

**EFFECT OF FINANCIAL PLANNING ON PERFORMANCE OF  
MANUFACTURING FIRMS IN MOMBASA COUNTY, KENYA**

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**DECLARATION AND APPROVAL**

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## **DEDICATION**

This research project report is dedicated to my Dad Hussein, my brother Yakub Hussein and my wife Maryam.



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I thank Allah, who gave me the strength, protection, continuous guidance and direction in pursuing this research project. My gratitude also goes to my supervisor Dr Zipporah Nyachwaya., for her time, counsel and incredible contribution to the success of this work. I also appreciate the support and encouragement from my dad, mum, siblings and the entire family members. Finally, I say a big thank you to all who assisted in diverse ways directly or indirectly in successfully completing this research proposal. The Mount Kenya University library management, Allah bless you for your instrumental facilitation towards this worth course. To my esteemed colleagues I salute you for your encouragement and positive criticism which was health for the advancement of this work. You gave me right hand assistance by convincing me that this academic assignment is realizable.



## ABSTRACT

To guarantee strong financial performance at any given time, a company operating in a highly competitive environment must develop a thorough financial plan that takes the competitive environment into account. The current trend in technology has made it easier for businesses to create intricate financial plans and budgets that will serve as a roadmap for improving their financial performance going forward. This has made it possible for numerous businesses and industries, including the banking sector, to create a comprehensive financial strategy that would improve their financial performance. The current study sought to investigate the effect of financial planning on performance of manufacturing firms in Mombasa County. Specifically, the study sought to examine the effect of budgeting, financial forecasting, financing decisions and cash flow projection on financial performance of manufacturing firms in Mombasa County. The study was anchored on pecking order theory, signaling theory and agency theory. A descriptive survey design was used for this study. One hundred senior management employees of manufacturing companies in Mombasa County were the study's target group. The study targeted a population of 61 respondents from the 61 manufacturing firms hence census sampling technique was employed. The Slovin formula was used to choose a sample of 61 responders. Based on the research topics, standardized questionnaires were used to gather data for this study. Reliability was ensured using Cronbach alpha coefficient while for validity, experts from the department verified the study instrument. Version 29 of the Statistical Package for Social Science (SPSS) was used to analyze the data. Descriptive statistics included frequencies distribution, and percentages and mean, while inferential statistical analysis included correlations, and regression analysis. Descriptive statistics included frequencies distribution, and percentages and mean, while inferential statistical analysis included correlations, and regression analysis. overall model explaining 89.7% of the variance in firm performance ( $R^2 = 0.897$ ,  $p < 0.001$ ). Budgeting significantly influenced performance ( $\beta = 0.385$ ,  $p < 0.001$ ), financial forecasting had a positive effect ( $\beta = 0.261$ ,  $p < 0.001$ ), financing decisions also contributed positively ( $\beta = 0.242$ ,  $p = 0.012$ ), and cash flow projections were significant predictors ( $\beta = 0.265$ ,  $p = 0.007$ ). The findings conclude that effective financial planning, including budgeting, forecasting, financing decisions, and cash flow management, enhances manufacturing firm performance. It is recommended that firms strengthen these financial planning practices to improve profitability and operational efficiency.

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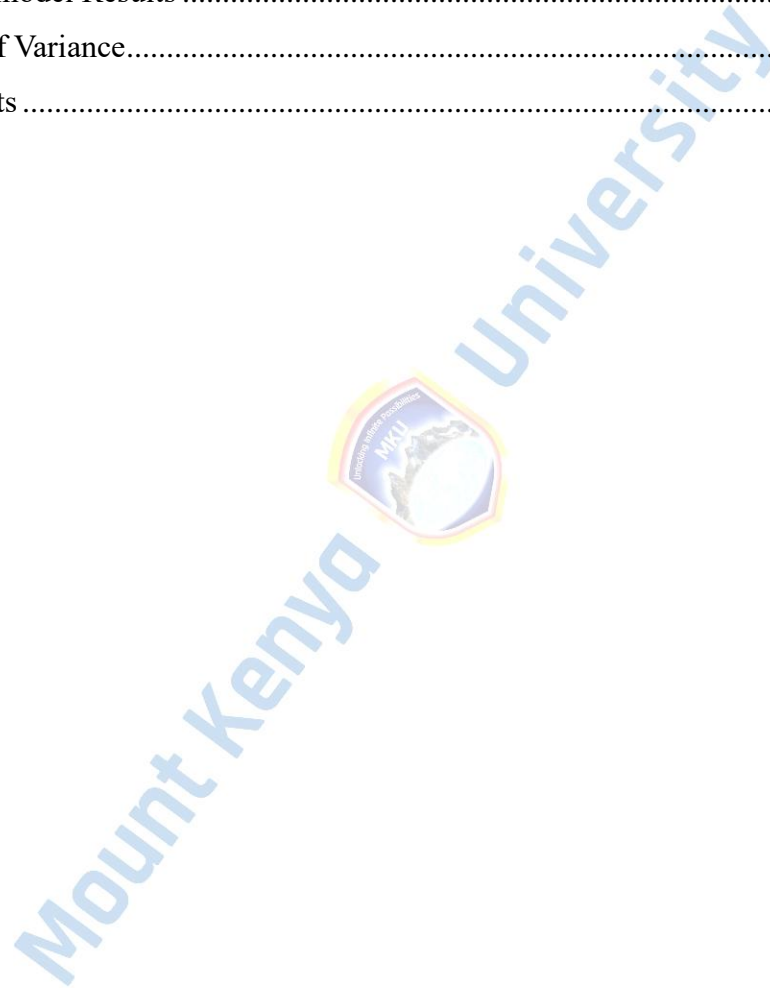
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## LIST OF ACRONYMS AND ABBREVIATIONS

<b>ABS</b>	Australian Bureau of Statistics
<b>EAC</b>	East Africa Community
<b>GDP</b>	Gross Domestic Product
<b>ICT</b>	Information Communication Technology
<b>IOA</b>	Institutional and Organizational Assessment
<b>KAM</b>	Kenya Association of Manufacturers
<b>KEBS</b>	Kenya Bureau of Standards
<b>KIB</b>	Kenya Investment Board
<b>PwC</b>	Price Water House Coopers
<b>ROA</b>	Return on Assets
<b>ROE</b>	Return on Equity
<b>ROI</b>	Return on Investment

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the Study

Financial planning is not a preserve of multi-national corporations but even individuals and small firms needs financial planning. Financial planning involves the decision on what to spend, how to spend, and how much to spend subject to the funds available. The higher the amount of cash involved, the more effort is required to properly plan their use. One goal of financial planning is to ensure that there are enough cash available to cover day-to-day expenses, buy long-term assets, and deal with unexpected charges. Planning is done not just to ensure that finance is accessible on schedule, but also to ensure that the company understands exactly where to obtain the funds when they are required. The other goal of financial planning is to manage cash flows (Singh, 2021). A cash shortfall can significantly hinder a company's operations, but having excess cash can also pose challenges. When funds are insufficient, the business is likely to struggle with day-to-day activities. Conversely, surplus cash that remains idle represents a missed opportunity and inefficient use of resources. Therefore, when a firm has excess funds, it should actively seek appropriate investment opportunities, pursue strategic expansion plans, and consider new projects to maximize value (Koontz, 2021).

Financial planning can be defined as the continual activity of directing and allocating financial resources to achieve strategic goals and objectives. The output from financial planning takes the form of budgets. Knowledge of firm previous performances and translating that insight into forward looking targets to align business results with the corporate strategy is key to driving shareholder value. A financial plan consists of sets of financial statements that forecast the resource implications of making business decisions. If a company's financial state is poor, it will implement

an intense financial strategy in order to improve its financial performance in the future. Without a financial strategy, a company runs the danger of not remaining in business. A corporation will need to respond to the current economic realities. It will develop a high-level financial planning and forecasting model to ensure that the organization protects its financial assets and achieves excellent financial performance (Koontz, 2022).

Competitiveness varies by industry whereby some industries have a more competitive environment compared others. A firm that works in a highly competitive environment must develop a detailed financial strategy that addresses the competitive scenario in order to assure a firm's strong financial performance at all times. The present technological trend has made it easier for businesses to create thorough and sophisticated financial plans and budgets that will serve as a guide for how the company will improve its financial performance in the future. This has enabled numerous organizations and industries, including the banking industry, to build master financial plans to improve financial performance (White, 2021). Financial planning management is an essential component of running a small manufacturing company; enterprises fail due to insufficient liquidity to maintain their operations (Singh, 2021). Firms with sufficient capital confidently focus on company operations, continually reexamining and modifying their plans, and expend considerable effort to seek and maintain further financing for the purpose of increasing their market share.

In the global perspective, a study was conducted by Moghimi and Anvari (2021) to evaluate financial performance of Iranian cement companies, it was concluded that financial planning was an important variable in analyzing financial performance. Consequently, investment, financing and dividend decision also have effect on various alternatives. A mat-analysis was done on the effect of strategic financial planning and financial performance on fortune 500 manufacturing

firms. The overall conclusion was that a small but positive relationship existed between strategic financial planning and performance (Hulbert & Farley, 2021).

Following the global financial crisis, many multinational organizations and large firms were obliged to adopt more pessimistic financial scenarios due to increased market fragility and lower profitability in foreign markets (White, 2022). The financial crises had a direct impact on financial planning methods and procedures in the economy as a whole, and they were likely to spread across borders. Furthermore, the corporate environment of emerging economies experienced additional inconsistencies in financial activity and projections. This was due to global market financial shocks experienced by subsidiaries of multinational corporations. Financial planning and performance analysis have become even more vital in order to continue operating and prevent financial troubles within a difficult economic environment (Singh, 2021).

In the African setting, the manufacturing industry market presently is approximately \$49.90-billion, but has \$203.7-billions of untapped potential with an expected total market size of \$253.5-billion (World Bank, 2021). This is more than four times its current level of potential, creating numerous chances for potential investors. Furthermore, in growing and transition countries, the business environment evolves structurally on a regular basis, incorporating new market economy aspects. Reforms and removals of past economic systems frequently result in altered conditions and effects in the business environment. In other circumstances, as shown following the global financial crisis, many businesses suffered major financial troubles resulting from systemic dangers from economic downturn in their economies (Lundberg, 2022). Business crisis led to fiscal crisis which eventually caused for total blockage of business sector rescue policy by the government due to poor fiscal condition and vanishing demand in all markets.

Regionally, the East African Community governments 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) (Dube & Renaghan, 2021).

Locally, Kenya's manufacturing industry operates under a liberalized economic framework marked by strong collaboration between the government and the private sector. While the private sector is expected to be the driving force, the Ministry of Industrialization is responsible for developing and implementing manufacturing-related policies, as well as coordinating the planning, development, promotion, and marketing of small manufacturing firms (Abouzid, 2021). Any organization's success depends on its ability to incorporate financial planning into corporate decisions. Financial planning serves as the foundation for a practical business plan that is quantifiable and achievable over time, which encourages the need to work toward financial goals and assists top management in setting financial goals for the company and assigning goals to his subordinates (Rubin, 2021). It predetermines the objectives and defines the line of action to complete the work. Kathryn (2021) argues that good management is the management by objectives. Financial Planning serves as the blue print of the course of action and eliminates the unnecessary and useless activities. It focuses to priorities and facilitates to take right decision at the right time (Jennings & Allen, 2021).

### **Financial Planning**

Financial planning is the continual act of distributing and guiding financial resources in order to accomplish strategic goals and objectives. The final step in financial planning is creating a budget. Budgeting is critical in financial performance as it helps organization control expenditure

Moreover, forecasting is another key determinant of financial performance as it helps firms keep focus of the forecasted targets. Analyzing past performance and turning that information into future objectives that align corporate strategy with business results is necessary to increase shareholder value. A financial plan, made up of sets of financial accounts, forecasts how corporate decisions will affect resources. When a company chooses to expand, for example, by buying and furnishing a new plant, it will create a financial plan that considers the resources required and the financial outcomes that would justify their use (Arnold & Chapman, 2020).

Detail budgets, which comprise sales predictions, production forecasts, and other financial plan support estimates, serve as the foundation for planned financial statements. Hilton and Gordon (2019) define financial planning as the translation of an organization's broad objectives, strategies, and other plans into financial terms. The budget is a thorough estimate (projected) of future transactions stated in terms of physical commodities, money, or both. A budget is essentially a target that management must meet, surpass, or stay within. Planning models can involve thousands of calculations; according to Oye (2019), these plans are typically made using forecasting models and spreadsheets that can compute and recalculate numbers like profit, cash flows, and three balance sheets by simply changing the assumptions. For example, the business may wish to perform a single set of calculations for the low, medium, and high demand figures for its products. The key important determinants of financial performance are financial decisions and cashflow, without which poor decisions as well as lack of input respectively, will result into poor performance.

## **Performance**

In broad terms, performance is the execution of a work as measured against predefined criteria for speed, accuracy, completeness, and cost. To put it another way, it describes how far a task is or has progressed. The five primary areas of suggested financial analysis measures for evaluating a company's financial performance are liquidity, solvency, profitability, payback capability, and financial efficiency. According to Athanasoglou et al. (2008), it is crucial to remember that a company's financial performance is influenced by a variety of factors, and that analyzing a group's performance is more important than focusing on only one or two activities at the expense of others. Sales growth, return on investment (ROI), return on sales, return on equity (ROE), and earnings per share are some of the common financial metrics of financial performance. Return on equity (ROE), return on asset (ROA), return on investment (ROI), return on equity (ROE), return on sale (ROS), revenue growth, market shares, stock price, sales growth, liquidity, and operational efficiency are some of the common ratios used to assess organizational performance. These can be summed up as profitability and growth (Drago, 2019). According to a study by Thomas and Ramaswamy (2021), the banking sector employed return on equity (ROE) and return on average assets (ROA) as financial metrics. Dyer and Reeve (2020) stated that outcome measures comprised productivity, quality and service. Delany and Huselid (2019) selected perceptual metrics of financial performance, such as product quality, customer satisfaction, and new product creation, in place of productivity indicators.

Any organization's success depends on its ability to perform financial planning, which serves as the foundation for a feasible business plan that is quantifiable and achievable over time. This encourages employees to strive toward financial goals and assists the CEO in setting financial goals for the company and assigning goals to his subjects. Employee motivation is increased when those who meet budgeted goals receive rewards and recognition (Rubin, 2020). This leads to

improved financial performance for organizations as a result of motivation and the desire to fulfill defined targets. Financial planning is essential for assessing the financial resources that was required to implement the programs and activities to achieve the plan's goals and targets, ensuring that funding is available as needed, and monitoring the efficient use of resources and progress toward the goals and targets (Rosilyn, 2019).

Financial planning helps to direct the attention of finance managers and junior personnel toward organizational goals. It establishes the objectives and sets the course of action to complete the work. According to Kathryn (2022), excellent management is characterized by objective-driven management. Financial planning acts as a road map for the course of action, eliminating unneeded and wasteful tasks. It focuses on priorities and helps you make the appropriate decision at the right moment (Jennings & Allen, 2022).

Accounting and financial analysis support a company's performance by ensuring adequate resources are available. Budgeting enables public administrators to plan, make informed decisions, and determine the mission and direction of their business (Rosilyn, 2019). Although plans and strategies may have multiple parts, resource allocation is the primary mechanism of implementing them. According to Willoughby and Julia (2021), an organization's budget is now the only public representation of its strategic planning process, reflecting resource allocation decisions. Financial planning is essential for the success of any firm. This serves as the foundation for a quantitative and time-bound company plan. These factors emphasize the need of working toward financial goals. It also assists the CEO in setting financial aims for the organization and assigning targets to his subjects. According to Rubin (2020), rewarding and recognizing staff

who meet budgeted targets can boost motivation levels. Firms' financial performance improves when employees are motivated to achieve defined targets.

Financial planning assesses resources needed to meet goals and targets, ensures financing availability, and tracks efficiency the use of resources and progress toward goals and aims (Rosilyn, 2019). Financial planning helps finance managers and personnel focus on achieving company goals. It establishes objectives and action plans to finish the work. According to Kathryn (2002), effective management involves focusing on objectives. Financial planning outlines the route of action and minimizes superfluous actions it focuses on. According to Jennings and Allen (2002), setting priorities helps make informed decisions at the appropriate moment.

Over the past six years, the manufacturing sector, which is one of Kenya's largest contributors to GDP, has faced a variety of difficulties, including the coronavirus pandemic and a reduction in demand, which have reduced its GDP contribution. The sector's average contribution to GDP over the last ten years has been stagnant at 11%. The industry saw 9.3% in 2016, 8.7% in 2017, 8.4% in 2018, 7.9% in 2019, and 7.6% in 2020. Due to restrictions placed on the movement of people, products, and services, which had an impact on industrial networks, the fall in 2020 and 2021 was ascribed to the coronavirus pandemic. These actions also had an impact on the demand for produced goods both domestically and abroad. The industry's high production and input costs prevented it from reaching the Big Four Agenda's 15% GDP objective by 2022 (Ngugi, 2021).

In addition to being a significant employer in Kenya, generating foreign exchange and drawing in foreign direct investment, the manufacturing sector has also given many people jobs in the country, and the Kenyan government has even named it one of the pillars for achieving Vision 2030. For

manufacturing companies to fulfill its mission and continue to reap the benefits, it is imperative that their profitability be increased.

According to Kiptoo (2017), effective financial planning is one method of making sure these businesses are operating well. Depending on how they are managed, these Kenyan manufacturing companies' massive working capital investments have a significant impact on their profitability. Stock or inventory, accounts payable, and accounts receivable are components of working capital in an organization. Inventory accounts for 20% to 30% of a manufacturing company's total investment. Effective inventory management is necessary to support business operations and avoid allocating additional resources to idle inventory at the expense of other lucrative initiatives that could increase the company's income (Kiptoo, 2017).

## 1.2 Statement of the Problem

The consistent performance of manufacturing firms is essential for economic growth and industrial development. Good financial planning through proper budgeting, accurate forecasting, smart financing decisions, and effective cash flow management helps firms use their resources wisely, reduce risks, and make better decisions for growth and stability.

Despite the critical role of financial planning, many manufacturing firms in Kenya continue to face significant challenges. According to the Kenya Association of Manufacturers (2021), Mombasa County alone has seen a 30.2% decline in the number of manufacturing firms. Furthermore, 39.7% of firms have frequently changed their business names in attempts to remain operational, while 42% have closed entirely over the past five years. These alarming statistics point to widespread financial instability particularly among small and medium-sized enterprises underscoring persistent issues in financial performance within the manufacturing sector

The persistent variations and challenges in performance outcomes have drawn attention to the importance of sound financial planning in manufacturing firms. Despite the recognized role of financial planning tools, such as budgeting, forecasting, financing strategies, and cash flow projections, their specific influence on firm performance. This has necessitated the current study, which seeks to examine the effect of financial planning on the performance of manufacturing firms in Kenya,

### **1.3 Purpose of the study**

The purpose of the study was to examine the effect of financial planning on performance of manufacturing firms in Mombasa County, Kenya.

#### **1.3.1 Specific objectives**

The study was guided by the following specific objectives

- i. To establish the effect of financial budgeting on performance of manufacturing firms in Mombasa County, Kenya
- ii. To determine the effect of financial forecasting on performance of manufacturing firms in Mombasa County, Kenya
- iii. To find out the effect of financing decisions on performance of manufacturing firms in Mombasa County, Kenya
- iv. To determine the effect of financial cash flow projection on performance of manufacturing firms in Mombasa County, Kenya

#### **1.3.2 Research Questions**

- i. What is the effect of budgeting on performance of manufacturing firms in Mombasa County, Kenya?

- ii. What is the effect of financial forecasting on performance of manufacturing firms in Mombasa County, Kenya?
- iii. What is effect of financial forecasting on performance of manufacturing firms in Mombasa County, Kenya?
- iv. What is the effect of cash flow projection on performance of manufacturing firms in Mombasa County, Kenya?

#### **1.4 Significance of the Study**

The study findings would be beneficial to the following stakeholders;

##### **1.4.1 Management**

The study's conclusions would help manufacturing company management since they would help them understand how financial planning may improve a company's competitive edge in risk and cost management. According to the study's findings, businesses may better understand the value of financial planning and how it helps them set short- and long-term objectives for resource management and growth.

##### **1.4.2 Policy makers**

The study's conclusions would also help policymakers create financial planning regulations that incentivize businesses to adopt financial planning techniques. The results would also help the government, through the Treasury Department, anticipate future revenues, which would help the government decide on future taxing plans and policies.

##### **1.4.3 Academicians and Researchers**

The study's conclusions would serve as a guide for future researchers who might want to investigate related subjects. It is also anticipated to advance academicians' and researchers' understanding of this crucial field of corporate finance.

### **1.5 Scope of the Study**

The study was confined to establishing the effect of financial planning on performance of manufacturing firms. The study will look at four variables that is budgeting, financial forecasting, financing decisions and cash flow projection. The geographical scope of the study was 50 manufacturing firms in Mombasa County. The study will target senior managers of the manufacturing firms since they are deemed to have considerable knowledge on financial planning. The study will examine the manufacturing firms' performance for the last five years. The investigation was completed between January and June of 2025, a period of six months.

### **1.6 Limitation of the Study**

The study was limited to only to five years' secondary data reports for the years 2019-2023 which might change over a period of time. The study will also be limited to six months' period therefore limiting the researcher's capacity to identify changing trends in the manufacturing sector.

### **1.7 Delimitation of the Study**

The objective of this study was to conducted within the 50 manufacturing firms in Mombasa county. The results might not be generalized for other manufacturing firms not located in Mombasa County. The study will only focus on four variables that is budgeting, financial forecasting, financing decisions and cash flow projection leaving out other variables that has an influence on financial planning.

### **1.8 Assumptions of the study**

The research assumes that some participants might be hesitant to reveal all the necessary information. All surveys were presumed to be completed and submitted on time for the study. Additionally, the study will anticipate that the chosen sample would reflect the target population accurately and would honestly supply the pertinent data needed for the investigation for the information that was sought.



## 1.9 Operation definition of key terms

**Budgeting:** is used to describe a conscious effort to gradually reach higher goals using resources that are expected and available, goals that are impacted by past experiences and future expectations.

**Financing decisions:** They entail figuring out how much, where, and when to invest in order to turn a profit.

**Financial forecasting:** is a multifaceted function that examines possible choices for a portfolio over a certain planning period.

**Financial performance:** Is company's ability to develop new resources, from day-to-day operations, over a specific period.

**Financial planning:** Involves the decision on what to spend, how to spend, and how much to spend subject to the funds available

**Manufacturing firms:** These businesses use raw materials, parts, or components to create a final product.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter highlights the findings of other researchers who conducted research in the same area of study. The chapter focuses on the theoretical issues, conceptual framework, and research gaps.

#### **2.2 Empirical Review**

##### **2.2.1 Budgeting and Financial performance**

Budgets are financial representations of goals that people and organizations make and work toward over time. It is a conscious effort to use anticipated and existing resources to gradually reach better goals. These goals are impacted by past experiences as well as future aspirations (Douglas, 2020).

Budgeting is one methodical way to achieve good management performance. The management of businesses may efficiently plan, organize, control, and assess their operations using a well-crafted budget. The method by which an organization creates its budget is known as the budget process. Those in charge of following the budget and carrying out the organization's goals are involved in the budget creation process of an effective budgeting process. The process involves senior staff and the finance committee, and a timeframe is set that allows enough time for research, review, comments, modifications, and other activities before the budget is prepared for presentation to the entire board. Tasks, duty assignments, and deadlines should all be explicitly described in the documentation of the annual budgeting process.

Maintaining a business and maintaining a competitive edge in the market requires a thorough financial planning strategy. It guarantees that corporate financial resources are used effectively

and efficiently and helps with ahead planning, which improves activity coordination amongst various functional units. Also, having more accurate and timely information leads to more transparent and credible financial forecasts that increases confidence within the investment community. Despite all the above benefits, it is a major challenge to implement an extensive and in-depth budgetary planning system timely in an enterprise (Douglas, 2020).

The primary cause of the challenge is the disparity in accounting and reporting standards throughout the company (Abor, 2020). Sorting data into a central system and, more importantly, reporting and analyzing comparative results that contribute to the creation of insights into the company's future are difficult tasks. The primary cause of the challenge is the disparity in accounting and reporting standards throughout the company (Abor, 2020). Sorting data into a central system and, more importantly, reporting and analyzing comparative results that contribute to the creation of insights into the company's future are difficult tasks.

Mugambi and Kamau (2023) explored how financing decisions impact the profitability of manufacturing firms listed on the Nairobi Securities Exchange. The study focused on variables such as capital structure, debt-to-equity ratios, and cost of capital. Using a quantitative correlational design and regression analysis on data from 85 firms, results showed a significant positive relationship between optimal financing decisions and firm profitability ( $\beta = .41, p < .01$ ). The study highlights that balanced leverage improves financial performance by minimizing capital costs. However, its focus on publicly listed firms introduces a context gap, limiting application to small- and medium-sized enterprises (SMEs). This research supports the current study's emphasis on financing decisions but suggests expanding to non-listed manufacturing firms for broader relevance.

Ochieng and Otieno (2024) examined the effect of financing decisions on financial sustainability of manufacturing firms in Kenya. Variables included debt financing, equity financing, and firm sustainability measured through profitability and liquidity ratios. Employing a descriptive survey and multiple regression analysis on 70 firms, the findings indicated that a mix of debt and equity financing significantly predicted firm sustainability ( $p < .05$ ). The study contributes to understanding how financing structures influence long-term viability but uses self-reported data prone to bias, indicating a methodological gap. Despite this, it justifies further exploration of financing decisions' impact on manufacturing firms' performance.

Mwangi and Njeru (2025) studied how investment appraisal and financing decisions affect financial performance among manufacturing firms in Kenya's metal and allied sector. Using panel data analysis over five years from 50 firms, they found that firms using comprehensive financing decision frameworks, including cost-benefit analysis and capital budgeting, had better performance indicators (ROA, ROE) ( $p < .01$ ). The longitudinal design strengthens causal inference, but the study's sector-specific focus restricts generalizability to other manufacturing sub-sectors, illustrating a sectoral gap. This research's robust methodology supports the current study's aim of examining financing decisions broadly.

Kariuki and Wambugu (2023) investigated the relationship between capital structure decisions and financial performance among SMEs in Kenya's textile manufacturing industry. Applying regression analysis on survey data from 60 SMEs, results showed that moderate leverage positively influenced performance, with significant coefficients ( $\beta = .33, p < .05$ ). However, the study did not consider macroeconomic factors such as interest rates, creating a contextual gap. Nonetheless, it underscores the importance of financing decisions in firm success and justifies similar analysis in the broader manufacturing sector.

Chege, Mumo, and Otieno (2024) focused on sources of finance and their effect on profitability among food and beverage manufacturing firms in Nairobi. Their survey of 75 firms used multiple regression to link financing choices (short-term loans, equity, retained earnings) with profitability measures (net profit margin, ROA). Findings revealed that diversified financing sources enhanced profitability ( $p < .01$ ). The study's limitation lies in its urban focus, which may not reflect conditions in manufacturing firms like Mombasa, marking a geographical gap. This study contributes valuable insights on financing diversity supporting the current research's geographical focus and objective.

These studies collectively affirm that financing decisions particularly capital structure, sources of finance, and investment appraisal significantly influence manufacturing firms' financial performance. Nevertheless, geographical biases toward Nairobi and Kenya's listed firms, sector-specific focus, and methodological limitations such as reliance on cross-sectional and self-reported data highlight notable gaps. The present study addresses these by focusing on manufacturing firms in Mombasa County across multiple sub-sectors and using rigorous statistical analysis to clarify financing decisions' effects on performance, filling the geographical, sectoral, and methodological voids evident in prior work.

### **2.2.2 Financial Forecasting and Firm performance**

In the manufacturing sector, forecasts are inputs into the financial planning process so that current resources can be used effectively to achieve corporate objectives. Financial forecasting is a multifaceted function that analyzes potential portfolio decisions over some planning horizon (Abor, 2020). Ordinarily, this function would require the prediction of the future external economic environment facing the individual firm as well as internal financial variables.

First and foremost, the forecasting function should focus on the economic variables that are pertinent to the firm's future external environment, i.e., the overall state of the economy at the national and regional levels. These factors include interest rates and the possible cost of raw materials. After a firm has a forecast of these variables for the planning horizon, the effects of the variables on the bank's future financial position can be examined. The planning staff should evaluate the effects of particular management choices in light of changes in the overall balance sheet portfolio, the impact on potential future earnings, and the relative risks to the manufacturing firm's overall financial position over the planning horizon, taking into account the forecasts of the pertinent economic variables (Singh, 2020). Projections of future economic conditions are essential inputs to the planning process in order to anticipate change and adapt to new conditions in order to benefit the firm's financial position. Planning over a certain time horizon is necessary for management decisions, and planning is dependent on accurate information about the firm's current financial position and economic environment (Matt, 2020).

Abdi and Gathenya (2023) investigated the effect of revenue and expenditure forecasting on operational efficiency among medium-sized manufacturing firms in Kenya. The study focused on forecasting variables including revenue projections and expenditure estimates. Utilizing a cross-sectional survey design and multiple regression analysis on data from 75 firms, the authors found that accurate forecasting significantly improved operational efficiency ( $\beta = .32, p < .01$ ). The findings suggest that forecasting aids better resource allocation and budgeting precision. However, the study's limitation lies in its narrow focus on operational efficiency rather than encompassing broader financial performance measures such as profitability or return on assets, representing a variable gap. This study supports the present research by highlighting the critical role of

forecasting in firm performance but suggests expanding performance metrics to capture a fuller financial impact.

Kiplagat, Kipng'etich, and Mwangi (2024) examined the influence of demand forecasting systems on profitability in manufacturing firms in Kenya. Their key variables were demand forecasting accuracy and firm profitability. The researchers applied a quantitative survey method with regression analysis on 90 manufacturing firms. The results indicated that demand forecasting explained 7.6% of the variance in profitability ( $\beta = .236$ ,  $p = .012$ ), emphasizing the importance of accurate demand projections. The study effectively demonstrates forecasting's financial value but is geographically limited to Kenya's manufacturing firms and lacks a longitudinal design to examine forecasting effects over time, indicating a methodological gap. This study is relevant to the current objective as it quantifies forecasting's influence on profitability within a comparable context.

Nyamwaro, Wachiuri, and Namusonge (2025) focused on demand planning and forecasting within the food and beverage manufacturing sub-sector in Kenya. The variables included demand forecasting practices and firm performance metrics. Using structural equation modeling (SEM) on data from 120 firms, they reported a robust model fit ( $R^2 = .692$ ,  $F = 426.33$ ,  $p < .001$ ), with demand forecasting significantly predicting firm performance ( $B = .476$ ,  $p < .001$ ). The study highlights the strategic role of forecasting in optimizing manufacturing operations. However, its sector-specific focus limits generalizability across other manufacturing types, illustrating a geographical and sectoral gap. Despite this, the study provides strong empirical support for the forecasting-performance link relevant to the current research.

Tsuma (2025) explored the impact of accounting information systems (AIS), including forecasting components, on financial performance in Kenyan manufacturing firms. The study's variables encompassed AIS sophistication, forecasting integration, and firm financial performance. Employing a descriptive survey design and correlational analysis on 100 firms, Tsuma found that firms with integrated AIS featuring forecasting tools had better financial outcomes than those with manual systems. Although forecasting was embedded within a broader system, the study did not isolate its direct effect on performance, representing a variable and analytical gap. Nonetheless, it underscores forecasting's positive role within contemporary financial systems, supporting its inclusion in the present study.

Mwaura et al. (2025) investigated financial planning practices, with a focus on forecasting, and their impact on return on assets (ROA) among parastatals in Mombasa County. Using regression analysis on survey data from 50 firms, they reported a significant positive association between forecasting and ROA ( $p < .05$ ), though specific effect sizes were not disclosed. The study's regional focus aligns with the current research's geographic scope, yet its context in parastatals rather than private manufacturing firms introduces a contextual gap. This research affirms forecasting's significance within the local setting but indicates a need for targeted study within manufacturing firms, justifying the present investigation.

The reviewed studies collectively demonstrate that financial forecasting positively influences various performance metrics such as operational efficiency, profitability, and ROA. However, they exhibit several gaps including a limited scope of performance variables (often excluding comprehensive financial measures), geographical and sectoral constraints (focusing mostly on Kenyan firms or specific sub-sectors), and methodological limitations such as cross-sectional designs without longitudinal insights. Additionally, some studies embed forecasting within

broader systems, obscuring its direct effects. These gaps highlight the necessity for this study, which will employ a focused forecasting construct, utilize detailed financial performance metrics, and concentrate on manufacturing firms specifically in Mombasa County, thereby addressing identified research voids.

### **2.2.3 Financing Decisions and performance of Manufacturing firms**

Cue, De pong, and Ponds (2020) argue that financial decisions involve determining when, where, and how much capital to acquire in pursuit of profit. Financial decisions are important because of the need to maximize returns to various organizational constituencies and the impact such a decision has on an organization's ability to deal with its competitive environment (Abor ,2019). The key is for businesses to select a capital structure portfolio that will sustain sustainability and increase wealth. Generally speaking, a business can choose from a variety of alternative capital structures, including issuing a lot of debt or very little, leasing financing, using warrants, issuing convertible bonds, signing forward contracts, or trading bond swaps. Businesses do vary in how they approach the problem of optimizing capital structure requirements in an effort to set a capital structure that maximizes overall market value (Abor, 2019).

The characteristics of a nation's financial system are crucial in identifying the factors that influence the financing choices made by its businesses. We can only thoroughly examine the impact of these institutional characteristics by contrasting the choices made by businesses functioning in various financial contexts. According to theories on asymmetric information problems, businesses should pay attention to the sources of funding, regardless of whether they are debt or equity. Different fund providers was willing to pay different prices for a firm's securities because they have varying

access to information and capacities to track firm behavior. Since markets are less liquid and asymmetric information issues are more serious in underdeveloped financial markets, it is more difficult and expensive to float emerging difficulties. One could argue that banks have a beneficial function in such a scenario by serving as holding firms, which lessen the impact of the aforementioned market defects for two reasons. First, banks can mitigate liquidity issues by internally distributing funds across companies in their industry group. Second, because banks have access to comprehensive data, they can monitor more efficiently, which lessens agency issues and asymmetric information (Saa-Requejo, 2020).

Abdul Quddus, Pavelkova, Hussain, and Pham (2022) examined how investment decisions and financial leverage, as key financing factors, influence firm performance in the manufacturing sector of Pakistan from 2015 to 2020. Using a dynamic System-GMM approach to address endogeneity issues, the study found that investment in tangible assets negatively affected Tobin's Q and ROA under conditions of economic policy uncertainty, while financial leverage was positively and significantly associated with performance. This suggests the nuanced role of financing decisions across different macroeconomic climates. While the study provides robust methodology and context, its focus on a single developing country and emphasis on policy uncertainty introduces a contextual and geographical gap that limits generalizability. Nevertheless, it highlights the importance of carefully designed financing choices, justifying their examination within manufacturing firms in Mombasa County.

Aboagye-Otchere and Boateng (2023) explored the impact of financing decisions such as debt-equity mix, dividend policy, and working capital decisions on financial performance among listed non-financial firms in Ghana. Utilizing panel data analysis from 2015 to 2022, they reported that optimized working capital and balanced capital structure significantly improved ROE ( $p < .01$ ).

The study's strength lies in integrating multiple financing variables in one model and covering a substantial time frame. However, as it centers on Ghanaian firms, a geographical gap remains. Its multi-variable approach supports this study's inclusion of diverse financing decisions and emphasizes the need for cross-context comparison in Mombasa.

Hayati, Liztiara, and Muchtar (2022) analyzed debt financing (short-term and long-term) and firm performance among manufacturing companies listed on the Indonesia Stock Exchange from 2016 to 2020. Panel regression results indicated that long-term debt ratios were significantly and negatively related to both ROA and net profit margin, while short-term debt had no significant effect. Their findings suggest complexity in financing decisions, depending on debt maturity. While methodologically sound, the study's Indonesia-only focus suggests a regional gap. This study informs our analysis on leveraging and debt structure within manufacturing contexts.

Ijaolu, Osuji, and Onuorah (2024) assessed how capital structure, dividend policy, working capital management, and risk management decisions affected ROE among 50 listed manufacturing firms in Nigeria between 2014 and 2023. They applied panel multiple regression and found that capital structure, working capital, and dividend policy decisions were positively and significantly linked to financial performance, while risk management had an insignificant effect. Although comprehensive in financial variables, the study is regionally confined to Nigeria and avoids smaller non-listed firms, indicating both geographical and sample gaps. It reinforces the holistic nature of financing decisions, aligning with the present study's multifaceted approach.

Doan (2019) provided early evidence from Vietnam, investigating the effect of financing decisions measured by total debt, long-term debt, and short-term debt on ROA among 102 non-financial firms listed on the Ho Chi Minh Stock Exchange from 2008 to 2018. Employing GMM estimation,

the study confirmed a significant relationship between debt structure and performance. While this study is methodologically robust and internationally comparative, it pertains to Vietnamese firms, revealing a geographical gap. Its use of GMM supports rigorous analysis and warrants applying such approaches in the current study's regression modeling.

Although recent empirical studies across Pakistan, Ghana, Indonesia, Nigeria, and Vietnam consistently affirm that varied financing decisions (capital structure, debt maturity, working capital, dividend policy) significantly influence manufacturing firm performance, key gaps persist. Most studies are geographically focused and omit the East African context, especially Mombasa County. Moreover, few have examined non-listed or smaller manufacturing firms, and there is limited use of dynamic methods like System-GMM in the region. The present study addresses these gaps by analyzing a comprehensive set of financing decision variables within Mombasa's manufacturing sector, using rigorous econometric techniques to provide locally relevant insights for both theory and practice.

#### **2.2.4 Cash flow projection**

Cash flow projection stands as indispensable instruments wielded by manufacturing enterprises to anticipate cash movements over a defined period. These projections furnish meticulous estimates of forthcoming financial states, delineating anticipated cash inflows and outflows. Patel and Kim (2020) underscore the pivotal role of accurate cash flow projection in facilitating sound financial planning and decision-making processes within manufacturing firms. Drawing insights from historical financial data and market dynamics, companies can forge realistic projections to adeptly manage liquidity, pinpoint potential cash shortfalls, and navigate judicious investment choices.

In the realm of manufacturing, cash flow projection assumes a paramount significance in gauging firms' financial performance. They offer valuable insights into the entity's capacity to meet fiscal commitments, including disbursements to suppliers, personnel, and creditors. Moreover, cash flow projection serves as barometers for evaluating the efficacy of working capital management strategies, pinpointing areas ripe for enhancement. Khan et al. (2019) accentuate the centrality of cash flow projection in monitoring manufacturing firms' cash positions and fostering sustainable financial progression. By juxtaposing proposed cash flows against actual outcomes, enterprises can discern disparities and enact remedial measures to bolster financial viability.

Beyond mere financial assessment, cash flow projection yields a direct influence on manufacturing firms' profitability and resilience. By astutely anticipating cash inflows and outflows, companies can allocate resources judiciously, optimize production workflows, and mitigate financial hazards. Nguyen and Gupta (2018) elucidate the imperative of embedding cash flow projection into strategic planning endeavors to fortify operational efficiency and amplify profitability. These projections empower firms to foresee cash surpluses or deficits, modulate production levels accordingly, and make astute decisions conducive to enduring financial prosperity.

Cash flow projection serve as indispensable tools for manufacturing firms to scrutinize financial performance, navigate liquidity challenges, and inform strategic initiatives. In the words of Patel and Kim (2020), Khan et al. (2019), and Nguyen and Gupta (2018), the integration of cash flow projection into strategic planning frameworks emerges as a linchpin for nurturing sustainable growth and prosperity amidst the competitive manufacturing landscape.

Cash flow projection serve as indispensable aids for manufacturing firms in evaluating investment prospects and strategic ventures. By forecasting cash movements, companies can assess the

feasibility of new endeavors, expansions, or acquisitions. This analytical rigor, as emphasized by Sharma et al. (2021), empowers management to allocate resources judiciously to initiatives poised for favorable returns. Through scenario analysis and sensitivity testing embedded within cash flow projection, firms can gauge the potential ramifications of diverse investment scenarios on their financial standing.

Cash flow projection assume a pivotal role in managing financial risks and uncertainties within manufacturing enterprises. By proactively anticipating cash flow fluctuations and potential disruptions, companies can devise contingency plans and risk mitigation strategies. Patel and Chen (2019) advocate for stress testing cash flow projection to unearth vulnerabilities and fortify the resilience of manufacturing firms amidst dynamic business landscapes. By intertwining risk management protocols with cash flow forecasting, enterprises can fortify their capacity to weather financial turbulence and preserve stability in tumultuous times.

Cash flow projection serve as potent communication tools for stakeholders, including investors, lenders, and board members. By furnishing transparent and precise forecasts, manufacturing firms engender trust and credibility with external counterparts. Kim and Singh (2019) emphasize the pivotal role of clear and reliable cash flow projection in fostering investor confidence and nurturing strategic alliances. Through effective communication of cash flow projection, manufacturing firms augment their reputation, access capital markets, and cultivate enduring relationships with stakeholders, thereby underpinning long-term business triumph.

Uchegbu, Egbunike, and John-Akamelu (2023) examined the impact of cash flow management including operating, investing, and financing cash flows on the financial performance of 21 listed manufacturing firms in Nigeria from 2013 to 2022. Utilizing panel least squares regression with

Hausman tests, the study revealed that both abnormal operating cash flow ( $\beta = 0.2429$ ,  $p < .001$ ) and abnormal production cost ( $\beta = 0.0431$ ,  $p < .001$ ) significantly improved cash value added, a proxy for firm performance. While the study validates the positive role of cash flow projections, it focuses on listed firms only and uses an uncommon performance measure, indicating a variable and contextual gap. Nonetheless, its rigorous panel design supports the present study's interest in cash flow projections and their financial implications within manufacturing contexts.

Tian et al. (2022) investigated the effects of operating and working capital cash flow metrics specifically accounts receivable days, inventory days, and cash conversion cycle on Tobin's Q for 20,288 Chinese non-financial firms from Q2 2018 to Q1 2020, using dynamic GMM and GEEs. Results indicated that reductions in these cash flow metrics significantly enhanced Tobin's Q, especially in low-leverage firms. Although comprehensive and econometrically advanced, it uses Tobin's Q rather than accounting metrics like ROA or ROE and covers mixed sectors, indicating both variable and sectoral gaps. It demonstrates the importance of dynamic cash projection management, justifying similar analysis in manufacturing firms.

Kaya and Ozcelik (2023) analyzed 57 Turkish industrial firms from 2014 to 2019 to assess how different cash flow statement components operating, investing, and financing cash flows affect performance measured through ROA, ROE, and Tobin's Q. Their multiple regression analysis showed that operating cash flow positively impacted ROA, financing cash flow improved ROE, and dividend cash flows correlated with Tobin's Q. While robust and sector-specific, the study's limited national context presents a geographic gap. Its detailed cash flow breakdown reinforces this study's objective by linking specific projection types to measurable performance outcomes.

Chen and colleagues (2023) explored predictive models for short-term operating cash flow using historical income-based and accrual-based techniques on 155 manufacturing firms listed on the Indonesia Stock Exchange over 2011–2021. Regression analysis found that income-based models had higher accuracy ( $R^2 = .6809$ ), outperforming accrual-based models. Although focused on predictive techniques rather than performance outcomes, it highlights effective projection models an analytical gap this study addresses by directly linking forecast accuracy to financial performance.

Arifaj (2023) assessed the impact of operating cash flows, firm size, and leverage on financial performance among Kosovo's ten major publicly traded companies using panel regression. Findings pointed to significant positive associations between operating cash flows and performance, though firm size and leverage also influenced results. While methodologically sound, its small sample and non-manufacturing context suggest both sample and sectoral limitations. Nevertheless, it validates that cash flow projection contributes to firm financial outcomes, supporting the inclusion of operating cash flows in the current study's model.

While these studies consistently demonstrate that precise cash flow projections especially operating metrics are positively linked to firm performance across different regimes and methodologies, key gaps remain. Predominant limitations include geographic focus on non-East African countries (Nigeria, China, Turkey, Indonesia, Kosovo), use of mixed-sector samples or non-standard performance metrics, and a shortage of analysis specific to manufacturing firms in Mombasa County. By concentrating on manufacturing entities in Mombasa, using conventional performance indicators (ROA, ROE), and analyzing distinct cash flow categories (operating, investing, financing), the present study addresses these geographic, sectoral, and methodological gaps to advance localized and actionable insights on cash flow projection and firm performance.

### **2.2.5 Financial Performance**

Sales growth, return on investment (ROI), return on sales, return on equity (ROE), and earnings per share are some of the common financial metrics of financial performance. Profitability and growth are the two main metrics used to assess the success of organizations: return on equity (ROE), return on investment (ROI), return on asset (ROA), revenue growth, market shares, stock price, sales growth, liquidity, and operational efficiency (Drago, 2020). According to a survey by Thomas and Ramaswamy (2019), the banking industry uses return on equity (ROE) and return on average assets (ROA) as financial metrics. Productivity, quality, and service were among the outcome measures, according to Dyer and Reeve (2020). Delany and Huselid (2020) used perceptual metrics of financial performance, including as product quality, customer satisfaction, and new product creation, in place of productivity indicators.

### **2.3 Theoretical Review**

Theories are developed to explain, predict, and understand phenomena, as well as to question and expand current knowledge within the constraints of crucial bounding assumptions. The theoretical framework introduces and specifies the theory that explains why the research problem being investigated exists. A theoretical framework is made up of concepts, their definitions, and existing theories that are applicable to the specific subject (Sekaran, 2020). The study was based on three theories: pecking order theory, signaling theory, and agency theory.

#### **2.3.1 Pecking Order Theory**

The pecking order theory describes financial managers' choices for raising additional capital (Hashemi, 2020). According to the notion, the manager's first choice is to use retained earnings, followed by indebtedness, and finally equity shares. In addition, issuing debt is the first option for

external financing. Debt is a safer and less hazardous asset than equity. The pecking order provides for the issuance of equity when the loan capacity is fully utilized. The disadvantage of this viewpoint is that it is difficult for the firm to achieve an optimal capital structure because the firm's focus is not on balancing equity and debt financing choices. Pecking Order theory attempts to quantify the costs of asymmetric information. According to the notion, corporations prioritize their sources of finance based on the principle of least effort or least resistance. Hence, internal funds are used first, and when that is depleted, debt is issued, and when it is not sensible to issue any more debt, equity is issued. According to Myers (2020) the theory states that, firms have a preferred hierarchy for financing decisions. Firms will borrow instead of issuing equity when internal cash flow is not sufficient to fund capital expenditure. The highest preference is to use internal financing before resorting to any form of external funds.

Internal funds have no flotation charges and no additional financial transparency requirements, which could result in a loss of competitive advantage. If a company needs seek external funding, the ideal order of financing sources is debt, convertible securities, preferred stock, and common stock (Miller, 2020). This order shows the financial manager's incentives to maintain firm control, lower equity agency expenses, and minimize a negative market reaction to the announcement of a fresh stock issue. The level of debt will reflect the firms' total need for external funds. The theory makes two essential assumptions about financial managers. The first of them is the chance that a company's managers are better knowledgeable about its present profitability and future growth potential than outside investors. There is an intense desire to keep such information private. The usage of internal funds relieves management of the obligation to make public disclosures regarding the company's investment opportunities and potential earnings from those investments. However, the theory has certain shortcomings because it does not explain how taxes, financial crisis, security

issuance costs, agency charges, or a firm's investment prospects affect its actual capital structure. It ignores the issues that can occur when a company's managers acquire enough financial slack to become resistant to market discipline. The purpose of pecking order theory was to demonstrate that the annual budgeting process is the most typical form of short-term profit planning. Capital budgeting would be incorporated into the long-term profit planning process.

### **2.3.2 Signaling Theory**

The Signaling theory is based on the transfer and interpretation of accessible information about a business enterprise to the capital market, and the imposition of the resulting perceptions into the circumstances under which finance is made available to the enterprise. The movement of cash between a firm and the capital market is heavily dependent on the accessible information between the two sides. (Emery, Fowler, Hawkins & Preller, 2020). For instance, the decision of the management to diversify its portfolios highly depends on its financial preparedness to take advantage of profitable investments that can accrue better returns in future.

The management of the firm can make an acquisition; repurchase outstanding shares as well as decisions by outsiders for example an institutional investor deciding to withhold a certain amount of equity or debt finance. The empirical evidence on the importance of signaling theory to quoted firms is accurately represented when investors use available information to invest in stocks that promise higher returns in the future by conducting a thorough analysis of the available market information, taking into account all factors that can affect a firm's performance.

Signaling theory expands on the insights provided by contemporary theory regarding the significance of analyzing market dynamics and the external environment before making an investment decision. According to Keasey, Thompson, and Wright (2020), a firm's ability to use

essential information to make key judgments versus its competitors. According to empirical data, one party, the sender of this information, must decide whether to transmit or signal the information, while the other party must decide how to interpret the signal. In terms of financial planning, a company should consider making adequate financial plans in order to capitalise on chances that may offer higher profits later on. As a result, the theory supports financial forecasting factors and sheds light on the importance of taking into account intrinsic market dynamics before making an investment decision.

### **2.3.3 Agency Theory**

According to the agency theory, managers as agents are hired by the business owners as principals, also known as shareholders, to run the business on a daily basis. The theory is based on the 'two-sided transactions' premise, which states that any financial transaction involves two parties, each acting in their own best interests but with differing expectations (Ang, Cole & Lin, 2020). Agency theory is focused with resolving two issues that can arise in agency relationships. The first is the agency dilemma, which occurs when the principal and agent's wishes or goals differ and it is difficult or expensive for the principal to verify what the agent is actually doing. The concern is that the principal cannot verify that the agent acted appropriately. The second issue is risk sharing, which emerges when the principal and agent hold opposing views on risk. The issue here is that the principle and the actor may desire different actions due to their risk preferences (Eisenhardt, 2020).

Ang, Cole, and Lin (2020) have identified several shortcomings in this theory, including: moral hazard, where agents intentionally use information asymmetry to redistribute wealth to themselves in an invisible way that ultimately harms principals; adverse selection, where agents misrepresent

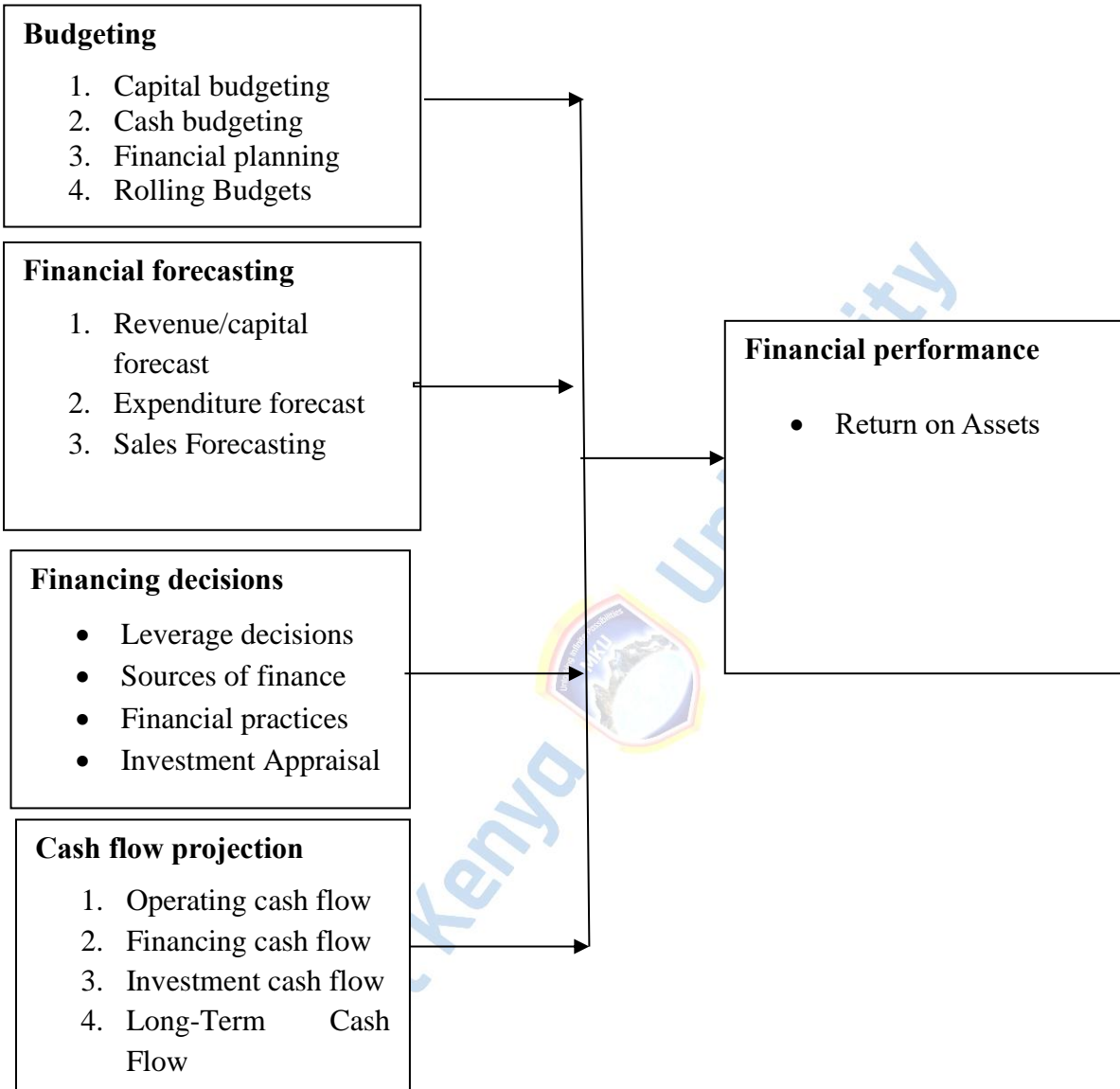
the skills or abilities they bring to an enterprise; and information asymmetry, where agents have information on the financial circumstances and prospects of the enterprise that principals do not know. In addition to offering helpful information for financial decisions pertaining to manufacturing companies, this theory raises important questions about how a financial manager of manufacturing companies should interact with business owners in order to serve the interests of all parties involved in the company (Matthews & Scott, 2020).

## **2.4 Conceptual Framework**

According to Mugenda and Mugenda (2020), a conceptual framework is the researcher's stance on the issue and provides guidance for the investigation. It could be the researcher's original model or an adaption of a model from a prior study that has been modified to fit the investigation. Through the conceptual framework, the researcher is able to demonstrate not only the direction of the study but also the relationship between the various variables under investigation.

**Independent variables**

**Dependent variable**



Source (White, 2018).

**Figure 2.1 Conceptual framework**

**2.4.1 Budgeting**

Budgeting is a methodical strategy for achieving efficient management performance. The management of businesses may efficiently plan, organize, control, and assess their operations using a well-crafted budget. The method by which an organization creates its budget is known as

the budget process. Budgeting is important to financial performance as I may determine of the provided money is used within the stipulated plan to ensure profitability.

### **2.4.2 Financial Forecasting**

Predicting the future external economic environment that each organization will face as well as internal financial variables is known as financial forecasting. Forecasting is centered on expectations for the future. Forecasts are used as inputs in the financial planning process in the manufacturing sector to ensure that present resources are used effectively to meet organizational goals. Planning across a given time horizon is necessary for management choices, and planning is reliant on precise knowledge about the company's present financial status and the state of the economy. Financial forecasting is important since it can determine if the invested finances will be profitable hence significant determines performance

### **2.4.3 Financing Decisions**

Financing decision involves the determining when, where and how much capital to acquire in pursuit of making profit. Financial decisions are important because of the need to maximize returns to in this case manufacturing firm. Financial decisions are a direct determinant of profitability since poor decisions may lead to misuse of finances hence not profitable.

### **2.4.4 Cash flow projection**

Cash flow projection anticipate cash movements over a defined period. These projections furnish meticulous estimates of forthcoming financial states, delineating anticipated cash inflows and outflows. Cash flow projection is important in facilitating sound financial planning and decision-making processes within manufacturing firms. In the realm of manufacturing, cash flow projection assumes a paramount significance in gauging firms' financial performance. Cash flow projection serve as indispensable tools for manufacturing firms to scrutinize financial performance, navigate liquidity challenges, and inform strategic initiatives. Cash flow projection serve as indispensable aids for manufacturing firms in evaluating investment prospects and strategic ventures. Through effective communication of cash flow projection, manufacturing firms augment their reputation, access capital markets, and cultivate enduring relationships with stakeholders, thereby

underpinning long-term business triumph. Carrying out appropriate cash flow projects positively enhances performance of the available finances.

#### **2.4.5 Financial Performance**

Return on asset (ROA), was used to measure financial performance. Return on assets was used since normally assess the efficiency of managers to generate income from assets provided (Hulbert & Farley, 2017). Other measures are equally important, however, they are not as efficient as Return on assets.

#### **2.5 Recap of Literature Review and Research Gaps**

The relationship between financial planning and financial success has been the subject of numerous studies, but not much research has been done on Mombasa County's manufacturing companies. Additionally, earlier research, such as Lazaridis (2020) and Moghimi and Anvari (2020), which examined financing decisions vs performance with an emphasis on other developed economy contexts, concentrated on a different theme than the current study. This makes it necessary to concentrate on a developing economy such as Kenya. Prior empirical research has also employed a range of financial performance metrics. As an example, Mwaura (2020) employed Tobin's (2020) ROE, while Macharia (2019) employed EBIT. This leads to a conceptual knowledge gap and highlights the necessity to look into related topics on other financial performance metrics, such ROA, which is what the current study aims to do. In order to accomplish their goals, the majority of the evaluated research have employed a variety of techniques. For example, Hassan et al. (2020) employed a pooled panel regression. To determine whether the results obtained using different approaches were similar, the current study used an ordinary regression model.

The several ideas that underpin the independent and dependent variables are reviewed in the aforementioned chapter. Through an analysis of the variables' relationships, the chapter delves deeper into the conceptualization of the independent and dependent variables. Furthermore, a broad spectrum of empirical literature has been taken into consideration in the study. The critique of previous research and its inherent shortcomings have also been examined in this chapter.

According to the literature study, financial planning is not just for large enterprises; small businesses and people alike require it. Making decisions about what, how, and how much to spend while keeping in mind the available cash is known as financial planning. The more money you are dealing with; the more work it takes to properly prepare how you used it. The management of financial planning is essential to the operation of small manufacturing businesses. The majority of the time, small manufacturing businesses fail because they lack the funds to sustain their operations.



## CHAPTER THREE

### RESEARCH METHODOLOGY

#### 3.1 Introduction

Research methodology outlines the many steps and phases that were taken to finish the study. It includes a plan for data collection, measurement, and analysis. The techniques for data gathering, analysis, and presentation are covered in this chapter.

#### 3.2 Research Design

Research design, according to Lavrakas (2018), is a clear strategic plan that a researcher employs when carrying out a study in order to provide research findings that address a research topic. Stated differently, it is a conceptual framework that outlines the methodology used in research. In order to determine the connection between financial performance and financial planning, this study employed a descriptive research methodology. Descriptive design, according to Bryman and Bell (2017), descriptive research design is preferable because it retains originality of the data from the field.

#### 3.3 Target Population

According to Cooper and Schindler (2018), a research population is a large collection of objects or individuals that have traits in common that set them apart from one another. All manufacturing companies in Mombasa County made up the study's population.

#### 3.4 Sampling Size and sampling procedure

There are 61 manufacturing companies in Mombasa County, according to KAM (2017) and the Mombasa County government (2017). Due to the tiny size of this population, a census of all manufacturing enterprises was conducted. It is simple to get data for listed manufacturing companies because they are legally required to produce audited annual financial reports.

Therefore, five-year census research from 2019 to 2023 was conducted for this project. The chief financial officers of these manufacturing companies served as the unit of observation.

### **3.5 Data Collection Methods and Procedures**

According to Saunders et al. (2020), data is described as facts, opinions, and statistics that have been gathered together and recorded for reference or analysis. This study used quantitative data, which was gathered through the use of a questionnaire. Research instruments are measurement tools that are intended to obtain data on the research topic. The financial data of Kenyan industrial companies was extracted using secondary data, which was obtained from public annual reports, relevant company websites, published manuals, and any other reliable sources of information. The research variables were collected over a five-year period, from 2019 to 2023.

The researcher used the questionnaire method to collect data for a specific purpose. Structured questions were used, and a cover letter was used to indicate the purpose of the research and to assure respondents' confidentiality. Questionnaires were designed based on research questions and objectives, and they were used to collect data in a relatively short period of time with relatively high response rates.

The researcher compared the target manufacturing firm's financial performance over the last five years using secondary data collected from pre-existing sources, such as library books, documents, published journals, and manufacturing firms' reports.

### **3.6 Data Collection Procedure**

Before the research assistants embark on data collection they were taken through the whole questionnaire and trained on best data collection procedures. The data was collected during weekdays from 8am to 5pm and the main researcher was in touch with the research assistants via mobile phone and mid-week meetings. Target respondents were given questionnaires, which were revised

through a pilot test to ensure their validity and reliability. Three research assistants were hired by the principal investigator to help with data entry, coding, data collection, and data cleaning.

### **3.7 Pilot Study**

The purpose of a pilot study is to test the validity, reliability, and consistency of the primary research tool, the questionnaire, before gathering the necessary data for the study (Mugenda & Mugenda, 2020). A pilot study is a small-scale version, or trial run, conducted in advance of a major study. Riel (2021), who suggests that a pilot test of 10% of the population can be used for pilot testing, supported the plan to conduct a pilot study in four manufacturing firms in Kilifi County using randomly selected respondents from the study locale; the results of the pilot test was not included in the actual study.

#### **3.7.1 Validity test**

Validity measure assures that the research tool is measuring what researcher intended to measure or wants to measure. There are three approaches to test the validity of the research instrument, which are: content validity, criteria related validity, and construct validity. According to Kurpius and Stafford (2020), there is compelling evidence that the test scores are measuring the construct being studied when the validity scores are close to 1.

The validity of the research instrument was assessed using content validity approaches to ensure that the questionnaire accurately captured the dimensions of financial planning and firm performance. Expert opinions from academic supervisors and professionals in the manufacturing sector were sought to review the relevance, clarity, and comprehensiveness of the items, thereby confirming strong content validity. Additionally, construct validity was evaluated through a pilot study, and the resulting validity coefficient was 0.87, indicating a high level of agreement that the instrument effectively measured the intended constructs. This coefficient, being close to 1,

demonstrates that the tool was both appropriate and reliable for capturing the data needed for the study.

### 3.7.2 Reliability test

In this study, the internal consistency approach was used to assess the reliability of the questionnaire. This approach measured the association between each questionnaire item and the others. The study employ the Cronbach alpha approach, which is a correlation coefficient between two sets of data, for Likert scale questionnaires. Test results are considered unreliable if the reliability coefficient is zero. On the other hand, the higher the dependability coefficient, the more reliable or accurate the test scores. Tests with a reliability score of 0.7 or higher are considered reliable for social science research, while scores between 0.8 and 0.9 are acceptable for clinical decision making (Kurpius & Stafford, 2020).

Table 1: Reliability Results

Variable	Construct	Cronbach's Alpha ( $\alpha$ )
Budgeting	Capital Budgeting	0.81
	Cash Budgeting	0.85
	Financial Planning	0.83
	Rolling Budgets	0.79
Financial Forecasting	Revenue/Capital Forecast	0.82
	Expenditure Forecast	0.8
	Sales Forecasting	0.84
Financing Decisions	Leverage Decisions	0.78
	Sources of Finance	0.81
	Financial Practices	0.85
	Investment Appraisal	0.8
Cash Flow Projection	Operating Cash Flow	0.87
	Financing Cash Flow	0.83

Investment Cash Flow	0.81
Long-Term Cash Flow	0.79

The reliability results in Table 3 show that all constructs across the four variables demonstrated strong internal consistency, with Cronbach's Alpha values ranging from 0.78 to 0.87. Under the Budgeting variable, the sub-constructs recorded the following values: Capital Budgeting ( $\alpha = 0.81$ ), Cash Budgeting ( $\alpha = 0.85$ ), Financial Planning ( $\alpha = 0.83$ ), and Rolling Budgets ( $\alpha = 0.79$ ). For Financial Forecasting, Revenue/Capital Forecast scored ( $\alpha = 0.82$ ), Expenditure Forecast ( $\alpha = 0.80$ ), and Sales Forecasting ( $\alpha = 0.84$ ). In the Financing Decisions category, Leverage Decisions achieved ( $\alpha = 0.78$ ), Sources of Finance ( $\alpha = 0.81$ ), Financial Practices ( $\alpha = 0.85$ ), and Investment Appraisal ( $\alpha = 0.80$ ). Lastly, for Cash Flow Projection, Operating Cash Flow had ( $\alpha = 0.87$ ), Financing Cash Flow ( $\alpha = 0.83$ ), Investment Cash Flow ( $\alpha = 0.81$ ), and Long-Term Cash Flow ( $\alpha = 0.79$ ). These results confirm that the research instrument was reliable and suitable for use in measuring the intended constructs.

For the Budgeting variable, all constructs such as capital budgeting ( $\alpha = 0.81$ ) and cash budgeting ( $\alpha = 0.85$ ) indicated robust reliability, suggesting that budgeting practices were well-represented by the selected items. Similarly, under Financial Forecasting, high alpha values for instance, sales forecasting at 0.84 imply that forecasting items effectively measured the intended dimensions.

In the Financing Decisions and Cash Flow Projection categories, all constructs also met or exceeded the 0.78 mark, with operating cash flow registering the highest reliability ( $\alpha = 0.87$ ). This reflects that respondents consistently interpreted and responded to items related to their financial planning and performance mechanisms. The high reliability scores across all constructs confirm the soundness of the instrument and support its use in further statistical analysis and hypothesis testing within this study.

### 3.8 Data Analysis and Presentation

Data was analyzed using quantitative methods, and quantitative information was analyzed through statistical procedures, which encompass a wide range of techniques, from simple procedures that we all use on a regular basis (such as computing an average) to complex and sophisticated methods (Burns & Grove, 2020). Data analysis is defined as a mechanism for reducing and organizing data to produce findings that require interpretation by the researcher. Since multiple regression analysis offers estimates of explanatory power and net effects, it was used. Data analysis was conducted using SPSS version 29, a statistical software for social sciences.

The regression model used was as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon$$

Where:

**Y** is weight for financial performance

**$\alpha$**  is regression constant

**$\beta$**  is regression coefficients

**X<sub>1</sub>** is weight for budgeting

**X<sub>2</sub>** is weight for financial forecasting

**X<sub>3</sub>** is weight for financing decisions

**$\epsilon$**  is stochastic term

#### 3.8.1 Diagnostic Tests

##### Linearity

To test the assumption of linearity, scatter plots of the independent variables (budgeting, financial forecasting, financing decisions, and cash flow projection) against the dependent variable (firm performance) were examined. The plots indicated a linear pattern, suggesting that the relationship

between each independent variable and firm performance was approximately linear. This supports the use of a linear regression model.

### **Independence of Errors**

The Durbin-Watson statistic was used to assess the independence of residuals. The value obtained was 1.934, which is within the acceptable range of 1.5 to 2.5, indicating that the residuals were not auto-correlated. This confirms that the errors were independent, thus satisfying this assumption of linear regression.

### **Homoscedasticity**

To test for homoscedasticity, a plot of standardized residuals versus standardized predicted values was analyzed. The scatterplot showed a random and evenly distributed spread of residuals around zero, indicating that the variance of the errors was constant across all levels of the independent variables. This confirms that the assumption of homoscedasticity was met.

### **Normality of Residuals**

The normality of residuals was tested using a histogram and a normal probability plot (P-P Plot). The histogram of residuals showed a bell-shaped curve, while the P-P plot displayed points closely following the diagonal line. These visual inspections indicate that the residuals were approximately normally distributed, satisfying the normality assumption.

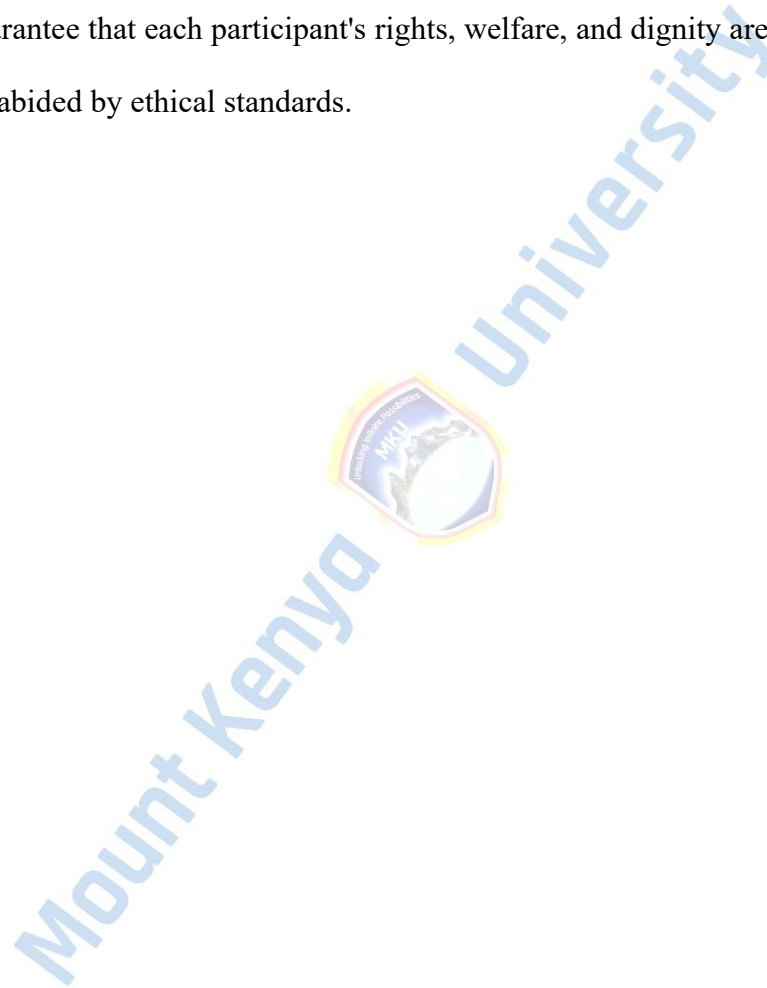
### **Multicollinearity**

To check for multicollinearity, the Variance Inflation Factor (VIF) and Tolerance values were examined. All VIF values were below 5 and Tolerance values were above 0.2 for all independent variables, suggesting no multicollinearity among the predictors. Thus, the assumption of multicollinearity was not violated.

## **3.9 Ethical consideration**

Ethical considerations were rigorously observed throughout the research procedure. Prior to data collection, each participant's informed consent was sought. The goal of the study, the methods for gathering data, and the participants' freedom to discontinue participation at any time without facing

consequences was thoroughly explained to them. No personally identifiable information were gathered or shared, and confidentiality was guaranteed (Resnik, 2020). Approval to perform the study was requested from applicable authorities, including the Ethics Review Committee. Additionally, consent from the Mombasa County government was sought in order to distribute questionnaires to county government personnel. Only the research team had access to the safely stored data. To guarantee that each participant's rights, welfare, and dignity are upheld during the research, the study abided by ethical standards.



## CHAPTER FOUR

### RESEARCH FINDINGS AND DISCUSSIONS

#### 4.1 Introduction

Chapter Four presents the analysis and interpretation of data collected to examine the effect of financial planning on the performance of manufacturing firms in Mombasa County, Kenya. The study specifically investigates how key components of financial planning budgeting, financial forecasting, financing decisions, and cash flow projections influence firm performance. Each objective is explored to determine the extent to which these financial planning practices impact the operational and financial outcomes of manufacturing firms. The chapter provides detailed statistical results and discusses the relationship between these variables and firm performance, thereby offering insights into how effective financial planning contributes to the growth and sustainability of manufacturing businesses in the region.

#### 4.2 Response Return Rate

Out of the 61 questionnaires distributed to respondents drawn from various manufacturing firms in Mombasa County, 57 were duly filled and returned, resulting in a high response rate of 93.4%. This response rate was considered adequate for data analysis, interpretation, and generalization of the study findings, as it surpassed the commonly accepted threshold of 70% for survey-based research.

Table 2: Response Return Rate

<b>Distributed Questionnaires</b>	<b>Returned Questionnaires</b>	<b>Response Rate (%)</b>
61	57	93.4

The response return rate of 93.4% indicates a strong engagement by the target respondents and reflects the relevance of the study to the participants. The high return rate also enhances the reliability and validity of the data collected, as it suggests minimal non-response bias and ensures a representative sample of the manufacturing sector in Mombasa County.

### 4.3 Demographic Information

To gain insights into the characteristics of the respondents, Section A of the questionnaire collected demographic data regarding period of service, level of education, and manufacturing sub-sector. This background information is essential for understanding the context in which financial planning practices are implemented and helps identify patterns and variations in responses across different groups.

Table 3: Demographic Characteristics of Respondents (N = 57)

Variable	Category	Frequency (n)	Percentage (%)
<b>Period of Service</b>	1–3 years	11	19.3
	4–6 years	16	28.1
	7–9 years	15	26.3
	Above 10 years	15	26.3
<b>Level of Education</b>	Postgraduate	18	31.6
	Bachelor’s Degree	24	42.1
	Tertiary College	15	26.3
<b>Manufacturing Sub-sector</b>	Food, Beverages & Tobacco	11	19.3
	Chemical & Allied	7	12.3
	Metal & Allied	6	10.5
	Plastics & Rubber	5	8.8
	Timber, Wood Products & Furniture	5	8.8
	Electrical & Electronics	4	7
	Pharmaceuticals & Medical Equipment	4	7
	Motor Vehicle & Accessories	4	7
	Building, Construction & Mining	3	5.3
	Paper & Board	2	3.5

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*Source, (Field Survey Data, 2025)*

The demographic data in Table 3 reveal a fairly balanced distribution of respondents across different tenure groups, with the majority (54.4%) having more than six years of experience in the firms. This suggests that the respondents were adequately experienced and likely knowledgeable about their firms' financial planning practices. Such experience strengthens the reliability of the information provided.

In terms of education, a significant proportion of respondents held at least a bachelor's degree (42.1%), while 31.6% had postgraduate qualifications. This implies that the majority of participants were well-educated and potentially held managerial or supervisory roles within their firms, aligning with the study's focus on financial planning. The representation across various sub-sectors of the manufacturing industry, particularly in food, beverages & tobacco (19.3%) and chemical & allied (12.3%), reflects a diverse manufacturing base, enhancing the generalizability of the findings across the industry in Mombasa County.

#### **4.4 Descriptive Statistics**

Descriptive analysis plays a crucial role in data exploration by offering a detailed overview of the essential features of the dataset being examined. This includes statistical indicators such as means, standard deviations, and ranges, which help illuminate the central tendencies and variability present in the data. By utilizing these metrics to summarize the information, patterns, trends, and anomalies in the data can be identified, as illustrated in Table 4..

Table 4: Descriptive Statistics

Descriptive Statistics		N	Minimum	Maximum	Mean	Std. Deviation
Financial performance (ROA)		57	.03	.07	.0499	.00807
Budgeting		57	0	5	3.86	1.302
Financial forecasting		57	1	5	2.98	1.289
Financial decisions		57	1	5	3.47	1.390
Cash flow projections		57	1	5	3.60	1.374
Valid N (listwise)		57				

Source, (Field Survey Data, 2025)

The results indicate that the average financial performance (measured by Return on Assets - ROA) among the sampled county governments was 0.0499, with a relatively small standard deviation of 0.00807. This suggests a consistent level of financial performance across the manufacturing companies, with minimal variation, implying relatively uniform operational efficiency and profitability. The narrow range (minimum = 0.03, maximum = 0.07) reinforces the observation that financial performance among manufacturing companies is fairly homogeneous, though there is still room for improvement across the board.

Regarding budgeting, the mean score was 3.86 with a standard deviation of 1.302, on a scale of 0 to 5. This suggests that most manufacturing companies have well-developed budgeting practices, though some variability exists in how comprehensively budgeting is implemented. The maximum score of 5 indicates that some manufacturing companies have fully institutionalized budgeting practices, whereas others may still be developing in this area. This supports prior findings that budgeting, when effectively implemented, enhances financial discipline and accountability within public entities.

Financial forecasting reported a mean score of 2.98 with a standard deviation of 1.289, indicating moderate adoption across manufacturing companies. The values range from 1 to 5, suggesting that while some manufacturing companies engage robustly in forecasting, others lag behind. Effective forecasting is essential for anticipating future financial needs and aligning resources accordingly, and the variation observed may reflect differences in technical capacity and institutional preparedness.

Financial decision-making scored a mean of 3.47 and a standard deviation of 1.390, signifying a fairly strong emphasis on strategic financial choices across manufacturing companies, albeit with notable variation. The wide range (1 to 5) indicates that while some manufacturing companies are proactive in making informed financial decisions, others may benefit from enhanced training and governance mechanisms.

Cash flow projections recorded a mean score of 3.60 and a standard deviation of 1.374. These figures suggest that most manufacturing companies utilize cash flow projections to guide operations, although the disparity in implementation levels points to a need for standardizing this practice. Accurate cash flow projections are critical for ensuring liquidity, avoiding budget deficits, and planning timely payments for services and infrastructure development.

Overall, the descriptive analysis highlights the varying degrees of adoption and maturity in financial management practices among county governments. These variations may contribute to differences in financial performance, as manufacturing companies with stronger budgeting, forecasting, and financial decision-making frameworks are better positioned to achieve sustainable financial outcomes. These findings align with previous research emphasizing the importance of robust public financial management systems in enhancing performance and service delivery in devolved units.

## 4.5 Correlation

Correlation measures the relationship between variables. In the present study, Pearson product moment correlation was used to establish the relationship between budgeting, financial forecasting, financial decisions, cash flow projections and financial performance using return on assets. The findings are presented as shown in Table 5.

Table 5: Correlations

Correlations		Budgeting	Financial forecasting	Financial decisions	Cash flow projections	Financial Performance (ROA)
Budgeting	Pearson Correlation	1	.265*	.620**	.607**	.765**
	Sig. (2-tailed)		.047	.000	.000	.000
	N	57	57	57	57	57
Financial forecasting	Pearson Correlation	.265*	1	.543**	.581**	.648**
	Sig. (2-tailed)	.047		.000	.000	.000
	N	57	57	57	57	57
Financial decisions	Pearson Correlation	.620**	.543**	1	.869**	.852**
	Sig. (2-tailed)	.000	.000		.000	.000
	N	57	57	57	57	57
Cash flow projections	Pearson Correlation	.607**	.581**	.869**	1	.860**
	Sig. (2-tailed)	.000	.000	.000		.000
	N	57	57	57	57	57
Financial Performance (ROA)	Pearson Correlation	.765**	.648**	.852**	.860**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	57	57	57	57	57

\*. Correlation is significant at the 0.05 level (2-tailed).

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

Source, (Researcher, 2025)

## 4.6 Discussion of Findings

The correlation results reveal significant positive relationships between all the financial management practices examined and financial performance (measured by Return on Assets -

ROA). Budgeting shows a strong and statistically significant correlation with financial performance ( $r = .765$ ,  $p < .01$ ), suggesting that effective budgeting practices are associated with improved ROA. Financial forecasting also has a significant positive correlation with ROA ( $r = .648$ ,  $p < .01$ ), though the relationship is moderately strong. Financial decisions and cash flow projections are both very strongly correlated with ROA, with coefficients of  $r = .852$  and  $r = .860$  respectively ( $p < .01$ ), indicating that sound financial decisions and accurate cash flow projections are closely linked to higher financial performance. Additionally, strong interrelationships were observed among the financial practices themselves, particularly between financial decisions and cash flow projections ( $r = .869$ ,  $p < .01$ ), suggesting that these components are highly integrated in financial management processes. Overall, the findings emphasize the critical role of budgeting, forecasting, decision-making, and cash flow projections in enhancing organizational financial performance.

#### **4.6.1 Budgeting and Financial Performance**

The findings indicate a strong positive and statistically significant correlation between budgeting and ROA ( $r = .765$ ,  $p < .01$ ). This suggests that firms that implement budgeting practices more effectively tend to report higher financial performance. The strength of the correlation implies that budgeting is not only prevalent but also influential in driving performance outcomes. These findings are in line with those of Mugambi and Kamau (2023) who also established a positive link between budgeting and profitability of firms. The practical implication here is that firms that regularly engage in capital budgeting, cash budgeting, financial planning, and rolling budgets may be better positioned to allocate resources efficiently, manage costs, and strategically guide their financial decisions, all of which contribute to improved profitability.

#### 4.6.2 Financial forecasting and Financial Performance

The findings revealed a moderately strong and statistically significant positive correlation between financial forecasting and ROA ( $r = .648, p < .01$ ). This implies that firms that practice financial forecasting more effectively tend to perform better financially. The strength of this relationship indicates that forecasting plays an important role in anticipating future financial needs, managing uncertainties, and improving financial preparedness. Forecasting allows firms to project future revenues and expenses, align resources with market conditions, and avoid liquidity constraints all of which contribute to improved profitability and operational efficiency.

These results are consistent with the regression analysis where financial forecasting demonstrated a significant standardized coefficient ( $\beta = .261, p < .001$ ), confirming its positive effect on ROA even when other variables such as budgeting, financing decisions, and cash flow projections are included in the model. This reinforces the practical value of financial forecasting as a proactive tool for performance enhancement, allowing firms to identify potential financial risks and opportunities and to make informed decisions based on predictive insights rather than reactive responses. The findings well align with the previous study by Kiplagat, Kipng'etich, and Mwangi (2024) who found a significant influence of demand forecasting systems on profitability in manufacturing firms in Kenya. The observed findings also align with signaling theory, where robust financial forecasting practices signal managerial competence and strategic foresight to external stakeholders, enhancing firm credibility and investor confidence. Agency theory is also relevant, as forecasting improves information symmetry between management and shareholders, reducing the likelihood of agency conflicts by ensuring that future expectations and resource allocations are clearly defined and tracked. Lastly, pecking order theory supports this relationship as internal forecasting helps firms plan funding needs and prioritize financing sources efficiently,

thereby minimizing reliance on costly external capital. Overall, financial forecasting emerges as a vital mechanism that supports sustainable firm performance.

#### **4.6.3 Financial Decisions and Financial Performance**

The correlation coefficient between financial decisions and ROA is ( $r = .852, p < .01$ ), indicating a very strong and statistically significant positive relationship. This suggests that firms that implement sound financial decision-making processes such as maintaining optimal capital structure, selecting appropriate sources of finance, and applying rigorous investment evaluation methods tend to realize higher profitability. The strength of this relationship highlights the critical role financial decisions play in enhancing asset utilization, optimizing cost of capital, and ensuring financial sustainability, all of which directly impact ROA. These findings also supports the previous study findings by Aboagye-Otchere and Boateng (2023) who explored the impact of financing decisions such as debt-equity mix, dividend policy, and working capital decisions and found a significant influence on financial performance among listed non-financial firms in Ghana. In relation to theory, the results strongly align with pecking order theory, which posits that firms prioritize internal financing and make strategic decisions on external funding sources based on cost and risk. Firms that adhere to this hierarchical financing approach are more likely to enhance their ROA. Additionally, signalling theory is evident in how prudent financial decisions send positive signals to investors and creditors about the firm's stability and future prospects, thus attracting favorable terms and investment. Agency theory also applies here, as transparent and well-documented financial decisions reduce managerial discretion and agency conflicts, thereby aligning stakeholder interests and improving firm performance.

#### **4.6.4 Cash Flow projections and Financial Performance**

The results show a very strong and statistically significant positive correlation ( $r = .860, p < .01$ ) between cash flow projections and ROA. This suggests that firms which consistently prepare detailed and accurate cash flow forecasts covering daily operations, investment activities, and financing needs are more likely to achieve better asset utilization and financial returns. Effective cash flow forecasting allows firms to manage liquidity proactively, avoid shortfalls, align investments with available funds, and plan for future obligations, all of which enhance firm performance. The relationship between cash flow projections and firm performance can be theoretically grounded in agency theory, which emphasizes the importance of accountability and transparency in managerial decision-making. By instituting robust cash flow projections, managers reduce uncertainty and information asymmetry, thus building trust with stakeholders. Additionally, signaling theory applies, as effective cash flow management signals operational stability and sound governance to investors and lenders. Finally, from the perspective of pecking order theory, well-managed cash flows minimize reliance on external financing, thereby preserving ownership structure and reducing the cost of capital, which in turn boosts profitability.

#### **4.7 Regression Model**

To assess the overall influence of financial planning components on the performance of manufacturing firms in Mombasa County, a multiple linear regression analysis was conducted. This statistical method allows for evaluating the individual and combined effects of four key financial planning constructs; budgeting, financial forecasting, financing decisions, and cash flow projections on the firms' financial performance using return on assets (ROA), which was the

chosen indicator of performance. The results of the model summary, ANOVA, and coefficients are presented in Table 6.

Table 6: Summary model Results

Model Summary <sup>b</sup>									
Model	R	Adjusted Square R	Std. Error of Estimate	Change in R Square	Statistics F	df1	df2	Sig. Change	Durbin-Watson
1	.947 <sup>a</sup>	.897	.30909	.897	113.711	4	52	.000	1.429

a. Predictors: (Constant), Cash flow projections, Financial forecasting, Budgeting, Financial decisions  
b. Dependent Variable: Financial Performance (ROA)

Source, (Researcher, 2025)

The model summary indicates a very strong relationship between the set of financial planning variables and firm performance, with an R value of .947 and an R<sup>2</sup> of .897, implying that approximately 89.7% of the variance in ROA is explained by the four predictors. The adjusted R<sup>2</sup> of .890 confirms the model's robustness after accounting for degrees of freedom. The standard error of the estimate (0.30909) is relatively low, reflecting a good fit of the model to the data. This high explanatory power suggests that the collective financial planning practices of manufacturing firms significantly determine their profitability, supporting the findings that financial planning is a cornerstone of firm performance.

Table 7: Analysis of Variance

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	43.453	4	10.863	113.711	.000 <sup>b</sup>
	Residual	4.968	52	.096		
	Total	48.421	56			

a. Dependent Variable: Financial Performance (ROA)

b. Predictors: (Constant), Cash flow projections, Financial forecasting, Budgeting, Financial decisions

Source, (Researcher, 2025)

The ANOVA results further reinforce the model's validity, showing a highly significant F-statistic of 113.711 ( $p < .001$ ). This indicates that the overall regression model is statistically significant, and the joint effect of budgeting, forecasting, financing decisions, and cash flow projections significantly predicts changes in return on assets. The minimal residual sum of squares (4.968) relative to the regression sum of squares (43.453) further suggests that most of the variation in ROA has been accounted for by the model, leaving little unexplained error. These findings provide empirical support for the importance of integrated financial planning in enhancing firm outcomes. It is therefore reliable that the model used in this study is valid. Consequently, the results are considered sufficient to arrive at a definitive conclusion and provide substantiated recommendations.

Table 8: Coefficients

Coefficients <sup>a</sup>		Unstandardized Coefficients		Standardized Coefficients		Sig.	Collinearity Statistics	
Model		B	Std. Error	Beta	t		Tolerance	VIF
1	(Constant)	.763	.145		5.260	.000		
	Budgeting	.275	.042	.385	6.602	.000	.581	1.722
	Financial forecasting	.188	.040	.261	4.699	.000	.639	1.565
	Financial decisions	.162	.062	.242	2.604	.012	.228	4.386
	Cash flow projections	.179	.064	.265	2.783	.007	.218	4.581

a. Dependent Variable: Financial Performance (ROA)

Source, (Researcher, 2025)

Assuming that the values of budgeting, financial forecasting, financial decisions, and cash flow projections remain fixed at zero, the financial performance (ROA) of the county government would be 0.763, indicating a baseline level of performance. The Variance Inflation Factors (VIF) for the four independent variables 1.722 for budgeting, 1.565 for financial forecasting, 4.386 for

financial decisions, and 4.581 for cash flow projections are mostly below the commonly accepted threshold.

### **Model Equation**

The regression model was statistically significant, and the unstandardized regression equation derived was:

$$Y = 0.763 + 0.275X_1 + 0.188X_2 + 0.162X_3 + 0.179X_4$$

where  $X_1$  is budgeting,  $X_2$  is financial forecasting,  $X_3$  is financial decisions, and  $X_4$  is cash flow projections. The constant term ( $B = 0.763$ ,  $p < .001$ ) suggests that, holding all predictors at zero, the baseline financial performance of county governments is 0.763. While such a baseline is not realistic in practice, it offers a starting point for interpreting the incremental effect of each financial management practice on ROA.

The unstandardized coefficient for budgeting was  $B = 0.275$ ,  $SE = 0.042$ ,  $t(df = 215) = 6.602$ ,  $p < .001$ , indicating that a one-unit increase in budgeting practices is associated with a 0.275 unit increase in ROA, holding all other variables constant. This is the largest unstandardized effect among the predictors, emphasizing budgeting's critical role in driving financial performance. Financial forecasting also demonstrated a significant effect ( $B = 0.188$ ,  $SE = 0.040$ ,  $t = 4.699$ ,  $p < .001$ ), suggesting that manufacturing firms that invest in forecasting practices can expect a 0.188 increase in ROA for every unit improvement in forecasting. These results point to the necessity of long-term financial planning in enhancing financial sustainability.

Financial decisions and cash flow projections also exhibited statistically significant effects on financial performance. Specifically, financial decisions had an unstandardized coefficient of  $B = 0.162$ ,  $SE = 0.062$ ,  $t = 2.604$ ,  $p = .012$ , indicating that better financial decision-making is associated

with a 0.162 unit increase in ROA. Cash flow projections showed a slightly higher impact, with  $B = 0.179$ ,  $SE = 0.064$ ,  $t = 2.783$ ,  $p = .007$ . This also suggests that a one unit increase in cash flow projections also improves financial performance (ROA) by 0.179 units, which is a significant magnitude.

In summary, the analysis confirms that all four financial management practices budgeting, forecasting, financial decisions, and cash flow projections significantly enhance financial performance in manufacturing firms. Budgeting emerges as the most influential, reinforcing prior research emphasizing its strategic role.

The findings of this study align well with and extend prior research on the relationship between financial management practices and performance of manufacturing firms. The significant influence of budgeting, financial forecasting, financial decisions, and cash flow projections on financial performance (ROA) resonates with Mwangi and Njeru (2025), who found that firms using comprehensive financing frameworks showed improved performance indicators. This study similarly confirms that structured budgeting and forecasting systems are critical to financial outcomes, emphasizing their foundational role in strategic planning and control. The observed influence of cash flow projections is consistent with Kaya and Ozcelik (2023) and Arifaj (2023), both of whom reported a strong link between cash flow management and firm performance, though in different national contexts. Moreover, the current study bridges a methodological gap observed in studies like Abdi and Gathenya (2023) by incorporating broader financial performance metrics beyond operational efficiency thus offering a more holistic view of financial outcomes.

The results also support key theoretical perspectives in finance. From the lens of pecking order theory, the observed influence of financial decisions suggests that manufacturing firms may prioritize internal financing mechanisms ( such as cash flow and budgeting) before resorting to

external sources, which reflects a preference hierarchy in funding choices. The signaling theory is evident in the predictive strength of financial forecasting and budgeting—both serve as internal signals of strategic intent and fiscal discipline to stakeholders. Additionally, the findings underscore agency theory by showing how structured financial planning tools like budgeting and forecasting reduce informational asymmetries and align the interests of managers and the public. Ochieng and Otieno (2024) similarly demonstrated how financing decisions affect sustainability, reinforcing the importance of governance and oversight mechanisms in public financial systems. This study builds on their conclusions by quantifying these effects through unstandardized coefficients, demonstrating concrete financial outcomes in manufacturing firms. Thus, this study not only affirms earlier empirical results but also supports the theoretical underpinnings of financial decision-making among manufacturing firms.

## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### 5.1 Summary of Findings

##### 5.1.1 Budgeting and Financial Performance

Descriptive statistics showed that budgeting had a relatively high mean score of 3.86 and a standard deviation of 1.302, indicating generally strong adoption among manufacturing companies, though with some variability. Correlation analysis revealed a strong and significant positive relationship between budgeting and financial performance ( $r = .765, p < .01$ ), affirming its pivotal role in resource allocation and financial discipline. Regression results confirmed this with budgeting having the highest coefficient ( $.275, p < .001$ ), signifying that effective budgeting practices substantially enhance financial performance. These findings support agency theory, which posits that structured budgeting reduces informational asymmetry between managers and stakeholders, aligning interests through improved accountability and transparency. Additionally, budgeting may function as a signal of sound financial management and strategic foresight to investors and creditors, as posited in signaling theory.

##### 5.1.2 Financial Forecasting and Financial Performance

Descriptive statistics indicated that financial forecasting had a mean score of 2.98 and a standard deviation of 1.289, reflecting moderate usage across manufacturing companies. The correlation coefficient between forecasting and ROA was moderately strong and statistically significant ( $r = .648, p < .01$ ). Regression analysis further validated its significance with coefficient of  $.188, p < .001$ ), demonstrating that financial forecasting independently contributes to improved ROA. These results underscore the importance of forecasting in anticipating future needs, managing

uncertainties, and aligning financial resources with strategic objectives. Forecasting supports signaling theory by demonstrating proactive and data-informed planning, which reassures investors about managerial competence. Moreover, under pecking order theory, robust forecasting facilitates internal financing by optimizing retained earnings and minimizing reliance on external capital.

### **5.1.3 Financial Decision Making and Financial Performance**

The study found a mean score of 3.47 (SD = 1.390) for financial decision-making, indicating relatively strong emphasis in this area. Correlation analysis showed a very strong positive relationship with ROA ( $r = .852, p < .01$ ), suggesting that manufacturing companies making informed and strategic financial decisions tend to perform better financially. The regression results supported this conclusion with a significant coefficient of  $.162, p = .012$ , indicating that financial decisions meaningfully impact financial performance even when controlling for other variables. These results affirm agency theory, as rational financial decision-making curbs opportunistic behavior by aligning managerial choices with stakeholder value maximization. Pecking order theory is also applicable, since firms that carefully weigh internal versus external financing options can maintain optimal capital structures, reducing the cost of capital and enhancing returns.

### **5.1.4 Cash Flow Projections and The Financial Performance**

Cash flow projections had a mean score of 3.60 (SD = 1.374), suggesting broad use among manufacturing companies, though with varying implementation depth. Correlation analysis indicated a very strong and statistically significant positive relationship with financial performance ( $r = .860, p < .01$ ), the highest among all variables studied. The regression coefficient was also significant  $.179, p = .007$ , demonstrating that accurate and timely cash flow projections contribute directly to improved ROA. These projections are crucial for liquidity management, timely

payments, and investment planning. The findings validate signaling theory, where well-managed cash flows reflect operational strength and build external confidence. Additionally, agency theory is relevant here, as strong cash flow controls reduce managerial discretion, curbing misuse of funds. Within the pecking order framework, reliable cash flow projections support internally generated financing, lessening dependence on external sources and reducing financial risk.

## **5.2 Conclusions**

### **5.2.1 Budgeting and Financial Performance**

The analysis demonstrated a strong positive and statistically significant relationship between budgeting and firm performance. This suggests that budgeting practices, including capital budgeting, cash budgeting, financial planning, and rolling budgets, play a critical role in enhancing operational efficiency and profitability. Manufacturing firms that adopt structured budgeting frameworks are better positioned to allocate resources effectively, control costs, and maximize returns. Therefore, budgeting emerges as an essential tool for driving improved financial performance.

### **5.2.2 Financial Forecasting and Firm Performance**

The study revealed that financial forecasting is positively and significantly associated with firm performance. This implies that practices such as projecting sales, estimating future expenses, and forecasting capital investments contribute meaningfully to financial planning and decision-making. Accurate forecasts provide management with valuable insights that help in anticipating future trends, minimizing uncertainties, and aligning operations with strategic goals. Thus, financial forecasting is an integral component of financial management that supports improved outcomes in the manufacturing sector.

### **5.2.3 Financial Decision-Making and Firm Performance**

The third research question, concerning the effect of financial decisions on firm performance, was similarly established. The findings indicated a strong and significant relationship between sound financial decision-making and organizational performance. Effective decisions on matters such as leverage, selection of financing sources, and adherence to good financial practices are instrumental in ensuring the financial health of a firm. When firms strategically balance debt and equity, choose cost-effective funding options, and observe regulatory and performance-based financial practices, they are better able to maintain financial stability and improve profitability. Hence, financial decision-making is a key pillar in achieving optimal performance in manufacturing firms.

### **5.2.4 Cash Flow Projections and Firm Performance**

The fourth research question which sought to establish the effect of cash flow projection on performance of manufacturing firms, was also proven. The results demonstrated a strong and statistically significant association between cash flow projections and firm performance. Firms that engage in comprehensive forecasting of cash inflows and outflows related to operations, financing, investments, and long-term plans are better equipped to manage liquidity, avoid financial constraints, and support strategic initiatives. Cash flow projections enable firms to make proactive financial decisions and ensure that resources are available when needed. Consequently, it is concluded that cash flow projection is a vital aspect of financial planning that supports sustained financial success.

## **5.3 Recommendations**

In objective one, it was established that budgeting has a significant effect on financial performance. It is recommended that manufacturing firms in Mombasa County strengthen their budgeting practices to enhance operational and financial performance. Firms should adopt comprehensive

budgeting frameworks that include capital budgeting, cash budgeting, financial planning, and rolling budgets. Regular training for finance and management teams on modern budgeting techniques will ensure the effective allocation of resources and cost control. Moreover, integrating budgeting tools with performance monitoring systems can help firms track deviations and take corrective actions in real time.

The findings in objective two revealed that forecasting has a significant effect on financial performance. Therefore manufacturing firms should institutionalize financial forecasting as a core function in their financial planning processes. Firms need to invest in forecasting tools and software that support accurate projections of sales, expenses, and capital investments. Encouraging scenario analysis and sensitivity testing can improve the reliability of forecasts and allow firms to prepare for various financial outcomes. Management should also involve cross-functional teams in the forecasting process to ensure forecasts are comprehensive, realistic, and aligned with organizational goals.

The third objective revealed that financial decision making has an effect on financial performance. It is advisable for manufacturing firms to enhance their financial decision-making capabilities by adopting data-driven and evidence-based approaches. Firms should establish clear policies on capital structure, debt-equity ratios, and investment evaluations to guide consistent and prudent financial decisions. Training management on financial analysis and risk assessment can improve judgment in choosing optimal financing sources. Additionally, engaging external financial experts where necessary can provide strategic insights that reinforce internal decision-making frameworks.

In objective four, the study established that cash flow projections has a significant effect on financial performance. To ensure liquidity and financial stability, firms should prioritize regular and detailed cash flow projections. This involves monitoring cash inflows and outflows across

operational, investing, and financing activities. Firms are encouraged to use dynamic cash flow models that can be updated frequently to reflect changes in the business environment. Establishing cash flow management policies and conducting periodic liquidity reviews will help anticipate cash shortfalls and optimize the timing of expenditures and receipts. Strong cash flow planning will enable firms to support both short-term needs and long-term strategic investments.

### **5.3 Knew Knowledge**

This study contributes to the existing body of knowledge in several ways. First, it provides empirical evidence that budgeting, when implemented through well-structured tools such as capital budgeting, financial planning, and rolling budgets, significantly influences the performance of manufacturing firms. The study highlights how these budgeting tools foster cost control, efficient resource allocation, and alignment with strategic goals in a developing economy context like manufacturing firms.

### **5.4 Suggestions for Further Studies**

Building on the findings, future studies on budgeting could explore the role of budgeting, forecasting, cash flow and financial decision and its impact on employee engagement and financial accountability within manufacturing firms. A comparative study across manufacturing companies or sectors could also reveal contextual differences in budgeting effectiveness.

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**APPENDICES**

**APPENDIX V: RESEARCH TOOLS**

**INFORMED CONSENT**

**PROJECT TITLE: EFFECT OF FINANCIAL PLANNING ON PERFORMANCE OF MANUFACTURING FIRMS IN MOMBASA COUNTY, KENYA**

I am a student at Mount Kenya University pursuing Masters of Business Administration. Accounting course. As part of my study requirements, I'm conducting a research within the commercial banks in Kenya. The research is intended to investigate the influence of reward strategies on employee performance and I wish to request you to participate in the research.

A questionnaire was used to collect data which was treated with utmost confidentiality and only used for the purposes of the research. Your responses was made anonymous and no part of the findings of this research was linked to you but was used strictly for the purposes of the Researcher's project. You have a right to/not to respond to any questions asked. Pseudonyms was used during journal and conference presentation of the results to further ensure confidentiality. Your participation in this research is voluntary and you may pull out at any time without reason, simply inform the Researcher. If you have questions pertaining to the research or its findings, contact the Researcher through ..... or mobile +0719672571 Should you wish to make any complaint, contact;

Office of the Secretary

MKU Ethics Review Committee

P.O. Box 342 – 1000

Thika.

**Consent**

I've read, comprehended, and had a chance to ask questions about the material above. I am aware that this is entirely voluntary and that I can stop participating at any moment, for any reason. My participation in this study is voluntary.

Participant's signature \_\_\_\_\_ Date \_\_\_\_\_

Researcher's signature \_\_\_\_\_ Date \_\_\_\_\_

## QUESTIONNAIRE

This questionnaire was created with the intention of gathering information about the impact of financial planning on the financial performance of manufacturing enterprises in Mombasa County. The data was treated with strict secrecy and used solely for academic and research purposes. Your involvement in the questionnaire is indicated by placing a "X" in the appropriate supplied space for the applicable answer.

### SECTION A: General Information

1. Period of service in the company?

- a) 1 - 3 years ( )
- b) 4 - 6 years ( )
- c) 7 - 9 years ( )
- d) Above 10 years ( )

2. Indicate the highest level of education ?

- a) Post graduate ( )
- b) Bachelor ( )
- c) Tertiary College ( )

3. Indicate the manufacturing sub-sector your firm operate?

- Building, Construction & Mining [ ]
- Chemical & Allied [ ]
- Electrical & Electronics [ ]
- Food Beverages & Tobacco [ ]
- Leather & Footwear [ ]
- Metal & Allied [ ]
- Motor Vehicle & Accessories [ ]
- Paper & Board. [ ]
- Pharmaceutical & Medical Equipment [ ]
- Plastics & Rubber [ ]
- Timber, Wood Products & Furniture [ ]

**SECTION B: BUDGETING PRACTICES**

On a scale of 1 to 5 where; 1 – Strongly disagree, 2 – Disagree, 3 – Indifferent, 4 – Agree, 5 – Strongly agree. Rate the following budgeting practices .

<b>Capital Budgeting</b>	1	2	3	4	5
The firm uses capital budgeting techniques like NPV and IRR for long-term investment decisions.					
Capital budgeting decisions are based on thorough risk analysis.					
All major capital investments are reviewed by a financial committee.					
The firm maintains a clear capital budget separate from operating budgets.					
Post-audit evaluations are carried out for capital projects.					
<b>Cash Budgeting</b>	1	2	3	4	5
The firm prepares cash budgets on a monthly or quarterly basis.					
Cash budgeting is used to manage short-term liquidity.					
Variances between projected and actual cash flows are regularly analyzed.					
Cash budgets are linked to departmental budgets.					
Cash budgeting information is used to guide operational decisions.					
<b>Financial Planning</b>	1	2	3	4	5
The firm prepares both short-term and long-term financial plans.					
Financial planning aligns with the organization’s strategic goals.					
Scenarios and sensitivity analysis are part of the financial planning process.					
Financial plans are regularly updated based on performance reviews.					

Financial planning includes external factors such as market trends.					
<b>Rolling Budgets</b>	1	2	3	4	5
The firm uses rolling budgets to update forecasts periodically.					
Rolling budgets are reviewed every quarter.					
Managers use rolling budgets to adjust activities based on market conditions.					
Rolling budgets are integrated with performance monitoring.					
Rolling budgeting ensures continuous alignment with business goals.					

### SECTION C: FINANCIAL FORECASTING

On a scale of 1 to 5 where; 1 – Strongly disagree, 2 – Disagree, 3 – Indifferent, 4 – Agree, 5 – Strongly agree. Rate the following practices on financial forecasting.

<b>Revenue/Capital Forecast</b>	1	2	3	4	5
The firm uses historical data and market analysis to forecast revenues.					
Capital forecasting is a regular part of financial management.					
Revenue projections are compared against industry benchmarks.					
The firm updates revenue forecasts based on current market trends.					
Revenue forecasting helps in planning business expansion.					
<b>Expenditure Forecast</b>	1	2	3	4	5
Operational and fixed expenditures are forecasted annually.					
Expenditure forecasts consider inflation and input price changes.					
Departmental budgets are based on expenditure forecasts.					
The firm uses software tools to enhance expenditure forecasting accuracy.					
Expenditure forecasts are reviewed in periodic management meetings.					
<b>Sales Forecasting</b>	1	2	3	4	5
Sales forecasts are based on market demand and trends.					

Sales forecasting uses data from both internal and external sources.					
Forecast accuracy is tracked and used for improving future forecasts.					
Sales forecasts drive production and inventory decisions.					
Sales teams are involved in preparing forecasts.					

## SECTION D: FINANCING DECISIONS

On a scale of 1 to 5 where; 1 – Strongly disagree, 2 – Disagree, 3 – Indifferent, 4 – Agree, 5 – Strongly agree. Rate the following practices on financial decisions.

<b>Leverage Decisions</b>	1	2	3	4	5
The firm maintains an optimal mix of debt and equity financing.					
Leverage levels are reviewed to ensure financial stability.					
The firm considers cost of capital in leverage decisions.					
Debt levels are aligned with cash flow capabilities.					
The firm uses financial ratios to evaluate leverage.					
<b>Sources of Finance</b>	1	2	3	4	5
The firm evaluates both internal and external financing sources.					
Bank loans, equity, and retained earnings are common sources used.					
Sources of finance are selected based on cost and risk.					
The firm has access to diverse funding options.					
Financing decisions align with the long-term strategic goals.					
<b>Financial Practices</b>	1	2	3	4	5
FI1. The firm follows documented financial policies and procedures.					
Financial decisions are guided by financial performance metrics.					
Compliance with regulatory financial practices is ensured.					
The firm performs regular financial audits.					
Financial practices emphasize accountability and transparency.					
<b>Investment Appraisal</b>	1	2	3	4	5
Investment proposals are subjected to ROI and break-even analysis.					

Discounted cash flow methods are used in investment appraisals.					
Investment projects are evaluated based on payback periods.					
Non-financial factors are also considered in appraisals.					
Appraisals are conducted by qualified financial professionals.					

## SECTION E: CASH FLOW PROJECTION

On a scale of 1 to 5 where; 1 – Strongly disagree, 2 – Disagree, 3 – Indifferent, 4 – Agree, 5 – Strongly agree. Rate the following practices on Cash flow projections.

<b>Operating Cash Flow</b>	1	2	3	4	5
Operating cash flows are projected monthly.					
Cash from core operations is tracked separately.					
Variations in operating cash flows are analyzed and explained.					
The firm adjusts operations based on projected cash flows.					
Operating cash projections help manage day-to-day liquidity.					
<b>Financing Cash Flow</b>	1	2	3	4	5
Cash inflows and outflows from loans and dividends are projected.					
Financing activities are planned based on cash flow projections.					
The firm uses financing cash flow projections to manage debt.					
Cash flow statements include detailed financing sections.					
Financing cash flows are monitored against debt schedules.					
<b>Investment Cash Flow</b>	1	2	3	4	5
Projections include expected inflows and outflows from investments.					
Capital investments are timed based on projected cash availability.					
Investment cash flows are part of long-term financial planning.					
Asset purchases and sales are included in investment cash flow.					
Cash flow analysis supports asset management decisions.					
<b>Long-Term Cash Flow</b>	1	2	3	4	5

Long-term cash flow forecasts are part of strategic planning.					
Forecasts extend beyond one fiscal year.					
The firm uses long-term cash flows to assess financial sustainability.					
Risk analysis is done on long-term projections.					
Long-term cash flows support investment and financing decisions.					

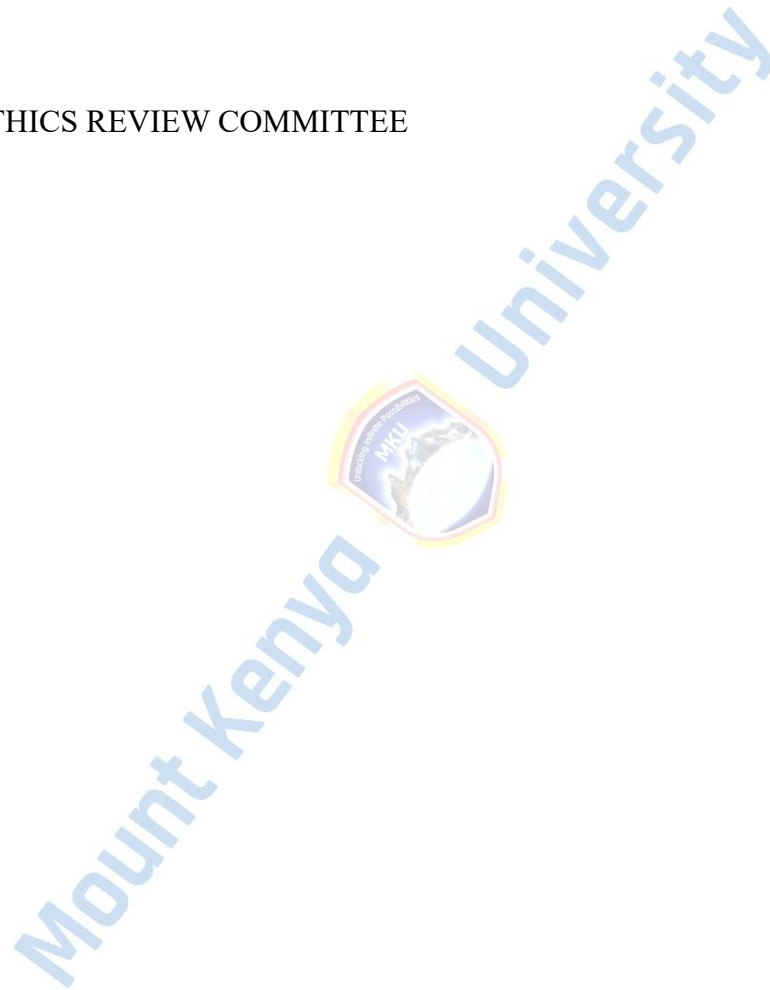
#### DATA COLLECTION SHEET

Name of Manufacturing firm	ROA PER YEAR				
	2019	2020	2021	2022	2023
1. Standard Rolling Mills Ltd	0.060	0.047	0.063	0.080	0.045
2. Africa PVC Industries Ltd	0.045	0.082	0.065	0.041	0.061
3. African Marine General and Engineering Co. Ltd	0.041	0.041	0.055	0.012	0.016
4. Bakhresa Millers	0.039	0.030	0.056	0.032	0.022
5. Brollo Kenya Ltd	0.079	0.045	0.051	0.022	0.039
6. Buzeki Group of Companies	0.052	0.027	0.058	0.038	0.044
7. Chandaria Industries	0.038	0.087	0.050	0.029	0.066
8. Container Technology Ltd	0.026	0.054	0.011	0.023	0.054
9. Cook 'N Lite Ltd	0.065	0.053	0.048	0.044	0.020
10. Coast cables Ltd	0.036	0.041	0.071	0.057	0.015
11. Diamond Industries Ltd	0.056	0.042	0.036	0.062	0.071
12. Dutch Water Ltd	0.069	0.033	0.044	0.057	0.070
13. East Africa Glassware	0.040	0.046	0.028	0.026	0.066
14. Eastern Chemicals Industries Ltd	0.077	0.049	0.070	0.057	0.037

15. Flora Printers Ltd	0.057	0.081	0.049	0.081	- 0.002
16. Global (IVECO) Motors Centre Ltd	0.066	0.052	0.044	0.052	0.010
17. Gold Crown Beverages (K) Ltd.	0.046	0.057	0.080	0.040	0.034
18. Grain Bulk Handlers Greif Kenya Ltd.	0.040	0.068	0.057	0.039	0.060
19. Ideal ceramics	0.052	0.069	0.036	0.043	0.042
20. Intertek Testing Services (EA) (PTY) Ltd.	0.021	0.056	0.055	0.050	0.045
21. Italian Gelati and Food Produce Ltd.	0.022	0.042	0.043	0.034	0.047
22. Kamyn Industries Ltd.	0.058	0.088	0.053	0.055	0.049
23. Kenya General Industries Ltd.	0.012	0.049	0.051	0.099	0.046
24. Kenya Shirts Manufacturers Company Ltd.	0.056	0.049	0.027	0.073	0.065
25. Kenya Suitcase Manufacturers Ltd.	0.066	0.032	0.078	0.022	0.062
26. Kitui Flour Mills Ltd.	0.094	0.030	0.039	0.052	0.040
27. Krish Commodities Ltd.	0.019	0.051	0.029	0.059	0.032
28. Kwality Packaging House Ltd.	0.081	0.034	0.044	0.066	0.025
29. LAB International Kenya Ltd.	0.055	0.076	0.018	0.054	0.055
30. Manji Food industries	0.066	0.025	0.024	0.060	0.056
31. Mkakate steel fabricators	0.055	0.057	0.036	0.055	0.056
32. Milly Fruit Processors Ltd.	0.036	0.087	0.059	0.026	0.063
33. Milly Glass Works Ltd	0.031	0.066	0.073	0.034	0.069
34. Mombasa Cement Ltd	0.058	0.066	0.088	0.045	0.035
35. Mombasa Maize Millers Ltd	0.032	0.034	0.048	0.057	0.056
36. Mombasa Polythene Bags ltd	0.067	0.050	0.079	0.045	0.104
37. Mwananchi Bakers Ltd	0.063	0.033	0.029	0.060	0.046

38. Mzuri Sweets Ltd	0.064	0.059	0.049	0.033	0.020
39. Nitro Chemicals	0.041	0.067	0.054	0.025	0.053
40. Packaging manufacturers	0.058	0.032	0.053	0.051	0.027
41. Pearly LLP	0.057	0.061	0.072	0.071	0.022
42. PollyPropelin ltd	0.031	0.060	0.060	0.060	0.127
43. Pride Industries Ltd (Devson Industries)	0.061	0.073	0.069	0.063	0.044
44. Pwani Oil Products Ltd	0.065	0.035	0.045	0.040	0.052
45. Raffia Bags (K) Ltd	0.096	0.013	0.064	0.018	0.041
46. Saj ceramics	0.072	0.051	0.028	0.036	0.064
47. Shreeji Chemicals Ltd	0.035	0.054	0.051	0.037	0.093
48. Sollatel Electronics (Kenya) Ltd	0.063	0.009	0.054	0.037	0.067
49. Southern Engineering Co. Ltd	0.034	0.048	0.060	0.067	0.026
50. Summit Fibres Ltd	0.043	0.041	0.037	0.085	0.058
51. Synergy Lubricants (K) Ltd	0.025	0.068	0.092	0.071	0.020
52. Sweet R Us Ltd	0.040	0.075	0.036	0.059	0.065
53. TSS. Grain Millers Ltd	0.031	0.049	- 0.015	0.030	0.045
54. Tarmal Wire Products Ltd	0.025	0.083	0.021	0.041	0.053
55. Top Steel Kenya Ltd.	0.079	0.021	0.073	0.050	0.030
56. Twiga chemicals	0.059	0.054	0.038	0.051	0.042
57. Uneeco Paper Products Ltd.	0.052	0.063	0.082	0.025	0.093

APPENDIX VI: ETHICS REVIEW COMMITTEE



**DIRECTORATE OF GRADUATE STUDIES**

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MBA/2023/53532

06<sup>th</sup> May, 2025

*National Commission for Science Technology & Innovation (NACOSTI)  
Off Waiyaki, Upper Kabete  
P.O Box 30623- 00100  
NAIROBI, KENYA*

Dear Sir/Madam,

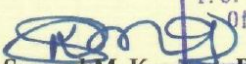
**RE: ADHAN HUSSEIN GUDO - REGISTRATION NO. MBA/2023/53532**

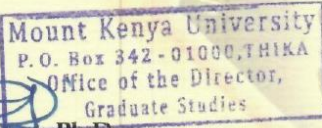
The purpose of this letter is to introduce the above named student who is pursuing **Master of Business Administration** in the department of **Accounting and Finance** in the school of **Business and Economics**.

The title of the research is **"Effect of Financial Planning on Performance of Manufacturing Firms in Mombasa County, Kenya."** It has been cleared by the University's Ethics Review Committee (Certificate attached) and now has to proceed to the field to collect data between **May, 2025 and July, 2025**.

Any assistance accorded to the student will be highly appreciated.

Thank you.

  
**Dr. Samuel M. Karenga, Ph.D**  
**Director, Graduate Studies**



Mount Kenya University  
P. O. Box 342 - 01000, THIKA  
Office of the Director,  
Graduate Studies

Enc.

**Title of Study**

Dear Participant,

I invite you to participate in a research study entitled (**Effect of financial planning on performance of manufacturing firms in Mombasa County, Kenya**): I am currently enrolled in the (Masters in Business Administration) at Mount Kenya University and I am in the process of writing my Master's project. The purpose of the research is to determine: Effect of financial planning on performance of manufacturing firms in Mombasa County, Kenya

The enclosed questionnaire has been designed to collect information on the topic your participation in this research project is completely voluntary. You may decline altogether, or leave blank any questions you don't wish to answer. There are no known risks to participation beyond those encountered in everyday life. Your responses will remain confidential and anonymous. Data from this research was kept under lock and key and reported only as a collective combined total. No one other than the researchers will know your individual answers to this questionnaire. There are no direct benefits to you for participating in this research. However, you may find it interesting to talk about the issues addressed in the research and it may be beneficial to the field and to future clients or individuals who have experienced similar concerns

If you agree to participate in this project, please answer the questions on the questionnaire as best you can. It should take approximately 45 minutes to complete. Please return the questionnaire as soon as possible to enable me complete the project report.

If you have any questions about this project, feel free to contact:

*INVESTIGATOR*; Adhan Hussein Gudo. +254719672571 If you have questions about your rights as a research participant, please be in touch with the Chairman, Mount Kenya University, Ethical Review Committee, P.O Box 342-01000, Mombasa.

Thank you for your assistance in this important endeavor

**CONSENT**

I have read and I understand the provided information and have had the opportunity to ask questions. I understand that my participation is voluntary and that I am free to withdraw at any time, without giving a reason and without cost. I understand that I was given a copy of this consent form. I voluntarily agree to take part in this study.

Participant's signature \_\_\_\_\_ Date \_\_\_\_\_



Investigator's signature \_\_\_\_\_ Date \_\_\_\_\_

APPENDIX VII: INTRODUCTION LETTER

# Mount Kenya University



REF: MKU/ISERC/5035  
TO: ADHAN HUSSEIN GUDO

Date: 05 May 2025

REG: MBA/2023/53532

Dear Sir/Madam,

**RE: EFFECT OF FINANCIAL PLANNING ON PERFORMANCE OF MANUFACTURING FIRMS IN MOMBASA COUNTY, KENYA**

This is to inform you that **Mount Kenya University** has reviewed and approved your above research proposal. Your application approval number is **3757**. The approval period is **05/05/2025 - 04/05/2026**.

This approval is subject to compliance with the following requirements:

- i. Only approved documents including informed consents, study instruments, MTA will be used
- ii. All changes including amendments, deviations and violations are submitted for review and approval by **Mount Kenya University**
- iii. Death and life-threatening problems and serious adverse events or unexpected adverse events whether related or unrelated to the study must be reported to **Mount Kenya University** within 72 hours of notification
- iv. Any changes, anticipated or otherwise that may increase the risks or affect the safety or welfare of study participants and others or affect the integrity of the research must be reported to **Mount Kenya University** within 72 hours
- v. Clearance for export of biological specimens must be obtained from relevant institutions
- vi. Submission of a request for renewal of approval at least 60 days prior to expiry of the approval period. Attach a comprehensive progress report to support the renewal
- vii. Submission of an executive summary report within 90 days upon completion of the study to **Mount Kenya University**

Prior to commencing your study, you will be expected to obtain a research license from National Commission for Science, Technology and Innovation (NACOSTI) <https://research-portal.nacosti.go.ke> and also obtain other clearances needed.

Yours sincerely,

**Dr. Alfred Owino, PhD**  
Chairman, Mount Kenya University ISERC





REPUBLIC OF KENYA

Ref No: 555210

RESEARCH LICENSE



This is to Certify that Mr., ADHAN HUSSEIN GUDO of Moiatt Kenya University, has been licensed to conduct research as per the provision of the Science, Technology and Innovation Act, 2015 (Rev.2014) in Mombasa on the topic: EFFECT OF FINANCIAL PLANNING ON PERFORMANCE OF MANUFACTURING FIRMS IN MOMBASA COUNTY, KENYA for the period ending : 28/May/2026.

License No: NACOSTIP/25/4173872

555210

Applicant Identification Number



NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY & INNOVATION

Date of Issue: 28/May/2025

Deputy Director NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY & INNOVATION

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See overleaf for conditions

Mount Kenya

APPENDIX V: ERC LETTER



Dear Sir/Madam,

**RE: EFFECT OF FINANCIAL PLANNING ON PERFORMANCE OF MANUFACTURING FIRMS  
IN MOMBASA COUNTY, KENYA**

This is to inform you that **Mount Kenya University** has reviewed and approved your above research proposal. Your application approval number is **3757**. The approval period is **05/05/2025 - 04/05/2026**.

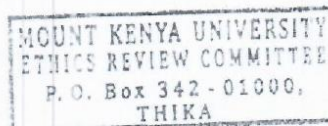
This approval is subject to compliance with the following requirements:

- i. Only approved documents including informed consents, study instruments, MTA will be used
- ii. All changes including amendments, deviations and violations are submitted for review and approval by **Mount Kenya University**
- iii. Death and life-threatening problems and serious adverse events or unexpected adverse events whether related or unrelated to the study must be reported to **Mount Kenya University** within 72 hours of notification
- iv. Any changes, anticipated or otherwise that may increase the risks or affect the safety or welfare of study participants and others or affect the integrity of the research must be reported to **Mount Kenya University** within 72 hours
- v. Clearance for export of biological specimens must be obtained from relevant institutions
- vi. Submission of a request for renewal of approval at least 60 days prior to expiry of the approval period. Attach a comprehensive progress report to support the renewal
- vii. Submission of an executive summary report within 90 days upon completion of the study to **Mount Kenya University**

Prior to commencing your study, you will be expected to obtain a research license from National Commission for Science, Technology and Innovation (NACOSTI) <https://research-portal.nacosti.go.ke> and also obtain other clearances needed.

Yours sincerely,

**Dr. Alfred Owino, PhD**  
Chairman, Mount Kenya University ISERC



MKU/PG/F011

Mount Kenya  University

SCHOOL OF POSTGRADUATE STUDIES

*MKU-PG-F011: RESEARCH PROPOSAL CERTIFICATE OF CORRECTIONS  
(NB: This Research Proposal Certificate of corrections should be submitted to the  
Dean, School of Postgraduate Studies for clearance before the Student proceeds to  
collect data)*

PART I: CANDIDATE PARTICULARS

Name of candidate **Mr. ADHAN HUSSEIN GUDO**

Registration No: MBA/2023/53532

Department of study: ACCOUNTING AND FINANCE

Cell phone No: 0719672571

School: BUSINESS AND ECONOMICS

Degree Title (MA, MED, PhD)...MBA

Area of specialization: FINANCE

Title of Project: **EFFECT OF FINANCIAL PLANNING ON PERFORMANCE  
OF MANUFACTURING FIRMS IN MOMBASA COUNTY, KENYA.**

Date of Presentation: 16 /01/2025

Signature of candidate:




Date: 26/03/2025

PART II: DECLARATION OF SUPERVISOR(S) OVERSEEING CORRECTION/REVISION

I/We, the undersigned supervisor(s) overseeing corrections of the research proposal as advised by the candidate's evaluation panel do hereby declare that all the corrections have been effected satisfactorily as required.

Any other remarks .....

<u>Names of Supervisors</u>	<u>Signature</u>	<u>Date</u>
1. Dr Zipporah Mwachira		18/04/2025
2. ....	.....	.....
3. ....	.....	.....

PART III: CONFIRMATION BY THE CAMPUS SCHOOL POSTGRADUATE COORDINATOR

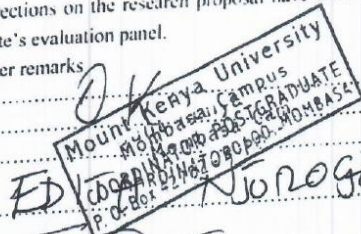
I hereby do confirm that the supervisor(s) appointed to oversee the candidate effect the corrections on the research proposal have done so as per the instructions of the candidate's evaluation panel.

Any other remarks .....

..... Name of Coordinator:

Signature  Date 18/04/25

Stamp .....



PART IV: CONFIRMATION BY THE DEAN OF THE RELEVANT SCHOOL

I hereby do confirm that the supervisor(s) appointed to oversee the candidate effect the corrections on the research proposal have done so as per the instructions of the candidate's evaluation panel.

Any other remarks

Ok.

Name of Dean

Dr. Felice Akuma

Signature

*[Handwritten Signature]*

School Stamp

MOUNT KENYA UNIVERSITY  
MOMBASA CAMPUS  
COORDINATOR POSTGRADUATE STUDIES  
P.O. Box 42702-80100, MOMBASA

PART V: CLEARANCE BY THE UNIVERSITY ETHICAL REVIEW COMMITTEE

The candidate will be issued with a Certificate of Ethical Clearance by the Directorate of Research and Development.

PART VI: COMMENTS BY THE DEAN SCHOOL OF POSTGRADUATE STUDIES

The candidate is granted/not granted permission to proceed to the field to collect data (delete where applicable)

NB: One (1) copy of the corrected/revised research proposal should accompany this certificate of corrections

Name of Dean

Dr. Samuel Karenga

(School of Postgraduate Studies)

Signature




*[Handwritten Signature]*  
Mount Kenya University  
P.O. Box 342 - 01000 NAIROBI  
Office of the Director,  
Graduate Studies

Date: 06/05/2025.

School Stamp

# ADHAN HUSSEIN GUDO

## EFFECT OF FINANCIAL PLANNING ON PERFORMANCE OF MANUFACTURING FIRMS IN MOMBASA COUNTY, KENYA

 Thesis and Projects  
 Postgraduate  
 Mount Kenya University

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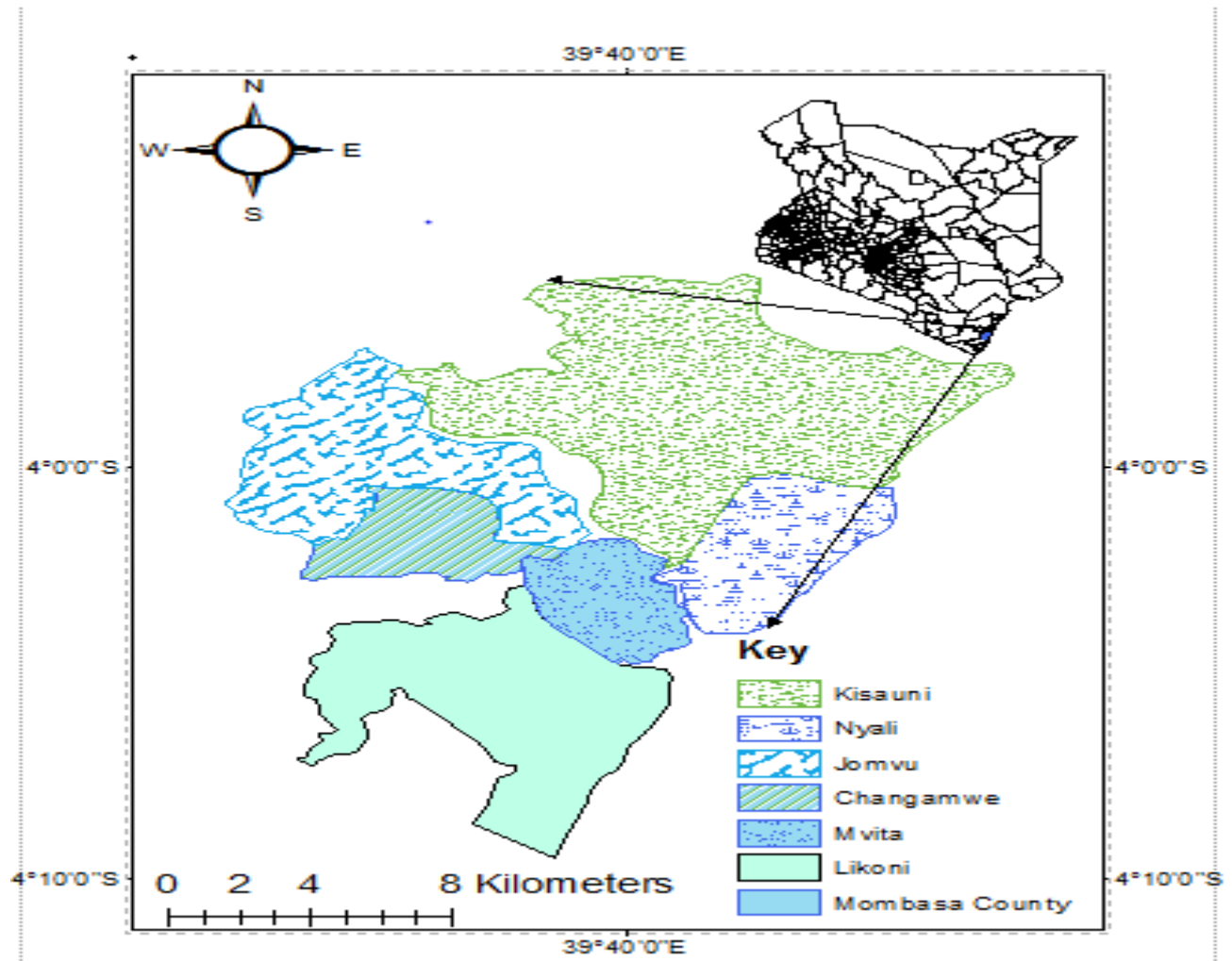
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# MAP OF MOMBASA COUNTY



Mount

## APPENDIX IX: MANUFACTURING FIRMS IN MOMBASA COUNTY

1. Africa Cotton Industries
2. Africa PVC Industries Ltd
3. African Marine General and Engineering Co. Ltd
4. Bakhresa Millers
5. Brollo Kenya Ltd
6. Buzeki Group of Companies
7. Chandaria Industries
8. Container Technology Ltd
9. Cook 'N Lite Ltd
10. Coast cables Ltd
11. Diamond Industries Ltd
12. Dutch Water Ltd
13. East Africa Glassware
14. Eastern Chemicals Industries Ltd
15. Flora Printers Ltd
16. Global (IVECO) Motors Centre Ltd .
17. Gold Crown Beverages (K) Ltd.
18. Grain Bulk Handlers Greif Kenya Ltd.
19. Ideal ceramics
20. Intertek Testing Services (EA) (PTY) Ltd.
21. Italian Gelati and Food Produce Ltd.
22. Kamyn Industries Ltd.
23. Kenya General Industries Ltd.
24. Kenya Shirts Manufacturers Company Ltd.
25. Kenya Suitcase Manufacturers Ltd.
26. Kitui Flour Mills Ltd.
27. Krish Commodities Ltd.
28. Kwaliti Packaging House Ltd.
29. LAB International Kenya Ltd.
30. Manji Food industries
31. Mkakate steel fabricators
32. Milly Fruit Processors Ltd.
33. Milly Glass Works Ltd .
34. Mombasa Cement Ltd
35. Mombasa Maize Millers Ltd
36. Mombasa Polythene Bags ltd
37. Mwananchi Bakers Ltd
38. Mzuri Sweets Ltd
39. Nitro Chemicals
40. Packaging manufacturers
41. Pearly LLP
42. PollyPropelin ltd
43. Pride Industries Ltd (Devson Industries)
44. Pwani Oil Products Ltd
45. Raffia Bags (K) Ltd

46. Saj ceramics
47. Shreeji Chemicals Ltd
48. Sollatel Electronics (Kenya) Ltd
49. Southern Engineering Co. Ltd
50. Summit Fibres Ltd
51. Synergy Lubricants (K) Ltd
52. Sweet R Us Ltd
53. TSS. Grain Millers Ltd
54. Tarmal Wire Products Ltd
55. Top Steel Kenya Ltd.
56. Twiga chemicals
57. Uneeco Paper Products Ltd.
58. Wanainchi Marine Products (K) Ltd.
59. Zaverchand Punja Ltd
60. Standard Rolling Mills Ltd
61. Associated Vehicle Assemblers Ltd.

*Source: Mombasa County Government website*

