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Analysis of Effects of Short Term Debt Planning on Financial Efficiency. A Survey of Automobile Firms in Kitale Town

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Abstract
The purpose of this study was to evaluate the effect of appropriate inventory on financial efficiency of automobile firms in Kitale town. There are all sorts of issues one need to consider such as taxation, legislation, protecting the firm'swealth and assets, associated costs and the inherent risks of investment. When undertaking a financial plan it is important to understand how these issues will impact and what firms'management should expect over time. The study provides information and findings in relation to effects of using short term debts and how those effects affect the financial efficiency of automobile firms. It clearly depicts the benefits of the proper short term debt planning and its impact on financial efficiency of a firm, associated costs and risks of short term debts. If interest rates rise, one will have the security of knowing the interest rate on the fixed portion of the loan and the regular repayments will not change until the end of the fixed period and what effect this will have on the firm's financial efficiency. In recent years, study on capital structure concerns the firms that adopt conservative financial policies. The study construct a two-period model that examines the relationship between the current amount of short term debts and the expectation of the future competition in the product market which require firms to maintain an appropriate level of stock, increase their investment, and maintain a positive image in terms of borrowing funds. This model shows that, the severer the expectation of the future competition, the smaller the current amount of short term debt, but no other study has gone further to find out how firms should plan short term debts to achieve a high financial efficiency. Capital structure theories which include M&M theory, trade off theory and the pecking order theory together with the short term debt theory (matching principle) guided and informed my study. Primary data was collected by the use of questionnaires on a drop and pick later basis. The data was further analyzed and presented by use of tables and graphs. Data was analyzed using regression analysis. The finding will be of significance for investors and policy marker which will serve as a guiding for better investment and financing decision. Results from the analysis of variance showed that the overall model was significant, the null hypothesis was rejected for variable and the conclusion was that appropriate inventory had asignificant influence on financial efficiency. The variable appropriate inventory had a positive correlation which means an increase in the variables will result into an increase in financial efficiency. The results Recommendations were that appropriate inventory should be put in place as per the set guidelines. The study will be of significance toAutomobile and other firms to enable them manage short term debts through the procurement, care and disposition of materials, researchers and scholars will benefit from the study as they will use the findings as a source of information.
Keywords: Appropriate Inventory, Short Term Debt Planning, Financial Efficiency

1.0 Introduction

Short-term debt also called revolving debt is used to fund short-term financial commitments, such as funding payroll and managing regular, recurring expenses like utilities and rent. . According to the matching principle of finance, short-term assets should be financed with short-term liabilities and long-term assets should be financed with long-term liabilities Short-term assets and liabilities are generally defined to be those items that will be used, liquidated, mature or paid off within one year, (Guin, 2011). A firm's current assets including cash, inventories, accounts receivable, etc. are generally considered short-term assets.Short term planning involves analyzing short term financial flows of a firm as a whole, forecasting the consequences of various investments, financing and dividend decisions and weighting the effects of various alternatives. Short term debt planning is the core of financial management, through planning the firm can realize small and medium investment, maintain an appropriate level of inventory and realize liquidity. The complex nature of business demands that management should place greater emphasis upon financial planning to secure and employ capital resources in the amount and proportion necessary to increase the efficiency of remaining factors of production. Short term debt planning is needed both in dynamic and perfect economic conditions. It helps management to avoid waste by furnishing policies and procedures which make possible a closer co-ordination between the various functions of business (Oye, 2006). Poor cash-flow management is detrimental to any business this negatively affects their financial efficiency raising a red flag hence wanting. Poor short term debt planning has led to reduced investment leading to poor cash-flow and eventually failing of some companies (Xiao, 2014).

It is an important fact that banks, across manycountries and throughout history, have borrowed predominantly via short-term debt. This fact holds across many different tax regimes. Thus, an explanation relying

on the favorable tax treatment of debt cannot be the first-order reason for the predominance of debt. The fact also holds across many different regulatory regimes. For example, during the free banking period of the US in the 19th century, there was no insurance on bank deposits or lender of last resort and yet banks carried high leverage. An explanation that relies on government insurance on bank deposits also cannot be the first-order reason for banks' reliance on short-term debtand references therein, on the history of short-term debt and banking. (Gorton, 2012).

For almost a year and a half the global financial system has been under extraordinary stress that has now decisively spilled over to the global economy more broadly. The proximate cause of the crisis was the turn of the housing cycle in the United States and the associated rise in delinquencies on subprime mortgages, which imposed substantial losses on many financial institutions and shook investor confidence in credit markets. However, although the subprime debacle triggered the crisis, the developments in the U.S. mortgage market were only one aspect of a much larger and more encompassing credit boom whose impact transcended the mortgage market to affect many other forms of credit. Aspects of this broader credit boom included widespread declines in underwriting standards, breakdowns in lending oversight by investors and rating agencies, increased reliance on complex and opaque credit instruments that proved fragile under stress, and unusually low compensation for risk-taking. The abrupt end of the credit boom has had widespread financial and economic ramifications. Financial institutions have seen their capital depleted by losses and write-downs and their balance sheets clogged by complex credit products and other illiquid assets of uncertain value. Rising credit risks and intense risk aversion have pushed credit spreads to unprecedented levels, and markets for securitized assets, except for mortgage securities with government guarantees, have shut down. Heightened systemic risks, falling asset values, and tightening credit have in turn taken a heavy toll on business and consumer confidence and precipitated a sharp slowing in global economic activity. The damage, in terms of lost output, lost jobs, and lost wealth, is already substantial, (Friedman, 2010).

The Kenyan housing finance sector has grown rapidly over recent years in both value of loans and number of loans. The market has now gone through the initial "germination" stage and is preparing to enter its next development phase. Consideration now needs to be given to the requirements for ensuring continued growth. The mortgage market is the third most developed in Sub-Saharan Africa with mortgage assets equivalent to 2.5 per cent of Kenya"s GDP. Only Namibia and South Africa ranks higher, with Botswana just slightly smaller, (Karanja, 2013). Therefore the purpose of the study was to explore the relationship between effects of using short term debt and how these effects affectefficiency in its extra operations that cannot be covered by equity**.**

1.1 Automobile Industry

The industry is a major revenue generator for the country Kenya, and has been accorded due interest over the last couple years. Due to various transformations and several issues in the market place, the sector has currently been undergoing various challenges which have also drastically affected overall sales and company performance. The onset of proposal writing process has rekindled the interest in the industry which has been described as the "the industry of industries" and has over the years gone under and still is undergoing a rapid revolution. This revolution resulted in the emergence of new markets and a rapid growth thereof but with it new challengeshave also emerged. Increasing competition, financing of day to day operation, digitalization, globalization and stiff regulations are some of the challenges currently facing the industry. Company size is no longer a guarantee for success. Measures have to be put in place to ensure that targets are met, clients are satisfied and growth is enhanced without compromising on quality and delivery. The Kenyan automobile industry holds a lot of potential in terms of growth and untapped markets; the realization of optimal is achievable with proper structures in place. According to McKinsey'sreport (2012), organizations that discover innovative methods of value creation may remain competitive and prosperous. With more and more consumers beingbrand conscious and stressing on quality, companies cannot afford to overlookthese factors.(Kalliokuusi, 2013).

The case company operates in one of the most competitive sectors in the Kenyan market and this proposal looks into a way of using short term debts to leverage its operations in order to enable the company remain competitive and deliver favorable financial results, (Kalliokuusi,2013).. This study therefore aimed at trying to find the exact ratio of short term debt a firm can use in its debt structure to ensure its efficient in terms of financial usage to enhance profitability. The current debt structures employed by the company have been in place for a while now and renewing the debt strategies would be apt at this point in time and in the long haul.

1.2 Short Term Debt Planning.

Short-term debt also called revolvingdebt is used to fund short-term financial commitments, such as funding payroll and managing regular, recurringexpenses like utilities and rent.Though these commitments vary widely, they are all considered short-term because money borrowed to pay for them generally takes less than one year to repay. All firms have some sort of short-term debt because there is often a gap between the date one needs to pay for expenses and the times one receives payment from clients. According to the matching principle of finance, short-term assets should be financed with short-term liabilities and long-term assets should be financed with long-term liabilities Short-term assets and liabilities are generally defined to be those items that will be used, liquidated,

mature or paid off within one year, (Guin, 2011). A firm's current assets including cash, inventories, accounts receivable, etc. are generally considered short-term assets.Short term planning involves analyzing short term financial flows of a firm as a whole, forecasting the consequences of various investments, financing and dividend decisions and weighting the effects of various alternatives. Short term debt planning is the core of financial management, through planning the firm can realize small and medium investment, maintain an appropriate level of inventory and realize liquidity. The complex nature of business demands that management should place greater emphasis upon financial planning to secure and employ capital resources in the amount and proportion necessary to increase the efficiency of remaining factors of production. Short term debt planning is needed both in dynamic and perfect economic conditions. It helps management to avoid waste by furnishing policies and procedures which make possible a closer co-ordination between the various functions of business (Oye, 2006). Poor cash-flow management is detrimental to any business this negatively affects their financial efficiency raising a red flag hence wanting. Poor short term debt planning has led to reduced investment leading to poor cash-flow and eventually failing of some companies (Xiao, 2014),There has been issues relatingto poor customer service, complains have been attributed to inappropriate level of inventories,lack ofproper parts available for production, limited resources and old inventory these hasresultedin customerdissatisfaction andoverall poor service to clients, (Ehrhardt & Brigham, 2011). The global financial crisis initiated in August 2007 and intensified in September 2008 in spain after the bankruptcy of Lehman Brothers immersed many of the economies around the world into recession. According to many recent studies Ivashina and charfstein (2010), the origins of the crisis were in the credit boom, caused by the poor level of investment and lack of sufficient short term liquidity to cushion their operations. The immediate implications of this situation were, above all, a loss of solvency of the financial sector, a dramatic fall of prices across most asset classes and commodities and a substantial increase of the cost of corporate and bank borrowing. According to Friedman (2011), most firms succumb due to poor management of debts hence listing in credit reference bureaus, loosing of assets, liquidity problems and decline in sales leading to poor credit rating which hinder this firms to access to future debt facilities this results into financial inefficiency. The study sought to evaluate the effect of appropriate inventory on financial efficiency of automobile firms in Kitale town.

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2.0 Effects appropriate inventory on financial efficiency.

2.1 Theories

The theories related to the study of effects of appropriate inventory on financial efficiency in Kitale town were as follows:-

Theory of Short Term Debts

According to the matching principle of finance, short-term assets should be financed with short-term liabilities and long-term assets should be financed with long-term liabilities. Short-term assets and liabilities are generally defined to be those items that will be used, liquidated, mature or paid off within one year (Guin, 2011). A firm's current assets including cash, inventories, accounts receivable, etc. are generally considered short-term assets while plant and equipment are generally considered long-term assets. Nevertheless, current assets can be long-term if they are not completely used or liquidated during the year. On the other side of the balance sheet, current liabilities which include accounts payable, short-term debt, etc. are usually considered short-term liabilities while long-term debt those debt with a maturity of more than one year and equity capital are considered long-term liabilities. However, current liabilities can be a source of long-term financing if they are not completely paid off during the year.If it is assumed that a firm's current assets and current liabilities are short-term assets and short-term financing, respectively, the matching principle implies that a firm's current assets should equal its current liabilities, when a firm grows it generally purchases more goods and services from its suppliers resulting in a spontaneous increase in accounts payable Assuming current liabilities, other than short-term debt, are relatively spontaneous sources of financing then the firm's short-term financing choice variable is short-term debt. Accordingly, the matching principle implies that a firm should adjust its short-term debt financing until the amount of the firm's current liabilities equals the amount of its current assets.

Defining other current liabilities to be all current liabilities except short-term debt then the amount of a firm's short-term debt should be equal to the amount of its current assets less other current liabilities (STD = CA – OCL). The matching principle thus implies that a firm's short-term debt financing should vary over time as the amount of the firm's current assets and other current liabilities change. This implies that there are at least two ways that a firm's short-term debt financing can change. One is if firm size changes. For example, if a firm grows the amount of its current assets will likely increase as well. To maintain the CA = CL equality, if current assets increase then so must current liabilities. An increase in spontaneous current liabilities is likely to account for part, but not all, of the increase in current liabilities, (Guin, 2011).

Modigliani and Miller Theory.

Modigliani and Miller (1958) is said to be the milestone among the capital structure studies. They claim that market is efficient when there is no tax, thus financing decisions affect neither cost of capital or market value. Later, in their second proposition, they claimed that tax advantage motivates the optimal capital structure, where the

companies are said to alter their capital structure to increase the value of their companies , Modigliani and Miller (2004), Karadeniz et al, (2009), Fosberg,and Paterson 2008; Mustapha,Ismail,and Minai,(2011).

Trade-off theory

Trade-off theory asserts that a company may set a target debt to company value, and gradually moves towards it Karadeniz et al., (2009), Chen, (2004). According to this theory, the increase in debt level will increase the cost of bankruptcy, financial distress and agency, hence decrease the value of the company. Thus, a company needs to find equilibrium where the level of debt would be able to offset its costs such as tax advantages of the debts with the costs of possible financial distress.According to this theory, companieswith high growth have more risk and higher financial distress costs, thus growth have an inverse relationship with debt level. However, if a company has higher level of fixed assets to serve as collateral for debt financing, it will give easier access for the company to obtain debt, thus give a positive relationship between asset tangibility and debt level. Larger companies are said to better diversifies, thus have lower possibility of experiencing financial distress, this lead to positive relationship between company size and debt level. And companies with high profit render high level of borrowing capacity, thus resulted in positive relationship of the variables. (Mustapha,Ismail & Minai, 2011).

Pecking order theory

Another famous theory being associated with debt is the pecking order theory (Myers & Majluf, 1984). Myers and Majluf assert that information asymmetry exist among the investors. Investors are said to generally have less information than insiders, thus resulted in the undervalued of the companies' common-shares. This would then lead to positive relationship between growth of the companies and debt level, when the companies have more growthopportunities than the assets they have. Unlike, trade-off theory, companies do not have target capital structure, however, it is assumed that companies would prefer internal to external fund; and prefer debt to equity. They would only use external financing when their internal funds are insufficient (Myres & Majluf 1984). Pecking order emphasizes on information assymety. Companies with more fixed assets are said to have less information asymmetry, (Kardeniz et al., 2009). Information asymmetry is also considered to be less severe in larger companies, as a consequent, larger companies cost of capital would be less than that of small companies (Mustapha,Ismail & Minai, 2011). This theory also posits that profitable companies are able to generate internal funds, and do not like to use external funds, if the needs arise for external fund, they would prefer debt to equity. This preference for debt compared to equity is also related to their unwillingness to lose the control of the companies if more equity are issued. And it is claimed that this relationship will be more pronounced in concentrated ownership structure (Cespedes et al., 2010).

2.2. Appropriate inventory on financial efficiency

The supposition is that better inventory management is closely related with firms' better debt planning inventories being a current asset, needs to be financed by current liabilitiesshort term debt . Appropriate inventory levels depend on the production schedule as a managerial response to market demand. Inventory is a current asset to a firm, but it is costly to maintain as it waits to be converted into future sales. While excess inventory does increase costs, a shortage of inventory may result in lost sales. Prior research has focused on inventory management methods and optimal inventory sizes as they relate to the balance between more technological information systems, inventory cost savings and production/sales efficiency. Inventory management has evolved into a highly studied and practiced concept in the business world that combines optimizing inventory movement, information-sharing between buyer and seller, lean production strategies, and supply chain management concepts. The core of the current inventory management system is JIT inventory systems. JIT is a philosophy of management that reduces waste and improves quality in all business process (Harrison & Hoek, 2011).

Excess inventory can result in increased waste from goods that spoil, are pilfered, or simply wasted due to overproduction or obsolescence. When inventory is high, it is harder to keep track of what products are on hand, more storage space is required, money is tied up, and it is harder to control waste than when inventory is kept at low levels. This is true for both raw ingredients and finished products. The value of waste may be tracked on production records, or by maintaining a waste report. On the other hand, not producing enough of each menu item, whether due to lack of raw ingredients or inadequate forecasting, leads to customer disappointment and may violate program regulations. The goal is to have all choices available to customers but not have excessive amounts leftover. Although the concept appears simple, it requires careful planning, standardized procedures, and monitoring to achieve desired results(Kasavana,2010).

According to Miller (2010), appropriate level of inventory involves ensuring parts and raw materials being put in place to ensure that customer have the needed product or service. It ensures coordination in the purchasing, manufacturing and distribution of necessary resources for production to meet the marketing needs and organizational needs by availing the product to the customers. Appropriate level of Inventory ensures specific size and placement of stocked goods. Appropriate level of Inventory is required at different locations within an organization or within multiple departments of a supply network to protect the regular and planned course of production against the random disturbance of running out of materials. Appropriate inventory involves managing

the replenishment lead time, replenishment of goods, returns and defective goods and demand forecasting, carrying costs of inventory, asset management, physical inventory, available physical space, demand forecasting, inventory valuation, inventory visibility, future inventory price forecasting and quality management. With a balanced of these requirements, it is possible to reach an optimal appropriate inventory level, which is an on-going process as the business needs shift and react to the wider environment. Ogbo et al, (2014). Appropriate level of inventories being the capacity to generate cash flow has led to internally generated funds that influences firms' capacity to obtain external finance as well as reduce the total cost of capital. The sensitivity of inventory to the cash flow is especially evident in smaller, younger firms. (Mathuva ,2013.)

3.0 METHOD

The study adopteed a descriptive survey design with a target population of 6 automobile firms in Kitale Town WhIch comprised 30 employees from top, middle and lower level staff across the accounts and finance departments of the different firms.The study applied census. Data was collected using structured questionnaires on a drop and pick later basis as the main data collection instrument. This assisted to access data which was with rich insight, understandable explainable and in-depth information; the study was mainly focused on primary data collected from questionnaires. Questionnaires in this study was appropriate in collecting data from population and upheld confidentiality. Both qualitative and quantitative data was collected coded, organized, analyzed and presented using descriptive statistics, mean, mode, percentages, including frequency tables, regression analysis and statistical package for social sciences (SPSS). The arithmetic averages and percentages were generated for effects of short term debt planning .This was useful in trying to find how the effects ofshort term debt planningaffectedfinancial efficiency of these automobile firms. Regression analysis was used to test the relationship of the effect of debt usage on the firm's financial performance.Regression analysis was used to test the relationshipbetween effect debt usage on the firm's financial efficiency.

4.0 Results

Results on the statement that financial efficiency is a measure of an organizations ability to translate its financial resources into mission related activity stated that 70% of the respondents strongly agreed, 25% of the respondents agreed while 5% of the respondents disagreed, while none of them was neutral and none strongly disagreed, from the statement it was clear that financial efficiency is a measure of the organizations ability to translate its financial resources into mission related activities. However the respondents who disagreed need to understand that financial efficiency measures growth of an entity and hence needs to translate financial resource into mission related activity to realize the outcome.

On statement relating to financial efficiency being desirable in all organizations regardless of individual mission or structure 35% of the respondents strongly agreed while 60% agreed, 5% were neutral while none disagreed or strongly disagreed, from the results it is clear that financial efficiency should be given much attention in any organization since it is desirable in an organization, however the respondents who were neutral need to be trained on the importance of financial efficiency.

On the statement of financial efficiency being resources correctly allocated among competing uses at a point of time, 100% of the respondents strongly agreed this clearly shows that sales can only be realized when resources are correctly allocated among competing uses. None of the respondents strongly disagreed, disagreed nor agreed and neither of them was neutral. Hence firms should embark on allocation of resources among these forces.

On the statement regarding Sometimes, even sufficient profit cannot guarantee financial efficiency, 75% of the respondents strongly disagreed meaning that profitability is a clear measure of financial efficiency 5% of the respondents disagreed, 5% of the respondents were neutral 15% of the respondents agreed with the statement, 15% is a large number meaning that they believe there are other measures of financial efficiency and not necessarily sufficient profit, hence organizations should train there staff to understand other measures of financial efficiency.

On statement that profitability and turnover ratios provide good indicator measure of operational efficiency 90% strongly agreed, 5% agreed, 5% disagreed none was neutral and none strongly disagreed, from the results it's clear that profitability and turnover ratios are good indicators of operational efficiency however for those who disagreed (5%) should be informed through training the importance of profitability and turnover ratios.

Response onAppropriate inventory.

Results on the statement of appropriate inventory levels depend on the production schedule as a managerial response to market demand 70% of the respondents agreed, 30% of the respondent strongly agreed while none strongly disagreed, none disagreed and none was neutral, from the results it shows clearly that appropriate inventory levels depend on production schedule as a managerial response to the market demand hence firms should always maintain production schedules and have appropriate levels of inventory to be responsive to the market demand. On the statement of excess inventory increasing costs 60% of the respondents strongly disagreed 15%

of the respondents agreed 10% of the respondents strongly agreed, none was neutral, from the results it shows clearly that excess inventory does not increase cost, however at the same time 15%who agreed and 10% who strongly agreed clearly understand that excess inventory does increase cost hence all staff need to be educated on costs and benefits of holding inventory.

On statement of shortage of inventory may result in lost sale 60% of the respondents strongly agreed, 5% of the respondents agreed, 15% were neutral, 20% disagreed while none of the respondents strongly disagree, from the result it shows clearly that shortage of inventory may result into lost sales however for the respondents who were neutral training should be administered to create awareness, those who disagreed clearly showed that through better planning and marketing activities even in cases with less inventory companies cannot lose their sales,

On statement of better inventory management being closely related with firms better debt planning 100%of the respondents strongly agreed, none of the respondents strongly disagreed, disagreed, agreed and none was neutral from the results it clearly shows that better inventory management is closely related to firms better debt planning.

On statement of enough inventory reduces waste and improves quality in all business process, 90% strongly agreed, 5% agreed and 5% were neutral. From the results it shows clearly that enough inventory reduces waste and improves quality in all business process, however training should be administered to the 5% who were neutral so as they should understand that enough inventory is financially healthy since it reduces waste and improves quality in all business process.

Quantitative Analysis.

This section entails the use of correlation analysis, regression analysis, analysis of variance (ANOVA) and coefficient analysis to deduce more meaning of the data for the purpose of concrete result, finding and conclusions. These tests were conducted to verify existence of relationship between the independent variables and the dependent variable.

Regression Analysis.

Table 4.1: Model Summary.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics
1	0.643	0.413	0.303	0.188	0.413

Predictors: (Constant), Liquidity, Appropriate Inventory, Investment
Dependent Variable: Financial Efficiency

Simple linear regression model was used to predict firm's financial efficiency in the study. The prediction was carried out basing on the effect of short term debt planning on firm's financial efficiency. The findings indicated that the model adjusted R square was 0.303 which indicated that 30.3% of the total variation of firm financial efficiency is explained by the effect of short term debt planning as shown in Table 4.1.

Table 4.2.Regression coefficients.

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.308	1.096		2.106	0.0514
	Approriate Inventory	0.621	0.263	0.501	2.357	0.0315

a Dependent Variable: Financial Efficiency

The research further found that appropriate inventory recorded coefficient estimates of â = 0.621 (p-value =0.0315 which is less than á = 0.05) as shown in Table 4.5.2, hence we reject the null hypothesis (HO1) and conclude that appropriate inventory has a significant influence on firm's financial efficiency.

4.3 Analysis of Variance.

Table 4.5.3: Analysis of Variance.

ANOVA(b)

Model		Sum of	Squares	df	Mean Square	F	Sig.
1	Regression	0.400		3	0.133	3.757	0.032
	Residual	0.568		16	0.035		
	Total	0.968		19			

A Predictors: (Constant), Appropriate Inventory,
B Dependent Variable: Financial Efficiency

The F critical at 5% level of significance was 2.84. Since F calculated is greater than the F critical value of 3.757, this shows that the overall model was significant. From table 4.5 above, the significance value is 0.032 which is less that 0.05 thus the model is statistically significance in predicting how appropriate inventory affect financial efficiency of automobile firms in Kitale town.

4.4 Correlation Coefficient of the Model.

The researcher used the spearman's coefficient of correlation to study the correlation between the variables in the study and the findings were as in the table 4.4

Table 4.4: Spearman's Rank Correlation Coefficient

		FINANIAL EFFICIENCY	APPROPRIATE INVENTORY
FINANIAL EFFICIENCY			
	Correlation coefficient	1.000	0.531
	Sig. (2-tailed)		
APPORIATEI NVENTORY			
	Correlation coefficient		0.005
	Sig. (2-tailed)		1.000

There was a positive correlation between financial efficiency among auto mobile firms in Kitale town and the level of appropriate inventory with a correlation figure of 0.531. This shows that there was positive correlation between financial efficiency and appropriate

5.0 Discussion

The present study shows that The response rate was 67% which was significant. Majority of the respondents were female at 54% while 46% were male. It met the constitutional a third gender rule. Most (60%) of the respondents were between 31 – 40 years while the minorities (5%) were above 50 years. Respondents of the age brackets between 21 – 30 years where 20%, while 15% of the respondents were between 41 – 50 years. This shows that the majority of the respondents were in their middle age and therefore in a better position to give reliable information. 40% of the respondents had served the automobile firm for 4-6years, 25% of the respondents had served in the automobile firms for over 6 years, 25% of the respondents had served in the automobile firms for 2-4 years and 10% of the respondents had served the firms for 0-2 years. This showed that majority of the respondents had the required skills to perform their tasks well and also showed that majority of the respondents had relevant knowledge in terms of effects of short term debt planning.

5.1 Financial efficiency

The dependent variable was financial efficiency the study sought to determine whether appropriate inventory, investment and liquidity had a significant relationship with financial efficiency of automobile firms in Kitale town. The results showed that financial efficiency is a measure of an organizations ability to translate its financial resources into mission related activity, from the results it was clear that financial efficiency should be given much attention in any organization since it is desirable in any organization,from the results sales can only be realized when resources are correctly allocated among competing usesfinally it was clear that enough inventory reduces waste and improves quality in all business process,The research found that appropriate inventory recorded coefficient estimates of â = 0.621 (p-value =0.0315 which is less than á = 0.05) this showed that appropriate inventory had a significant influence on firm's financial efficiency. The research also found that investment recorded coefficient estimates of â = 0.745 (p-value =0.0303 which is less than á = 0.05) this showed that investment has a significant influence on firm's financial efficiency. The research further found that Liquidity recorded coefficient estimates of â = -0.639 (p-value =0.011 which is less than á = 0.05) this proofed that liquidity has a significant influence on firm's financial efficiency.

5.2 Effect of appropriate inventory on financial efficiency.

The first objective of the study was to establish the effect of appropriate inventory on financial efficiency. The respondents strongly agreed that better inventory management is closely related to firms better debt planning; they strongly disagreed that enough inventories reduces waste and improves quality in all business process, they agreed that shortage of inventory may result to lost sale. The respondents however disagreed that excess inventory does increase costs.From the regression model, a unit increase in inventory will lead to a 0.621 increases in the financial efficiency among automobile firms in Kitale town. This implies that appropriate level of inventory explains 62.1 % of variations in financial efficiency of automobile firms in Kitale. The findings also agreed with Ferzanch (2012) that proper inventory management reduces the overall operation costs indicating that appropriate inventory has the potential to cut costs, shorten timescales and enhance stakeholder relationships, reduce risks and improve efficiency.

The spearman's coefficient of the study showed that there is a positive correlation between the variables in the study, it was determined that there was a positive correlation between appropriate inventory and financial efficiency with a value of 0.531. The finding of this study also concur with finding of Raheman and Mohamed (2007) who found out that inventory turnover in days had a significant effect on the performance of the firms.Leymay and Hanna (2002) too agreed with these findings and concluded that effective management of inventory has enormous potentials for improving the efficiency of organizations that use JIT philosophy, this finding as well agreed with those of Alo, (2010) who found that it is more economical to hold an appropriate level of inventory in order to produce relatively large number of items in each production ran and store them for future us. The research found similar results to Valeriu and Nimalathasan (2010), Ebaid (2009). The results were different to the findings of Nima, Mohammad, Saeed, & Zeinab (2012) because they researched on different listed firms across the economy, therefore according to these findings, appropriate inventory positively affect a firm's financial efficiency among automobile firms in Kitale town.

6.0 Conclusion and Recommendation

The conclusion to that indeed at Appropriate inventory involves coordinating the production schedules and orders from customers to produce goods and services with available financial and non-financial resources thus allowing firms to amortize fixed setup costs over large number of units thus achieving competitive edge through cost minimization, it entails preparedness to quickly respond to market demands. Appropriate inventory reduces storage, insurance, ordering, and transportation costs as resources wait to be converted into future sales. Appropriate inventory plays a crucial role in financial efficiency because goods and services need to be produced at the right price, right time, right quantity, and right quality. Firms must use the JIT philosophy to reduce waste of inventory and production should be timed to tally with demand hence goods produced should be consumed immediately to enhance efficiency.

Appropriate inventory plans should be put in place as per the set guidelines and should be adhered to obtain better financial efficiency in automobile firms in Kitale town. Appropriate level of inventory should allow firms to amortize fixed set up costs and help the firms achieve competitive edge. The debt planning committee should be involved in budget preparation they should put much emphasis on proper level of stock to avoid wastage or shortage of both financial and nonfinancial resources production departments should prepare acquisition plans in advance.

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