**TITLE PAGE**

**ASSESSMENT OF FINANCIAL PLANNING ON FIRM’S PROFITABILITY - A STUDY OF NIGERIAN BREWERIES PLC, AMA (2003-2013)**

**BY**

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**JULY, 2017**

**DECLARATION**

I, Ozor Chinedu Emmanuel, an undergraduate Student of the Department of Accounting & Finance, Faculty of Management and Social Science, Godfrey Okoye University, Enugu, with Registration Number U13/MSS/ACC/016 do hereby declare that this project work is original and was carried out by me.

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**CERTIFICATION**

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Faculty of Management and Social Science, Godfrey Okoye University, Enugu.

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**DEDICATION**

This work is dedicated to God Almighty for His undying and unending love, mercy, grace and favour to me and my family.

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*ABSTRACT*

*The study assessed the application of financial planning and its influence on the profitability of Nigerian Breweries Plc, Ama, Enugu State. The overall objective of the study was to assess whether the application of financial planning has helped to boost the profitability of the company. Financial planning was evaluated based on the application of short-term and medium term financial planning. Two objectives and two hypotheses were formulated and tested in the study. The researcher adopted the survey design and structured questionnaire was administered to selected respondents in the company. Because of the large size of the population, a multi-stage sampling technique was employed. The first stage involves the random selection of all the accountants and management staff in the company who are involved in financial planning policy and procedures. The second stage was the random selection of 10 management staff and 11 accountants. Altogether, 21 respondents were selected as sample for the study. Descriptive and inferential statistics were used to present the data while the Chi-Square statistical technique was used to analyze the hypotheses. Findings from the study showed that short-term financial plans do not influence the profitability of Nigeria Breweries, Ama, Enugu. This result was supported by the test statistic (X2<t0.025, 5.4<t\* = 5.9, p=0.000<0.05). Medium-term financial plans influence the profitability of Nigeria Breweries, Ama, Enugu. This result was also supported by the test statistic (X2>t0.025, 9.95>t\* = 5.9, p=0.000<0.05). Based on the findings of the study, the researcher recommended as follows: that the management of Nigerian Breweries Plc, Ama, Enugu State should adopt a medium to long term financial planning and place less emphasis on short-term financial planning as it has been shown that short-term financial planning has no influence on the profitability of the company. The management of the Nigerian Breweries Plc, Ama, Enugu State should also ensure that those who are involved in financial planning are well trained and are up-to-date with financial and econometric modeling required for medium to long-term financial planning.*

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**CHAPTER ONE**

**INTRODUCTION**

**1.1 Background to the Study**

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. Financial planning is the core of financial management. The complex nature of business demands that management should place greater emphasis upon financial planning to secure and employ capital resources in the amount and proportion necessary to increase the efficiency of remaining factors of production. Financial planning is needed both in dynamic and perfect economic conditions. It helps management to avoid waste by furnishing policies and procedures which make possible a closer co-ordination between the various functions of business (Oye, 2006).

Financial planning must however be complemented by control in order to achieve the basic aim of planning. The actual results must be measured concurrently against projections. Control is the financial management function which must be exercised by executive personnel of the business enterprise to achieve the goals established by the planning function. It deals with testing the degree of management performance in the attainment of the set objectives. It is also a check to deviations from the planning function, and once the causes for the difference between the actual and expected performance have been identified, a corrective action should be initiated. Financial planning can be defined as the process which assures that financial resources are obtained economically and used efficiently and effectively in the accomplishment of desired goals. It covers the entire process of monitoring actions emanating from the decisions. Seen as an integral part of financial management, it also forms part of budgeting, accounting, reporting and review. The budget is then put in practice and results expected. Budgetary control system forms a good basis of controlling plans. Definitely, actual activities are monitored and their results measured and then compared with plan. Then significant deviations from plan are identified and reported upon. The last step is to investigate the deviations accordingly and take corrective measures (Samuel, 1980).

The success of any business depends on the manner the production and distribution functions are coordinated. An important function of financial planning is the coordination of the various decisions taken within a company so that they are mutually consistent, having regard for financial aims and constraints. The exercise of this function is perhaps most clearly seen in formulating financial plans which involves merging of estimates of each department into a budget for the whole firm. In this process the financial manager holds a strategic position. Without coordination, individuals and departments would lose sight of their roles within the organization. They would begin to pursue their own specialized interests, often at the expense of the large organizational goals. Also, the point to be emphasized is that the activities of all departments must mesh. It is through budgeting that the activities of various departments are coordinated and unnecessary wastage of resources and efforts is stopped. Budgeting requires each manager to establish a proper rapport between the activities of his department and that of other departments. Any imbalance in the relationship between the departmental activities should be identified and corrective measure taken (Brockington, 1987).

**1.2 Statement of the Problem**

Financial planning is a guide to a particular set of financial goals or attainment and it is obvious that without a guide to a particular set of goals it will be very difficult to achieve that particular set of goals economically.

However, many organizations today do not make good financial plans about the operations of their organizations and where they do; they do not control their performances alongside their financial plan very well to control the controllable factors in their plans to enable them to achieve their financial goals.

Financial planning, which is one of the tools that could be used by business organizations to achieve their profit plan, unfortunately is not being used properly by many business organizations. In essence, many business organizations have failed in their profit plan due to lack of financial planning in their organization.

In other words, if a study like this is not carried out or this study not taken seriously by organizations, then the inevitable problems that will occur is that organizations will not be able to minimize expenditure or cost and also will not be able to maximize productivity, in other words, not maximizing profitability.

* 1. **Objectives of the Study**

The main purpose of this study is to evaluate the application of financial planning to firm’s profitability with emphasis on Nigerian Breweries, Ama, Enugu. Specific objectives of the study are as follows:

1. To assess the influence of short-term financial plans on the profitability of Nigerian Breweries, Ama, Enugu.
2. To evaluate the influence of medium-term planning on the profitability of Nigerian Breweries, Ama Enugu.

**1.4 Research Questions**

The following questions were formulated for the study:

1. To what extent does short-term financial plan influence the profitability of Nigerian Breweries, Ama, Enugu?

 ii To what extent does medium-term financial plan influence the profitability of Nigerian Breweries, Ama, Enugu?

**1.5 Research Hypothesis**

 The following hypotheses were formulated and tested in the study.

Ho1: Short term financial plans do not influence the profitability of Nigerian Breweries, Ama, Enugu

HA1: Short term financial plans influence the profitability of Nigerian Breweries, Ama, Enugu.

Ho2: Medium term financial plans do not influence the profitability of Nigerian Breweries, Ama, Enugu

HA2: Medium term financial plans influence the profitability of Nigerian Breweries, Ama, Enugu.

**1.6 Significance of the Study**

The study is very essential as well as beneficial to individuals and organizations. First and foremost, this study will serve as important financial objective reference to top executives of organizations who want to achieve efficiency and effectiveness in production, and as well maximize profit.

Secondly, it will also be significant to students who want to carry out further research on this area of study.

Finally, the findings of this study will be useful to the organization and other similar organizations, as well as the general public in this field as it depicts the nature of problem associated with financial planning in this part of the country.

**1.7 Scope of the Study**

The study focuses on the application of financial planning as an effective tool for increasing profitability in Nigerian Breweries-Ama Enugu State, from 2003-2013. The study narrows its focus down to the influence of medium-term and short-term financial plans on the profitability of Nigerian Breweries-Ama Plc.

**1.8 Limitations of the Study**

Like any other research project, this study is not without limitations. Some of the difficulties encountered in carrying the study included:

* 1. Inability of the researcher to obtain adequate and relevant data from the organization, especially on sensitive economic issues that organizations are secretive about.
	2. Financial constraint is another limitation. Inadequacy of finance helped to restrict the study to only Nigerian Breweries whereas the researcher would have loved to go beyond that.
	3. The uncompromising nature of most respondents especially to questionnaires and verbal questions was another difficulty encountered by the researcher.
	4. Lack of time to carryout out the personal observations of the enterprise operations properly, as well as attend to other academic activities was a major hindrance.

**1.9** **Definition of Terms**

* + - ***Financial plan:*** A financial plan is also called capital plan. It is an estimate of the total capital requirements of the company. Financial plan gives a total picture of the future financial activities of the company.
		- ***Short-term financial plan:*** This plan is prepared for maximum period of one (1) year. This plan looks after the working capital needs of the company.
		- ***Medium-term financial plan:***  This plan is prepared for a period of one (1) to five (5) years. This plan looks after replacements and maintenance of assets, research and development, etc.
		- ***Long-term financial plan:*** This is prepared for a period of more than five (5) years. This plan looks after the long-term financial objectives of the company, its capital structure, expansion activities, etc.
		- ***Financial planning:*** This means to prepare a financial plan. It is the mathematical sum of the following parameters (functions). Financial Resources (FR) + Financial Techniques (FT) = Financial Planning (FP).
		- ***Planning****:* Planning can be defined as the establishment of activities and the formulation, evaluation and election of the policies strategies, tactics and action required to achieve these objectives.
		- ***Strategic Planning****:* The formulation, evaluation and selection of strategies for the purpose of preparing a long term plan to attain objectives.
		- ***Tactical Planning****:* Is the process of preparing detailed short term (usually one year) plans for the functions, activities and department of the organization thus converting the long term corporation plan into action.
		- ***Control****:* Control is concern with the different use of resources to achieve a previously, determine objective or set of objective within a plan productivity (total factor basis).
		- ***Profitability****:* Profitability is the ability of a business to earn a profit. A profit is what is left of the revenue a business generates after it pays all expenses directly related to the generation of the revenue such as producing a product, and other expenses related to the conduct of the business activities.
		- ***Programme Planning and Budgeting System*** *(****PPBS****):* Is a radical approach to budgeting based programmes which are group of activities with common objectives.

**CHAPTER TWO**

**REVIEW OF RELATED LITERATURE**

1. **Introduction**

In this chapter, an attempt has been made to review some current and related literature on financial planning and increasing profitability. The focus of this review is on the comments of authors, scholars, experts and professionals in financial planning. This chapter is arranged as follows:

Conceptual review

Theoretical review

Empirical review and

Summary of review of related literature

**2.1 Conceptual Review**

Financial planning is the task of determining how a business will afford to achieve its strategic goals and objectives. Usually, a company creates a financial plan immediately after the vision and objectives have been set. The financial plan describes each of the activities, resources, equipment and materials that are needed to achieve these objectives, as well as the timeframes involved. Performing financial planning is critical to the success of any organization. It provides the business plan with rigor, by confirming that the objectives set are achievable from a financial point of view. It also helps the CEO to set financial targets for the organization, and reward staff for meeting objectives within the budget set (Warschauer, 2002).

Financial planning should include some guidelines such as the identification of the company’s financial goals and an analysis of the differences between those goals and the company’s current financial situation, and a declaration of the necessary actions to be taken, so that the company achieves its financial goals. Thinking in this way one observes that initially an analysis of the financing options and investment that the company disposes of should be made as well as a performance evaluation related to the objectives established at the beginning of the financial plan. In the implementation of the plan, an itinerary and adjustments of the projections are fundamental in function of the variations of the internal and external atmosphere of the organization (Pandey, 1985).

The long term financial plans (strategic) serve as script in the preparation of the short term financial plans (operational).The short term financial plans are visualized in one period from one to two years, the long term plans already go from two years and above. Naturally, these periods change according to the activity and the interests of the organization. This will help in reducing the uncertainties or risks which can be a hindrance to growth of the company. This helps in ensuring stability and profitability in concern. Therefore, the financial plan can be very helpful for business owners to withstand the bad times and excel during the good times (Gitman, 1997).

Many organizations adopt various strategies among which is the financial planning and control. Financial planning and control is an integral part of financial management which deals with the management of a firm’s funds with a view to maximizing profit and the wealth of shareholders. The purpose of financial planning is to determine where the firm has been, where it is now, and where it is going. It also determines deviations from the most likely outcome. Financial planning is concerned with the study of the problems involved in the acquisition and use of funds by a business as well as the function of profit planning for the business organization. Planning can be defined as a managerial tool through which objectives and goals are determined and the future course of action to attain them, while control is a management action to ensure conformity with a plan or budget. Many will produce detailed plans for one year and more general financial plans for three to five years (Koontz, 1988).

Financial planning is a continuous process that flows with strategic decision making. The operating plan and the financial plan will both support the strategic plan. The best place to start in preparing a budget is with sales since this is a driving force behind much of our financial activity. However, we have to take into account numerous factors before we can finalize our budgets. The budgets include sales forecast, production forecasts, and other estimates in support of the financial plan. Collectively, all of these budgets are referred to as the Master Budget that will act as a basis of carrying out a comprehensive financial plan in the firm. Budgeting should be flexible, allowing modification when something changes (Matt, 2000).

Financial performance refers to the act of performing financial activity. In broader sense, financial performance refers to the degree to which financial objectives are being or have been accomplished. It 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, 1976).

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).

One of the biggest challenges within financial planning and budgeting is how do we make it value-added. Budgeting requires clear channels of communication, support from upper-level management, participation from various personnel, and predictive characteristics. Budgeting should not strive for accuracy, but should strive to support the decision making process. If we focus too much on accuracy, we will end-up with a budgeting process that incurs time and costs in excess of the benefits derived. The challenge is to make financial planning a value-added activity that helps the organization achieve its strategic goals and objectives. Budgeting should be both top down and bottom up; i.e. upper level management and middle level management will both work to finalize a budget. We can streamline the budgeting process by developing a financial model. Financial models can facilitate "what if" analysis so we can assess decisions before they are made. This can dramatically improve the financial planning process (Matt, 2000).

A company will carry out an intensive financial plan if the financial condition is poor so as to try and improve the financial performance of the firm in the future. Without carrying out a financial plan a firm will risk been a going concern. A company will have to adjust to the prevailing economic conditions that exist. It will come up with a high level financial planning and forecasting model that will ensure that the company safe guards its financial assets and achieve high financial performance (Koontz, 1988).

The competitive situation varies from one industry to another. Some industries have a more competitive situation than others. A firm that operates in a highly competitive situation will have to come up with a detailed financial plan that will address the competitive situation so as to ensure high financial performance of a firm at any given point in time. The current technological trend has enable firms to easily come up with a detailed and complex financial plan and budgets that will provide a guide on how the company will increase its financial performance in the future. This has enabled many firms and also industry to develop a master financial plan to boost financial performance in the industry such as the banking industry (White, 1997).

**2.1.1** **Financial Planning**

Financial planning and forecasting represents a blueprint of what a firm proposes to do in the future. So, naturally planning over such horizon tends to be fairly in aggregative terms. While there are considerable variations in the scope, degree of formality and level of sophistication in financial planning across firms, we need to focus on common elements which include economic assumptions, sales forecast, Performa statements, asset requirements and the mode of financing the investments (Chandra, 2007).

In general usage, a financial plan can be a budget, a plan for spending and saving future income. This plan allocates future income to various types of expenses, such as rent or utilities, and also reserves some income for short-term and long-term savings. A financial plan can also be an investment plan, which allocates savings to various assets or projects expected to produce future income, such as a new business or product line, shares in an existing business, or real estate (Khan, 1984).

**2.1.2 Short-Term Financial Plan**

This is prepared for a maximum of one year. This plan looks after the working capital needs of the company. Short-term financial decisions ensure the firm's liquidity and that they are critical to the short-term survival of the business. A company will also make decisions on short term sources of financing its activities which mainly are loans from commercial banks and direct market borrowing through commercial paper issues (Mudit, 2011).

Companies develop short-term financial plans to meet budget and investment goals within one fiscal year. These plans have a higher degree of certainty compared to long-term plans. Short-term plans often are amended as financial and investment goals change. Businesses and individuals alike use short-term plans to manage short-term cash deficits. When it becomes evident that severe cash shortages will occur, a cash-flow forecast becomes necessary. The forecast should estimate total cash collections and total cash payments during each quarter in at least three various scenarios: worst case, most likely and best case. You will need to know the difference between the total collections and total payments to ascertain whether there is a deficit in any quarter of the year. For each cash-inflow and outflow item, you must account for all relevant increases and decreases. This includes early payment discounts from creditors, deferred expense payments and cash sales (Davoren, 2009)

**2.1.3 Medium-Term Financial Plan**

This is prepared for a period of between two to five years. This plan looks after replacement and maintenance of assets, research and development and so on. It mainly provides an intermediary between long term financial plans and the short term financial plans. The main objective is to ensure companies' existing assets are bringing value for money where by the benefits of the assets exceeds the costs of the same assets. It is through medium term financial planning that the firm will be able to identify assets that are no longer bringing value and make a decision to replace such assets depending on the positive cash flow position of the firm. Medium term financial planning also enables a firm to carry out research and development where it plans the costs of the research and development. Many firms do not actually carry out medium term financial planning as it’s mostly categorized on long term financial planning (Mudit, 2011).

**2.1.4 Long-term Financial Plan**

This is prepared for a period of more than five years. It looks after the long-term financial objectives of the company, its capital structure, expansion activities and so on. Long-term financial planning provides a strategy for the future financial growth and expansion of a company. These types of decisions have extended lead times and require a long-term view of how to implement the strategy. The strategy makes certain assumptions, based on such factors as the future economic outlook, interest and inflation rates, product sales and revenue projections, and business environment assessments based on specific regulatory and tax structures. The purpose of establishing the plan is to set financial milestones that, once achieved, result in successfully realizing long-term financial objectives. Both cash budgeting and long-term financial planning are focused on the financial health of a company. In both cases the objective is to maximize the efficient use of capital in order to create shareholder value and expand operations. Long-term plans are created for major strategic decisions made by a business such as take over and merger activity, expansion of capacity, development of new products and overseas expansion (Houston, 2000). This is the aggregative perspective of the whole firm rather than looking at individual projects. Growth is a key theme behind financial forecasting, so growth should not be the underlying goal; corporation creating shareholder value is enabled through corporate growth (Chandra, 2007).

**2.1.5 Financial Performance**

Financial planning of a firm normally originates from the financial position and structure of the firm. Such information is derived from the financial statement which is the yard stick to evaluate and monitor performance. Business executives use financial statements to draft a comprehensive financial plan that will maximize shareholders wealth and minimize possible risks that may pre-exist. Financial statements generally evaluate the financial position and performance of a business. They are produced for external stakeholders like shareholders, government agencies, lenders etc. These statements are produced to meet the requirements of local government and its authorities for financial reporting (Tufano, 1995).

Profitability is the main factor which needs to be measured. The objective of every business is to increase the wealth of its owners. Usually, the performance of a business is measured by evaluating the economy, efficiency and effectiveness of a business. A lot of information can be obtained from the management accounts to evaluate performance of a company. However limited information is available in the financial statements of a business. From the information provided in financial statements, one can evaluate liquidity, profitability and the capital structure of a company. Return on Capital Employed (ROCE) shows the efficiency of a business. A high ROCE shows that resources of a business are used efficiently. Investors can evaluate performance of a business by the use of Earning per Share (EPS) and Price Earnings Ratio (P/E Ratio). EPS shows how much profits are earned by the equity holders. P/E ratio is also known as the stock market ratio. A higher P/E ratio indicates that high growth is expected in company's market value (Overton, 2007).

In short, the term liquidity is more important than profitability for a business. One of the primary measures used to find liquidity of a business is the current ratio. Current ratio depends on the nature of business; therefore current ratio must be compared with the industry average. Another measure of liquidity is Quick Current Ratio or Acid Test Ratio. It also measures the Liquidity but excludes inventory from the current assets. It gives a more reliable figure of liquidity as compared to current ratio. Inventory Turnover, Receivables Collection Period and Payables Payment Period are also used to measure liquidity of a business. Increase in inventory turnover is not a good sign. Similarly, an increase in Receivable Collection is a bad signal to stakeholders. Payables payment period indicates how long a company is taking to pay its debts. A longer payable period indicates that a company is facing cash shortage problems. Longer payable periods also affect the credit rating of a company negatively (Ansar, 2009).

The percent of sales method is a fairly simple method used to analyze financial performance. Basically this method assumes that the future relationship between various elements of costs to sales will be similar to their historical relationship. When using this method, a decision has to be taken about which historical cost ratios to be used. The percent of sales method, though simple, is too rigid and mechanistic as it assumes that all elements of costs and expenses bore a strictly proportional relationship to sales. The budgeted expense method, on the other hand calls for estimating the value of each item on the basis of expected developments in the future period for which the financial performance reports are prepared. This method requires greater effort on the part of management because it calls for defining likely developments (Khan, 2005).

Variation method on the other hand, calls for estimating the items on the basis of percentage increase or decrease of comparing with the same item of base year. It is quite flexible throughout the future period. This method is not like budgeted method, the value estimating for an item under this method is entirely dependent on the historical data. It appears that a combination of above explained three methods works best. For certain items, which have a fairly stable relationship with sales, the percent of sales method is quite adequate. For other items, where future is likely to be very different from the past, the budgeted expense method or variation method is eminently suitable. A combination method of this kind is neither overly simplistic as the percent of sales method nor unduly onerous as the budgeted expense method or variation method (Khan, 2005).

**2.1.6 Objectives of Financial Planning**

Welsala (2003) maintained that planning is a difficult task, which requires an organization to determine ahead of time the requirement which may be needed to carry out some desired objective. Limitation of resources supply hinders the effective undertaking of vital projects or activities in planning, coordinating and control of business activities.

1. ***Planning****:*

Planning is an important attempt to achieve an efficient relationship between ends and means.

According to Helkroh (2005) planning is an organized and methodical procedure by which management can obtain maximum realization of its objectives with available resources or can achieve specific targets at least cost. Budgeting then aid planning in the following ways:

* It serves as a basic for action after thorough investigation study and research.
* It enlists the assistance of the entire organization in determining the most feasible course of action.
* It results to a more effective use of physical equipment and other assets.
* It serves as a declaration of policies.
1. ***Coordination:***

Budgeting encourages coordination in the following ways:

* Coordination of human efforts the business structure.
* It helps to relate the activities of the organization to the general trend of economic condition.
* It reveals weaknesses in the organization.
* It directs capital effort into most profitable channels by means of a balance and unified programme.
1. ***Control****:*

The Institute of Cost and Management Accounting England (2004) defined budgeting as a control device help to control specific organization or expenditure and helps to prevent waste.

Argyris (2006) highlighted the “negative pressure” which often result from control by budgets could lead to:

* Increased counter pressure downloads by workers to maintain the equilibrium leading to:
* Hard work by management in the form of additional controls and resulting.
* Suspicious by workers

Thus, the budget was seen as a “economy” which helps to unit employee against the management resulting in tension for the intermediate superior. However, these views cannot be shared with Argyle since budget is supposed to enjoy the participation of subordinates in both preparation and implementation and more so, variance sometimes arise due to factors which are outside management control. In this light, management must exercise some flexibility in its budget.

**2.1.7** **Requirements of a good Financial Planning System**

Draper (2000) mentioned the pre-requisites of a good financial planning system. These requirements can be grouped into the budget preparation stage, implementation and control aspects. For budget preparation stage, there is the need for cooperating between the chief executive and the staff especially the managers. No planning system can succeed without support from the top management. Responsibility for the preparation for the estimate should rest on those individuals responsible for performance, this is to enable them pursue vigorously the goals which they participated in setting, such budget must be realistic and goals set attainable. The purpose of budgeting will be defeated if unrealistic goals not capable of attainment at the end of the budget period one set. System must be adequate to provide historical figures for the preparation of the budgeting. On the implementation aspect, the budget director must be a good salesman that he will enable to sell the budget up and down the organization. Also a budget committee should be established consisting budgeting direct organization, the chief executive and the execution of the various division of the organization. A good organization must be developed to facilitate the budget implementation.

Lastly, the control purposes, periodic report should be prepared promptly covering budgeted and actual results. However, the systems are not identical for all organization because budgets are based on penalties of the firm. Draper (2000) disregarded impact of inflation in the budgeting system due to the fast changing economic condition, it is quite uncertain to make forecast with reasonable accuracy. The uncertainty is caused by increasing inflation, some of the problems of budgeting under inflation condition include:

1. Difficulty in measuring the rate of return to quantity the benefits owing to the decline in the purchasing power of money.
2. Difficulty in the determination of future demand for liquid resources like case, due to the rising costs.
3. Allocating of responsibilities for achieving the sets and decision on performance measures is further complicated.

A good system of financial planning therefore should be guided more by the effects of possible changes in the value of money than by historical costs. The budgeting policy should reflect the effect of future activities or the expected return.

**2.2 Theoretical Framework**

**2.2.1 Agency Theory**

Agency theory is directed at the ubiquitous agency relationship, in which one party (the principal) delegates work to another (the agent), who performs that work. Agency theory is concerned with resolving two problems that can occur in agency relationships. The first is the agency problem that arises when (a) the desires or goals of the principal and agent conflict and (b) it is difficult or expensive for the principle to verify what the agent is actually doing. The problem here is that the principal cannot verify that the agent has behaved appropriately. The second is the problem of risk sharing that arises when the principal and agent have different attitudes towards risk. The problem here is that the principle and the agent may prefer different actions because of the different risk preferences (Eisenhardt, 1989).

**2.2.2 Modern Portfolio Theory**

Modern portfolio theory is a theory of finance that attempts to maximize portfolio expected return for a given amount of portfolio risk, or equivalently minimize risk for a given level of expected return, by carefully choosing the proportions of various assets.

Modern portfolio theory asserts that firms choose investments based on discounted future expected returns and that for maximum risk adjusted returns firms should diversify across industries and asset classes. It was basically a methodology for producing balanced portfolios. On the business front it has assisted financial managers to come up with a balance portfolio of investments through the financial planning process of securing and employing capital resources on assets that will generate optimal returns (Markowitz, 1952). This study is based on this theory because this theory centers on maximizing profit and minimizing cost or expenses, which is what this study is all about, maximizing profit as a result of financial planning.

**2.2.3 Trade-off Theory**

The trade-off theory of capital structure refers to the idea that a company chooses how much debt finance and how much equity finance to use by balancing the costs and benefits. The classical version of the hypothesis goes back to (Kraus & Litzenberger, 1973) who considered a balance between the dead-weight costs of bankruptcy and the tax saving benefits of debt. Often agency costs are also included in the balance. An important purpose of the theory is to explain the fact that corporations usually are financed partly with debt and partly with equity. It states that there is an advantage to financing with debt, the tax benefits of debt and there is a cost of financing with debt, the costs of financial distress including bankruptcy costs of debt and non-bankruptcy costs (e.g.staff leaving, suppliers demanding disadvantageous payment terms, bondholder/stockholder infighting, etc.). The marginal benefit of further increases in debt declines as debt increases, while the marginal cost increases, so that a firm that is optimizing its overall value will focus on this trade-off when choosing how much debt and equity to use for financing (Miller,1977).

**2.2.4 Stake Holders’ Theory**

Stake holder theory, Clarkson(1994) states that a firm is a system of stake holders operating within the large system of the host society that provides the necessary legal and market infrastructure for the firms activities the purpose of the firm is to create wealth or value for its stake holders by converting their stake into good and services thus view is supported by (Blair, 1995-322) who proposes that the goods to directors and management should be maximizing total wealth creation by the firm the key to adhering thus is to enhance the voice and provide ownership like incentives to those participants in the firm who contributes or controls critical specialized inputs (firm specific human capital) and to align the interests to their critical stake holders with the interest of outside passive stakeholder.

Consistent with those views by Blair to provide voice and ownership like incentives to critical stockholders, Porter (1992) recommended to us by policy makers that they should encourage board representation by significant customers’ and suppliers financial adverse, employees and community representatives. Porter (1992) also recommended that corporation seek long term owners and gives them a direct voice in governance.

All these recommendations would help to establish the sort of business alliances trade related networks and strategic associations which Hollingsworth and Lindberg (1985) noted had not evolved as much as the United States as they had in continental Europe and Japan. In other word porter is suggesting that competitiveness can be improved by using all four instrumental modes for governing transaction rather than just markets and hierarchy. Thus supports the need to expand the theory of the firm as suggested by (Turnbull, 1994).

In large enterprises the high degree of detail in budget planning also is an important influence. Decomposing the overall budget problem down to the lowest hierarchical level requisite for detailed analysis consumes large quantities of human and monetary resources moreover wasteful resources consumption occurs every time negotiating partiers loop through the planning cycle until they finally approve the annual operating budget. Large firms usually commit 75 percent to 95 percent of their total controlling capacity to operational planning during the time they are engaged in budget preparation (Kopp & Leyk, 2004) unfortunately top management seldom considers the high cost involved relative to the manager benefit derived from such detailed instruments. It then is no wonder that cost, product and strategic controlling often get little attention in the process.

**2.2.5 Goal Setting Theory**

Goal setting theory, Locke and Latham (1990) was developed inductively within industrial organization psychology over 25 years period based on same 400 laboratory and field studies . these studies showed that specific high (hard ) goals lead to a higher level of task performance than do easy goals or pause abstract goals such as the exhortation to “do ones best”. A budget is a way of setting an organization at goals for a specific period of time.

The prime axiom of goals leads to higher performance than when people strive to simply “do their best” (Locke & Latham 1990). The performance benefits of challenging specific goals have been demonstrated in hundreds of laboratory and field studies (Locke & Latham 1990).Such goals positively affect the performance of individual’s groups, organization units as well as entire organizations and over periods long as twenty five years.

By providing direction and a standard organs which progress can be monitored challenging goals can enable people to guide and refine their performance it is well document in the scholarly and practitioner literatures that specifies goal can boost motivation and performance by leading people to focus their attention an specific objectives increase their effort to exclusive these objective persist in the face of setbacks and develop new strategies to goal attainment. Through such motivational processes challenging goals often lead to valuable rewards such as recognition, promotions and /or increases income from one's work.

Budgets should be set in a way that staff members see their achievements as challenging. Simple to achieve budgets have not been seen to motivate staff to achieve. Even through setting high goals set the bar higher to obtain self-satisfaction, attaining goals creates a heightened sense of efficiency (personal effectiveness) self-satisfaction positive effect and sense of well-being especially when the goals conquered were considered challenging by providing self-satisfaction, positive effect, and sense of well-being especially when the goals conquered were considered challenging. By providing self-satisfaction, achieving goals often also increases organizational commitment which in turn positively affects the organizational citizenship behavior, negatively affects turnover and increases the strength of the relationship between difficult goals and performance.

**2.2.6 Cognitive Evaluation Theory.**

This theory suggests that when looking at task, we evaluate it in terms of how well it meets our needs to feel competent and in control (Deci, 1975). If we think we will be able to complete the task, we will be intrinsically motivated to complete the task requiring no further external motivation, where a person has a stronger internal locus of control they will feel they are in control of how they behave where they have a stronger external locus of control they will believe the environment or others have a greater influence over what they do.

Budgets create a sense of responsibility over the manager in charge of a department or section. The feeling of being in control of the outcome of the results of a department due to accomplishment of budget targets can be a source of motivation and thus improvement of performance. People may see external rewards as achieving some degree of control over them or may see the reward as informational such as where they reinforce feelings of competence and self-determination. When people sees the reward as mostly for control; they will be motivated by gaining the reward but not by enhancing the requested behavior.

This theory suggests that there are actually two motivation systems, intrinsic and extrinsic that corresponds to two kinds of motivators, intrinsic motivator includes achievements responsibility and come from the actual performance and the task or job.

Extrinsic motivators include pay, promotion, feedback, working conditions. These motivators are things that come from a person’s environment and are controlled by others. Intrinsically motivated individuals perform for their own achievement and satisfaction. If they are doing some job because of the pay or the working conditions or some other extrinsic reason they begin to lose motivation.

Budget achievement is thus a powerful intrinsic motivator as it creates a sense of personal achievements and responsibility meeting a budget target leads to personal satisfaction and will thus be a boost to managerial performance.

**2.3 Empirical Review:**

Financial planning is a means of assembling the funds necessary to initiate a new activity. It provides the basis for continued operation and furnishing additional capital, covering the costs of operation and generally synchronizing the various factors of a going business. Underlying these two functions is the formulation of policy, which provides a sense of direction and actual plan of operation. Organization of these functions is important for all types of business units, especially in private undertakings where small and medium scale investments are much higher. It is necessary to organize the financial planning function in such a manner that should help the business in achieving its basic objectives with minimum costs (Pandey, 1985).

Adegbuyi and Asapo (2010) did a study on the effect of financial planning and budgeting on the organizational productivity. The objectives of the study was to present a statistical correlation between some identified variables that may have direct impact on planning, budgeting and production in an industry and how these variables can be adjusted for profit optimization. The study summarizes field survey results designed and administered to staff in a production industry. The study is based on a quantitative research approach, the researchers made used of experimental design in the research methodology, they also made used of stratified random sampling technique, this study is limited to information gotten from one manufacturing outfit in Nigeria, the company selected is a subsidiary of a group of companies with staff strength of about 900 and is well positioned to remain a leading indigenous manufacturing company in Nigeria. The company products include: cooking cubes, tea, vegetables oil, margarine and semolina. The company’s products have been given various standard certifications by the Nigeria Institute of Standard, Standard Organization of Nigeria and International Standard Organization. Research instrument used for the study was a well-structured questionnaire and audio recording gadgets. The questions were categorized into three sections which are: Biological data, Information from respondents based on general questions drawn from the research topic and the hypothesis and Additional information and responses for evaluation.

The Researchers made used of five Likert approach of agreed, strongly agreed, uncertain, disagreed and strongly disagreed was employed. Top managers of this company were subjected to interviews and data were collected via audio recording machine. The sample in the case study consists of 150 respondents, through stratified random sampling technique using table of random numbers. The researchers made use of chi-square method for data analysis and their level of significance is 5% (0.05) and their finding is that since the Calculated chi-value is far greater than the table value at alpha (confidence) level of 0.05 and degree of freedom 4. The null hypothesis that there is no statistical significant relationship between production planning operations and organizational output is therefore rejected.

Amalokwu and Obiajulum (2008) carried out a study titled Budgetary and management control practices (budget being the tool for management control in Guinness Nigeria plc “The study was described based on a qualitative approach in data collection (primary data) research purpose, data analysis as well as critiques to the method use. A sample of 50 respondents was used. The research conclusion was that budgets could facilitate the creating and sustaining of competitive advantages by enabling the following management functions - Forecasting and planning, communication and coordination, motivational device evaluation and control and decision making.

Lambe (2014) did a study that undertook a comprehensive and analytical appraisal into the impact of budgeting and planning on the performance of financial institutions in Nigeria. Attention was primarily on the policies to be considered in developing Budgeting and Planning programmes, to determine the factors responsible for rigidities and structural imbalance in budgeting and planning programmes of Nigerian Banks, and to subsequently appraise the impact of budgeting and planning on their effective performance, the researcher made use of primary source of data that was a well-structured questionnaire raised and administered to respondents made up of management and non-management staff of selected institutions. Interviews and participant observation conducted at the convenience of the respondents were added as supplements. By means of survey research design and percentage statistics method, this study examined the impact of budgeting and planning on the performance of financial institutions, with specific focus on Nigerian Banks. The choice of this design was due to the fact that the researcher perceived it appropriate because of the need to have comparative and in-depth assessment of the issue in question.

The population of the study consisted of top management and middle level management staff of selected financial institutions in Nigeria. The primary data were obtained through the use of a well-structured questionnaire administered to the respondents, while the secondary data were obtained from the annual financial statements of the banks, as well as from files, relevant document, memos, tax laws, bank pamphlet reporting standards, journals, gazette, and financial columns of National dailies. The sampling technique adopted for the population of the study is the non-probability type.

Rather the maximum of 80% of subjects was used for the sample size of management and non-management staff (Borg & Gall, 1974). Data was analyzed using the percentage statistics method. The raw scores and their equivalent percentages were used in answering research questions earlier developed for the study. The analyses and interpretation of data obtained from both primary and secondary sources are brought under review so as to answer the pertinent questions raised in this study. From all the issues raised and brought under review in this study, it can be inferred that the subject of budgeting and planning is a tasking issue, The findings revealed that budgetary and planning programmes are restricted to few top management staff of Nigerian Banks, but indicated that budgeting and planning can be utilized as a major policy instrument to align commercial banking operations with the policy framework of regulatory bodies, particularly the Central Bank of Nigeria. It was also discovered that overtime budgeting and planning has impacted positively on effective performance of Nigerian banks. It is recommended that for greater improvements in overall operations and for maximum impact of budgetary provisions, financial institutions as a whole must function as a single system, in which all its constituent units are intimately inter-linked.

Comprehensive financial planning is required to monitor financial capability over time in order to most profitably operate the organization. Owners seek to maximize profits regardless of the tax status of the organization not for profit or investor owned. While organizations that do not generate a return on assets in excess of their cost of capital are in danger of financial failure numerous areas of financial performance are often used to monitor asset productivity One predominant monitor of financial performance is return on capital employed (ROCE) which is also widely used in other industries (Beith & Goldreich, 2000).

Many large companies are using the new or contemporary financial planning and control systems. Some small business managers are also looking for information on the latest management systems because they realize that they need to develop their skills and educate themselves. Small businesses that operate in uncertain and competitive environments need to plan and control their operations because this will help owners/managers to run their businesses successfully (Hogsett, 1981).Capital intensity, the amount of capital required for operations was inversely related to financial performance as most organizations in early stages of development required greater capital before becoming established, and less once they became a mature entity. The Monte Carlo risk simulation was seen as a means of describing uncertainty projecting a better view of potential outcomes. It showed that simulation analysis has application in budgeting, forecasting, and other areas of financial modeling, and should be part of a comprehensive process of financial planning (Langabeer, 1998).

One area that has received little attention in the establishment of strategies, especially in the study of micro, small and medium-sized enterprises, is that of financial decisions, even though it is a determinant of business competitiveness. Financial analysis and planning, which represent basic features that support organizational strategy, are nonetheless virtually non-existent in micro and small enterprises, which impose a constraint on the kind of financial decisions business people can take. Financial strategy represents a path to achieve and maintain business competitiveness and position a company as a world class organization. Financial strategies are goals, patterns or alternatives designed to improve and optimize financial management in order to achieve corporate results (Lopez, 2006).

A study on the configuration theory and firm’s resource based view to understand the relationship between strategic financial planning and the firm’s performance. Their findings also provide partial support for a positive relationship between strategic financial planning and performance. However, they concluded that this relationship is moderated by organizational stage of development and that it is beneficial to early stage firms. The underlying premise for these conclusions are based on the development competitive advantages provided by the structure and the future thinking incorporated into the strategic process and the non-sustainability and erosion of these advantages in late stage firms, whose processes are more prone to imitation (Sarason & Tegarden, 2003).It is suggested that a sensibility analysis should be made in the most outstanding and susceptible aspects, in which the agents analyze the consequences of the plan with the base on the most probable circumstances group, to continue they do the pretexts variation, one in turn, analyzing its influence in the results of the plan. There are even, methods based on software which calculate the variation possibility for each plan component, with base on the possibility that each one of them could take place (Brealey & Myers, 1998).

Financial strategy consists of three interrelated kinds of decisions: investment, funding and working capital decisions. Investment decisions relate to the allocation of capital to carry out investment opportunities that are valuable (bring value) to the company, taking into account the magnitude, opportunity and risk of the future cash flows of investment. Funding decisions concern the specific mix of long-term debt and capital that the company uses to finance its operations, i.e., optimal capital structure. Working-capital decisions include the management of short-term assets and liabilities in a way that ensures the adequacy of resources for company operations. Assuming the corporate aim is to maximize profits, it is important for businesses to seek the optimum combination of the three kinds of financial decisions (Ross, 2000).

During the 1990s the financial planning industry grew due to the favorable economy and the entrance of many traditional banks and brokerages houses. The banks and other financial service companies began to see the value in hiring financial advisors to promote their products and services. This shift blurred the lines between the financial planning and the much large financial services industries. During this time the financial planning industry grew to include a broad variety of insurance, estate planning, investment and tax planning experts. This helped financial planning evolve into a comprehensive personal finance solution. Financial planning in the future will be driven by both individual people who develop a love and affection for planning as well as a trend toward larger firms to the extent that they don't lose their trusted relationship ties with their clients. One area that has completely changed financial planning is technology as technology continues to evolve, it will enable planners to be efficient, able to serve more clients, in a more timely and thoughtful way, even as the margins of the business may decline (Mccrillis,2011).

Brownell (1982) did a study to establish relationships between budget participation and performance. By using contingency approach he categorized them into the four groups. These moderators included:

(1) The cultural variables of nationality legislative systems, race and religion.

(2) The organizational variables of environmental stability, technology, task uncertainty and organizational structure.

(3) The interpersonal variables of task stress, group size, intrinsic satisfaction of task and congruence between task and individual, and

(4) The individual variables to locus of control, authoritarianism, external reference points and perceived emphasis placed on accounting information.

There are two important studies examining national culture variable that was categorized in the first category by Brownell. Norway culture based study of (Lau & Buckland, 2000) accepts thus culture as a natural chance for managerial performance and low diversity within the Norwegian participation is expected to range from medium to high rather than from low situations are common in Norway, prior studies finding pertaining to high participation situations are expected to be supported in Norway.

Oduor (2003) carried out a study on the effect of financial planning strategies on the financial performance of the local commercial banks in Kenya analyzing the manner in which financial strategies have impacted the high financial performance of the local commercial banks in Kenya. He carried out a survey study on the commercial banks in Kenya where he wanted to identify which strategies were the banks applying that were bringing about the high financial performance they were achieving. He collected data from the commercial banks which showed that the banks had indeed applied financial planning techniques and strategies in its operations that led to the high financial performance of the banks.

Kalimalwendo (2005) carried out a study on the weak application of financial planning and budgeting in the development of the co-operative sector analyzing how financial planning was not been applied. He wanted to investigate as to the reasons why financial planning was not been applied in the co-operative sector in East Africa. He carried out his study in Tanzania and Kenya where he wanted to know why the cooperative societies were not keen on applying financial planning in managing its financial resources. He observed that many cooperative societies in East Africa were mismanaging its finances to the extent that some were either dissolved or shut down altogether. He collected data from the cooperative societies in Kenya and Tanzania which showed that they applied very little financial planning in managing its finances and as a result deduced that a weak application of financial planning resulted in poor management of the cooperative finances and poor financial performance of the cooperative sector.

Mohammed (2008) carried out a study to determine the importance of financial planning in micro finance firms. The study was addressing the need for such firms to apply financial planning in the management of its resources to enhance efficiency and minimize costs in the micro finance firms in Kenya. He carried out his study on micro finance firms among them been Kenya women finance trust which is one of the fastest growing micro finance firms specializing on providing finances to women intending to start or expand their business ventures. He wanted to identify which financial planning techniques the firms were applying in managing and allocating its financial resources so as to enhance efficiency, expand and minimize its costs. He collected data from the micro finance firms which showed that firms which had adopted financial planning techniques in managing and allocating resources achieved high efficiency, growth and minimized their costs. The firms which had applied little or no financial planning techniques had lower efficiency and slower financial growth.

**2.4 Summary of Literature Review**

The literature review tends to deal with financial planning and its effect on firms profitability and also which serves the purposes of effective monitoring and controlling of cost in order to enhance performance, productivity and also maximizes profitability in Nigerian firms.

The speed of the changes in the business world does not allow the firms to be empirically administered in adapting to rapid changes as in the recent 2008 global recession which apart from the banks greatly affected the firms raising serious concerns for business executives to seek financial planner experts. The Financial planners will help to produce information that evidences the financial health of these firms, projecting the future, so that their directors can then, identify critical points and detect needs of amplification or retraction, to revise expenses, to re-evaluate the necessary recipe levels, finally, to bring about the necessary questions for the continuity of the business at healthy levels (Financial Times, 2010).

Historical weaknesses in the budgeting and forecasting process persist, limiting the perceived value of the financial planning process within the organization. The process continues to be time consuming, iterative, and inaccurate. The call for action to fundamentally improve the financial planning process is now coming directly from CEOs, CFOs, and business-unit leadership and taking priority over other competing finance and business initiatives. Business changes and uncertainty are leading factors cited as causes for planning variability from actual performance. A key trend that surfaced was that organizations where the financial planning process leverages external indicators and business drivers are demonstrating a higher level of success in harnessing uncertainty and delivering prospective insights with higher confidence and accuracy. Business driver planning provides better insight to understand, analyze, and proactively impact business performance (Price Water House Coopers, 2011).

The researcher has identified some gaps in knowledge by reviewing some literatures, which is that this literatures has not identified the effect of financial planning (long-term, short-term and medium-term financial planning) on firms profitability and that is what this study intends to fill.

**CHAPTER THREE**

**RESEARCH METHODOLOGY**

**3.1** **Introduction**

This chapter outlines the methodology that was used in conducting the research. The chapter presents the research design, target population and sampling techniques to be employed. It further identifies the data collection instruments to be employed in the research and the procedures for data collection. It concludes by describing how data analysis was conducted and expected output.

**3.2 Research Design**

The study adopted survey research design. This was considered appropriate because the design helps researchers to collect needed data straight from the respondents.

**3.3 Area of the Study**

The Nigerian Breweries-Ama Plc Enugu is the geographical location which the researcher selected for the study. The company is situated at 9th Mile Enugu State.

**3.4 Population of the Study**

The population of the study comprised of the entire staff of the company totaling 415 as at December 2016 (Annual Reports & Statement of Accounts, 2016)

**3.5 Sample Size and Sampling Technique**

Because of the technical nature of the subject of the study – financial planning, it was hypothesized that only those who are involved in financial planning in the company will make a good sample for the study. Therefore, a multi-stage sampling was adopted. In the first stage, the

managers and staffs in the accounting department were selected. In the second stage, the accountants and managers were selected. The sample therefore, comprised of twenty (21) staff consisting of the managers and the accountants.

**3.6 Instrument for Data Collection**

The main instrument for data collection in the study was the questionnaire. This was complemented by oral interview. The questionnaire and oral interviews were structured to address the objectives of the study. The questionnaire was constructed by using both open-ended and closed-ended questions.

**3.7** **Validation of the Instrument**

To increase the validity of the instrument, that is to ensure the structured questionnaire for the study measured what it was supposed to measure in terms of content and construct validity (adequate coverage of research topic and adequate coverage of the concept of the research respectively), the questionnaire was vetted by the researcher’s supervisor while some copies of the questionnaire were given to selected members of staff of Ama Breweries for a pilot test. The aim was to ascertain the extent to which they understand the content of the instrument.

**3.8** **Reliability of the Instrument**

To test for the reliability of the instrument, the Pearson Moment Correlation Coefficient was used. This essentially involves examining the correlation between the responses of the respondents from a pilot study from the two groups of respondents. A correlation above 0.5 indicates reliability while a correlation coefficient below 0.5 indicates no reliability. The result of the correlation is shown in Table 3.1

**Table 1: Reliability Test**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Model** | **R** | **R-square** | **Adjusted R-Square** | **Std Error of the estimate** |
| 1 | 0.876 a | 0.845 | 0.823 | 0.8332 |

Source: *Researcher’s computation using SPSS*

The correlation coefficient of 0.876 indicates that there is a positive correlation between the responses from both groups of respondents. Therefore, R = 0.876 which is greater than 0.05 indicates that the test instrument is reliable.

**3.9 Method of Data Collection**

The structured questionnaire was personally administered by the researcher to the respondents and thereafter collected them back. All the questionnaires were properly completed and returned.

**3.10 Method of Data Analysis**

The researcher organized the data collected into tables, frequencies and percentages. In order to test the various hypotheses, Chi-Square(X2) statistical technique was used at 5% level of significance. According to Asika (2008), the Chi-square is applied in the following situations:

1. Where there are two variables drawn from independent samples each of which is categorized in two ways, e.g. Yes and No responses.
2. When the data are non-metric, i.e. when the data are expressed in frequencies.
3. When null hypothesis could be stated of the variables. That is, there is no relationship between the two variables – the two variables are independent of each other.

There are two types of X2 test – the chi-square (X2) test of independence and homogeneity and the chi-square goodness of fit test. In each case the test procedure involves comparing observed frequencies with some expected frequencies.

The researcher applied the chi-square test of independence and homogeneity with the following assumptions:

1. The data are drawn randomly from a population of interest
2. Two criteria are used to cross-classify the observations and each observation must belong to one criterion.

The following formula is used in computing the chi-square value for the data:

 X2 = ∑(Oij – Eij)

 Eij

Where Oij = Observed frequency

 Eij = Expected frequency

**Decision Rule**

Reject the null hypothesis of independence at α = 0.05, if the computed value of the test statistic, X2 exceeds the critical (tabulated) value of X20.95 for (r-1) (c-1) degrees of freedom, where

 r = number of rows

 c = number of columns

**CHAPTER FOUR**

**DATA PRESENTATION AND ANALYSIS**

**4.1 Data Presentation**

 The data generated from the field survey using the questionnaire as instrument are presented below. For analytical convenience, the data were presented in two sections. Section (A) deals with bio-data of the respondents while section (B) deals with the information concerning budgets and budgetary control.

**Section A: Bio-data of Respondents (Management and Accountants)**

15

71.4

71.4

71.4

 6

28.6

28.6

100.0

 21

100.0

100.0

Male

Female

Total

Valid

Frequency

Percent

Valid Percent

Cumulative

Percent

Source: *Field Survey, 2017*

**Table 2: Sex of the Respondents**

From the output in table 2 above, out of the total respondents of 21, 15 or 71.4 percent of the respondents are males while 6 or 28.6 percent are females.

0

0

0

0

 6

28.6

28.6

28.6

3

14.3

14.3

42.9

12

57.1

57.1

100.0

 21

100.0

100.0

below 25

25-35

36-45

46 and above

Total

Valid

Frequency

Percent

Valid Percent

Cumulative

Percent

**Table 3: Ages of the Respondents**

Source: *SPSS Output*

From the SPSS output in table 3, majority of the respondents are within the age bracket of 46 and above. This group constitutes approximately 57 percent of the entire respondents. This was followed by those within the age bracket of 25-35 years (28.6%) while those within the age bracket of 36-45 years came at the rear. This last group constitutes approximately 8 percent (14.3%) of the total respondents.

 3

14.2

14.2

14.2

 17

80.9

80.9

95.1

.2 Test of Research Hypothesesly 9% of the respondents think otherwise. ctive strategies on the firm'firm'ndents did not agree

1

 4.9

1000

 0

0

0

100.0

 21

100.0

100.0

Single

Married

Widow

Divorced

Total

Valid

Frequency

Percent

Valid Percent

Cumulative

Percent

Source: *SPSS Output*

**Table 4: Marital Status of the Respondents**

From the output in Table 4, 17 or 80.9 percent of the respondents are married while 3 or 14.2 percent are single. One of the respondents was a widow, that 4.9 percent of the total respondents.

13

61.9

61.9

61.9

 8

38.1

38.1

100.0

 21

100.0

100.0

Managers

Accountants

Total

Valid

Frequency

Percent

Valid Percent

Cumulative

Percent

Source: *SPSS* *Output*

**Table 5: Official Status of Respondents**

From the output in table 5, 57 or 61.9 percent of the respondents are managers in the company while the rest, 8 or 38.1 percent of the respondents are Accountants in the company

**Table 6: How long has the firm been in operation?**

|  |  |  |
| --- | --- | --- |
| Options | No. of Respondents | Percentage |
| 1-4 years5-10 yearsOver 10 years | -217 | -10.5%89.5% |
| Total | 19 | 100% |

 Source: *Field Survey, 2017*

The study sought to determine number of years the firm has been in operation. This was to enable the researcher to get vital information with regard to the company's financial planning. Based on the analysis of the findings it can be depicted that majority (89.5%) of the respondents said the firm has been in operation for more than 10 years which was enough indeed to give out information required by the researcher while 10.5% indicated that the company have operated between 5-10 years.

**Table 7: How long have you worked in this firm?**

|  |  |  |
| --- | --- | --- |
| Option | No. of Respondents | Percentage (%) |
| Below 5 years | 5 | 26.4% |
| 5-10 years | 8 | 42.1% |
| Over 10 years | 6 | 31.5% |
| *Total* | *19* | *100%* |

 Source: *Field Survey, 2017*

 The study sought to determine number of years worked in the firm of the respondents. This was to enable the researcher to establish an accumulated working experience with regard of financial planning as a tool of increase or decrease in the profitability of the firm. Based on the analysis of the findings it can be depicted that majority (42.1%) have worked between 5-10 years indicating that most accountants had that accumulated experience to discharge their functions effectively and efficiently in the firm, while 31.5% indicated that have worked in the firm for more than 10 years and the remaining 26.4% have worked below 5 years.

**Section B: Research Questions**

**Table 8: Does a short-term financial plan influence the profitability of your firms?**

|  |  |  |
| --- | --- | --- |
| Options | No. of Respondents | Percentage |
| Yes | 16 | 76.1 |
| No  | 5 | 23.9 |
| Total | 21 | 100 |

Source: *Field Survey, 2017*.

Result from table 8 show that majority, 16 or approximately 76 of the respondents agreed that a short term financial plan influence the profitability of the company while 5 or approximately of the respondents did not agree that a short term financial plan influence the profitability of the firm.

**Table 9: Does a medium-term financial plan influence the profitability of your firms?**

|  |  |  |
| --- | --- | --- |
| Options | No. of Respondents | Percentage |
| Yes | 18 | 85.7 |
| No | 3 | 14.3 |
| Total | 21 | 100 |

Source: *Field Survey, 2017*

Result from table 4.8 show that majority, 18 or approximately 86 of the respondents agreed that a medium term financial plan influence the profitability of the company while 14.3 of the respondents did not agree that a medium term financial plan influence the profitability of the firm.

**Table 10: Do you think financial planning strategies affect the firm’s profitability?**

|  |  |  |
| --- | --- | --- |
| Options | No. of Respondents | Percentage |
| Yes | 19 | 90.5 |
| No | 2 | 9.5 |
| Total | 21 | 100 |

Source: *Field Survey, 2017*.

From table 10, it could be seen that majority of the respondents confirmed that financial planning strategies affect the firm’s profitability. However, 9.5% of the respondents did not agree that financial planning strategies affect the firm’s profitability.

**Table 11: Do you think that liquidity affects the firm’s profitability?**

|  |  |  |
| --- | --- | --- |
| Options | No. of Respondents | Percentage |
| Yes | 18 | 85.7 |
| No | 3 | 14.3 |
| Total | 21 | 100 |

Source: *Field Survey, 2017*

Result from table 11 show that the majority, 18 or approximately 86 of the respondents were of the opinion that liquidity affects the profitability of the firm while 3 or 14% of the respondents disagreed that liquidity affects the profitability of the firm.

**Table 12: Do you think market share is important to the firm’s profitability?**

|  |  |  |
| --- | --- | --- |
| Options | No. of Respondents | Percentage |
| Yes | 14 | 66.7 |
| No | 7 | 33.4 |
| Total | 21 | 100 |

Source: *Field Survey, 2017*

Result from table 12 show that majority, 14 or approximately 67 of the respondents agreed that market share is important to the firm’s profitability while 7 or 33.4% of the respondents did not agree that market share is important to the firm’s profitability.

**Table 13: Do you think that reviewing financial plans frequently is important to the firm’s profitability?**

|  |  |  |
| --- | --- | --- |
| Options | No. of Respondents | Percentage |
| Yes | 19 | 90.5 |
| No | 2 | 9.5 |
| Total | 21 | 100 |

Source: *Field Survey, 2017*

From table 13, it could be seen that majority of the respondents were of the opinion that reviewing financial plans frequently is important to the firm’s profitability while 2 or approximately 10% disagreed that reviewing financial plans frequently is not important to the firm’s profitability.

**Table 14: Do you think that protective strategies on the firm's financial planning are important to the firm’s profitability?**

|  |  |  |
| --- | --- | --- |
| Options | No. of Respondents | Percentages |
| Yes | 20 | 95.2 |
| No | 1 | 4.8 |
| Total  | 21 | 100 |

Source: *Field Survey, 2017*

From table 14, 20 or approximately 95% of the respondents were of the opinion that protective strategies on the firm’s financial planning are important to the firm’s profitability but appropriately 9% of the respondents think otherwise.

The implication is that firms formulate protective strategies to minimize its risks and safeguard its assets. A firm would invest in low risk investments like government bonds. In their attempt to secure this stable market they either keep prices low, keep advertising and other promotional costs low, engage in vertical integration, offer a limited range of products, or offer better quality products or customer service.

**4.2 Test of Research Hypotheses**

The hypotheses formulated for the study were tested in this section.

**Hypothesis One**

Ho1: Short term financial plans do not influence the profitability of Nigerian Breweries, Ama, Enugu

HA1: Short term financial plans influence the profitability of Nigerian Breweries, Ama, Enugu.

The test statistic is X2 = ∑(O – E)

 E

Level of significance used is 5% i.e. ∞ 0.05

The degrees of freedom is d.f = K – 1 = 3 – 1 = 2

The critical table value of X2 = 5.9

Computation of the test statistic

**Table 15: Assessment of the influence of short-term financial plans on the profitability of Nigerian Breweries, Ama Enugu**

|  |  |  |
| --- | --- | --- |
| **Alternative Options** | **O** | **E** |
| Yes | 16 | 11.5 |
| No | 5 | 11.5 |
| Total | 21 | 21 |

 Source*: Field Survey,2017*

 X2 = ∑(O – E)

 E

 X2 = (16 – 11.5)2 + (5 – 11.5) 2

 11.5 11.5

 X2 = 1.76 + 3.67

 X2 = 5.4

 X2 = 5.4 < 5.9

**Decision**: Since the value of calculated X2 is less than the table value (X2<t0.025, t0.025 = 5.4<t\* = 5.9, p=0.000<0.05), we therefore accept the null hypothesis and reject alternate hypothesis. Thus, we conclude that the short term financial plans do not influence the profitability of Nigerian Breweries, Ama, Enugu.

**Hypothesis Two**

Ho2: Medium term financial plans do not influence the profitability of Nigerian Breweries, Ama, Enugu

HA2: Medium term financial plans influence the profitability of Nigerian Breweries, Ama, Enugu.

The test statistic is X2 = ∑(O – E)

 E

Level of significance used is 5% i.e. ∞ 0.05

The degrees of freedom is d.f = K – 1 = 3 – 1 = 2

The critical table value of X2 = 5.9

Computation of the test statistic

**Table 16: Assessment of the influence of medium-term financial plans on the profitability of Nigerian Breweries, Ama Enugu**

|  |  |  |
| --- | --- | --- |
| **Alternative Options** | **O** | **E** |
| Yes | 18 | 11.5 |
| No | 3 | 11.5 |
| Total | 21 | 21 |

 Source: *Field Survey, 2017*

 X2 = ∑(O – E)

 E

 X2 = (18 – 11.5)2 + (3 – 11.5) 2

 11.5 11.5

 X2 = 3.67 + 6.28

 X2 = 9.95

 X2 = 9.95> 5.9

**Decision**: Since the value of calculated X2 is greater than the table value (X2>t0.025, t0.025 = 9.95>t\* = 5.9, p=0.000<0.05), we therefore reject the null hypothesis and accept alternate hypothesis. Thus, we conclude that the medium term financial plans influence the profitability of Nigerian Breweries, Ama, Enugu.

**CHAPTER FIVE**

**SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS**

The key findings, conclusion and recommendations are presented in this chapter.

**5.1 Summary of Research Findings**

Summary of findings of the study showed that:

* 1. Short-term financial plans do not influence the profitability of Nigeria Breweries, Ama, Enugu. This result was supported by the test statistic (X2<t0.025, 5.4<t\* = 5.9, p=0.000<0.05).
	2. Medium-term financial plans influence the profitability of Nigeria Breweries, Ama, Enugu. This result was also supported by the test statistic (X2>t0.025, 9.95>t\* = 5.9, p=0.000<0.05).

**5.2 Conclusion**

The study assessed the application of financial financials on the profitability of Nigerian Breweries Plc, Ama, Enugu State. Financial planning was broken down into short-term and medium-term financial plans and their influenced on the profitability of the company examined. The result shows that short-term financial plans do not influence the profitability of the company but medium-term financial plans have influence on the profitability of the firm. The result support the general expectation that financial planning is imperative for the success and profitability of an organization as shown in the case of Nigerian Breweries Plc, Ama, Enugu State.

**5.3 Recommendations**

Based on the findings of the study, the researcher recommends as follows:

1. The management of Nigerian Breweries Plc, Ama, Enugu State should adopt a medium to long term financial planning and place less emphasis on short-term financial planning as it has been shown that short-term financial planning has no influence on the profitability of the company.
2. The management of the Nigerian Breweries Plc, Ama, Enugu State should ensure that those who are involved in financial planning are well trained and are up-to-date with financial and econometric modeling required for medium to long-term financial planning.

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**APPENDIX**

Department of Accounting/ Finance

Faculty of Management and Social Science

Godfrey Okoye University

Thinkers’ Corner, Enugu

 5th April, 2017.

 Dear respondent,

**Request to Complete a Questionnaire**

I am a final year student of the above named University carrying out a research on the topic “Effect of Financial Planning on Firm’s Profitability (A Study of Nigerian Breweries Plc, Ama, Enugu State)”.

Please, assist me in providing accurate and honest answers to the questions in the attached questionnaire to enable me arrive at reliable conclusions.

Please be assured that any information you provide in the course of this exercise will be treated with utmost confidentiality and used only for the purpose of this academic exercise.

Thank you immensely for your assistance.

Yours sincerely,

**Ozor, Chinedu**

**Researcher**

**SECTION A: Demography of Respondents**

1. Sex: a. Male [ ] b. Female [ ]

2. What is your age bracket? a. 21-30 [ ] b. 31-40 [ ] c. 41-50 [ ] d. 51and above [ ]

3. Year of experience: a.1 -5 years [ ] b. 6 – 19 years [ ]

c. 19 – 25 years [ ] d. 25 years & above [ ]

4. How long has the firm been in operation? a. 1-4 years [ ] b. 5-10 years [ ] c. Over 10 years [ ]

5. How long have you worked in this firm? a. Below 5 years [ ] b. 5-10 years [ ]

c. Over 10 years [ ]

**SECTION B**

6. Does a short-term financial plan influence the profitability of your firms? a.Yes [ ] b. No [ ]

7. Does a medium-term financial plan influence the profitability of your firms? a. Yes [ ] b. No [ ]

8. Do you think that financial planning strategies affect the firm’s profitability?

a. Yes [ ] b. No [ ]

9. Do you think that liquidity affect the firm’s profitability? a. Yes [ ] b. No [ ]

10. Do you think that market share is important to the firm’s profitability? a. Yes [ ] b. No [ ]

11. Do you think that reviewing financial plans frequently is important to the firm’s profits? a. Yes [ ] b. No [ ]

12. Do you think that protective strategies on the firm’s financial planning are important to the firm’s profits? a. Yes [ ] b. No [ ]