

# Effect of Financial Planning Practices on the Financial Performance of Non Profit Making Health Organizations in Kiambu County, Kenya

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**ABSTRACT:** The general objective of this study was to analyze the effect of financial planning practices on the financial performance of non-profit making health organizations in Kiambu County, Kenya. The specific objectives of the study were: to assess the effect of budgeting practices on financial performance of non-profit making health organizations in Kiambu county, to evaluate the effect of cash planning on financial performance of non-profit making health organizations in Kiambu county, to analyze the effect of inventory planning on financial performance of non-profit making health organizations in Kiambu county and to assess the effect of working capital management on financial performance of non-profit making health organizations in Kiambu county. This study adopted a descriptive survey design. The target population of the study included all the 108 in all the non-profit Making health organizations in Kiambu County, Kenya. Two respondents were selected per organization thereby making the total respondents were 216. The study used Census approach to select all the 216 respondents in all the nonprofit Making health organizations in Kiambu County, Kenya. This study used primary data which was collected through use of a self-administered semi structured questionnaires. Descriptive statistics such as, mean and frequencies was used for the purpose of data analysis. The mean scores was used to rate the factors in order of their importance. After data has been collected through questionnaires, it was prepared in readiness for analysis by editing, handling blank responses, coding, categorizing and keying into statistical package for social sciences (SPSS) computer software for analysis. SPSS version 21 software was used to produce frequencies, descriptive and inferential statistics which was used to derive conclusions and generalizations regarding the population. Analyzed data was presented by aid of frequency tables and charts. The study found that budgeting practices, cash planning, inventory management and working capital management have a positive and significant effect on performance.

**Key Words:** Budgeting practices, cash planning, inventory planning, working capital management, financial performance

## 1. INTRODUCTION

Financial performance is the process of measuring the results of a firm's policies and operations in monetary terms. It is used to measure firm's overall financial health over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation (Metcalf & Titard, 2016). Moghimi and Anvari (2014) argued that successful financial performance of a firm requires financial planning. On the other hand, financial planning involves 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. Performing financial planning is critical to the success of any organization. It forms the basis of a workable business plan that is measurable and achievable within a period of time. These fuels the need to work towards set targets from a financial perspective. It also helps the CEO to set financial targets for the organization and give targets to his subjects. In enhancing the level of motivation amongst employees' rewards and recognition are accorded to those who hit the targets as provided by the budget (Moghimi & Anvari, 2014). This leads to financial performance of firms due to motivation and the desire to meet set targets.

According to Ijan (2010), nonprofit organization is an organization that has been formed by a group of people in order "to pursue a common not-for-profit goal, that is, to pursue a stated goal without the intention of distributing excess revenue to members or leaders. A nonprofit organization is often dedicated to furthering a particular social cause or advocating for a particular point of view

(Smith, 2010). In economic terms, a nonprofit organization uses its surplus revenues to further achieve its purpose or mission, rather than distributing its surplus income to the organization's shareholders (or equivalents) as profit or dividends. This is known as the non-distribution constraint. The decision to adopt a nonprofit legal structure is one that will often have taxation implications, particularly where the nonprofit seeks income tax exemption or charitable status. Not for profit health organizations provide medical services (this can also include dental, psychiatric or other specialized health services) as well as educational and preventative care services. They are usually organizations are mission-driven, rather than profit-driven (Carroll & Stater, 2008).

Moghimi and Anvari (2014) evaluated financial performance of Iranian cement companies, it was concluded that financial planning was 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. According to Sarangarajan, Ananth and Lourthuraj (2012), cement industry performance was good during 1997, 1998 and 2004 while for the rest of the years the industry performed poor.

In a study on 19 Sub-Saharan African countries, USAID (2010) found that only 6.2% of the NPOs in Africa were financially sustainable. The study concluded that local NPOs provided excellent service, but lacked financial sustainability due to overdependence on external donors as the only source of funding. The low financial sustainability of the NPOs in Africa was also attributed to poor performing economies that could not generate donations to the NPOs from local sources like the government, individuals and corporates. Many of the NPOs in Africa were found to be weak and unable to compete with international NPOs for funding.

In South Africa, Not for profit health organizations are expected to invest R362 billion in infrastructures over the medium term, contributing significantly to gross capital formation. In recent years, however, the financial and operational performance of several Not for profit health organizations and development finance institutions has weakened. And although the overall financial position of the social security funds is strong, liabilities continue to mount at the Road Accident Fund (RAF) (Coovadia *et al.*, 2009).

Abdelkarim (2012) noted that it is only organizations capable of building sound financial systems and attracting or generating steady income flows that will be able to continue to exist. To be able to generate a positive balance sheet that allows a NPOs to continue in operation and accord itself flexibility to respond to ever-changing environment and needs, sound financial management practices, management competence, and a diversified funding base are imperative (Leon, 2011).

Okorley and Nkrumah (2012) in their study on the financial sustainability of NPOs found that 26% of the NPOs in Ghana were not sustainable. The study indicated the availability of funds, quality material resources, supportive leadership, development of needs-based and demand-driven programmes, and effective management affected the sustainability of local NPOs. Lack of funds was found to be the major factor that affected the sustainability of NPOs as indicated by 82% of the respondents.

The Kenyan health system is impacted by the work of NPOs. According to the NGOs register at the NGOs Co-ordination Board, as at 28 February 2015, there were 16,844 NPOs operating in the 47 counties in Kenya (NGO Board, 2015). Most facilities operated by NPOs are often the best balance of care and cost where they are available. For example at the Lwala Community Health Center, a facility operated by the not for profit group Lwala Community Alliance, the minimal fee of Ksh. 50 (about \$0.65 USD) is waived for up to 85% of patients. As a result of the high quality of care and low cost, patients come from a wide area of up to 30 to 40 kilometers to access the facility. In the not for profit health organizations, reliance on donor funding is often the limiting factor that prevents facilities from offering a broader service spectrum, or offering services to more people (Turin, 2010).

### **1.1.1 Financial Planning Practices**

Financial planning is the adaption of the broad objectives, strategies and other plans of an organization into financial terms (Hilton & Gordon, 2008). According to Atieno (2013), financial planning is a continuous process of directing and allocating financial resources to meet strategic goals and objectives. The output from financial planning takes the form of budgets. Understanding past performance and translating that insight into forward looking targets to align business results with the corporate strategy is key to driving shareholder value. A financial plan consists of sets of financial statements that forecast the resource implications of making business decisions. For example, a company that is deciding to expand e.g. by buying and fitting out a new factory will create a financial plan which considers the resources required and the financial performance that will justify their use (Arnold & Chapman, 2014).

There are four financial planning practices which include budgeting, financing planning, inventory planning and working capital management. According to Mutune (2014), a budget is a plan for the accomplishment of programs related to the following; objectives and goals, a definite time period, an estimate of resources required, an estimate of resources available, compared with one or more past periods and showing future requirements. The budgeting process therefore puts an organization's activities in a coherent manner that results in the general welfare of the organization. Financing planning decisions revolve around how to pay for investments and expenses. Companies can use existing capital, borrow, or sell equity. Once a firm has taken an investment decision and committed itself to the investment, it must decide the best means of financing these commitments. Since, organizations regularly make new investments; there is need for financing and financial decisions. Inventory management involves the recording and monitoring of stock level, forecasting future demand and deciding on when and how to order (Adeyemi & Salami, 2010). Working Capital

Management is concerned with the problems that arise in attempting to manage the Current Assets, the Current Liabilities and the interrelationship that exists between them (Muthuva, 2010).

### **1.1.2 Financial Performance**

Performance refers to the act of performing; execution, accomplishment, fulfillment, etc. In border sense, performance refers to the accomplishment of a given task measured against preset standards of accuracy, completeness, cost, and speed (Frich, 2009). Financial performance is the extent to which objectives of the firm and in this case financial objectives will be met or have been meet (Yahaya & Lamidi, 2015). Financial performance can also refer to the general well-being of a firm as far as finance is concerned over a certain period of time (Yahaya & Lamidi, 2015).

Financial performance focuses more items that affect the financial statements or reports of a firm directly. The financial performance analysis can deal with items such as dividend growth, sales turnover, capital employed, asset base among others about the firm (Omondi & Muturi, 2013). The financial performance is a crucial indicator or measure of some economic units' success for example on achievement of set goals and objectives (Xu & Wannapee, 2014). Firms stakeholders are mostly interested in the firm's performance as far as finance is concerned (Nyamita, 2014).

Financial performance of a firm has several major characteristics, potentials of the business, defines competitiveness, economic intents of the company's leadership and reliability of present or future contractors (Dufera, 2010). Financial performance is more 5 often than not expressed with regards to increase in sales or price of stocks (Maghanga & Kalio, 2012).

### **1.1.3 Non-profit Making Health Organizations in Kiambu County, Kenya**

The development of healthcare systems in Kenya dates back to the pre-colonial era. With the establishment of mission stations in Kenya in the 1890 and the arrival of the 5 Imperial British East Africa Company (IBEAC) in 1888, western medicine entered the country. The Church Missionary Society (CMS), the Church of Scotland Mission (CSM) and the Catholic Missionary Holy Ghost Fathers began their activities in East Africa between 1898 and 1903. Simultaneously, the Church of Scotland set up a station in Kikuyu in 1898, which gave medical help. After independence, the government continued to expand health facilities in the country as its main social concern at the time of independence was elimination of poverty, illiteracy and disease (Government of Kenya, 1965). Today, alongside government services, missionaries and NGO's provide health services at delivery points that range from dispensaries, Sub-County Hospitals (SCH) to County Referral Hospitals (CRH (Government of Kenya, 2012).

Kiambu County in Kenya is home to about 108 local NPOs (NPOs Coordination Board, 2015). Some of these NPOs are headquartered there while others have simply set up their branch offices in Kiambu to enable them to maintain proximity to Nairobi. With declining donor funding, local NGOs in the area are facing closure due to the financial sustainability issues (NGO Council, 2015). The NPOs with headquarters in Kiambu face challenges in sourcing income from the area.

## **1.2 Problem Statement**

Favorable financial planning practices are important essential for high performance records in the case of Non Profit Organizations (Karanja, 2014). For NPOs to be continually funded there is need for accountability to the donor agencies and individuals who support their activities. Financial planning leads to good financial performance. According to a survey carried out by Mutua (2010) in Kenya, financial management practices of NPOs partially conforms to the laid down procedures of International Financial Reporting Standards. Mogaka (2016) attributes NPOs' failure to poor financial planning practices. Financial planning practices can help NPOs to properly and successfully manage their current and future status of their units.

However, the performance of most Non Profit Organizations (NPOs) in Kenya has been poor. In Kiambu county most residents have filled dozen complaints of dissatisfaction with the services offered by nonprofit health organizations in Kiambu health centers (Dinga, Mwangi & Abong, 2013). Patients in Kiambu nonprofit health organizations have been reported to experience delayed access to services with some returning home without access to treatment due to shortage of health staff (Dinga et al., 2013). According to Abdelkarim (2012), most nonprofit health organizations in Kiambu County lack enough money to pay their staff due to lack of financial planning, poor budgeting and misplaced prioritization. In addition other nonprofit making organizations like vision fund Kenya have been performing poorly. In the year 2015 the return on Asset of vision fund Kenya declined by 18% from that of the year 2014. The poor performance is as a result of most organizations not able to effectively adopt the use of accepted financial planning practices despite the benefits of the practices in long-term decision making and planning.

Mutune (2014) determined the relationship between financial planning and financial performance of cement manufacturing firms in Kenya. Mwaura (2013) researched on the effect of financial planning on the financial performance of automobile firms in Kenya. Atieno (2013) investigated the relationship between financial planning and financial performance of small and medium enterprises in Nairobi City Centre Kenya. These studies and many more have not been able to clear the current gap on the effect of financial planning on the financial performance of nonprofit making health organizations in Kiambu County, Kenya. This study aimed to fill this gap by determining the effect of financial planning on the financial performance of nonprofit making health organizations in Kiambu County, Kenya.

### **1.3.1 General Objective**

The general objective of the study was to determine the effect of financial planning practices on the financial performance of nonprofit making health organizations in Kiambu County, Kenya.

### **1.3.2 Specific Objectives**

- i. To assess the effect of budgeting practices on the financial performance of nonprofit making health organizations in Kiambu County, Kenya
- ii. To evaluate the effect of Cash planning practices on the financial performance of nonprofit making health organizations in Kiambu County, Kenya
- iii. To analyze the effect of inventory planning practices on the financial performance of nonprofit making health organizations in Kiambu County, Kenya
- iv. To assess the effect of working capital management practices on the financial performance of nonprofit making health organizations in Kiambu County, Kenya

### **1.4 Research Questions**

- i. How does budgeting practices affect financial performance of nonprofit making health organizations in Kiambu County, Kenya?
- ii. In which ways does cash planning practices affect financial performance of nonprofit making health organizations in Kiambu County, Kenya?
- iii. How do inventory planning practices affect financial performance of nonprofit making health organizations in Kiambu County, Kenya?
- iv. What is the effect of working capital management practices on financial performance of nonprofit making health organizations in Kiambu County, Kenya?

### **1.5 Significance of the Study**

This study will be of great benefit to the management of hospitals. The findings will show how financial planning practices influence financial performance. The study will also provide insights to other types of businesses on how financial performance may be improved through sound financial planning practices for sound decision making by financial managers.

Financial manager of nonprofit making organizations can use this study in making appropriate decisions concerning financial planning of the hospitals to improve financial performance of their hospitals. Financial planning can also be used as a blue print of a firm's future financial plans in terms of cash flow management, investments and expansion plans

The study will be useful to academicians and other researchers. The study will serve as a reference for other researchers and academicians in the field of business administration by providing them with relevant recommendations for further studies and empirical data to feed researchers' literature in this line of academia.

### **1.6 Scope of the Study**

The study sought to analyze the effects of financial planning practices on the financial performance of not for profit health organization's in Kiambu county, Kenya. Specifically the study focused on the effect of budgeting practices, cash planning, inventory management and working capital management on the financial performance of not for profit health organization's in Kiambu county, Kenya. The study focused on not for profit health organizations in Kiambu County. The study therefore targeted 108 not for profit health organizations in Kiambu County. Data collection and report writing was done between May and June 2018.

## **2. LITERATURE REVIEW**

### **2.1 Introduction**

This chapter discussed theories relevant to the study. Literature related to the study was also reviewed with the aim of identifying literature gaps. The literature review guided the relevance of the study findings.

### **2.2 Theoretical Framework**

A Theoretical framework is a collection of interrelated concepts, like a theory but not necessarily so well worked-out. Theoretical frameworks provide a particular perspective, or lens, through which to examine a topic. The theoretical foundation for this study was informed by the following theories.

#### **2.2.1 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 & Lin, 2000).

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 2000). This theory provides useful knowledge in financial decisions concerning the hospitals; it also brings out considerable arguments on how a financial manager of hospitals should relate with the owners of the business to serve the interests of all stakeholders in a firm (Matthews & Scott, 2008). This theory informed the independent variable which was financial planning.

### 2.2.2 Complexity Theory

Complexity theory was proposed by Kiel and Elliott in 1996. The theory states that state is neither a legal abstraction nor reducible to the individuals who purportedly comprise it. Complexity theory, which is the study of nonlinear dynamic systems promises to be a useful conceptual framework that reconciles the essential unpredictability of industries with the emergence of distinctive patterns. Despite the fact that the theory was originally developed in the context of physical and biological sciences, today it has found applications in social, ecological and economic systems which also tend to be characterized by nonlinear relationships and complex interactions that evolve dynamically over time (Kiel & Elliott, 1996).

During the 1990s, there was an explosion of interest in complexity as it relates to organizations and strategy. The theory suggests that simple deterministic functions can give rise to highly complex and often unpredictable behavior. Thus, applying this theory in financial planning pre-supposes flexibility on the part of an organization. Any financial planning should be done in such a manner that it accommodates the "unexpected" ensuring financial sustainability. Thus non-profit health organizations would not only depend on others but device alternative strategies to counter the unexpected. This theory was deemed relevant to this study since it captured the independent variable which was financial planning. Financial planning should provide for unexpected occurrences in an organization.

### 2.2.3 Theory of Budgeting

Theory of budgeting was proposed by Lewis in 1952. The theory argues that analysts should focus on increments of public expenditure, at the margin, since 'this is the point of balance at which an additional expenditure or any purpose would yield the same return. Lewis (1952) argues that the relative value of these increments can then be assessed in terms of their relative effectiveness in achieving a common objective. It is the task of financial planners to determine this common objective and assess the relative effectiveness of alternative applications of expenditure in achieving this goal. Budgeters can assist decision makers by presenting alternative proposals at varying levels of expenditure for each programme. In this way the trade-offs between alternative applications of additional funding can be revealed.

Lewis (1952) argues that the concept of 'relative effectiveness' with regard to a common objective effectively circumvents the problem presented by the lack of a common measure of utility. This theory was deemed relevant to this study as it informed one of the independent variables which is budgeting. A budget allows an organization to create a spending plan for their funds. It ensures that organizations have enough money for the things they need and the things that are important.

## 2.3 Conceptual Framework

A conceptual framework is a set of broad ideas and principles taken from relevant fields of enquiry and used to structure a subsequent presentation. Mugenda and Mugenda (2003) and Smith (2004), define a conceptual framework a hypothesized model identifying the model under study and the relationship between the dependent and independent variables. Kothari (2004) defines an independent variable also known as the explanatory variable as the presumed cause of the changes of the dependent variable, while a dependent variable refers to the variable which the researcher wishes to explain. The goal of a conceptual framework is to categorize and describe concepts relevant to the study and map relationships among them. Such a framework would help researchers define the concept, map the research terrain or conceptual scope, systematize relations among concepts, and identify gaps in literature (Creswell, 2003).

### Budgeting practices

- Budget planning
- Budget coordination & evaluation



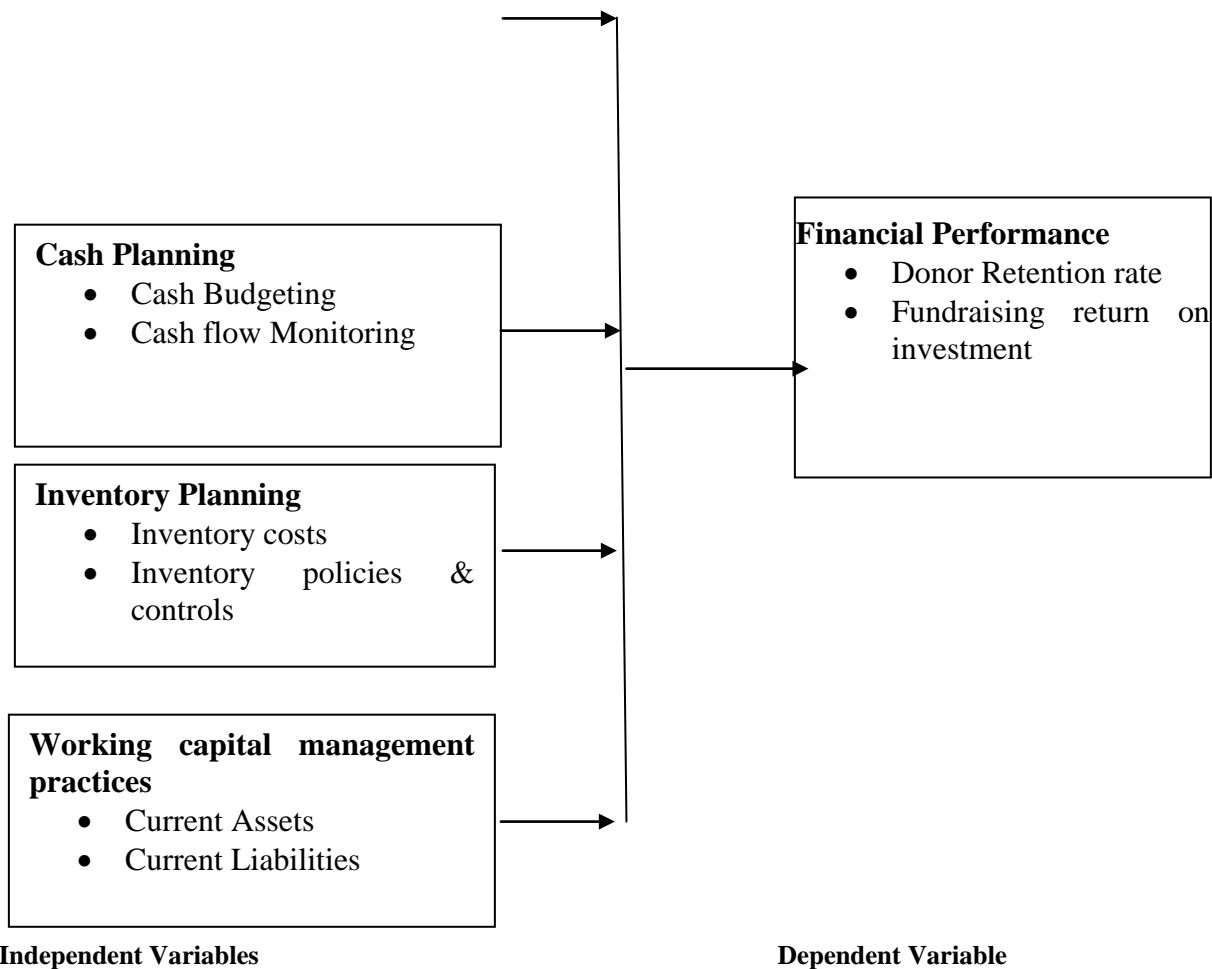


Figure 2.1: Conceptual Framework

### 2.3.1 Budgeting Practices

A budget is a detailed estimate (forecasted) of future transactions which are expressed in terms of physical quantities, money or both. The essence of a budget is that it is a target set for management to keep within, achieve or surpass it. The foundation for Budgeted Financial Statements is Detail Budgets. Detail Budgets include sales forecasts, production forecasts, and other estimates in support of the Financial Plan. Hilton and Gordon (2008) define financial planning as the adaptation of the broad objectives, strategies and other plans of an organization into financial terms.

In addition, the best practices for planning and executing projects is a budget and then employ it as a benchmark for improving project from other industries (Tonnquist, 2010). Budget involves financial planning and shows the required cash flow for each time period (Zwikael & Saleh, 2006). Regular budget plan review should focus more on the role level rather than the activity level. This approach is said to increase the planning of a project which will lead to better completion results. The Gantt chart is the commonly used planning tool on projects. However, budgeting allows a public administrator to plan, make proper choices, and decide on the mission and direction of an organization (Rosilyn, 2007)

### 2.3.2 Cash Planning

Households, firms, financial intermediaries, and government all play a role in the financial system of every developed economy. Financial intermediaries are institutions such as banks that collect savings of individuals and corporations and funnel them to firms that use money to finance their investments in plant, equipment, research and development. Firms can raise investment capital from variety of financial instruments. The firm's financial policy describes the mix of financial instruments to finance the firm, this could take the form of; internal capital, external capital: debt vs. equity (Grinblatt & Titman, 2012).

Cash planning management can translate into high performance which reflects management effectiveness and efficiency in making use of company's resources and this in turn contributes to the country's economy at large (Abioro, 2013). Therefore efficient cash management prepares organization for problems, as well as breaks.

This can be attributed to increase in sales volume normally through speeding collection on sales made on credit thus eliminating possibility of bad debt, increase in employee's turnover due to availability of finances to meet their wage requirements from increased cash inflow generated from short term investments, controlling payments normally geared towards ensuring that limited amount of cash exit the business, cash shortage financing from credit institutions among others, and finally increase in asset levels due to readily available cash for acquisition generated from short term investment, credit sales collections thus all impacting positively on production output of an enterprise (Ondiek, Deya, & Busaka, 2013). Organization have different cash management policies due to entity size, geographical location, number of customers, and size of employees and the nature of its operations.

### **2.3.3 Inventory Management Planning**

Inventory management may be defined as the system used by a firm to control its investment in inventory (Stevenson, 2010). It involves the recording and monitoring of stock level, forecasting future demand and deciding on when and how to order (Adeyemi & Salami, 2010). The primary goal of inventory management, therefore, is to have adequate quantities of high quality items available to serve customer needs, while also minimized the costs of carrying inventory (Brigham & Ehrhard, 2015).

According to Miller (2010), inventory management involves all activities put in place to ensure that customers have the needed product or service. It coordinates the purchasing, manufacturing and distribution functions to meet the marketing needs and organizational needs of availing the product to the customers. Inventory management is primarily involved with specifying the size and placement of stocked goods. Inventory management is required at different locations within a facility or within multiple locations of a supply network to protect the regular and planned course of production against the random disturbance of running out of materials (Ketchen & Hult, 2007).

Bachetti *et al.* (2010) argue that inventory management need to be organized in a logical way to facilitate the organization knowledge of when to order and quantity to order. Economic order quantity enables organizations plan their inventory replenishment on a timely basis such as monthly, quarterly, half yearly or yearly basis. The management of inventories has an important bearing on the financial strength and competitiveness of organizations due to the reason that it directly affects the working capital, production and customer services (Vergin, 2012). Many practices are available for effectively managing inventories. There are traditional IM practices such as order quantity purchase, Always Better Control (ABC) practice and modern IM practices such as computerized inventory accounting Just-in time (JIT) and Vendor Managed Inventory (VMI).

### **2.3.4 Working Capital Management**

According to Brigham and Houston (2007), is a financial metric which represents operating liquidity available to a business, organization, or other entity, including governmental entity. Working capital management, a managerial accounting strategy focuses on maintaining efficient levels of components of working capital, current assets and current liabilities, in respect to each other. Efficient management of working capital ensures a company has sufficient cash flow to meet its short-term debt obligations and operating expenses.

Working capital management involves the planning and controlling of current assets and liabilities in a manner that eliminates the risk of inability to meet short-term obligations and avoid excessive investments in these assets (Lamberson, 2015). This management of short-term assets is as important as the management of long-term financial assets, since it directly contributes to the maximization of a business's profitability, liquidity and total performance. Consequently, businesses can minimize risk and improve the overall performance by understanding the role and drivers of working capital (Lamberson, 2015). It is important that a firm preserves its liquidity to enable it meet its short term obligations when due. Increasing profits at the cost of liquidity exposes a company to serious problems like insolvency and bankruptcy. Inadequate working capital leads the company to bankruptcy. On the other hand, too much working capital results in wasting cash and ultimately the decrease in profitability (Chakraborty, 2008).

### **2.3.5 Financial Performance**

Financial Performance in a firm is mainly measured by financial statements. A financial statement is an organized collection of data according to logical and consistent accounting procedures. Its purpose is to convey an understanding of some financial aspects of a business firm. It may show a position at a moment of time as in the case of a Balance Sheet, or may reveal a series of activities over a given period of time, as in the case of an Income Statement. Financial analysts often assess firm's production and productivity performance, profitability performance, liquidity performance, working capital performance, fixed assets performance, fund flow performance and social performance. However in the present study financial health of a firm is measured from the following perspectives; Working capital Analysis, Financial structure Analysis, Activity Analysis and Profitability Analysis (Lundberg, 1982).

Financial performance of not for profit organizations can also be defined in terms of financial accountability. Financial performance has been one of the key elements in measuring overall performance and evaluating effectiveness of non-profits (Speckbacher, 2003; Ritchie & Kolodinsky, 2003; Sowa, Selden and Sandfort, 2004; Mc Cathy, 2007). As far as donors and community stakeholders are concerned, financial accountability focuses primarily on a non-profits reputation for fiscal transparency and honesty (Keating & Frumkin, 2003). More often than not accountability is represented by the data on these the use of external independent auditors, operating standards, audit committees and boards' expertise (Whitaker *et al.*, 2004; Greenlee *et al.*, 2008).

## 2.4 Empirical Review

### 2.4.1 Budgeting Practices

Onduso (2013) conducted a study on the effect of budgets on financial performance of manufacturing companies in Nairobi County. The used cross-sectional research design with primary data being collected by use of questionnaires and secondary data was obtained from the companies records. The findings of the study concluded that the magnitude of coefficients of the independent variables denoted the strength of the influence that they have on the dependent variable (Financial performance as measured by ROA). The results indicated that financial performance as measured by ROA is strongly influenced by using of budget and managerial performance.

Silva (2012) conducted a study to evaluate the impact of budgetary process on the performance of apparel industry in Sri Lanka. The budgetary process of apparel industry was assessed by using variables such as planning, coordination, control, communication and evaluation. The performance of apparel industry in Sri Lanka was examined by using Return on Assets. Based on the data extracted from apparel industry's financial statements, correlation coefficients and regression analysis showed that budgetary process have significant associations with the financial performance of apparel industry in Sri Lanka. From the findings, apparel companies maintain a sound budgetary process which contributes to higher levels of financial performance hence a positive relationship.

Mwaura (2010) conducted a study on the participatory budget setting and budget commitment as a factor that affects performance of the NSE listed companies. This study used a causal research design to identify cause-and-effect relationship. The population in this study comprised 55 companies listed where it considered only 53 still operating ones. Data for this study was both quantitative and qualitative hence both descriptive and content analysis techniques were employed. The descriptive statistical tools helped the researcher to describe the data and determine the extent used. In addition, to quantify the strength of the relationship between the variables, the researcher used a multiple regression. The study concluded that budgetary participation affects return on capital employed and return on assets to a great extent. It was further found that budgetary participation affects return on investment and budget commitment to moderate extents. This implied that budgeting as a financial planning technique is positively related to financial performance of the NSE companies.

### 2.4.2 Cash Planning Practices

Tarus and Juma (2017) conducted a study on role of cash planning technique on financial performance in public hospitals in Kajiado North Sub-County. The study adopted a descriptive survey design. The study sought to find out how cash planning affects financial performance, the study did confirm that cash planning affects financial performance. The study established that majority of the respondents agreed that indeed cash flow was well managed at these public hospitals. The overall mean obtained on financial performance was 3.95 indicating a strong mean that is leaning towards agree in a five point likert scale. The combined effect model that was computed explained the variation in financial performance of public hospitals in Kajiado north Sub County. The study recommended that there is need to strengthen cash collection avenues by encouraging payment in other forms and move from cash payments, with the advent of M-pesa and cash payments to banks where this can be audited for proper payment systems.

Mwaura (2013) determined the effect of financial planning on the financial performance of automobile firms in Kenya. The design of the study was descriptive research method. The aim of this study was to find out whether financial planning has an impact on the financial performance of the firms in the automobile industry in Kenya. 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 (ROCE). This implies that a percentage change in the financial planning measures will have an effect on the financial performance of a firm. This study showed that there is strong relationship between financial planning and financial performance of a firm. The success of any business depends on the manner the financial plans are formulated. Therefore, it can be concluded that financial planning has an effect on the financial performance of automobile companies in Kenya.

Kemboi (2010) carried out an investigation on how listed firms in Kenya financed their investment in capital market. The objective of the study was establishing sources of funds for the firm and find out whether cash flows and debt influence the firm's investment decisions. Tests were based on fundamentals investment equations in which cash flow and debt were added as explanatory variables. All these variables were normalized by beginning capital stock. The study showed a significant positive relationship between debt and investment levels in the firm. It was concluded that corporate investments in firms did not respond to market fundamentals and liquidity position. The findings support corporate life cycle hypothesis whereas firms become mature, past investments generate higher cash flows, making present investment rates to slow down and become less attractive, hence the negative empirical relationship between investment and cash flow

Mohamad (2016) investigated the impact of corporate financing decision on corporate performance in the absence of taxes: panel data from Kuwait stock market. This study examined the relationship between financing decisions such as capital structure, capital budgeting techniques and dividend policy along with the firm's attributes. The study examined the impact of industrial sectors and financial performance using the panel data of 80 listed companies in Kuwait. The results of this study suggest that, contrary to the Trade-off Theory of capital structure, there is a negative association between the level of debt and financial performance. This can be



attributed to the high cost of borrowing and the underdeveloped nature of the debt market in Kuwait. Given the unique tax environment in Kuwait, using debt does not seem to be sufficient to outweigh the costs of using debt, including the high interest cost.

### **2.4.3 Inventory Management Planning Practices**

Shardeo (2015) conducted a study on impact of inventory management on the financial performance of the firm. The study used secondary data. The study found that there is some relationship between the inventory turnover ratio and financial condition of the firm. The study concluded that inventory is the most important part of any business especially for manufacturing companies. It is hidden costs which are to be controlled for sustaining in present competitive market. Apart of costs, customer satisfaction is also the most important factors for the businesses. Inventory management also improves the level of customer satisfaction because customer wants product at least time as possible. So, a manufacturing firm must install the optimal inventory control techniques or improve their asset turnover as much as possible. Also, by different analysis it is concluded that inventory turnover ratio is correlated with the net profit of the companies.

Onyango (2012) conducted a study on impact of inventory management on profitability and liquidity: a case of large supermarkets in Nairobi. The research methodology involved collection of data through questionnaire and standard face-to-face interview questions, which were developed by reviewing the effects of inventory management on profitability and liquidity. Procedures employed by different supermarkets were found to range from informal mechanisms without written manuals and non-computerized systems to computerized inventory management systems capable of tracking the movement of stocks and re-order levels. Overstocking was very frequently experienced in the supermarkets with suppliers connected to the extranet and occasionally more than one supplier could supply goods for the same automated order.

Onyoni (2015) conducted a study on effect of inventory management practices on operational performance in non-governmental organizations in Kenya. Data was analyzed using descriptive statistics with the use of Statistical Package for Social Sciences (SPSS). This study established that a unit increase in ABC Analysis would lead to increase in operational performance of NGOs by a factor of 0.683, a unit increase in Economic order quantity would lead to increase in operational performance of NGOs by a factor of 0.702, unit increase in Vendor managed inventory would lead to increase in operational performance of NGOs by a factor of 0.793, a unit increase in Demand focus inventory would lead to increase in operational performance of NGOs by a factor of 0.699 and a unit increase in Automatic replenishment would lead to increase in operational performance of NGOs by a factor of 0.612. Vendor managed inventory was found to have more effect on operational performance of NGOs in Kenya compared to other inventory management practices studied. The study concluded that Effective inventory control management is recognized as one of the areas management of any organization should acquire capability.

### **2.4.4 Working Capital Management Practices**

Apuoyo (2010) carried out a study on the relationship between the policies that companies used and their effect on profitability. The study was based on fifty-five companies quoted at the Nairobi Stock Exchange (NSE) in Kenya as at 31st December, 2009. The companies were classified based on the NSE sector categorization proportionate random stratified sampling was used. Relevant data was collected from the sampled companies' audited financial reports for the five years since 2005 to 2009. The data was analyzed to find out the annual working capital policy for each firm that were then classified into aggressive, conservative and moderate policies. The relationship between the working capital policies and return on total assets (ROTA), which was the measure of profitability, were determined using simple regression. The study found out that the firm's profitability increases with the firm's gross working capital efficiency. Contrary to conventional theory that a conservative working capital policy sacrifices profits at the expense of liquidity, the study revealed a positive relationship between conservative working capital policy and firms profitability.

Nyabwanga (2011) conducted a study to assess the effect of working capital management practices on the financial performance of Small Scale Enterprises (SSEs) in Kisii South District. The study adopted a cross-sectional survey research design which allowed the collection of primary quantitative data through structured questionnaires. The target population was 159 managers of 101 trading and 58 manufacturing SSEs. Stratified random sampling technique was used to obtain a sample of 113 SSEs comprising 72 trading and 41 manufacturing enterprises. The data were analyzed using both descriptive and inferential statistics. The study found that working capital management practices were low amongst SSEs as majority had not adopted formal working capital management routines and their financial performance on average remained low. The study also revealed that SSE financial performance is positively related to efficiency of cash management (ECM), efficiency of receivables management (ERM) and efficiency of inventory management (EIM) at a 0.01 level of significance.

Nyakundi (2016) investigated on the influence of Working Capital Management Practices on Financial Performance of Small and Medium Enterprises in Machakos Sub-County, Kenya. The study adopted a cross-sectional survey research design. Collection of primary data was done through structured questionnaires and interviews. The target population was 159 Owners/ Managers of SMEs trading in Machakos Sub-County. Random sampling technique was used to obtain a sample of 22 SMEs trading in Machakos Sub-County. The data was analyzed using both descriptive and inferential statistics. The coefficient of determination ( $R^2$ ) indicated that 0.507 or 50.7% of the variations in financial performance could be explained by the changes ECM, ERM and EIM. This study concluded that WCMPs have an influence on the financial performance of SMEs.

Mathuva (2009) studied the influence of working capital management components upon corporate profitability by using a sample of 30 companies listed on the Nairobi Stock Exchange (NSE) from 1993 to 2008. The findings of his study indicated that there is a highly significant negative relationship between accounts collection period and profitability. In regard to the relationship between profitability and the inventory 17 conversion period or the average payment period, the results were positive and significant.

## 2.5 Critique of the Literature

Nyabwanga (2011) conducted a study to assess the effect of working capital management practices on the financial performance of Small Scale Enterprises (SSEs) in Kisii South District. The study found that working capital management practices were low amongst SSEs as majority had not adopted formal working capital management routines and their financial performance on average remained low. A similar study was conducted by Nyakundi (2016) on the influence of working capital management practices on financial performance of Small and Medium Enterprises in Machakos Sub-County, Kenya. However this study found that most SMEs had adopted the working capital management practices in their firms.

Onduso (2013) conducted a study on the effect of budgets on financial performance of manufacturing companies in Nairobi County. The study used ROA to measure performance. A similar study was conducted by Mwaura (2010) on the participatory budget setting and budget commitment as a factor that affects performance of the NSE listed companies but used profitability to measure performance.

Shardeo (2015) conducted a study on impact of inventory management on the financial performance of the firm. The study used secondary data. A similar study was conducted by Onyango (2012) conducted a study on impact of inventory management on profitability and liquidity: a case of large supermarkets in Nairobi but used primary data.

## 2.5 Research Gaps

Onduso (2013) conducted a study on the effect of budgets on financial performance of manufacturing companies in Nairobi County. This study focused on manufacturing companies in Nairobi County thus presenting a scope gap. It was conducted in Nairobi County presenting a geographical gap. The current study focused on not for profit health organizations. It was conducted in Kiambu County. Silva and Jayamaha (2012) conducted a study to evaluate the impact of budgetary process on the performance of apparel industry in Sri Lanka. The study focused on budgets as the only financial planning technique that influenced performance of the industry in general thus presenting a contextual gap. The current study focused on analyzing how budgeting affects financial performance. Mohamad (2016) conducted a study on the impact of corporate financing decision on corporate performance in the absence of taxes: panel data from Kuwait stock market. This study examined the relationship between financing decisions such as capital structure, capital budgeting techniques and dividend policy along with the firm's attributes. The study was conducted in Kuwait thus presenting a geographical gap. The current study was conducted in Kiambu County, Kenya. Nyabwanga (2011) conducted a study to assess the effect of working capital management practices on the financial performance of Small Scale Enterprises (SSEs) in Kisii South District. The study focused Small Scale Enterprises (SSEs) therefore presenting a scope gap. The current study focused on not for profit health organizations.

## 2.6 Summary of the Literature Reviewed

The above chapter reviewed the various theories that explain the independent and dependent variables. The reviewed theories are then critiqued for relevance to specific variables. The chapter also explored the conceptualization of the independent and the dependent variables by analyzing the relationships between the two set of variables. In addition, an empirical review was conducted where past studies both global and Local is reviewed in line with the following criteria, title, scope, methodology resulting into a critique. It is from these critiques that the research gap was identified.

## 3. RESEARCH METHODOLOGY

### 3.1 Introduction

The purpose of this study was to analyze the effect of financial planning practices on the financial performance of not for profit organizations in Kiambu county, Kenya. This chapter presented a review of the research methodology. Specifically, the chapter discussed the research design, the population of the study, the sample size, the data collection procedure and the data analysis.

### 3.2 Research Design

According to Kothari (2004), a research design can be defined as the plan for obtaining answers to the questions being studied and for handling some of the difficulties encountered during the research process. It is therefore the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure.

This study adopted a descriptive survey design. According to Upagade and Shende (2013), a descriptive survey is mainly concerned with description of facts only. It is a self-report that requires the collection of equitable information from sample (Orodho, 2005). Descriptive survey was appropriate for this study whose intention was to present a situation, what people currently believe in, what people are doing at the moment and so forth with no control of the variables under investigation which is a limitation.

### **3.3 Target Population**

According to Kombo and Tromp (2006), population is a group of individuals, objects or items from which samples were taken for measurement or it is an entire group of persons, or elements that have at least one thing in common. There are 108 nonprofit health organizations in Kiambu County. The target population of the study was all the 108 nonprofit health organizations in Kiambu County (Kiambu County Report, 2016). The study respondents were two respondents from the finance department in all the 108 nonprofit health organizations in Kiambu County. The study picked two respondents per organization who comprised of the finance manager and one of the senior managers thereby making the total accessible population to be 216 respondents. The finance managers and senior managers were used since they had the information about the financial planning practices of the entities they manage.

Since the population was small the study used the census approach and thus the entire 216 respondents from nonprofit health organizations in Kiambu County were studied. Charman, Petersen, Piper, Liedemanv and Legg (2017) argued that in census method there would be higher degree of accuracy in data. No other method is accurate like census method when the population is small. In addition census method gives opportunity to the investigator to have an intensive study about a problem and thus it is the most appropriate for this study.

### **3.5 Research Instrument**

This study used both primary and secondary data. Primary data was collected through use of a questionnaire. A questionnaire is a pre-formulated written set of questions to which the respondents record the answers usually within rather closely delineated alternatives. For this study a questionnaire was decided upon as the data collection instrument because; a high response rate is expected as the questionnaires was distributed to respondents to complete and collected personally by the respective researchers, they was less time and energy consuming to the participants. Questionnaires also offered the required anonymity because Participants' names were not required on the completed questionnaires. The questionnaire contained short and precise questions to avoid ambiguity and save time. The questionnaire also comprised of both open and closed ended questions. Ample time and assistance was given to respondents to fill them. One of the main advantages of using questionnaires is that respondents can fill them in at their own convenient time, thereby encouraging a higher response rate. Secondary data was collected from the hospitals financial statements. Secondary data was collected from the financial statements of these organizations.

### **3.6 Pilot Study**

Prior to using a questionnaire to collect data it was pilot tested. The purpose of the pilot test was to refine the questionnaire so that respondents had no problems in answering the questions and there were no problems in recording the data. In addition, it enabled one to obtain some assessment of the question's validity and the likely reliability of the data that was collected. Preliminary analysis using the pilot test data was undertaken to ensure that the data collected enabled the investigative questions to be answered (Saunders, Lewis & Thornhill, 2012).

Therefore, in order to check the validity and reliability of the questionnaires in gathering the data required for purposes of the study, a pilot study was carried out. The purpose of pilot testing was to establish the accuracy and appropriateness of the research design and instrumentation (Saunders, Lewis & Thornhill, 2009).

Newing (2011) states that the importance of pilot testing cannot be overemphasized; you will almost always find that there are questions that people fail to understand or interpret in different ways, places in the questionnaire where they are not sure where to go next, and questions that turn out simply not to elicit useful information. Cooper and Schindler (2006) concur that the purpose of pilot test is to detect weaknesses in design and implementation and to provide proxy for data collection of a probability sample. Sekaran (2006) reinforces that pilot test is necessary for testing the reliability of instruments and the validity of a study. Once the questionnaire was pilot tested and amended and the sample selected, the questionnaire was then used to collect data.

#### **3.6.1 Validity**

Validity refers to whether a questionnaire is measuring what it purports to measure (Bryman & Cramer, 1997). It describes validity as the degree of congruence between the explanations of the phenomena and the realities of the world. While absolute validity is difficult to establish, demonstrating the validity of a developing measure is very important in research (Bowling, 1997). This study used both construct validity and content validity. For construct validity, the questionnaire is divided into several sections to ensure that each section assessed information for a specific objective, and also ensured that the same closely ties to the conceptual framework for this study. To ensure content validity, the questionnaire was subjected to thorough examination by 22 randomly selected managers. They were asked to evaluate the statements in the questionnaire for relevance. On the basis of the evaluation, the instrument was adjusted appropriately before subjecting it to the final data collection exercise. Their review comments were used to ensure that content validity is enhanced

#### **3.6.2 Reliability**

Reliability refers to the repeatability, stability or internal consistency of a questionnaire (Jack & Clarke, 1998). Cronbach's alpha was used to test the reliability of the measures in the questionnaire (Cronbach, 1995). According to Cooper and Schindler (2003),

Cronbach's alpha has the most utility for multi-item scales at the interval level of measurement, requires only a single administration and provides a unique, quantitative estimate of the internal consistency of a scale. Baker, Veit and Powell (2001) states that the size of a sample to be used for piloting testing varies depending on time, costs and practicality, but the same would tend to be 5- 10 per cent of the main survey. According to Cooper and Schindler (2006) the respondents in a pilot test do not have to be statistically selected when testing the validity and reliability of the instruments.

In this study, data collection instrument which is a questionnaire was tested on 10% of the sample of the questionnaires to ensure that it is relevant and effective. Reliability was tested using questionnaire duly completed by eight (8) randomly selected respondents. These respondents were not included in the final study sample in order to control for response biasness. The questionnaire responses were input into statistical package for social sciences (SPSS) and Cronbach's alpha coefficient generated to assess reliability. The closer Cronbach's alpha coefficient is to 1, the higher the internal consistency reliability (Sekaran, 2006). A coefficient of 0.7 is recommended for a newly developed questionnaire.

### 3.7 Data Collection Procedure

Data collection refers to the process of gathering raw and unprocessed information that can be processed into meaningful information, following the scientific process of data analysis (Gall, Gall & Borg, 2007). The questionnaires were self-administered with the help of research assistants. To enhance the response rate, the study put into consideration the research ethical issues. The researcher explained to the respondent the importance of the study. The study assured the respondents of the confidentiality and anonymity of their identities, the respondents were debriefed in case of challenging questions, voluntary participation by respondents were enhanced, the data collection method was freed from emotional harm to respondents and that only respondents competent enough to address the objective were considered.

### 3.8 Data Analysis and Presentation

Data analysis is a practice in which raw data is ordered and organized so that useful information can be extracted from it (Gall, Gall & Borg, 2007). Descriptive statistics such as, mean and frequencies were used to perform data analysis. The mean scores was used to rate the factors in order of their importance. After data has been collected through questionnaires, it was prepared in readiness for analysis by editing, handling blank responses, coding, categorizing and keying into statistical package for social sciences (SPSS) version 21 computer software for analysis. SPSS was used to produce frequencies, descriptive and inferential statistics which were used to derive conclusions and generalizations regarding the population. The particular descriptive statistics were frequencies, mean scores and standard deviation. The particular inferential statistic was regression analysis.

The analysis of variance (ANOVA) was checked to reveal the overall model significance. In particular, the calculated f statistic was compared with the tabulated f statistic. A critical p value of 0.05 was also used to determine whether the overall model was significant or not. A multivariate regression model was used to link the independent variables to the dependent variable as follows;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \mu$$

Where;

Y =Financial Performance

X<sub>1</sub> =Budgeting Practices

X<sub>2</sub> = Cash planning

X<sub>3</sub> = Inventory Management

X<sub>4</sub> = Working Capital Management

In the model,  $\beta_0$  = the constant term while the coefficient  $\beta_i$  = 1...4 was used to measure the sensitivity of the dependent variable (Y) to unit change in the predictor variables X<sub>1</sub>, X<sub>2</sub>, X<sub>3</sub> and X<sub>4</sub>.  $\mu$  is the error term.

Analyzed data was presented by aid of statistical tables, graphs and charts with inferences therein made. Demographic characteristics were presented in charts; descriptive was presented in tables and graphs while inferential was also presented in tables. This was done in line with the objectives of the study.

## 4. RESULTS AND DISCUSSIONS

### 4.1 Introduction

This chapter comprises of data analysis, findings and interpretation. Results are presented in tables and diagrams. The analyzed data was arranged under themes that reflect the research objectives

## 4.2 Response Rate

**Table 4.1: Response Rate**

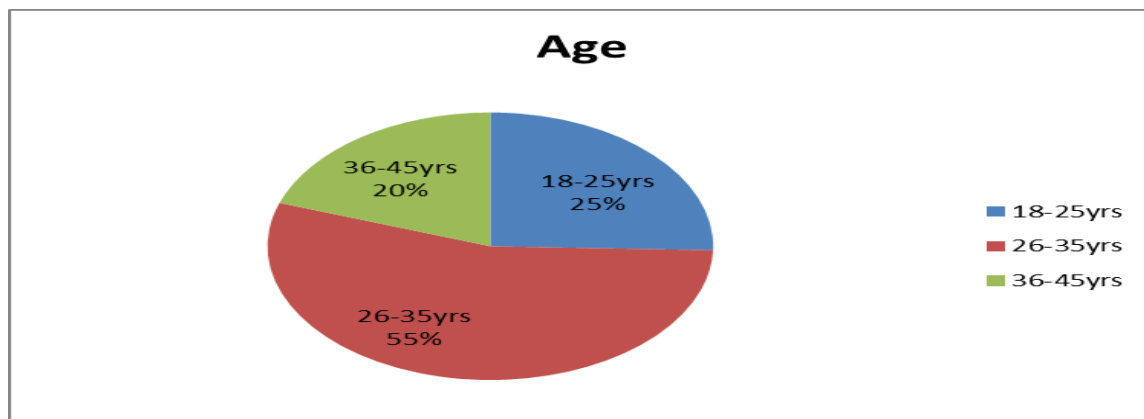
Response	Frequency	Percentage
Returned	157	72.7%
Unreturned	59	27.3%
<b>Total</b>	<b>216</b>	<b>100%</b>

The number of questionnaires that were administered to nonprofit health organizations in Kiambu County was 216. A total of 157 were properly filled and returned. This represented an overall successful response rate of 72.7% as shown on Table 4.1. This agrees with Babbie (2004) who asserted that return rates of 50% are acceptable to analyze and publish, 60% is good and 70% is very good. Based on these assertion 72.7% response rate is adequate for the study.

## 4.3 Demographic Characteristics

### 4.3.1 Findings on the Age of Respondent

The respondents were asked to indicate their age. The results are indicated in figure 4.1.

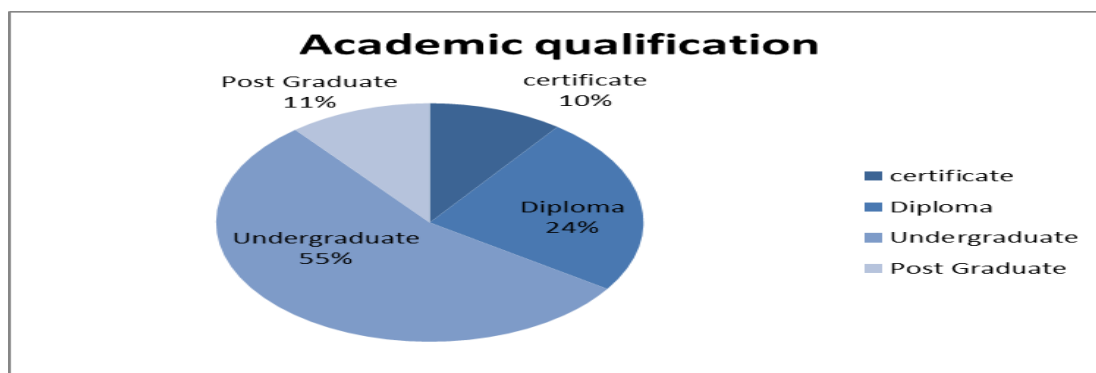


**Figure 4.1: Age of the Respondents**

The result revealed that majority of the respondent (55%) indicated that they were between the ages of 26-35yrs, (25%) of the respondents indicated that they were between the age of 18-25 years, while the remainder (20%) indicated to be between 36-45years.

### 4.3.2 Findings on Academic qualification of Respondent

The respondents were asked to indicate their academic qualification. The results are indicated in figure 4.2.



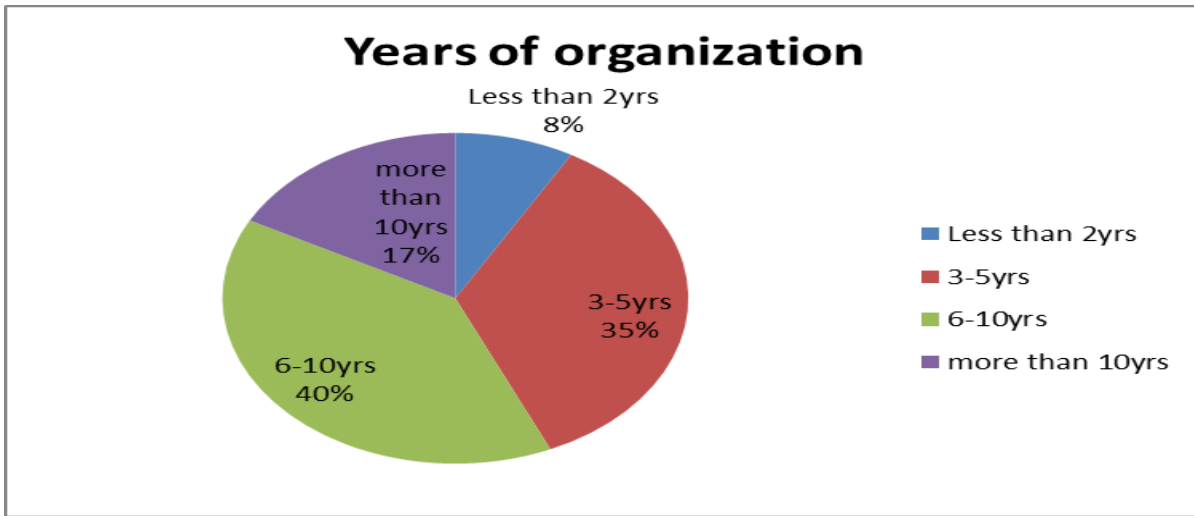
**Figure 4.2: Respondents' Academic Qualification**

The result revealed that majority of the respondents (55%) indicated that they were undergraduates, 24% indicated that they had a diploma, 11% indicated that they were post graduates while the remaining 10% indicated they had a certificate. This implies that most managers of nonprofit making firms are educated and thus have the capacity to improve performance of the organization.



### 4.3.3 Findings on Respondents’ Years of Experience in the Organization

The respondents were asked to indicate duration the organization been in operation. The results are indicated in figure 4.3.

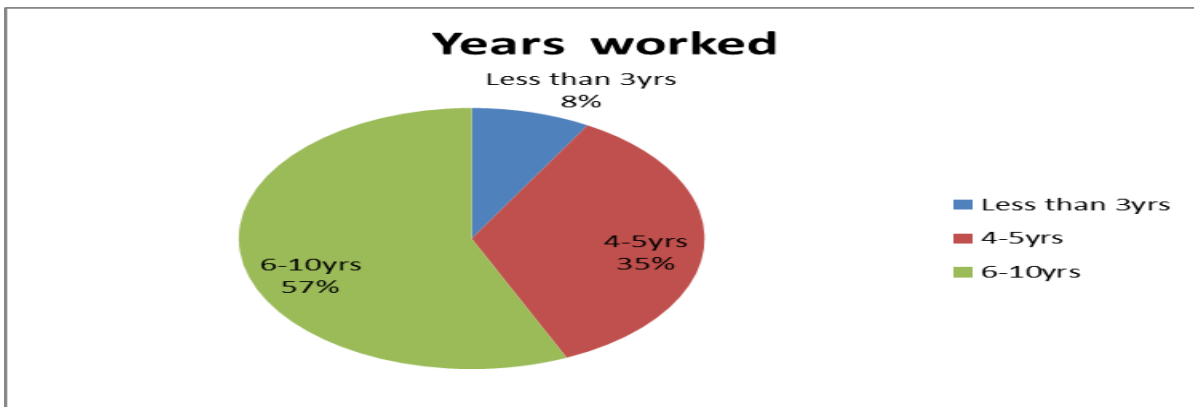


**Figure 4.3: Years of Experience in the Organization**

The result revealed that majority of the respondent (40%) indicated that their organization has been operating for 6-10years, (35%) indicated that their organization has been operating for 3-5years, while (17%) indicated that their organization has been operating for more than 10years, 8% of the remainder indicated that their organization has been operating for less than 2 years.

### 4.3.4: Findings on the Respondents’ Years of Experience

The respondents were asked to indicate years they have worked the organization. The results are indicated in figure 4.4.



**Figure 4.4: Respondents’ Years of Experience**

The result revealed that majority of the respondent (57%) indicated that they have worked for the organization for 6-10years, 35% indicated that have worked for the organization for 4-5years, while 8% indicated that have worked for the organization for less than 3yrs. This implies that majority of the manages of the health organization had worked for the institution for a long period and thus had enough experience to improve performance of the hospitals.

## 4.4 Descriptive Statistics

### 4.4.1 Findings on Budgeting Practices and Performance

The respondents were asked to indicate type of budget used in their organization. The results are indicated in figure 4.2.

**Table 4.2: Type of Budget Used in Respondents’ Organization**

Statement	Frequency	Percent
Fixed	130	82.8
Flexible	27	17.2

**Total** **157** **100**

The result revealed that majority of the respondent (83%) indicated that they have had a fixed budget in the organization while 17% of the respondent indicated they had a flexible budget in their organization. The respondents were further asked to respond to statements on budget practices. The responses were rated on a five likert scale as presented in Table 4.3:

**Table 4.3: Budgeting practices and Performance**

Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Mean	Std.Dev
All departments prepare budget plans prior to the budget year	6.40%	7.60%	8.30%	42.70%	35.00%	4.00	1.0
control of the budget activities is done by the head of departments	3.80%	8.30%	8.90%	44.60%	34.40%	3.97	1.06
there is a regular follow up on budget plans by the budget committee/Departmental heads	5.70%	8.90%	8.30%	43.90%	33.10%	3.90	1.13
Budget performance evaluation reports are prepared regularly	5.70%	6.40%	8.90%	40.10%	38.90%	4.00	1.12
he deviations from the budget targets are frequently reported to the budget committee/executive	8.30%	5.70%	6.40%	44.60%	35.00%	3.92	1.18
The organization has budget policies to check on spending	5.70%	6.40%	7.60%	46.50%	33.80%	3.96	1.09
<b>Average</b>						<b>3.95</b>	<b>1.09</b>

Majority of the respondent 77.7% (42.7% +35.00%) agreed with the statement that all departments prepare budget plans prior to the budget year. The result also revealed that 79% of the respondents agreed that control of the budget activities is done by the head of departments. The result further revealed that 77% of the respondents agreed with the statement that there is a regular follow up on budget plans by the budget committee/Departmental heads. The result further revealed that 79.6% of the respondents agreed with the deviations from the budget targets are frequently reported to the budget committee/executives. Finally the result revealed that (80.3) % of the respondents agreed with the statement that the organization has budget policies to check on spending.

On a five point scale, the average mean of the responses was 3.95 which means that majority of the respondents were agreeing with most of the statements; however the answers were varied as shown by a standard deviation of 1.09.

**4.4.2 Findings on Cash Planning and Performance**

The respondents were asked to indicate the main source of operation finance in their organization. The results are indicated in table 4.4.

**Table 4.4: Main Source of Operation Finance in the Organization**

Statement	Frequency	Percent
Government	11	7.0%
Ploughing back profit	13	8.3%
Donors	133	84.7%
<b>Total</b>	<b>157</b>	<b>100%</b>

The result revealed that majority of the respondent (84.7%) indicated that the main source of operation finance in their organization was donors while 8.3% of the respondent indicated the main source of operation finance in their organization was ploughing back

profit, while 7% of the remainder indicated that the main source of operation finance in their organization was the government. The respondents were asked to respond to statements on cash planning practices. The responses were rated on a five likert scale as presented in Table 4.5.

**Table 4.5: Cash Planning Practices and Performance**

Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Mean	Std.Dev
financial manager always plans an optimum capital structure for the organization	3.80%	8.30%	10.80%	46.50%	30.60%	3.92	1.04
A strong control is one with tight budgetary control over cash received, cash banked, cash paid, and cash brought down.	5.10%	5.10%	8.90%	47.10%	33.80%	3.99	1.05
The organization uses externally generated funds to finance its operations	4.50%	5.10%	10.20%	43.90%	36.30%	4.03	1.04
Strict accounting principles and accountability practices is used	5.10%	7.00%	10.80%	43.90%	33.10%	3.93	1.09
Cash budget is the most significant device used to plan for and control cash receipts and payments	6.40%	5.70%	10.20%	44.60%	33.10%	3.92	1.11
<b>Average</b>						<b>3.96</b>	<b>1.07</b>

Majority of the respondent (77.1%) agreed with the statement that financial manager always plans an optimum capital structure for the organization. The result also revealed that majority (80.9%) of the respondents agreed with the statement that a strong control is one with tight budgetary control over cash received, cash banked, cash paid, and cash brought down. The result further revealed that (80.2%) of the respondents agreed with the statement that the organization uses externally generated funds to finance its operations. The result also showed that 77% of the respondents agreed with the statement strict accounting principles and accountability practices are used. Finally the result revealed that 77.7% of the respondents agreed with the statement that the cash budget is the most significant device used to plan for and control cash receipts and payments.

On a five point scale, the average mean of the responses was 3.96 which means that majority of the respondents were agreeing with most of the statements; however the answers were varied as shown by a standard deviation of 1.07.

**4.4.3 Inventory Management Planning and Performance**

The respondents were asked to respond to statements on budget practices. The responses were rated on a five likert scale as presented in Table 4.6.

**Table 4.6: Inventory Management Planning and Performance**

Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Mean	Std.Dev
financial manager always plans an optimum capital structure for the organization	3.80%	8.30%	10.80%	46.50%	30.60%	3.92	1.04
A strong control is one with tight budgetary control over cash received, cash banked, cash paid, and cash brought down.	5.10%	5.10%	8.90%	47.10%	33.80%	3.99	1.05

The organization uses externally generated funds to finance its operations	4.50%	5.10%	10.20%	43.90%	36.30%	4.03	1.04
Strict accounting principles and accountability practices is used	5.10%	7.00%	10.80%	43.90%	33.10%	3.93	1.09
Cash budget is the most significant device used to plan for and control cash receipts and payments	6.40%	5.70%	10.20%	44.60%	33.10%	3.92	1.11
<b>Average</b>						<b>3.96</b>	<b>1.07</b>

Majority of the respondent 84.7 % (44.6% +40.1%) agreed with the statement that we have systems in our organization to review usage on inventories. The result also revealed that 80.3% of the respondents agreed with the statement that that inventory planning reduces the delivery lead time. The result revealed that 82.1% of the respondents agreed with the statement that the organization have clearly set inventory policies. The result also showed that (80.2%) of the respondents agreed with the statement their systems are able to prevent shortages and stock out costs. Finally the result revealed that 82.1% of the respondents agreed with the statement that inventory control affects the performance of the organization.

On a five point scale, the average mean of the responses was 3.96 which means that majority of the respondents were agreeing with most of the statements; however the answers were varied as shown by a standard deviation of 1.07.

#### 4.4.4 Working Capital Management and Performance

The fourth objective was to establish the effect of working capital practices on the financial performance of nonprofit making health organizations in Kiambu County, Kenya. The respondents were asked to respond to statements on budget practices. The responses were rated on a five likert scale as presented in Table 4.7.

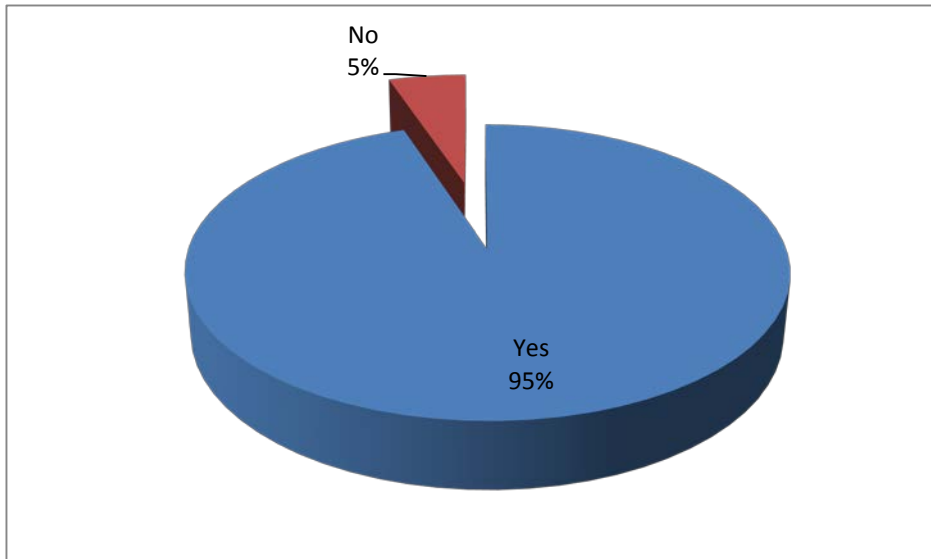
**Table 4.7: Working capital Practices and Performance**

Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Mean	Std.Dev
Accounts receivables are collected on time	7.60%	6.40%	7.00%	43.90%	35.00%	3.92	1.17
Accounts payable are paid out on time	4.50%	6.40%	7.00%	47.10%	35.00%	4.02	1.04
Inventory holding period is short	4.50%	5.70%	10.80%	47.80%	31.20%	3.96	1.03
Working capital management leads to achievement of goals/objectives	5.10%	7.00%	8.90%	44.60%	34.40%	3.96	1.09
Too much working capital results in wasting cash	6.40%	5.10%	9.60%	49.00%	29.90%	3.91	1.08
<b>Average</b>						<b>3.95</b>	<b>1.08</b>

Majority of the respondent 78.9 % (43.9 % +35.0%) agreed with the statement that accounts receivables are collected on time. The result also revealed that 83.1% of the respondents agreed that accounts payable are paid out on time. The result revealed that 79% of the respondents agreed with the statement that inventory holding period is short. The result also showed that (79%) of the respondents agreed with the statement that working capital management leads to achievement of goals/objectives. Finally the result revealed that 78.9% of the respondents agreed with the statement that too much working capital results in wasting cash.

On a five point scale, the average mean of the responses was 3.95 which means that majority of the respondents were agreeing with most of the statements; however the answers were varied as shown by a standard deviation of 1.08.

In addition the respondents were asked to indicate if working capital management influence financial performance in their organization.



**Figure 4.5: Working capital management and performance**

The result revealed that majority (95%) of the respondent indicated that working capital management influence financial performance in their organization while (5%) of the respondent indicated that working capital management does not influence financial performance in their organization.



#### 4.4.5 Financial Performance

##### 4.4.5.1 Donor Retention Rate Trend Analysis

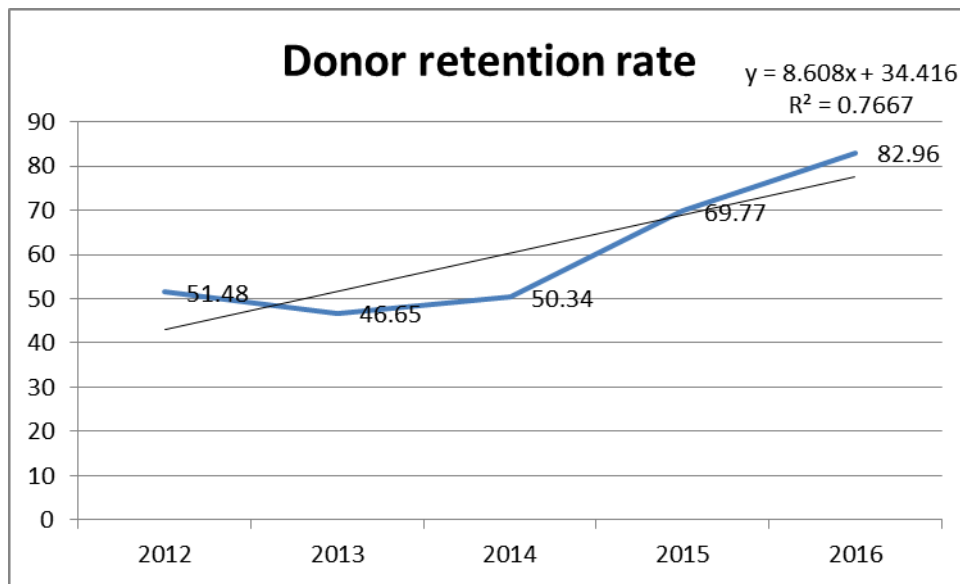


Figure 4.6: Donor Retention Rate Trend Analysis

Trend results in Figure 4.6 revealed that there was a consistent increase in mean of donor retention rate across the 5 years of study. Mean of donor retention in year 2012 was 51.48. It decreased to 46.65 in year 2013 but steadily improved to 50.34. In the year 2014 the mean increased to 69.772 in year 2015 and then increased to 82.962 in the year 2016. The linear plot yielded an r square of 0.767 implying that 76.7 % of changes in donor retention rate can be explained by time and this further revealed a consistent trend

##### 4.4.5.2 Trend Analysis for Fundraising Return on Investment

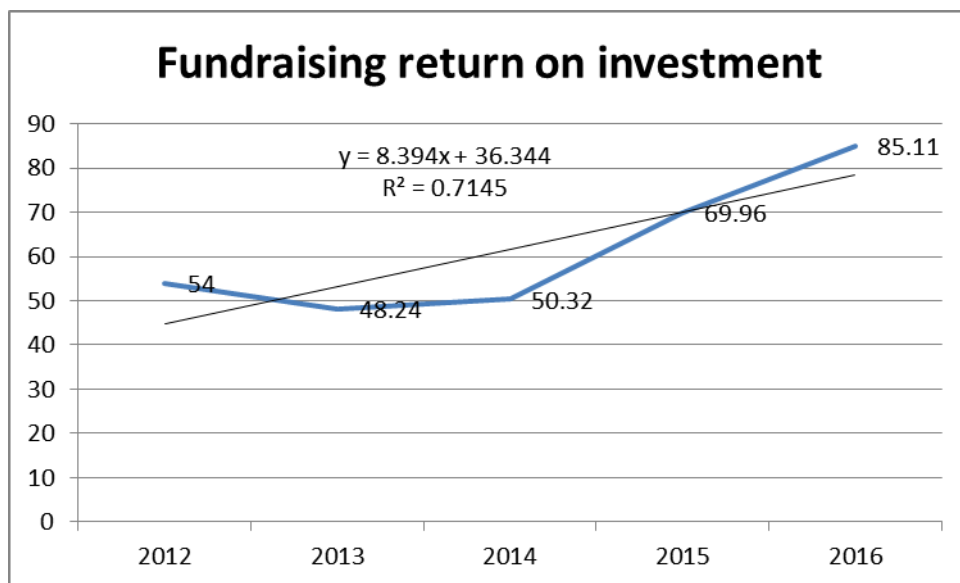


Figure 4.7 Trend Analysis for Fundraising Return on Investment

Trend results in Figure 4.7 revealed that there was a consistent increase in fundraising return on investment across the 5 years of study. The fundraising return on investment in year 2012 was 54. It slightly declined to 48.24 in year 2013 but the increased to 50.32 in year 2014. It then constantly increased to 69.96 in year 2015 and further increased to 85.114 in the year 2016. The linear plot yielded an r square of 0.7145 implying that 71.45% of changes in fundraising return on investment can be explained by time and this further revealed a consistent trend.

## 4.5 Inferential Statistics

### 4.5.1 Correlation Analysis

Table 4.8 below presents the results of the correlation analysis.

**Table 4.8: Correlation Results**

Variable		Performance	Budgeting Practices	cash planning	Inventory planning	Working capital
performance	Pearson Correlation	1				
	Sig. (2-tailed)					
Budgeting Practices	Pearson Correlation	.193*	1			
	Sig. (2-tailed)	<b>0.015</b>				
cash planning	Pearson Correlation	.158*	0.089	1		
	Sig. (2-tailed)	<b>0.049</b>	0.266			
Inventory planning	Pearson Correlation	.287**	0.05	-0.098	1	
	Sig. (2-tailed)	<b>0.000</b>	0.534	0.222		
Working Capital	Pearson Correlation	570**	211*	410*	-0.02	1
	Sig. (2-tailed)	<b>0.003</b>	0.09	0.07	0.805	

The results revealed that budgeting practices and performance are positively and significantly associated ( $r=0.193$ ,  $p=0.015$ ). These findings agree with that of Onduso (2013) who conducted a study on the effect of budgets on financial performance of manufacturing companies in Nairobi County. The results indicated that financial performance as measured by ROA is strongly influenced by using of budget and managerial performance. The results further indicated that information cash planning and performance are positively and significantly associated ( $r=0.158$ ,  $p=0.049$ ).

These findings agree with that of Tarus and Juma (2017) who found that cash management have a positive effect on performance. It was further established that inventory planning and performance are positively and significantly associated ( $r=0.287$ ,  $p=0.000$ ). These findings agree with that of Shardeo (2015) who conducted a study on impact of inventory management on the financial performance of the firm. The study found that there is some relationship between the inventory turnover ratio and financial condition of the firm. Finally, results showed that working capital and performance are positively and significantly associated ( $r=0.570$ ,  $p=0.000$ ). These findings agree with that of Mathuva (2009) who indicated that there is a highly significant negative relationship between accounts collection period and profitability inventory turnover ratio and financial condition of the firm.

### 4.5.2 Regression Analysis

The results presented in table 4.9 present the fitness of the regression model in explaining the study phenomena.

**Table 4.9: Model Fitness**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.751	0.564	0.554	0.42942

Budget practices, cash planning, inventory planning and working capital were found to be satisfactory variables in explaining pharmaceutical suppliers' performance. This is supported by coefficient of determination also known as the R square of 56.4%. This means that budget practices, cash planning, inventory planning and working capital explain 56.4% of the variations in the dependent variable which is performance. This results further means that the model applied to link the relationship between the variables was satisfactory.

**Table 4.10: Analysis of Variance**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	9.881	4	2.47	13.396	<b>0.000</b>

Residual	28.03	152	0.184
Total	37.911	156	

Table 4.10 provides the results on the analysis of the variance (ANOVA). The results indicate that the overall model was statistically significant as supported by a p value of 0.000 which is lesser than the critical p value of 0.05. This was supported by an F statistic of 13.396 which imply that financial planning practices are good predictors of performance.

**Table 4.11: Regression of Coefficients**

	<b>B</b>	<b>Std. Error</b>	<b>t</b>	<b>Sig.</b>
(Constant)	-0.087	0.517	-0.168	0.867
Budgeting Practices	0.179	0.061	2.959	<b>0.004</b>
cash planning	0.177	0.067	2.658	<b>0.009</b>
Inventory planning	0.255	0.066	3.868	<b>0.000</b>
Working Capital Management	0.340	0.069	4.912	<b>0.000</b>

Regression of coefficients results in table 4.12 shows that budgeting practices and performance are positively and significantly related ( $\beta=0.179$ ,  $p=0.004$ ). These findings agree with that of Onduso (2013) who found that financial performance as measured by ROA is strongly influenced by using of budget and managerial performance. The table further indicates that cash planning and performance are positively and significantly related ( $\beta=0.177$ ,  $p=0.009$ ). These findings agree with that of Tarus and Juma (2017) who found that cash management have a positive effect on performance. It was further established that inventory management planning and performance are positively and significantly related ( $\beta=0.255$ ,  $p=0.000$ ).

These findings agree with that of Shardeo (2015) who conducted a study on impact of inventory management on the financial performance of the firm. The study found that there is some relationship between the inventory turnover ratio and financial condition of the firm. Finally, working capital management practices and performance were found to be positively and significantly related ( $\beta = 0.340$ ,  $p=0.000$ ). These findings agree with that of Mathuva (2009) who indicated that there is a highly significant negative relationship between accounts collection period and profitability inventory turnover ratio and financial condition of the firm.

## 5. SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

### 5.1 Introduction

This chapter deals with the summary of the findings, the conclusion and recommendations. This was done in line with the objectives of the study. Areas of further research were also suggested.

### 5.2 Summary of Findings

The first objective was to establish the effect of budgeting practices on the financial performance of nonprofit making health organizations in Kiambu County, Kenya. Majority of the respondent noted that all departments prepare budget plans prior to the budget year. Control of the budget activities is done by the head of departments. There is a regular follow up on budget plans by the departmental heads and that budget performance evaluation reports are prepared regularly. The correlation results indicated that budgeting practices and performance are positively and significantly associated. The regression results showed that there is a positive and significant relationship between budgeting practices and performance as supported by a p value of 0.004 and a beta coefficient of 0.179. This implies that a unit increase in budget practices results to an improvement in performance by 0.179 units.

The second objective was to establish the effect of cash planning practices on the financial performance of nonprofit making health organizations in Kiambu County, Kenya. Majority of the respondent noted that financial manager always plans an optimum capital structure for the organization. A strong control is one with tight budgetary control over cash received, cash banked, cash paid, and cash brought down. Organization uses externally generated funds to finance its operations.

The results also revealed that majority also noted that strict accounting principles and accountability practices is used. The correlation results indicated that cash planning and performance are positively and significantly associated. The regression results showed that there is a positive and significant relationship between cash planning and performance as supported by a p value of 0.009 and a beta coefficient of 0.177. This implies that a unit increase in cash planning practices results to an improvement in performance by 0.177 units. The findings were also supported by the statements in the questionnaire which majority of the respondents agreed with the statements.

The third objective was to establish the effect of inventory planning practices on the financial performance of nonprofit making health organizations in Kiambu County, Kenya. Majority of the respondent noted that they had systems in their organization to review usage on inventories. Inventory planning reduces the delivery lead time. Organizations have clearly set inventory policies. The systems are

able to prevent shortages and stock out costs and that inventory control affects the performance of the organization. The correlation results indicated that inventory planning and performance are positively and significantly associated. The regression results showed that there is a positive and significant relationship between inventory planning and performance as supported by a p value of 0.000 and a beta coefficient of 0.255. This implies that a unit increase in inventory planning practices results to an improvement in performance by 0.255 units. The findings were also supported by the statements in the questionnaire which majority of the respondents agreed with the statements

The fourth objective was to establish the effect of working capital practices on the financial performance of nonprofit making health organizations in Kiambu County, Kenya. Majority of the respondent noted that accounts receivables are collected on time in most health institutions in Kiambu. Accounts payable are paid out on time. Inventory holding period is short. Working capital management leads to achievement of goals/objectives and that too much working capital results in wasting cash. The correlation results indicated that inventory planning and performance are positively and significantly associated. The regression results showed that there is a positive and significant relationship between inventory planning and performance as supported by a p value of 0.000 and a beta coefficient of 0.340. This implies that a unit increase in working capital practices results to an improvement in performance by 0.340 units. The findings were also supported by the statements in the questionnaire which majority of the respondents agreed.

### **5.3 Conclusion**

From the study findings, the study concluded that there is a positive and significant association between budget planning and financial performance of nonprofit making health organizations. In addition organizations that prepare their budgets prior to budget year are sustainable. The study also found that most not for profit making organizations have a regular follow up on budget plans by the budget committee and that budget performance evaluation reports are prepared regularly.

From the findings, the study concluded that there is a positive and significant association between cash planning and financial performance of nonprofit making health organizations. In addition, a strong control is one with tight budgetary control over cash received, cash banked, cash paid, and cash brought down. Most organization uses externally generated funds to finance its operations.

In addition the study concluded that there is a positive and significant association between inventory planning and financial performance of nonprofit making health organizations. It was also noted most organizations had systems to review usage on inventories. The systems are able to prevent shortages and stock out costs and that inventory control affects the performance of the organization.

The study concluded that there is a positive and significant association between working capital and financial performance of nonprofit making health organizations. It was also noted that accounts receivables are collected on time in most health institutions in Kiambu. Accounts payable are also paid out on time. In addition, working capital management leads to achievement of goals/objectives and that too much working capital results in wasting cash.

### **5.4 Recommendations**

Based on the findings the study recommends that all departments should prepare budget plans prior to the budget year. Control of the budget activities should be done by the head of departments. Follow up on budget plans by the departmental heads and that preparation of regularly budget performance evaluation reports should also be done. This will increase the planning of a project which will lead to better completion results. Also budgeting allows a public administrator to plan, make proper choices, and decide on the mission and direction of an organization

The study also recommends that that financial manager should always plans an optimum capital structure for the organization. There should also be a strong control that has tight budgetary control over cash received, cash banked, cash paid, and cash brought down. Organization should uses externally generated funds to finance its operations. This was found to be of importance since the success of any business depends on the manner the financial plans are formulated.

Penultimate, the findings the study recommends that those organizations should have clearly set inventory policies and systems that are able to prevent shortages and stock out costs. Having effective inventory control management is recognized as one of the areas management of any organization should acquire capability. Therefore effective inventory control management will help organizations to gain a lot benefit which include optimal use of resources, cost reduction, improved profitability, improved sales effectiveness, reduction of waste, transparency and accountability, easy storage and retrieval of stock, high inventory utilization amongst others.

Finally, the findings the study recommends that there should be working capital management both short term and long term assets as it leads to achievement of goals/objectives. This management of short-term assets is as important as the management of long-term financial assets, since it directly contributes to the maximization of a business's profitability, liquidity and total performance. Similarly the study recommended that that a firm preserves its liquidity to enable it meet its short term obligations when due this is because increasing profits at the cost of liquidity exposes a company to serious problems like insolvency and bankruptcy.

## 5.5 Areas of further research

The study recommends that a similar study should be conducted in other counties for comparison purposes. The study also recommends that a study seeking to establish other financial planning practices affecting financial performance of nonprofit making health organizations should be conducted.

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