

**EFFECT OF USE OF BUDGETS ON EXPENSE MANAGEMENT BY MICRO AND
SMALL BUSINESSES IN NAIROBI WEST AREA**

BY

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**A Research Proposal Submitted to the school of Business in Partial Fulfilment for the
requirements for the award of Degree in Bachelor of Commerce of Strathmore
University**

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DECLARATION

This research project is my own original work and has not been submitted for a degree in any other university or any award.

Name Date.....

Signature.....

This research project has been submitted for examination by my approval as the official university supervisor

Signature  Date.. 30/1/2020

Dr. James Ndegwa,

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DEDICATION

I dedicate this research project to God Almighty who has been my source of strength and guidance throughout this program. I also dedicate this work to my loving mother, Benter Ong'anyo who has encouraged me all the way and whose encouragement has made me put my all to finish this research project.

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LIST OF ABBRREVIATIONS

ROE	-	Return on Equity
ANOVA	-	Analysis of Variance

ABSTRACT

The purpose of this research was to determine the impacts of budgets on the growth of total expenses of MSBs in Nairobi West. The research employed the use of descriptive research method focusing on a proportion of 30 MSBs taken as a sample of the 170 MSBs in Nairobi West shopping centre. Primary and secondary data were used effectively for this research. Primary data was collected through administration of a structured questionnaire with the selected respondents. The study employed the use of regression model to show the relationship existing between dependent and independent variables. The findings of the study showed that budgets have a strong positive impact on financial performance on manufacturing firms as measured by expense management. The study suggests promoting successful execution of the budget through capacity building, rigorous prioritization of systems and processes, and near assessment monitoring. Therefore, a clear link between the planning process and the budget process must be formed between manufacturing companies.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

The growth of micro and small businesses has been of great importance in the last couple of years (R. Hall 1992). These businesses are essential for economic development as well as sustained growth in most economies. In addition, MSBs contribute to major employment sources, act as a major contribution to general health of economies as well as welfare and in general help in poverty reduction (Kaipichit 2005). In Kenya, MSBs contribute to a larger portion of the labour force at 70% and makes up for over 15% of the nation's gross domestic product (GDP), (Ngugi, 2012). MSBs are usually defined by the total workforces employed, asset value and sales turnover (Garikai, 2011).

However, research has shown that MSBs encounter a range of challenges in their lifetime and even though almost one million MSBs are established per annum, of the small businesses established in a year, at least 40% of them close within one year and 80% find themselves out of business within 4 to 5 years and averagely 94% will be closed by their 9th to 10th year (Gerber, 2001).

Due to constant changes in the business dynamics currently, MSBs have been forced to change and as such restructure the MSB lives in order to compete in the market by using efficient management systems for example establishing effective financial planning practices. Crossing the borders to Vietnam, research proved that enterprises with financial planning systems are more profitable than those without, with smaller enterprises falling on the brink of failure because most of them do not have formal financial plans (Masurel, et al. 2000). According to them, it is necessary for a firm to carefully analyse its planning practices in order to be successful. Gordon, Berman, and Sussman, emphasized that enterprises that plan produce better financial outcomes than firms that do not. MSBs with efficient financial planning systems strengthen their profitability than those without and as such efficient financial planning will help MSBs overcome difficulties that inhibit their growth.

Financial planning is a necessary process most firms should seek to implement in order to successfully achieve their goals. Creation of a budget helps firms in planning, controlling, evaluating as well as motivating (Lucy, 2004). Budgeting enables businesses to evaluate and control the business in order to successfully plan for the near future. It involves regular preparations of performance plans that portray the goals and output measures aimed at attaining

performance objectives. Budgets should be administered flexibly since changes in circumstances may require modifications in the plans and the subsequent budgets.

Approaches to budgeting and financial planning methods

Incremental budgeting

This is a way of budgeting which involves using the previous year's budget in which the budget for a department or division is carried forward for the next annual budget. It is adjusted for known factors such as new legislative requirements, additional resources, service developments, anticipated price and wage inflation and so on (Ouassini, 2018). It is known as incremental budgeting since the process is mainly concerned with incremental adjustments to the current budget. The process involved in coming up with this budget involves;

Establishing a base- this is where committed expenditure is established, and adjustments made to it.

Adding to the implications of the development budget to reflect proposed savings and growth.

Aggregating and producing the new budget (Pidgeon, 2010).

Zero based budgeting

It's an approach to budgeting which implies that no budgets should be carried forward from the previous year's budget. It involves the assumption that the organization is starting afresh and thus the need for a new budget (Pidgeon, 2010). Steps to forming a zero-based budgeting include developing a "decision package" and ranking the decision package. A decision package is simply a document that details specific activity and performance measures.

Activity Based Budgeting

This approach links costs to budgeting thus equipping management with a better understanding of full-service costs and allocation of resources. ABB is a result of Activity Based Costing (ABC). This form of budgeting accounts for how employees allocate their energy among operations. Once the complete cost of each operation has been calculated, conductors can be created to connect support operations to the organization's main operations. By creating an extensive activity-based budget, managers are prepared to build a strong link between workload and cost. Once established, directors and executives can exercise power in several aspects: (1) employ staff depending on proven need, (2) increase or decrease staff

proportionately as required, (3) detect waste and concealed expenses, (4) determine which operations are most and least costly, and thus subjecting them to scrutiny.

Financial Planning Methods

Cash flow planning

Here individuals or a business's forecast their short-term and long-term expenses against the expected cash flow. But there are moments when urgent or unpredictable expenditures happen. Once its cash flow should be properly planned. Incorrect cash flow planning may contribute to bankruptcy. A cash flow budget is an estimate of all cash receipts and cash spending expected to occur over a certain period of time. Estimates may be made on a monthly, bimonthly, or quarterly basis, and may include non-farm income, expenditure, and farm items. But cash flow budgeting only looks at the movement of money, not net income or profitability (E. William 2014).

Investment planning

It is based on savings. A knowledge on savings helps the business to take up investment opportunities for example fixed income, stock investment, forex, bonds among others. A business can either spend lump sum quantity or you can start a long-term systematic investment plan (SIT) to meet long-term economic objectives.

Insurance planning

Long-term insurance coverage is a very important form of financial planning. Under unforeseen situations, if you don't plan your insurance well in time, it can ruin your other economic arrangements as well. Insurance scheduling depends on personal behaviour. Evaluation is necessary before purchase of any insurance.

Retirement Planning

It is the occurrence that happens in everybody's lives. It is one of the most significant types of financial planning. Mostly you'll find that individuals put their economic objectives for their pension revenue owing to increasing inflation and increasing living standards. You'll have to start saving and investing early in your retirement life, so you don't have to rely on living standards during retirement.

Tax Planning

Proper tax planning can assist you improve your financial savings. There are numerous advantages and exemptions for taxpayers granted by countries. You can bring advantage of exemptions at the close of the year and minimize your fees.

The Financial Planning Concept and Financial Performance

Financial planning is basically how a business seeks to achieve its goals and objectives by using its financial resources. Financial planning is more like budgeting since the resulting outcome is a budget. A budget is an estimate of a financial plan for a defined period in most cases, one year. It is a pattern of income and expenditure of a financial year for a business. A budget usually sets a standard for the management. Budgeted financial statements and proformas are the most widely used types of budgets. Financial performance on the other hand involves the process of executing a financial activity. It is the extent or degree to which an activity has been accomplished. Performance is usually measured in terms of results achieved, (Frisch 2009) and it is used to show consistency, prosperity and conditions. A firm's financial performance is usually measured by tools for financial analysis which include profitability, liquidity, solvency and activity. Financial performance analysis involves the analysis and interpretation of financial statements though these statements do not provide all necessary information related to a company's financial operations.

Profitability entails the degree to which a business yields income from the factors of production. It puts focus on income and expenditure and the profit rate relative to the company's investment. Repayment capacity technique can be used to measure the firm's ability to repay debts and loans from incomes. The term debt and equity lease coverage ratio and the capital replacement and term debt repayment margin are two measures of repayment capacity, (Carole, 2010). Common profitability ratios include return on equity (ROE), return on sales (ROS), gross profit margin (GPM) and return on investment (ROI).

Liquidity on the other hand measures the ability of a firm to meet its financial obligations as and when they come due. Solvency ratios are used to measure the ability of a firm to meet its long-term obligations and include debt-asset ratio, debt-equity ratio and equity-asset ratio. A

high ratio of debt to asset or equity indicates a low performance of the firm and as a result a high risk.

1.2 Statement of the problem.

Financial planning has become a very necessary tool to survive in the business of MSBs. Failure to plan properly is one of the main causes of failure of MSBs (Shrader & Blackburn 1989). Budgeting is a process that requires high expertise in terms of financial information and thus high level of financial literacy. Financial literacy is the capacity to come up with informed decisions and adopt effective action on the present and prospective use and governance of money (Basu, 2005:2). However, MSB managers have little experience and knowledge on the subject and as such even those with little information are more likely not to have plans (Casar, Gavin & Gibson 2002). As such it has been reported that poor management of these firms is related to insufficient financial and accounting records, absence of good management advice and poor financial literacy (Arasti, Zandi & Bahmani 2014). These empirical surveys show a positive connection between financial literacy and budgeting such as enhanced savings, capital creation, equity fund selection, financial planning and company sustainability.

Siekei et al., (2013) demonstrated that there is a positive connection between budgeting expertise gained through financial literacy education and increased performance of MSBs in aspects of increased revenues and company profitability as it offers a foundation for setting performance objectives. Fatoki (2014) however demonstrated that most micro-enterprises are survivors who may have some type of budgeting and monetary planning and control but on an unofficial perspective corroborated by Eliabu, Burani & Abanis (2013), who discovered that most SMB's do not practice formal budgeting. This study seeks to determine the extent to which MSBs use financial planning (budgeting) methods and the effect on growth of total expenses of MSB's. It also attempts to determine the techniques of planning and budgeting used by management and the resultant impact on MSBs financial performance in Kenya particularly in Nairobi West.

1.3 Research Objectives

The general objective of this study is to study the effect of financial planning on growth and total expenses of MSBs in Nairobi West.

1.3.1 Specific Objectives

- i. To assess the extent to which MSBs in Nairobi West maintain budgets.
- ii. To assess the preferred type of budgeting used by MSBs in Nairobi West Area.
- iii. To assess the extent to which use of budgets has aided in expense management by MSBs in Nairobi West Area.

1.4 Research Questions

Following the research objectives, I formulated the following research questions;

- i. To what extent do MSBs in Nairobi West maintain budgets?
- ii. Do MSBs deploy budgeting and financial planning approaches at all in their businesses?
- iii. What extent have budgets aided in expense management of MSBs in Nairobi West area?

1.5 Significance of the Study

The purpose of this study is to help understand how financial planning affects financial performance of micro and small businesses. The findings of the study will prove essential to MSB owners as they will be able to understand the technical challenges they experience in managing the business regarding financial planning. This information can help them make the correct decisions with a view to improve financial performance. It is also important to the government as it enables them to know what leads to failure and poor performances on the major businesses in Kenya and hence come up with policies to curb reduce these factors. Investors can also use the information to come up with ideas to train MSBs in budgeting practices so as to achieve a higher financial performance.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter of the study reviews the innumerable literature sources that relate to financial planning and the resulting effect on financial performance of firms. It also lays foundation to the theoretical, conceptual and empirical frameworks of the study as well the importance of the use of budgets and disadvantage associated with budgets.

2.2 Theoretical Literature Reviews

Theories regarding budgets involve a study of socio-political relationships between the society and the government. Theorists in public budgeting among others include the likes of Henry Adams, William F. Willoughby, V. O. Key, Jr.

2.2.1 Organizational Theory Aspects on Budgets

There exist four perspectives namely institutional, transaction cost, resource dependency and Marxist.

2.2.1.1 Institutional Perspectives on Budgets

As stated by organizational isomorphism (DiMaggio & Powell, 1983), budgeting diffused through three processes. Under mimetic diffusion, organizations embrace plans because they notice that with a comprehensive budgeting method, other organizations become more socially comfortable and prosperous. With the growth of budgeting, there was coercive pressure to embrace budgets. Stakeholders who require good financial management may predict annual expenditures for important operations. Philanthropic institutions will scrutinize the budgets of charities to guarantee that potential donations are wisely invested.

Finally, accountants and financial executives employed by companies introduce normative pressure to embrace uniform budgeting procedures. Budgeting is an expansion of credit-debit accounting concepts and is learned at every business institution. Budgets have become a "reasonable assumption" for contemporary organisations. The acceptance of these assumptions is often symbolic, according to Meyer & Rowan (1977). Budgets needed for credibility can be de-coupled from regular activities. Finances can be transmitted from one class of budget to another to address over-spending. There is usually little pressure to sustain budgeted amounts of expenditure once it has been established.

2.2.1.2 Transaction-Cost Perspective on Budgets

From this view (Williamson, 1975), budgets are omnipresent because they assist in the control of the market internally. A healthy budget can reduce inner transaction costs by minimizing

uncertainties, hindering opportunism, and mediating inner conflicts. Organizational participation in preparing budgets can assist to explain potential operations between sub-groups. Defining advertising expenditures for each product row, for instance, enables the marketing department schedule operations more effectively. Carefully scrutinized finances and expenditure constraints can decrease opportunism opportunities. Budgets can also be used to mediate conflicts among institutional employees by identifying the objectives and limits of organisational intervention. As also mentioned in the resource dependence perspective below, budgets are not agreements. They give the normative benefits of internal agreements with the possibility of potential modifications.

2.2.1.3 Resource Dependency Perspective on Budgets

Budgets are pervasive in organisations because they assist to explain internal asset dependencies. The hierarchy of expenditures often reveals organisational objectives and dependencies faster than official organisational graphs. The authorized budget may also constitute a "rationalized" declaration of intent for the coming year, grasped by both staff and outsiders.

More significantly, budgets are significant instruments of power (Pfeffer, 1992). Since departments generally rely on budgets for general activities, those who regulate funds regulate resources. Budget managers and approvers can use these asymmetric dependencies to have control. External organizations can also exert internal influence by checking or approving annual budgets. The budgeting procedure at a specified stage is often a zero-sum game where politics and impact are most obvious. Budgets are also handy monitoring mechanisms because they are more versatile than agreements. Unlike agreements, you can rapidly alter a budget to impact the operation of a sub-group.

2.2.2 The Goal Setting Theory

It was developed within the psychology of industrial organizations over a period of 25 years on basis of the same 400 laboratory and field studies. It was proven that hard specific objectives lead to higher achievement of tasks as compared to easy goals. The main principle of objectives leads to a greater efficiency than when individuals try to simply "do their utmost" (Locke and Latham 1990). The performance advantages of challenging precise objectives have been proved in hundreds of laboratory and field research. These objectives impact the performance of organization individual groups and entire organizations over long periods of time.

Budgets should be formulated in such a way that the members of a company see their achievements as challenging. Budgets that are too simple to achieve have made members of a company to be very reluctant as there is no motivation for work in their goals. Formulating high goals gives one high self-satisfaction, attainment of this goals by members of an organization has highly contributed to the personal effectiveness and sense of well-being to the individual. The attainment of this goals is even better if the goals had been termed as challenging. Achievement of goals provides self-satisfaction.

2.3 Empirical Review

A research on NGO budgeting methods in Kenya by Muleri (2001) was done to identify the efficiency of budgeting procedures among NGOs in Kenya. The study focused at the notion from a distinct point of perspective and discovered that most organizations used contemporary methods as a zero-based approach and philosophies to decrease financial management. The researcher noted that there is a restriction on the budgeting method that contributes to cost reduction in order to attain cost effectiveness, there is an absence of strong foundation to implement budgeting checks as a motivator and found that while profit was the primary measure of results in the public sector, the management of budgets should be assessed against the context of good financial policies. The researcher found that budgeting is well recognized in assessment and is usually used to communicate strategies and activities.

A study done by Melek (2007), on the implications of budgets on performance of managers provided huge insight to management accounting literature by enhancing knowledge of budget involvement and organizational commitment influencing managers' efficiency, he performed this survey on the high performing 500 companies in Turkey. First, according to the outcomes of the regression analysis, this research proposed that the impacts of budget involvement and organisational co-operation on managerial success are good and a substantial second research discovered that managerial efficiency scores were observed to improve as the communication value between budget involvement and organizational commitment increases. This means that elevated relationship between budget involvement and organizational commitment offers a suitable condition for strong managerial efficiency. However, the findings stated enhancing the strong sense of organizational commitment of subordinates in companies can contribute to increased efficiency and vice versa. Similarly, the research endorsed the hypothesis that the communication rating between budget involvement and organizational commitment differs depending on poor and strong managerial efficiency. While elevated communication between budget involvement and organizational commitment is linked with strong managerial

efficiency, poor communication rating between budget involvement and organisational commitment is linked with poor managerial efficiency. A study undertaken by (Ambetsa, 2004) on budgeting monitoring procedures by business carriers based at Wilson Airport, Nairobi, stated that the difficulties encountered were budget assessment 23 deficiencies, lack of complete involvement by all people in budget preparation and absence of top management backing. He further states that companies work and use budgets to prepare implementation and assess their company efficiency.

In 2008, a researcher, Wamae, carried out a study on the budgeting difficulties of the National Social Security Fund (NSSF). The objective of the research was to identify the difficulties of the budgeting method and the difficulties encountered when formulating a budget to be used by an organisation and how organisation can efficiently address the budgeting difficulties. The population consisted of nine (9) boards of directors and sixteen (16) junior executives at NSSF who were familiar with the organization's budgeting problems. He gathered information using questionnaires, observations and surveys as the primary tool for data collection.

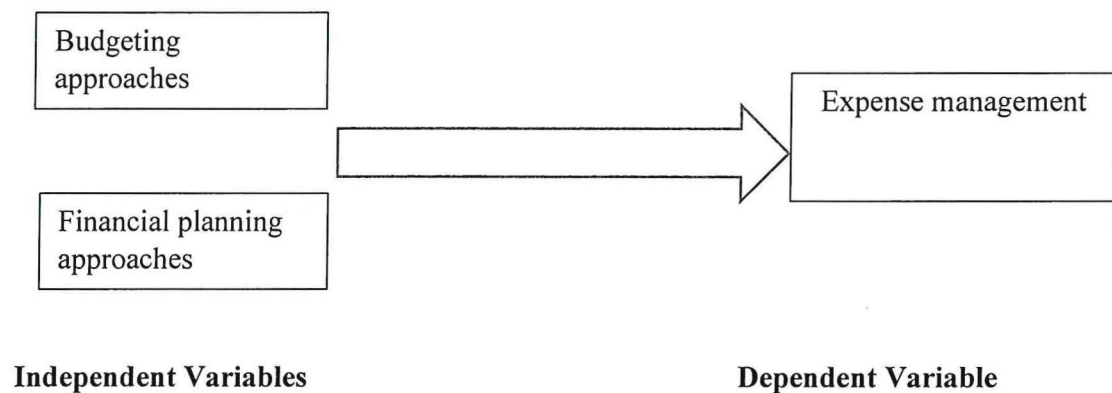
According to the research, the investigator discovered that the organisation encountered difficulties when drafting the budget and the largest included on engagement, different department heads did not take the budget seriously contributing to optimistic projects that would wind up not attaining the objective thus creating wrangles with the board. The researcher found that budgeting at NSSF was very efficient as they fulfilled their objective of helping in control, used as a means by which executives communicates through other departmental stage. The researcher proposes that all divisions in the organisation be engaged in the preparing of the budget and that adequate time be allotted to manage.

(Otley, 1978) conducted a survey on budget use as a metric of organizational efficiency. He conducted a study on a single big organisation that had a significant amount of manufacturing facilities, manufacturing comparable products geographically spread around the United Kingdom. The personal manufacturing divisions were mainly autonomous of each other. The department of evaluation was therefore the personal team manager accountable for the manufacturing of their products to the team manager. His results were that there is a positive connection between budget use in assessing managers and their amount of quality. Unlike (Hopwood, 1972), he observed little proof to show that any specific type of budget use influenced actual efficiency.

Hopwood had conducted an earlier research to determine what impacts different budget-based assessment practices had on the performance of managers. He proposed that one significant dimension of budget use is the comparative significance given to the budget that one significant dimension of budget use is the comparative significance given to the budget in assessing organizational efficiency. A strict assessment approach depending mainly on whether a manager has achieved his budget resulted in the conviction that the assessment was unfair. However, when a more versatile assessment method was introduced with budget data being used in combination with other forms of data, problem with long-term financial results was retained. However, Hopwood mainly emphasized on the impact that budget usage has on the views and opinions of executives and not on the general efficiency of activities. Though there was not much difference under the managerial evaluation styles of meeting budgets, he concluded that the rigid evaluation style caused decrease in future performance.

2.4 Conceptual Framework

Figure 1: Diagrammatic representation of Conceptual framework



2.5 Summary of Literature Review

This chapter dealt with budgets and power systems that are designed to function as the purpose of efficiently tracking and managing costs to improve efficiency. Management should integrate the impacts of other budget owners to remove the conviction that budgets are imposed on them. Factors causing variances should also be explored and corrective measures be taken. These variances can be of use to management to monitor operations and single out problem areas. Total cost variances can be split into quantity and price variance to guide management ' focus to the behaviour of lower-level executives accountable for amounts used or rates charged.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter deals with research design and methodology that was used in data collection. It described the target population, sample size and instruments that were employed in data collection. It also stipulated the systematic research procedure and the technique used in the analysis of the data

3.2 Research Design

The analysis used descriptive architecture for the research. A descriptive analysis is used to characterize or identify, often by creating a profile of a group of problems, individuals or events, by gathering data and tabulating the frequencies on or communicating with research variables (Cooper and Schindler, 2003). Descriptive research design was selected since it helped the researcher to generalize the findings to a large population. The descriptive research approach was appropriate due to the fact it allowed analysis and relation of variables.

3.3 Population

The research population was many of the licensed MSBs in Nairobi West. MSBs hiring 1-50 people were selected for purposes of the research.

3.4 Sample and Sampling technique

A random representative sample of 50 MSBs was obtained from the population of 170 MSBs using stratified probability sampling. Mugenda and Mugenda (2003), claims that a separate sample of 30 participants at least is a decent reference sample of a population of not more than 10000 participants. However, a sample of 50 MSBs was used for the study. This research focuses on owners of the MSBs such as gaming centres, movie shops, food vendors and barber shops as well as salons.

3.5 Data Collection

The study adopted use of questionnaires to collect data. Questionnaires were administered to respondents to fill and there was monitoring to ensure they were filled. The tool used was a semi-structured type of questionnaire which had both open ended and close ended questions. To understand the significance of budgets as a financial management instrument among production companies' questionnaires were circulated and given to the chosen companies' top and managers / accountant staff. Interviews were also used in cases where managers were ready to respond. This helped to obtain suitable and accurate information. Financial planning data was gathered by use of the questionnaires while data relating to financial performance was

acquired from past records and the financial statements of the enterprises. This involved primary data since it was first-hand gotten from respondents. The secondary information consisted of the budgetary documents and financial reports of the multiple production companies for the years – to – different data related to budget vs. real variances, revenue vs. expenses among others were obtained to supplement original data.

3.5.1 Reliability and validity of data

Reliability is an accurate representation of the total population of the study to the extent to which results are consistent over time. If the results can be reproduced similarly using a single methodology, then the results are said to be reliable (Phelan and Wren, 2006). Phelan and Wren provide that there are three types of reliability relating to the degree to which the measurement remains the same over again, the stability of the measurement over time and the likeness of the measurement over a given time period.

Validity is the soundness of research. Validity determines whether the study represents what it was meant to evaluate and how truthful the study results (Messick 1989). Quantitative research usually employs construct validity. Construct validity refers to what extent a test is culture-free (Cronbach and Mehl, 1955, p.282). The construct is the original idea or assumption that determines which information is to be collected and how it is to be collected.

3.6 Data Analysis

The technique of evaluating the data was descriptive structure that this study can be used to define a phenomenon at one stage in time. Descriptive assessment was used primarily to summarize the collected data. The information was then compiled for processing, analysis, consistency and completeness and organized for encryption. 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 budgeting approaches. Inferential statistics were used in making deductions and generalizations about the whole population.

3.6.1 Model

The regression model below was used to measure the effect of financial planning and budgeting (X1 and X2), the independent variables affect growth in total expenses (Y), the dependent variable.

$$Y = B_1X_1 + B_2X_2 + e$$

Where,

Y= Growth in total expenses (performance) measured by Return on Equity

And,

B= Independent variable coefficient

X₁ = Budgeting approaches

X₂= Financial planning methods

e = Error term

The independent variables X1 and X2 are Budget and financial planning factors used for this research which were evaluated using the multiple answers posed by the participants in the questionnaire.

3.6.2 Description and measurement of Variables

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. 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, was 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.

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.

CHAPTER FOUR: DATA PRESENTATION AND DISCUSSION OF FINDINGS

4.1 Introduction

The results of the research project investigating the effect of financial planning on growth of total expenses of MSB's in Nairobi West were presented in this chapter. These results of the analysis focused on answering research questions and objectives. The findings of these objectives were analyzed descriptively, and the hypotheses tested inferentially using Statistical Package for Social Sciences (SPSS).

4.2 Rate of participation

50 respondents were targeted and selected as the sample size. However, out of the 50 respondents, only 39 responded effectively leading to a response rate of 78% which is a very good response rate according to Mugenda and Mugenda (2003) as well as Kithari (2004).

4.3 General Information

Table 1: Rate of response

	Questionnaires administered	Valid questionnaires	Percentage rate
Respondents	50	39	78

4.3.1 Data Reliability and Pilot test results

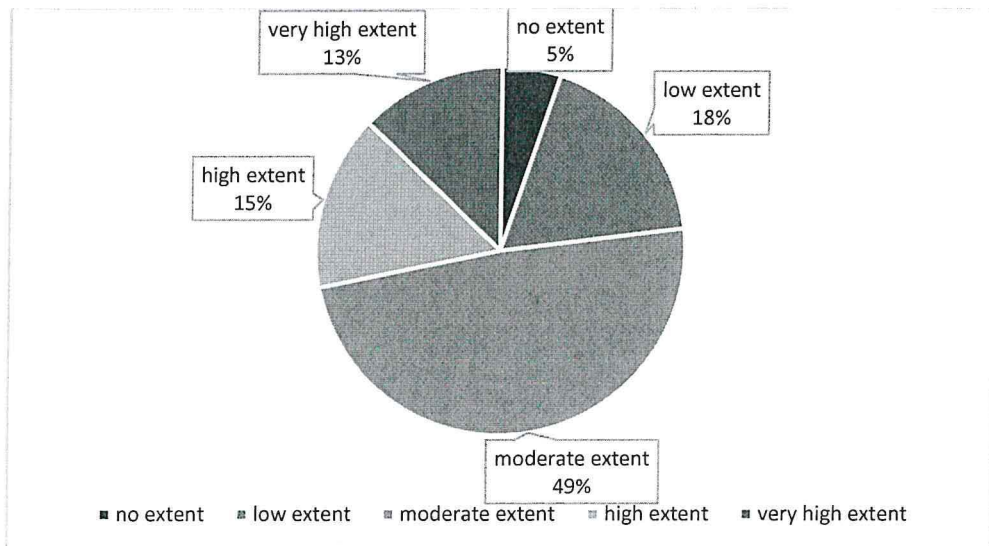
Studies carried out indicate that those businesses that had prepared financial plans and maintained budgets recorded higher mean scores in both their annual profits (income) and annual sales (rates of turnover) compared to those without financial plans which in turn helped minimize the number of expenses they incurred in the business. 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.

4.4 Findings

4.4.1 Extent of maintenance and usage

This indicated the extent of how micro and small businesses maintained and use budgets in their businesses. From the figure, 5 percent of the respondents did not maintain or use budgets, 18 percent had a low extent, 49 percent moderate, 15 percent high while 13 percent had very high usage and maintenance.

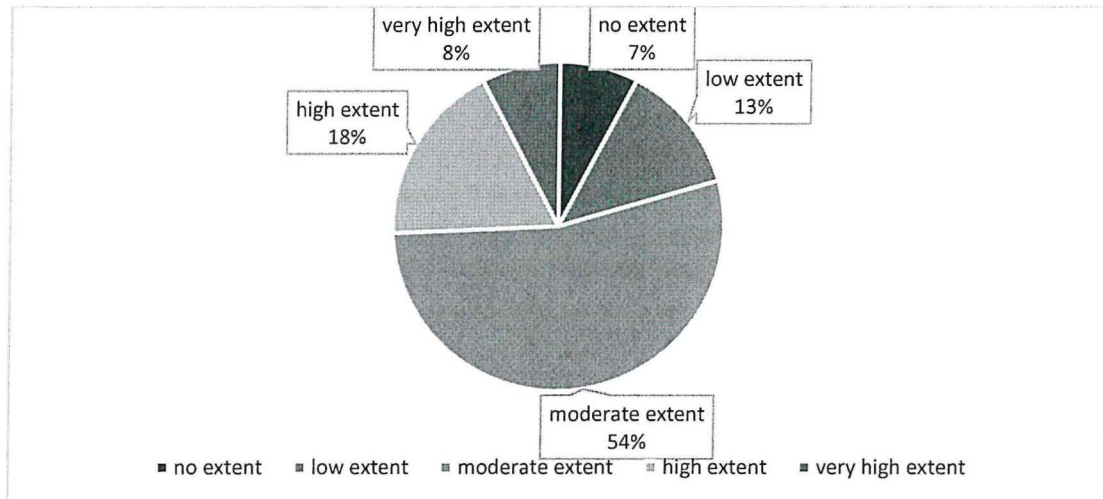
Figure 4.1 Extent of maintenance and usage of budgets.



4.4.2 Extent of incremental budget use

This showed the extent of how businesses use incremental budgeting in their businesses. Of the total sample size, 8 percent did not, 13 percent low extent, 54 percent moderate percent, 18 percent high extent and 8 percent used it at a very high extent.

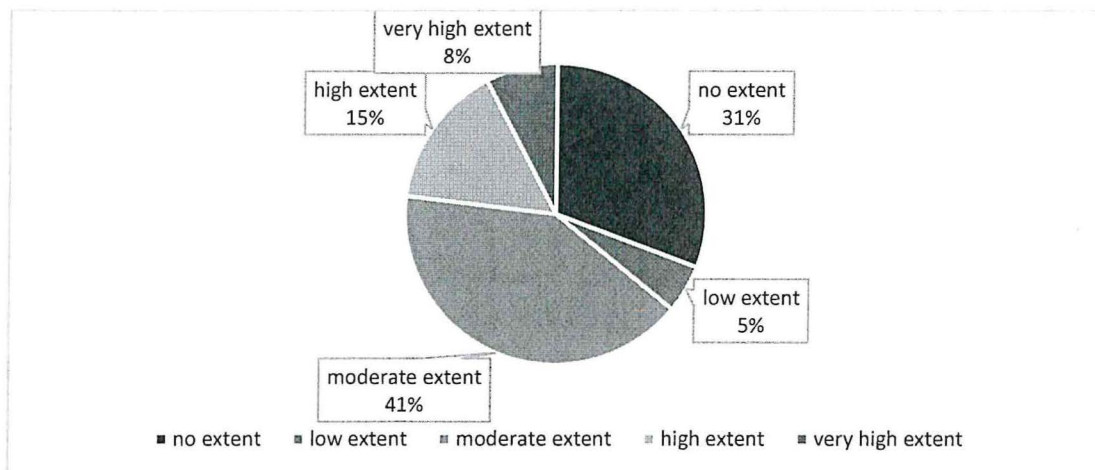
Figure 4.2 Extent of incremental budget use on businesses



4.4.3 Extent of zero-based budget use

This indicates as to what extent MSB's incorporate zero-based budgeting technique in their business. The findings indicate that most businesses tend to use it moderately at 41 percent, 31 percent no extent, 5 percent low extent, 15 percent high extent while only 8 percent use it very highly. Thus, the use of zero-based budget is of average frequency.

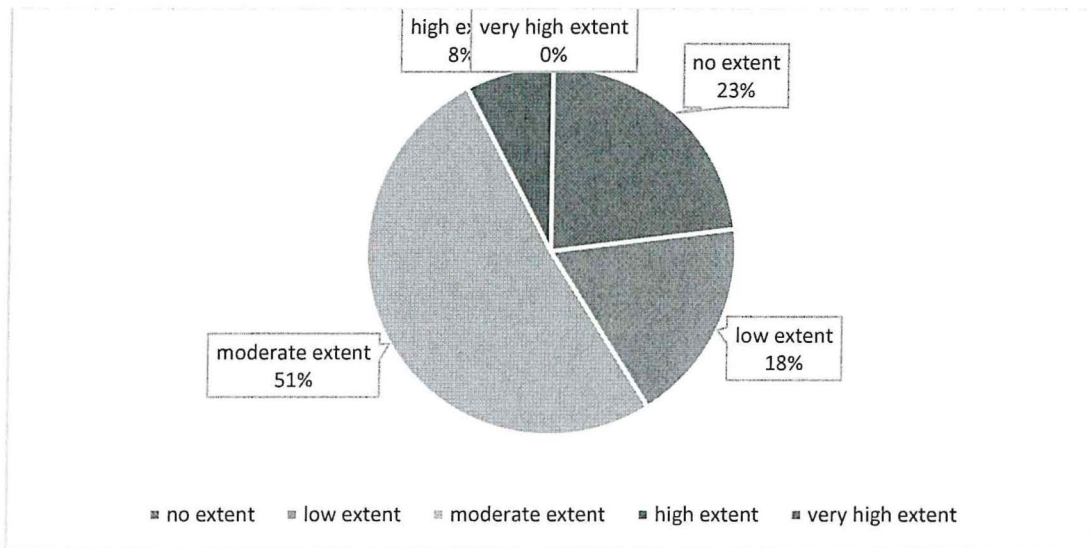
Figure 4.3 Extent of zero-based budget use



4.4.4 Extent of activity-based budget use

Similar to zero-based budget, the activity-based budget is used moderately with many businesses opting to go for it at 51 percent moderately, 18 percent to a low extent, 8 percent to a high extent, with 23 percent not using it at all. The activity-based budget is however not used at a high extent by the businesses.

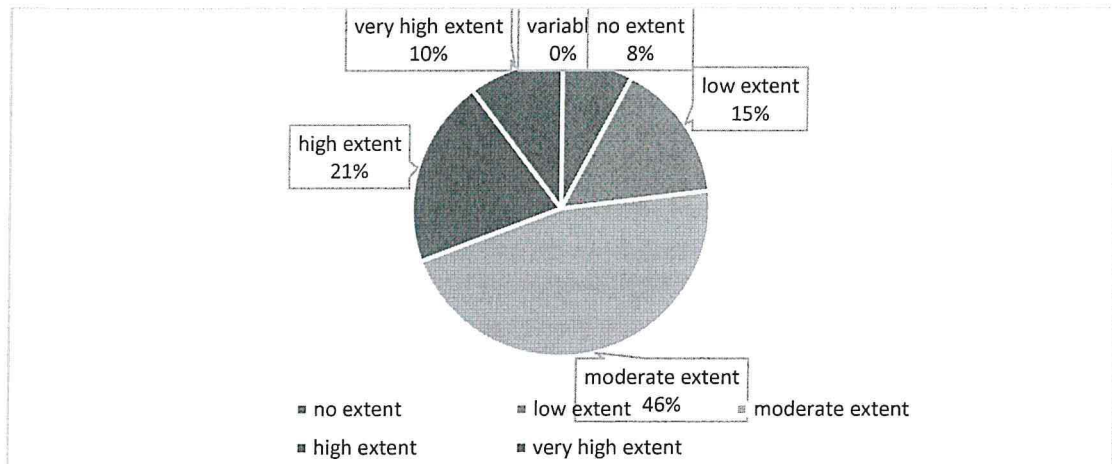
Figure 4.4 Extent of using activity-based budget



4.4.5 Extent of using cash flow planning

Cash flow planning was used moderately (46 percent) by the respondents, while 8 percent did not use it. Only 21 percent of the sample used it highly, 10 percent very highly and 15 percent used it to a low extent.

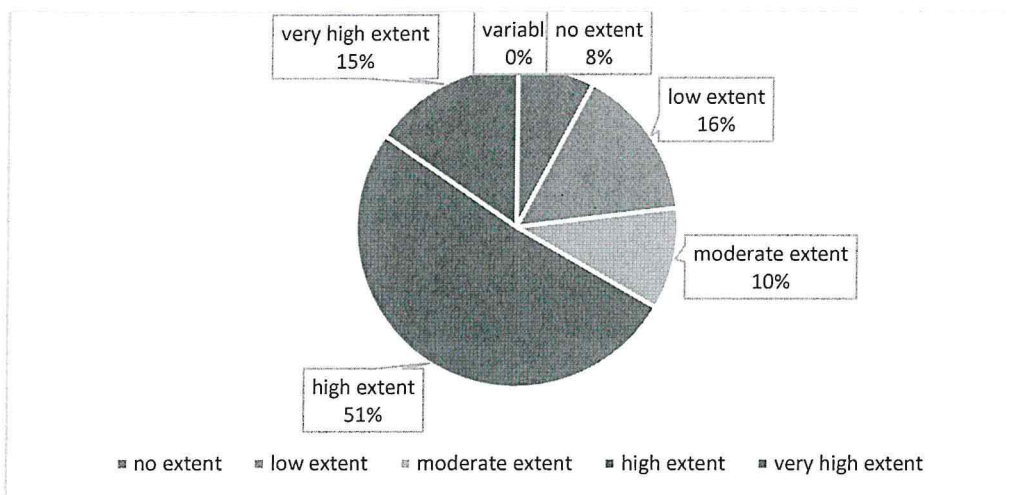
Figure 4.5 Extent of using cash flow planning



4.4.6 Extent of using investment planning

This was depicted in the pie-chart below where statistics indicated that 51 percent use investment planning to a high extent, 15 percent very high extent, 10 percent moderately, 16 percent lowly and 8 percent used it to no extent at all. Most business prefer investments which involve savings.

Figure 4.6 Extent of using investment planning

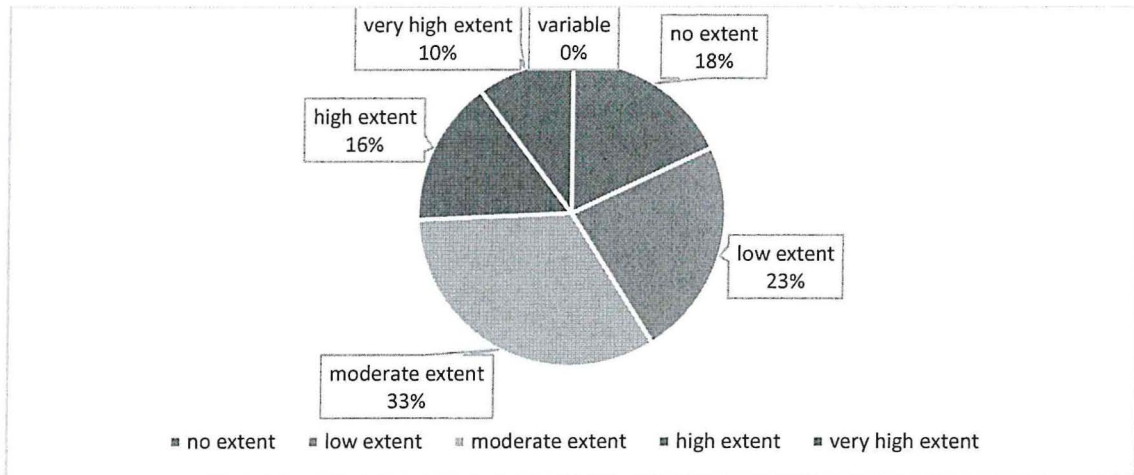


4.4.7 Extent of using insurance planning

Planning for insurance is not very common among small businesses. However, the research indicated that majority of the business use insurance planning with figures indicating a 33

percent moderate use, 16 percent high use, 10 percent very high use, 23 percent low use and 18 percent not using it at all.

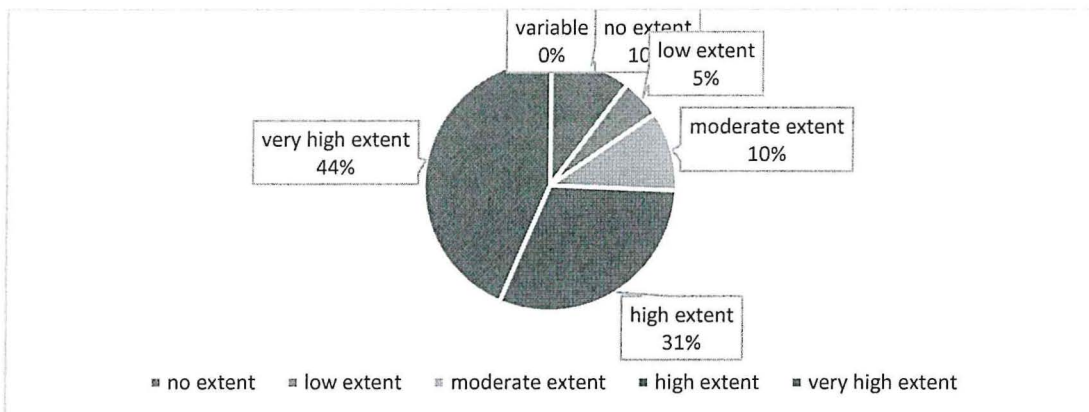
Figure 4.7 Extent of using insurance planning



4.4.8 Extent of budget efficiency in expense management

Budgets proved to be very efficient in managing expenses of MSB's as 44 percent indicated a very high extent of efficiency followed by 31 percent at a high extent, 10 percent at a moderate extent, 5 percent at a low extent and 10 percent indicated no changes observed on efficiency.

Figure 4.8 Extent of budget efficiency in expense management



4.5 Summary of Findings

The purpose of the study was to establish the effect of financial planning on the growth of total expenses of micro and small businesses in Nairobi West. The objectives of the study were to determine the effect of financial planning on growth of total expenses of MSBs in Nairobi West and assess extent to which MSB's maintained budgets and good financial plans.

Descriptive research was used in the study and the target population were the various business owners in Nairobi West ward. According to the findings, majority of the respondents were of the view that maintaining good financial plans reduced the number of expenses they had to incur. Although many respondents did not maintain budgets in their small businesses, it was clear that with good financial planning, expenses incurred reduce.

The study further indicated that most of the respondents do not integrate different approaches to budgeting and financial planning due to the small nature of their business. on the type of budgets and financial planning maintained, research indicated that many of the businesses use incremental and zero-based budgeting approaches with cash flow and investment planning methods.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

It was concluded that many of the businesses use zero-based and incremental budgeting and that the preparation and use of these budgets were effective for the business. These budgets were relied upon in making decisions. For the regression model, the independent variables with positive coefficients have a direct relationship with the dependent variable. Thus, expenses reduce with more use of budgets and financial planning approaches. The results from the analysis indicated that reduction of expenses is influenced by budgeting and financial planning approaches. Thus revenues/expenses as measured by ROE increase/decrease proportionately with more incorporation of budget and financial planning approaches. Thus the study concluded that the reduction of expenses is strongly influenced by use of budgets (0.026) and financial planning (0.011).

5.2 Recommendations

The following recommendations were made by the researcher that small businesses should seek to employ the usage of budgets and good financial plans in the business.

In order to achieve effectiveness in operations, they should have in their businesses some form of financial plans no matter the size of the business. This will help to plan effectively and to manage expenses which will see the income of the business rise with time.

5.3 Limitations of the study

There were various challenges in conducting the research which included;

Businesses do not wish to provide information about their business thus it took quite some time to acquire information. The fact that also these statistics cannot be used to generalize on other businesses in different parts of the country is a limiting factor. Due to time factors, it was not practical to include further respondents to the study which would have provided more consistency to the research. There was also the problem of dishonest or biased answers.

However, through careful analysis, the research proved to be consistent.

5.4 Suggestions for further research

The same research should be furthered to include the incomes, assets and liabilities of the various businesses. Although the research has attained its objective to investigate the effect of budgets on growth of expenses, further study should be carried out to assess whether similar findings could be achieved.

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Appendix 1: QUESTIONNAIRE

My name is John Otieno, an undergraduate student at Strathmore University pursuing a degree in Bachelor of Commerce - Finance. I am carrying out a research study on the effect of financial planning on growth of total expenses of Micro and Small Businesses in Nairobi West. The data collected is strictly for academic purposes and as such will be treated with confidentiality. Your feedback will be most appreciated.

	No extent	Low extent	Moderate extent	High extent	Very high extent
To what extent do you maintain budgets in your business?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
To what extent do you use budgets?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
To what extent do you rely on budgets?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
To what extent do you use different types of budgets?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
To what extent do you integrate different approaches to budgeting?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
To what extent do you use incremental budgeting?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
To what extent do you use zero based budgeting?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
To what extent do you use activity based budgeting?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
To what extent do you maintain and use good financial planning methods in your business?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
To what extent do you integrate the different financial planning methods in your business?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
To what extent is cash flow planning method used in the business?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
To what extent is investment planning used in the business?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
To what extent do you use insurance planning method in the business?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
To what extent do you use retirement planning method in the business/	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
To what extent is tax planning method used in the business?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
To what extent have approaches to budgeting impacted growth of expenses in your business?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
To what extent have budgets reduced your expenses in relation to the business?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
To what extent do you agree that budgeting has been efficient in managing expenses in your business?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
To what extent have financial planning approaches helped your business in terms of growth of total expenses?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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