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EFFECTS OF FINANCIAL PLANNING ON BANKS PERFORMANCE (A SURVEY OF BANKS IN TRANS-NZOIA COUNTY)

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Abstract: **The purpose of the study was to assess the effect of financial planning on banks performance in Trans-Nzoia County with a specific objective of assessing the influence of financial forecasting on bank performance in Trans-Nzoia County. The research established that financial management, financial forecasting and Customer satisfaction have an effect on banks performance in Trans-Nzoia County. The regression analysis established the regression coefficients of the three factors as follows; financial management (0.032), financial forecasting (0.104) and customer satisfaction (-0.039). This shows that the most significant predictor of banks performance among the three factors was financial forecasting and financial management. A good financial forecasting contributes to proper financial management which in return leads to customer satisfaction. Based on the research findings it is recommended that; publication of comprehensive periodic financial reports. This will provide a good platform to manage the bulk of funds handled by the banks. Development of a reliable data bank for storage of important records used for financial forecasting is also recommended. Banks should use their historical income and expenditure data to predict and forecast future incomes and expenditure. The historical data to be used should be preferably for immediate past one or two years. Bank should formulate new ways and strategies for customer satisfaction. This is because customer taste and preferences are dynamic and keeps changing over time. This requires banks to keep pace with the changing customer needs.**

Keywords: **Financial Management, Customer Satisfaction.**

1. INTRODUCTION

Financial planning refers to a process of deciding expenditures, (that is how to spend and how much is need to be spent) according to the funds that are available. Financial planning is important to everyone including individuals and large multi-national corporations. The larger the measure of finances that one is dealing with, the more the effort is required to plan its utilization appropriately. One objective of financial planning is ensuring availability of sufficient funds for meeting daily expenses, purchase of long term assets, and dealing with future unforeseen costs. Planning is not only done to ensure that finance is available in a timely manner, but also that the company to know exactly where to raise the money from when it is needed. Another objective of financial planning is to manage cash flow of an enterprise. It is not always that a shortage of funds that can cause havoc to a company; excess funds can equally be difficult to manage if the enterprise has not formulated a solid financial plan. If there is a shortage of funds, it is of certainty that the company will find it difficult to operate especially settling its liabilities. Having excess funds and not utilizing it in an optimal manner is equally a huge wastage of resources for an enterprise. When the company is acquires finances or abnormal profits, they should develop ways to invest it appropriately ensuring that they have expansion plans in place for controlled growth (Kumaran, 2015).

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Firms must plan for short term and also long term. Short-term planning covers maximum one year. This plan caters for the working capital needs of the bank. Short-term financial decisions ensure the firm's solvency and are critical to the short term survival of the entity. Any enterprise needs to make decisions on short term sources of financing its activities and operations which mainly consists of loans from commercial banks and also direct market borrowing through commercial paper issues such as bonds.(Mudit,2011). Medium term financial plans cover periods between two to five years. Such plan considers maintenance and replacement costs, research and development costs. The plan prove intermediary between short term and long term financial plans. The main objective of such plans is to ensure profitability of the existing firm's assets. This is to say the benefits should exceed the cost of operations. (Mudit, 2011). Long term plans on the other hand take periods of more than five years. It concentrates on long term financial objectives of the company such as the capital structure, expansion activities and so on. Such plans provide strategies for future financial growth of the company. The main purpose of establishing this plan is to set financial milestones that, once they have been achieved they result in successfully realizing long term objectives of the enterprise. Long term plans are created for major strategic decisions that are made by the business such as mergers, foreign expansions, take overs, change of product etc.(Chandra, 2007)

An essential purpose of financial planning is assessment of the financial resources that will be required to implement the programmes and activities to meet the goals and aims of the plan, to guarantee availability of funds when needed, and monitoring efficient utilization of resources and of progress towards reaching the goals and targets. Financial Planning helps to focus the attention of the managers and subordinates towards objectives of the organization. It predetermines the objectives and defines line of action to complete the work.. Financial Planning serves as the blue print of the decisions and eliminates the unnecessary and useless activities. It focuses on prioritizing and facilitating right decision at the right time (Rosilyn, 2007). It is a process of planning and managing finances (current) to meet lifetime goals of the enterprise. Current finances means everything that constitutes the money today—income, savings, expenses , assets and liabilities. A financial plan is thus a comprehensive evaluation of an investor's current and future financial state using currently known variables to predict future cash flows, asset values and withdrawal plans. It aids the management to eliminate waste through development of policies and procedures that facilitates closer co-ordination between various functions of the business (Oye, 2016).

A financial plan involves using of three primary financial statements; balance sheet, income statements and cash flow statement. It provides estimation of cash requirements and decisions on how of raising the cash, such as through borrowing or issuing additional equity in a company. An important function of a financial manager is planning. In formulating the plans, he needs to first know the immediate condition of the firm bank. Planning business funds and carrying out financial plans is a continuous process in daily administration of a bank.(Mudit,2011). Medium term financial plan usually cover periods of between two to five years. Such plans consider maintenance costs and replacement costs of assets, research and development costs and so on. It mainly provides an intermediary between short term and long term financial plans. The main objective of such plan is to ensure the existing assets of the business are profitable. This plans also enable firms to conduct research and development where firms can plan the costs of the research and development. (Mudit, 2011)

Financial planning should be complemented by control in order to achieve the basic objective of planning. The actual results must be measured concurrently against projections. Control is financial management function which must be implemented by executive personnel of the business enterprise to achieve the goals established by the planning function. It has to do with testing the degree of management performance in the achievement of the set objectives. It is also a check to deviations from the planning function, and once the causes for the difference between the actual and expected performance have been established, a corrective action should be initiated. Financial planning can thus be defined as the process which assures that financial resources are obtained economically and utilized efficiently and effectively in the accomplishment of desired goals. It covers the entire process of monitoring actions emanating from the decisions. It is seen as an integral part of financial management. It also forms part of budgeting, accounting, reporting and review. The budget is then put in practice and results expected. Budgetary control system usually forms a good basis of controlling plans. Actual activities are monitored and their results evaluated and compared with plan. Significant deviations from plan are then identified and reported upon. The last step is investigating the deviations accordingly and taking corrective measures (Samuel, 2009).

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According to Prof. B.Shivaraj, financial planning has effects on each function in the organization, and to be effective, each function should be co-ordinated so as to ensure consistency in action. Organizations adopt different strategies among which includes financial planning and control. This is an integral part of financial management dealing management of firms' funds with a view of profit maximization and maximizing shareholders wealth. (Mudit 2011). Financial planning is usually a continuous process that flows with strategic decision making in a firm. Both the operating plan and the financial plan support strategic plan. The advantage accrued to financial planning is elimination of wastes resulting from the complexity of operations. For instance, technological advantages, higher taxes, increasing cost of social legislation. These might cause the company to exert wasteful efforts. To plan effectively it is required to make forecast of future trends, and when these are used as a basis for plans many unprofitable ventures are eliminated.(Matt, 2017)

A firm that performs no financial planning solely depends upon past experience for the establishment of its objectives, policies and procedures. Since the industry in which the bank operates is dynamic in character, past experience cannot be entirely relied upon in dealing with future conditions. Effective planinng requires that forecasts be made about future trends and business cycles, and when these are used as a basis for plans, many unprofitable ventures are eliminated. Financial planning is a tool that helps a bank to forecast the future of the organization from its past and present position while eliminating wasteful and unprofitable ventures considering the risks involved. Financial plans help to ensure that the firm's goals are mutually consistent. Financial planners of given firm need to think whether the higher sales growth may require price cuts that will reduce profit margin. Banks usually use these plans to evaluate the impact that changes in the operating plan have on the worth of the business and set appropriate targets for compensation plans.

It is a competitive strategy ensuring eradication of wasteful ventures while considering the current and the future finances. Financial performance of enterprises is mainly measured using financial statements. The purpose of financial statements is to convey an understanding of important financial aspects of a business. It is able to show the financial position of a company at a given point in time as the case of balance sheet. Financial analysts often assess firm's production and performance of productivity, profitability, liquidity, working capital, fixed assets, fund low and social performance (Lundberg, 2012). Taking a good deal in effective financial planning is a strategic that bank needs to execute in order to excel in their performance. Competition varies from one industry to another. Some industries have lower competition than others. Firms operating in highly competitive environment will have to formulate detailed financial plans that address the competitive nature. Current technology has enabled firms to design detailed plans and budgets that guide them. This has enabled firms and industries to develop master plans to boost financial performance(White 2017)

The basic advantage accrued to financial planning is the elimination of wasteful ventures resulting from complex business operations such as technological advantages, high taxations, etc. Financial planning help management to avoid such waste through providing guideline that makes it possible to closely coordinate various business functions. Firms do not perform financial planning tend to rely on past experience to establish their objectives, policies and procedures. Since the nature of the industry that banks operate is dynamic past experiences cannot be sufficient to forecast. Financial planning is an important aspect for the performance of banks in Trans-Nzoia County. There are many different businesses and individuals that transact with respective banks in the region mainly through deposits and drawings of money in terms of loan capital and also drawings from savings. There is much money which is pumped in agricultural sector in the county given its favorable climatic conditions. Based on this facts there is a need for strong financial institutions which can only be achieved through effective and efficient financial planning. There is also growth of other competing financial institutions including Microfinance organizations, Savings and Credit societies, mobile money providers and shylocks etc. There is a need to cub this kind of competition through efficient services which can only be achieved through proper financial planning.

Financial planning involves analysis of the entire cash flows of an organization for this case a bank, forecasting the consequences of different investments, financing and dividend decisions and evaluating effects of various alternatives. However, there has been complains of deficits, ineffective plans, underestimations and overestimations, Bankruptcy, misappropriation, stiff competition, customer dissatisfaction and lack of loyalty about customers. Deficits in funds have majorly been as a result of lack of accurate financial plans or non compliance to the prepared financial plans. This has a very huge impact on the strategic plans of the banks and has resulted to difficult executions in driving different projects and facilitating day to day business of the banks. Another problem is where it has been observed banks becoming insolvent. This is where banks fall in a condition of inability to pay debts. This usually happens for one or two reasons.

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Firstly, for some reason the bank may end up owing more than it is owns or is owed. That is its assets worth less than its liabilities. The second reason is when a bank cannot pay its debt as they fall due, even though its assets may be worth more that its liabilities. Stiff competition amongst the banks requires stability in operations which majorly requires proper financial plans. This will guarantee efficient adaptation of different strategies to ensure sustainability. Banks which are greatly struggling with poor or no financial plans find it difficult to employ techniques used by competitors. These techniques might involve shift in technology used to more expensive ones, advertisements amongst others. This eventually leads to customer satisfaction and loyalty. The study focused on assessing the influence of financial forecasting on bank performance in Trans-Nzoia County.

2. FINANCIAL MANAGEMENT

Financial management refers to the operational activity of a business that is responsible for acquisition and utilization of finances effectively.It is mainly concerned with the effective management of finances in the business. The time and extent of the availability of finance in any organization indicates the health of a concern. Every organization, may it be a company, firm, college, school, bank or university requires finance for running day to day affairs. As every organization previews stiff competition, it requires finance not only for survival but also for strengthening themselves. Finance is thus the circulatory system of the economy body, making possible the required cooperation between the innumerable units of activity.(Mwaura, 2013)

Financial management as an aspect of financial planning has evolved with respect to its scope and coverage. It involves application of planning and control to the finance functions. Helps in profit planning and control of finance functions. It facilitates monitoring and effective deployment of finances in fixed assets and in working capital ensuring adequate cash is on hand to settle the required current and capital expenditure .Financial management ensures that capital is procured at minimal cost. It also influences profitability of a firm and the cost of capital.Other importance of financial management lies in ensuring that funds are available when needed and procurement of funds does not interfere with the exercising of control over affairs of the company. Financial management greately affects the liquidity of firms enhancing their market value.(Kumaran, 2015)

Financial management has concerns with managerial decisions resulting to acquisition of short term and long term liabilities for the firm. It is involved with situations requiring selection of specific portfolio of assets, selection of specific liabilities as well as the problem of size and growth of the business. The analysis of such decisions is based on the expected in flows and out flows of finances and their effects on managerial objectives. Philllippatus(2016)

According to the words of Solomon (2010), Management decisions that result in acquisition and financing of short term and long term credits of a firm concerns financial management. Financial planning is an important part of financial management which is concerned with management of firms' finances with a view to maximizing profit and shareholders wealth. It involves analysis of financial cash flows as a whole, forecasting the consequences of various investments, financing and dividend decision and evaluating the effects of various alternatives. Bank performance is weighted under two measures: financial and non-financial terms. Financial performance measurement majorly involves analyzing financial statements of the bank including income statement, statement of financial position statement, and the cash flow statements. It rely the use of different kind of ratios including Liquidity ratios, gearing ratios, activity ratios and profitability ratios. Other common methods are common size statements and trend analysis.(Drury,2010)

Organizational performance refers to how well an organization achieves its market-oriented goals as well as its financial goals. Organizational performance means attainment of ultimate objectives of the organization as set out in the strategic plan. Performance can be determined in various ways. While there is a range of specific models, major determinants of firm-level profitability include: characteristic of the industry in which the firm competes; the firm's position relative to its competitors; and the quality or quantity of the firm's resources.(Golda, 2013). Dorothy (2009) indicated that numerous measures of corporate performance could be used as dependent variables. However, more important than a specific measure chosen is the use of multiple measures, because different criteria of performance are likely to be differentially affected by the various independent variables. Efficiency relates to how well resources are used to achieve a goal while effectiveness focuses on the appropriateness of the goals chosen. Since performance is a reflection of an organization's goals and strategic objectives, performance measures have to be tailored to the conditions and needs of the firm. Conceptually therefore, organizational performance has been viewed as the comparison of the value created by a firm, measured through the three general elements (efficiency, effectiveness& relevance) of organizational performance, with the value the owners expect to receive from the firm (Chen & Dodd,2001).

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Bank performance is weighted under two measures: financial and non-financial terms. Financial performance measurement majorly involves analysis on the financial statement of the bank including the income statement, statement of financial position, and the cash flow statements. It rely the use of different kind of ratios including Liquidity ratios, gearing ratios, activity ratios and profitability ratios. Other common methods are common size statements and trend analysis.(Drury,2010). Non-financial measures of performance include measuring the extent of customer satisfaction, efficiency of services, competitiveness, innovation and company reputations. (T.Lucey, 2008)

3. METHOD

The study adopted a descriptive with a target population of 146 employees of banks in transnzoia county. Data collection instrument was a questionnaire was adopted and piloting was done to test validity and relaiability of the data collection instrument. The data collected for the study purpose was adopted, edited and coded for completeness and accuracy. Observation and response from close ended questionnaire was tabulated and analyzed. A frequency distribution table was prepared for open ended questionnaire so as to convey meaning of the data. In this study, the data obtained from the questionnaire was analyzed using descriptive analysis. The multiple linear regression model that was used

4. DISCUSSION

Table 4.1 shows the analysis of the responses to the question on whether the banks are not under receivership for bankruptcy reasons due to proper financial management practices. This question intended to evaluate insolvency cases in banks in the County. Based on the responses 53.4% of the total respondents strongly agreed and 40.4% of respondents agreed, 5.5% were neutral while 0.7% of respondents disagreed. None of the respondents strongly disagreed on this question. These results show that the banks in Trans-Nzoia have not become insolvent as a result of bankruptcy cases due to proper financial management.

The question on whether banks have closed down none of their branches in the County due to financial tussles was intended to find out the difficulty in operation due to insufficient funds in the banks of Trans-Nzoia County. The analysis show that majority of respondents (52.7%) strongly agreed that their banks have not closed down branches in the County, 41.7% of respondents agreed ,4.8% of the respondents were neutral about the question, 0.7% disagreed. None of the respondent strongly disagreed that banks in Trans-Nzoia County have closed down some of their branches as a result of financial tussles. The banks in Trans-Nzoia County prepare effective financial plans to help them in managing their funds. The summary of the results is in the table 4.1 above.

Analysis was done on the question as to whether the banks which the respondent belong had good credit ratings. This question was intended to measure the ability of banks in Trans-Nzoia County to settle their liabilities. The response was 56.8% of the respondents strongly agreed, 32.2%agreed, 8.9% were neutral, 2.1 % disagreed and none of the respondent strongly disagreed on this question. From the response of the majority it is implied that most banks in the County have good credit ratings which is important to both customers and investors and contributes to effective financial planning.

Table 4.1 above shows the analysis of the responses intended to establish if financial management leads to better financial planning. The question was whether banks had well defined deposit and withdrawal policies. The analysis show that majority of respondents (59.6%) strongly agreed that their banks had well defined deposit and withdrawal policies , 29.5% of respondents agreed,6.2% were neutral,3.4% disagreed while 1.4% strongly disagreed on that question .

The researcher sought to establish from the respondents whether they agree that publications of financial reports lead to better financial planning for the organization. The analysis of the responses is shown in Table 4.4(e) above. 41.1% strongly agreed and 43.2% of respondents agreed. The respondents that disagreed and strongly disagreed were 2.7% and 4.8% respectively. However, 8.2 % of the respondents were neutral about this question. The results imply that banks can attain better financial planning through the use of proper and effective financial management practices such as periodic publication of financial reports.

The Table 4.1 above also shows the analysis of the responses intended to establish if proper financial management ensures accessibility of services by customers of the banks in Trans-Nzoia County. The analysis show that 41.8 of respondents strongly agreed, 42.5% of respondents agreed and 11.6% of respondents were neutral about the question. On the other hand 2.7% of the respondents disagreed and 1.4 % strongly disagreed. This showed that accessibility can actually be enhanced by proper financial management.

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Insurance covers are a very important of securing the funds that belong to an organization from different hazards .The respondents were enquired whether their banks had related specific cover(s) for funds. The response showed that majority (58.6%) strongly agreed, 27.4% agreed, 8.2% were neutral, 4.1% disagreed and 1.4% strongly disagreed. The analysis showed that most banks secure their finances as one practice of financial management for better financial planning.

The respondent were asked to rate the rate of development in their respective banks in the figure 4.2 below. 81 (55.5%) suggested that they were experiencing a relative stable development in their banks.49(33.6%) rated the nature of development at their banks to be continuously changing while 11.0% stated that their banks always surprised them with new ideas. This question sought to find out whether financial management practices had an effect on the nature of development in banks. The response showed that good financial management enhanced stable development in banks.

Table 4.1: Analysis on financial management

Statement	SA%	A%	N%	D%	SD%
a) Whether bank is not under receivership for bankruptcy reasons due to proper financial management practices	53.4	40.4	5.5	0.7	0
b) Whether a bank has closed down none of its branches in the county due to financial tussles	52.7	41.8	4.8	0.7	0
c) Whether bank where respondent belong has good credit ratings	56.8	32.2	8.9	2.1	0
d) Whether the bank has got well defined deposit and withdrawal policies	59.6	29.5	6.2	3.4	1.4
e) Whether the bank periodically publishes comprehensive financial reports	41.1	43.2	8.2	2.7	4.8
f) Whether the bank has employed adequate security on customers’ deposits.	52.1	33.6	11.0	3.4	0
g) Whether you can access (withdraw or deposit) your funds any time of the day from/into your bank account.	41.8	42.5	11.6	2.7	1.4
f) Whether the bank has specific insurance cover(s) for its funds	58.6	27.4	8.2	4.1	1.4

Inferential statistics

Multiple Regression Analysis

Regression analysis was carried out in order to determine the relationships between the independent variables (financial management) and the dependent variable (Banks performance).

Table 4.2: Regression Analysis Model Summary

Model Summary				
Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
1	.147[a]	.021	.001	.751

Predictors: (Constant), Financial management

Table 4.3

ANOVA					
Model	Sumof Squares	df	Mean Square	F	Sig.
Regression	1.759	3	.586	1.040	.377[a]
Residual	80.076	142	.564		
Total	81.836	145			

a. Predictors: (Constant), financial management,

b. Dependent Variable: Banks performance in Trans-Nzoia County

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Regression Coefficients

From the Coefficients table (Table 44) the regression model can be derived as follows:

Table 4.4

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
	(Constant)	1.188	.144		8.241	.000
	Financial management	.032	.100	.027	2.318	.021

a. Dependent Variable: Bank performance in Trans-Nzoia county

According to the equation, if all factors (financial management) are set at constant at zero, bank performance in Trans-Nzoia County will be 1.188 assuming the error.

Hypothesis Testing

Hypothesis One

H_{o1}: Financial management does not have a significant effect on Banks' performance in Trans-Nzoia County

From Table 4.4 above, Financial management (beta=0.027) was found to be positively related to bank performance in Trans-Nzoia county. The t-test value was found to be 2.318 and the p-value is 0.021.In statistics the p- value is less than the critical value and therefore we reject the null hypothesis , that is, $p<0.05$.Thus the study accepted that financial management affects banks performance in Trans-Nzoia County.

5. CONCLUSIONS AND RECOMMENDATIONS

The study concluded that financial management. Effective financial management is especial important to guarantee availability of adequate funds to meet day to day demands of a bank. This will eliminate bankruptcy that emanate from failure of banks to settle their debts on time or complete failure to settle dues when they arise. From the response from majority respondents financial management has an impact on effective financial planning that contributes to bank performance. Based on the foregoing research findings the following recommendations are offered to the Banks. There should be preparation of periodic financial reports to display important information to the stakeholders of the bank. Diversification of investments should also be considered by the banks as one way of immunizing and managing risk of losing funds. Banks should consider using their historical income and expenditure data to predict and forecast future incomes and expenditure. The historical data to be used should be for the immediate past one of two years. Banks should formulate new ways and strategies to satisfy their customer's needs. This is because customers taste and preferences are dynamic and keeps changing over time.

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