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The Strategic JOURNAL of Business & Change MANAGEMENT
ISSN: 2312-9492 www.strategicjournals.com
Vol. 7, Iss. 4, pp 591 – 606. October 26, 2020. www.strategicjournals.com, ©Strategic Journals

INTERNAL FINANCIAL FACTORS AND THE FINANCIAL PERFORMANCE OF EXPORT PROCESSING ZONE FIRMS IN MOMBASA COUNTY, KENYA

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Accepted: October 23, 2020

ABSTRACT

The study sought to evaluate the effect of internal financial factors on the financial performance of Export Processing Zones in Mombasa County. The study was guided by Tobin's Q theory, resource-based theory and liquidity theory. The study utilized structured questionnaires as tools for data collection with a total number of twenty-four EPZs visited by the researcher who targeted finance officers, risk management officers and chief executives. The sample size of the study comprised of 60 respondents. Data analysis was done by use of Statistical Package for Social Science (version 25). From the findings it was established that inventory turnover rate is high in most of the EPZ firms. This implied that the EPZ firms' stock is converted into ready goods quickly. The study showed that the accounts payable are settled late in the period stipulated by the individual EPZ firm. This meant that all payments due to other parties were delayed until the end of the agreed repayment time and also in the case of accounts receivable, they are pursued early by the firm before the stipulated time. The study established that the EPZ firms' capital structure follows the policies set by the organization and that the cash flows of the EPZ firms were sufficient to support firm operations and EPZ firms have high leverage ratio to support their day to day operations. The study concluded that in liquidity has a significant positive effect EPZ firm's financial performance. On capital adequacy, the study concluded that there is a significant positive effect on financial performance of EPZ firms. On budgeting, it was concluded that budgeting has a positive significant effect on EPZ firm's financial performance. The study concluded that asset quality has a positive significant effect on financial performance of EPZ firms. The study recommends that firms should improve inventory turnover rate so as to improve its overall financial performance. The firms should always settle accounts payable late in the period stipulated by the firms so as to commit the funds to income generating activities. The firms should draw a dynamic working capital management policy to ensure tight control of firms' liquidity to enable smooth flow of operations. The study results would be useful to EPZ firms which face challenges of financial performance. The study findings may assist the management of manufacturing firms by contributing knowledge and experiences regarding the effect of internal financial factors in improving financial performance of the firm.

Key Words: *Liquidity, Capital Adequacy, Budgeting, Asset Quality, Financial Performance*

CITATION: Mbogo, E. K., & Kariuki, G. M. (2020). Internal financial factors and the financial performance of export processing zone firms in Mombasa County, Kenya. *The Strategic Journal of Business & Change Management*, 7(4), 591 – 606.

INTRODUCTION

In recent times of globalisation, export promotion is viewed as a relevant policy for economic progress in developing nations. Different approaches are being devised to promote export attractiveness by regimes in these nations. As a strategy means of attaining this objective, the concept of EPZs has gained conspicuous significance in current times. There were a total of 176 zones spread across 47 nations in 1986. By the year 2003, the number amplified to over 3000 spread across 116 nations. The majority of these zones have been set up in developing nations. Present studies have indicated that EPZs have facilitated promotion of foreign direct investments and an export-oriented industrialisation policy in many developing nations in Asia (Ota, 2017), Latin America (Ferrerosa, 2016) and Africa (Tekere, 2016). One may, however, perceive that some nations have managed to seize the dynamic and static profits from EPZ undertakings while many others are yet to enjoy the gains. EPZs, for example, contributed 71% of the overall exports in Mauritius while in Mexico; Maquiladora's contribution to total exports has been around 40% (Madani, 2016).

The export of the product by African countries has been popular over the years, but they mainly export low and irregular products to the developed economies. The findings about the link between efficiency of manufacturing firms and exports in Kenya reveal that companies that participate in exports are more efficient compared to the non-exporters, and they choose to take an active role in exporting. The findings further reveal that the level of efficiency for export manufacturing firms is highly dependent on the target market. Firms that export their products outside Africa are required to be more efficient than those exporting within the continent (Madani, 2016). Further, the efficiency of exporting firms within Africa is highly dependent on the level of supply while efficiency of firms targeting markets outside Africa depends on the size of the companies (Tekera, 2016). Research on the link between efficiency of manufacturing firms and efficiency indicates that strong export performance is among the factors that contribute to economic development of nations because it improves the manufacturing efficiency of the firms. Efficient manufacturers are least affected by trade barriers and they are able to compete favourably in the international markets.

Export Processing Zones (EPZs) in Kenya were established following a USAID financed study in 1989. On the basis of the findings and recommendations of the study, the Government proceeded rapidly to create an enabling EPZ environment. Accordingly, the Export Processing Zones Authority was established under the EPZ Act (Cap 517 of the Laws of Kenya) in 1990. The Act provides for the institutional, legal and incentive framework for the EPZ development programme. The program, managed by the EPZ Authority (EPZA), promotes export oriented industrial investment within designated zones. EPZ investors are provided with fiscal incentives together with simplified operating procedures and good infrastructure. In addition, the EPZ Authority gives facilitation and after care services to new and existing investors who are also assured lower operational costs, faster set up and smoother operations. Appropriate infrastructures have been installed and standards have been put in place (Kariuki, 2015).

EPZs are intended to further incorporate Kenya into the worldwide inventory network and draw in export oriented investments in the zones, therefore fulfilling its objectives which are economical in nature, this include; occupation creation, broadening and extension of export opportunities, enhancing productive capacity of investments, creativity and innovation exchange and formation of in backwards linkages between the zones and the household economy. The program has contributed fundamentally to accomplishing these targets with more than 40 zones set up, near 40,000 employees absorbed, and commitment of 10.7 % of national exports. More than 70% of EPZ yield is sent out to the USA under

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AGOA (Waithera, 2016). By the year 2015 there were 114 licensed companies; majority already operating while some few being established. In addition, the zone houses various running incubators with an objective of drawing in and supporting small scale exporters within the nation to become international exporters.

Statement of the Problem

According to the Singa (2017), there is an increase in the number of countries using EPZs in sub-Saharan Africa. Despite this growth in EPZ activity, EPZs still make up a moderately little percentage of the population in majority of the nations. This extension of EPZs has now happened in the face of expanding global trade and stiff beneficial competition. The economic competition has seen developed countries dominate the domestic firms, a situation that calls for government intervention to encourage performance of local firms.

Importation of goods has been and continues to be a problem faced by many countries in developing countries. Search for effective initiative aimed at resolving the problem lead to formation and adoption of EPZs to promote exports and diversification (Baissac, 2018). With increased globalised economy characterized by stiff competition, there is thus a need for internal financial factors strengthening so as to enable EPZs establish trading advantage.

Studies have been conducted on internal firm factors both locally and internationally but none has focused on internal financial factors and performance of EPZs in Kenyan setting. Muchiri (2016) studied factors influencing the export of horticultural products by horticultural firms in Nairobi, Kenya and concluded that legal and regulatory policies influenced exportation of horticultural products in the company. Murage (2016) did a study on effects of tax incentives on the investment of export processing zones firms in Kenya. The findings were that investments by EPZ firms increase with increase in sales, profit as well as tax incentives. Mutunga (2017) studied the response of trade unions to challenges posed by conditions of work at the EPZs in Kenya. Abala (2016) conducted a study on the factors that affect the performance of Kenyan manufacturers, which identified the need for reforms in the export policies. The study indicated the need by the firms to embrace modern forms of capital as well foreign investments. The current study sought to bridge the knowledge gap by investigating the internal financial factors affecting financial performance of Export Processing Zone firms in Mombasa.

Research Objectives

The general objective of this study was to investigate the effects of internal financial factors on the financial performance of Export Processing Zone firms in Mombasa County. The specific objectives were;

- To establish the effects of liquidity on financial performance of Exporting Processing Zone firms in Mombasa County
- To examine the effects of capital adequacy on financial performance of Exporting Processing Zone firms in Mombasa County
- To determine the effects of budgeting on financial performance of Exporting Processing Zone firms in Mombasa County
- To evaluate the effects of asset quality on financial performance of Exporting Processing Zone firms in Mombasa County

The study was guided by the following research hypotheses

- **$H_0$1**: Liquidity has no significant effect on financial performance of Exporting Processing Zone firms in Mombasa County
- **$H_0$2:** Capital adequacy has no significant effect on financial performance of Exporting Processing Zone firms in Mombasa County
- **$H_0$3:** Budgeting has no significant effect on financial performance of Exporting Processing Zone firms in Mombasa County
- **$H_0$4**: Asset quality has no significant effect on financial performance of Exporting Processing Zone firms in Mombasa County

LITERATURE REVIEW

Tobin's Q Theory

The Q theory was advanced by James Tobin. It argues that output growth is driven by the incessant collection of physical, human or information capital. The rate of real investment determines the rate of capital accumulation. The approach concentrates on the proportion of a company's securities exchange value to the substitution cost of its capital (Abala, 2016). Increase in the return to capital will raise the market value of existing capital signalling the profitability of additional investment. Additional investment will drive down the marginal product of capital, reducing the asset price of capital goods until equilibrium is restored a practice that will encourage extensive investment. The hypothesis advocates for measuring financial performance of a firm by concentrating on the proportion of the market value of a company's assets. The market estimation of a firm is arrived at by the market estimation of its remarkable stock and obligation to the substitution cost of the company's assets (Singa, 2017). At the point when a firm is worth more than its value in view of what it would cost to reconstruct it, then overabundance profits are being earned and consequently the firm is gainful. Measuring firm performance with Tobin's Q leads to a negative relationship with leverage in a study concerning Kenya's listed firms (Mule & Mukras, 2015). The theory supports the capital adequacy variable.

Resource Based View Theory

The ownership of tangible and intangible resources is what gives firms competitive advantage as stated in the resource-based theory; the possession of strategic resources provides an organization with a golden opportunity to develop competitive advantages over its rivals (Wu & Zhu, 2010). Barney (2013) stated that these resources must be valuable, substitutable, rare, inimitable, and expensive for other companies to acquire. The influence on performance of the company of these holders with varied resource endowments is estimated to fluctuate as a result of this heterogeneity in organizational aptitudes and resources. Capabilities are key resources in any firm and refer to what the organization can do. They often arise over time while the firm takes actions that build on its strategic resources. Modern firms develop a dynamic capability, where a company has a unique ability to create new competencies to keep abreast with variations in its environment.

The resource-based theory is important in ascertaining the available resources of the firm and also relates them to the competences of the organization. The theory, therefore, considers the profitability and the value factor linked with the company (Colbert, 2014). Based on the theory, competitive advantage can be achieved when the firm can utilize its resources in an exceptional and valuable manner than the competitors in the industry; which translates to financial performance, i.e. profitability (Colbert, 2014). The resource-based theory illuminates that firms gain excellent capability because of the extraordinary and non-substitutable amount of resources available to the firm. These avail enhanced success to the firm in the emerging economy of the world. Therefore, one can conclude that the resource-based theory is important in this study and applicable to EPZ firms since it's a dynamic concept which enables the firm to act, enact and operate as per its internal and external resources in order to gain competitive advantage and improve its performance. The theory supports asset quality variable.

Liquidity Theory

Liquidity theory as a function of current assets and current liabilities is an important factor in determining working capital policies and indicates firm's capability of generating cash in case of need (Jose, 2010). Current ratio, acid-test and cash ratios as traditional measures of liquidity are incompetent because these balance sheet based measures cannot provide detailed and accurate information about effectiveness of working capital management. Formulas used for calculating these ratios consider both liquid and operating assets in common. Besides, mentioned traditional ratios are

also not meaningful in terms of cash flows (Richards & Laughlin, 2013). This theory is important in determining working capital policies.

Jose (2010) has insisted on using on-going liquidity measures in working capital management. On-going liquidity refers to the inflows and outflows of cash through the firm as the product acquisition, production, sales, payment and collection process takes place over time. As the firm's on-going liquidity is a function of its cash conversion cycle, it would be more appropriate and accurate to evaluate effectiveness of working capital management by cash conversion cycle, rather than traditional liquidity measures. This theory is relevant to the study on liquidity which is an internal financial factor determining financial performance of EPZs.

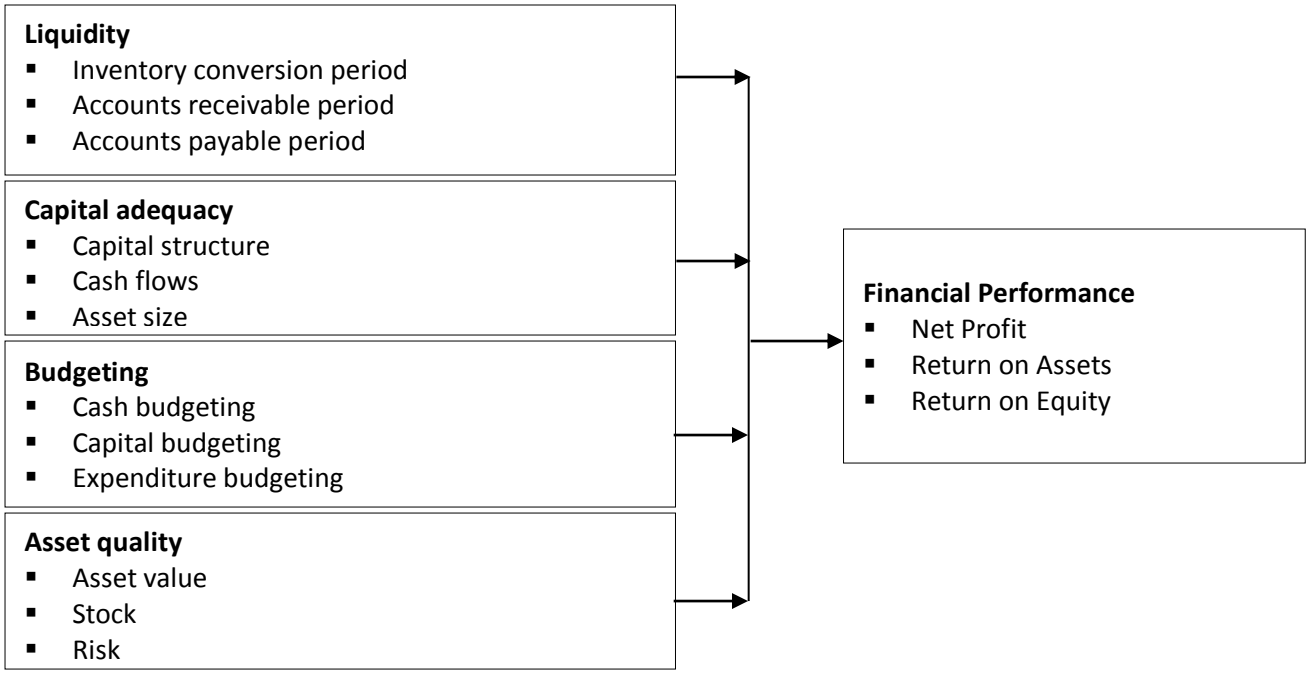

Figure 1: Conceptual Framework

Empirical Literature Review

Several studies have been done relating to internal factors and financial performance. Onduso (2015) analyzed the effects of budgets on the financial performance of manufacturing firms in Nairobi County. A census survey of all 18 manufacturing companies listed in the Nairobi Securities Exchange was carried out using a cross sectional research design. Questionnaires we distributed to the top managers and Accounts department personnel of the firms as well as interviews for the willing respondents. The researcher used descriptive statistics, correlation coefficient methods and regression analysis to analyze data. The findings of the study revealed that top managers are charged with the responsibility of evaluating budgets and variance reports. They also use budgets as management tools in decision making. The study concluded that financial performance measured using ROA is strongly affected by use of budgets (coefficient 0.035) and managerial performance (coefficient 0.016). Further, the study recommended facilitation of budget implementation through capacity building, robust systems, and monitoring and evaluation. Stakeholders involvement in budget execution is vital thus improvement in the overall budget implementation.

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Nyongesa (2017) conducted a study the effects of financial management practices on financial performance of insurance companies in Kenya. Questionnaires were used to collect primary data derived from a sample 282 senior and middle level managers of all 49 licensed insurance companies operating in Kenya. A total of 221 questionnaires were properly filled and returned thus representing a 78% successful response rate. Data was analyzed using SPSS 20 presented descriptively using tables and charts. The findings of the study revealed that an improvement in working capital management leads to an improvement in the financial performance of insurance companies. Further the study established that the joint effect of corporate governance, capital budgeting techniques, capital structure decisions, claims management policies and working capital management is greater than the individual effect of financial management practices on financial performance of insurance companies in Kenya.

Barus (2018) carried out a research on the effects of internal factors on the financial performance of deposit taking savings and credit societies in Kenya. The study sought to establish the effects of liquidity, management efficiency, earnings ability, asset quality and capital adequacy on the financial performance of deposit taking savings and credit societies in Kenya. With a population of 83, a census method was adopted. The findings of the study established that capital adequacy, earnings ability and asset quality have a positive influence on financial performance while Management efficiency has no statistical significance on financial performance of savings and credit societies. Further, the research concluded that an improvement in liquidity by 1 unit would lead to an improvement in the financial performance of SACCOs by 0.0012 units.

Lukorito, Muturi & Nyangau (2014) carried out a study determined the effect of internal factors on profitability of commercial banks in Kenya particularly the banks liquidity. The study employed a descriptive research design incorporating panel data. All the 43 Commercial banks in Kenya formed the population and a census was done over a period of 5 years from 2009 to 2013 due to availability of data. The study used secondary data obtained from the annual published financial statements which were analyzed using descriptive and inferential statistics. Internal factor was Liquidity, while Profitability was measured using ROA ratios. The findings of the study showed that all the variables, liquidity, has statistically significant and positive relationship with banks' profitability.

Jagongo and Makori (2013) analyzed the influence of working capital management on the financial performance of manufacturing and construction firms listed on the Nairobi securities exchange (NSE). The findings of the study revealed that there was a negative correlation between number of day's accounts receivable and cash conversion cycle and financial performance. The study also established a positive relationship between the number of days of inventory and number of day's payable and profitability. Moreover, the financial leverage, sales growth, current ratio and firm size also had significant effects on the firm's profitability.

Gweyi (2018) carried a study on the influence of financial risk on the financial performance of deposit taking savings and credit cooperative societies in Kenya. The study used a descriptive research design and adopted a census survey to in collection of data from 164 licensed deposit taking SACCOS in Kenya. The population consisted of Teacher based, Government based, Farmer based, Private Institution based, and Community based SACCOSs. The researcher used secondary data which was computed using spreadsheets and analyzed using regression equations with the help of STATA version 13. The findings of the study revealed that Operational risk, Credit risk, Liquidity risk, and Interest rate risk have a significant influence on the financial performance of deposit taking SACCOs in Kenya.

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METHODOLOGY

The study employed correlational research and employed survey methods (Cooper & Schindler, 2013). The design fitted the study which aimed at determining the relationships between variables that is internal financial factors and financial performance of EPZ firms. The target population of this study was all the 24 firms in Mombasa County licensed by the Export Processing Zone Authority as at June 2019. The study focused on finance managers, operations managers and CEOs of the EPZ firms. Stratified random sampling method was used to select relevant respondents from the target EPZs. Structured questionnaires were used as the principal instruments to collect primary data from the selected management staff of EPZs. This study used descriptive statistics and regression analysis in the analysis of data. Once the data was collected was cross-checked and verified for errors, completeness and consistency. It was coded, entered and analysed using the Statistical Package for Social Sciences (SPSS 25). Pearson Correlation and multiple linear regression analysis were computed to determine the statistical relationship between the independent and dependent variables (Kothari, 2014). Thus, the multiple regression model used in the study was:

$$Y = \beta_{\Theta} + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where:

Y = Dependent Variable (Financial Performance)

X_1 = Liquidity

X_2= Capital adequacy

X_3= Budgeting

X_4= Asset quality

β_{Θ} =Constant

ε = Error Term

β_1- β_4 Regression coefficient for each independent variable

RESULTS AND DISCUSSIONS

Descriptive Analysis

The descriptive statistics for all the study variables were generated. The statistics included the mean, range (min and max) and the standard deviation.

Liquidity

With a view to establish the effect of Liquidity on financial performance, the study sought the views of respondents on the extent to which the given aspects of Liquidity as indicated by their level of agreement. A Likert scale data was collected rating the extent of agreement in a scale of 1 to 5 where 1 is the strongly disagree whereas 5 is the strongly agree indicator. The mean score for each item was calculated and the findings were shown in Table 1.

Table 1: Liquidity

Liquidity	N	Min	Max	Mean	Std. Deviation
Inventory turnover rate is high in our organization	60	2	5	4.34	.642
The accounts payable are settled late in the period stipulated	60	1	5	4.04	.581
Accounts receivable are pursued early by the firm before the stipulated time	60	2	5	4.45	.333
The firm has working capital management policy which is dynamic	60	1	4	4.20	.435

Source; Researcher (2020)

From Table 1 above, the respondents agreed that inventory turnover rate is high in most of the EPZ firms as indicated by a mean of 4.34 and standard deviation of 0.642. The respondents further agreed that the accounts payable are settled late in the period stipulated by the individual EPZ firm as shown by a mean of 4.04 with a standard deviation of .581. Findings also showed that accounts receivable are pursued early by the firm before the stipulated time (mean = 4.15; std. dev. = .333). Furthermore, respondents agreed that the firm has working capital management policy which is

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dynamic as indicated by a mean of 4.20 and a standard deviation of .435. The average mean for responses on liquidity was 4.2575 implying that the majority of the respondents agreed with the statements on liquidity. The findings agreed with Jagongo and Makori (2013) who analyzed the influence of working capital management on the financial performance of manufacturing and construction firms listed on the Nairobi securities exchange (NSE) and established existence of positive relationship between the number of days of inventory and number of day's payable and profitability.

Capital Adequacy

The study sought to investigate the effect of capital adequacy on financial performance, Table 2 presented the results of the data that was collected through the Likert scale measuring the level of agreement of the respondents with respect to the given aspects of capital adequacy.

Table 2: Capital Adequacy

	N	Min	Max	Mean	Std. Deviation
The firm's capital structure follows the policies set by the organization	60	2	5	4.13	.844
The firms' asset size is increasing yearly as the firms' capital increase	60	1	5	4.39	.275
The cash flows are sufficient to support firm operations	60	2	5	4.35	.339
The firm has high leverage ratio to support its operations	60	1	4	4.04	.369

Source; Researcher (2020)

As shown in the Table 2, the respondents agreed that the EPZ firms' capital structure follows the policies set by the organization as indicated by a mean of 4.13 and standard deviation of 0.844. Majority of the respondents agreed that the EPZ firms' asset size is increasing yearly as the firms' capital increase as shown by a mean of 4.39 and a standard deviation of 0.275. Further, the respondents concurred that the cash flows are sufficient to support firm operations (mean=4.35). Furthermore, the respondents acknowledged that the EPZ firm have a high leverage ratio to support its operations as indicated by a mean of 4.04 with a standard deviation of 0.369. The average mean for responses on Capital adequacy was 4.2275 implying that majority of the respondents agreed with the statements on Capital adequacy. The findings were corroborated by Barus (2018) who carried out a research on the influence of internal factors on the financial performance of deposit taking savings and credit societies in Kenya and found out that capital adequacy affects financial performance of a firm.

Budgeting

The study sought to determine the effect of budgeting on financial performance. The results are presented in Table 3.

Table 3: Budgeting

	N	Min	Max	Mean	Std. Deviation
The budgeting process is participatory in my firm	60	2	5	4.12	.586
Proper cash budgeting ensures that the firm always has a healthy cash position	60	1	5	4.35	.369
The firm formulates workable and achievable budgets	60	2	5	4.21	.473
Budgeting leads to better financial planning of my firm	60	1	4	4.19	.638

Source; Researcher (2020)

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As shown in the Table 3, the respondents agreed that the budgeting process is participatory in my firm as indicated by a mean of 4.12 with a standard deviation of 0.586. Further respondents agreed that proper cash budgeting ensures that the firm always has a healthy cash position as indicated by a mean of 4.35 with a standard deviation of 0.369. Respondents also agreed that the firm formulates workable and achievable budgets as indicated by a mean of 4.21 and standard deviation of 0.473. Furthermore, respondents agreed that budgeting leads to better financial planning of my firm as indicated by a mean of 4.19 and standard deviation of 0.638. The average mean for responses on budgeting was 4.2175 implying that majority of the respondents agreed with the statements on budgeting. The findings agree with Nyongesa (2017) who conducted a study the effects of financial management practices on financial performance of insurance companies in Kenya and established that budgeting techniques affect financial management of firms.

Asset Quality

The study sought to examine the effect of asset quality on financial performance of EPZ firms. The descriptive results on asset quality were presented in Table 4.

Table 4: Asset Quality

	N	Min	Max	Mean	Std. Deviation
The fixed and non-current assets held by EPZ firm have risk which is well mitigated	60	2	5	4.35	.369
The EPZ firm has insured its assets against risk	60	1	5	4.11	.558
The assets of the EPZ firm have high returns relative to assets' risk	60	2	5	4.12	.386
The EPZ firm has a mechanism to control asset quality of the firm	60	1	4	3.80	.648

Source; Researcher (2020)

Findings presented in Table 4 showed that the fixed and non-current assets held by EPZ firm had risks which were well mitigated as indicated by a mean of 4.35 and standard deviation of 0.369. Findings further show that the EPZ firm has insured its assets against risk as indicated by a mean of 4.11 and standard deviation of 0.558. The findings also show that respondents agreed that the assets of the EPZ firm have high returns relative to assets' risk (mean = 4.12; std. dev. = .386). Finally, respondents agreed that the EPZ firm has a mechanism to control asset quality of the firm (mean = 3.80; std. dev. = .648). The average mean for responses on asset quality was 4.095 implying that majority of the respondents agreed with the statements on asset quality. The findings agree with study by Barus (2018) carried out a research on the effects of internal factors on the financial performance of deposit taking savings and credit societies in Kenya and established that asset quality affect financial performance of deposit taking savings and credit societies in Kenya.

Financial Performance of EPZ Firms

The study descriptive results on financial performance were as presented in table 5. The findings were on means and standard deviation showing the extent of the respondents' agreement on different aspects of financial performance.

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Table 5: Financial Performance

	N	Min	Max	Mean	Std. Deviation
Our firm has experienced an increase in net profits over the last 5 years	60	2	5	4.46	.219
There has been an increase in Return on Equity over the last 5 years	60	1	5	4.22	.442
There has been an steady increase in assets over the last 5 years	60	2	5	4.13	.385

Source; Researcher (2020)

According to the findings in table 5, most of respondents agreed that EPZ firm has experienced an increase in net profits over the last 5 years as indicated by a mean of 4.46 and standard deviation of 0.219. The respondents further agreed that there has been an increase in Return on Equity over the last 5 years as indicated by a mean of 4.22. Furthermore, respondents agreed that there has been steady increase in assets over the last 5 years as indicated by a mean of 4.13 and standard deviation of 0.385. The average mean for responses of financial performance was 4.27 implying that majority of the respondents agreed eith the statements on financial performance. The findings agree with the study carried by Barus (2018) on the influence of internal factors on the financial performance of deposit taking savings and credit societies in Kenya which concluded that profitability is an effective measure of financial performance of a firm.

Correlation Analysis

The study used Pearson correlation to identify the strength and direction of linear relationship between the study variables. The results were shown 6.

Table 6: Pearson correlation coefficient

		Liquidity	Capital adequacy	Budgeting	Asset quality	Financial performance
Liquidity	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	60				
Capital adequacy	Pearson Correlation	.679**	1			
	Sig. (2-tailed)	.000				
	N	60		60		
Budgeting	Pearson Correlation	.605**	.716**	1		
	Sig. (2-tailed)	.000	.000			
	N	60	60		60	
Asset quality	Pearson Correlation	.609**	.499**	.518**	1	
	Sig. (2-tailed)	.000	.000	.000		
	N	60	60	60		60
Financial performance	Pearson Correlation	.552**	.561**	.586**	.338	1
	Sig. (2-tailed)	.000	.000	.000	.042	

**. Correlation is significant at the 0.01 level (2-tailed).

Source; Researcher (2020)

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Table 6 indicated that there was a moderate positive significant correlation of (r=0.552, P=0.000) between Liquidity and financial performance of EPZ firms. Further, correlation results showed the relationship between capital adequacy and financial performance to be positively moderate and significant (r=0.561, P=0.000) and correlation between budgeting and financial performance was shown to be moderately positive and significant (r=0.586, P=0.000). Finally, the correlation between asset quality and financial performance of EPZ firms was found to be positive and significant (r=0.338, P=0.042). All the variables were moderately correlated.

Regression Analysis

Test of significance was carried out for all variables studied using t-test at 95% level of significance. Using the P-value approach, the coefficients with a p-value less than 0.05 was deemed to be statistically significant. While those with p-value greater than 0.05 were deemed to be statistically insignificant. The adjusted R square was used to measure the degree of variability of the dependent variable due to the changes in the independent variables.

Model Summary

The results for the model summary were presented in Table 7.

Table 7: Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.727[a]	.529	.518	1.768

a. Predictors: (Constant), Liquidity, Capital adequacy, Budgeting, Asset quality

Source; Researcher (2020)

According to regression results in Table 7, the R^2 was 0.529 indicating that independent variables (Liquidity, Capital adequacy, Budgeting, Asset quality) explained 52.9 per cent variation on financial performance of EPZ firms, while the remaining 47.1% are attributable to other factors not considered in the study.

ANOVA and F-test Results

Analysis of variance was employed to test the overall significance of the regression model. The results were presented in Table 8.

Table 8: Analysis of Variance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	582.755	4	145.689	15.451	.000[b]
	Residual	518.625	55	9.429		
	Total	1101.380	59			

a. Dependent Variable: Financial performance

b. Predictors: (Constant), Liquidity, Capital adequacy, Budgeting, Asset quality

Source; Researcher (2020)

As indicated in Table 8, the significance value in testing the reliability of the model for the relationship between internal financial factors and financial performance of EPZ firms was obtained as 0.000 which is less than 0.05. Therefore, the model is statistically significant in predicting the relationship between internal financial factors and financial performance. The F value calculated is 15.451 indicating a significant model for the relationship as given by the regression coefficients. This showed that the overall model was statistically significant and reliable in explaining the effect of

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the predictor variables on financial performance of EPZ firms in Mombasa.

Multiple Regression Coefficients

The estimates of the regression coefficients, t-statistics and the p-values for the relationship between internal financial factors and financial performance were presented in Table 9.

Table 9: Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	7.032	.903		7.785	.000
	Liquidity	.371	.068	.445	5.500	.000
	Capital adequacy	.133	.062	.182	2.139	.034
	Budgeting	.236	.046	.413	5.171	.000
	Asset quality	.407	.064	.438	6.334	.000

a. Dependent Variable: Financial performance

Source; Researcher (2020)

$Y=7.032 + 0.371X_1 + 0.133X_2 + 0.236X_3 + 0.407X_4$

To determine the effect of internal financial factors on financial performance: Liquidity, Capital adequacy, Budgeting and Asset quality were regressed against financial performance. The resulting coefficients and the corresponding P-values were used to test hypothesis and consequently answer research questions.

The first null hypothesis, H_{01} stated that liquidity has no statistically significant relationship with financial performance on Export Processing Zone Firms in Mombasa County. The results indicated that (β_{01}=0.0.371; $p < 0.05$), hence the H_{01} was rejected leading to the conclusion that the coefficient of liquidity is positive and statistically significant at 5% level of significance and thus liquidity is an important variable that explains financial performance of EPZ firms in Mombasa County. This implies that the EPZ firms are able to pay off their short term obligations with the current assets held by the firms. The results are supported by Jagongo and Makori (2013) who analyzed the influence of working capital management on the financial performance of manufacturing and construction firms listed on the Nairobi securities exchange (NSE) and established existence of positive relationship between the number of days of inventory and number of day's payable and profitability.

The second null hypothesis, H_{02} stated that capital adequacy has no statistically significant relationship with financial performance on Export Processing Zone Firms in Mombasa County. The results indicated that (β_{01}=0.133; $p < 0.05$), hence the H_{02} was rejected leading to the conclusion that the coefficient of Capital Adequacy is statistically significant at 5% level of significance and thus Capital Adequacy is an important variable that explains financial performance of EPZ firms in Mombasa County. The increase in capital adequacy for EPZ firms implies that capital held by the EPZ firms can absorb losses in the event of liquidation. The results agreed with Barus (2018) who carried out a research on the influence of internal factors on the financial performance of deposit taking savings and credit societies in Kenya and found out that capital adequacy affects financial performance of a firm.

The third null hypothesis, H_{03} stated that Budgeting has no statistically significant relationship with financial performance on Export Processing Zone Firms in Mombasa County. The results indicated that (β_{03}=0.236; $p < 0.05$), hence the H_{03} was rejected leading to the conclusion that the coefficient of Budgeting is statistically significant at 5% level of significance and thus Budgeting is an important variable that explains financial performance of EPZ firms in Mombasa County. The

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improved budgeting implies that the EPZ firms can manage their funds prudently. The results were supported by Nyongesa (2017) who conducted a study the effects of financial management practices on financial performance of insurance companies in Kenya and established that budgeting techniques affect financial management of firms.

The fourth null hypothesis, H_{04} stated that Asset Quality has no statistically significant relationship with financial performance on Export Processing Zone Firms in Mombasa County. The results indicated that (β_{04}=0.407; $p < 0.05$), hence the H_{04} was rejected leading to the conclusion that the coefficient of Asset Quality is statistically significant at 5% level of significance and thus Asset Quality is an important variable that explains financial performance of EPZ firms in Mombasa County. An increase in EPZ firms asset quality means that the firms can easily access funds from the financial institutions. The results agree with Barus (2018) carried out a research on the effects of internal factors on the financial performance of deposit taking savings and credit societies in Kenya and established that asset quality affect financial performance of deposit taking savings and credit societies in Kenya.

Based on the standardized coefficients (beta), it can be concluded that: Liquidity has the strongest effect on financial performance among the study variables followed by Capital Adequacy and Budgeting respectively. Asset Quality has the least effect.

CONCLUSIONS AND RECOMMENDATIONS

On Liquidity, the EPZ firms should maintain optimum liquidity levels to improve financial performance. This implied that an improvement on liquidity will lead to an improvement in the financial performance of EPZ firms in Mombasa County.

The study concluded that capital adequacy leads to improved financial performance of EPZ firms. This implies that an improvement on Capital adequacy would lead to a positive improvement in the financial performance of EPZ firms in Mombasa County.

The study concluded that Budgeting improves financial performance of EPZ firms. This can be explained by the regression results which denote a positive and statistical significant effect of budgeting on financial performance. This implies that an improvement on Budgeting will lead to an improvement in the financial performance of EPZ firms in Mombasa County.

The results provided ample evidence to justify the existence of the relationship between Asset quality and financial performance of EPZ firms in Mombasa County. The regression results also provide enough statistical evidence to prove this positive relationship between Asset quality and financial performance. As per the results it is therefore correct to conclude that an improvement in Asset quality will lead to a positive improvement in financial performance of EPZ firms in Mombasa County.

The study recommended that firms should improve inventory turnover rate so as to improve its overall financial performance. The firms should always settle accounts payable late in the period stipulated by the firms so as to commit the funds to income generating activities. However, the management of EPZ firms should make a custom of following accounts receivable much earlier so as to utilize the funds thus enable firm performance. The firms should draw a dynamic working capital management policy to ensure tight control of firms' Liquidity to enable smooth flow of operations.

The study recommended that the EPZ firms should set policies to govern their capital structure decisions. Also, the EPZ firms should work towards increasing asset size relative to capital base increase and cash flows of the firms should be enhanced so as to improve the EPZ firms' financial performance. The issue of leverage in the firms should be adequately addressed by the management of the firms since it was found to affect overall financial performance of the firms.

The study recommended that budgeting process should be a participatory activity so as to

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incorporate the views of internal customers in budgeting process. The study recommends that the EPZ firms should ensure proper cash budgeting so as to enable the firms to always have a healthy cash position and the EPZ firms should formulate workable and achievable budgets which consequently translate in to better financial planning of the firm.

The study recommended that the fixed and non-current assets held by EPZ firm should be properly insured against risks and the management of the firms should protect the value of the firms' assets so as to improve the assets quality in the long run. Also, the EPZ firms' management should come up with a mechanism to control the quality of the assets held by the firms.

Areas of Further Research

This study focused on the relationship between internal financial factors and financial performance of Export Processing Zone firms in Mombasa. Since only 52.9% of results was explained by the independent variables in this study, it was recommended that a study be carried out on other factors that affect EPZ firms' performance. For instance, a study could be carried out to determine how external financial factors affect performance of EPZ firms in order to pick out other variables not covered in the current study.

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