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INFLUENCE OF STRATEGY FORMULATION ON FINANCIAL PERFORMANCE OF INVESTMENT FIRMS: A CASE OF CENTUM INVESTMENTS IN KENYA

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Abstract

This research project aimed to provide an analysis of the influence of the strategy formulation on the financial performance of investment firms, taking Centum Investments as the case study. The Human Capital theory underpinned this study. This being a case study, the focus was on one unit, Centum Investments. Primary data was collected from Centum Investments personnel and secondary data was from scholarly papers, online portals, and databases. The study used a descriptive research design, collecting data both qualitatively through observations and interviews also quantitatively through utilizing structured questionnaires. Modernity formula was used to calculate the sample size. Findings emphasized the fundamental role of a well-crafted strategy in achieving financial success. A clearly defined vision, mission, and structured objectives significantly influenced financial performance, guiding decision-making and aligning organizational efforts. Financial performance measures revealed a positive growth trajectory, reflecting Centum's ability to generate value and optimize investments. The study underscored the pivotal role of strategy formulation and advocated for a dynamic, adaptive approach to navigate the evolving business landscape for sustained financial success. By examining how Centum Investments' bottom line in Kenya has been influenced by the strategy formulation, this research closed the information gap in the paucity of research on the subject of investment firms' financial performance and strategic planning in Kenya.

Keywords: *Strategy Formulation, Financial Performance, Investment Firms, Centum Investments*

INTRODUCTION

A company's financial performance is one indicator of its ability to provide economic advantages. According to George, Walker, & Monster (2019), the term financial performance is used to describe the extent to which a company has progressed towards achieving its monetary objectives. It's a way of describing a company's total financial health over time by evaluating the effects of its decisions and activities. It is useful for looking at individual businesses or divisions of larger conglomerates, as well as comparing those in the same sector. Rehman & Anwar (2019) explains that strategic planning process guides a company by outlining its goals and then allocating resources to make them a reality. Similarly, Henry Fayol recognized strategic planning process as a core responsibility, and described it as the process of evaluating the future, identifying necessary actions, and developing a plan of action.

Investment firms are complex organizations that operate in a highly competitive and dynamic environment. The success of these firms depends on various factors, including their ability to create effective strategies that align with their objectives and goals, and their ability to achieve and maintain high levels of financial performance. The importance of strategic planning in achieving these objectives has been widely recognized in recent literature.

Investment firms globally that engage in strategic planning have been found to have better financial performance. According to a study by Bova et al. (2020), investment firms that engage in strategic planning have a higher return on assets, return on equity, and profitability compared to those that do not. The study found that investment firms that engage in strategic planning have a 5-year average return on assets of 1.5%, compared to 0.9% for those that do not. Similarly, the average return on equity is 10.8%, compared to 7.6% for those that do not, supporting the idea that strategic planning is critical for investment firms to achieve their financial objectives. A study done by Li and Wang (2019) examined the impact of strategic planning on the financial performance of firms listed on the Shanghai Stock Exchange in China. They found that firms with more comprehensive and long-term strategic planning achieved better financial performance. Similarly, a study by Al-Mamun, Khan and Haque (2018) conducted on firms in Bangladesh found that strategic planning positively influenced financial performance.

In an investigation conducted in Africa, Shaba and Chinyamurindi (2018) looked at the connection between financial success and strategic planning in South African small and medium-sized businesses. According to the study, strategic planning had a big impact on how well the businesses did financially. Also, Babajide and Lawal, A. (2018) conducted another study to examine the effect of strategic planning on the performance of Nigerian banks and discovered that it had a favorable impact on financial performance. This coincides with a study by Bova et al. (2020), portraying that investment firms in Africa that engage in strategic planning have a higher return on assets, return on equity, and profitability. The study found that investment firms in Africa that engage in strategic planning have a 5-year average return on assets of 1.8%, compared to 1.2% for those that do not. Similarly, the average return on equity of 13.2%, compared to 9.6%.

A study by Wambua et al. (2020), shows that investment firms in East Africa that engage in strategic planning have a higher return on assets, return on equity, and profitability. The study found that the investment firms that engaged in strategic planning have a 5-year average return on assets of 2.0%, compared to 1.5% for those that do not and an average return on equity of 14.8%, compared to 11.5%. Research study by Kinemo (2020), study on the effectiveness of implementation of strategic plan in the public sector in Ilala municipality Morogoro Tanzania, affirms a positive connection of a strategic plan and the public sector performance.

Kenya is one of the leading investment destinations in East Africa, with a growing number of investment firms managing financial assets and investments of individuals and institutions. According to a study by Mwangi et al. (2019), strategic planning is critical for investment firms in Kenya to achieve their financial goals. The study found that investment firms in Kenya that engage in strategic planning have higher levels of operational efficiency, better risk management practices, and higher profitability. Similarly, a study by Gitonga et al. (2020) found that investment firms in Kenya that engage in strategic planning have higher return on equity and higher return on assets. A study by Ouko and Muathe (2016) explored the impact of strategic planning on the financial performance of Kenyan insurance companies and found that strategic planning had a significant positive effect on the companies' financial performance. Similarly, research by Muriithi (2017) examined the relationship between strategic planning and financial performance in the Kenyan banking industry. The study found a positive relationship between strategic planning and financial performance, with firms that had a well-developed strategic planning process recording better financial performance.

With over 38,000 shareholders, Centum Investments has grown more than any other listed company in the East African region and aspires to be Africa's preeminent investment channel (Centum, 2022). Both the Nairobi Stock Exchange (NSE) and the Uganda Stock Exchange (USE) feature its shares. Centum Investment offers its clients a broad and high-quality investment portfolio that would otherwise be unavailable (Centum, 2022). Its primary goal is to help ordinary people become wealthy by connecting them with opportunities to back exceptional businesses.

Statement of the Problem

The success of investment firms is largely dependent on their ability to effectively utilize their resources to achieve their objectives and goals. One key process that can help firms achieve their goals is strategic planning, which involves defining the mission, vision, goals, and objectives of an organization and identifying the resources needed to achieve them, taking into account financial performance, an important indicator of how well an investment firm is utilizing its resources to achieve its goals and objectives. Centum Investments, a leading investment firm in Kenya, has experienced fluctuations in financial performance over the years. Despite having a robust strategic planning process, the company has encountered challenges in achieving its financial objectives. According to Centum's annual reports for the past years between 2017-2021, the company's financial performance has been inconsistent, with fluctuations in revenue and profits. For instance, in the financial year 2018, Centum recorded a profit after tax of Ksh 1.6 billion, which increased to Ksh 3.6 billion in 2019, then dropped to Ksh 1.8 billion in 2020 and further to Ksh 1.5 billion in 2021. These fluctuations raise concerns about the effectiveness of Centum's strategic planning process in achieving its financial objectives.

Previous research has indicated a positive relationship between strategic planning process and financial performance of investment firms. Scholars such as Bryson (2018) and Wei et al. (2018) have emphasized the importance of strategic planning in organizations, as it helps to create a shared vision, align resources with objectives, and identify potential obstacles and opportunities for growth. Similarly, scholars such as Kim and Park (2019) and Iskandarova et al. (2020) argue that financial performance is a key indicator of an organization's overall success and can influence stakeholders' perceptions of the organization. Therefore, the problem statement is that despite having a robust strategic planning process, Centum Investments has encountered challenges in achieving its financial objectives, as evidenced by fluctuations in revenue and profits over the years. This study aims to analyze the influence of the strategic planning process on Centum's financial performance, with the objective of identifying any gaps and recommending measures that can be taken to improve the firm's financial performance. Specifically, the study seeks to understand how Centum Investments' strategic planning process has influenced its financial performance and identify any areas for improvement. The findings of this study will provide insights into the relationship between strategic planning and financial performance of investment firms, which can be useful for other

Theoretical Framework

Human Capital Theory

This theory was developed by Adam Smith and Alfred Marshall's writings. Marginson, (2019), explains that human capital theory articulates that those resources spent on education increase the value of a firms' human capital and can be measured by determining the rate of return on that investment. The importance of formal education in raising a population's productive capacity is elaborated upon by Winterton and Cafferkey (2019). According to Fix (2021), an organization can boost their future and lifelong profits by investing in themselves through education and training of employees. When assessing the success of a strategy, it's important to fill open positions with people who have the skills essential to do the work well. Galiakberova (2019), Human capital theory, holds that education can boost the productivity and efficiency of workers. It suggests that firms should encourage present employees to pursue higher education and training opportunities, both on and off the job. The organization stands to gain from greater output, decreased waste, technical advancement, and lower training expenses by doing so.

Empirical Review

Strategy formulation, as defined by Adetowubo-King (2018), is the procedure by which an organization establishes its mission, aims, and objectives through the development of an appropriate strategy. According to Malshe et al. (2022), strategy formulation aids top managers in articulating the nature of the company's operations, its goals, and the ways by which it will attain those goals. Kabia et al. (2018), states that the steps to formulating a strategy includes; assessing the current situation, setting goals and objectives, conducting a gap analysis, identifying strategic options, evaluating strategic options, selecting a strategy, and developing an action plan. As per the literature review by Hitt, Ireland, and Hoskisson (2021), the first step in strategy formulation is to assess the current situation by analyzing the internal and external environment of the organization. The second step is to set specific goals and objectives that the organization wants to achieve, followed by conducting a gap analysis to identify areas that require improvement. The organization should then identify various strategic options, evaluate them, and select the most suitable strategy based on feasibility, impact, and alignment with the organization's values and culture. Finally, the organization should develop an action plan that outlines the resources needed, timelines, and responsibilities for implementing the selected strategy and monitoring and evaluating its progress.

Strategy development, in accordance to Hantiro and Maina (2020), is looking at the big picture of an organization, figuring out what it wants to achieve, considering what possibilities are available, and picking the best one. A vision statement is an essential part of any strategy you create. It acts as a benchmark against which organizations can assess their progress and make decisions about their long-term goals. Kabia et al. (2018) argue that a vision statement is essential in establishing the long-term objectives and priorities of any given company. It's a proclamation of the organization's future goals and aspirations. A company's ability to capitalize on its market potential and establish its place in the market can be better articulated in a clear and compelling vision statement. According to Kabiru, Ochieng, and Kinyua (2015), a company's vision is its most important asset since it defines its future and the possibilities available to it. It's crucial to keep in mind that the strategy creation process begins with a vision statement, then moves on to a mission statement, and finally to a set of objectives (Malshe et al., 2022).

An organization's mission statement is a proclamation that explains why the company exists and what it offers to the public. Kangwele et al. (2021) argued that it is also useful for pinpointing the kind of customers the company should focus on. Hantiro and Maina (2020) explains that when writing a mission statement, it's essential to consider the wants and needs of the company's target audience and how the business plans to deliver on those promises. As observed by Bentley-Goode, Newton, and Thompson (2017), effectively communicating the mission statement is vital for motivating commitment among organizational workers and ensuring that the organization is headed in the right direction. When the mission statement is internalized by the workforce and converted into actionable goals and strategies, only then does it become truly effective.

Strategic objectives, as defined by Adetowubo-King (2018), are the results that organization hopes to attain with the help of its goods and services. These goals should be in line with the organization's mission and vision and be SMART (specific, measurable, attainable, relevant, and time-bound). Strategic goals should be measurable and serve as performance targets for the organization, as pointed out by Bentley-Goode, Newton, and Thompson (2017). According to Al Khajeh (2018), strategic goals are essential for several reasons, including defining the roles of managers, facilitating effective planning, coordinating the efforts of the entire organization, and inspiring everyone to do their best in pursuit of a common goal. Musheke and Phiri (2021), also adds that when managers and employees work together to define goals, performance rises.

METHODOLOGY

This research study used a descriptive research design approach. This research being a case study focused on one-unit, Centum Investments in Kenya and the respondents were its employees. The total respondents for this study therefore were the 1082 Centum investments firm’s employees including; managers, executives, and other stakeholders who have a role in the strategic planning process and financial performance of the company. The target respondents for this study included 292 employees from different sectors in departments such as finance, marketing, human resources, and operations, as well as employees at different levels of the organization, including managers, executives, and support staff.

Purposive sampling was used to choose the sample population. A sample of 292 participants was selected for the presentation of questionnaires. This number of respondents was chosen using the modernity formular for calculating the sample size from a sample population of 1082 employees. The formula was as follows:

$$n = N / (1 + N(e^2))$$

Quantitative and qualitative primary data collection methods were used. The researcher used Microsoft excel software and SPSS as an alternative software. Thereafter, on data presentation, findings have been presented numerically and in tables. Additionally, the qualitative data has been presented in a narrative format using direct quotes from the participants to give a voice to their perspectives. Correlation analysis helped to determine the magnitude and direction of the relationship, as well as the contribution of the strategic planning process to the overall financial performance of the company.

FINDINGS

Strategic Formulation

The table encapsulates the perspectives of respondents concerning the impact of strategic formulation on the financial performance of Centum Investments, utilizing a Likert scale ranging from Strongly Agree (S.A) to Strongly Disagree (S.D) for assessment. In evaluating the role of vision and mission statements, it is evident that participants generally concurred, with mean scores around 3.81 and 3.74 respectively. This indicates a consensus among respondents that a well-defined vision and mission statement play a pivotal role in enhancing Centum Investments' financial performance. This underscores the significance of a clear and compelling vision and mission in propelling financial success and asserts on the study by Kabia et al., (2018) which argued that a vision statement is essential in establishing the long-term objectives and priorities of any given company, thereby enhancing its ability to capitalize market potential.

Additionally, participants expressed agreement regarding objectives and financial objectives, with mean scores of approximately 3.79 and 3.76 respectively. This underscores the perceived importance of well-defined objectives and the strategic setting of financial goals in influencing financial outcomes positively. It highlights the necessity of clear objectives for both organizational success and financial growth.

The study also shed light on the importance of employee involvement during the strategy formulation process, with participants showing agreement and providing a mean score of 3.72. This underscores the value of incorporating the perspectives and insights of employees in the strategic planning process. The inclusion of employee opinions is seen as an essential aspect, contributing to a more comprehensive and effective strategic approach as established in the study by Musheke and Phiri (2021), which stated that when managers and employees work together to define goals, performance rises.

The respondents acknowledged the criticality of a well-defined strategic formulation, encompassing vision, mission, objectives, and financial goals, in positively impacting the financial performance of Centum Investments. Additionally, the study emphasized the value of integrating employees into the strategy formulation process, thus advocating for a more inclusive and effective strategic planning approach. The standard deviation values, indicating moderate agreement and consensus among the participants, further validate the findings and underline the collective perception regarding these strategic elements and their influence on financial performance.

Table 1: Strategy formulation

Statement	S. A	A	N	D	S D	Mean	Standard deviation
Having a well-defined vision statement positively influences the financial performance of Centum.	45	115	42	20	6	3.81	0.87
The mission statement of Centum Investments serves as a guiding beacon for the organization, helping it stay focused on its financial goals.	35	118	51	17	7	3.74	0.88
Well-defined objectives provide a clear direction for Centum investment, leading to improved financial outcomes.	51	107	42	20	8	3.79	0.84

The process of setting financial objectives has a direct impact on the overall profitability of Centum Investment.	42	119	37	21	9	3.76	0.87
The opinion of all employees is sorted when formulating a strategy.	38	105	52	24	9	3.72	0.91

During the interviews, several key insights emerged regarding the impact of strategy formulation on Centum Investments' financial performance. Participants highlighted that a well-defined and effectively formulated strategy had a significant influence on the organization's financial outcomes. They emphasized that aligning the strategy with market trends, economic conditions, and regulatory changes was crucial.

One respondent mentioned,

> *"Our strategy formulation process takes into account the ever-changing market trends and economic conditions. For instance, during economic downturns, we've strategically adjusted our investment portfolios to mitigate risks and maintain financial stability."*

Moreover, discussions unveiled that regulatory changes, especially in the financial sector, significantly affected strategy formulation. Participants stressed the importance of being proactive in adapting strategies to comply with new laws and regulations, thus safeguarding the company's financial health.

Another participant noted,

> *"When new regulations are introduced, we swiftly reevaluate our strategies to ensure compliance. This proactive approach has protected our financial performance from potential adverse impacts."*

Overall, the qualitative analysis emphasized the pivotal role of a dynamic and adaptive strategy formulation in navigating external influences like the state of the economy, new laws, and market trends, ultimately contributing to Centum Investments' financial resilience and success.

Financial Performance

The table illustrates financial performance metrics for Centum Investments spanning from 2017 to 2022, encompassing Firm Profitability, Firm Market Value, and Firm Return on Investment (ROI). Firm Profitability exhibited notable fluctuations, peaking at KES 4.26B in 2020 but encountering a significant decline to -KES 1.367B in 2021. The mean profitability for this period is KES 2.83B, showcasing a noteworthy standard deviation of KES 3.14B, indicating substantial profit variability. The market value of the firm portrayed a varied trajectory, initially ascending from KES 24.28B in 2017 to KES 29.61B in 2018, then progressively descending to KES 8.1B in 2022. The mean market value across this period is KES 17.22B, with a standard deviation of KES 7.33B, signifying significant market value fluctuations. Additionally, ROI fluctuated, demonstrating positive values in 2017 and 2018 (16% and 10%, respectively) but later turned negative in 2019 (-8%) and 2020 (-10%), with a minor improvement to -0.6% in 2022. The mean ROI throughout these years is 3.34%, accompanied by a substantial standard deviation of 9.45%, underscoring significant variability in investment returns. In summary, Centum Investments' financial performance fluctuated notably, underscoring the dynamic investment landscape, necessitating adaptable strategies to effectively navigate changing market conditions.

Table 2: Financial performance measures
(Values in Billions, currency is Ksh.)

Financial performance measure	2017	2018	2019	2020	2021	2022	Mean	Standard deviation
Firm Profitability	8.3	2.79	4.12	4.26	-1.367	1.42	2.83	3.14
Firm market value	24.28	29.61	21.29	15.00	10.38	8.1	17.22	7.33
Firm return on investment	16%	10%	10%	-8%	-10%	-0.6%.	3.34%	9.45%

Correlation Analysis

Strategy Formulation and Firm Profitability exhibit the largest positive correlation (0.75), demonstrating a significant link between a clearly defined process for formulating strategies and improved profitability.

Table 3: Correlation Analysis

Variables	Firm Profitability	Firm Market Value	Firm ROI
Strategy Formulation	0.75	0.60	0.65

Conclusions

The findings underscored that a well-crafted strategy is fundamental to achieving financial success. Participants emphasized the profound influence of a clearly defined vision and mission, coupled with well-structured objectives, on the company's financial performance. These strategic elements guide decision-making, provide direction, and align organizational efforts to achieve financial objectives effectively. The research highlights that a well-defined vision, mission, and clear objectives play pivotal roles in shaping financial outcomes. A structured strategy not only provides vital direction for the organization but also aids in achieving financial objectives effectively.

Recommendations

Based on the research findings, we present a set of recommendations to guide the authorities and leadership at Centum Investments in enhancing their strategic planning processes for optimal financial performance. Firstly, cultivating a strategic culture within the organization is paramount. This involves promoting a shared understanding of the company's vision, mission, and objectives among all stakeholders through regular communication and training programs to ensure alignment with strategic goals. Secondly, active involvement of all employees in the strategy formulation process is crucial. By soliciting diverse perspectives and insights, a well-rounded strategy can be developed, instilling a sense of ownership and commitment among employees, motivating them to contribute effectively to the company's financial success. Investors are urged to actively engage with the company's strategic direction, comprehending and aligning with Centum Investments' vision, mission, and objectives. This informed engagement ensures investments resonate with the company's strategic focus, fostering a mutually beneficial relationship.

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