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EFFECT OF STRATEGIC FINANCIAL PLANNING AND BUDGETING PRACTICES ON THE PERFORMANCE OF BOMET COUNTY GOVERNMENT, KENYA

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Abstract: One of the objects of devolution is to devolve both power and economic resources closer to the people and for this to be felt by the citizens, effective public financial management practices are required. Despite the improved legislative and institutional framework on public finance management in the last six years, county governments continue to experience myriad challenges that are not in line with the expected global standard practices thus leading to low quality in service delivery. The purpose of this study was to investigate the effect of strategic financial planning and budgeting practices on the performance of Bomet County Government. The study used descriptive research design where purposive sampling technique was used to sample 60 respondents out of the target population of 70 respondents where 51 response was received translating to 85% response rate. The respondents were County Executive Committee Members (CECMs/Ministers), Chief Officers, Directors and finance officers from the ten departments of Bomet county government. Primary data was collected using structured questionnaires which were self-administered to the sampled respondents. Statistical Package for Social Science Version 21 was used to analyze quantitative data. The study found out that Bomet County utilized County Integrated Development Plan as its primary planning document for all the projects and programmes. In addition, despite the existence of the devolved funds, internal inefficiencies in its management have made the county not to achieve the desired results.

Keywords: Strategic financial management, Budgeting, Financial planning, Internal control practices, Performance, Financial management practices.

1. INTRODUCTION

Strategic Finance Management Practices for the Government of Kenya for the period 2013-2018 is anchored on Vision 2030, Constitution of Kenya 2010 and PFM Act 2012 with the following as the key themes : Macro-economic management and resource mobilization, strategic planning and resource allocation, budget execution, accounting and reporting and review, independent audit and oversight, fiscal decentralization and intergovernmental fiscal relations, legal and institutional framework, and IFMIS and other PFM practices. ROK (2016) notes that by June 2015, the PFMR Strategy 2013-2018 had been under implementation for about two and a half years. A midterm review of the strategy was carried out to assess progress in its implementation, identify emerging gaps and challenges in the reforms and to enlist measures to improve the implementation of the strategy in its final phase. The review established that significant progress had been registered in implementing the PFMR strategy with some of the reform interventions completed (13 out of 69) and many more (29) well on target and likely to be completed by the end of the Strategy. However, there were many areas (about 27) where implementation of reforms had been slow and likely to affect the achievement of the Strategy objectives by the end of its implementation (ROK, 2016).

Since the beginning of devolved systems of government in 2013, every annual Auditor General's and Controller of Budget's Report has been indicating that some devolved units spend in total disregard to the PFM Act of 2012, the PPAD Act of 2015 and other fiscal responsibility principles (COB, 2017). A few of them have adopted these practices but the rest have not (Mutua & Wamalwa, 2017; Njahi, 2017).

1.1 Statement of the Problem

Despite the strong legislative and institutional frameworks for Public Financial Management (PFM), Kenyan public finance management arena continues to experience myriad challenges that are not in tandem with the principles of public finance. However, lack of strategic financial planning and budgetary, weak internal controls at the county level have continuously facilitated misuse of the allocated public funds, slowing down service delivery and overall performance of the county governments. Past studies have suggested that in order to optimize performance and effectively delivery of services, county governments should consider having robust public financial management practices. It is therefore imperative to note that this low local revenue collection leads to insufficient funds and hence hindered service delivery in certain important sectorial areas in counties hence need for this study. The study therefore sought to investigate the effect of strategic financial planning and budgeting practices on the performance of Bomet County Government.

2. FINANCIAL PLANNING AND BUDGETING PRACTICES

Financial Planning is a process of framing objectives, policies, procedures, programs and budgets regarding the financial activities. The long term financial plans (strategic) serve as script in the preparation of the short term financial plans (operational). The short term financial plans are visualized in one period – from one to two years. The long term plans go from two to ten years. This helps in reducing the uncertainties or risks which can be a hindrance to growth of the company/institution. This helps in ensuring stability and profitability. In general usage, a financial plan can be a budget or a plan for spending and saving future income for both private and public sector.

Pimpong and Laryea (2016) assessed the impact of budgeting on firms' performance of non-bank financial institutions in Ghana. The study adopted a quantitative research strategy. Primary data was collected by use of questionnaires in order to ascertain the relevance of budgets as a financial management tool among non-bank financial institutions. The study applied the step-wise method to generate the models. Moreover, regression analysis was used to measure the degree and extent of the relationship between budgeting and firm performance. The findings of the study revealed that, budget coordination has a statistically significant moderate positive relationship on firm performance (Pimpong & Laryea, 2016).

Mutune (2014) analyzed the relationship between financial planning and financial performance of cement manufacturing firms in Kenya. A census approach was used to study the relationship in six cement manufacturing firms in Kenya. The findings of the study overwhelmingly support the hypothesis that financial planning practices play a big role in implementing most organizational policies. The failure of a firm to implement financial planning activities and business planning activities seemed to inhibit many of the cement manufacturing firms from making expected profits. Results also revealed that financial planning activities, business planning activities and frequency of financial planning techniques are the key factors that influence how well the company will perform in the industry. Factors like risk management practices, employee turnover, tax planning, contingency plans, monitoring the lead time, preserving excess stocks, monitoring stock levels, avoiding stock out costs, setting profits target periodically and minimizing holding costs came out to significantly influence the financial performance of a firm (Mutune, 2014).

Onduso (2013) looked at effects of budgets on financial performance of manufacturing companies in Nairobi County. The study findings revealed that there is a strong positive effect of budgets on financial performance of manufacturing companies as measured by return on assets (ROA). The study recommended that effective budget implementation should be facilitated through capacity building, robust systems and processes prioritization, and close monitoring for evaluation. Stakeholders should get involved in budget execution to enhancing the overall budget implementation. Further, financial management systems should be supported in order to ensure prudent management of funds and adequate sensitization of both the employees and the public on best financial management practices to enhance the oversight role. In addition, manufacturing companies need to establish a strong link between the planning process and the budget process (Onduso, 2013).

Kimani (2014) examined the budgetary control in Non-Governmental Organizations and its effects on their performance. The research findings established that there is a weak positive effect of budgetary control on performance of Non-Governmental Organizations in Kenya measured by R square at 14.3%. The research recommended that employees need to be sensitized on budgetary controls and the effect on performance of the organization. It also recommended that other factors that influence performance apart from budgetary controls should be investigated by organizations. It also suggests that further research should be done on the same area but a larger sample should be used (Kimani, 2014).

3. RESEARCH DESIGN

Kothari (2004) defines research design as a master plan that specifies methods and procedures for collecting and analyzing the needed information. According to Creswell and Creswell (2017) research design is a plan and structure of investigation so conceived as to obtain answers to research questions. The study used a mixed research design, that is, correlation and descriptive design. Zikmund et al. (2013) observed that this method is best suited for gathering descriptive information when the researcher wants to describe the state of affairs as they exist.

The sample was drawn from the lists of County Executive Committee Members (Ministers), Chief Officers, Directors and finance officers of the respective county government departments/ministries. Sampling is a procedure of using a small number of items or part of the whole population to make conclusions regarding the population. It enables the researcher to estimate some unknown characteristics of the population and make generalization.

The data collection instrument that was used in this study was a self-administered structured questionnaire. According to Kinyanjui (2014), self-administered structured questionnaire is used to collect both quantitative and qualitative strands. As indicated by Kombo and Tromp (2006), the use of this instrument assumed that the respondents understood the significance of the research and could understand the items in the instrument. Data for the study was collected by distributing the structured questionnaires to sampled respondents who were given time to respond to the question after which the questionnaires are collected.

Before the data analysis was performed, the raw data that was collected from the field were cleaned, edited and then coded. Corbin et al. (2014) and Zikmund (2013) defined data analysis as the computation of certain measures along with searching for patterns of relationships that exist among data groups (Sije (2017). According to Mbweza (2006) and descriptive analysis involved finding numerical summaries to provide a deeper insight into the characteristics and description of the variables under study.

4. FINDINGS ON STRATEGIC FINANCIAL PLANNING AND BUDGETING PRACTICES

The study sought to investigate the effect of strategic financial planning and budgeting practices on the performance of Bomet County Government. Respondents were asked to indicate the extent of their agreement with the statements about Strategic Financial Planning and Budgeting Practices. These responses were on a Likert scale of 1 - 5 where; where 1 represented 'Strongly Disagree (SD)', 2 represented 'Disagree', 3 represented 'Undecided', 4 represented 'Agree' and 5 represented 'Strongly Agree (SA)' the response were as per table 1.

Table 1: Strategic Financial Planning and budgeting practices

STATEMENT	SD	D	N	A	SA	Mean	Std dev
The county government utilizes county Integrated Development Plan as its primary planning document.	25 (49.0%)	18 (35.3%)	3 (5.9%)	5 (9.8%)		2.098	0.900
The process of preparing the planning documents (CIDP, ADP, CFSP, and Budget) is consultative.	35 (68.6%)	2 (3.9%)	3 (5.9%)	11 (21.6%)		2.078	0.658
The county budget is linked to the ADP and CIDP.	32 (62.7%)	12 (23.5%)	3 95.9%)	2 (3.9%)		2.980	0.905
Departmental allocations are based on priorities in ADP and CIDP.	26 (51.0%)	15 (29.4%)	4 (7.8%)	6 (11.8%)		2.980	.9271
The county budget is implemented as approved by the Assembly.	26 (51.0%)	17 (33.3%)	2 (3.9%)	2 (3.9%)	4 (7.8%)	2.019	1.029

My department is allocated what is budgeted for.	27 (52.9%)	16 (31.4%)	2 (3.9%)	4 (7.8%)	2 (3.9%)	2.000	1.019
There is timely disbursement of resources to my department.	24 (47.1%)	15 (29.4%)	7 (13.7%)	5 (9.8%)		2.360	0.915
The county's plan includes strategies for achieving and maintaining financial balance.		5 (9.8%)	1 (2.0%)	31 (60.8%)	14 (27.5%)	4.058	0.834
The county government conducts monthly and yearly budget variance analysis.	33 (64.7%)	4 (8.8%)	1 (2.0%)	13 (25.5%)		2.078	0.770

Source: Research Data (2019)

Table 1 shows that majority of the respondents who were 84.3% (M=2.09, SD=0.900) of the respondents disagreed that the county government utilizes County Integrated Development Plan as its primary planning document. Majority of the respondents who were 72.5% (M=2.07, SD=0.658) posited that the process of preparing the planning documents i.e. CIDP, ADP, CFSP, Budget etc. is not consultative. The respondents who opined that the County budget is not linked to the ADP and CIDP were 86.2% (M=2.98, SD=0.905).

Majority of the respondents who were 80.4% (M=2.98, SD= 0.927) noted that departmental allocations were not based on priorities in ADP and CIDP while on the other hand 84.3% (M=2.01, SD=0.849) of respondents noted that the county governments budget is not implemented as approved by the County Assembly. In the study, 84.3 % (M=2.00, SD=1.019) of the respondents concluded that their departments are not allocated what they budgeted for while on the other hand 76.5% (M=2.36, SD=0.915) of the respondents observed that there is no timely disbursement of resources to their departments. The research findings reveal that the county's plan includes strategies for achieving and maintaining financial balance since majority of the respondents who were 88.3% (M=4.05, SD=0.834) agreed to it. In addition, 73.5% (M=2.07, SD=0.770) of the respondents disagreed that the county government conducts monthly and yearly budget variance analysis.

Research findings from a study on influence of influence of financial planning practices on the performance of county governments a study of selected counties in Kenya by Mogaka, Atambo and Mogwambo (2016) conducted on 244 respondents in five counties; Kisii, Nyamira, Kericho, Bomet and Migori found out that that financing decisions practices are useful for the county governments. In particular, the trio noted budgeting practices had a positive significant influence on performance of selected county governments in Kenya. In conclusion, they observed that financial executives still struggled with the need to synthesize financial and non-financial data and performance measurements in a single system in which they would also perform planning, budgeting, forecasting, financial consolidation, reporting and analysis in real time (Mogaka et al., 2016).

Similarly, results of the analysis from Arasa and K'Obonyo (2012) reveal the existence of a relationship between strategic planning and firm performance with a Pearson moment product coefficient of 0.616. The findings also indicated existence of a relationship between strategic planning and both financial and non-financial performance indicators. It was observed that firms that exhibit higher levels of strategic planning perform better in both financial and non-financial indicators compared to those exhibiting low levels of strategic planning (Arasa & K'Obonyo, 2012).

Examining the strategic planning constituent variables and their link to performance, it was evident that no doubt there are correlations between these constituent variables and performance. This finding conforms to the theoretical arguments by David (1997), Greenley (1986), Hendersionon (1979), and Hofer and Schendel (1980), that organisations both in public and private sectors record improved performance once they effectively embrace strategic planning. Therefore, findings from previous studies either in public or private sectors showed a relationship between strategic planning and firm performance existed regardless of context (geographical or business sector).

5. CONCLUSION AND RECOMMENDATION

Financial planning offers important tools that help county government determine their current conditions and plan for its future. Financial Planning and Budgeting Practices involve evaluating the current financial condition of government, analyzing the future growth prospects and options, appraising the development options to achieve the stated growth objectives, estimating funds requirement and considering alternative financing options and measuring actual performance with the planned performance. The Financial Planning and Budgeting Practices include budget and budgetary practices,

financial forecasting practices and financing decisions practices. Therefore, budgeting allows a county government's treasury to plan, make proper choices, and decide on the mission and direction of a county government. However, the study found out that Bomet County utilize County Integrated Development Plan as its primary planning document for all the projects and programmes, timely disbursement and resource allocation have always remained the principal means of implementing them.

The study found out that reforming Financial Planning is critical to the success of any county governments. It was also established that policy makers would obtain knowledge of the financial sector dynamics and the responses that are appropriate. The study established that, financing decision practices are useful for the county governments and therefore would obtain guidance from this study in designing appropriate policies that would regulate the sector. In the end, the study revealed that, a few county governments officials still struggled with the need to synthesize financial and non-financial data and performance measurements in a single system in which they would also perform planning, budgeting, forecasting, financial consolidation, reporting and analysis in real time.

The study recommends that the county governments should consider adopting sound budgeting practices as envisaged in relevant legislative framework and particularly PFM Act. This will allow the management to create a comprehensive understanding that can be leveraged to influence stakeholders and create better decisions on performance of county governments.

The study recommends that the relevant county government officials should be constantly updated and well-grounded on international financial reporting standards (IFRS) and principles in order to enhance their knowledge and skills in application of accounting practices and to keep them updated on the contemporary issues.

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