EFFECTS OF FINANCIAL MANAGEMENT ON PERFORMANCE OF WORLD BANK FUNDED PROJECTS IN KENYA: A CASE OF KPLC PROJECTS.

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ABSTRACT

Organizations are required to use funds wisely for the purpose intended and improve the living standards of the populations meant to benefit. Often, uses of funds are diverted to serve other interest of the organization managers outside the scope and work plans of these projects. This has resulted in surprise audits where misuses of funds are suspected by financiers and in the extreme cases bank accounts have been frozen to minimize the extent. Good financial management practices demand that obvious key management concepts and principles such as sustainability, accountability and transparency which are necessary for institutionalized formal procedures are put in place-administrative efficiency. In Kenya, government agencies have financial sustainability and replicability challenges in their projects. Project performance has become a buzzword within the development circles. The general objective of the research was to determine the effects of financial management on performance of world bank funded projects in Kenya: a case study of KPLC projects. The study targeted 500 employees of Kenya Power in Nairobi. Questionaires were used to collect data for this study. Statistical package for social science was used to analyse data. The findings were presented inform of tables and charts. The four independent variables that were studied, explain 89% of the project performance practices and project performance as represented by the R^2. This therefore means that other factors not studied in this research contribute 11% of the project performance giving room for further research to investigate the other factors (11%) that affect project performance implementation. The study found that majority of the respondents agreed that Financial planning, financial monitoring, financial evaluation and financial controls contribute to project performance. The study recommends that Policy and practice for project performance should be carefully evaluated and the results of that evaluation fed back into improved approaches. It is important that the evaluation considers the full range of costs and benefits.

KEYWORDS: ***Financial planning, financial monitoring, financial evaluation and project performance.***

INTRODUCTION

Organizations are required to use funds wisely for the purpose intended and improve the living standards of the populations meant to benefit Lent, (2004). Often, uses of funds are diverted to serve other interest of the organization managers outside the scope and work plans of these projects Anthony and Young (2003). This has resulted in surprise audits where misuses of funds are suspected by financiers and in the extreme cases bank accounts have been frozen to minimize the extent. Good financial management practices demand that obvious key management concepts and principles such as sustainability, accountability and transparency which are necessary for institutionalized formal procedures are put in place-administrative efficiency.

Projects are about delivering change (Cleland, 2009). However, successful projects are not just about managing change; they are also about managing relationships and managing uncertainty (Bourne and Walker, 2003). Project management emerged because of the growing demand for complex, sophisticated, customized goods and services and the exponential expansion of human knowledge. The former depends on the integration of product design with production or distribution and the latter allows a number of academic disciplines to contribute to the development of goods and services Mantel and Meredith, (1995).

According to Kelessidis and Bakouros, (2000) Project Management is a set of principles, methods and techniques for effective planning of objective-oriented work, thereby establishing a sound basis for effective scheduling, controlling and re-planning in the management of programs and projects. The main purpose of project performance is to assess current performance,set goals for improvement and anticipate any potential deviation. Ramirez, (2002). Project performance is based on four tenets: quality, progress of the project and measurement of the elements regarded as critical for project success. Ramirez, (2002).

Financial Management on Project Performance

Financial Management on project performance will be one of the key challenges for corporations in the next decade: only those institutions that have sound financial structures and stable income flows will be able to fulfil their multiple missions and respond to the current challenges in an increasingly complex and global environment Anthony and Young (2003). Indeed, financial management is not an end in itself; it aims to ensure a organization‘s goals are reached by guaranteeing that the institution produces sufficient income to enable it to invest in its future. Unsustainable project operations can be accommodated for either by developing sustainable operations or by planning for a future lacking in resources currently required. In practice organisations mostly tend to aim towards sustainability by increasing efficiency in the way in which resources are utilised.

According to Habeeb, (2013) financial management is the operation of an internal control system. Financial management of projects must be actively managed; it is an important part of the project management process and should be reviewed by the project manager, financial team, stakeholders and key project team members regularly (Weick, 2005; Backström, 2004;

Jensen, 2004; van Eijnatten, 2003). By keeping a close eye on the project budgets one will be assured that they are kept within the forecast set from the beginning.

A financial management systems has the following characteristics: Physical Control, Authorisation and Approval control, Personnel Control, Segregation of Duties, Supervision Control, Arithmetical or Accounting Control, Management Control, Organisational Control.

Financial management is one of the most important project management activities needed to ensure your project is delivered within the cost expectations laid down by the project's definition (Cleland, 2009). Financial management like any form of control process is not about collecting and measuring how much cost you have expended on the project, and then simply looking at the budget and deciding what is left will 'obviously' finish the project (Bourne and Walker, 2003). Cost control success factors are based on good project control practices, which result in good cost and schedule outcomes thus success of the project Strogatz (2003).

Financial management checks under review in this proposal will include include: budgetting, banking and expenditure checks Strogatz (2003). Organizations are facing challenges regarding their budgeting in project management. Pressure to follow through with only the projects that are going to be successful and carry less risk is mounting. As a project manager one needs to keep budgeting queries and be aware of benefits at all times throughout the project(Bourne and Walker, 2003).

Good financial and accounting systems are paramount: it is essential that management has current, accurate, and relevant financial data to ensure sound decision-making. Internal controls should be robust and should be rigorously overseen Anthony and Young (2003). Strong financial controls boost in the numbers being reported to management and help protect the organization’s assets. It is therefore necessary that financial controls are documented, assessed, revised, tested regularly and strengthened where necessary. A financial transaction control is a procedure that is intended to detect or prevent errors, misappropriations, or policy non-compliance in a financial transaction process.

Mawanda, (2008) suggests that strong financial and accounting systems point to accountability. Accountability needs to be accurate and timely to aid sound decision making. It should be noted that IFRSs emphasize timely production and presentation of financial reports. The guideline is that financial statements should be produced and presented within three months after the closure of organization’s financial year. Thus financials of projects also need to follow suit.

According to World Bank(2013) annual report, Kenya is ranked the third largest recipient of the world bank funded projects. The World Bank’s portfolio in Kenya consists of 24 active national and eight regional operations with a total commitment of US$4.2billion. The projects are mainly focused on transport, energy, water, urban, health and social protection. In fiscal year 2013, the Bank has approved more than US$900 million for urban transport, the Ethiopia-Kenya power interconnector, infrastructure finance and judicial performance improvement. The Bank has also leveraged nearly US$400 million in private investments through partial risk guarantees for private independent thermal and geothermal power projects to improve Kenya’s electricity supply. (www.worldbank.org.)

The world bank annual report 2013 underscores that since 1945 Kenya has borrowed a cumulative total of Sh732 billion, the sixth-largest amount on the continent. Other big African borrowers are listed as Egypt, Morocco and Tanzania in the World Bank's Annual Report 2013.

Whilst focusing on the world bank funded projects the population of the study are the implementing agencies through which the funds are advanced for specific projects or tasks. The end intended with most of these projects is to alleviate poverty and faciltate development. This paper will focus on world bank funded projects in the energy sector with focus on KPLC Some of the projects include: Kenya Electricity Expansion. KPLC is Parastatals in the energy sector charged with electricity generation and sales of electricity in bulk respectively.

Statement of Problem

Experience reveals that the financial management processes of government agencies are generally weak and dominated by conditions of resource scarcity vis-à-vis the ever increasing agenda of social development activities on which such funds could be spent. According to Globerson and Zwikeal, (2002) 85% successful performance of a project depends on appropriate financial planning. Shtub, Bard and Globerson, (2005) underscores that a suitable project control system is an important part of the project management effort Mackenzie, (2010) while citing Myers et al, (2001), Fortune and white, (2002) and shentar, (2000) reckons that project performance can be improved if more attention is given to the issue of control, clear goals, management support, ownership, a control mechanism and communicating.

Evans, (2005) while citing a world bank annual report 2013, Kenya is ranked the third largest recipient of the world bank funded projects. The World Bank's portfolio in Kenya consists of 24 active national and eight regional operations with a total commitment of US$4.2billion. The projects are mainly focused on transport, energy, water, urban, health and social protection. In fiscal year 2013, the Bank has approved more than US$900 million for urban transport, the Ethiopia-Kenya power interconnector, infrastructure finance and judicial performance improvement. The Bank has also leveraged nearly US$400 million in private investments through partial risk guarantees for private independent thermal and geothermal power projects to improve Kenya's electricity supply. (WB, 2014)

Mackenzie, (2010) while citing a world bank annual report 2013 underscores that since 1945 Kenya has borrowed a cumulative total of Sh732 billion, the sixth-largest amount on the continent yet no tangible benefited can be merged with this massive investment. The end intended with most of these projects is to alleviate poverty and faciltate development through creation of employment. The poverty level in kenya is a staggering 51% meaning mojority of the citizens live below poverty line. The main reasons why projects fail are lack of proper financial management. Projects are also notorious for coming in time over runs and budget over runs. Flyvbjerg et al, (2003); Matta and Ashkenas, (2003); Evans, (2005); Nassar et al, (2005)

From the foregoing, most of the studies reviewed concur that the issue of prpoer financial sustainabilty is important for a project to be determined a success. All the studies reviewed have assessed control in its broad sense and not considered as a variable and its impact on project performance. In light of this, this project sought to determine the effects of financial management on performance of word bank funded projects in Kenya: a case of kplc projects.

Literature Review

Project Performance

According to Pennypacker, (2000) there are project mangement benchmarking measures contends that there is no single set of measures that universally applies to all companies. The appropriate set of measures depends on the organization's strategy, technology, and the particular industry and environment in which they compete. Pennypacker, (2000) further outlines benchmarking measures for project mangement performance include: retum on investment, productivity (output), quality, performance cost, schedule performance, customer satisfaction, cycle time, requirements performance, employee satisfaction and alignment to strategic business goals. For purposes of this project the main measures of project management performance under review are: cost, time and management.

Empirical evidence from the public sector provides somewhat mixed results. For example, Hyndman and Eden (2001) interviewed the chief executives of nine agencies in Northern Ireland. All their respondents indicate that a focus in mission, objectives, targets and performance measures had improved the performance of the agency for all stakeholders Bushman et al (2003). Respondents also indicated that the poor implementation of the system (i.e. systems that value efficiency over quality and/or short-term over long-term results, p. 593), as well as the tendency to overemphasize numbers at the expense of judgment, could jeopardize performance.

Cavalluzzo and Ittner (2004) examine some of the factors that influence the development, use, and perceived benefits of results-oriented performance measures in US government agencies. Their findings indicate that metric difficulties (due to, amongst others, ambiguous or difficult to capture goals) are negatively associated with perceived current and future benefits from the US government's performance measurement initiatives. This suggests that US agency managers believe that the use of PM-practices may not improve performance in situations where ambiguity of objectives is high.

Financial Planning

Financial planning is an essential tool, whether in paper or computerized form Atkinson et al (2007). These worksheets enable project team members to identify all the major activities required to complete the project, as well as identifying the specific person responsible for ensuring that the activity is completed successfully, the estimated actual work time (e.g. number of work hours/days) and elapse time (e.g. period of days over which the work will take place since staff do not spend all their time on just one activity - they work on several activities or projects concurrently), and the financial and material or other resources required for that activity Bonner and Sprinkle (2002). Once all major activities are identified in this manner, the detailed planning charts can be completed by breaking down each major activity into its various tasks Burchell et al (2000). Note that each activity and task has its unique number to prevent any confusion in project discussions on the work to be performed. Also, this tool specifies the individual accountable for each activity; thus, helping to eliminate the "free rider" problem frequently reported in group work Young, (2000).

Financial Monitoring

With planning complete, the project implementation or execution phase can begin Bevan and Hood, (2006). The Gantt chart continues to be used to monitor progress on the project and identify problems, especially activities falling behind schedule. The use of "milestones" is essential in planning and controlling projects Bonner et al (2000). Milestones are placed at critical points in a project where major decisions must be made. For example, in Figure 4, a milestone (open triangle) was placed after the pre-testing of survey questionnaire (activity 003) because the team would know whether the questionnaire was working as intended or whether there were serious problems with the questionnaire (e.g. misinterpreted questions). If there were serious problems, then management would have to decide whether to start over with the development of another questionnaire, to salvage the current questionnaire, replace the project manager, or another option (Bouwens, 2003). The ability to accurately forecast cost performance allows organizations or project teams to confidently allocate capital, reducing financial risk, possibly reducing the cost of capital Brignall and Modell (2000). CPI Standard Deviation is an even better metric, one that shows the accuracy of budget estimating. Measuring cycle times can also mean measuring the length of time to complete any of the processes that comprise the project life-cycle. The shorter the cycle times, the faster the investment is returned to the organization. Center for Business Practices, (2000); Phillips, (2002) also supports that time frame is a measure of project performance since the project is always set to be completed in certain timeline so as to be relevant and viable. The other reason why time is a measure of project performance is that it is also defines the product reach to the market. Phillips, (2002). Stratton, n.d. also suggets that time has direct relationship with the cost of the project since as more time lapses the cost of the project also increases. The shorter the combined cycle time of all projects, the more projects the organization can complete. Time frame includes:

Financial Evaluation

Output measures assess the quantity and quality of the end product, and outcome measures assess the degree to which the end product achieves the program or project objectives Burgess and Ratto (2003),. Stratton, further supports that output is supported by quality and it is a key measure of project performance in terms of rework, quality of workmanship and defect removal rate as well Abernethy et al (2004).

Meeting requirements is one of the key success factors for project management. To measure this factor you need to develop measures of fit, which means the solution completely satisfies the requirement. A requirements performance index can measure the degree to which project results meet requirements. Types of requirements that might be measured include functional

requirements (something the product must do or an action it must take), non-functional requirements (a quality the product must have, such as usability, performance). Fit criteria are usually derived some time after the requirement description is first written. You derive the fit criterion by closely examining the requirement and determining what quantification best expresses the user's intention for the requirement.
Another dimension for output is productivity. Center for Business Practices, (2000) also supports that process errors, reworks and defects are some of the components of output thus further agrees that output is a unit of measure for project performance. Productivity is output produced per unit of input. Productivity measures whether you're getting your money's worth from your resources to the organization. Typically the resources have to do with people, but not in all instances. A straightforward way to normalize productivity measurement across organizations is to use revenue per employee as the key metric. Dividing revenue per employee by the average fully burdened salary per employee yields a ratio; productivity ratio.

Financial Control

Organizations are required to use funds wisely for the purpose intended and improve the living standards of the populations meant to benefit Lent, (2004). Often, uses of funds are diverted to serve other interest of the organization managers outside the scope and work plans of these projects Anthony and Young (2003). This has resulted in surprise audits where misuses of funds are suspected by financiers and in the extreme cases bank accounts have been frozen to minimize the extent. Good financial management practices demand that obvious key management concepts and principles such as sustainability, accountability and transparency which are necessary for institutionalized formal procedures are put in place-administrative efficiency.

Research Methodology

A descriptive research design was used in this study. The study targeted 500 employees of Kenya Power in Nairobi dealing with the project implemenation. The study targets these employees because they are in position to give accurate information. Primary data was collected using a questionnaire from the employees of Kenya Power in Nairobi Kenya. The questionnaire contained both structured and unstructured questions. Once the questionnaires are received they were coded and edited for completeness and consistency. Quantitative data was analyzed by employing descriptive statistics and inferential analysis using statistical package for social science (SPSS). Together with simple graphics analysis, descriptive statistics form the basis of virtually every quantitative analysis to data, (Kothari, 2005).

Research Findings

Regression Analysis

In addition, the researcher conducted a linear multiple regression analysis so as to test the relationship among variables (independent) on the project performance. The researcher applied the statistical package for social sciences (SPSS) to code, enter and compute the measurements of the multiple regressions for the study.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.896[a]	.881	.132	.3295

The adjusted R^2 is the coefficient of determination. This value explains how project performance practices varied with financial planning, Financial Monitoring, Financial Evaluation and Financial Control. The four independent variables that were studied, explain 89% of the project performance practices and project performance as represented by the R^2. This therefore means that other factors not studied in this research contribute 11% of the project performance giving room for further research to investigate the other factors (11%) that affect project performance implementation.

ANOVA

Model		**Sum of Squares**	**df**	**Mean Square**	**F**	**Sig.**
1	Regression	11.534	5	2.868	52.410	.0072
	Residual	186.555	27	2.139		
	Total	198.089	32			

According to Mugenda & Mugenda, 2003, ANOVA is a data analysis procedure that is used to determine whether there are significant differences between two or more groups or samples at a selected probability level. `An independent variable is said to be a significant predictor of the dependent variable if the absolute t-value of the regression coefficient associated with that independent variable is greater than the absolute critical t-value. The regression analysis also yields an F-statistic where if the calculated F-value is greater than the critical or tabled F-value, the prediction will be rejected. In this study, the significance value is .0073 which is less that 0.05 thus the model is statistically significant in predicting financial planning, Financial Monitoring, Financial Evaluation and Financial Control.

Coefficient of determination

Model		**Unstandardized Coefficients**	**t**	**Sig.**
		B		
1	(Constant)	3.757	0.787	0.255

Financial planning	0.554	1.091	0.002
Financial Monitoring	0.879	0.687	0.005
Financial Evaluation	0.568	0.97	0.013
Financial Control	0.685	0.349	0.032

Source: Research, 2012

The researcher conducted a multiple regression analysis so as to determine the relationship between project performance implementation and the four variables. According to the regression equation established, taking all factors into account (financial planning, Financial Monitoring, Financial Evaluation and Financial Control) constant at zero, Project performance will be 3.757. The data findings analyzed also show that taking all other independent variables at zero, a unit increase in financial planning will lead to a 0.754 increase in Project performance implementation; a unit increase in Financial Monitoring will lead to a 0.879 increase in Project performance practices, a unit increase in Financial Evaluation will lead to a 0.568 increase in Project performance and a unit increase in Financial Control will lead to a 0.685 increase in Project performance. This infers that Financial Monitoring contribute more to the Project performance followed by the Financial planning.

At 5% level of significance and 95% level of confidence, financial planning had a 0.002 level of significance; Financial Monitoring showed a 0.005 level of significant, Financial Evaluation showed a 0.013 level of significant, Financial Control had a 0.032 level of significant, and hence the most significant factor is Financial Monitoring.

Financial Planning

The study found out that majority of the respondents agreed that Financial planning contributed to project performance in the firm while some of the respondents were not for the opinion that financial planning contribute to project performance in the firm. Generally the study found out that financial planning contributed to project performance practices in the firm.

Financial Monitoring

The study found out that Financial Monitoring contributed to project performance in the organization. According to the findings, majority of the respondents indicated that Financial Monitoring contribute to project performance in your organization while a few of them indicated that Financial Monitoring does not contribute to project performance in the organization. According to the findings, majority of the respondents indicated that Financial Monitoring contribute to project performance in your organization at a great extent.

Financial Evaluation

The study found out that that Financial Evaluation contribute to project performance practices in the organization. The study also found out that Financial Evaluation contributes to project performance practices in the organization, 36% of the respondents indicated that Financial Evaluation contributes to project performance practices in the organization to a great extent, 27% to a very great extent, 24% to a moderate extent, 7% that it did not at all affect project performance practices, while only 6% indicated that Financial Evaluation contributes to project performance practices in the organization to a little extent.

The study found out that to a greater extent the respondents argued that Financial Evaluation factors influence project performance practices in the organization, 30% of the respondents indicated that Financial Evaluation factors influence project performance practices in the organization, 14% of the respondents indicated that Financial Evaluation factors influence project performance practices in the organization, 11% of the respondents indicated that Financial Evaluation factors influence project performance practices in the organization, while only 9% of the respondents indicated that Financial Evaluation factors influence project performance practices in the organization.

Financial Control

The study found out that organizational Financial Control contributed to project performance in your organization, 67% of the respondents indicated that the organizational Financial Control contributed to project performance in the organization while only 33% of the respondents indicated that the organizational Financial Control do not contribute to project performance in your organization. From the study findings, 31% of the respondents indicated that Financial Control contribute to project performance in the organization to a very great extent, 29% of the respondents indicated Financial Control contribute to project performance in the organization to a great extent, 26% of the respondents indicated that Financial Control contribute to project performance in the organization to a moderate extent, 12% of the respondents indicated that Financial Control contribute to project performance in the organization to a little extent while only 4% of the respondents indicated that Financial Control did not contribute to project performance in the organization at all.

Conclusions

The study concludes that majority of the respondents agreed that Financial planning contribute to project performance in the firm through the quality products and meeting of the recommended standards while some of the respondents were for the opinion that financial planning doesn’t contribute to project performance in the firm.

The study concludes that the firm Financial Monitoring contributed greatly to project performance in the organization. According to the findings, majority respondents indicated that Financial Monitoring contribute to project performance in the organization contribute to project performance in the organization According to the findings, majority of the respondents indicated that Financial Monitoring contribute to project performance in the organization at a great extent.

The study concludes that majority of the respondents felt that Financial Evaluation contribute to project performance practices in the organization. The study also concludes that Financial Evaluation contributes to project performance practices in the organization, since majority of the respondents indicated that Financial Evaluation contributes to project performance practices in the organization to a great extent. The study also concludes that majority of the respondents argued that Financial Evaluation factors influence project performance practices in the organization..

Finally the study concludes that organizational Financial Control contributed to project performance in your organization, majority of the respondents indicated that the organizational Financial Control contributed to project performance in the organization. From the study findings, majority of the respondents indicated that Financial Control contribute to project performance in the organization to a very great extent and only a few respondents thought Financial Control did not contribute to project performance in the organization at all.

Recommendations for policy and practice

Policy and practice for project performance should be carefully evaluated and the results of that evaluation fed back into improved approaches. It is important that the evaluation considers the full range of costs and benefits. The organisation should have sufficient special techno-economic knowledge and openness to new, effective methods when assessing tenders for project performance implementation. Staffs should be equipped with the specific skills and competencies needed to design and manage contracts (including the associated training, after-sales service and Employ human resources with specific training and equipment for performing functional and environmental tests in order to be able to accept the end product and verify contract performance.

Project performance initiatives appear to be instrumental for improving organizational performance, by harmonizing purchases, launching co-ordination initiatives, setting standards and building skills. As such, the management of the Kenya Power should adopt project performance initiatives. However, the main focus of project performances should be to produce cost savings project. It targets services, and therefore does not stimulate the project implementation properly.

The firm should create supporting structures of expertise with the help of public authorities that have R&D-review as core business and Introduce clear incentives to project implementation by stating that one percent of the total volume of funds should be allocated to R & D. In this manner, project performance can become a strategic issue for the Kenya Power.

On financing investment, the Kenya Power should adopt new financing methods to save costs, to improve customer and supplier relationships, business processes and performance, and to open new business opportunities. It might also help the organisation to respond better to existing challenges and improve the anticipation of future developments in project implementation.

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