

**ANALYSIS OF FINANCIAL CONTROL PRACTICES ON PERFORMANCE OF
MANUFACTURING FIRMS IN KISUMU COUNTY, KENYA**

BY

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DECLARATION AND APPROVAL

Declaration by the Student

This research project is my original work and has not been presented at any university or institute of higher learning for examination or academic purposes.

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Approval by the Supervisor

This research project has been submitted for examination with my approval as the University supervisor.

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I wish to express my sincere gratitude to my supervisor Dr. Robert. K Mule for the guidance and advice which enabled me to carry out the research effectively.

I also thank my family for their encouragement throughout my study

DEDICATION

This project is dedicated to my family who encouraged me during my studies.

ABSTRACT

Globally, manufacturing play a vital role in an economy of any nation as evidenced by its increase in Gross Domestic Product which is approximated \$2.1 trillion in GDP (12.5% of total U.S. GDP) and industry supports almost 17.1 million indirect employment in the United States, together with 12.0 million people directly absorbed in the industry, from summation of 29.1 million direct and indirect jobs offered, a number higher than 21.3% of total U.S. employment. In Kenya, 71% of the manufacturing firms shut down in their third year of operation due to lack of operating funds. Importantly, their level of contribution to country's GDP is only 1%. Records from Kisumu County, in fiscal year 2019/2020, indicates that manufacturing firms recorded a loss averaged 5%. However, this state of affairs may further be threatened by poor financial control practices. Previous studies attribute this poor performance to regulatory and corporate risk among other causes. The study purposed to analyze financial control practices on performance of manufacturing firms in Kisumu County, Kenya. Study objectives were to: determine the effect of asset control practice on performance; determine the effect of audit control practice on performance and determine the effect of budgetary control practice on performance of manufacturing firms in Kisumu County. Study was anchored by four theories namely: Finance Distress Theory, Shareholder Wealth Maximization Theory, Agency theory and Accountability Theory. Study employed correlational research design. Population targeted were thirteen (13) manufacturing firms in Kisumu County and a census survey was employed. Collection of primary data was aided by questionnaires administered to 36 employees drawn from production/operations, finance and accounting sections of the manufacturing firms. Pilot study involving three respondents was conducted and analyzed using Cronbach's alpha whose values were all 0.7 and above indicating reliability of the instrument. Data analysis was done using descriptive and inferential statistics such as frequencies, percentages, mean, standard deviation and multiple regression analysis. The findings of the study were that asset control ($B = -.228$, $p = .106$) and audit control practices ($B = -.393$, $p = 0.056$) are negative predictor of performance implying that practice of asset control and audit control practices lead to erosion of performance. In addition, budget control practice positively and significantly influenced performance ($B = .466$, $p = 0.005$) implying that practice of budgetary control leads to increase in performance among manufacturing firms in Kisumu County. The findings from this study could be beneficial to policy makers in manufacturing firms and Government in setting policies in governing the operations of manufacturing firms in Kenya; shareholders before deciding on which investment to make that maximises wealth and academicians use it as ground for further research.

TABLE OF CONTENTS

DECLARATION AND APPROVAL	ii
ACKNOWLEDGEMENT	iii
DEDICATION	iv
ABSTRACT.....	v
TABLE OF CONTENTS.....	vi
ABBREVIATION.....	vi
OPERATIONAL DEFINITION OF TERMS.....	vi
LIST OF TABLES.....	vi
LIST OF FIGURES	xi
CHAPTER ONE: INTRODUCTION	1
1.1 Background of the Study	1
1.2 Statement of the Problem.....	7
1.3 Objective of the Study	8
1.3.1 General Objective	8
1.3.2 Specific Objectives	8
1.4 Research Hypotheses	8
1.5 Significance of the Study	8
1.6 Scope of the Study	9
1.7 Conceptual Framework.....	10
CHAPTER TWO: LITERATURE REVIEW	11
2.1 Theoretical Review	11
2.1.1 Finance Distress Theory	11
2.1.2 Shareholders Wealth Maximization Theory	12
2.1.3 Agency Theory.....	12
2.1.4 Accountability Theory	14
2.1.5 The Contingency Theory	15
2.1.6 Financial Control Practices	15
2.1.6 Performance	16
2.4.1 Asset Control Practice on Performance	17
2.4.2 Audit Control Practice and Performance	18
2.4.3 Budgetary Control Practice and Performance.....	20
CHAPTER THREE: RESEARCH METHODOLOGY	23

3.1 Research Philosophy	23
3.2 Research Design.....	23
3.3 Target Population.....	24
3.4 Data Collection and Sources of Data	24
3.5 Pilot Testing	24
3.5.1 Reliability of Research Instrument	24
3.5.2 Validity of Research Instrument	25
3.6 Data Processing and Analysis	25
3.6.1 Model Specifications	26
3.7 Ethical Considerations	26
CHAPTER FOUR: RESULTS AND DISCUSSIONS.....	27
4.1 Response Rate.....	27
4.2 General Information on the Respondents	27
4.3 Descriptive Statistics on the Study Variables	30
4.4 Asset Control Practice and Performance of manufacturing firms	34
4.5 Audit Control Practice and Performance of manufacturing firms	36
4.6 Budgetary Control Practice and Performance of manufacturing firms	36
CHAPTER FIVE: SUMMARY, RECOMMENDATIONS AND CONCLUSIONS.....	37
5.1 Summary of Findings.....	37
5.2 Conclusions of the Study	38
5.3 Recommendations of the Study	38
5.4 Limitations of the Study.....	38
5.5 Areas of Further Research	39
REFERENCES.....	40
APPENDICES	48
Appendix I: Questionnaire	48
Appendix II: List of Manufacturing Companies in Kisumu County	52
Appendix IV: ACP_1 (Asset Control).....	53
Appendix V: ACP_2(Asset Control)	53
Appendix VI: ACP_3(Asset Control).....	53
Appendix VII: ACP_(Asset Control).....	54
Appendix VIII: ADC_P_1 (Audit control)	54
Appendix IX: ADC_P_2(Audit control).....	54
Appendix X: ADC_P_3(Audit control).....	55

Appendix XI: ADC_P4(Audit control).....	55
Appendix XII: IBCP_1(Budget control).....	55
Appendix XIII: BCP_2(Budget control).....	56
Appendix Xiv: BCP_3(Budget control).....	57
Appendix XVI: RAW DATA	57

ABBREVIATIONS

GDP	Gross Domestic Product
CBO	Community Based Organizations
BEA	Bureau of Economic Analysis
KRA	Kenya Revenue Authority
KAM	Kenya Association of Manufacturers
GAAP	Generally Accepted Accounting Principles
AIG	American International Groups' Auditors
NPV	Net Present Value

OPERATIONAL DEFINITION OF TERMS

Financial control practices: refers to the process in which managers assume that resources are obtained and used effectively and efficiently, in the accomplishment of the organization's objectives. Financial control systems include variables that are under the control of management namely asset controls, audit controls and budgetary controls.

Asset control Practice: refers to procedure and practice of asset custody, asset management, efficient utilization of fixed & current assets.

Performance: is the ability of a company to achieve goals in terms of sales volume, revenue turnover and net profit growth targets.

Audit control practice: is a procedure and practice of ensuring competency of audit units, integrity of internal & external audits, professional & current auditing principles and adoption of forensic audit.

Budgetary control practice: procedure and practice of budgetary estimates, budgetary planning process, budget allocations & expenditures and timely budget approvals.

LIST OF TABLES

Table 3.1: Cronbach's Alpha reliability test results.....	25
Table 4.1: Respondents Gender.....	27
Table 4.2: Age brackets of the respondents.....	28
Table 4.3: Highest education level attained.....	28
Table 4.4: Years of service.....	29
Table 4.5: Descriptive statistics of the study variable.....	30
Table 4.6: Descriptive statistics of audit control practice elements.....	31
Table 4.7: Descriptive statistics of budget control practice elements.....	32
Table 4.8: Descriptive statistics of performance elements.....	33
Table 4.9: Model Summary.....	34
Table 4.10: ANOVA.....	34
Table 4.11: Multiple regression analysis coefficients.....	35

LIST OF FIGURES

Figure 1.1: Conceptual frame work.	10
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CHAPTER ONE: INTRODUCTION

The chapter introduces the study background detailing concepts of internal control practices and performance relationship, research problem, objectives, scope and conceptualized ideas.

1.1 Background of the Study

Performance of manufacturing companies in the global arena has reported steady improvement over time and amplified by increased Gross Domestic Product at \$2.1 trillion in GDP. Gross Domestic Product is at 12.5% of total U.S. GDP) and industry supports almost 17.1 million indirect employment in the United States, together with 12.0 million people directly absorbed in the industry, from summation of 29.1 million direct and indirect jobs offered, a number higher than 21.3% of total U.S. employment in 2019 (Bureau of Economic Analysis, 2019). This increase amplified by consistent rise in demand for consumer goods churned out of these manufacturing firms (Bureau of Economic Analysis, 2019).

Locally, sector's stake in GDP of the country has stagnated at approximately 5.5 percent in the period from 2003 to 2017. In 2019 this figure fell to 3.8 percent. The decline was attributed to the general slowdown in the world economy, post-election violence in the country, the devaluation of the Kenyan shilling, and low productivity and high production costs. The revenue generated from manufacturing sector declined for from 1980 to 2019. The reason has been poor capitulation and availability of less capital to be invested (Orege, 2019).

Most of performance measures for firms are generalized into following categories; profitability, quality, productivity and growth and customer satisfaction (Perez *et al.*, 2007; Liptons, 2003 and Roberts, 2004). Gatsiet *al* (2013) see performance of an enterprise as ability to leverage operational and investment decisions and strategies including internal control practices in achieving financial stability of business in terms of revenue, sales volume and net profit growth.

Grier (2007), profitability ratios are usually adopted as indicators of credit analysis in firms, since profitability is related to results of management performance. In this study, performance was surrogated by profitability constructs namely sales volume, revenue turnover, cost of production and net profit growth.

In Kenya, 71% of the manufacturing firms shut down in their third year of operation due to lack of operating funds. Importantly, their level of contribution to country's GDP is only 1%. Records from Kisumu County, in fiscal year 2019/2020, indicates that manufacturing firms recorded a performance of a loss averaged 5% (KRA, 2021).

However, this state of affairs is further threatened by poor financial control practices (Onyango, 2014). The world-wide financial shortage that sent the world to a coma made financial controls in manufacturing firms including manufacturing firms located in Kisumu County a significant subject in daily operations (Kenya Association of Manufacturers, 2019).

Globally, companies have developed different systems for controlling efficiency and effectiveness of their business in achieving the objectives (Charles et al., 2017). Financial controls is the mechanism set by a company in ensuring the achievement of their objectives and mission (Brennan & Solomon, 2008). They involves collection of policies and procedures protecting the investments of a company, creation of dependable financial reports, promoting compliance with laws and regulatory framework and achievement of operations efficiency and effectiveness. The systems have a relationship with accounting and reporting, same as internal and external communication process of a company and procedural fund management requirements (Onyango, 2014).

Financial control has been necessitated by technological advancement, growth of businesses and complexity in business operations at both private and public companies. Financial control plays a significant role in financial system. It demands effective and proper consumption of resources of all companies for better reporting (Laudon & Laudon, 2016). Conversely, improper financial control exposes resources such as theft, abusive occurrences or fraudulent dealing. Managers have the mandate of ensuring that effectiveness of financial controls are in order and in operation (Prempeh et al., 2015). It is a process in which management make assumption that resources are effectively and efficiently applied in realizing the goals of a company. Financial control systems include tools being controlled by managers (Kinuthia, 2012). Majority of companies' value budgetary control as a foundation for financial control and leading to effectiveness in resource allocation. It plays a key role in management of assets and objectively allocating resources used in revenue generation. The main aim of budgetary control is to combine ideas from different management levels in budgeting, coordination of different activities of a company and presentation of planned and controlled report on income and expenditure of a company (Horngren et. al., 2012).

Finance Distress Theory explains the significance of financial control techniques and performance. The theory postulates that companies are faced with financial distress due to poor management of risks and economic distress thus affecting performance (Whitaker, 1999), Deterioration of performance to the extent that a company is unable to fulfill its financial obligation is called financial distress. Violating payment of debt and lack of dividends payouts are signaling financial distress which hinder performance (Wruck, 1990). Companies facing financial distress are challenged by poor management skills policies, minimization of shareholder wealth and poor internal control systems (Boritz, 1991).

The theory identifies practices chosen which are helpful in improving a firm's performance through financial control and asset control, audit control and budgetary control. It helps to analyze the association between financial control practices and performance of manufacturing firms in Kisumu County, Kenya.

Globally, several studies analyzed the significance of financial control in United States of America. Inefficient financial control led to downfall of Enron in USA (Balakrishnan et al., 2011). The company falsified its profit statement which was one of the reasons for its downfall. It never adopted generally accepted accounting principles (GAAP). The American International Group's (AIG) auditors, PricewaterhouseCoopers, reported that company's financial controls method like financial reporting were defective (Mulford & Comiskey, 2011).

African nations has been suffering from impact of financial control which influenced performance of public and private companies. Particularly, quoted firms were not spared; Intercontinental Bank Plc, Oceanic Bank Plc, Anglo-African textile industry, Steel rolling Nigeria limited, Nigeria wire and cable. Financial controls practices which is clearly practiced in Nigeria according to investors and academicians is the audit control and budgetary control (Omar & Simon, 2011).

Kenya too has faced the wrath of ineffective financial controls leading to downfall of both public and private companies. Kinuthia (2012) adopted governance control, income control, asset control and purchase control in determination of financial efficiency in public schools at Muranga County. However, Chelaga & Akama (2016) reported positive association between

technical skills, auditing skills, book keeping of CBO officials, internal control systems and budgeting and financial control practices of CBOs in Migori County. Doe (2008) posits that financial control is building block of internal control system.

Firms are obliged to invest in profit making ventures which generates high returns and will make directors of such companies pay dividend to shareholders hence maximizing shareholders value. Profitability is the capability of a firm to realize enough income from the capital they invest in company (Wild et al., 2007). Moreover, firms usually engage their asset in productive businesses but in efficient manner that generates maximum income. Return gained from investing are measured by sources of funds and the level of investment. Profitability is determine how solvent a company is and it can be measured using return on capital employed, return on assets and return on investment.

The main aim of starting a business is to reap maximum returns which translates to dividends paid to shareholders and a venture that is unprofitable will ultimately collapse. Moreover, managers should ensure that companies remain profitable so that their relevance can be noticed (Kung'u, 2015). Limited studies existing show the association between financial control and profitability of companies. However, the studies available revealed mixed results on effects of financial control on profitability. Chirinko & Elston (2006) did a study in Germany and revealed that financial control positively and significantly influenced profitability. Rathiranee (2014) showed that financial control positively influenced performance of organization and budgetary control positively related to organizational performance in Jaffna City. Musoke & Nyonyintono (2017), financial controls significantly affects performance of SACCOs in Wakiso district. However, the researcher considered only budgetary controls as proxy for financial controls.

The core problem affecting manufacturing firms in Kenya is the consistent deteriorating profits caused by ineffective financial practices (Fwamba, 2018). About 50% of manufacturing firms from Kenya yearly reports decrease in their profits with some subjected to receivership while other shut down because of many debts and non-operations. KSB Annual report (2018) showed that about 50% of sugar manufacturing firms from Kenya yearly reports diminishing profits indicating poor performance. State-owned sugar milling companies reported mixed profitability figures. Chemelil Sugar showed decreased profitability. Chemelil Sugar and Muhoroni Sugar reported losses. Losses for Chemelil Sugar

rose from 52,388,455 to 258,434,617, 2015-2016. Private milling companies similarly reported reduced profits caused by increased production cost (Mwanzo, 2017). Consistently, profitability of manufacturing companies in Kisumu County have also shown a decrease. Financial control systems have been implemented by manufacturing firms but they still perform dismally raising eyebrows and demanding the attention of national government. Performance indicators like have that the industry lacks stiff competition and thus unattractive. Collapsing companies in manufacturing zones, Kenya negatively affects the population since 15% of citizens draw their livelihood from the sector. (Machoka, 2014).

Financial control has significant effect on profitability of manufacturing companies however, many scholars have persistently overlooked the variables. Studies on financial controls have not been done on manufacturing companies. Chelagat & Akama (2016) studied financial control techniques at community based organizations. Chebet, Nyangua and Nyabonga (2018) examine the impact of financial control on performance of SACCOs at Kericho County. However, studies in manufacturing companies were on internal control systems. Mwakimasinde et al., (2014) examined internal control systems on performance of sugar companies in Kenya. Ngetich (2017) studied internal control and profitability of companies trading at NSE. The researchers never covered proxies financial control practices exhaustively. The present study analyzed financial control practices and performance of manufacturing companies in Kisumu County, Kenya.

Kisumu County is one of 47 counties in Republic of Kenya. Its borders cover original Kisumu District, one of the former administrative districts of former Nyanza Province in western Kenya. It has its headquarter at Kisumu City, third largest city in Kenya following capital Nairobi and Mombasa city. It has a population of 1,155,574 as per 2019 National Census. Kisumu County covers an area of 2085.9 km². Neighboring counties are Siaya, Vihiga, Nandi and Kericho. Its neighbors Nyamira County to the South and Homa Bay County to the South West.

Kisumu County is an industrial, transportation and commercialized city where about 4 million citizens draw their living. Kisumu is a significant connector of trade route between Lake Victoria and Mombasa because of presence of water and railway lines. It is the main terminus for agricultural goods from Nyanza and Western provinces. Industries located in

Kisumu concentrates on processed agricultural products, brewing, and manufacturing of textiles.

Kisumu County has various industries like beverages, textiles, molasses, fish processing plants and agricultural produce processors. It has 13 manufacturing firms that include; United Millers, Equator Bottlers, Ndugu Transport Company, Muhoroni Sugar, Chemilil Sugar, Jubilee Jumbo Hardware, Kibos Allied Sugar, Spectre International, Agrochemical, Mayfair Holdings, Mayfair Holdings, Kisumu Concrete Products and Tuff Foam among others. These firms all are multi-billion shilling companies and they are also Kisumu largest employers.

1.2 Statement of the Problem

Globally, an effective financial control practices that enhances performance is to be prioritized by the management of every company. Financial control buffer organization against fraudulent practices. It is helpful in preventing unfavorable practices like fraudulent staffs' activities by controlling financial resources their inflow and outflow. Performances of the manufacturing firms is usually at variance depending the nation. In 2018 & 2019, manufacturing firms found in nations who are parties to European Union (EU) reported consistent growth in value addition seen from 3.8% in 2018 and 5.7% in 2019. Divergently, majority of manufacturing companies in South Africa shown decreased turnover in 2018 with 20% reporting static growth in turnover in the same year.

According to the Kenya Manufacturing Enterprise Survey (2019), the industry's stake in GDP averaged 5.5 percent in the period from 2003 to 2017. In 2018 this figure fell to 3.8 percent. The decline was attributed to the general slowdown in the world economy, post-election violence in the country, the devaluation of the Kenyan shilling, and low productivity and high production costs. Profitability of manufacturing companies consistently decreased in 1980 to 2019. Kenya, 71% of manufacturing firms in Kenya shut down operations in their 3 year of inception due to lack adequate funds and this has affected their share on the GDP. KSB Annual report (2018) showed that about 50% of sugar manufacturing firms from Kenya yearly reports diminishing profits indicating poor performance. State-owned sugar milling companies reported mixed profitability figures. Chemelil Sugar showed decreased profitability. Chemelil Sugar and Muhoroni Sugar reported losses. Losses for Chemelil Sugar rose from 52,388,455 to 258,434,617, 2015-2016. Private milling companies similarly reported reduced profits cause by increased production cost. Financial control system have been implemented by manufacturing firms in Kisumu but they still perform dismally and report negative deviation in profits raising eyebrows and demanding the attention of national government.

Past studies were mainly on internal control systems and financial performance of financial institutions such as SACCOs, commercial banks and small and medium enterprises giving little attention to financial controls and their effect on performance of manufacturing companies in Kisumu County, Kenya.

1.3 Objective of the Study

1.3.1 General Objective

General objective of this study was to analyze financial control practices on performance of manufacturing companies in Kisumu County, Kenya.

1.3.2 Specific Objectives

The specific objectives of the research were to:

- i. Establish effects of asset control practice on performance of manufacturing companies in Kisumu County.
- ii. Determine effects of audit control practice on performance of manufacturing companies in Kisumu County.
- iii. Assess effects of the budgetary control practice on performance of manufacturing companies in Kisumu County.

1.4 Research Hypotheses

The research hypotheses were:

H₀₁: Asset control practice does not significantly affect performance of manufacturing companies in Kisumu County.

H₀₂: Audit control practice does not significantly affect performance of manufacturing companies in Kisumu County.

H₀₃: Budgetary control practice does not significantly affect performance of manufacturing companies in Kisumu County.

1.5 Significance of the Study

The study is significantly valued by manufacturing firms and their management when making good decisions which effectively and properly links financial control practices to performance thus, accelerating how manufacturing companies perform. Additionally, the findings can be used in making improved financial control.

The study is important to Government of Kenya and Ministry of Industrialization and Innovation developing policies on financial controls implementation by manufacturing firms.

Finally, academician can base their future research on these findings specifically studies on financial control and performance of manufacturing companies.

1.6 Scope of the Study

Study aimed at analyzing financial control practices on performance of manufacturing firms in Kisumu County. Researcher concentrated on the 13 manufacturing companies within Kisumu County, Kenya. Kisumu County was chosen due to high concentration of manufacturing companies where these firms are multi-billion shilling companies and they are also Kisumu largest employers.

1.7 Conceptual Framework

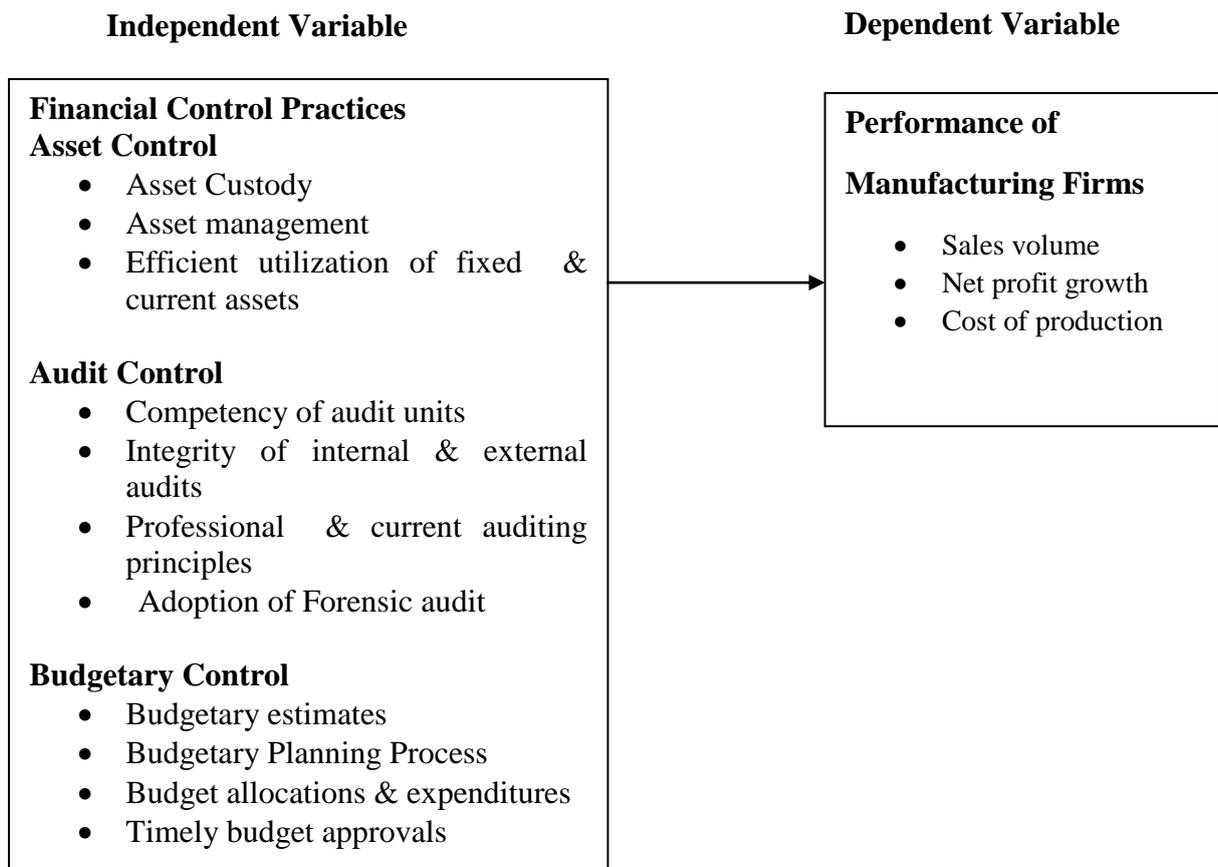


Figure 1.1: Financial Control practices and performance relationship

Source: Adapted from Wanyama *et al* (2019)

In the Figure 1.1 the independent variable is financial control practices which has three constructs namely asset control, audit control and budgetary control whereas the dependent variable is performance with three constructs: revenue turnover, sales volume and net profit growth. In this study, it is hypothesized that asset control, audit control and budgetary control effect performance of manufacturing companies in Kisumu County, Kenya.

CHAPTER TWO: LITERATURE REVIEW

The chapter reviewed theories and literatures on variables under study: internal control practices and performance.

2.1 Theoretical Review

The theories explaining association between internal control practices and performance are explained below.

2.1.1 Finance Distress Theory

This theory is the brain child of Baldwin and Scott (1983). It was further developed by Whitaker (1999), Wruck (1990), and Boritz (1991) who asserted that companies experiencing financial distress because they do not implement better financial control practices and poorly manage their risks thus affecting their performance. A deterioration in performance to the level where a company's financial demands cannot be met, it is called financial distress. Violating payment of debt and lack of dividends payouts are signaling financial distress which hinder performance (Wruck, 1990). If companies institute internal control mechanisms, their performance is likely to improve.

Whitaker (1999) see financial distress a case where cash flows are lower than current maturities' long-term debt. A company has adequate resources to settle its dues with creditors when its cash flows exceed its current liabilities. The company must make efforts to manage account receivables effectively and efficiently through acceleration of collections and this will determine how they perform. Wruck (1990) assert that companies face financial distress due to economic pressure and risky investments caused by improper financial controls. Boritz (1991) asserts that financial distress starts from incubation period whose characteristics unmanaged risks and unfavorable economic conditions causing bad performance by firms.

Several studies anchored their theoretical foundations on Finance Distress Theory. Muriithi (2016) and Wachira (2017) have convergence that managing financial control risk components like loan borrowing, liquid cash and operationalized risks are significant topics which are on the radar of shareholders and managers. Wachira (2017) asserts that many company drawn from less-developed and more-developed nations face financial distress as a results of poor management, improper financial control systems, failure to disclose financial information and minimization of shareholders wealth.

The theory is helpful in choosing practices which are beneficial to companies in improving their performance while considering financial control and specifically asset control, audit control and budgetary control. It helps in analysis of association between financial control practices and performance of manufacturing firms in Kisumu County, Kenya.

2.1.2 Shareholders Wealth Maximization Theory

This theory was proposed by Berle and Means (1932). Friedman (1970), Rappaport (1986), and Kean (1979) further improved the theory. These researchers posit that aim of a company's social responsibility is increased profits with main focus to its shareholders. Therefore, the creation of shareholder value is made possible when managers perform well in the company than the expected demand from external forces while presenting the concept of wealth creation as a noble idea through an associated link between customers and shareholders wealth. Operations of modernized finance theory are based on assumptions

That main objectives of companies should be maximization of shareholders' wealth. Shareholders' wealth is shown through the relationship; SW (Shareholders' Wealth) = $n \times MV$ (Number of Shares held x Market Value Per Share). From the formula, the maximization of shareholders' wealth is made possible by maximized market value per share supporting the assumption that all business decisions should results into a maximized market value of share. Shareholders' wealth maximization (SWM) posits that a company be solely be undertaking those projects with positive Net Present Value (NPV) i.e. NPV of cash inflows should be larger than NPV of cash outflows (Becchetti, (2008).

However, shareholder maximization theory has the limitation that shareholders and companies can pursue other goals not anchored on financial performance such advancing entrepreneurial culture, creating innovative ideas and corporate social responsibility. It is suggesting that shareholders and potential shareholders not only concentrate in financial returns but its corporate image (Kyriakou, 2018). Even though shareholders' wealth maximization is significant, it should have balance with other stakeholders' interest.

2.1.3 Agency Theory

The agency theory was developed by Ross & Mitnick (1973). Agency theory see association between agents and principals as for agreement where relationship where principals procure service of agents in serving their interest through ostensible authority.

The theory resolves challenges affecting the association between principals and agents (Jensen & Meckling, 1976). The two challenges that agency theory solves are: when the principal and the agent's wishes or goals conflict, and the principal cannot verify what is actually doing, and if principal is at risk and agent is exposed to risk. Because of various risk tolerances, the principal and the broker take different routes. (Sarens and Abdolmohammadi, 2017) posits that enterprise is composed of a series of interrelated agreement between the owner (principal) of the economic resources and manager (agent) takes charge of its usage and control. The resources (Jensen & Meckling, 1976) suggest that the agent has more information than the principal in agency theory. This type of information asymmetry allows the principal to monitor whether the agent is sufficiently satisfied or not in interfered with their interests.

The theory posits that companies are composed of those owning economic resources and the agents who manages the resources. Many a time's agents do chance other goals apart from those held by principals which sometime translate to agent's personal interest. It is amplified by authority delegated through separated power in management and policy formulation. They usually concentrate on themselves and not principals (David, 2012). Principals invest their resources in the company and develop tactics that ensure their interest are maximized. Shareholders agree to use agents when they want to prioritize their wealth maximization. The delegated duty makes agents work towards ensuring that the principal prosper. At companies, principals are owners of a company, delegating to the agent powers to run the company

The theory stresses on a managed relationship between shareholders and managers. The two sometime pursue different agenda therefore creating agency cost to the company (Abdu, 2016). Thus, shareholders of company having known the egocentrism of agents develop control techniques that safeguards their interests. Those techniques includes increased debt-equity ratio and not external sources of equity, working toward ensuring company ownership is maintained and keeping the management concentrated in profit-generating ventures so as to meet dividend payout order (Nwaolisa & Chijindu, 2016). Theory is applicable in capital finance since the motives of company managers is achieving maximum yield before shareholder's interest (Rayan, 2015). However, Conflicting agendas are the main challenges faced by principal and agents. The expectations of shareholders is that managers should prioritize their returns (Nwaolisa & Chijindu, 2016).

Agency Theory is significant to the study in estimating the impact of internal control practices on performance of manufacturing companies. Internal controls entails making sure that shareholder's wealth is maximized through effective and efficient operations.

2.1.4 Accountability Theory

The development of the theory was made possible by Tetlock & Lerner (1999). Accountability theory explains the superficial needed to protect a person's actions on another person makes one introspect on the occurrence which led to decision making. The apparent desire for accountability in decision-making processes is escalating the probability that one will think about their routine manners (Tetlock&Lenner, 1999). From benefits, liability is the willingness and readiness to take responsible decisions in desirable manner in public officers, government agencies, or companies. It is seen the process by which a person is committed in clarifying his or her activities to another party who has authority of passing verdict on their actions.

The suggestion that various devices may increase liability perceptions such as; the person present, identifying liability, and expected of evaluation. Past studies have reported that information technology influence the four serious cornerstone of accountability theory; identifying liability, expected of evaluation, monitoring, and socio-presence. They improve accountability of employee towards security organizational system minus training (Trevor et al., 2016). Identifiability is how a person is understanding the link between his outputs and him revealing his/her true identification. The expected assessment is belief that one's performance will be examined by another person using normative ground rules and consequences attached. (Wainaina, 2011).

The theory is relevant to the study because it helps one understand how financial controls affects performance of manufacturing companies. The accountability decision-making process and results increases the possibility a person will think carefully and critically about their actions, a virtue that if employed by company's management. The expected of evaluation, monitoring, and social presence through controlled finances mean that the managers know that the government will audit their statements through external auditing and generate audit reports where lack of accountability will be punished. The willingness of stakeholders to monitor accountability is the social presence enhancing transparency and reducing fraud.

2.1.5 The Contingency Theory

The theory was developed by Pike (1986) who posits that efficient resource allocation is not a matter of adopted superior investment practices and procedures but factor to be considered and capital budgets. Pike (1986) concentrated on three components of corporation context with the assumption that there is an association between design and operating company's capital budget requirements. The first component is company's organizational attributes. Decentralized and administrative orientation of controlled strategy concerning high frequency of standardized attributes of large companies. Small companies with minimal complexity in operations usually adopts interpersonal and lesser sophisticated control systems. Schall & Sundem (1980) revealed that usage of sophisticated capital budgeting practices decrease with rise in environmental uncertainty. The second factor is uncertainty in environment. Increase in variance and unpredictability in operationalized context affects capital budgeting structures. Pike (1986) made suggestions that companies under operations in unpredictable environments are assumed to reap benefits from investment methods. Last factor concerning behavior attributes. Pike (1986) identified three attributes; style of management, professionalism and organizational background. Administrative oriented capital budgeting control technique is seen as consistency in analysis of management style, a high professionalism and background of investment yields. Company's financial position influences the design and capital budgeting efforts.

2.1.6 Financial Control Practices

Financial control practices refer to the procedures and methods adopted by a company in monitoring and controlling the allocation and use of financial resources. Financial controls is crucial in managing resources and efficient operations in any company (Brennan & Solomon, 2008). To implement efficient financial control policies, proper analysis of available policies and a company' future should be considered. Significant steps in the implementation of financial control policy are financial forecasting and projecting the outcome. They offer insights on a company' future goals and objectives. Moreover, they may be helpful in establishing financial control policies which are aligned to objectives of a company while acting as propellers of such goals (Brennan & Solomon, 2008).

Financial control practices are collection of policies and procedural mean protecting investments of a company, creating dependable financial reports, promoting compliance with

laws and regulation and achieving effectiveness and efficiency in operations. The systems are associated to both accounting, reporting and internal and external communication processes of a company. It is composed of ruling governing funds received and spend by a company, preparation of reliable financial reports to board members and officers, carrying out annual audit of the company's financial statements, keeping stock of records of assets (Onyango, 2014). International Accounting Standards (IAS) group internal controls as segregation of duties, controlling of documents, safeguarding of assets, staff competency, arithmetical and accounting controls, keeping records, supervision, authorization and approvals and vocation. The Internal control includes: It is the foundation for other units of internal control, through the provision of discipline and structure. The second is control activities which are policies and procedures laid by a company in ensuring that direction given by managers are followed. Control activities are made of a range of practices like approvals, authorizations, verifications, reconciliations, operating performance review, securing assets of a company and separation of duties (Onyango, 2014).

In this study financial control practices are operationalized in terms of asset control, audit control and financial budget control practices.

2.1.6 Performance

Firm performance is defined as the process by which a company succeeds in its operation (Liptons, 2003). Measuring performance entails estimation of criteria under which programs, investments, and acquisitions are meeting the targets set. Most of indicator of performance for a company classified as; profitability, quality, productivity and growth and customer satisfaction (Perez *et al.*, (2007), Liptons, 2003 and Roberts, (2004). Gatsi *et al* (2013) see performance as the leveraged operational and investment decisions and the adoption of techniques like financial control in achieving business' financial stability.

Grier (2007) asserts that profitability ratios are usually employed in a high esteem as predictors of credit analysis in a company, since profitability is related to the results of performance management. In this study, measures of performance are sales volume, revenue turnover and net profit growth.

2.2 Empirical Literature Review

2.4.1 Asset Control Practice on Performance

Wanyama, Okello and Otinga (2019) investigated financial control and performance of sugar manufacturing companies in Western Kenya. Explanatory research methodology was employed together with stratified sampling method. Collection of primary data was actualized through structured questionnaires. Population targeted population employee drawn from finance department, risk management department, procurement department and accounting managers at Sugar companies in Western Kenya. Analysis of data was aided by descriptive statistics and inferential statistics techniques. Findings showed that financial controls significantly influenced profitability of sugar manufacturing companies in Western Kenya. A unit increase in asset control significantly affected profitability by 0.177 units; a unit increase in accounting control system resulted into a positive increase in profitability by 0.205 units.

Iqbal & Mati (2012) analyzed the association between fixed Assets and profitability of a company. Data for ten years of non – financial firms quoted at KSE 100 index was collected. Multiple regression analysis was employed to study impact of fixed assets on performance. The study showed that was relationship between fixed asset and performance of the company.

Lydia (2018) studied assets management and performance of SACCOs in Nakuru County. Explanatory research methodology was adopted together with stratified sampling method. Primary and secondary data were considered with collection of primary data aided by structured questionnaires. Population targeted were branch and operations managers from each Saccos in Nakuru. Analysis of data was through descriptive statistics and inferential statistics and SPSS tool. Fixed assets management had a positive association with profitability of Saccos in Nakuru County.

Muhammad (2015) studied fixed assets management practices of selected companies in sugar sector, cement sector and textile sector. Data of quoted companies at Karachi Stock Exchange was sampled. Study period was over 5 years period from 2010-2014. 15 companies were picked. Primary data was incorporated in the research. Finding showed existence of positive association between EPS and fixed asset quality of Textile, cement, and sugar companies.

Nunow` (2016) analyzed impact of accounting control system on SMEs in Nairobi. The total Population was made of all registered SMEs in Nairobi. Stratified sampling method was used and 160 SMEs considered in the study. Data collection was made possible using structured questionnaires. Findings reported that accounting control system positively influenced profitability.

Ademola (2014) studied accounting control system and performance of food and beverages manufacturing companies in Nigeria. Ex-post factor research methodology was adopted. Data used were recorded from 2000-2011, a period of 12 years. Multiple regression tools helped in analysis. Data were extracted from Annual Reports of the companies. Findings revealed that accounting control system negatively but significantly affected profitability ratio.

Empirical evidence (Iqbal & Mati , 2012; Lydia, 2018, Muhammad, 2015 studied asset management and profitability of companies while others (Wanyama, Okello and Otinga, 2019, Nunow, 2016 and Ademola, 2014) studied accounting control system and performance of food and beverages manufacturing companies and small and medium enterprises. However, the studies never examined the impact of asset control practice on performance.

2.4.2 Audit Control Practice and Performance

Mugo (2013) studied relationship between internal Audit control systems and performance of Technical Training Institutions, Kenya. Quantitative and qualitative techniques were used using Survey. Researcher adopted correlational methodology and Case study method. Collection of data was aided by questionnaires, reviewed documents and records. Audit control system had a significant association with profitability.

Ndamenemu (2013) studied factors influencing internal control and organization performance. Cross sectional research methodology was used together with descriptive statistics in analyzing the data. Population targeted were 74 employees in businesses randomly selected; Findings revealed that a positive significant association between predictor variables and financial performance. A recommendation was made that there should be division of a company' functions so as to create separation of duties.

Grammling *et al.* (2010) T found that in 2018, most of the smallest companies with which are limited in implementing internal control practices revealed absence of separation of duties.

Findings revealed that the practices of segregation of the duties significantly affected performance. There existed cases of collusion between employees using the system. Duties are unearthed when a person performs and covers errors in the course of daily activities. However, the significant level of the practice of segregation on services of manufacturing firms in the Kisumu County was not clear. This is due to the fact of; these studies have not been carried out on the manufacturing firms in Kisumu County. Study led by the fourth goal has demonstrated the significance results.

Amudo & Inanga (2009) showed that practices of segregation of duties reduces the risk of deliberately exploiting people or errors through frequent examination. Functionality such as approval and authorization of transactions, documentation and keeping records and safeguarding of assets should be done by more than 3 employees. Segregation of duties help to unearth fraud in early stages, disclose errors or losses. It was revealed that some management aspects for efficient internal control practices were lacking in those projects. The study recommended enhanced current internal control practices.

Ngari (2017) discovered the separation of functions, support, and authorization and of the approval of accounting operations significantly influenced services. In the segregation of rights, of the institutions of microfinance study concluded should establish stages accounting processes, as well as financial controls, which recommends adequate management of processing, the rotation the employment and the job description. Secondly, the officers comply should require, reviewing the support documents and the history of customer accounts. In the authorization and of the approval of accounting transactions, a conclusion was made that microfinance banks should limits the number of officials authorize payments and banking signatory. Therefore, researcher recommends that personnel to be well trained and the preparation of an adequate policies and procedural manuals. Finally, in the internal audit functions, the study concluded, in revision of the relations, the auditors must be familiar with the international audit procedures and accounting standards, while they adhere to professional ethics.

Reviewed studies investigated impact of internal control practices mainly focusing on segregation of duties on performance include Ndamenemu (2013), Grammling *et al* (2010), Amudo and Inanga (2009) and Ngari (2017). Of these studies, Ngari (2017) established that separation of functions, support, and authorization and of the approval of accounting

operations significantly influenced services and other variables had strong positive and significant impact. Amudo & Inanga (2009) revealed that practice of segregating duties minimizes the risk of exploitation; Grammling *et al.* (2010) sampled small firms which were limited in implementing of financial control techniques. On the contrary, Mugo (2013) studied internal Audit control systems and performance of TTIs in Kenya.

2.4.3 Budgetary Control Practice and Performance

Chircir & Simiyu (2017) studied budgetary control processes and performance of Almasi Beverages Group Ltd, Kenya. Concurrent triangulation research methodology was adopted. Population of 126 head of departments and supervisors were considered in the study. Purposive and stratified sampling techniques helped in identifying focused respondents. Questionnaires and interview were employed in collection of primary data. Secondary data was sourced from reports of the company. Findings revealed that changes in profitability of ABGL was affected by budgetary control.

Nafisatu (2018) studied budgetary control system and performance of East African Portland Cement Company Limited. Researcher adopted descriptive research methodology and explanatory research methodology in describing association between predictor and outcome variables. Collection of primary data was actualized through the use questionnaires. Secondary data was sourced from financial statements of East African Portland Cement Company for period 2012-2016. 45 sampled employees was considered with purposive sampling method. A conclusion was made that positive relationship existed between budgetary control and profitability of company.

Abdi (2015) studied financial controls and financial performance among private banks in Mogadishu. Population targeted were 33 accountants, finance directors, chief cashiers, internal auditors and managers. Descriptive methodology was adopted and data collection aided by self-administered questionnaires. Findings revealed that many private banks in Mogadishu sufficient cash to meet their financial requirements. There was separation of duties practiced by the banks. A suggestion was made that internal auditors should perform their duties faster, efficiently and reliably.

Munene (2013) revealed that managers of technical training institutes, Kenya is dedicated through application of internal control techniques and play an aggressive role in observation and supervision of the activities. Furthermore, is established that there is a clear separation of

the functions, the limits of the system and the construction of buildings of the capacity was practiced. Conversely, absence of computer applications and absence of security procedures at protecting the asset of the institution was discovered.

Observation was made that on insufficient cash flow for the company making it difficult for the institution to run its operations. The school fees paid were not enough.

Origa (2016) revealed, manufacturing companies in Kenya applying internal control practices effectively increased their financial performance in comparison to which did not implement effective internal control techniques. Descriptive statistics was employed. It provided deep understanding of research problem through the description of variables. Finding revealed that internal control practices significantly influenced financial performance of manufacturing companies in Kenya. A recommendation was made that Kenya Association of Manufacturers (KAM) should control and supervise manufacturing companies to ensure compliance of accounting regulations and requirements are followed.

Mawanda (2008) examined impacts of internal control systems on financial performance institution of higher learning in Uganda. Findings showed that internal control systems usually function apart from little challenges. Internal control systems had a significant relationship with financial performance the Institution of higher learning. However, there was lack of information sharing and inadequate security techniques to protect the assets of the University.

Ismailjee (2013) studied financial controls of transport services in Nairobi. Descriptive survey methodology was adopted. Financial controls had proxy like control activities; the cash receipts and the cash disbursements. Findings showed that cash receipts, cash disbursements and purchase cycle were moderately but strongly controlled. Accounting system was operational with good functionality.

Rono (2006) studied effectiveness of internal control system in management of finances in public universities in Kenya. Finding revealed that effectiveness of internal control systems in the university depended on category of the departments. The researcher revealed that internal control systems were effectively implemented in well-established departments mandated with the responsibility of implementing financial controls as they carry out the financial processes like finance, supplies and personnel.

Njonde & Kimanzi (2014) studied integrated financial management information system (IFMIS) and performance of Kenya's public sector. Explanatory research methodology. Findings revealed that IFMIS has been effective in financial reporting, budgeting, and financial controls. Financial controls had challenges.

Prior studies mainly concentrated on effect of internal checks and systems on performance notably Abdi (2015); Munene (2013), Origa (2016), Mawanda (2008); Njonde and Kimanzi (2014) focused on and Rono (2016). Whereas Rono (2016) investigated impact of internal control system on management of finances in public universities; Njonde & Kimanzi (2014) focused on IFMIS and performance of Kenya's public sector using explanatory research design. On the other hand, Abdi (2015) and Origa (2016) using descriptive research design found that embracing effective internal control practices had enhanced performance in comparison to non-application of effective internal control practices. Ismailjee (2013) evaluated the financial controls namely control activities, the cash receipts and disbursements of the transport services in Nairobi. Descriptive survey methodology was adopted. However, only a few studies focused on budgetary control as practice in relation to performance among cement and beverage manufacturing firms (Chircir and Simiyu, 2017 and Nafisatu, 2018) using a case study design. However, none of these studies analyzed financial control practices and performance of firms.

CHAPTER THREE

RESEARCH METHODOLOGY

The chapter presents methodological framework on research procedures and how to analyze them.

3.1 Research Philosophy

Research philosophy relates to the development of knowledge and the nature of that knowledge. The philosophies normally contain significant postulates on how researchers should view the world (Saunders, 2009). Of specific concern is ontology which is philosophical postulates about the scope of realism and epistemology which are the general set of postulates concerning the best ways of making inquiry into the nature of the world (Easterby-Smith, Thorpe and Jackson, 2009). Easterby-Smith *et al.* (2009) recognized two juxtaposed epistemological positions that is positivism and social constructionism. Positivism hold that the social world is existing externally and measuring of its properties should be done objectively, rather than making inference subjectively through sensation, reflection or intuition.

Social constructionism streams from the foundation that realism is not objective and exterior, but with social construction and given meaning by people (Easterby-Smith *et al.*, 2009; Bryman and Bell, 2007). The role of the social scientist should be to acknowledge the various constructions and meanings derived through people after their experience. The concentration should be given what people as individuals or group think, feel and the attention given and means of communication with each other either verbally and nonverbally. The study was based on the positivism approach.

3.2 Research Design

Correlational research methodology was used in investigating relationships between variables without the control and manipulation of the researcher. A correlation test the strength and or directions of the association between two (or more) variables. The study conducted an analysis of the 13 manufacturing companies that are in Kisumu County, registered under Kenya Association Manufacturers (KAM). This scientific research method involved collecting and analyzing data used in describing phenomena in its conditions or to the state.

3.3 Target Population

The population is a set of persons and characters with similar or noticeable characteristics (Mugenda & Mugenda, 2013). While (Cooper and Emory, 2001) see population as summation of collected elemental objects from which researcher could draw conclusions. Targeted respondents were finance, accounts, operations and production managers of 13 manufacturing companies (See Appendix II) in Kisumu County and census survey was employed in this study.

3.4 Data Collection and Sources of Data

Researcher used primary data. Data are raw materials which are converted into informative ideas through processed data (Davis et al., 1985). Administration of questionnaires was done in obtaining primary data on analysis of financial control practices on performance of manufacturing firms in Kisumu County. Questionnaire were apportioned into two sections with the first dealing with general information about respondents while other part analyzed financial control practices on performance of manufacturing companies in Kisumu County.

3.5 Pilot Testing

Validity is degree to which research instrument is measuring the intended target (Kothari, 2004). Validity is the frequency in which relevant question are asked about precision. A reliable tool measures the extent to which a research instrument is providing similar results after repeating same test severally (Mugenda, 2013). The determination of research tool is done using two methods. First, the questionnaire questions are discussed with the supervisor and other technical experts. Second, the researcher pilots the questionnaire to ensure its understandability and acceptability to the targeted population. Cooper &Schindler (2006), a piloting should range from 1% -10% depending on sampled size. To facilitate these, administration of questionnaires was done on 1 manufacturing firm Kisumu County. Purposive sampling was used selection of respondents and testing reliability of research instruments. Respondents who were involved in pilot test were not considered in the research.

3.5.1 Reliability of Research Instrument

This is measuring the frequency by which a research tool gives similar results or data after repeating several tests (Cooper, 2003). To test how reliable a research tools is, internal consistency techniques was involving three (3) respondents drawn from one manufacturing company. The respondents involved in the pre-test study were excluded from the research.

Cronbach's Alpha was used to analyze pre-test study output. Nunnally (1978) asserts that Cronbach's alpha value of 0.7 and more shows the reliability of research tool. Researcher adopted a coefficient of 0.7 to show that the instrument used was reliable.

Table 3.1: Cronbach's Alpha Reliability test results

Construct	Number of items	Reliability coefficient
Asset control practice	4	0.847
Audit control practice	4	0.870
Budget control practice	4	0.808
Performance	4	0.741

Source: Survey Data (2022) n = 3

3.5.2 Validity of Research Instrument

Validity is extent to which tools are measuring their intended target and by asking relevant questions which are accurate (Kothari, 2004). The determination of research tool was actualized through pilot test and response drawn from the targets were compared with the objectives. A tool is considered valid when it has relevance in content to variables under investigation. Mugenda *et al* (1999) see validity as an accurate and meaningful conclusions from the research findings.

3.6 Data Processing and Analysis

An output is made for the integrity and uniformity of the questionnaires received. Both quantitative and qualitative data are generated. The collected data was coded and analyzed with statistical measures such as percentages, sums, mean values, and standard deviations. For example, the mean was used in measuring general response of respondents to a question. The standard deviation was adopted in measuring the variance in responses to questions. Percentages were used to measure the proportions of respondents in a particular category. Descriptive and inferential statistics were adopted used to analyze data. Correlation matrix was adopted in examining relationship between the outcome and predictor variables. A multiple linear regression model was adopted in determining the relevance of predictor variables and their impact on performance.

3.6.1 Model Specifications

The regression model is derived from the linear equation, and the following equation was used;

$$Y_i = \beta_0 + \beta_1 X_{1i} + \beta_2 X_{2i} + \beta_3 X_{3i} + \varepsilon$$

Where;

Y = Performance

i = Respondents

β_0 = Constant Term

$\beta_1, \beta_2, \beta_3$ = Beta coefficients

X_1 = Asset control Practice

X_2 = Audit control Practice

X_3 = Budgetary control practice

ε = Error term

3.7 Ethical Considerations

Study involved the collection of primary. The processes of research considered ethics such ensuring privacy of respondents during data collection and when storing data. The data collection was accurate and transparent to ensured completeness of data. Research requested for permission the management of the companies to engage its employees with each participants voluntarily taking part in the process and their responses treated with confidentiality.

The consent of respondents was obtained prior to the actual research (see appendix 1). The identity of respondents was kept anonymous and by assuring them that the information was to be used only in the study.

CHAPTER FOUR

RESULTS AND DISCUSSIONS

The chapter gives the response rate, descriptive statistics and inferential statistics.

4.1 Response Rate

Respondents consisted of production/operations managers, finance managers and accounts managers drawn from all the manufacturing companies in Kisumu County. 36 questionnaires were issued and all of them (36) availed for computation giving a response rate of 100.0 % making data useful, reliable, and valid to draw conclusions about the target population.

4.2 General Information on the Respondents

Respondents' demographic attributes were established relating to gender, age, duration of service and the highest education level attained, results are summarized in Tables 4.1- 4.4.

Table 4.1: Respondents' Gender

Table 4.1 Respondents gender

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Male	20	55.6	55.6	55.6
Female	16	44.4	44.4	100.0
Total	36	100.0	100.0	

Source: Survey Data (2022)

Table 4.1 shows that sample was made mostly of males were 20 (55.6 %) whereas women comprised 16 (44.4%) implying that most of the managers in these firms are men.

Table 4.2 :Age bracket of the respondents

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 26-30 Years	5	13.9	13.9	13.9
31-35 Years	7	19.4	19.4	33.3
36-40 Years	10	27.8	27.8	61.1
Above 40 Years	14	38.9	38.9	100.0
Total	36	100.0	100.0	

Source: Survey Data (2022)

Table 4.2 showing that majority (38.9%) of respondents were aged above 40 years with only 13.9 % aged between 26-30 years. It means that majority of respondents had requisite experience on matters financial control and firm's performance.

Table 4.3 :Highest education level attained

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Diploma	14	38.9	38.9	38.9
Bachelors degree	13	36.1	36.1	75.0
Master's degree	7	19.4	19.4	94.4
Doctorate	2	5.6	5.6	100.0
Total	36	100.0	100.0	

Source: Survey Data (2022)

Table 4.3 shows that highest education level attained by majority of respondents was diploma (38.9%), Bachelor's and master's degree at 36.1 % and 19.4 % respectively. This means that respondents were able to comprehend the financial control and performance aspects of these firms.

Table 4.4: Years of service

	Frequency	Percent	Valid Percent	Cumulative Percent
	Below 1 year	4	11.1	11.1
	2-4 years	8	22.2	33.3
Valid	5-7 years	10	27.8	61.1
	Above 7 years	14	38.9	100.0
	Total	36	100.0	

Source: Survey Data (2022)

From Table 4.4, it was shown that majority of respondents completed years of service above 7 years ((38.9%) while only 11.1 % had worked for less than 1 year. This shows that respondents had gained clear understanding of the intricate financial control practices and performance issues which were pertinent to the study.

4.3 Descriptive Statistics on the Study Variables

Table 4.5: Descriptive Statistics on Asset Control Practice elements

Asset Control practice	S.A	A	N	D	S.D	M	Std.D
Fixed asset and current asset portfolio is matched with the financial needs of the company	10 (27.8%)	11(30.6)	5 (13.9%)	5 (13.9%)	5 (13.9%)	3.44	1.403
Asset management determines asset control success	4 (11.1%)	5(13.9%)	7 (19.4%)	9 (25.0%)	11 (30.6%)	2.5	1.26
Efficient asset utilization leads to efficient asset control	16 (44.4%)	13(36.1)	4 (11.1%)	2 (5.6%)	1 (2.8%)	4.13	1.018
Asset maintenance and disposal approaches increases asset control	4 (11.1%)	10(27.8%)	10(27.8)	6 (6.7%)	6 (6.7%)	3.00	1.27
Overall Mean score = 3.000, n = 36							

Source: Survey Data (2022)

1-Strongly disagree, 2-Disagree, 3- Neutral, 4-Agree, 5-Strongly Agree

The results on Table 4.5 the overall mean is 3.00 indicating that manufacturing firms in Kisumu County are not proactively practicing asset control. The firms put less emphasis on matching fixed assets and current asset portfolio with the financial needs of the company, and that asset management does not seem to determine asset control success among other things.

Table 4.6: Descriptive Statistics on Audit Control Practice elements

Audit Control Practice	S.A	A	N	D	S.D	M	Std.D
Internal audit standards to enforce audit services and reports	15 (41.7%)	13(36.1%)	3 (8.3%)	3 (8.3%)	2 (5.6%)	4.0	0.967
Auditors execute their role professionally	14 (38.9%)	14(38.9%)	6 (16.7%)	1 (2.8%)	1 (2.8%)	4.08	0.967
Secure and trusted internal audit controls	14 (38.9%)	12(33.3%)	6 (16.7%)	2 (5.6%)	2 (5.6%)	3.94	1.145
Periodic forensic audits to detect financial malpractices	1 (2.8%)	12(33.3%)	15(41.7%)	4 (11.1%)	4 (11.1%)	3.05	1.013
Overall Mean score = 4.000, n= 36							

Source: Survey Data (2022)

1-Strongly disagree, 2-Disagree, 3- Neutral, 4-Agree, 5-Strongly Agree

Table 4.5 shows the overall mean is 4.00 indicating that respondents agree that internal audit standards are used to enforce audit services and reports, auditors execute their roles professionally and periodic forensic audits are conducted to detect financial malpractices among manufacturing firms in Kisumu County.

Table 4.7: Descriptive Statistics on Budgeting Control Practice elements

Audit Control Practice	S.A	A	N	D	S.D	M	Std.D
Collaborative budget making processing	3 (8.3%)	2(5.6%)	6 (16.7%)	11 (30.6%)	14 (38.9%)	2.14	1.24
Budgetary estimates are in line with the company's needs	12 (33.3%)	15(41.7%)	3 (8.3%)	3 (8.3%)	3 (8.3%)	3.833	1.23
Timely approval of all budget estimates	1 (2.8%)	3(8.3%)	7 (19.4%)	5 (13.9%)	20 (55.6%)	1.89	1.166
The budget allocations match company expenditures	9 (25.0%)	6(16.7%)	9(25.0%)	9 (25.0%)	3 (8.3%)	3.25	1.317
Overall Mean score = 3.000, n= 36							

Source: Survey Data (2022)

1-Strongly disagree, 2-Disagree, 3- Neutral, 4-Agree, 5-Strongly Agree

Table 4.5 shows the overall mean is 3.00 indicating that respondents did not either agree or disagree on the manufacturing firms embracing collaborative budget making process, preparing budgetary estimates that are in line with company's financial needs, timely approval of all budget estimates and matching budget allocations with the company expenditures.

Table 4.8: Descriptive Statistics on Performance elements

Performance elements	S.A	A	N	D	S.D	M	Std.D
Sales volume improved over the last five years	13 (36.1%)	15(41.7%)	2 (5.6%)	2 (5.6%)	4 (11.1%)	3.86	1.29
Net profit has been declining over the last five years	3 (8.3%)	4(11.1%)	4 (11.1%)	8 (22.2%)	17 (47.2%)	2.11	1.348
Revenue turnover has been increasing over the last five years	12 (33.3%)	8(22.2%)	8 (22.2%)	5 (13.9%)	3 (8.3%)	3.58	1.317
The cost of production has been declining in the last five years	1 (2.8%)	2(5.6%)	4(11.1%)	10 (27.8%)	19 (52.8%)	1.778	1.045
Overall Mean score = 3.000, n= 36							

Source: Survey Data (2022)

1-Strongly disagree, 2-Disagree, 3- Neutral, 4-Agree, 5-Strongly Agree

Table 4.5 shows the overall mean is 3.00 indicating that respondents did not either agree or disagree on the manufacturing firms’ sales volume, revenue turnover increasing over the last five years. In addition, they did not agree or disagree that net profit and cost of production have been declining in the last five years.

4.4 Asset Control Practice and Performance of manufacturing firms

To achieve objective one, multiple regression analysis whose results are summarized in Tables 4.9, 4.10 and 4.11.

Table 4.9: Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.546 ^a	.298	.232	1.13126	.298	4.520	3	32	.009	.461

a. Predictors: (Constant), Asset Control, Audit Control, Budgetary control

b. Dependent Variable: Mean Performance

Table 4.10: ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	17.354	3	5.785	4.520	.009 ^b
	Residual	40.952	32	1.280		
	Total	58.306	35			

a. Dependent Variable: Mean Performance

b. Predictors: (Constant), Asset Control, Audit Control, Budgetary control

Table 4.11: Multiple Regression Analysis Coefficients^a

Model	Unstandardized Coefficients		Standardized	t	Sig.	
	B	Std. Error	Coefficients Beta			
	(Constant)	5.253	.959		5.478	.000
1	Asset Control Practice	-.228	.138	-.247	-1.648	.109
	Audit Control Practice	-.393	.198	-.295	-1.981	.056
	Budgetary Control Practice	.466	.156	.450	2.990	.005

a. Dependent Variable: Mean Performance

The fitted model is as follows:

$$Y = 5.253 - .228X_1 - .393X_2 + .466X_3$$

Table 4.11 points that asset control practice negatively predicates performance (B = -.228, p = .106) implying that practice of asset control leads to erosion of performance among manufacturing firms in Kisumu County. The study findings are consistent with those of Ademola (2014) who reported that accounting controls had a negative significant effect on profitability ratios. This means that asset control practice leads to decline in performance. Divergently, the study findings are in tandem with those of Wanyama, Okelo and Otunga (2019) who reported financial controls positively affects profitability. Moreover, results contradict those of Iqbal and Mati (2012), Lydia (2018), Muhammad (2015) and Nunow (2016) who posted positive relationships between financial controls and profitability.

4.5 Audit Control Practice and Performance of manufacturing firms

Table 4.11 pointed at multiple regression analysis. The results indicate that audit control practice negatively affects performance of manufacturing firms in Kisumu County ($B = -.393$, $p = 0.056$) implying that practice of asset control leads to erosion of performance among manufacturing firms in Kisumu County. The study findings are in tandem with those of those of Amudo & Inanga (2009) and Mugo (2013) that techniques of audit controls reduces risk of deliberate exploitation and errors through regular examination. However, study findings are inconsistent with Ndamenemu (2013), Grammling *et al* (2010) and Ngari (2017) who reported that audit controls positively affects performance.

4.6 Budgetary Control Practice and Performance of manufacturing firms

Findings on objective three are shown in Table 4.11. Finding shown that budgetary control practice significantly positively affects performance of manufacturing companies in Kisumu County ($B = .466$, $p = 0.005$) implying that practice of budgetary control leads to increase in performance among manufacturing companies in Kisumu County.

The findings are congruent with those of Chirchir & Simiyu (2017) and Nafisatu (2018) reported a positive association between budgetary control and performance among cement and beverage manufacturing firms. However, the finding are at variance with those of Abdi (2015); Munene (2013), Origa (2016), Mawanda (2008); Njonde and Kimanzi (2014) who reported budgetary control had negative impact on performance. On the same vein, Ismailjee (2013) evaluated the financial controls namely control activities, the cash receipts and disbursements of the transport services in Nairobi and reported a positive relationship between the variables.

CHAPTER FIVE

SUMMARY, RECOMMENDATIONS AND CONCLUSIONS

5.1 Summary of Findings

Objective one aimed at determining impact of asset control practice on performance of manufacturing companies at Kisumu County. It was established that asset control practice had an insignificant negative impact on performance of manufacturing companies at Kisumu County. It indicates that whenever firms embraced asset control practice there was decline on their performance.

Objective two aimed determining impact of audit control practice on performance of manufacturing companies at Kisumu County. It was disclosed that audit control practice had negative insignificant impact on performance of manufacturing companies at Kisumu showing that when companies found in the sector invest in audit control practice, performance would decline.

Finally, objective three aimed at determining impact of budget control practice on performance of manufacturing firms at Kisumu County and found that budget control practice positively significantly affected performance of manufacturing companies at Kisumu County. Findings showed there was a statistically significant positive effect of budget control practice on performance of manufacturing companies at Kisumu County.

5.2 Conclusions of the Study

Based on objective one, it is concluded that asset control practice affects performance negatively, implying that as firms embrace asset control practice, the firms performance declines.

Objective two aimed at determining the impact of audit control practice on performance and study concludes that audit control practice leads to decline in performance and vice versa.

Finally, objective three aimed at determining impact of budget control practice on performance. Budget control practice positively affected performance of manufacturing companies at Kisumu County.

5.3 Recommendations of the Study

From the first conclusion, recommendation was made that manufacturing companies in Kisumu County are supposed to endeavor to reduce intensity of application of asset control as this practice seems to be counterproductive, it reduces performance of these companies.

On the second objective, recommendation that manufacturing companies in Kisumu County should consider eliminating the stringent audit control practices that impair performance as this practice negatively affected performance.

On conclusions of objective three, recommendation that manufacturing companies should embrace budget control practice as this enhances performance of these firms.

5.4 Limitations of the Study

In conducting this study, research was limited by some factors: instrument was solely administered to operations/production, finance and accounts management of the 13 manufacturing firms in Kisumu County.

The study adopted majorly quantitative techniques in collecting data and therefore future researchers should consider qualitative data.

The researcher concentrated only on manufacturing companies in Kisumu, the results are limiting since different sectors of the economy were not considered.

Lastly, use of secondary data and panel methodology to determine the association of financial control and performance may provide more robust results than those of the cross-sectional research in the present research.

5.5 Areas of Further Research

The study aimed at determining impact of financial control practices on performance of manufacturing companies at Kisumu County.

The researcher recommended using drivers of financial performance of manufacturing companies while considering indicators of financial performance like returns on equity (ROE).

The future researcher should consider other contextual background using asset control practice which reported insignificant results and with the inclusion of many manufacturing companies.

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APPENDICES

Appendix I: Questionnaire

The purpose of this study is to analyse the financial control practices on performance of manufacturing companies in Kisumu County. The information obtained will only be used for academic purposes and shall be treated with utmost confidentiality. You are kindly requested to complete this questionnaire objectively.

Instructions

Please tick in the appropriate box and also fill in the blank spaces provided for those questions where elaborate answers are required. Feel free to use the back pages if you need more space for narrative responses.

SECTION A: GENERAL INFORMATION

1. What is your Gender?

Male Female

2. Which is your age bracket?

26 – 30 31 – 35 36- 40 years Above 40 years

3. Highest level of education attained

Professional diploma Bachelor’s degree Master’s degree PhD degree

4. What is your designation in the organization?

Operations /Production Manager

Finance Manager

Accounts Manager

5. Years of Service

Below 1 year 2-4 years 5 – 7 years above 7 years

SECTION B: ASSET CONTROL PRACTICE

Please indicate your extent of agreement or disagreement in each part by inserting a tick along every statement where 5=strongly agree, 4=Agree, 3=Neutral, 2=Disagree and 1=strongly disagree.

ASSET CONTROL	5	4	3	2	1
The fixed asset and current asset portfolio is appropriately matched with the financial needs the company					
Asset management really determines asset control success in our company					
Efficient utilization of fixed and current assets has a bearing on					

efficient control of assets.					
The maintenance and disposal approach taken regarding the fixed assets has led to increased asset control.					

SECTION C: AUDIT CONTROL PRACTICE

Please indicate your extent of agreement or disagreement in each part by inserting a tick along every statement where 5=strongly agree, 4=Agree, 3=Neutral, 2=Disagree and 1=strongly disagree.

Audit Control Practice	5	4	3	2	1
There are audit standards to enforce independent audit services and reports					
The external and internal auditors execute their audit role professionally in accordance with the modern professional auditing principles					
There are secure and trusted internal audit controls to independently report financial malpractices					
There are periodic forensic audits in the company to detect financial malpractices					

SECTION D: BUDGETARY CONTROL PRACTICE

Please indicate your extent of agreement or disagreement in each part by inserting a tick along every statement where 5=strongly agree, 4=Agree, 3=Neutral, 2=Disagree and 1=strongly disagree.

Budgetary Control Practice	5	4	3	2	1
There is collaborative budget making processing in the company.					
The budgetary estimates are in line with the company's budgetary needs.					
There is timely approval of all budget estimates.					
The budget allocations match company expenditures.					

SECTION E: PERFORMANCE

Please indicate your extent of agreement or disagreement in each part by inserting a tick along every statement where 5=strongly agree, 4=Agree, 3=Neutral, 2=Disagree and 1=strongly disagree.

Performance	5	4	3	2	1
Our sales volume have improved over the last five years					
Our firm's net profit has been declining over the last 5 years					
We have noticed increase in our annual revenue turnover over the last 5 years					
Our company cost of production has been declining in the past 5 years					

Appendix II: List of Manufacturing Companies in Kisumu County

1. UNITED MILLERS- FOOD MANUFACTURING AND REAL ESTATE
2. NDUGU TRANSPORT COMPANY-TRANSPORT AND MINING
3. MUHORONI SUGAR-AGROPROCESSING
4. EQUATOR BOTTLERS-SOFT DRINKS
5. CHEMILIL SUGAR-AGROPROCESSING
6. JUBILEE JUMBO HARDWARE-TRADING AND TRANSPORT
7. KIBOS ALLIED SUGAR-AGROPROCESSING
8. KEDA CERAMICS INTERNATIONAL- MIWANI-TILES MANUFACTURING
9. AGROCHEMICAL -CHEMICALS
10. MAYFAIR HOLDINGS-MANUFACTURING AND REAL ESTATE
11. STEEL CENTRE LIMITED-STEEL
12. KISUMU CONCRETE PRODUCTS-BUILDING MATERIALS
13. TUFF FOAM –MANUFACTURING

Source: (Kenya Association of Manufacturers, 2021).

Appendix III: Descriptive Statistics on the General Information

		Respondents gender	Age bracket of the respondents	Highest education level attained	ACP_1	ACP_2	ACP_3	ACP_4	ADC_P_1	ADC_P_2	ADC_P_3
N	Valid	36	36	36	36	36	36	36	36	36	36
	Missing	0	0	0	0	0	0	0	0	0	0
Mean		1.4444	2.9167	1.9167	3.4444	2.5000	4.1389	3.0000	4.0000	4.0833	3.9167
Std. Deviation		.50395	1.07902	.90633	1.40294	1.36277	1.01848	1.26491	1.17108	.96732	1.14089

Appendix IV: ACP_1 (Asset Control)

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly disagree	5	13.9	13.9	13.9
Disagree	5	13.9	13.9	27.8
Neutral	5	13.9	13.9	41.7
Agree	11	30.6	30.6	72.2
Strongly Agree	10	27.8	27.8	100.0
Total	36	100.0	100.0	

Appendix V: ACP_2(Asset Control)

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly disagree	11	30.6	30.6	30.6
Disagree	9	25.0	25.0	55.6
Neutral	7	19.4	19.4	75.0
Agree	5	13.9	13.9	88.9
Strongly Agree	4	11.1	11.1	100.0
Total	36	100.0	100.0	

Appendix VI: ACP_3(Asset Control)

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly disagree	1	2.8	2.8	2.8
Disagree	2	5.6	5.6	8.3
Neutral	4	11.1	11.1	19.4
Agree	13	36.1	36.1	55.6
Strongly Agree	16	44.4	44.4	100.0
Total	36	100.0	100.0	

Appendix VII: ACP_(Asset Control)

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly disagree	6	16.7	16.7	16.7
Disagree	6	16.7	16.7	33.3
Neutral	10	27.8	27.8	61.1
Agree	10	27.8	27.8	88.9
Strongly Agree	4	11.1	11.1	100.0
Total	36	100.0	100.0	

Appendix VIII: ADC_P_1 (Audit control)

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly disagree	2	5.6	5.6	5.6
Disagree	3	8.3	8.3	13.9
Neutral	3	8.3	8.3	22.2
Agree	13	36.1	36.1	58.3
Strongly Agree	15	41.7	41.7	100.0
Total	36	100.0	100.0	

Appendix IX: ADC_P_2(Audit control)

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly disagree	1	2.8	2.8	2.8
Disagree	1	2.8	2.8	5.6
Neutral	6	16.7	16.7	22.2
Agree	14	38.9	38.9	61.1
Strongly Agree	14	38.9	38.9	100.0
Total	36	100.0	100.0	

Appendix X: ADC_P_3(Audit control)

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly disagree	2	5.6	5.6	5.6
Disagree	2	5.6	5.6	11.1
Neutral	6	16.7	16.7	27.8
Agree	12	33.3	33.3	61.1
Strongly Agree	14	38.9	38.9	100.0
Total	36	100.0	100.0	

Appendix XI: ADC_P4(Audit control)

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly disagree	4	11.1	11.1	11.1
Disagree	4	11.1	11.1	22.2
Neutral	15	41.7	41.7	63.9
Agree	12	33.3	33.3	97.2
Strongly Agree	1	2.8	2.8	100.0
Total	36	100.0	100.0	

Appendix XII: IBCP_1(Budget control)

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly disagree	14	38.9	38.9	38.9
Disagree	11	30.6	30.6	69.4
Neutral	6	16.7	16.7	86.1
Agree	2	5.6	5.6	91.7
Strongly Agree	3	8.3	8.3	100.0
Total	36	100.0	100.0	

Appendix XIII: BCP_2(Budget control)

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly disagree	3	8.3	8.3	8.3
Disagree	3	8.3	8.3	16.7
Neutral	3	8.3	8.3	25.0
Agree	15	41.7	41.7	66.7
Strongly Agree	12	33.3	33.3	100.0
Total	36	100.0	100.0	

Appendix Xiv: BCP_3(Budget control)

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly disagree	20	55.6	55.6	55.6
Disagree	5	13.9	13.9	69.4
Neutral	7	19.4	19.4	88.9
Agree	3	8.3	8.3	97.2
Strongly Agree	1	2.8	2.8	100.0
Total	36	100.0	100.0	

BCP_4(Budget control)

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly disagree	3	8.3	8.3	8.3
Disagree	9	25.0	25.0	33.3
Neutral	9	25.0	25.0	58.3
Agree	6	16.7	16.7	75.0
Strongly Agree	9	25.0	25.0	100.0
Total	36	100.0	100.0	

S_V (Performance)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	4	11.1	11.1	11.1
	Disagree	2	5.6	5.6	16.7
	Neutral	2	5.6	5.6	22.2
	Agree	15	41.7	41.7	63.9
	Strongly Agree	13	36.1	36.1	100.0
	Total	36	100.0	100.0	

N_P(Performance)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	17	47.2	47.2	47.2
	Disagree	8	22.2	22.2	69.4
	Neutral	4	11.1	11.1	80.6
	Agree	4	11.1	11.1	91.7
	Strongly Agree	3	8.3	8.3	100.0
	Total	36	100.0	100.0	

R_T(Performance)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	3	8.3	8.3	8.3
	Disagree	5	13.9	13.9	22.2
	Neutral	8	22.2	22.2	44.4
	Agree	8	22.2	22.2	66.7
	Strongly Agree	12	33.3	33.3	100.0
	Total	36	100.0	100.0	

C_P(Performance)

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 1.00	19	52.8	52.8	52.8
2.00	10	27.8	27.8	80.6
3.00	4	11.1	11.1	91.7
4.00	2	5.6	5.6	97.2
5.00	1	2.8	2.8	100.0
Total	36	100.0	100.0	

Appendix XV

Item/Services	No. of Items/Quantity	Unit cost	Total (Kshs.)
1. PROPOSAL PREPARATION			
i) Stationery			
a) Printing			
iii) Subsistence Allowance			10,000
a) Downloading information from the Internet	1	15,000	
b) Collection of secondary data sources in various libraries	1	2,000	15,000
	1	5,000	2,000
c) Airtime			5,000
Sub total			32,000
2. PILOT STUDY			
i) Transport of the researcher	10	500	5,000
ii) Subsistence allowance	10	300	3,000
Sub total			8,000
3. DATA COLLECTION			
i) Photocopying of questionnaire	300	10	
ii) Subsistence, transport & accommodation for the researcher		5,000	3,000
			5,000
Sub total			8,000
4. PREPARATION OF PROJECT			
i) Stationery			
a) Printing		10,000	15,000
c) Binding of project drafts		3,000	3,000
d) Binding of final Project		3,000	3,000
Sub total			21,000
Total			69,000
Contingencies (10% of the total)			6,900
GRAND TOTAL			75,900

Appendix XVI: RAW DATA

3	1	3	5	1	5	4	5	5	5	4	1	5	1	4	1	5	4
3	1	3	4	1	5	4	4	5	5	4	1	5	1	4	1	4	4
3	1	4	4	1	5	4	4	5	5	4	1	5	1	5	1	3	4
3	1	2	3	2	5	3	3	5	5	3	1	4	2	5	1	1	5
4	2	2	2	1	4	3	2	4	4	3	2	4	1	5	2	1	5
4	2	3	4	1	4	3	4	4	4	3	2	4	1	3	2	1	5
4	2	3	5	3	4	1	5	4	4	3	2	4	3	3	3	1	3
4	2	4	5	4	4	1	5	4	4	2	3	1	4	2	4	1	3
2	3	4	4	3	5	2	4	5	5	2	3	2	1	2	5	2	2
1	4	2	4	3	5	2	4	5	3	1	5	3	1	1	5	2	1
2	3	2	3	5	5	5	3	5	3	1	4	5	1	3	5	1	4
3	1	4	2	5	5	4	2	5	3	5	1	5	2	2	4	1	5
3	1	4	1	1	4	4	1	4	2	4	1	4	1	4	4	1	5
4	1	3	5	1	4	4	5	4	1	4	1	4	1	4	4	1	5
4	1	4	5	1	4	3	5	4	5	4	1	4	3	5	4	2	3
4	2	1	4	2	4	3	4	4	5	3	2	4	4	5	3	2	3
4	2	1	4	2	3	3	4	1	5	3	2	1	3	5	4	3	2
4	2	3	3	2	3	1	5	2	5	3	2	2	3	3	5	4	2
4	2	3	2	3	2	1	5	3	4	3	3	3	1	3	5	5	1
1	3	4	5	4	1	2	5	4	4	4	3	5	1	2	5	1	4
1	3	4	4	4	5	2	5	5	4	4	5	5	1	2	5	1	4
2	3	2	4	3	5	5	5	5	4	4	1	5	2	1	4	1	5
3	1	2	3	2	5	4	4	5	5	3	1	4	1	3	4	1	5
3	1	4	2	2	5	4	4	4	3	3	1	4	1	2	4	2	5
3	1	4	1	1	4	4	4	3	3	3	1	4	3	4	4	2	3
3	1	3	1	1	4	3	5	4	3	4	2	4	4	4	5	3	3
4	2	4	1	1	4	3	5	5	2	4	2	1	3	5	5	4	2
4	2	1	1	2	4	3	5	4	1	4	2	2	3	5	5	5	2

4	2	1	5	2	3	1	1	3	5	3	3	3	5	5	4	1	1
4	2	3	4	2	3	1	2	3	5	3	3	5	1	3	4	1	4
1	3	3	4	3	2	2	3	4	5	3	5	5	2	3	4	1	4
1	4	4	3	4	5	2	4	5	5	3	4	4	1	2	4	1	5
2	3	4	2	4	5	5	5	3	4	2	1	4	2	2	5	2	5
2	2	2	5	3	5	3	5	3	4	2	1	4	1	1	5	2	5
2	1	2	5	5	5	4	4	4	4	1	2	5	1	3	5	3	3
2	1	4	5	5	4	5	4	5	4	1	2	5	1	2	4	4	3