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   REVIEW OF LITERATURE

   NEED/IMPORTANCE OF THE STUDY

   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

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   ACKNOWLEDGMENTS

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EFFECTS OF FINANCIAL PLANNING ON BUSINESS PERFORMANCE: A CASE STUDY OF SMALL BUSINESSES IN MALINDI, KENYA

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ABSTRACT
The importance of recording business transactions and keeping of business documents has become an important component in evaluation of business performance. Small businesses must do financial planning in order for their business operations to achieve the desired goals. Evaluation of business operations before implementation is a crucial process that has to be done with a lot of care. The study sought to determine the effects of financial planning on business performance among small businesses in Kenya. The target population included all small businesses traders in Malindi, Kenya. Cluster sampling technique was employed to ensure fair distribution of the different kinds of enterprises from different trading zones in the area. Primary and secondary data were collected and processed and analyzed using descriptive and inferential statistics. The study made the following findings: sole proprietors preferred engaging in business ventures that served immediate consumers, required less capital to initiate and have high immediate returns; sales turnover is important in determining the performance of a business and thus require efficient financial planning; small businesses that had financial plans are more likely to experience growth and profitability. The study recommended the need for policy makers and all the small businesses to embrace the concept of financial planning for effective business management, maximum rate of returns and overall business monitoring; there is also a need for owners/managers of small businesses to evaluate and consider other factors such as financial literacy, access to finances etc., in formulating their financial plans so as to improve performance (profits).

KEYWORDS
Financial Planning, Small and Medium Enterprises, Business Performance.

1. INTRODUCTION
A small business is a business which is privately owned and operated, with a small number of employees and relatively low volume of sales. Small businesses are common in many countries, depending on the economic system in operation (Saleem, 2012). Typical examples include: convenience stores, bakery shops, hairdressers, tradesmen, lawyers, accountants, restaurants, photographers, etc. The small and medium enterprises are being considered as engines of economic growth world-wide. The developed as well as developing countries are taking extreme benefits from SMEs and that are capable to accelerate the economy of any country. It plays considerable responsibility in providing further employment and conversion of economy. It is also implicit that sectors conquered by SMEs are better able to develop dynamic economies of scale. The roles of SMEs in the creation of productive employment are concerned with its position in the center of the range of sizes and resource intensities in a rising economy. Developing economies have started to focus on the crucial role that SMEs can play in their development (Jasra et al., 2011, Selamat et al., 2011). According to Oseghale & Nwachukwu (2010), small enterprises play a vital role in economic development as they can provide the economy with efficiency, innovation, competition and employment.

Small businesses comprise the largest proportion of businesses in Kenya and in most economies, and frequently offer the greatest potential for job creation. Kenya, like many developing countries, suffers from the problem of high population growth, unemployment, low investments and levels of industrialization that lead to low levels of economic growth (Government of Kenya, 2011). As Kenya hopes to industrialize by the year 2030 – Vision 2030, it might not achieve this objective due to slow growth and massive failures of small businesses (Neshamba, 2001). The reason for slow growth and massive failures may not be attributed to lack of capital or environment because the government has tried to alleviate this (World Bank, 1999). This leaves other factors as principal explanation for the slow growth, poor performance and massive failures of small businesses.

Like any other developing country, Kenya is beset by acute shortage of employment opportunities, especially among the youth who have attained higher educational qualifications. Apart from the very lucky ones who land jobs upon graduation, thousands of university graduates, let alone the high school graduates, have no jobs in Kenya. This is why the government has continually laid emphasis on the development of small businesses with a view to make the owners self-employed and self-sustaining. Small businesses generate employment; improve the distribution and income per capita, provide a source of livelihood for a large number of Kenyan population and contribution to a healthy competitive environment within the economy hence a remarkable economic development in Kenya (Wanyungu, 2000).

It is evident that pressure on land due to increased population, increase in labour force and lack of employment opportunities in the industrial sector has forced people into commercial activities. This has brought about formal and informal sector activities. Formal sector include business enterprises licensed and comprise catering, retail, motor vehicle repairs, bakeries, photo studios, and hardware shops, among others. Informal sector is widespread and contributes considerably to the growth of the district as a whole. Activities include selling used clothes, barbers, cycle repairs, retail kiosks, et cetera (Government of Kenya, 2001). Starting of small business enterprises is a source of alternative jobs incase of lay-offs; employers' frustrations and inability to find a steady job in the formal sector. Small business enterprises contribute products, services and jobs to a country's economy. Stanley further contends that since small business enterprises must compete for customers, prices are kept down via competitive forces. All these aspects are vital ingredient in a country's economic growth (Armen 1992, & Stanley 1985).

Small business enterprises generally suffer from a range of problems in their establishment and development. Early researchers argue that among these problems, finance is perhaps most central. The argument is given credence by results of a World Bank study which found out that about 90 per cent of small business enterprises surveyed stated that credit was a major constraint to new investment. Other causes of small business failure include incompetence, lack of proper planning, competition, fraud and lack of adequate credit, among others (Parker et al, 1995, Green et al, 2002).

The role of finance has been viewed as a critical element for the development of small businesses. Previous studies have highlighted the limited access to financial resources available to smaller enterprises compared to larger organizations, and the consequences for their growth and development (Parker et al, 1995). Poor management and accounting practices have hampered the ability of smaller enterprises to raise finance and subsequently manage these financial resources through improper management practices. Information asymmetries associated with lending to small scale borrowers have restricted the flow of finance to smaller enterprises. In spite of these claims, however, some studies show a large number of small businesses fail because of non-financial reasons (Liedholm et al, 1994). It is with such proposition in mind that a study focusing on effects of financial planning practices on business performance becomes compelling.

1.1 RESEARCH PROBLEM
Small businesses in themselves have problems that if financial planning, as a management tool, is not considered in the right manner then business performance will suffer. Small business operations in Kenya have been given low priority, not only by policy makers, but also by researchers. Despite recent attempts to rectify this situation, the knowledge of small business operations is still under-developed. Studies of failure and success in small businesses repeatedly show that

sound financial management, in which financial planning is a component, is crucial for the survival and well being of smaller enterprises. Wangai (1982) points out that the existence of poor financial management in the Kenyan small scale businesses is something that cannot be disputed. However, no empirical evidence has been advanced to prove this. McMahon and Holmes (1991), suggests that the state of knowledge about financial management and the exercise of financial planning and control remain inadequate in small businesses. For their survival and well being, small businesses must do financial planning. However, there are no empirical studies on whether or not these small businesses practice financial planning in their business operations. Therefore, this study was initiated to determine the effects of financial planning and provide an insight into whether small businesses are actually using financial planning, and also if it had any effect on these small firm's performance.

1.2 OBJECTIVES OF THE STUDY

The general objective sought to determine the effects of financial planning as a management tool among small businesses in Malindi, Kenya.
In order to achieve the purpose of this study, the specific objectives were:

(i) To characterize types of small businesses and identify specific operations performed in relation to financial planning that affect business performance
(ii) To compare small businesses that prepare financial plan (budgets) with those businesses that do not in terms of profits and rates of turnover (sales), and their effect on business performance
(iii) To identify factors such as entrepreneurial educational level, number of employees, household expenditure and age of the business that influence financial planning of small businesses and affect business performance
(iv) To measure the effect of the factors (identified in objective (iii) above) on the performance of the small businesses.

1.3 HYPOTHESES OF THE STUDY

To achieve the above specific objectives of this study, the following three null hypotheses were tested for their validity:

(i) There is no difference in business performance between small businesses that prepare financial plan and those that do not in terms of income and rates of turnover (sales)
(ii) There is no significant difference on business performance between small businesses that prepare financial plans and those that do not in terms of factors such as entrepreneurial educational level, number of employees, age of the business and household expenditure.
(iii) Factors such as entrepreneurial educational level, number of employees, age of the business and household expenditure do not lead to financial planning hence no significant effect on performance of small businesses.

1.4 SIGNIFICANCE OF THE STUDY

It was with concern that the findings of the study established the cause of failure or stagnation of small businesses that is on the rise. The study also highlighted the effects of financial planning practices on business performance. Findings of the study are meant to enlighten those entrepreneurs that show laxity in financial planning and take it as a bother in order for them realize the essence of the whole process and its ultimate effect on their business performance.
Recommendations of this study remind the governments to realize their role and their place in the economic development. Along side the entrepreneur starting and running the enterprise, government interventions is of necessity in terms of facilitating seminars and training session on proper management techniques and the general business performance in the sub sector. This would also facilitate reformulation of policies and guidelines that govern the sub sector to the betterment of stakeholders. Those in academics would find it useful in furthering the study or revising it to suit the various situations at different times. The study may not provide comprehensive solutions to the problems that manifest in small business enterprises concerning financial management but is an eye opener to an array of problems instead.

2. LITERATURE REVIEW

2.1 FACTORS INFLUENCING SMALL BUSINESS PERFORMANCE

Financial planning is a continuous process of directing and allocating financial resources of the business to meet strategic goals and objectives. Undertaking a regular review of the potential future financial position of the business will provide clarity on the ability of the business to meet its strategic direction. Budgets and forecasts are critical tools that can be used to predict the future financial position of any business. The difference between a budget and a forecast is that the budget sets out the financial goals of the business in line with the strategic plan and a forecast tracks the financial outcomes in line with budget predictions, providing a valuable tool to assess the likelihood of the achievement of the budget (CPA Australia Ltd, 2011).
A lot has been done to identify the problems facing the small scale enterprises both in Kenya and the outside world. Recently, a lot of interest has been shown in the improvement and performance of small businesses due to the various advantages accruing from them. Some of the advantages of small businesses over large businesses are as follows (Wandungi, 1994):

(i) To set up a small business less capital is required compared to the amount required to set up a large business.
(ii) Small firms cut out most of the red-tape prevalent in most large formal organizations. Customers and clients have direct access to the ultimate decision maker.
(iii) The employees of a well managed small business derive social satisfaction. They have direct access to the top manager and can develop informal relationship. This contrast sharply with the situation of large organization's in which an individual is an anonymous non-entity.
(iv) Small business people have no problem adapting and interacting with the society around it. The owner is part of the community. There exists mutual appreciation of the needs and contrasts between customers and the firm. The customer develops loyalty which would be of benefit to small business itself.
(v) The fact that small business's output and clientele is usually small provides an opportunity to provide quality of products and services.
(vi) Small firms are usually more flexible than large firms not only in size but output, location, market and product.

Business firms are ordinarily established to make profits. There are multiple of factors which determine a company's profitability and its chance for survival. Such factors may include clear objectives of the firm's macro-economic policies, size of the firm, type of the product, age of the firm, type of ownership, technology and the effectiveness of management decision making, among others. Information from a firms' financial accounting records can be used to show how one or more of the above factors has affected performance (Thomas and Everson, 1987).
Financial resources are of vital importance for a business to run operations profitably. SMEs have comparatively limited resources and greater difficulty in accessing to funding sources, are more dependant on a single product, have less adequate budget control system, and lack economies of scale. Some SMEs operate on traditional lines in marketing. However it is believed that well-planned business activities as manifested in a business plan will yield a better business performance (Jasra et al., 2007).
A sound and strong financial management is essential for small business survival (McMahon and Holmes, 1991). Studies of failures and success in small business show that strong financial management is the key to its success/survival all round. Mundu (1997) states that generally older businesses practice financial planning more than younger ones. The results therefore seen to be leading to a conclusion that the older the business, the more likely it is to practice financial planning which implies that to survive, small businesses have to practice financial planning. According to Ogeto (1994), firms which carry out feasibility study before coming up with a commercial venture end up performing better because this will help them identify opportunities, threats, strengths and weaknesses before setting off. This is where forecasting is done through research to find out whether the intended business is viable economically and financially.
The performance of many enterprises of all sizes suggests that the scarcity of competent managers is a more serious constraint on economic development than the shortage of finance. Most small traders in Kenya are illiterate and thus cannot successfully manage a large enterprise and therefore this hinders their

performance. The fundamental importance of good management cannot be exaggerated. Poor, untrained or inexperienced management can ruin the best business. Conversely, determination, skill, experience and good judgment can make a success of many an unlikely prospect (Ngugi, 1994).

A study done by Mwangi (1975) on the role and performance of shopkeepers in Central province of Kenya found that amongst the traders, specifically shopkeepers, 52% of them did not keep adequate books of accounts of business records, leave alone preparation of any financial plan for the business. Mwangi found out that inefficient utilization of the capital that existed was the bigger problem than the lack of capital. The shopkeepers did not keep adequate business records that would provide useful information for running the business affairs from day to day. The few shopkeepers who kept them only used them to show to financial institutions to secure loans. The study recommended that the traders need to be shown that proper records are an aid to proper running of the business rather than an aid to securing a loan. This conclusion and recommendation is in line with the remarks of Ross et al, (1970) that "business success and good records go hand in hand. Proper record keeping may not cause a business to fail, but many failures results from causes that good records could have prevented".

2.2 FACTORS LEADING TO FAILURE OF SMALL BUSINESSES

Sharma and Manfred (1998), see poor management as main cause of business failure. They view poor management as a process that leads to mistakes in strategic planning and implementation, hence the cause of deterioration in performance indicators such as profitability, liquidity, Market share, and without any corrective action of the mistakes in these areas the business ends up failing. Dun and Brandstreet (1991) hold that poor management and neglect causes business failure and incompetent management is responsible for about 90 per cent of business failure. Poor management as a cause of failure encompass inability to make decision, incompetence and wrong experience in managing people, inadequate sales, poor business planning and control, poor or inappropriate location, inventory problems, being lazy and absence of confidence.

Scarborough and Zimmerer (1996) assert that one of the most important steps in launching new business venture is fashioning a well designed, logical financial plan. Potential lenders and investors demand such a plan before putting their money into a start up company. More importantly, this financial plan can be vital in helping entrepreneurs manage their business more effectively; steering their way around pitfalls that cause failures. Entrepreneurs who ignore the financial aspects of their businesses run the risk of becoming just another failure statistics. "Those that do not establish sound controls at the start are setting themselves up to fail". Earlier researchers, for example, Anderson and Drunkelberge (1993), hold that some of the causes of business failure are inadequate planning, inappropriate accounting records, inadequate management skills and a weak economy. Parker and Torres (1993) on the other hand, point out that small business failure is due to few customers, many competitors, and shortage of working capital, among others.

According to Bunce (2007), planning is about the future and uses forecasts as its basis. Many businesses have introduced forecasts in addition to their budget process. However, the mistake most managers make is assuming that forecasts are about "predicting and controlling" future outcomes. Forecasting is only necessary because organizations cannot react instantly to changing events. That's why fast reaction is more important than (even accurate) prediction. But accuracy is rarely achieved; the only certainty about a forecast is that it will be wrong. The only question is by how much. Bunce concludes that narrowing that variation comes from learning, experience and decent information systems. Acting on a forecast renders it obsolete as it has changed the subsequent events and therefore a new forecast is required taking into account the new changes.

According to Mbuvi (1983), there are a number of salient points explaining the cause of their poor performance in business and their eventual collapse. One big problem with small business owners has been the size of their families, contrary to the traditional society where the number one had in the society, the wealthier he was and the higher the status he had in the society. It will be rewarding to investigate this aspect of size of family and find out if there is any truth in the allegations of some of the failed businessmen. A study by Gichira and Dickson, as quoted by Maalu (1990) on problems facing entrepreneurs in Kenya revealed that major contributing factors to the lack of success in small enterprises is the failure to manage their business effectively. This inefficiency they observed is caused by lack of proper records of their business activities. The study found out that most of the businesses exhibited lack of proper accounting records and financial planning even after they had received training on the same. The study also found out the main record keeping problems to be:

(i) Little or no control over stocks,
(ii) Incomplete or non-existence of records,
(iii) Poor understanding of the significance of cash flows and working capital analysis,
(iv) Failure in the use of accounting statements to plan for the future,
(v) Failure to control cash receipts and disbursements,
(vi) Failure to understand simple accounting language.

These conclusions again were based on the notion that these enterprises should keep their business records in the standard accounting format. Maalu (1990) also found out that most small scale business holders do not keep records, that is, 72 per cent. He however points out that his findings should not be generalized beyond the samples studied. Wangai (1982) studied the relationship existing between the practicing accountant and his small business client. He found that 81 per cent of small businesses he studied prepare financial records only for tax returns. He recommended that the accountants should be prepared to scrutinize their services they offer their small business clients with a view of making them appreciate the importance of records as a means of planning and control.

As economic conditions ease, companies are working to map their path to growth amid specific industry- and company-level circumstances. Factors such as increasing buying power in emerging markets, burgeoning regulation, and more intense investor scrutiny are shaping industry dynamics, creating new opportunities for growth—and introducing new risks to performance. Improving processes and systems for financial planning can help companies make the most of these opportunities, while minimizing their accompanying risks. Although the time it takes to finalize a budget or prepare a forecast naturally varies from industry to industry and company to company, most businesses are spending a great deal of time and effort on consolidating, summarizing, communicating, explaining, and reviewing information for financial planning. One unfortunate consequence of these lengthy planning cycles is that final budgets often fall out of step with quickly evolving business conditions (PWC, 2011)

2.3 FACTORS INFLUENCING RECORD KEEPING

A sound financial plan is the vehicle which clearly states strategic business objective in financial terms. A well-prepared budget forms the foundation for decision-making throughout the fiscal year. However, it is the forecasts which allow the business to adjust future expectations based on recent actual performance, Castellina & Hatch (2011).

In their study on the use of accounting information by the Australian small businesses, Holmes and Nicholls (1987) found that the following variables have a significant influence on the preparation of business or financial plan. These factors are:

(i) The business size,
(ii) The number of years the business has been operating,
(iii) The industrial sector in which the business is engaged in,
(iv) The education level of the owner/manager of the business.

Chuta and Okpechi (1988), from their study in West Africa, concluded that record keeping or rather successful record keeping in the small enterprises is to a great degree be determined by two factors: the level of education of the owner/manager, and the size of the business operations. They also concluded that although empirical evidence from their study showed that record keeping was one of the most important variables in explaining small business success, the record keeping undertaken by them need not be in the traditional accounting format. Some of the records could be kept in the language with which the entrepreneurs are familiar. Consequently, they concluded that over emphasis on traditional accounting methods of record keeping may be unwarranted. They argued that the relevant record keeping format will be determined by the factors (mentioned) above.

Burn and Dewhurst (1994) point out that it is possible to use sophisticated, sometimes highly quantitative techniques in the control of small business without impairing those special characteristics of a small business. They argued that the small business is beneficial, flexible, can adapt to new situations more easily than large corporations, is innovative, it probably makes a large contribution pro-rata than a large business, and with efficient control and management techniques, the benefit it gives can be much greater. This scenario probably led to the birth of small businesses as an important sector in the development of the economy. However, research evidence shows a high failure rate of small businesses. Kuriloff and Hemphill (Jr.) (1988) argue that most new businesses fail because their owners don't have balanced business experience. Three strengths are required to achieve balanced experience. One of them is financial competence which means that one has to know how to plan, source for capital to start your business and keep it running without getting into cash problems.

2.4 CONCLUSIONS FROM THE LITERATURE REVIEW

Financial planning is at the heart of every successful business. A financial plan, which includes a detailed financial statements and projections, forms the core of the overall business plan. Financial planning therefore should be completed at least once a year and revised monthly to incorporate actual results. It has two main purposes: first, it enables to make sound business decisions about what financial resources your business actually needs, and about what financial moves the business needs to make to be successful, and secondly, it helps plan for and obtain the necessary financing to establish the business, continue operations and grow.

Financial management has various components (Brigham, (1982) & Pandey, 2008):

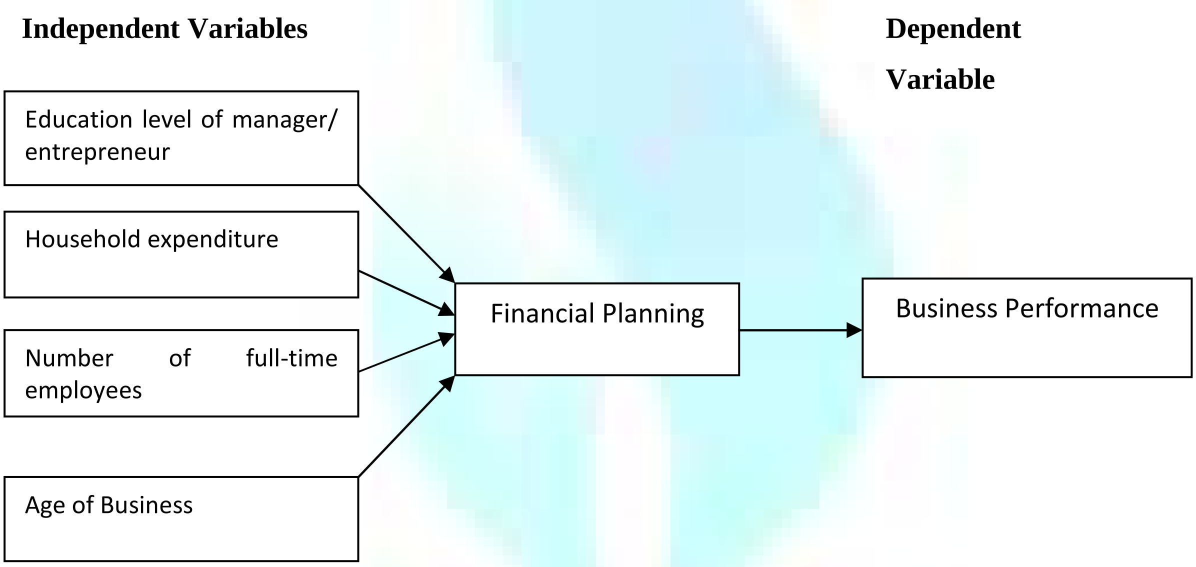
(i) Financial analysis, planning and control. This includes ratio analysis, financial forecasting and financial planning and control.
(ii) Working capital management. Includes current assets management, i.e. management of cash, accounts receivables, inventory, et cetera.
(iii) Investment decision, i.e. capital budgeting techniques.
(iv) Cost of capital and valuation.
(v) Long term financing decision.

Although these aspects have been in use in larger firms, the small firm is faced with the same problems. It is because of this that the small firm has to apply some of them, if not all of them, in order to succeed. Therefore, for businesses to succeed, they need to undertake financial planning that will allow their businesses to quickly evaluate the following:

1. The short term and long term prospects for the business
2. The business's profit potential
3. The business's strengths and weaknesses
4. Future opportunities and challenges
5. The amount and type of financing the business will need to be successful

The available literature suggests that financial planning in small business enterprises is deficient but little attempts have been made to document the existing trend other than just the conclusion without proper basis that small business enterprises do not practice financial planning. The relationship between financial planning (as a component of financial management) and business performance is an area that attempts to investigate and bring out the clear picture.

2.6 CONCEPTUAL FRAMEWORK



3. METHODOLOGY

3.1 DATA TYPE/COLLECTION

Both primary and secondary data was collected. In collecting primary data, a questionnaire was administered by the researcher to the entrepreneurs/managers of the enterprises, which consisted of both semi-structured and open-ended questions that enabled the researcher to capture most of the information required. Secondary data were also used to supplement the primary data. These data included economic/business trends from the National and Malindi Development Plans, documented information on financial planning and business performance, among others. These data were obtained from business journals, business reports, government publications, Professional bodies, Malindi Municipality Office, offices of Micro Finance Institutions (MFIs), and small businesses themselves.

3.2 DATA ANALYSIS AND PRESENTATION

Data collected was processed, coded and analyzed using Statistical Package for Social Sciences (SPSS) to facilitate answering the research objectives and hypotheses. This was done using both descriptive and inferential statistics. Descriptive statistics (percentages, frequencies, and means) presented in tables and charts (pie charts and bar graph) were used to address objective one which sought to characterize the different business types in relation to their operations. Inferential statistics were used in making deductions and generalizations about the whole population. Independent sample t-test and Analysis of Variance (ANOVA) were utilized to address objective two which sought to establish comparisons of business income and rates of turnover between those enterprises that practiced financial planning, and those that did not; and objective three which aimed at identifying factors such as entrepreneurial educational level, number of employees, age of the business and household expenditure that affect financial planning of small businesses in Malindi. Independent sample t-test is used to determine if the means of two unrelated samples significantly differ, while, ANOVA, which is closely related to t-test, is used to determine the differences in means between one or more samples by examining the amount of variance within each of the samples, relative to the amount of variance between the samples.

Multiple regression analysis was used to address objective four which sought to establish factors such as entrepreneurial educational level, number of employees, age of the business and household expenditure that affect performance of small businesses. Regression analysis is used in determining, estimating and predicting the values of one variable (dependent), given the values of another variable (independent), when the two variables are linearly related to each other. Multiple regression analysis describes the extent of linear relationships between dependent variable and a number of independent variables. It establishes the relative importance of the independent variables to the dependent variable. It was used in this objective to establish the contribution of the independent variables (entrepreneurial educational level, number of employees, age of the business and household expenditure) on the dependent variable (business performance in terms of the annual profit). The standardized regression coefficients – beta weights (β) – were used to assess the independent effect of each variable in the regression equation on the dependent variable. This allowed a comparison of the independent variables to determine which one is more

important in relation to the dependent variable. The coefficient (β) measures the amount of change in the dependent variable associated with one unit change in the independent variable while controlling all other variables in the equation. The standardized regression equation translates the variables to a uniform scale that allows regression results to be more comparable in relative strength of the independent variables in their effect on dependent variable.
To examine the combined effect of all the independent variables, the coefficient of determination (R^2) was computed. This measure, R^2, designates the percentage of the variations in the dependent variable explained by all the independent variables in the multiple regression equation. The greater the value of R^2, the stronger the association of the independent variables in predicting the dependent variable. In this study, the significance of the multiple regression analysis was tested at $\alpha = 0.05$ significance level. From the signs of the regression coefficients (β), the nature of association between the independent variables and dependent variable can be inferred.
The regression model below was used to measure the effect of such factors as entrepreneurial educational level, number of full-time employees, age of the business and household expenditure (variables X_1 to X_4) on business performance (Y):
$Y = B_1 X_1 + B_2 X_2 + B_3 X_3 + B_4 X_4$
Where,
Y- Performance in terms of profitability (deviations between budgets and actual results of gross revenues generated by small business enterprises),
And,
X_1- Education level of manager/entrepreneur,
X_2- Household expenditure,
X_3- Number of full time employees,
X_4- Age of business,

TABLE 1: VARIABLES AND THEIR HYPOTHESIZED EFFECTS

	VARIABLE	*DESCRIPTION*	*HYPOTHESIZED EFFECT*
Y-	Profitability	Deviation between budgets and actual results	+
X_1-	Education level of manager/entrepreneur	Years	+
X_2-	Household expenditure	Kenya Shillings.	-
X_3-	Number of full time employees	Number	+
X_4-	Age of business	Years	+

4. FINDINGS AND DISCUSSION

4.1 TYPES OF SMALL BUSINESSES AND THEIR SPECIFIC OPERATIONS

Small businesses are characterized in different types and perform different specific operations. Each type of business and the specific operation it performs will to a great extent influence its financial planning mechanism. 86.7 per cent of the 60 sampled small businesses in the study area were sole proprietorship while 13.3 per cent were partnership. This suggests that majority of the small business entrepreneurs in the area favoured sole proprietorship to other forms of business ownership. This could be attributed to the advantages that accompany sole proprietorship including flexibility, adaptability and personal control of the business. Given these forms of business ownership, the study established the specific nature of business that they performed.

FIG. 1: NATURE OF BUSINESS BY FORM OF OWNERSHIP

Nature of Business	*Sole Proprietorship*		*Partnership*	
	Frequency	Percent	Frequency	Percent
Retail trading	27	51.9	3	37.5
Motor vehicle repairs and services	10	19.2	3	37.5
Hotel and restaurants	7	13.5	1	12.5
Tailoring and clothing	2	3.8	1	12.5
Barber shop/salon	2	3.8	0	0.0
Internet service provider	1	1.9	0	0.0
Security services	1	1.9	0	0.0
Grocery	1	1.9	0	0.0
Travel agency	1	1.9	0	0.0
Total	52	100.0	8	100.0

Majority of the sole proprietorship and partnership entrepreneurs in the study area were involved in retail trading and motor vehicle repairs and services. This may be attributed to the nature of customers that they served and targeted, the amount of capital required in setting up the business and the speed of returns. For example, retail trading involved selling of consumable goods and services to the resident households in the area. Motor vehicle repairs and services targeted the thriving tourism industry in the area which heavily relies on vehicles as a means of transport. The respondents also noted that the market was readily available and these businesses required small amount of capital to start up. Therefore, small businesses in the study area tailored their operations to the kind of market demand and their financial ability to initiate the business. However, minority of the businesses were also involved in hotel and restaurants, tailoring and clothing, barber shop/salon, internet services, security services, and travel agency.
The success of any business also depends on the main purpose for which it was established. All the activities of the business will therefore be influenced by the purpose it serves. The sampled respondents reported their businesses served specific purposes. 75 per cent of the businesses were established with the sole purpose of being commercial and making of profit. The remaining 25 per cent were established for commercial and subsistence purpose. This suggests that the sampled respondents had specific targets in establishing their businesses. The study also indicated that 76.7 percent of the sampled businesses aimed making profits and increasing their sales, while 23.3 per cent making profits and meeting family daily needs. The results suggest that all the businesses were established for specific objectives. The ability to meet the specific objective of the business determines the level of performance of the business.
The form of the ownership, nature and the purpose of business will to a great extent depend on the source of initial capital used in starting the business. The source and amount of capital determines the level of operation and expansion of the business. Some sources of capital have conditions and require repayment within a particular period of time, while others do not. Owners who use capital that require repayment to establish their business are supposed to ensure that their business make sufficient profits from high rates of turnover (sales) that can cushion the cost of operation, the principal amount and interest rate of the loan, and still retain some profit margins. However, those who access capital that do not require repayment are only worried of making sufficient sales that can meet the cost of operation and retain some profits. The study indicated 41.7 per cent of the businesses used their personal savings, 38.3 per cent relied on donations/assistance from family members and friends and 20.0 per cent secured loans from lending institutions to raise their initial capital for starting their businesses. A closer examination revealed that majority of the businesses raised their capital using methods that did not require repayment of the resources (personal savings and donations). This may be attributed to the small size of the business that they operated and the fact that majority had no access to the needed collateral to access credit from financial institutions.

4.2 FINANCIAL PLANNING AND BUSINESS PERFORMANCE

The study was based on the premise that any entrepreneur is engaged in business with an objective of earning profits. The level of profit is reflected in the difference between the amount of sales (rate of turnover) and operational cost of the business. All these depend on the financial planning and management of the individual business. McMahan and Holmes (1991) support this by arguing that a sound and strong financial management is essential for small business survival.

4.2.1 RATE OF TURNOVER (SALES) AND OPERATIONAL COSTS

The study assessed the level of annual sales (rate of turnover), operational costs and profits of the businesses where the rate of turnover was depicted by the amount of sales in the previous year. The mean amount sales in the previous year among the sampled businesses were Kshs 1,972,500.00 with a minimum of Kshs 420,000.00 and a maximum of Kshs 10,800,000.00. This amount of sales for small businesses reflects a high rate of turnover. Given the above amount of sales made by the business in the last one month, the study also revealed that 60 per cent indicated they had experienced growth in their sales while 40 per cent of them had never experienced growth in sales. This implies that majority of the business were expanding while minority had stagnated. It was also observed that the mean amount of operational costs among the sampled business in the study area was Kshs 702,916.67 with a minimum of Kshs 75,000.00 and a maximum of Kshs 8,000,000.00. The mean amount of operational cost for the previous one year seemed to be lower compared to the mean annual sales (rate of turnover). Holding other factors constant, this was an indication that, on the overall, the businesses performed well. However, in order to determine the actual amount of profit that the businesses made, the annual amount of operational cost was subtracted from the amount of annual sales for each sampled business.

Thus, the study indicated the mean amount of profits was Kshs 1,267,583.33 with a minimum of Kshs -2,480,000.00 (losses) and a maximum of Kshs 5,800,000.00. The study observed that only one business registered a loss (-2,480,000.00) after its operational costs surpassed the amount of sales. Excluding the business that registered a loss in the calculation of the average level of profit, the study revealed that there was a mean of Kshs 1,333,135.59 with a minimum of Kshs 320,000.00 and a maximum of Kshs 5,800,000.00. These results indicated that, generally, small businesses were capable of making profits on the investments in the various businesses.

4.2.2 FINANCIAL PLANNING

The study revealed that 61.7 per cent of the businesses recorded all their business transactions while 38.3 percent did not. This suggests that majority of the business were aware of the importance of keeping records of their business transactions. Thomas et al. (1987) and Ogeto (1994) observed that recording of business transactions helps in identifying opportunities, threats, strength and weaknesses of the business. This assists in showing how various factors affect the performance of the business. Scarborough and Zimmerer (1996) add that one of the most important steps in launching new business venture is fashioning a well designed, logical financial plan. A financial plan helps entrepreneurs manage their business more effectively; steering their way around pitfalls that cause failures. Entrepreneurs who ignore the financial aspects of their businesses run the risk of becoming just another failure statistics. These findings contradict a study by Mwangi (1975), which observed that 52 per cent of traders in central province of Kenya did not keep adequate books of accounts of business records, leave alone preparation of any financial plan for the business. The study added that lack of such records denies the businessmen useful information for running the business affairs from day to day. A study by Gichira and Dickson, as cited by Maalu (1990) on problems facing entrepreneurs in Kenya, adds that major contributing factor to the lack of success in small enterprises is the failure to manage their business effectively caused by lack of proper records of their business activities.

The study also observed that the respondents who recorded their business transactions kept sales and purchases, and cash records but in addition, only 75.7 per cent of them had credit and debtors records. This suggests that the respondents were keen on keeping records of their cash flows. This implies that they knew the importance of the above records in their day to day running of the businesses. This could also be one of the reasons as to why majority of the businesses made profits. From the findings, 32.4 per cent of the businesses that kept records were able to establish forecasts for budgeting or planning purposes while 67.6 per cent were not. This therefore denies the businesses an opportunity to make viable future investment decisions. According to Ogeto (1994), forecasting helps in establishing whether a business is viable economically and financially or not.

The study also established that out of the businesses that were able to forecast for budgeting or financial planning, 41.7 per cent made their budgets or financial planning monthly, 16.7 per cent quarterly while another 41.7 per cent did so semi-annually. This indicates that at least 20 per cent of businesses were able to make their budgeting regularly and realize profits in the last one year. This suggests that businesses which made forecasts/budgets were more likely to make profits.

4.3 TESTING HYPOTHESIS ONE

Null hypothesis one stated that "*there is no difference between small businesses that prepare financial plan and those that do not in terms of income (profits) and rates of turnover (sales)*". The Independent sample t-test and Analysis of Variance (ANOVA) were used to test whether this hypothesis was significant or not. Independent sample t-test was used to determine if the income (profits) and rates of turnover (sales) means differed between those businesses that prepared financial plans and those that did not.

FIG. 2: T-TEST COMPARING BUSINESS PERFORMANCE AND FINANCIAL PLANS

Performance	Financial Plans	N	Mean	Standard dev.	t-value	df	Sig. (2 tailed)
Annual profits (income)	Yes	37	1,471,216.22	1,506,689.438	1.503	58	.138
	No	23	945,217.39	928,673.881			
Annual sales (rate of turn over)	Yes	37	2,409,729.73	2,128,027.890	2.418	58	.019
	No	23	1,269,130.43	95,2703.870			

The study indicated that those businesses that had prepared financial plans recorded higher mean scores in both their annual profits (income) and annual sales (rates of turnover) compared to those without financial plans. For the annual profits (income), the difference in the means between those who had prepared financial plans and those who did not was not significant (p>0.05 sig. level). This suggests that financial plans alone do not guarantee profit making in a business. However, for the annual sales, the difference in the means between those who had prepared financial plans and those who did not was significant (p<0.05 sig. level). This suggests that financial plans are crucial in increasing the annual sales of a business as they assist the entrepreneur in knowing the quantity of demand and supply of the commodity. However, profits will depend on the operational costs incurred by the business.

The results using independent sample t-test were also corroborated and proved using ANOVA

FIG. 3: ANOVA COMPARING BUSINESS PERFORMANCE AND FINANCIAL PLANS

		Sum of Squares	Df	Mean Square	F	Sig.
Annual profits	Between Groups	3924170400019.6	1	3924170400019.6	2.260	.138
	Within Groups	100697644183313.7	58	1736166279022.7		
	Total	104621814583333.3	59			
Annual sales	Between Groups	18452045094007.1	1	18452045094007.1	5.848	.019
	Within Groups	182994279905992.9	58	3155073791482.6		
	Total	201446325000000.	59			

From the ANOVA results, the F statistic and its p value indicates that there was no significant difference in the annual profits between businesses with financial plans and those without. However, for the annual sales, p<0.05 sig. level indicating that there was a significant difference in the annual sales between those who had prepared financial plans and those who did not. From the results of the t-test and ANOVA, it can be concluded that financial plans do not significantly influence the level of profits but significantly influences the level of sales. This is, for the simple reason that, profits depend on the operational costs incurred by the business as they are deducted from the sales to obtain net profit.

4.3.1 FACTORS AFFECTING BUSINESS FINANCIAL PLANNING

4.3.2 ENTREPRENEURIAL EDUCATIONAL LEVEL

The education level of an entrepreneur enhances his/her ability not only to make rational and independent business decisions but also understand the dynamics involved in any business investment. Such a person is more likely to intelligently and rationally assess the business and economic environment before making any decision that affects the investment. In this study, the education level of the sampled owner/manager of the businesses was assessed in terms of the level of formal education that one had completed.

FIG. 4: EDUCATIONAL LEVEL OF THE BUSINESS OWNERS/MANAGERS

Level of education	*Frequency*	*Percent*
None	1	1.7
Primary	19	31.7
Secondary	34	56.7
Middle-level college	3	5.0
University	3	5.0
Total	60	100.0

Fig. 4 indicates that 34 (56.7 per cent) of the respondents had completed secondary school level of education, 19 (31.7 per cent) completed primary level of education, 3 (5.0 per cent) each had completed middle-level college and university education, respectively, and 1 (1.7 per cent) never attended formal level of education. This suggests that majority of the sampled business owners/managers were fairly educated and could therefore be relied upon in making independent and rational decisions concerning their business. These findings concur with the National Baseline Survey (CBS/ICEG/K-REP, 1999) which revealed that over two-thirds of Kenyan entrepreneurs had attained secondary school education while the second largest was primary school education level attained. Level of education is expected to have a positive impact on enterprise performance since more educated people are likely to venture into new markets, formal business networks, and institute better management in the enterprises, among others.

In connection with the level of education of the owner/manager of the business is the issue of their previous working experience/occupation. Owners with relevant working experience are more likely to perform better in business compared to those without such experience. Working experience provides one with adequate prior knowledge on how to handle responsibilities, resources and other people. 81.7 per cent of the respondents had previous working experience/occupation while 18.3 per cent did not. Such experience is expected to be very crucial in running the business and influencing its performance. The respondents with working experience had worked for a period of between 2 and 16 years with a mean of 4.16 years. Such a wide working experience is expected to assist the respondents in running their businesses.

4.3.3 NUMBER OF FULL-TIME EMPLOYEES

The level of efficiency in a business depends on the quality, number and nature of employment of its employees. Employees employed on a permanent and full-time basis are more likely to be motivated in improving their performance as they regard themselves as part and parcel of the investment. Such employees gain more experience in the day to day running and operation of the business as compared to temporally employed counterparts.

From the study, it was observed that 93.3 per cent of the respondents had employees between 1 and 4 full-time employees. Approximately 6.7 per cent of them employed more than 4 full-time employees. In total there were 166 full-time employees employed in the 60 sampled businesses. The results allude to the fact that even though they were able to employ employees on full-time basis, the numbers was still very low. This suggests that either the respondents used other forms of employment in sourcing for their employees or their operations could only manage such a limited capacity. The study also established that even though all the respondents had employed full-time employees, albeit in varying numbers, the number of people who helped in running the businesses were drawn from different sources and mixed to include external full-time employees, family members and part-timers/casuals. It is important note that a single business could use more than one source in securing its employees.

The level of efficiency and performance of the employees in a business is influenced by a number of factors. However, the most important factor is the level of motivation of the employees to work hard and improve their performance. Employees who are well motivated derive a lot of satisfaction from their work and feel adequately compensated for their services. Such employees are more likely to perform better and the business register high levels of performance. The study established that 51.7 per cent of the respondents motivated their employees to perform better while 48.3 per cent never motivated their employees in anyway. The majority of the respondents motivated their employees by giving tips and overtime rewards and other remuneration.

4.3.4 HOUSEHOLD EXPENDITURE

People invest and work for the sake of improving their level of welfare and that of their households. Therefore the income earned from various sources and investments is usually shared between savings (and investment) and consumption. Any entrepreneur is supposed to strike a balance between the level of savings and investment, and direct consumption. Any imbalance in either of the two expenditures affects the other. The level of household expenditure depends on the household size and demand. The study established that the household size among the sampled respondents ranged between 2 and 9 with a mean of 4.12 persons per household. Such household sizes are moderate compared to the national average of 6 and therefore easily managed. 91.7 per cent of the respondents reported that part of the income they generated from their businesses contributed to their household expenditure. The respondents spent between 10 and 60 per cent of their income from the business on household expenditure with a mean of 35.0 per cent. 94.6 per cent of them spent between 20 and 50 per cent of their income on household expenditure. These proportions of income used on household expenditure are very high. This suggests that majority of the respondents either established their businesses with the main objective of meeting their household expenditure or have no other sources of income for household expenditure a part from the business.

4.3.5 AGE OF THE BUSINESS

The age of the business (period since inception) signifies the level of experience that the entrepreneur has gathered in that particular nature of business. The higher the number of years that the business has been in operation suggests that one has been able to muster and develop strategies, including efficient financial planning, to survive negative and positive business climate, and vice versa. In the study, the age of the business was measured by the difference between the year when the business was established and the year that the study was carried out.

It was observed that sampled businesses had been in operation for a period of between 1 and 12 years with a mean of 4.28 years. 83.3 per cent of them were aged between 2 and 5 years. Such a period of time is expected to have been adequate to enable the respondents to be competent and master the operation. Mundu (1997) observed that generally older businesses practiced financial planning more than younger ones. The results therefore seem to be leading to a conclusion that the older the business, the more likely it is to practice financial planning which implies that to survive, small businesses have to practice financial planning.

The age of the business is closely related to the age of the owner/manager. Older business owners are more likely to have established their enterprises relatively earlier compared to their younger counterparts. Such owners are expected to benefit from their vast ages and experience in business and therefore practice efficient business management including financial planning. Therefore a mixture of an older business owner and an older business should guarantee better business performance and management. However, younger business owners can also be relied upon to perform better as a result of their youthfulness, energy and receptiveness to new ideas in business management. Therefore the age of the owners will influence business performance different depending on how one utilizes it.

The study revealed 50 per cent of the owners were aged between 31-45 years. This is a middle age bracket in which a person is still young, energetic, receptive to new ideas and ready to work. Such people are still in the child-bearing ages and therefore expected to have younger household members and high household expenditure, with its associated implication on business income. 35 per cent of them were aged below 30 years. Such people are young and possibly fresh from schooling. They may lack adequate experience in life and business cycles, but could be willing to work and face the challenges. The remaining 15 per cent were aged 46 years and above. These groups of people have life and probably business experience which might be very handy in running their investment. They are also expected to have relatively older household members who might be less dependent on them.

The effects of the above factors (entrepreneurial educational level, number of employees, age of the business and household expenditure) on financial planning of small businesses are captured in testing hypothesis two.

4.4.5 TESTING HYPOTHESIS TWO

Null hypothesis two stated that "*there is no significant difference between small businesses that prepare financial plan and those that do not in terms of factors such as entrepreneurial educational level, number of employees, age of the business and household expenditure*". The Independent sample t-test and Analysis of Variance (ANOVA) were used to test whether the hypothesis was significant or not. Fig. 5 depicts the output for the independent-samples t-test.

FIG. 5: T-TEST COMPARING FINANCIAL PLANNING AND ITS DETERMINANTS

Factors	*Financial Plans*	*N*	*Mean*	*Std. Deviation*	*t-value*	*Df*	*Sig. (2 tailed)*
Number of years in formal education	Yes	37	11.30	2.493	.684	57	.497
	No	22	10.86	2.100			
Total number of employees	Yes	37	4.95	2.934	2.336	58	.023
	No	23	3.35	1.849			
Age of the business	Yes	37	4.27	2.207	-.057	58	.955
	No	23	4.30	2.344			
Daily household expenditure	Yes	34	32.35	9.065	-2.797	53	.007
	No	21	39.29	8.701			

Fig. 5 indicates that those businesses that had prepared financial plans recorded higher mean scores in the number of years in formal education and total number of employees compared to those without financial plans. This suggests that business with financial plans had owners/managers with more formal level of education and high number of employees compared to those without. However, those businesses that had not prepared financial plans recorded higher mean scores in the age of the business and daily household expenditure. This suggests that businesses with no financial plans were started earlier and their owners/managers spent more of their income on household expenditure compared to those with financial plans. But since $p<0.05$ sig. level for the total number of employees and household expenditure, we reject the null hypothesis and conclude that there is a significant difference between small businesses that prepare financial plan and those that do not in terms number of employees and household expenditure. This suggests that businesses with higher number of employees and low household expenditure were more likely to make financial plans compared to those without financial plans. However, $p>0.05$ sig. level for the number of years in formal education and age of the business, we fail to reject the null hypothesis and conclude that there is no significant difference between small businesses that prepare financial plan and those that do not in terms number of years in formal education and age of the business. This suggests that number of years in formal education and age of the business do not significantly influence financial planning in a business.

The above results using independent sample t-test were also corroborated and proved using ANOVA.

FIG. 5: ANOVA COMPARING FINANCIAL PLANNING AND ITS DETERMINANTS

		Sum of Squares	df	Mean Square	F	Sig.
Number of years in formal education	Between Groups	2.595	1	2.595	.468	.497
	Within Groups	316.321	57	5.549		
	Total	318.915	58			
Total number of employees	Between Groups	36.224	1	36.224	5.456	.023
	Within Groups	385.109	58	6.640		
	Total	421.333	59			
Age of the business	Between Groups	.016	1	.016	.003	.955
	Within Groups	296.167	58	5.106		
	Total	296.183	59			
Daily household expenditure	Between Groups	623.950	1	623.950	7.825	.007
	Within Groups	4226.050	53	79.737		
	Total	4850.000	54			

From the ANOVA results, the F statistic and its p value indicates that there was no significant difference between small businesses that prepare financial plan and those that do not in terms of number of years in formal education and age of the business. However, since $p<0.05$ sig. level for the total number of employees and household expenditure, we reject the null hypothesis and conclude that there is a significant difference between small businesses that prepare financial plan and those that do not in terms number of employees and household expenditure.

4.5 FACTORS AFFECTING BUSINESS PERFORMANCE

The fourth objective of this study sought to measure the effect of the factors such as entrepreneurial educational level, number of employees, age of the business and household expenditure on performance of the small businesses in Malindi. Accompanying this objective was the third null hypothesis which stated that "factors such as entrepreneurial educational level, number of employees, age of the business and household expenditure do not significantly affect performance of small businesses". This null hypothesis was tested using multiple regression analysis. Table 24 summarizes the regression coefficients of business performance and its determinants.

FIG. 6 REGRESSION COEFFICIENTS OF BUSINESS PERFORMANCE AND ITS DETERMINANTS

Variables	Unstandardized Coefficients	Standardized Coefficients	T	Sig.
	B	Beta		
(Constant)	824709.674		.565	.575
Number of years in formal education	182664.674	.312	1.931	.059
Total number of employees	14091.932	.028	.198	.844
Daily household expenditure	-24575.792	-.169	-1.142	.259
Age of the business	-172387.207	-.291	-1.863	.068

Dependent Variable: Annual profit

Multiple R = 0.403

$R^2 = 0.163$

F = 2.378 $p = 0.065$

Beta is not significant at 0.05 sig. level (2-tailed)

From Table 24, since the p values for both the individual independent variables (considering the t values) and for all of them collectively (F value) were greater than 0.05 significance level, reject the null hypothesis three. This suggests that there is no significant relationship between the independent variables and dependent variable (annual profit – business performance). However, from the regression coefficients (β), the direction of the relationship can be inferred. For example, there was a positive relationship between annual profits and education and number of full time employees but negative with the household expenditure and age of the business. Substituting these regression coefficients (β) in the regression model gives:

$Y = a + B_1X_1 + B_2X_2 + B_3X_3 + B_4X_4$

$$Annualprofit = 824709.674 + 182662.674X_1 + 14091.932X_3 - 24575.992X_2 - 172387.207X_4$$

$R^2 = 0.163$

Where:

Y- Performance in terms of profitability (deviations between budgets and actual results of gross revenues generated by small business enterprises),

And,

X_1- Education level of manager/entrepreneur,

X_2- Household expenditure,

X_3- Number of full time employees,

X_4- Age of business,

From the R^2, the four independent variables only accounted for 16.3 percent of the variation in the business performance (annual profits) in the study area. The remaining 83.7 percent of the variations in annual profits is accounted for by other factors, such as business location, distance between the business and the road, competition among businesses, other than the four independent variables examined in this study.

4.6 CHALLENGES FACING SMALL BUSINESSES

Managing a business enterprise is a very demanding and challenging task that requires a lot of devotion and sacrifice from the owners. This is especially so in the initial stages of the business establishment when it is yet to gain momentum and maintain itself. The study enquired from the sampled owners about the problems that they encountered during the initial stages of their businesses. The major problem encountered by the sampled businesses during the initial stages of establishment was inadequate customers. This was attributed to the fact that the businesses were still new and faced stiff competition from already established businesses in the same line. Other problems included inadequate manpower, insufficient funds and inadequate stock. These problems were attributed to limited financial resources in the initial stages of the businesses. Given the above problems, the respondents reported that they devised a number of strategies to manage them.

The study indicated that the sampled businesses managed the problem of inadequate customers by offering customers attractive discounts on items bought, promotions and good customer care so as to retain the available customer and attract more new ones. Inadequate stock and funds was managed through making more orders, merchandizing on credit and ploughing back the interest into the business. Inadequate manpower was overcome through hiring more labour from the market. The sampled respondents attribute that the above problems and others that their businesses faced to a number of constraining factors. Some of these factors were reported to have limited the expansion, management and operation of small businesses in the study area and beyond. 71.7 per cent of the respondents reported competition as a major constraining factor to their business. The competition came from other small businesses trading in the same commodity and large businesses capable of giving attractive incentives to the customers. This had led to competition over the limited number of customers in the area. 18.3 per cent reported high cost of operation including rental cost, salaries of the workers and inadequate resources. These costs at times surpass the rate of turnover and therefore affected the level of profit of the business. They also limited the ability of the business to expand. 5 per cent of the respondents talked about dishonest employees. They reported that some of the employees were involved in underhand dealings within the business that at times undermined their operations. Some of the employees were not honest in either serving the customers or being accountable to the employer. Another 5 per cent cited bad debts by customers who transacted on credit with a view to repay later. Some of them never pay back their credit and therefore leading to bad debts. Bad debts were also attributed to the stiff competition among the businesses. In order to increase their competitiveness, some of the businesses were offering goods on credit as away of attracting more customers. However, some of the customers took advantage of this not to pay the debts.

The respondents reported that some of the above constraining factors to their businesses could be ameliorated through the intervention of the government in controlling and regulating the business and economic environment. However, 82.1 per cent reported that the only role played by the government in their business is imposing and collecting taxes, which were normally very high, from them. They noted that the high taxes and the zeal with which the government collects from them had been a major hindrance to their business. 10.7 per cent reported that the government provides infrastructural facilities that enabled their businesses to operate. However, they were quick to add that the state of most of the infrastructural facilities in the area, especially roads, had contributed to increased cost of production and inaccessibility to their businesses. 7.1 per cent had noted routine inspection, supervision and regulation of their business. Regulation was reported to involve licensing and registration of their businesses. But some of the respondents reported that unscrupulous government official take advantage of inspection and supervision to extort money from them.

5. CONCLUSIONS

The study assessed the effects of financial planning as a management tool in small business in Malindi district of Coast Province. Such an assessment was considered useful in analyzing the extent to which financial planning had been used in improving business performance, and factors influencing the financial planning in the study area. The concerned agencies including Ministry of Finance (KRA), Ministry of Trade and Industry, Chamber of Commerce, Local Authority, Commercial Banks, traders and the consumers could use such information in analyzing the economic viability of small businesses. This will also enable the businesses to be professional in their management, accrue the benefits associated with financial planning and business profitability and expand their operations. Viable businesses will ensure greater benefit to the government through taxes, consumer through better prices and the business owners through increased incomes (profits).

The study makes the following conclusions:

(i) Sole proprietors preferred engaging in business ventures that serves the immediate consumers, required less capital to initiate and have high immediate returns.

(ii) Rate of turnover (sales) is crucial in determining the performance of a business and therefore require efficient financial planning for forecasting the future sales and profitability.

(iii) Small businesses with financial plans are more likely to increase their number of employees and be able to take advantage of economies of scale as well as reduce their proportion of income used for household expenditure.

(iv) There are other factors, a part from entrepreneurial educational level, number of employees, age of the business and household expenditure that influence the level of business performance.

RECOMMENDATIONS

In the view of the above conclusions, this study makes the following two key recommendations on financial planning and business performance in the study area and beyond:

(i) There is a need for all the small businesses to embrace financial planning for effective business management, maximum rate of turnover (sales) and overall business monitoring.

(ii) There is a need for owners/managers of small businesses to evaluate and consider a variety of other factors such as debtors' management, working capital requirements, allocation of income, in formulating their financial plans so as to improve their performance (profits).

SUGGESTIONS FOR FURTHER RESEARCH

The subject of financial planning in business investments has attracted substantive amount research attention in the country and elsewhere due to the close link between the plans and business performance. However, as noted in the Literature Review, there has been limited research attention known to this author that has concentrated directly on the relationship between business performance in terms of profitability and financial planning. Therefore, the study suggests the following areas for further research:

(i) Financial Literacy and Performance of Small Businesses.

(ii) The effect of Government Regulations on the Implementation of Financial Planning in Small Businesses.
(iii) Evaluation of Determinants of Business Profitability.
(iv) Determinants of Business Performance of Family-Owned Businesses

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