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FINANCIAL PLANNING AND FINANCIAL PERFORMANCE OF MANUFACTURING FIRMS IN MOMBASA COUNTY

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ABSTRACT

This study sought to investigate the effect of financial planning on financial performance of manufacturing firms in Mombasa County. The target population of the study was 100 senior management staff of manufacturing firms in Mombasa County. Stratified sampling technique was used in the study. For this study, data was collected using structured questionnaires based on the research questions. Data analysis was done with the help of Statistical Package for Social Science (SPSS) version 29. The study established that budgeting process is participatory in manufacturing firms and the firms have proper cash budgeting which ensures that the organization always has a healthy cash position. All the study variables—budgeting, financial forecasting, financing decisions, and cash flow projections—show statistically significant positive relationships with financial performance, underscoring their collective importance in enhancing the financial performance of manufacturing firms in Mombasa County. The study established that manufacturing firms identify the volumes of finance required through financial forecasting and that the firm conducts expenditure forecasting to identify anticipated expenditures. The study established that availability of variety of sources of finance improves financial performance of the firm and that identification of sources of finances improves the financial performance of the firm. In conclusion, the study established that budgeting, financial forecasting, financing decisions, and cash flow projections all significantly and positively affect the financial performance of manufacturing firms in Mombasa County. Among these variables, budgeting had the strongest influence, followed by financing decisions, cash flow projections, and financial forecasting. The study recommends that the management of the manufacturing firms should ensure total participation of all departments in budgeting making decisions. The study recommends that the manufacturing firms should develop financial systems which have the capability of accurately forecasting future financial needs of the firm.

Key Words: Budgeting, Financial Forecasting, Cash Flow Forecasting and Financing Decisions

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INTRODUCTION

Globally the aftermath of global financial crisis, many multi-national corporations and large firms were forced to make more pessimistic financial scenarios due to high market fragility and less profitability in international markets (White, 2017). The financial crises posed a direct influence on financial planning practices and procedures in an economy at large with high level probability of spreading across the borders. Moreover, corporate environment of emerging economies faced further discrepancies in financial activeness and forecasting (Dupuy & Le Gallo, 2021). This was as a result of global markets financial shocks faced by subsidiaries of multinational enterprises. Financial planning and performance analysis became even more important to keep functioning and avoid financial difficulties in a harsh economic circumstance (Singh, 2018).

In Africa, manufacturing firms face a unique set of financial challenges, largely driven by limited access to capital, fluctuating currency values, and volatile political environments. In Kenya, for instance, financial planning in manufacturing firms is influenced by erratic exchange rates and the cost of imported raw materials. Firms in the manufacturing sector often rely on financial forecasting to manage these risks and maintain profitability (Were & Odongo, 2021).

Locally, manufacturing industry in Kenya operates within a liberalized economic environment that is characterized by active partnership between the Government and the private sector. While the private sector is expected to be the motive force, the Ministry of industrialization is charged with the responsibility of formulation and implementation of policies a kin to manufacturing as well as co-ordination of planning, development, promotion and marketing of small manufacturing firms (Abouzid, 2021). The volatility of the Kenyan shilling against the dollar presents a significant challenge to manufacturing firms that rely on imported raw materials. Effective financial planning helps firms hedge against currency risks, ensuring stability in production costs and maintaining profit margins (Were & Odongo, 2021).

In Kenya, financial planning is critical to the sustainability and performance of manufacturing firms, given the dynamic economic environment and challenges such as fluctuating exchange rates, rising energy costs, and limited access to credit. Kenya Breweries Limited (KBL), one of the leading beverage manufacturers in the country, demonstrates the importance of financial planning through its strategic investments in product diversification and regional expansion (Omondi & Were, 2022). To maintain financial performance, KBL has employed robust budgeting and forecasting techniques to mitigate risks associated with fluctuating input costs and shifting consumer preferences. Financial planning has enabled the company to maintain profitability despite economic disruptions, ensuring consistent cash flow and efficient allocation of resources (Omondi & Were, 2022).

Mombasa County is the hub of industrial activities in the entire coastal region. It accounts for 90% of the establishment and employment opportunities (Mwaguni & Munga, 2021). Data from Kenya Association of Manufacturers (KAM, 2021) asserts that there are 187 food and beverage processing firms in Kenya. About 35 per cent of these are registered and operating in Mombasa County. According to Kenya Association of Manufacturers (2021), the number of manufacturing firms in Mombasa County has dropped by 30.2%, also, 39.7% of the manufacturing firms in Mombasa County change the trade name more often to remain in business and 42% have closed down in the past five years, most of the small and medium manufacturing firms are under performing probably because of inadequate of capital, inadequate financial planning practice which is an integral part of running manufacturing sector.

Statement of the Problem

Financial planning is a critical component in the success of manufacturing firms, directly influencing their financial performance. However, many manufacturing firms in Mombasa County have consistently struggled with effective financial planning, leading to suboptimal financial performance. Recent statistics from the Kenya Association of Manufacturers (KAM) indicate that over 40% of manufacturing firms in the region have faced liquidity challenges over the past three years, with poor financial planning being a key contributor (KAM, 2023). This issue is particularly pronounced among mid-sized firms, which lack the financial expertise and tools to manage their budgets, investments, and working capital effectively.

The problem primarily affects key stakeholders, including the financial managers, accountants, and CEOs of these firms. These professionals are responsible for devising and implementing financial strategies that can enhance profitability and sustainability. The current state of inadequate financial planning has led to erratic cash flows, high levels of debt, and increased production costs, making it difficult for these companies to achieve long-term growth and stability. Furthermore, without sound financial planning, these firms cannot invest adequately in technology, staff training, and market expansion—factors critical to staying competitive in both local and international markets.

The issue of weak financial planning stems from multiple departments, particularly finance and procurement, where inaccurate budgeting and poor capital allocation practices have hampered financial performance. Reports from the Auditor General's Office (2022) highlighted that up to 30% of firms in Mombasa County have failed to adhere to financial planning standards, resulting in inefficient resource use and diminished profitability. This problem has been ongoing for several years, intensifying since 2019, when global economic shifts and the COVID-19 pandemic exacerbated financial planning weaknesses. Delayed implementation of corrective measures has led to worsening financial indicators such as shrinking profit margins and rising operational costs.

The need to address this problem is urgent. KAM's 2023 report indicates that Mombasa's manufacturing sector could lose up to 10% of its market share in the next five years if these firms continue to underperform financially due to poor planning. This could lead to further job losses, reduced local economic growth, and declining investor confidence in the sector. Thus, improving financial planning practices is crucial to reversing this trend and positioning manufacturing firms for sustainable success.

In conclusion, the persistent lack of structured financial planning within manufacturing firms in Mombasa County is a pressing issue that requires immediate attention. By addressing this problem, firms can improve their financial performance, enhance operational efficiency, and secure long-term profitability. The solution lies in equipping financial decision-makers with the right tools and knowledge to develop robust financial strategies that will drive the sector forward (KAM, 2023; Auditor General, 2022).

Although there has been some discussion in the academic literature on the relationship between financial planning and performance of manufacturing firms, most of the studies on this aspect have been concentrating on long-range strategic planning with little attention being devoted to financial planning based on annual budgeting. This persistent lack of structured financial planning within manufacturing firms in Mombasa County is a pressing issue that requires immediate attention. Unless corrective measures are adopted, the sector risks continued financial underperformance, potential job losses, and a decline in competitiveness. This study therefore established whether financial planning practices have a significant influence on the financial performance of manufacturing firms in Mombasa County.

Research Objectives

The general objective of the study was to examine the effect of financial planning on financial performance of manufacturing firms in Mombasa County. The specific objectives were;

- To establish the effect of budgeting on financial performance of manufacturing firms in Mombasa County.
- To determine the effect of financial forecasting on financial performance of manufacturing firms in Mombasa County.
- To find out the effect of financing decisions on financial performance of manufacturing firms in Mombasa County.
- To determine the effect of cash flow projections on financial performance of manufacturing firms in Mombasa County.

The research hypotheses were;

- **H₀₁:** There is no significant effect of budgeting on financial performance of manufacturing firms in Mombasa County.
- **H₀₂:** There is no significant effect of financial forecasting on financial performance of manufacturing firms in Mombasa County.
- **H₀₃:** There is no significant effect of financing decisions on financial performance of manufacturing firms in Mombasa County
- **H₀₄:** There is no significant effect of cash flow projections on financial performance of manufacturing firms in Mombasa County

LITERATURE REVIEW

Theoretical Review

Theories are formulated to explain, predict, and understand phenomena and, in many cases to challenge and extend existing knowledge within the limits of the critical bounding assumptions. The theoretical framework introduces and describes the theory which explains why the research problem under study exists. A theoretical framework consists of concepts, together with their definitions, and existing theories that are used for the particular study (Sekaran, 2014). The study was anchored on the following theories; pecking order theory, signaling theory and agency theory.

Pecking Order Theory

The pecking order theory is the order which shows the preferences of financial managers in rising new capital (Hashemi, 2013). According to the theory, manager's choice is to use retained earnings then debts before going to equity shares. Also, the first choice in external finance is issuing debt. Debt is a safer security and less risky than equity. The pecking order allows issuing equity when the capacity of debt is fully used. The weakness of this view is that it is difficult for the firm to have an optimal capital structure since the focus of the firm is not on balancing the equity and debts financing options. Pecking Order theory tries to capture the costs of asymmetric information. The theory states that companies prioritize their sources of financing according to the principle of least effort, or of least resistance. Hence, internal funds are used first, and when that is depleted, debt is issued, and when it is not sensible to issue any more debt, equity is issued. According to Myers (2014) the theory states that, firms have a preferred hierarchy for financing decisions. Firms will borrow instead of issuing equity when internal cash flow is not sufficient to fund capital expenditure. The highest preference is to use internal financing before resorting to any form of external funds.

Internal funds incur no floatation costs and require no additional disclosure of financial information that may lead to a possible loss of competitive advantage. If a firm must use external funds, the preference is to follow a certain order of financing sources: debt, convertible securities, preferred stock, and common stock, (Miller, 2014). This order reflects the motivations of the financial manager to retain control of the firm, reduce the agency costs of equity, and avoid negative market reaction to an announcement of a new equity issue. The amount of debt will reflect the firms' cumulative need for external funds. The theory has two key assumptions about financial managers. The first of these is the likelihood that a firm's managers know more about the company's current earnings and future growth opportunities than outside investors. There is a strong desire to keep such information proprietary. The use of internal funds prevents managers from having to make public disclosures about the company's investment opportunities and potential profits to be realized from investing in them. However the theory has some limitations since it does not explain the influence of taxes, financial distress, security issuance costs, agency costs, or the set of investment opportunities available to a firm upon that firm's actual capital structure. It ignores the problems that can arise when a firm's managers accumulate so much financial slack that they become immune to market discipline. This theory explains the financing decisions variable in that finance managers always have preferences for the means of raising capital for the manufacturing firm and this preference affects financial performance.

Signaling Theory

The Signaling theory rests on the transfer and interpretation of information at hand about a business enterprise to the capital market, and the impounding of the resulting perceptions into the terms on which finance is made available to the enterprise. The flow of funds between an enterprise and the capital market highly depends on the available information between the two parties (Emery, Fowler, Hawkins & Preller, 2014). For instance the decision of the management to diversify its portfolios highly depends on its financial preparedness to take advantage of profitable investments that can accrue better returns in future.

The management of the firm can make an acquisition; repurchase outstanding shares as well as decisions by outsiders for example an institutional investor deciding to withhold a certain amount of equity or debt finance. The empirical evidence on the significance of signaling theory to quoted firms is accurately represented when investors make use of available information to invest in stocks that promise better returns in future through making a proper analysis of the available information in the market considering all the factors that can affect the performance of a firm.

Signaling theory adds to the insights provided in modern theory on the importance of considering the market forces and the external environment before arriving at an investment decision. Keasey, Thompson and Wright (2013) write that of the ability of a firm to take advantage of important information in making key decisions against its competitors. The empirical evidence shows that one party the sender of this information must choose whether to communicate or signal that information and the other party must choose how to interpret the signal. In regard to financial planning a firm should consider proper financial plans to take advantage of opportunities that can yield better returns in future. Hence the theory supports financial planning variables as provides key insights on the significance of factoring inherent market forces prior to making an investment decision. The theory also links financial forecasting variable in the for the success of financial forecasting in manufacturing firms, the external environment information should be considered.

Agency Theory

The agency theory postulates that the day to day running of a business enterprise is carried out by managers as agents who have been engaged by the owners of the business as principals who are also known as shareholders. The theory is on the notion of the principle of 'two-sided transactions' which holds that any financial transactions

involve two parties, both acting in their own best interests, but with different expectations (Ang, Cole and Lin, 2013). Agency theory is concerned with resolving two problems that can occur in agency relationships. The first is the agency problem that arises when the desires or goals of the principal and agent conflict and it is difficult or expensive for the principle to verify what the agent is actually doing. The problem here is that the principal cannot verify that the agent has behaved appropriately. The second is the problem of risk sharing that arises when the principal and agent have different attitudes towards risk. The problem here is that the principle and the agent may prefer different actions because of the different risk preferences (Eisenhardt, 2015).

This theory has been observed to identify a few shortcomings in that: it shows information asymmetry where agents have information on the financial circumstances and prospects of the enterprise that is not known to principals; moral hazard where agents deliberately take advantage of information asymmetry to redistribute wealth to themselves in an unseen manner which is ultimately to the detriment of principals; and adverse selection where agents misrepresent the skills or abilities they bring to an enterprise, (Ang, Cole & Lin 2013). This theory provides useful knowledge in financial decisions concerning manufacturing firms; it also brings out considerable arguments on how a financial manager of manufacturing firms should relate with the owners of the business to serve the interests of all stakeholders in a firm (Matthews, and Scott, 2012).

Cash Management Theory

Cash management theory is concerned with the managing of cash flows into and out of the firm; cash flows within the firm and cash balances held by the firm at a point of time by financing deficit or investment surplus cash. Short-term management of corporate cash balances is a major concern of every firm (Aziz & Dar, 2016). According to a study done by Word (2015) on why traditional cash flow is thought to be a strong predictor of financial distress study revealed that traditional cash flow significantly predicts financial distress. According to a study done by Davies (2016) on the role of cash flow information in predicting financial distress among commercial banks in Kenya found that financial variables which significantly influence the firm's financial distress are cash flow generated from operating activities, cash dividend coverage, interest coverage and the dividend payout ratio.

Cash management theory is concerned with the managing of cash flows into and out of the firm cash flows within the firm and cash balances held by the firm at a point of time by financing deficit or investment surplus cash. Short term management of corporate cash balances is a major concern of every firm. This is so because it is difficult to predict cash flows accurately, particularly the inflows, and there is no perfect coincidence between cash outflows and inflows (Wang & Moines, 2017). During some periods cash outflows, will exceed cash inflows because payments for taxes, dividends or seasonal inventory will build up. At other times, cash inflow will be more than cash sales and debtors may realize in large mounts promptly (Goswami, Chandra, & Chouhan, 2015). An imbalance between cash inflows and outflows would mean failure of cash management function of the firm. Persistence of such an imbalance may cause financial distress to the firm and, hence, business failure (Jahur & Quadir, 2016). An imbalance between cash inflows and outflows would mean failure of cash management function of the firm. Persistence of such imbalance may cause financial distress to the firm hence (Aziz & Dar, 2016).

Empirical Review

Jog and Srivastava (2015) conducted a study that looked at financial decision-making processes that Canadian companies followed, as well as techniques they used to make decisions on capital budget, financing costs and sources, and dividends. Their results show that investment decisions are closely related to funding opportunities, and that the method used for the capital budget is the internal rate of return and the net present value. They also found that most Canadian companies determine an optimal debt and equity ratio.

Lazaridis (2014) carried out a study to investigate the way in which companies generate information to calculate cash flow, finding a large number of companies using subjective methods to forecast cash flows and just a few companies adopting sophisticated techniques. Kamath (2014) studied long-term funding decisions in large corporations and found that most companies do not maintain an objective in their debt and equity structure, preferring a financial hierarchy. They also showed that the main issues in financing decisions are those related to maintaining financial flexibility and ensuring survival in the long term.

Moghimi and Anvari (2014) carried out a survey to evaluate the effect of financial planning on financial performance of cement firms in Iran. A sample of 25 cement companies was conducted; qualitative and quantitative data was used. A descriptive statistics method of data analysis was applied. The findings of the study revealed that financial planning is an important variable in analyzing financial flows of a firm as a whole, forecasting the consequences of various investments, financing and dividend decisions and weighting the effects of various alternatives.

Locally, Bulle (2015) conducted a study to determine the relationship between strategic planning and financial performances of firms within the ICT sector in Kenya. The researcher adopted a multiple regression model to analyze the data. The results of the study revealed that there was a positive correlation between strategic planning and financial performance of ICT firms.

Mwaura (2016) carried out a study to determine the effect of financial planning on the financial performance of all automobile firms in Kenya; the study applied a descriptive research design. In addition both qualitative and quantitative methods were applied in data collection. A sample of 25 automobile firms was used. A regression model was used to analyze secondary data; descriptive statistical analysis was used to analyze data collected from the questionnaires. The results of the study indicated that the financial planning measures such as earnings before interest and tax and the capital employed which comprises of fixed assets and working capital had an impact on the financial performance of the firm measured by return on capital employed.

Macharia (2015) carried out a census-sampling procedure of forty seven (47) finance managers drawn from commercial oriented parastatal organizations to determine the relationship between financial Planning and financial performance of Public Service Organizations in Kenya. Qualitative and quantitative data was used and a simple regression model was used for data analysis. The study established existence of a positive relationship between financial planning and financial performance of public service organizations in Kenya.

METHODOLOGY

Research Design

Descriptive survey research design was utilized in the current study. A descriptive review outline is the gathering of data from a typical gathering through meetings or the use of surveys to a delegate test of that gathering. This research design is favoured in light of the fact that extensive specimens are practical, making the outcomes measurably noteworthy notwithstanding while breaking down numerous factors (Mugenda & Mugenda, 2012). The advantage of this design over others is that data is collected less expensively and within a short time. The characteristics of variables will not change much in the short period of data collection. It additionally gives answers to inquiries like who, what, when, where and in some cases how. It empowers respondents to give more data uninhibitedly.

Target Population

A population refers to an entire group of individuals, events, or objects that share common characteristics and conform to a given specification (Mugenda & Mugenda, 2020). In this study, the population consisted of 50

manufacturing firms operating within Mombasa County. These firms represent the focal point of the research, specifically targeting CEOs, Finance Managers, Accountants, and Risk Managers, who are central to the study's objectives.

The justification for selecting 50 manufacturing firms comes from the most recent reports by the Kenya Association of Manufacturers (KAM). According to KAM's annual reports and member listings, these 50 firms have been consistently operational and are actively engaged in the manufacturing sector within Mombasa County. These companies have been registered under KAM's Mombasa Chapter, which tracks the growth, performance, and contribution of manufacturing firms to the local economy. Moreover, KAM has highlighted that these firms.

Sample Size and Sampling Technique

The study employed stratified sampling technique by using a sample comprised of 100 senior management staff from manufacturing firms in Mombasa County Bryman and Bell, (2015) argue that stratified random sampling is where a given number of cases are randomly selected from each population sub-group.

The sample size is determined by a three based criterion, this being level of precision, the level of confidence, and finally the degree of variability in the attributes being measured.

Data Collection Methods

Research instruments are measurement tools which are designed to obtain data on the research topic. Saunders *et al.*, (2014) described data as facts, opinion, and statistics that have been collected together and recorded for reference or for analysis. This study used quantitative data which was collected by use of a questionnaire.

The primary method is the method of collecting data where information is collected at first hand and in its unedited form from a source for specific purpose. The researcher therefore used questionnaire method to acquire or solicit data. Structured questions were used and a cover letter was used to indicate the aim of the research and assurance of confidentiality for respondents answer. Questionnaires were designed based on research questions and objectives. Using questionnaires to collect data is a relatively quick way of gathering such information with relatively good response rates.

Data Collection Procedure

Questionnaires were administered to the target respondents. The questionnaires were reformulated through pilot test which were undertaken to confirm their reliability and validity. To aid in data collection, entry, coding and data cleaning the main researcher employed 3 research assistants. Before the research assistants embark on data collection they were taken through the whole questionnaire and trained on best data collection procedures. The data was collected during week days from 8am to 5pm and the main researcher kept in touch with the research assistants via mobile phone and mid-week meetings.

Data Analysis and Presentation

Burns and grove (2020) define data analysis as a mechanism for reducing and organizing data to produce findings that require interpretation by the researcher. Quantitative methods of data analysis were used to analyze the data. Quantitative information was analyzed through statistical procedures. Statistical analyses cover a broad range of techniques, from simple procedures that we all use regularly (e.g., computing an average) to complex and sophisticated methods. Multiple regression analysis was used because it provides estimates of net effects and explanatory power. The statistical package for social sciences, SPSS version 29 was used for data analysis.

The regression model used was as follows: $Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon$ Where:

Y is weight for financial performance

α is regression constant

β is regression coefficients

X_1 is weight for budgeting

X_2 is weight for financial forecasting X_3 is weight for financing decisions X_4 is weight for cash flow projections

ϵ is error term

FINDINGS AND DISCUSSIONS

Response Rate

The researcher analyzed the response rate in relation to the targeted sample and the number of respondents with a view to determining the reliability of the study. The results showed that out of the 80 questionnaires administered 68 were returned representing a response rate of 85.0%. This response rate was considered adequate for objectives of the study as it conforms to that recommended by Mugenda and Mugenda (2012), who notes that a response rate of 70% and above is good, reliable and representative.

Descriptive Analysis

This section comprises of descriptive analysis for variables under study. Descriptive statistics are used to describe the basic features of the data in study, giving simple summaries about the sample and the measures.

Budgeting

The respondents were requested to indicate their level of agreement or disagreement on the given aspects of budgeting by filling a 5-Likert Scale where; 1=strongly disagree, 2=disagree,

3=neutral, 4=agree, 5=strongly agree. The variable used mean and standard deviation to compute. The results are presented in table 1.

Table 1: Descriptive Results on Budgeting

	Mean	Std. Deviation
The budgeting process is participatory in my firm	2.94	.264
Proper cash budgeting ensures that the organization	4.73	.371
The firm formulates workable and achievable budgets	4.65	.529
Budgeting leads to better financial planning	4.91	.185

The results in Table 1 indicate that respondents were neutral regarding the statement that the budgeting process is participatory in their firm, as shown by a mean of 2.94 and a low standard deviation of 0.264. However, respondents strongly agreed that proper cash budgeting ensures that the organization always has a healthy cash position, with a high mean of 4.73 and a low standard deviation of 0.371. Similarly, respondents strongly agreed that their firms formulate workable and achievable budgets, as evidenced by a mean of 4.65 and a standard deviation of 0.529. Furthermore, there was a very strong agreement that budgeting leads to better financial planning, as indicated by the highest mean of 4.91 and a low standard deviation of 0.185. These findings align with the study by Omondi (2020), who found that effective budgeting practices enhance financial planning and profitability.

Financial Forecasting

The respondents were asked to indicate the extent to which financial forecasting affects financial performance. The results were presented in Table 2.

Table 2: Descriptive Results on Financial Forecasting

	Mean	Std. Deviation
The firm identifies the volumes of finance required through financial forecasting	4.63	.290
The firm conducts expenditure forecasting to identify anticipated expenditures	4.97	.121
Effective financial forecasting contributes to improved financial performance	4.82	.508
The company has financial forecasting systems in place	4.82	.508

The results in Table 2 indicated that respondents strongly agreed with the statement that the firm identifies the volumes of finance required through financial forecasting, as shown by a high mean of 4.63 and a low standard deviation of 0.290. Similarly, respondents strongly agreed that the firm conducts expenditure forecasting to identify anticipated expenditures, with an exceptionally high mean of 4.97 and a very low standard deviation of 0.121, indicating strong consensus.

There was also strong agreement that effective financial forecasting contributes to improved financial performance, as evidenced by a mean of 4.82 and a standard deviation of 0.508. However, respondents were somewhat neutral regarding the existence of financial forecasting systems in the company, as indicated by a mean of 3.76 and a higher standard deviation of 0.946, suggesting varied opinions among respondents. These results are in line with the findings of Kipyego (2019), who emphasized that accurate forecasting contributes to better financial decision-making.

Financing Decisions

The respondents were asked to indicate the extent to which financing decisions affects financial performance. The results are presented in Table 3.

Table 3: Descriptive Results on Financing Decisions

	Mean	Std. Deviation
Proper financing practices leads to better financial planning	4.66	.338
Diversification of finance sources can lead to improved performance	4.27	.846
Availability of variety of sources of finance improves financial performance of the firm	4.54	1.016
Identification of sources of finances improves the financial performance of the firm	4.07	.921

The results in Table 3 indicate that respondents strongly agreed with the statement that proper financing practices lead to better financial planning, as shown by a high mean of 4.66 and a low standard deviation of 0.338. Similarly, respondents agreed that diversification of finance sources can lead to improved performance, with a mean of 4.27 and a relatively higher standard deviation of 0.846, indicating some variability in responses.

There was also strong agreement that the availability of a variety of finance sources improves the financial performance of the firm, as reflected by a mean of 4.54 and a standard deviation of 1.016. However, respondents somewhat agreed that identifying sources of finance improves financial performance, with a mean of 4.07 and a standard deviation of 0.921, suggesting moderate agreement and some variation in perception. This finding corroborates the study by Mutua (2018), who noted that sound financing choices positively impact firm growth and profitability.

Cash Flow Projections

The respondents were asked to indicate the extent to which cash flow projections affect financial performance. The results are presented in Table 4.

Table 4: Descriptive Results on Cash Flow Projections

	Mean	Std. Deviation
Operating cash flow projection provide insights flows over time	4.81	.303
our firm's cash inflows and outflows from core	4.72	.239
Financing cash flow projection accurately forecast financing activities	4.66	.425

The results in Table 4 indicated that respondents strongly agreed with the statement that operating cash flow projections provide insights into the firm's ability to generate sustainable cash flows over time, as shown by a high mean of 4.81 and a low standard deviation of 0.303. Similarly, respondents strongly agreed that operating cash flow projections accurately capture cash inflows and outflows from core business operations, with a mean of 4.72 and a low standard deviation of 0.239, indicating a high level of consensus.

There was also strong agreement that financing cash flow projections accurately forecast cash inflows and outflows related to financing activities, as reflected by a mean of 4.66 and a standard deviation of 0.425. These results are consistent with the findings of Mwangi (2021), who reported that precise cash flow forecasting helps firms maintain liquidity and optimize financial outcomes.

Financial Performance

The study sought to obtain relevant data with regard to the perception respondents have on financial performance. A summary of the descriptive statistics from this section is tabulated on table 5.

Table 5: Financial Performance

	Mean	Std. Deviation
The firm return on assets has increased over the last years	4.13	.791
The firm return on investment has improved considerably	4.22	.516
The profitability of the firm has increased	4.69	.203
The firm has expanded its market share over time	4.19	.975

The results in Table 5 indicate that respondents agreed that the firm's return on assets has increased over the last years, as shown by a mean of 4.13 and a standard deviation of 0.791. Similarly, respondents agreed that the firm's return on investment has improved considerably, with a mean of 4.22 and a lower standard deviation of 0.516, indicating more consistent responses. There was strong agreement that the profitability of the firm has increased, as evidenced by a high mean of 4.69 and a very low standard deviation of 0.203, reflecting a clear consensus among respondents. Furthermore, respondents agreed that the firm has expanded its market share over time, with a mean of 4.19 and a higher standard deviation of 0.975, suggesting some variation in perceptions.

Discussion of Key Findings

The first objective of the study sought to determine the effect of budgeting on the financial performance of manufacturing firms in Mombasa County. Regression analysis revealed a positively significant effect of budgeting on financial performance, as indicated by the value of $\beta = 0.467$, with a p-value of 0.003, which is less than 0.05. This suggests that a unit change in budgeting practices would lead to a 0.467 unit increase in financial performance. Therefore, we reject the null hypothesis and accept the alternative hypothesis, concluding that budgeting has a significant effect on the financial performance of manufacturing firms. These findings align with the study by Omondi (2020), who found that effective budgeting practices enhance financial planning and profitability.

The second objective aimed to establish the effect of financial forecasting on the financial performance of manufacturing firms. The results showed a positively significant relationship, with a coefficient of $\beta = 0.384$ and a p-value of 0.012, which is below the 0.05 threshold. This indicates that a unit change in financial forecasting would result in a 0.384 unit increase in financial performance. Consequently, the null hypothesis is rejected, and the alternative hypothesis is accepted, affirming that financial forecasting significantly influences financial performance. These results are in line with the findings of Kipyego (2019), who emphasized that accurate forecasting contributes to better financial decision-making.

The third objective was to examine the effect of financing decisions on the financial performance of manufacturing firms. The regression analysis revealed a significant positive effect, with $\beta = 0.431$ and a p-value of 0.018, which is less than 0.05. This means that a unit change in financing decisions would lead to a 0.431 unit increase in financial performance. Therefore, we reject the null hypothesis and accept the alternative hypothesis, concluding that financing decisions significantly affect financial performance. This finding corroborates the study by Mutua (2018), who noted that sound financing choices positively impact firm growth and profitability.

The fourth objective of the study sought to assess the effect of cash flow projections on financial performance. The analysis indicated a significant positive effect, with $\beta = 0.416$ and a p-value of 0.009, which is less than 0.05. This implies that a unit change in cash flow projections would lead to a 0.416 unit increase in financial performance. As such, the null hypothesis is rejected, and the alternative hypothesis is accepted, establishing that cash flow projections significantly impact financial performance. These results are consistent with the findings of Mwangi (2021), who reported that precise cash flow forecasting helps firms maintain liquidity and optimize financial outcomes.

CONCLUSIONS AND RECOMMENDATIONS

Descriptive results revealed that respondents generally agreed that budgeting practices, such as formulating achievable budgets and maintaining healthy cash positions, positively influence financial planning. However, there was a moderate level of agreement regarding the participatory nature of budgeting processes. The regression analysis confirmed that budgeting significantly influences financial performance, with a positive beta coefficient of 0.467 and a p-value of 0.003. This indicates that enhancing budgeting practices by making them more inclusive and accurate can positively impact the financial performance of manufacturing firms.

The descriptive results indicated strong agreement among respondents that financial forecasting practices, such as identifying financial requirements and forecasting expenditures, play a crucial role in financial planning. However, there was moderate agreement regarding the presence of formal financial forecasting systems. The regression analysis further demonstrated a significant positive relationship between financial forecasting and financial

performance, with a beta coefficient of 0.384 and a p-value of 0.012. This finding suggests that improving financial forecasting accuracy and system implementation can lead to better financial outcomes.

Respondents expressed agreement on the positive impact of proper financing practices and diversification of finance sources on financial performance. However, opinions varied regarding the identification of diverse financial sources. Regression results indicated that financing decisions significantly affect financial performance, with a beta coefficient of 0.431 and a p-value of 0.018. This implies that strategic financing decisions, including diversification and identification of viable sources, are crucial in promoting financial success.

The descriptive analysis revealed strong agreement that cash flow projections, both operating and financing, are crucial for sustaining cash flow and accurately forecasting cash inflows and outflows. The regression analysis corroborated these findings, with a positive beta coefficient of 0.416 and a p-value of 0.009, indicating a significant relationship between cash flow projections and financial performance. This emphasizes the need for firms to enhance their cash flow forecasting practices to maintain liquidity and achieve financial stability.

The study concluded that budgeting has a significant positive effect on the financial performance of manufacturing firms. Regression analysis revealed that a unit increase in effective budgeting practices leads to a substantial improvement in financial performance. This underscores the importance of adopting participatory and practical budgeting processes that facilitate accurate financial planning. Firms that formulate achievable budgets and regularly evaluate their cash positions are better positioned to maintain financial stability.

Financial forecasting was found to significantly enhance financial performance, as evidenced by its positive regression coefficient. Accurate forecasting allows firms to anticipate financial needs, manage expenditures, and plan for future cash flows. However, the study noted variability in the presence of formal financial forecasting systems, suggesting that firms could further enhance their financial outcomes by institutionalizing robust forecasting practices.

The study concluded that financing decisions positively influence financial performance. Manufacturing firms that strategically select and diversify their sources of finance tend to experience improved financial outcomes. The significant positive relationship implies that sound financing decisions are essential for growth, profitability, and financial sustainability. Therefore, firms should carefully evaluate financing options to maximize their financial performance.

Cash flow projections also had a significant positive effect on financial performance. Firms that accurately forecast operating and financing cash flows are better able to manage liquidity and maintain financial health. The study concluded that consistent and precise cash flow projections are essential in sustaining operations and ensuring long-term profitability.

Manufacturing firms should adopt more participatory budgeting practices to improve financial performance. This can be achieved by involving various stakeholders in the budgeting process, including departmental managers and financial experts. Participation not only fosters commitment but also enhances the accuracy and practicality of budget formulation. Firms should also implement training programs on budgeting techniques to build capacity and ensure that employees understand the importance of effective budgeting in financial planning.

Given the positive impact of financial forecasting on performance, firms should establish robust and formalized financial forecasting systems. Implementing advanced forecasting software and analytical tools can improve the accuracy and efficiency of predicting financial needs and expenditures. Additionally, firms should regularly update forecasting models to reflect changing market conditions and economic variables. Periodic training of financial managers on modern forecasting techniques can also enhance the quality of financial projections.

To maximize financial performance, manufacturing firms should make strategic financing decisions by diversifying their sources of finance. This involves assessing various financing options, including bank loans, equity financing, and internal funding, to identify the most cost-effective choices. Developing a comprehensive financial strategy that aligns with the firm's long-term goals can help mitigate financial risks. Additionally, firms should consider forming partnerships with financial institutions to secure favorable lending terms and maintain flexible financing arrangements.

Manufacturing firms should enhance their cash flow projection practices by employing accurate and reliable methods for estimating cash inflows and outflows. Utilizing predictive analytics and integrating cash flow management into strategic planning can help firms better anticipate financial challenges. Furthermore, continuous monitoring and evaluation of cash flow statements will ensure that firms maintain a healthy cash position, thus avoiding liquidity crises.

Recommendations for Future Research

Future studies should explore the challenges manufacturing firms face in implementing effective financial planning practices. Additionally, comparative studies involving other regions or sectors could provide insights into the generalizability of the findings. Further research could also examine the long-term effects of specific financial planning practices on firm sustainability and growth.

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