indicate county government having a moderate performance.

Inferential Statistics

Inferential statistics were used to analyze relationship between the independent and dependent variables. Correlation and regression analysis were used to test nature of relationship between the independent and dependent variable including significance of the hypothesis.

Regression Analysis

Regression analysis was used to test the hypothesis of the study based on 5% significant. The regression model summary was presented in table 7.

Table 7: Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.941[a]	0.887	0.839	0.70538

The findings in Table 7 indicated that there existed strong relationship between finance distress management practice and performance of selected county governments. Where financial planning practices, county governance practices, internal control practices and county government regulatory contributed 88.7% of variation in performance of the County and other factors contribute 11.3% (R square = 0.887).

Table 8: Analysis of Variance

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	38.513	4	9.628	19.351	0.000[b]
	Residual	55.229	111	.498		
	Total	93.742	115			

a. Dependent Variable: Performance

b. Predictors: (Constant), Financial Planning Practices, County Governance Practices, Internal Control practices and County Government Regulatory

ANOVA results in the table 8 indicate that the model was statistically significant with F-statistics

Testing of the Hypothesis

H_{01} There is no significant relationship between financial planning practices and performance of selected County Governments in Kenya. The null hypothesis was rejected and the alternative hypothesis indicate there is significant relationship ($R=0.581$, $P<0.05$) between financial planning practices and performance of selected County Governments in Kenya adopted.

CONCLUDING REMARKS

Summary of Findings

The study sought to determine the relationship between financial planning practices and performance of selected County Governments in Kenya. The findings indicated that the county governments moderately mobilized enough resources which aided in the execution of various county government activities. The county government also had good budgeting and budget implementation practices in place and this contributed to good county government performance. Further, the findings showed regular financial reporting being the major factor which facilitated to financial planning practices in the county governments hence fostered performance. Lastly, the study established that county government presented annual audited accounts to all relevant stakeholders. The study established that there was significant statistical relationship between proper financial planning practices and performance (efficient service delivery) of county governments.

Conclusion

The study concluded that when county government mobilized resources, have proper budgeting and budgetary implementation practices in place, adopt regular financial reporting and making annual audited accounts available improves on performance of county government in terms of efficient service delivery. In general, financial planning practices if well executed in county governments will enhance performance. The study concludes that Financial planning practices is related to performance of county government.

Recommendations

The study recommends that the county government need to mobilize more resources this could support the county government in executing their projects and complete them on in time. There is need for the county government to have good budgeting and budget implementation practices this will help the county to control, use and evaluate of resources. Regular financial reporting and annual audited accounts should be made available to all stakeholders. There is need also for county governments to prepare and present annual audited accounts to the relevant bodies and also to do proper financial planning because this will ensure efficient service delivery.

Further Research

There is need to carry further research study on internal control practices and performance by looking specifically at the contributions of periodic monitoring and evaluation programs on performance.

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