Strategic Financial Planning: An Option for Predicting the Performance of Quoted Companies in Nigeria (A Study of 2009 Guinness PLC Annual Reports)

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Abstract
The study examines strategic financial planning as an option for predicting the performance of quoted companies in Nigeria using 2009 Guinness PlC annual reports. Secondary data was used and sourced from annual reports of Guinness Plc and Edward Altman's discriminant financial model was formulated to test the financial soundness and stability of the company. The analysis shows that Guinness PLC will not fail because the result is above 2.675 as stipulated in the model. The study therefore, recommends that Guinness PLC should improve on the quality of products so as to increase the market value of shares. The company should emphasize on manpower training that will enable them to respond to the increasing customers' demand. Investors should invest massively in the company's shares in the stock market because Guinness PLC is financially sound and stable.
Keywords: Strategic Financial Planning, Predicting, Performance, Quoted Companies, Nigeria

INTRODUCTION
Planning is a systematic programming decisions and creations with a view of achieving organization objectives (Adeyemi and Fagbemi, 2010). However, a firm should be managed effectively and efficiently in terms of allocations of financial resources and it means that a firm should be able to achieve its objectives by minimizing cost and maximizing profit. Donaldson (2008) concluded that, the systematic approach for achieving effectives management performance is the financial planning and budgeting. Al-Kuwari (2012) confirmed that, strategic financial planning stresses a balance relationship between financial goals and organization. These involve the questions of firm's long-term growth, profitability, investment and decisions making. Uremadu and Efobi (2012) stressed that, the financial plan of large companies may required detailed document containing financial plans for different strategic business units and divisions. However, long-term financial forecasts are prepared by relating the items of profit and loss account and balance sheet.

According to Brigham and Houston (2004), financial planning involving financial policy has direct interaction with scope and resources development. Frenegen (2006) argued that, the financial policies, investment and financing choices should therefore be considered at corporate level, and should not be treated as functional area policy decisions to be decided at lower level. Berth (2008) maintained that, because business level strategy involves operational planning and focuses on how to compete in a particular product market. Competitive advantage and distinctive competences had become dominant strategic concerns at this level (Andabai, 2011).

Ibenta (2004) opined that, the above facts will enable the financial manager to know the level of firm's growth, performances, investments and requirements of funds during a given period of time. For planning processes to be achieved effectively, two major terms have to be used, such as forecasting and predictions. Parker (2007) confirmed that, financial models and ratios were also used to know the level of productivity and performances of firm's that will enable the financial manager to advise the business organization for corporate decision-making. However, the information needed and used for this study, was from the annual reports of Guinness Plc of 2009.

THEORETICAL CONCEPTS
Zoppa and Macmahon (2010) stated that, strategic planning is the process of determining an organization's basic mission and long-term objectives, and implementing a plan of action for pursuing this mission and attaining the objectives. Strategic planning considers all markets, including, product, labour and capital, as imperfect and changing. Fraser (2007) opined that, strategies are developed to manage the business firm in uncertain and imperfect market conditions and environment to exploit opportunities. However, it is an important management task to analyse changing market conditions and environment to make forecast, plan, generation and allocation of resources (Eyo, 2004).

According to Pandey (2004), Boston Consulting Group (BCG) model makes it very clear that a firm for its ultimate success needs a balanced portfolio of products or business. The individual businesses are analysed to form a corporate portfolio, which should act as a guide to commit the firm's resources. Brigham and Houston (2004) stressed that; strategic planning ensures that, portfolio of businesses are balanced in terms of profits, cash flows and overall corporate risk. The relationships predicted by the portfolio models are substantiated by the PIMS (Profit Impact on Market Share) data analysis. Ogbulu and Emeni (2012) argued that, since strategy provides foundation for any system of planning, it provides the basis for operational and financial planning. Strategy is a central them that establishes an effective and efficient match between the firm's resources, opportunities and risk created by certain environmental changes. It is a level between the multiple goals and objectives pursued by the firm to satisfy it various stakeholders (Pandey, 2004; Van-Horne, 1980, and Olowe, 1998).

Pandey (2004) emphasized that, the major strategic decision making framework will be summarized as: a firm operates in a complex environment, strategy is a central theme that establishes a match between the firm's competences and opportunities created by environmental changes, a firm is multi-directed; strategy is a link between the multiple goals of the firm and its plans and policies, product-market scope, competitive advantages, distractive competences and synergy and the most important components strategy, market documented is most desirable strategy, a firm should have a balanced portfolio of businesses.

Uremadu, et al (2009) posited that, financial planning has direct relationship with scope and resources development. Barth (2008) also observed that financial planning of a company has a close links with strategic planning. Because, according to Andabai (2011), the company's strategy establishes an effective and efficient match between it resources, opportunities and risks. Parker (2007) confirmed that, financial planning provides a mechanism of integrating goals of multiple stakeholders. Zoppa and Macmahon (2010) concluded that financial plan should be developed within the overall context of strategic planning.

Al-Kuwari (2012) posited that, the following steps are involved in financial planning: past performances, analysis of the firm's past performance to ascertain the relationships between financial variable and the firm's financial strengths and weaknesses Operating characteristics, analysis of the firm's operating characteristics-product, market, competitions, production and making policies to achieve its growth objectives, corporate strategy and investment needs and cash flow from operations financing alternative. Barth (2008) concluded that, in fact, financial planning involves the firm's long-term growth, profitability, investment and financing decisions. It focuses on aggregate capital expenditure programmes and debt-equity mix rather than the individual projects and sources of funds. Financial planning also involves an interface between corporate policy and planning and the trade-off between financial policy variables (Eyo, 2004).

Financial Forecasting and Modeling

Amidu and Abor (2008) stressed that, financial modeling facilitates financial forecasting in an organization and it makes forecasting easy. Financial model has three components such as: (i) current financial statement and growth model (ii) a system of equations base on the relations between financial variables (iii) projected financial statements. Micheal (2012) affirmed that, financial model of large companies can be very complicated when more details are considered. Amadu and Abor (2008) agreed that, that is why in practice, companies focus on the most crucial decision and variable to keep the model simple.

Pandey (2004) and Olowe (1998) are of the opinion that, the use of financial model and ratios are vital tools used in analyzing the financial statements of various companies in the world today. Andabai (2011) stated that, financial forecasting is the basis of financial planning because, forecasts are merely estimates based on the past data. Therefore, planning means what a company would like to achieve in the future, and includes necessary action plans for realizing the pre-determined intensions. Hence, financial forecasting is an integral part of financial planning. It uses past data to estimate the future financial requirement. Ross, et al (2006) opined that, a financial planning model establishes the relationship between financial variable and targets, and facilitates the financial forecasting and planning process. According to Eyo (2004), a model makes it easy for the financial manager to prepare financial forecasts. It makes financial forecasting automatic and saves the financial managers time and efforts performing a tedious activity (Lucy, 2002).

Adeyemi and Fagbemi (2010) observed that, financial planning models help in examining the consequence of alternative financial strategies. To achieve a sustainable growth and productivity of any firm depends on an efficient and effective management of financial resources. And this could be realized by an understanding of financial statements, with the help of financial models and ratios, for the purpose of prediction and corporate decision making (Parker, 2007). Micheal (2012) stated that, financial statements present a numerical picture of a company's financial and operating health. Uremadu and Efobi (2012) reaffirmed that; the major financial statements are the balance sheet, the income statement (profit or loss).

Research Methodology

We adopted the *ex-post-facto* research design in this study. Secondary data was used and sourced from annual reports of Guinness Plc as indicated in **table 1 and 2** and Edward Altman's discriminant financial model was formulated to test the financial soundness and stability of the company.

Model Specification.

Descriptive, percentages, and financial ratios were used to analyze the data generated from the 2009 annual reports of Guinness PLC. Edward Altman's discriminate financial model was used to predict the success and failure of the company. The model was developed from a sample and derived the following functions:

$\mathbf{Z} = 0.012\ X_1 + 0.014\ X_2 + 0.33\ X_3 + 0.006\ X_4 + 0.010\ \mathbf{X_5}$.

Where **Z** = Discriminant functions score of firm.

$\mathbf{X_1}$ = Net Working Capital/Total Assets (%).
$\mathbf{X_2}$ = Retained Earning /Total Assets (%).
$\mathbf{X_3}$ = EBIT/Total Assets (%).
$\mathbf{X_4}$ = Market value of total Equity/Book value of debt (%).
$\mathbf{X_5}$ = Sales/Total Assets (times).

Edward Altman, established a guideline **Z** score which can be used to predict as firms either financially sound, a score above 2.675 or a score below 2.675 as likely to fail.

Analysis and Discussion of Data

The income statement is the major means for measuring the profitability of a firm over a period of time, which will also help to know the performance and productivity of the firm (Al-Kuwari 2012). Therefore, table 1 represents income statement of Guinness Plc 2009.

TABLE 1: PROFIT AND LOSS ACCOUNT OF GUINESS PLC FOR THE YEAR ENDED 30 JUNE, 2009

	2008		2009	
	₦000	₦000	₦000	₦000
Turnover		53,651,871		46859,
Cost of Sales		(27,844,590)		(23,960,2
Cross profit		25,807,201		22,899,1
Advertising and promotion				
Expense	4,072,091		3,468,792	
Distribution expenses	4,379,760		3,593,641	
Administration expenses	5,131,486		4,154,899	
Exceptional term	-		3,639,264	
		(13,583,387)		(14,345,5
Trading profit		12,223,864		8,053,5
Interest Received		764,119		
Interest paid		1,551,212		(1,833,9
Profit before Taxation		11436,771		6,276,
Taxation		(3,996,669)		(1,417,1
Profit after taxation		7,440,102		4,859,
Proposed dividend		(4,719,762)		(3,539,
Retained profit for the year transferred to General Revenues.		2,720,340		1,319
Earning per share (kobo)		631		852
Dividend per share (kobo)		400		680

Source: 2009 Annual Reports of Guinness Plc.

Note that, the statement is for the period of 2009. Guinness Plc had net operating revenue (sales) of approximately N47 billion and N54 billion. After subtracting the cost of goods, selling and administrative expenses, the firm's operating income was about N23 billion and N26 billion. Because of high level of cash, cash equivalent and marketable securities during 2009 and income of 101.20 percent. Further more, Guinness Plc reported income before tax of N11.4 billion. After paying taxes of N3.9 billion and N1.4 billion, the income available to common stock holders was approximately N20.9 billion.

TABLE 2: BALANCE SHEET OF GUINNESS PLC AS AT 30 JUNE, 2009

	2008		2009	
	₦000	₦000	₦000	₦000
Fixed Assets		29,531,969		29,179,56
Long term Debtors and prepayment		181,775		379,23
Current Assets, (Amounts failing due within one year)				
Stock				
Debtors and prepayments	12,933,042		13,780,946	
Deposits for Imports	3,231,294		1,451,095	
Cash and Bank Balances	50,854		3,119,921	
	11,921,255		2,055,958	
	30,136,445		**20,407,820**	
Current liabilities				
(Amounts failing due within one year)			13,844,403	
Creditors and Accruals	18,089,672		1,217,451	
Taxation	2,580,134		**15,061,854**	
	20,670,006			
Net Current Assets		9,466,439		5,345,966
Total Assets less Current		39,180,183		34,904,762
Liabilities		(6,968,521)		5,548,363)
Deferred Tax Liability		(2,763,880)		(2,628,957)
Provision for Gratuity		(8,500,000)		(8,500,00)
Term Loan		**20,947,782**		18,277,442
Net Assess		589,970		589,970
Capital and Reserves		147,493		
Called up share Capital		1,545,787		1,693,280
Bonus issue Reserve		3,790,263		3,945,560
Share Premium Account		14,874,289		11,998,633
Fixed Assets Revaluation Reserve		**20,947,782**		**18,277,442**
Revenue Reserve		13,423,342		13,842,342
Total Equity (Shareholders' Funds)		11,642,647		10,084,366

Source: Annual Report of Guinness Plc 2009.

Ratios Analysis of Guinness PLC 2009

Financial Models and Ratios analysis were also used to evaluate the level of productivity and performances. From the available financial statements of Guinness Plc 2009, the following computations were made:

Current Ratio = $\frac{\text{Current Assets}}{\text{Current Liab.}} = \frac{30.1}{20.6} = 1.46\%$

Quick Ratio = $\frac{\text{C / A –Inventory}}{\text{Current Liab.}} = 0.88\%$

Total Debt Ratios = $\frac{\text{Total Debt}}{\text{Capital Employed}} = \frac{20.7}{39.2} = 0.52\%$

Debt Equity Ratio = $\frac{\text{Net worth}}{\text{Total Debt}} = \frac{20.9}{20.7} = 1.02\%$ or 102

Gross Profit Margin = $\frac{\text{Gross Profit}}{\text{Sales}} = \frac{25.8}{53.8} = 0.48\%$

Net Profit Margin = $\frac{\text{Net Profit After Tax}}{\text{Sale}} = \frac{7.4}{53.8} = 0.8\%$

RON $= \frac{\text{EBIT}}{\text{Net Assets}} = \frac{11.4}{20.4} = 0.55\%$

Assets Turnover $\frac{\text{Sales}}{\text{Net Assets}} = \frac{53.8}{20.4} = 2.6\%$

Working Capital Turnover = $\frac{\text{Sales}}{\text{NWC}} = \frac{53.8}{40.8} = 1.5\%$

EPS $= \frac{\text{Profit After Tax}}{\text{No. shares}} = \frac{400}{4321} = 0.93\%$

$\frac{\text{DPS}}{\text{EPS}} = \frac{400}{632} = 6.3\%$

Price Earning Ratio = $\frac{\text{Market value of share}}{\text{EPS}} = 28\%$

$\frac{\text{NWC}}{\text{TA}} = \frac{30.8}{20.8} = 1.96\%$

Note: All the final answers were the calculated figures from Guinness PLC 2009 annual reports. Edward Altman used certain criterion to measure the firm's performances. Consequently, he established a guideline, **Z** score which was used to classify firms as either financially sounds or not, that is, a score above 2.675 accepted, and below 2.675 rejected. $\mathbf{X_1}$ = 5.16, $\mathbf{X_2}$ = 13.0411, $\mathbf{X_3}$ = 55.2%, $\mathbf{X_4}$ = 248%, $\mathbf{X_5}$ = 2.7. **Z** = 0.012(5.2) +0.014 (13.04)+ 0.033 (55.2)+ 0.006 (248)+ 0.010 (2.7) = 0.0624 + 0.182 + 1.82 + 1.488 + 0.027 = 3.58 14.

Decision Criterion: The performance of Guinness PLC is viable and financially sound and stable because the score is above 2.675, as stipulated in Edward Altman discriminate financial model.

Conclusion and Recommendations

Guinness Plc (2009) performance is outstanding in terms of the level of productivity and general performance as reflected in the various financial analyses. Because, the liquidity position of the firm is increasing as evident from the analysis and the gross profit margin is also increasing and matches with the industry average. The net profit margin is also increasing and that is why the market value of the share prices are appreciating and the study concluded that, Guinness Plc will not fail. The study therefore recommends that, ROI, ROE, DPS and EPS ratios should also be used to know profit after and before taxes that will be allocated to the shareholders as dividend. Guinness PLC should improve on the quality of products so as to increase the market value of shares. The company should emphasize on manpower training that will enable them to respond to the increasing customers' demand. Investors should invest massively in the company's shares in the stock market because Guinness PLC is financially sound and stable.

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