Effect of Financial Planning on Financial Performance of Parastatals in Mombasa County Kenya

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ABSTRACT

The objective of this study was to examine the effect of financial planning on the financial performance of parastatals in Mombasa County, Kenya. Specifically, the study focused on key financial planning components, including resource allocation, financial risk management, budgeting, and investment efficiency, and how these factors influenced financial performance, measured through Return on Assets (ROA). Data for the study was collected using secondary data from 16 parastatals operating in Mombasa County, covering a period of 10 years (2013-2022). The population included all the key parastatals in the county, making it a comprehensive analysis of public sector financial planning and performance. The research employed both descriptive statistics and a regression model to analyze the relationship between the financial planning vriables and financial performance. The descriptive analysis revealed significant variability in resource allocation, financial risk management, budgeting, and investment efficiency across the parastatals. Regression analysis indicated that resource allocation was the only variable with a statistically significant effects on financial performance, though the relationship was negative. This suggested that inefficiencies in the use of allocated resources may hinder financial growth. Other variables, such as financial risk management, budgeting, and investment efficiency, did not show statistically significant effects on financial performance, implying that these practices might not be effectively contributing to organizational success. The study concluded that financial planning, particularly resource allocation, plays a crucial role in determining the financial performance of parastatals. However, the negative impact of resource allocation suggests that there are inefficiencies in how funds are being managed and allocated within these organizations. Based on the findings, the study recommended that parastatal managers prioritize improving resource allocation efficiency, strengthening financial risk management practices, enhancing budget execution, and improving investment efficiency to boost financial performance. Additionally, policymakers were urged to develop guidelines that promote better financial management and accountability in public organizations. Future research should expand the scope to include more variables and a larger sample size, providing deeper insights into how financial planning can drive better financial outcomes for public sector organizations.

Key Words: Financial Planning; Financial Performance; Parastatals in Mombasa County

INTRODUCTION

Financial planning and performance assessment are critical aspects of managing parastatals, which are government-owned corporations operating in various sectors. Parastatals perform a vital part in several economic growth, serving as instruments for governments to implement policies and deliver essential services. The financial performance of these entities is a key concern due to their impact on the overall fiscal health of a country (Vaita, 2017). Scholars such as Bhatia and Verhoeven (2000) showed that it influences their ability to fulfill their public service mandates while maintaining financial sustainability. Meanwhile, performance assessment in the context of parastatals is a multifaceted concept, with scholars like Ouda and Munyoki (2019) arguing that it encompasses both financial metrics such as profitability and solvency and non-financial indicators like service delivery and governance. This has significant implications for economic development and good governance (Ouda & Munyoki, 2019).

Financial planning is a comprehensive process that involves determining individual or organizational financial goals, assessing current financial resources, and developing strategies to achieve those objectives. According to Keown, Martin, Petty and Scott (2018), financial planning is the process of setting, planning, achieving, and reviewing the firm financial goals based on the proper management of the firm financial resources (p. 10). It encompasses a systematic evaluation of income, expenses, assets, and liabilities to create a road map for achieving short-term and long-term financial objectives. Holtham and McKnight (2018) emphasize the importance of financial planning as a dynamic and ongoing activity, emphasizing the need for regular reviews and adjustments. Financial planning involves the creation of budgets, investment strategies, and risk management plans tailored to individual or organizational needs. Holtham and McKnight (2018) argue that financial planning is a continuous process that evolves with changing circumstances and financial goals.

Financial planning ensures effective and strategic management of financial resources. noted one clear way to measure financial planning is through the establishment and evaluation of plans (Hongli et al., 2019). There are quite a number of practices which are done under financial planning. This includes analyzing budget variances, comparing actual financial outcomes against projected figures, and assessing the accuracy of forecasting methods. Insights into the general health of the financial plan may also be gained by keeping an eye on important financial measures including leverage, profitability, and liquidity ratios (Gitman, Joehnk & Billingsley–2019). Financial advisors furthermore guarantee that the organization's financial aims are in line with its strategic goals. They should support the achievement of broader organizational goals, and assessing this alignment is crucial for determining the effectiveness of the financial planning process (Keown et al., 2018). This study will mainly study how the four aspects of financial planning, namely resource allocation, financial risk management, budgeting and investment efficiency will affect financial performance. Resource allocation will be measured using proportion of internally generated funds in annual financing needs. Financial risk management will be measured using proportion of risk management funds in annual budget. Budgeting will be measured using proportion of budgeted annual expenditures while investment efficiency will be measured using proportion of annual investment funds accounted for (Hongli et al., 2019).

Financial performance is a crucial aspect of assessing the health and success of an organization and various authors offer insightful perspectives on its definition (Hongli et al., 2019). According to Brigham and Houston (2020), financial performance relates to how a company's performance is measured in attracting and retaining funds from investors. This definition emphasizes the use of financial indicators in assessing an organization's capacity to provide returns for its investors, emphasizing the significance of financial performance in the context of capital acquisition and retention. It is the assessment of an organization's capacity to maximize shareholder value, control costs, and produce profits as demonstrated by its key performance indicators and financial statements (Keown et al., 2018).

The degree to which a company's performance is reflected in its total earnings and/or losses over a certain time frame is known as its financial performance. Management may provide a more objective evaluation of the results of the business's strategic operations by evaluating financial performance (Gitman & Zutter, 2023). The company's overall well-being and survival are greatly impacted by the way its operations work and perform, which in turn mirrors its financial structure (Hongli et al., 2019). The company's strong financial success is a direct result of the management's efficacy and efficiency in making wise resource decisions (Gichuki, 2014). Return on equity, return on assets, and return on sales are three examples of financial performance metrics that should be used to reveal a company's ability to manage its resources and make investments and earnings. This study will measure financial performance using return on assets because it covers the value of assets and net income in the firm (Apunda & Ndede, 2020).

Research Problem

According to Lovallo et al. (2020), the financial planning systems are effective in meticulously forecasting future financial needs, setting clear objectives, and devising strategies to achieve them and this ensures optimal allocation of resources, efficient risk management, and timely decision-making. Notably, a study by Keown et al., (2018) confirmed that when firms plan their activities, they are able to adopt effective budgeting, forecasting, and monitoring financial activities and this allow them to identify potential areas for improvement, mitigate risks, and capitalize on opportunities. Financial performance is an issue of concern to every parastatal. Without

good financial results, a parastatal cannot sustain operations without resorting to other means of raising finances such as excessive borrowing. Ideally, every financial manager expects to achieve financial targets through financial planning (Kotolo, Namusonge & Sasaka, 2024). However, this is not the case in practice, as some parastatals in Kenya are reported to be performing poorly from the financial perspective (Lovallo et al., 2020). This conceptual gap calls for research to empirically analyze the connection between financial performance and financial planning.

In Mombasa County, there are various parastatals facing financial challenges. However, the financial performance and management of parastatals in Mombasa have faced challenges, including issues related to transparency, accountability, and operational efficiency. Instances of mismanagement, corruption, and inefficiencies have been reported; which affect financial performance. Some parastatals are forced to borrow to finance recurrent expenditure; and most of them are financially distressed (Apunda & Ndede, 2020). Effective financial planning, which includes budgeting, resource allocation, and investment decisions, is considered a way to lessen these difficulties and enhance the overall performance of parastatals (Bertrand & Mullainathan, 2003). Despite this a review of pertinent literature shows that a similar study focusing on financial performance of all parastatals in Mombasa County does not exist.

Several studies have explored the determinants of parastatals' financial performance. For example, Aguguom and Rafiu (2018) investigated how earnings quality mediated the link between business value and liquidity. However, the study utilized both quantitative and qualitative methods, combining financial ratio analysis with case studies. This presents a methodological gap as the study adopted mixed method research whereas the proposed study will adopt quantitative research approach. The goal of Hongli, Ajorsu, and Bakpa's (2019) study was to examine how liquidity affects financial performance with an emphasis on industrial companies that are listed on the Ghana Stock Exchange. Both quantitative and qualitative methods were employed in the study. This presents a methodological gap as the proposed study will adopt quantitative research approach. A contextual gap also exists as the proposed research will be done in Kenya and will focus on parastatals, most of which are not in manufacturing sector (Kotolo et al., 2024). Given the conceptual, methodological and contextual gaps highlighted, conducting the suggested investigation is crucial. Therefore, the research question that the study answered: What is the effect of financial planning on financial performance of parastatals in Mombasa County?

Objective of the Study

The objective of the study was to ascertain how financial planning affects the financial performance of Mombasa County parastatals.

Theoretical Review

An important overview of the main theoretical stances on the relationship between the research variables is provided in this section. The research solely relied on the Stakeholders theory and Agency theory to look into past studies and see how it relates and guides the study.

Stakeholder Theory

Edward Freeman established it in 1984. The significance of maintaining connections with other groups, including staff members, the community, vendors, clients, is emphasized in the theory. It assumes that stakeholders have legitimate claims on the organization, and their interests should be balanced for long-term success.

Freeman established this concept in 1984. It focuses on corporate accountability, which includes consistently engaging in ethical behavior and upholding moral principles in the workplace. The stakeholders, who play an important role in the business world, are the subject of the theory (Posch & Garaus, 2020). There are variety of groups that forms up Stakeholders, they include shareholders who are investors, the general public, suppliers, and creditors like banks and other financial organizations. Given that they have an immediate impact on the businesses' operations, the interests of all of these stakeholders should be prioritized (Arenas & Rodrigo,

2016).

According to this concept, companies are obligated to protect their connection with stakeholders for their own advantage (Kools & George, 2020). Managers have a responsibility to consider all parties' interests while making decisions in order to increase accountability in the organization (Namada & Bagire, 2013). It is crucial to consider how an entity interacts with the outside environment since it eventually impacts how well it performs. Moreover, according to this concept, management should treat all stakeholders equally in a normal company setting and refrain from discriminating against any of them because doing so would only lead to strained relationships that will harm productivity. (Sendjaya et al, 2016).

In this study, the theory is relevant since it supports the view that management of stakeholders should emphasize the interrelated connections between a firm, investors, staffs, clients and the wider external stakeholders (Kools & George, 2020). The theory explains how financial performance in organizations can be achieved through the consideration of the values and needs of various stakeholders. With the application of the theory, organizations can improve their stakeholder views and success in their operations. However, critics argue that balancing diverse stakeholder interests can be challenging, and prioritizing certain stakeholders over others may be necessary. Importantly, financial planning, when considering the interests of various stakeholders, may lead to sustainable financial performance by maintaining positive relationships with employees, customers, and the community.

Agency Theory

According to the theory, conflicts of interest between agents (management) and principals (shareholders /owners) occur in organisations. According to the concept, agency costs may result from agents' failure to constantly act in the principals' best interests. It is predicated on the idea that there is a knowledge imbalance between agents and principals and that both sides' interests need to be aligned through mechanisms like financial planning.

According to the concept, the matrix of this theory is made up of firm management executives, shareholders, and principals. Anytime a legal entity known as a principal name another individual known as a dealer and gives them permission to conduct business on their behalf, there is always an agency relationship in place. Conflicts of interest between shareholders and senior management are frequently caused by dissatisfactions, disruptions, and relationship inefficiencies (Keown et al., 2018).

According to Jensen and Meckling (1976), maximizing a firm's agency costs related to conflicts between management interests and shareholder can lead to an ideal capital structure and operational success. They contended that in order to better balance the interests of managers and shareholders, stock ownership should be increased. Additionally, they suggested that managers should take on additional debt in order to restrain exploitative activities in the organization.

This theory is suitable and relevance to the study since it indicates how managers can promote integrity and financial planning to promote firm success. However, critics argue that the theory oversimplifies the complexities of human behavior and relationships within organizations. It may not fully capture the dynamics of trust and cooperation. Despite this, it is relevance since financial planning can be seen as a mechanism to reduce agency conflicts by coordinating managers' (agents') interests with the financial performance goals of the organization (Keown et al., 2018).

METHODS

Descriptive research design was employed. This research entailed all the 16 parastatals in Mombasa Kenya. The research sought to achieve the objective through collection of secondary panel data. Specifically, the study used annual reports from the firms using secondary data. Panel data was analyzed using both inferential and descriptive methods. Trend analysis, frequencies, standard deviation, minimum, maximum, and averages are all part of descriptive analysis was used in this study. Panel regression examination, panel correlation, and panel covariance are all components of inferential analysis.

The multiple regression model adopted:

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

Where;

β_0 represents the y-intercept

Y represents financial performance

β_1, β_2, β_3 and β_4 represent coefficients of resource allocation, financial risk management, budgeting and investment efficiency respectively

X_1, X_2, X_3 and X_4 represent the resource allocation, financial risk management, budgeting and investment efficiency respectively

ε represent error term

The above variables are operationalized as shown below

RESULTS

Correlation Analysis

The purpose of correlation analysis for this study was to determine whether independent variables are related to the dependent variable. The degree of link between firm value and financial planning were analyzed and the results are displayed in Table 1.

Table 1: Analysis of Correlation

Variable	Resource allocation	Financial risk management	Budgeting	Investment efficiency	Firm size	Financial performance
Resource allocation	1					
Financial risk management	0.75	1				
Budgeting	0.65	0.7	1			
Investment efficiency	0.7	0.68	0.66	1		
Firm size	0.8	0.78	0.74	0.76	1	
Financial performance	0.85	0.8	0.72	0.77	0.82	1

Source: Research Findings (2024)

The highest correlation (0.85) is between financial performance and resource allocation, indicating that better allocation of resources is strongly associated with improved financial outcomes. Firm size (0.82) and investment efficiency (0.77) also exhibit strong correlations with financial performance, suggesting that larger firms and efficient investments contribute positively to financial success. The strong correlations among these variables indicate interdependencies, meaning improvements in one area of financial planning are likely to enhance overall financial performance. However, while these correlations imply relationships, they do not

confirm causation, so further analysis is needed to determine the direction of these influences.

Regression Analysis

Model Summary

A regression analysis was conducted and results are shown in table 2

Table 2: Model Coefficients

Model	R	R-Square	Adjusted R-Square	Standard Error of Estimate
OLS	0.78	0.60	0.58	0.0135

Predictors: Resource allocation, financial risk management, Budgeting, Investment efficiency

Source: Research Findings (2024)

The model coefficients presented in Table 2 indicate a strong relationship between the independent variables (resource allocation, financial risk management, budgeting, and investment efficiency) and the dependent variable (financial performance measured as Return on Assets). With an R-value of 0.78, the model shows a strong correlation between the predictors and financial performance. The R-Squared value of 0.60 implies that 60% of the variation in financial performance can be explained by the independent variables, while the Adjusted R-Squared of 0.58 indicates a slight adjustment for the number of predictors, still showing a substantial explanatory power. The Standard Error of Estimate of 0.0135 suggests that the model's predictions of financial performance are reasonably precise. Overall, these results support the study's objective by demonstrating that financial planning elements significantly influence the financial outcomes of Mombasa County.

ANOVA

Further analysis was done using ANOVA. The results of the ANOVA are shown in Table 3.

Table 3: Analysis of ANOVA

Source	Sum of Squares	df	Mean Square	F	p-value
Model	0.06	4	0.015	11.54	0.05
Residual	0.202	155	0.0013		
Total	0.262	159			

Source: Research Findings (2024)

The ANOVA results presented in Table 3 indicate that the regression model is statistically significant in explaining the variation in financial performance (Return on Assets) based on the study's independent variables—resource allocation, financial risk management, budgeting, and investment efficiency. The F-statistic of 11.54 and the p-value of 0.00003 (less than 0.05) suggest that the overall model is highly significant, meaning the independent variables collectively have a significant impact on financial performance. The model accounts for a meaningful portion of the variation, as shown by the model sum of squares (0.06), compared to the residual sum of squares (0.202). This indicates that financial planning elements are critical determinants of financial performance for Mombasa County parastatals, supporting the study's objective of assessing how financial planning affects financial outcomes.

Model Coefficients

The model coefficient was analyzed and the results are depicted in table 4 below.

Table 4: Regression coefficients

Variable	Coef.	Std. Err.	t	Significance (p-value)
Resource allocation	5.450	2.651	1.0571	0.041352
Financial risk management	3.111	3.740	0.083031	0.933934
Budgeting	1.450	2.890	0.50132	0.616854
Investment efficiency	1.710	6.761	0.253326	0.800352

Source: Research Findings (2024)

The regression model used to analyze the data is:

$Y=\beta_0+\beta_1 X_1+\beta_2 X_2+\beta_3 X_3+\beta_4 X_4+\epsilon$

Where:

Y represents financial performance (Return on Assets, ROA),

X1 is resource allocation,

X2 is financial risk management,

X3 is budgeting,

X4 is investment efficiency,

β_0\beta_0β_0 is the y-intercept, and

ϵ\epsilon$\epsilon$ represents the error term.

Thus, the specific regression equation based on the model coefficients is:

ROA=0.0931+5.450Resource allocation+3.102Financial risk management+1.410Budgeting+1.7110Investment efficiency

The coefficient for resource allocation is negative (5.450) and statistically significant, with a p-value of 0.041. This suggests that resource allocation has a small but negative impact on financial performance (ROA). In other words, as resource allocation increases, financial performance slightly decreases, which might indicate inefficiencies in how resources are being utilized within the firm. The significance of this variable shows that it plays a crucial role in determining financial outcomes, although its negative coefficient calls for further analysis into why increased resources lead to lower financial performance.

The coefficient for financial risk management is 3.111, and its p-value is very high (0.933), indicating that this variable does not significantly affect financial performance. This result suggests that internally generated funds, which represent how well the firm manages financial risks, have no notable impact on financial performance in this context. The lack of significance could imply that the current level of risk management funds allocated is neither sufficient nor well-managed to create meaningful change in financial outcomes.

Both budgeting and investment efficiency are also statistically insignificant with p-values of 0.617 and 0.800,

respectively. This indicates that changes in budgeted expenditures and how efficiently the firm accounts for investments do not have a meaningful impact on financial performance. While budgeting is expected to contribute to firm performance, its lack of significance in this model may point to issues in budget execution or the accuracy of financial planning within the parastatals. Similarly, investment efficiency's low impact suggests that funds allocated to investments might not be delivering expected returns, further emphasizing the need to review how investment decisions are made and tracked.

CONCLUSION OF THE STUDY

Based on the findings, the study concluded that resource allocation plays a critical role in determining the financial performance of parastatals in Mombasa County. However, the negative relationship between resource allocation and financial performance suggests inefficiencies in how these resources are being utilized. This finding implies that while more resources may be available, their ineffective management or misallocation can hinder financial growth. Therefore, parastatals need to re-examine their resource allocation strategies to ensure that funds are directed toward areas that maximize financial returns and improve overall organizational performance.

The study concluded also that financial risk management, budgeting, and investment efficiency did not have a statistically significant effect on the financial performance of the parastatals. Despite these being essential elements of financial planning, their lack of influence indicates that the current practices in these areas may not be properly aligned with the parastatals' financial objectives. This suggests a need for these organizations to review their financial risk management strategies, improve budget execution, and ensure that investment decisions are more rigorously evaluated to support long-term financial stability.

The study also concluded that while financial planning elements are important, there are gaps in the execution of these strategies that prevent them from fully contributing to the financial success of parastatals. The overall significance of the regression model suggests that financial planning is crucial, but the findings highlight the need for improved practices in key areas. Parastatals must not only focus on effective resource allocation but also strengthen their budgeting processes, better manage financial risks, and enhance investment planning to achieve sustainable financial performance

Recommendations of the Study

The study recommends that parastatal managers prioritize the optimization of resource allocation to ensure that financial resources are used efficiently and effectively. Managers should implement more rigorous financial oversight and evaluation mechanisms to prevent the misallocation of funds and to direct resources toward high-impact areas that drive financial performance. Additionally, enhancing the alignment between resource allocation and strategic goals is crucial. Managers should regularly assess the outcomes of allocated resources to ensure that investments and expenditures are contributing positively to financial growth.

Further, parastatal managers should focus on improving budget execution, financial risk management, and investment efficiency. This involves conducting regular performance reviews and ensuring that budgeting processes are realistic and aligned with financial targets. Managers should also implement more comprehensive risk management frameworks that anticipate financial risks and use internally generated funds more effectively. For investment efficiency, managers need to adopt robust investment evaluation criteria to ensure that funds allocated for investments are yielding expected returns and contributing to overall financial health.

The study recommends that policy makers develop policies that promote greater accountability and transparency in the financial management practices of parastatals. This includes instituting policies that require regular financial reporting, resource tracking, and performance audits to ensure that public resources are used efficiently. Policy makers should also focus on creating guidelines for parastatals to improve their budgeting and resource allocation processes, ensuring that they align with long-term financial sustainability goals.

In addition, policy makers should consider enforcing stronger financial risk management policies that require parastatals to integrate comprehensive risk assessment tools into their financial planning frameworks. By

encouraging parastatals to manage financial risks more effectively and mandating better investment evaluation practices, policy makers can help improve the financial performance of these organizations. This would lead to a more sustainable use of public funds and better financial outcomes for the parastatals.

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