The Impact of Financial Planning and Financial Performance Case Study Commercial Banks Mogadishu Somalia

Ahmed Hussein Ali (Diiwaani)

Frontier University and University of Somalia

Abstract: ***The purpose of the research study was to examine the relationship between the impact financial planning and financial performance of commercial banks with particular reference to commercial oriented Commercial banks in Mogadishu. The specific objectives of the study included determining the effect of focus on organization goals, allocation of resources as well as risk management on the financial performance of banks. The Researcher used descriptive survey research design in collecting data from the respondents. The census-sampling procedure was used which involved the use of the entire target population of one-hundred forty three (143) finance managers drawn from commercial banks. The researcher used questionnaires in collecting data that were analyzed quantitatively and qualitatively. The Research study established the existence of a relationship between organization goal, allocation of resources, risk management and financial performance. There is a positive relationship among all variables as follows: organizational goals and financial performance at (r=.544 and p>0.01). Resource allocation and financial performance at (r=. 232 and p>0.01) finally the study indicated a positive relationship between risk management and financial performance at (r=. 449and p>0.01).***

Keywords: Organizational goal, allocate Resource, Risk Management and Financial Performance

1. Introduction

Planning is a process which is concerned with deciding in advance what, when, why, how, and who shall do the work (Donald, Thomas & Rebecca, 2001). Generally, planning involves establishment of organizational objectives and policies; identification of alternative courses of action and programs and selecting the best course of action and programs. Financial planning is the task of determining how a business will afford to achieve its strategic goals and objectives (Awino, Muturia & Oeba, 2011). The financial planning activity involves assessing the business environment; confirming the business vision and objectives; identifying the types of resources needed to achieve these objectives; quantifying the amount of resource (labor, equipment, materials); calculating the total cost of each type of resource; summarizing the costs to create a budget; and identify any risks and issues with the budget set (Abdul-Jalil, Dzuljastri & Ferdous- Azam 2013).

Commercial banks are facing more challenging times, thus Government executives are tasked with more strategic responsibilities of financial planning in the face of increasing costs of offering organization services and falling tax revenues thus increasing the difficulty and importance of financial planning (Denhardt & Denhardt, 2006). Meanwhile, changing budget priorities at all government levels require the realignment of funding for organization sector programs. When organization, organizations are in the business of utilizing other people's money to provide for the community's well being, organization administrators have a responsibility to best utilize the scarce resources available in serving the unending needs of society. Scarcity in organizing service necessitates proper financial planning for organization, organizations (Finkler, 2005).

Performance is the competency of an organization to transform the resources within the firm in an efficient and effective manner to achieve organizational goals (Daft, 1997). Organizational goals vary depending on the purpose for which they are established. Business organizations have profited, growth and survival as the main goals. According to Dyer and Reeves' (1995) definition, financial performance consists of financial outcomes (return on invested capital or return on assets and stock value or shareholder return).

Dragon (1990) avers that the most common financial indicators include: sales growth, return on investment (ROI), return on sales, return on equity (ROE), and earnings per share. However, the popular ratios that measure organizational performance can be summarized as profitability and growth: return on asset (ROA), return on investment (ROI), return on equity (ROE), return on sale (ROS), revenue growth, market shares, stock price, sales growth, liquidity and operational efficiency. In other research by Thomas and Ramaswamy, 1996) return on average assets (ROA) and return on equity (ROE) were used as financial measures in the banking industry. According to Dyer and Reeve (1995), outcome measurements included productivity, quality and service. Instead of productivity indicators, Delany & Huselid (1996) chose perceptual measures of the financial performance, such as product quality, customer satisfaction and new product development. Financial planning helps to anticipate problems and information needs; helps to identify solutions without trial-and-error learning; manage resource supply and demand; identify when to focus effort and attention in different areas, facilitating the identification of appropriate sequences; helps to make people's expectations for the timing of activities more concrete (Willoughby & Julia, 2001). Planning helps to turn broad goals into action steps and helps to create timetables for how long tasks should take, to transfer the founder's vision to those acting on it, to avoid sidetracking of efforts and helps to correct deviation from objectives (Kenneth, 2010).

The main objective are: - The study was to investigate the relationship between impact financial planning and financial performance, Case commercial banks in Mogadishu, Somalia, to determine the effect of organizational goals on the financial performance of commercial banks, to examine the effect of the allocation of resources on the financial performance of commercial banks, and to investigate the effect of risk management on the financial performance commercial banks.

2. Literature Review

In exploring factors influencing financial planning, Abdul Jalil, Dzuljastri and Ferdous Azam (2013) used a quantitative method to survey a sample of 170 Malaysian citizens, from various places in the Klang Valley area. Exploratory factor analysis, confirmatory factor analysis and structural equation modeling were used to analyze the data. The results suggest that the paths are interrelated to the casual processes significantly. Furthermore, individual's income or monthly salary is found to be the most important factor influencing financial planning, followed by attitude and culture. The results are mainly favourable to academics and practitioners in Malaysia by contributing an understanding into critical factors that influence people to make financial plan before their retirement. The study provides implications of the findings in the concluding section.

In their study, Arasa and K'Obonyo (2012) examined the relationship between strategic planning and firm performance giving attention to the strategic planning steps. They observed that organizations from both the private and organization sector are increasingly embracing the practice of strategic planning in anticipation that this will translate to improved performance and that past studies have mainly focused on the direct relationship between strategic planning and performance and did not give attention to the specific steps that make up the strategic planning process. Correlation analysis results indicate the existence of a strong relationship between strategic planning and firm performance. Further, all the strategic planning steps (defining firm's corporate purpose, scanning of business environment, identification of firm's strategic issues, strategy choice and setting up of implementation, evaluation and control systems) were found to be positively related to company performance.

Awino, Muturia and Oeba (2011) investigated the influence of strategic planning and planning outcomes; planning outcomes and firm performance. Measures of strategic planning were seven dimensions namely internal orientation, external orientation, functional integration, key personnel involvement in planning, use of planning techniques, creativity in planning, focus on control. Measures of planning outcomes comprised direction and focus, sustainable competitive advantage, firm-environment fit, efficiency in allocation of resources, improved innovation, greater organizational commitment, improved co-ordination and control of organization activities, improved organizational analysis. Measures of firm performance were both financial and non-financial. Financial items composed of Gross Profit Margin, Return on Investment and Return on Asset. Non-financial items comprised of ability to evaluate alternatives, ability to avoid mistakes and improved budget process. Commercial banks in Kenya were studied using both primary and secondary data. In this study, a census of 44 commercial banks in Nairobi Kenya was done. Majority (80 per cent) of the respondents were managers in charge of planning and 20 per cent were either heads of human resource departments or business and marketing department.

Various data analysis procedures were applied including descriptive analysis, Pearson Moment Correlation Coefficient; F statistics were used in order to accomplish the objectives of the study. Hypotheses H1, H2, H3 were tested for correlation. The study found that there are a positive and significant relationship between strategic planning (seven dimensions of planning) and firm performance; strategic planning and planning outcomes and finally planning outcomes and firm performance. Thus, the study suggests that effective and focused strategic planning lead to positive change in firm performance. This study therefore is significant since it has contributed immensely to the body of knowledge more specifically in strategic planning where key variables of the study have been linked individually to organizational performance. The study also impacts positively to the readers and scholars where they are able to relate strategic planning, planning outcomes and performance in a real working environment and interrogate the existing theories and concepts in the area of strategic management in the African context.

3. Methodology

A descriptive survey focuses on the research design and is concerned with addressing the particular characteristics of a specific population of subjects, either at a fixed point in time or at varying times for comparative purposes. According to Lavrakas (2008), a research design is a general plan or strategy for conducting a research study to examine specific testable research questions of interest. Available research strategies include experiment, survey, case study, action research, grounded theory, ethnography and archival research. The choice of the research strategy is guided by the research question(s) and objective(s), the extent of existing knowledge, the amount of time and resources available as well as the philosophical underpinning (Sounders, and et al, 2003). Schwab (2005), states that a research design establishes procedures to obtain cases for study and to determine how scores will be obtained from those cases.

The target population of this study will be conducted employee of three private bank companies in Mogadishu, which are Dahabshill bank, IBS bank, and Premier bank because we are more dependent on banks and they are a good source of information to analyze the topic. Burns & Grove (2003) state that population includes all elements that meet certain criteria for inclusion in a study.

4. Findings

The study established that financial planning ensures commitment of management and staff towards Financial Performance. It set the responsibility and accountability of managers to facilitate employees to convert individual goals to organizational objectives, while defining authority and responsibility of every manager and employee. The study also established that financial planning is characterized by identification of basic goals and objectives of the organization, directing as well as harmonizing all activities in all functional areas in line with these objectives.

4.1 Organizational goals and financial performance

The first objective of the study was to establish organizational goals influences in financial performance in commercial banks in Mogadishu- Somalia. Results showed that the commercial banks organizational goals,there is positive relationship among all variables as following: organizational goals and financial performance at ($r=.544$ and $p>0.01$), overall average mean of 3.13 suggesting that organizational goals are implemented commercial banks.

4.2 Allocation resources and financial performance

The second objective of the study was to determine the impact of allocation resource in financial performance in commercial banks in Mogadishu-Somalia. Results indicated that allocation resource was statistically associated with financial performance ($p<0.05$). An increase in allocation resource will lead to increase the financial performance by 0.414 which is less than 0.05, with a p-value of 0.000 Mathuva (2009).

4.3 Risk management and financial performance

The last objective of the study was to establish the impact of risk management in financial performance in commercial banks in Mogadishu. The study findings showed that risk management has contributed to financial performance in the commercial banks in Mogadishu. Risk management was statistically associated with financial performance with ($p<0.05$). A unit increases in cash management will lead of having effective on financial performance by 0.184 with a p-value of 0.014. A study was carried out by Nazir and Afza (2009) to investigate the relationship between the risk management policies and profitability of firms listed in the Karachi Stock Exchange.

5. Recommendations

There is need for finance managers and employees to focus the whole organization operation towards organizational objectives by defining the line of action to complete the work, setting the blue print of the organization course of action, eliminating the unnecessary activities and focusing on priorities and facilitating the taking of the right decision at the right time.

In the allocation of resources there is need for management to consider the complexity of the entity's systems and controls and the manner in which they are used, the extent to which data is shared among systems; the organization use of technologies; staffing and timing requirements of the specific financial resources, the experience of staff, organization objectives and procedures, other issues that may affect the nature, timing, and extent of organization profitability.

Prior to financial planning and even during implementation there is need for management to acquire appropriate information on the risk area and their nature so as to reliably assess levels of risk with full understanding of the organization and its internal and external environment.

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