

**AN EVALUATION OF FINANCIAL MANAGEMENT
PRACTICES IN KENYATTA UNIVERSITY, NAIROBI. KENYA**

BY

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DECLARATION

This research project is my original work and has not been presented for a degree in any other university

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This project has been presented for examination with our approval as university supervisors

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DEDICATION

This project is dedicated to my wife Carolyne Wanyama

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May God enrich your lives with joy and happiness on earth and in heaven.

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DEFINITION OF TERMS

Financial management:	Is that activity which is concerned with the planning, organizing and controlling of the firms financial resources.
Budgeting:	A budget is a quantitative expression of a plan of action and an aid to coordination and implementation.
Capital budgeting:	It's a firm decision to invest its current funds most efficiently in the long-term assets in anticipation of an expected flow of benefits over a series of years. These include expansion, acquisition, modernization and replacement of the long-term assets.
Working capital management:	Working capital includes stocks debtors, short-term investments and cash. Working capital represents that portion of total assets that is most manageable
Payable deferral period:	Is the length of time the firm is able to defer payments on various purchases.
Net operating cycle	The difference between gross operating cycle and payable deferred period.
Breakeven point	That point of volume where total revenues and total expenses (total costs) are equal.
Cash budget	Summary statement of the firms expected cash inflows and outflows over a projected period.

ABBREVIATIONS

KCSE:	Kenya Certificate of Secondary Education
US	United States
IGA	Income Generating Activities
OSAP	Ontario Student Access Program
DOGIT	Deed of grant in Trust
BUFDG	British Universities Finance Director Group
C&AG	Controller and Auditor General
ICT	Information Communication and Technology
MIS	Management Information System
WC	Working Capital
ICP	Inventory Conversion Period
BDCP	Book Debt Conversion Period
GOC	Gross Operating Cycle
PDP	Payable Deferral Period
NOC	Net Operating Cycle
CA	Current Assets
FA	Fixed Assets
WCM	Working Capital Management
EOQ	Economic Order Quantity
JIT	Just in Time
TLO	Technology and Licensing Officer
FM	Financial management
FMP	Financial management practices
KU	Kenyatta University

ABSTRACT

In many countries of the world there have been major changes in the financial operations of public universities. In KU, the changes have occurred within the context of diminishing public resources and this has translated in most instances into financial constraints. The situation has led to pressure from government and from within the university itself in some cases for a diversification in the sources of financial support for the university. It is clear that KU can no longer rely solely on government funding if it is to remain financially healthy. New procedures and criteria for the allocation of resources and the evaluation of the uses made of increasingly scarce resources are essential. In some institutions Financial management has become much more akin to business management, involving decisions on financing sources (IGA), savings and investments and budgeting and management of short-term assets.

This study therefore intended to evaluate these financial management practices in KU. The research used secondary data to evaluate these financial management practices. The results were analysed using tables and charts. This study found out that the major challenges facing KU is the sourcing of funds and the adoption of proper budgeting systems. From the study it was noted that KU had highly benefited a lot from alternative financing by paying salaries on time. Budgeting system needed to be addressed as it's facing a lot of problems.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

Financial management is that activity which is concerned with the planning and controlling of the firms financial resources. Financial management (FM) involves the solution of five major functions that include investment, financing, dividend or profit allocation decision, liquidity and budgeting process. Together, these determine the value of the firm to its shareholders (Pandey, 1993).

1.1 Background to the study

In many countries of the world there have been major changes in the financial operations of Universities. Changes have occurred within the context of diminishing public resources and this has translated into financial constraints within KU. This situation has led to pressure from government, the university itself and donor agencies for a diversification in the sources of financial resources. It is clear that universities can no longer rely solely on government funding if it is to remain financially healthy.

Sanyal et al (1996) notes that new procedures and new criteria for allocation of scarce resources and the evaluation of the uses made of increasingly scarce resources are essential. Proper budgets must be devised to ensure that institutional objectives are achieved and output target met. Efforts must be made in recovering all outstanding debts. Cash resources must be managed well. If properly managed cash reserves can generate a significant income for the universities. The management of the Income Generating Activities (IGA) in growing is importance as these generates income, costs and cash balances that need to be properly managed in the interests of the university. Universities must also invest prudent in viable activities to be able to breakdown

The concept of financial management is necessary for the creation of competent and efficient entities and for prosperity without which organisations would otherwise collapse. Financial management practices (FMP) have impacted organisations in several ways as indicated below. National Bank of Kenya was on the verge of collapse but with new management in place, the bank was turned around and now it is experiencing a fast growth base. Recently, it introduced mobile banking services. East African Breweries has realised the importance of good financial management in time. It has hired the best management with a vision thus remaining a head of all companies in its industry. It has been commented by the Government as the highest taxpayer over the years. Good FMP have turned around Kenya Revenue Authority to achieve high performance. As a result during the period of the first corporate plan 2000/2001, 2002/2003, Kenya Revenue Authority recorded 20% revenue yield despite the challenging economic and political environment

characterised by low growth and weak governance structures (Waweru, 2004). Kenya Commercial Bank turned around from loss making to profit, after realising the importance of good financial management practices. This resulted in the appointment of a new Chief Executive officer, formerly of Barclays Bank. Uchumi supermarket realised the mistake it made by hiring a chief executive whose financial practices were not prudent. He focussed more on capital investment by opening up many outlets at the expense of the business core objective of profit making. As a result, the supermarket became a loss making institution. The shareholders realised this mistake and head hunted a chief executive officer from South Africa (Esipisu, 2004). Kenya Airways turned around after appointing a competent and professional management team, hence making it the best airline in Africa and able to compete on the World market. It has formed partnership with the Dutch airline KLM, one of the best airlines in the world. Through this partnership it opened has up to various destinations in the world such as Far East and became the first airline in Africa to join the elite Sky Team association programme. (Wahome, 2005)

The development of the public university system in Kenya is a product of both history and politics. At independence in 1963, following a 1961 Act of the East African High Commission, the Royal Technical College was upgraded to the University of Nairobi. In 1970, the University of Nairobi was established by an Act of parliament. Kenyatta College, then a diploma awarding college of education became a constituent college of the University of Nairobi under the name, Kenyatta University College. In 1981, a presidential working party recommended the setting up of the second public university. In response, Moi University was established in 1984, specialising in technological and environmental fields. Kenyatta University College formerly a constituent college of the University of Nairobi became a full-fledged university in 1985. Egerton University acquired university status in 1987, with specialisation in Agriculture and Environmental sciences. Jomo Kenyatta University of Agriculture and Technology previously a constituent college of Kenyatta University was elevated to full university status in 1993 (Abagi, 1995). Today, there are six public universities and higher education has become increasingly international in character. Kenyan public universities are becoming more contemporary in outlook with each university attempting to develop its own competitive strengths and positioning itself as a centre of selective excellence.

1.2 Statement of the Problem

Over the past decade, it has become increasingly clear that universities must develop more effective financial management systems, capable of sustaining changes occurring in their resource base. These financial management systems relate to investment, budgeting, financing, and working capital management practices. Due to increase in student population, limited government appropriation and hard economic times, universities are faced with serious financial challenges. The huge amounts of that public universities owe suppliers and contractors to the tune of about shs.2.8 billion, with Kenyatta University owing Kshs 241

million, huge outstanding fees that students owe universities, the incomplete projects such as the library, tuition blocks, hostels and kitchen blocks reveal a lot about the financial management practices in public universities. The existence of unbudgeted for expenditures of Kshs 10,622,072 (Gichuhi, 2004) shows a violation of budgetary systems.

With all these problems of managing financial resources, managers of public universities should develop good financial management practices in order to face these challenges. The government of Kenya and the donors alike have been urging the public universities to use their existing resources more efficiently and to establish viable cost reduction measures. With the changing economic times of limited resources and declining state support, universities are forced to adopt good financial management practices in order to survive. Over the years there has been continued expansion in students enrolment. This has also resulted to higher training and operating costs. As a result there has been the need for universities to seek alternative sources of funds to enable them carry out their core business effectively and efficiently.

1.3 Objectives of the Study

1.3.1 Overall objective

The general objective of this study was to evaluate the financial management practices in Kenyatta university.

1.3.2 Specific objectives

The specific objectives of the study were to find out

- (i) Which financial management practices are in place in KU in relation to investment, budgeting, financing and working capital management?
- (ii) What challenges are facing KU in Financial Management issues?

1.4 Research Questions

The question the research was looking for answers were

- How was budgeting done in the university?
- What was the university doing to generate more funds as a way of achieving self-sustainability?
- How was investment practiced in the university?
- What working capital management policies were found in the university in relation to cash and accounts receivables such as tuition outstanding?
- What were the changes facing universities in financial management?
- What were the impacts of good financial management policy?

- What major innovations had occurred with regard to the financial management practices in higher education institutions?

1.5 Significance of the Study

This study was to be of importance to the following interest groups:

1) Universities

The studies aimed at obtaining a broad overview of financial management practices in KU hence a starting point in attempts to improve it. It was to help KU make optimal use of resources available in the provision of goods and services to meet stated objectives. The study findings were to ensure proper allocation of resources through proper budgeting process. It was to assist in giving guidelines to best investment policies that KU could explore. The study was to aid in giving managers a green light to other sources of funding available, which KU could explore to make it self sustaining.

2) Government

The study would also strengthen the performance measurement processes of KU and enhance its ability to deliver the results to the government to achieve its reform process occurring in their resource base. It was to highlight the extent to which KU was under funded hence an appeal for more funding. It was to create an awareness that KU must break-free from those traditions that depend heavily upon generous state support and instead manage their financial affairs much as business enterprise whose main aim was maximisation of the value of the firm.

3) Donors and other Financiers

Donors would be able to know how well their funds are used to achieve policy objectives. Financial institutions would be able to know whether KU is able to meet their short-term obligations such as overdrafts and short-term credit as they arise.

4) Researchers

The study was to highlight other areas where further research in the areas of financial management practices was required.

1.6 Scope of the Study

The study focused on Kenyatta University, a public university established in Kenya.

1.7 Limitations of the study

The limitations of the study were: -

- (i) getting some information was difficult. This was because some information was regarded confidential. To counter this limitation the research emphasized on the information received being treated confidential.
- (ii) time Limit – Due to the limited time, it was not possible to carry out an adequate study of the topic. A case study was therefore carried out and major aspects of the study covered within the time frame.
- (iii) capturing views – Some questionnaires were not fully answered and could not capture all the required information.

CHAPTER TWO

LITERATURE REVIEW

2.0 Evolution and growth of modern finance

According to Van Horne (1991), finance has long been considered a part of economics corporation finance emerged as a separate field of study in the early part of this century. At first, it dealt with only the instruments, institutions, and procedural aspects of capital markets. As the century moved into the 1920's, technological innovation and new industries created a need for more funds, prompting the study of finance to emphasize on liquidity and financing of the firm.

In the middle 1950's, capital budgeting and allied considerations moved to the forefront. Valuation models were developed for use in financial decision-making. The path breaking articles by Modigliani and Miller in 1958 and 1961 on these topics set the stage for extended theoretical inquiry that continues today. Development of portfolio theory and its eventual application to financial management was a major event in the 1960's. First exposed by Merkwowitz in 1952, the theory was later extended and considerably refined by Sharpe, Lintner, Fama, and a number of others. Further refinement of Sharpe's capital asset pricing model for valuing financial assets brought with it the application of these ideas to financial management in the 1970's. In a landmark contribution in the 1970's Black and Scholes developed the option-pricing model for the relative valuation of financial claims.

Financial management today is best characterised as ever changing, with new ideas and techniques. The role of the financial manager is considerably different from what it was 20 years ago and from what it will no doubt be in another 20 years. Academicians and financial managers must grow to accept the changing environment and master its challenges. As noted earlier financial management involves five major decisions, which will be considered here below.

2.1 Budgeting

A budget is a quantitative expression of a plan of action and an aid to coordination and implementation of available resources. Budgets may be formulated for the organisation as a whole or for any sub unit. Budgets quantify management expectations regarding future income, cash flows and financial position. Budgeting has the following advantages; According to Horngren and Foster, (1991) budgets are a major feature of most control systems. When administered intelligently budgets compel planning. Secondly, budgets provide performance criterion. Thirdly, budgets promote communication and coordination and

lastly they also provide management support and administration. However, budgets are associated with the following disadvantages; Single budget system is normally used to serve several purposes, hence there is a danger that they may conflict with each other. For example planning and motivation roles, planning and evaluation roles are likely to conflict. Secondly budgets are stereotype and inflexible hence difficult to implement.

For good budgeting to occur budgets must have certain characteristics. Various scholars for example Fisher et al (2000), Lehan (1996) Hoque (1998) Grifel (1993), Schmidt (1992) argued that workers involvement in the process of setting and developing organisational budgeting was the major determinant of good budgeting. Murray (1990) perceived organisational goal as the objective or the performance target that every worker should seek to achieve. Holland (2000) stated that the definition of long-term goals must be clear and must be derived from all levels of the organisation. Campbell (1985) noted that due to the limited supply of resources, management must ensure rationality of resource allocation by comparing costs and benefit of each activity. Lastly Henderson (1997) indicated that budgeting must be supported by good information system as technology has an important role to play in improving the efficiency of the budgeting process.

2.1.1 Empirical studies on budgeting

Tajib and Hussein (2004) found that Malaysian Public universities do adopt some of the good budgeting practices. The study indicated that serious attention should be focussed on key factors such as the establishment of a clear definition of responsibility role and authority from top management and operational levels, workers participation in goal setting and the budget preparation process, the updating of workers knowledge and budgeting skills, improvement in the quality of information in order to enable good decision-making and the use of computerised systems, should be given priority instead of manual system. The study indicated that Malaysian Universities still face problems such as lack of trained staff and lack of capability in using data.

Cropper and Drury (1996) discussed the areas of profitability analysis, budgetary controls, performance reporting and investment appraisal techniques adopted in higher education institutions. They suggested that with rapidly changing higher education sector and increasing pressure to extract maximum benefit from scarce resources, management accountants have to develop new approaches in the provision of financial information. This requires the financial managers of the higher learning institutions to try and develop sound systems with proper and systematic rules and procedure to allocate and distribute the scarce resources to achieve higher productivity.

Borgia and Coyner (1996) sought to evaluate the success of budgeting systems in higher education institutions. The findings indicated that the traditional incremental approach to budgeting is still the major system adopted but no longer dominates current practices.

Berube (1987) noted that in the late seventies and early eighties, many of the universities in Canada and indeed the world began to experience funding problems. The government imposed a ceiling on the percentage by which tuition fee could be increased. The deficiency could not be made up by other conventional sources of revenue. It left no alternative but to look at the expense side of the university. The university of Manitoba instituted this cut back and add back system of budgeting to cope with the situation. In cut back system universities freezes all positions even if they are vacant. In order to provide an incentive to the departments, many universities started to use a carry over system. This meant that departments could use the savings from one year and transfer them to the following year. The researcher concluded that the cut back and add back method of budgeting has been a successful financial management practice in most universities, through this exercise the universities are forced to review the method that they use in order to achieve the desired objectives.

Sanyal and William (1996) indicated that in the University of Botswana, task forces and workshops have been used to implement extensive structural changes. The University has taken budget estimates out of the hands of the bursar's office and these are now under a specially established estimates committee composed of deans of faculties, the vice-chancellor, the deputy vice-chancellor, the registrar and the bursar. It is a centralised process but one which aims to match resource allocation with strategic plans. The University of Makerere draws up its budget according to the ministry's target ceiling, a practice begun in 1990, prior to which requests were always inflated. The Bursar gives instructions to departments who submit requests for non-staff needs; many of them do not bother to submit such requests and are given the same as the previous year.

2.2 Financing Decisions

Financing decisions refers to decisions relating to the raising of funds to finance higher education. It refers to the various activities undertaken with an aim of increasing revenue sources for the institutions. These activities include commercialisation and marketing of programmes, creating enterprises and investing in stock markets. The reduction of funding by governments means that emphasis has to shift from the more orthodox role of ensuring proper allocation and use of funds received, to the complex role of ensuring the survival of the universities by identifying and utilising other sources of revenue generations such as income generating activities.

Sources of finance in KU include government grants, tuition fees, research grants, donor funding and Aid.

To evaluate the sources, of income several indicators can be used. These include the following:

- 1) Government grants/ Total income
- 2) Total income – Government grants/ Total income
- 3) Tuition Income/ Total Income
- 4) Surplus income/ Total Income
- 5) Research grants/ Total Income

2.2.1 Empirical studies on financing

Sanyal and William (1996) noted that the Small University of Twente decided it would have to make some very radical changes if it were to survive. It divided its annual government funding into 85% for distribution to the faculties and 15% for incentives and new strategic areas. Faculties were pressured to seek income and rationalise their programmes by making them cost centres, to which all costs were charged (even overheads), and budgets were output based. The system has been working for several years now and is acknowledged to be the most advanced in the Netherlands.

Aduol (2001) found that universities are unable to attract adequate quality academic and professional staff due to lack of facilities for teaching and increased student unrest. This is caused largely by staffing, that is generally not rationalised with respect to student numbers and unit costs, hence leading to poor staffing and financing strategies. He proposed that the government should adopt right from the outset realistic student unit costs and then funding should be based on unit costs of the students its sponsoring for the university studies.

Riechi (1993) revealed that on average public universities derived about 90% of revenue for their recurrent and development expenditure from government and the rest from other sources such as IGA and donors. In this study the University of Nairobi generated the highest amount of revenue from internal sources compared to other institutions studied. There were 27 IGA units in all public universities, 19 of which were financially self-supporting. The researcher found that all IGA were primarily set up for teaching purposes.

A study carried out by ten senior African Universities academicians in 1991 noted that for the decade of 1980 to 1989 national governments provided 90% to 100% of the capital and recurrent funds available to the universities. On production and income generating efforts the study found that there are many possibilities and even the range of activities already attempted by African Universities are on diverse and these include the training programmes for viable user fees for example evening courses, summer, sandwich and other special programmes designed for industrial and commercial clientele. This is widely spread and

popular in universities such as Addis Ababa University and Eduardo Mondlane University. Activities such as linkages of universities with productive sectors, such as survey, feasibility studies and advising have been practiced at Obasemu Awololo University and Addis Ababa University. Lastly investments in equities, estates and long term deposits has been practiced by Addis Ababa University. The university has done well in both crop and animal farming. Others include production and Business ventures such as shops, guesthouses, farms and bakeries.

Roseth (2000) identified that the university of Michigan had transformed itself into a privately financed public university. It has built alternate revenue streams that compensated for lagging state support. It has focused on increasing its quality and enhancing productivity. It has a unique degree of autonomy mandated by its state constitution hence sets its own tuition levels at par with private institution. Michigan University obtains its revenue from three different sources. This include an endowment fund, annual gifts and University's medical centre which is large in size.

Fontana (2004) noted that commercialisation in Canadian Universities is at its infancy when compared to the commercialisation activities in America universities as shown below.

Table 2.2.1: 2001 Licensing incomes from US universities

Rank University	Licence income (\$) (A)	Research Expenditure (\$) (B)	Ratio of A/B
Columbia University	155,653,422	407,405,270	38.2%
New York University	62,700,209	179,727,000	34%
Florida State University	52,077,120	154,705,048	33.6%
University of Rochester	42,095,533	260,093,000	16.185%

Table 2.2.2: 2001 Licensing Incomes for Canadian Universities

Rank University	Licence income (\$) (A)	Research Expenditure (\$) (B)	Ratio A/B
Universite de Sherbroke	10,594,400	41,451,000	25.5%
University of British Columbia	5,585,186	193,432,000	2.887%
Queens University	2,709,831	101,365,000	2.673%
McGill University	6,400,573	280,267,000	2.285%

Hoxby (1999) noted that appropriations of state tax funds for operating expenses of higher education in the United States per \$1,000 of personal income dropped by 18.5% from financial year 1990 to 2000. Higher education share of the State and local government expenditures also dropped during the 1990s decreasing by 7.49% in 1990 to 6.25% in 1998 after peaking at 8.25% in 1992. In 1988 – 1989 state appropriations of member institutions of the American Association of State colleges and Universities (AASCU) constituted 50.6% of current fund revenues. By 1998 – 1999 the proportions of current revenues constituted by state appropriations had shrunk to 40.9%. In this face of shrinking government revenues and rising costs, the private sector has picked up the funding “slack” for public higher education through increased tuition and fees. Statistics indicate that between 1988 – 1989 and 1998 – 1999 revenue constituted by tuition and fees increased from 14.7% to 18.4% public colleges and universities. At American Association of State colleges and Universities institutions tuition and fees revenues increased from 19.5% to 25.7% of the current fund revenue during the same period. Thus between 1988-1989 and 1998 – 1999 the current fund revenues generated by tuition and fees at public four year institutions increased by 107.4%.

Sanyal and Williams (1996) notes that the main sources of income of Israel higher education institutions are through state funding determined and paid by the Planning and Grants Committee. These include income from current donations, revenue from endowment funds, tuition fees, public and private research contracts and grants and sales of services. The financing of the university sector in Jordan has one particularly unique aspect. The university Tax Law imposes a tax on goods and thereby creates a permanent resource in the budget for Jordan’s universities. Such a mechanism is supposed to contribute to the financial autonomy of higher education institutions.

2.3 Investment Decisions

Pandey (1993) states that investment decisions of the firm are generally known as the capital budgeting or capital expenditure decisions. Firms make decisions to invest its current funds most efficiently in the long-term assets in anticipation of an expected flow of benefits over a series of years. These include expansion, acquisition, modernisation and replacement of the long-term assets. Investments are evaluated by estimating cash flows required rate of return and the applications of a decision rule for making the choice. A number of capital budgeting techniques are used in practice. These include net present value, internal rate of return, profitability index, payback period and accounting rate of return.

2.3.1 Empirical studies on investment

The risk management committee (2004) noted that the university of Cambridge and its staff have been facing and managing risk successfully for a long time resulting in a unique institution that has exploited opportunities to become one of the UK’s and the world’s best known universities. The financial

memorandum requires that the council ensure that the university has a sound system of internal financial management and control. The Audit code of practice (2004) requires that the Audit committee should provide an annual report, which should include the committee's opinion on the extent to which the governing body may rely on the institutions internal control system and the arrangement for promoting economy, efficiency and effectiveness. The principles of risk management are specified in the British Universities Finance Director Group (BUFDG) and are based on the Turnbull Report. The principles are that first, the identification and management of risks should be issued to the achievement of institutional objectives. Secondly the approach to internal control should be risk-based including an evaluation of the likelihood and impact of risks becoming a reality. Thirdly review procedure must cover business operational and compliance risks as well as financial risk. Thus risk assessment and internal control should be embedded in ongoing operations. Lastly the governing body or relevant committee should receive regular reports during the year on internal control and risk and the principal results of risk identification, evaluation and management review should be reported and reviewed by the governing body.

2.4 Breakeven Decisions

The interrelationships of changes in costs, volume and profits are sometimes too narrowly described as breakeven analysis. Thus breakeven point is that point of volume where total revenues and total expenses are equal. That is it is a point of neither profit nor loss.

2.4.1 Empirical studies on Breakeven Decisions

Berube (1987) noted that if a department had to pay for duplicating or transport or use produce from the farm or computer time they are likely to carefully assess their need before they decide to commit some of their funds. Furthermore, once it becomes policy that a service department must break even the head of the department will also pay more attention to his expenses and revenue. Some Canadian universities have taken this one step further when it comes to catering. In 1978 Brandon University was losing \$100,000 a year on its catering operations. They hired an outside catering firm. Two things happened the food improved which kept the students happy and the \$100,000 deficit was eliminated in the first year. In the second year an incentive was provided in that any surplus would be split 50/50 between the catering company and the university. In the second year there was a \$20,000 surplus. The surplus consistently went up over the years and stabilised at around \$75,000 per year.

Berube (1987) concluded that three phases were needed to improve the cost efficiency of the transport department at the University of Swaziland. These included, introduction of a properly authorised travel requisition, having the charges assessed and processed against the user's department and circulating a questionnaire amongst all departments asking them how often they required a vehicle, for what purpose, for

how long and the type of vehicle they required. The study found that the department had too many and wrong kinds of vehicles. Land rovers and fifteen seater buses were used almost 100% of the time to take one or two people to a meeting. As a result there was a complete overhaul of the make-up of the fleet and purchase of small sedans, which were much cheaper to run than the land rovers and Kombis. This resulted into a reduction of petrol and diesel from 150,000 litres a year to 120,000 litres a year. Other savings were made on tyres, oil and general wear tear and the number of drivers needed.

2.5 Working capital management

According to Diacogiannis (1994) working capital includes stocks debtors, short-term investments and cash. Effective WCM provides the firm with adequate liquidity both to pay its maturing short-term obligations as they come due and to conduct the firm's normal day-to-day operations.

Pandey (1993) states that excessive WC results in unnecessary accumulation of inventories, thus chances of inventory misleading, waste, theft and losses increase. Secondly it is an indication of defective credit policy and slack collection period completely, higher incidence of bad debts results, which adversely affects profits. Thirdly excessive working capital makes management complacent, which degenerates into managerial inefficiency. And lastly tendencies of accumulating inventory to make speculative profits grow. Inadequate WC stagnates growth due to lack of funds.

2.5.1 Cash Management

Brigham and Houston (2001) notes that the goal of cash management is to minimize the amount of cash the firm must hold for use in conducting its normal business activities yet at the same time, to have sufficient cash to take trade discounts, maintain its credit rating and meet unexpected cash needs. Firms hold cash for transactions, precaution and speculation purposes. The firm estimates its needs as a part of its general budgeting or forecasting process. Thus monthly cash budgets are used for planning purposes and daily or weekly budgets for actual cash control. Effective cash management encompasses proper management of cash inflows and outflows.

2.5.2 Inventory Management

Inventories are costly to hold in that they require funds to be invested, they have to be stored, insured and handled. There are also the implied costs of experiencing stock outs, resulting in loss of business and potential customers. Therefore it is necessary to determine the optimal amount of inventory to hold at any point in time, which is done using the Economic Order quantity model shown below.

$$EOQ = \sqrt{\frac{2SO}{C}} \quad \text{Where } S = \text{Total sales or usage in units.}$$

C

O = Ordering cost for each order.

C= Carrying cost per unit in dollars

Secondly it is necessary to determine safety stock to prevent stock outs. This average inventory is given by the formula: Average inventory = $\frac{EOQ}{2} + \text{Safety Stock}$

2

2.5.3 Management of Accounts Receivables

Firms have to sell on credit to increase their sales and also take care of challenges from customers. However such credit sales carry with them the risk of bad debts. It is therefore necessary to devise appropriate policies to take care of the inherent risk in accounts receivables. Accounts receivable in universities is largely in the form of tuition fees outstanding.

Van Horne (1991) states that firms determine its overall collection policy by the combination of collection procedures it undertakes. These procedures include letters, phone calls, personal visits and legal action. Within a range, the greater the relative amount expended the lower the proportion of bad debts losses and the shorter the average collection period.

2.5.4 Empirical study on Accounts Receivables

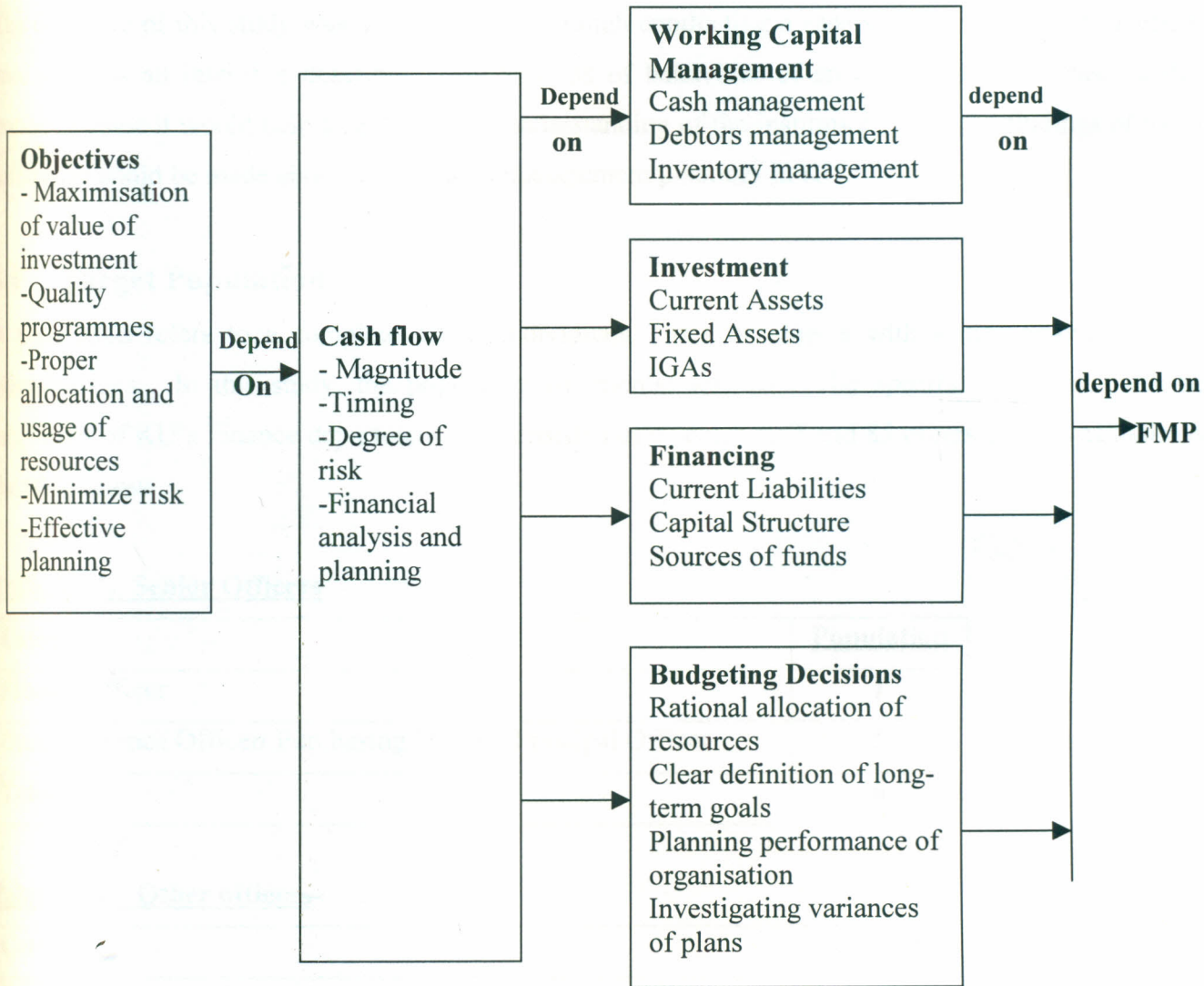
Walden University financial policies (2003-2004) states that students must either pay tuition and applicable fees or have a guaranteed federal financial aid loan in place 15 days prior to the start of each quarter. When the drop/add period ends, every student with an outstanding balance and no method of payment are placed on bursar hold. Bursar hold prevents a student from registering for any future quarters/semesters until the outstanding balance is paid.

Students failing to pay tuition by the scheduled deadlines are financially suspended from the program. Students who have been financially suspended may apply to the bursar for reinstatement after paying a reinstatement fees in addition to the outstanding tuition or fees. Students who add courses during the drop/add period must either have sufficient funds on deposits in their account or make payment arrangements with the bursar's office by the end of the drop/add period. Course registrations will be cancelled and financial suspension will be enacted for those students not in good financial standing as of the 11th day of each quarter.

Students who have not completed all degree and university requirements by the payment due date are required to pay the full tuition for the ensuing quarter. Any credit balance resulting from a prorating of the final quarter of tuition is applied against commencement and processing fees with any residual balance refunded to the student.

2.6 Conceptual Framework

The Financial Management Framework



CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Research Design

The objective of this study was to be achieved through conducting a case study of Kenyatta University. A case study is an intensive description and analysis of behaviour of an organisation. A case study was preferred since it would help to get a deeper understanding of the institution. From the findings of the study inferences could be made about the financial management practices in KU.

3.1 Target Population

A population refers to a complete set of individuals, cases or objects with some common observable characteristics. In this study, the population of interest was KU. The specific population will be 91 employees of KU's Finance department that consisted of 6 senior staff and 85 others officers as indicated in the table below.

Table 3.1.1: Senior Officers

Category	<u>Population</u>
Finance Officer	1
Deputy Finance Officer/ Purchasing Officer/ Principal Officer	5
Total	6

Table 3.1.2: Other officers

Category	Population
Senior Accountant	12
Accountant	13
Assistant Accountant	22
Senior Accounts Assistant	16
Accounts Assistant	10
Accounts Clerk	12
Total	85

3.2 The Sample Size

The sample size consisted of 38 respondents to ensure fair representation. The reason for selecting the sample respondent, was that they were exposed to all matters related to financial management hence had more knowledge in the area of study. They also work in liaison with senior officers of the universities such as vice-chancellors and Deputy Vice-Chancellor responsible for financial matters. The respondents participated in making policy matters related to financial management issues. From time to time they are charged with the responsibility of the preparation of management reports and hence well versed with financial management practices in public universities.

3.3 Sampling Strategy

Stratified random sampling will be used to select a representative sample of 7. Purposive sampling will also be used to select 31 respondents. The sample taken will represent at least 30% of the population under study. Below is a table to explain the sampling strategy.

Table 3.3.1: Sample Frame

Category	Population	Sample
Finance Officer	1	1
Deputy Finance Officer/ Purchasing Officer/ Principal Officer	5	5
Senior Accountant	12	12
Accountant	13	13
Sub-total (A)	31	31

Category	Population	Sample
		30%
Assistant Accountant	22	7
Sub-total (A)	22	7
Total (A+B)		38

3.4 Data Collection and Description

The study requires the use of both primary and secondary data. The secondary data shall be obtained from Kenyatta University published final accounts for the past five years (July 1999 to June 2004). Analysis of the accounts is aimed at revealing financial management practices of the universities over the years.

Primary data is to be obtained through the use of questionnaires, which has both structured and unstructured questions (Appendix II). This shall make it possible to obtain all the relevant information. In some cases open-ended questions will be used. This gives the respondent freedom of expression and permits a greater depth of response since they are not tied up to the views of the researcher. In most cases closed ended questions will be used.

3.5 Data Analysis and Presentation

Data obtained shall be analysed using descriptive statistics. These include use of frequencies, correlation, percentages, ranks, ratios, and mode and mean scores. These data will then be presented by way of tables, line graphs, bar charts and pie charts.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION

4.0 Introduction

In this chapter results were analysed and interpreted by way of tables and charts.

Thirty-eight questionnaires were issued out and the response was as follows;

No. of questionnaires issued out	38
No. returned	26
Response rate	68%

4.1 Financing Decisions

4.1.1 Reasons why KU has diversified into other training areas

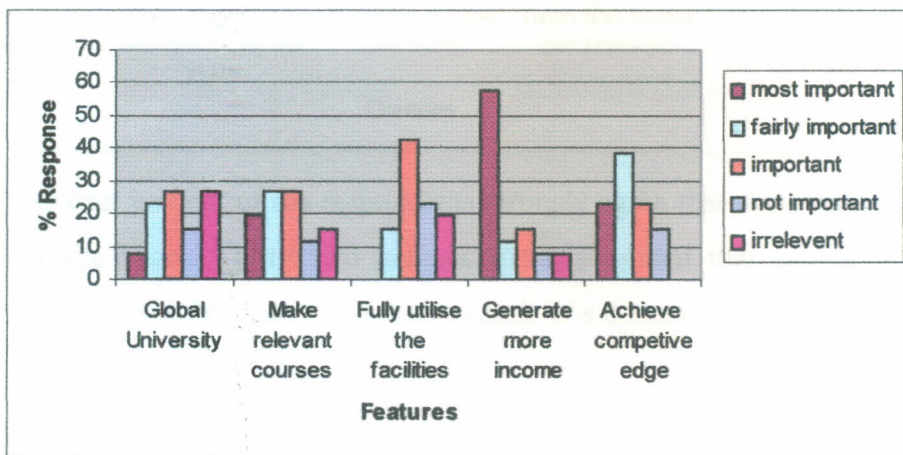
The respondents were asked to rank the reasons why KU has diversified into other training areas in a scale of 1 to 5 where 1 represents most important and 5 represents irrelevant. The results were as analysed below.

Table 4.1.1

Reasons	Number of respondents by ranks										Total	
	1	%	2	%	3	%	4	%	5	%	No.	%
Global University	2	8	6	23	7	27	4	15	7	27	26	100
Make relevant courses	5	19	7	27	7	27	3	12	4	15	26	100
Fully utilise the facilities	0	0	4	15	11	42	6	23	5	19	26	100
Generate more income	15	58	3	12	4	15	2	8	2	8	26	100
Achieve competitive edge	6	23	10	38	6	23	4	15	0	0	26	100

The above data is presented using the following bar graph.

Figure 1



Fifty eight percent of the respondents said that the most important reason why KU has diversified into other training areas is to generate more income. Forty two percent felt that full utilisation of the facilities was an important reason for KU diversifying into other training areas while 38% felt that achieving a competitive edge was a fairly important reason for diversification

4.1.2 Changes in the sources of funding in KU

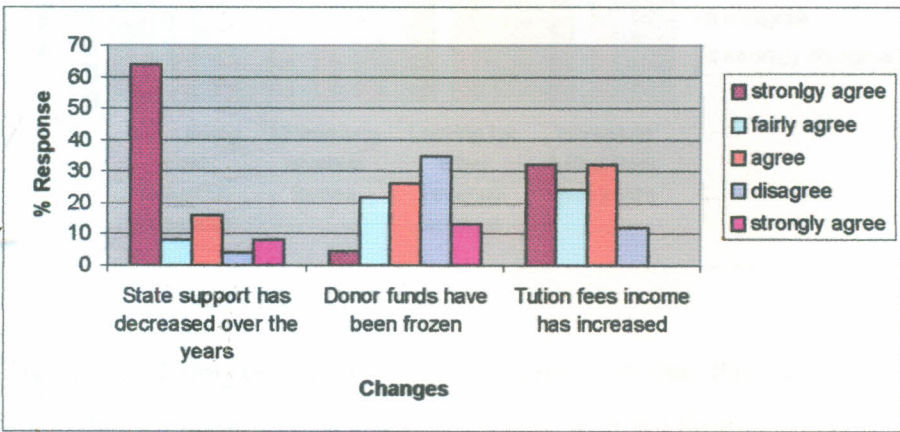
The respondents were asked to state how the funding for KU has changed over the years in a scale of 1 to 5, where 1 represents strongly agree and 5 represents strongly disagree. The results were analysed as below

Table 4.1.2

Changes	Number of respondents by ranks										Total	
	1	%	2	%	3	%	4	%	5	%	No.	%
State support has decreased over the years	16	64	2	8	4	16	2	4	2	8	26	100
Donor funds have been frozen	4	4	5	22	6	26	8	35	3	13	26	100
Tuition fees income has increased	8	32	7	24	8	32	3	12	0	0	26	100

The above data is presented using the following bar graph.

Figure 2



Sixty four percent of the respondents strongly agree that state support has decreased over the years. Thirty two percent strongly agreed that tuition fees income has increased over the years. This is as a result of a decrease in state support.

4.1.3 Measures taken by KU as a result of the changes in the sources of funding

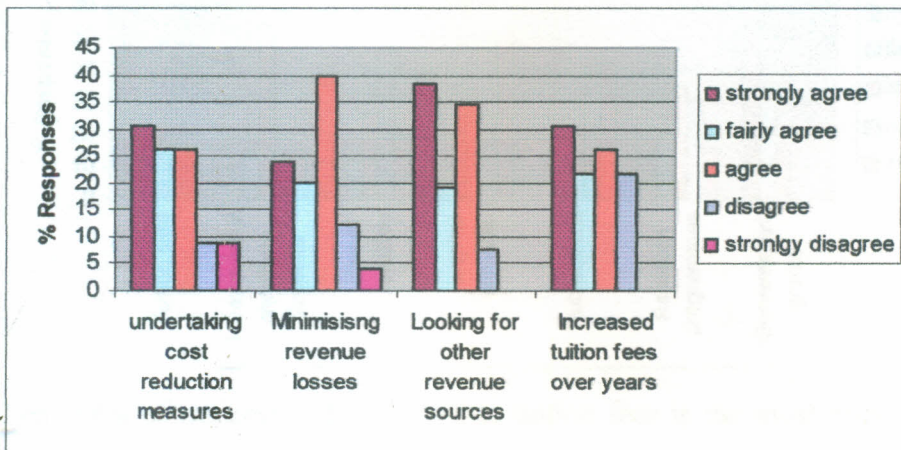
The respondents were asked to state how KU is reacting to the changes in the sources of funds such as undertaking cost reduction measures, minimising revenue losses, looking for other revenue sources and increasing tuition fees over the years, in a scale of 1 to 5, where 1 represents strongly agree and 5 represents strongly disagree. The responses were as follows;

Table 4.1.3

Measures	Number of respondents by ranks										Total No.
	1	%	2	%	3	%	4	%	5	%	
Undertaking cost reduction measures	8	30	6	26	6	26	3	9	3	9	26
Minimising revenue losses	6	24	5	20	10	40	3	12	2	4	26
Looking for other revenue sources	10	38	5	19	9	35	2	8	0	0	26
Increased tuition fees over years	8	30	6	22	6	26	6	22	0	0	26

The data is presented in the bar graph below.

Figure 3



Over 25% of the respondents were in agreement that the University is undertaking cost reduction measures as a way of coping with the limited resources. Forty percent of the respondents agreed that the university is taking measures to minimise revenue losses. Of the respondents sampled, over 35% strongly agree that due to the limited government funding, the university is opting for other ways of generating revenue.

4.1.4 Sources of Revenue in KU

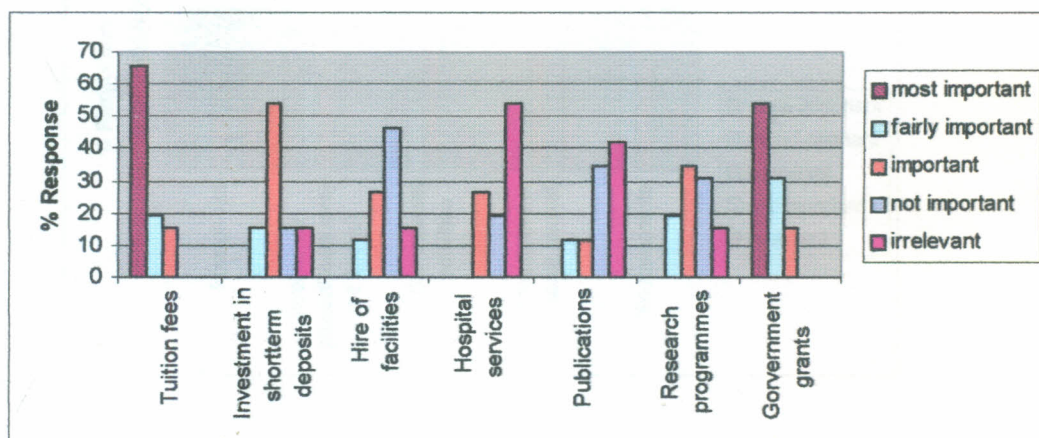
The respondents were asked to rank the sources of revenue in KU in a scale of 1 to 5 where 1 represents most important and 5 represents irrelevant. The results were as follows;

Table 4.1.4

Sources of Revenue	Number of respondents by ranks										Total	
	1	%	2	%	3	%	4	%	5	%		
Tuition fees	17	65	5	19	4	15	0	0	0	0	26	100
Investment in short-term deposits	0	0	4	15	14	54	4	15	4	15	26	100
Hire of facilities	0	0	3	12	7	27	12	46	4	15	26	100
Hospital services	0	0	0	0	7	27	5	19	14	54	26	100
Publications	0	0	3	12	3	12	9	35	11	42	26	100
Research programmes	0	0	5	19	9	35	8	31	4	15	26	100
Government grants	14	54	8	31	4	15	0	0	0	0	26	100

The data is presented in the bar graph below.

Figure 4



Over 60% of the respondents felt that tuition fees is the most important source of revenue for KU. About 54% of the respondents were of the view that Government grants is the most important source although not as important as tuition fees. Other important sources include investment in short-term deposits, hire of facilities and research grants, as revealed by 54%, 46% and 35% respectively. fifty four percent and 46% of the respondents felt that hospital services and publications respectively are not a source of revenue in KU.

4.1.5 Options KU should pursue to reduce its financial difficulties

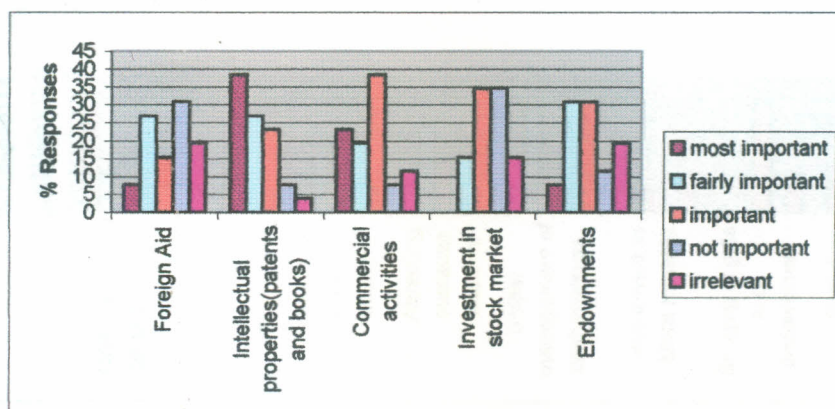
The respondents were asked to rank the options KU should pursue in relation to sources of funds, to reduce its difficulties in a scale of 1 to 5 where 1 represents most important and 5 represents irrelevant. The following observation was made.

Table 4.1.5

Features	Number of respondents by ranks										Total	
	1	%	2	%	3	%	4	%	5	%		
Foreign Aid	2	8	7	27	4	15	8	31	5	19	26	100
Intellectual properties (patents and books)	10	38	7	27	6	23	2	8	1	4	26	100
Commercial activities	6	23	5	19	10	38	2	8	3	12	26	100
Investment in stock market	0	0	4	15	9	35	9	35	4	15	26	100
Endowments	2	8	8	31	8	31	3	12	5	19	26	100

The above data is presented using the bar graph below

Figure 5



Thirty eight percent of the respondents were of the view that KU should be innovative and acquire intellectual properties as a most important source of income. Some respondents felt that there is need for KU to venture into commercial activities as a way of raising more income, as this is 23%, 19% and 38% most important, fairly important and important respectively. Thirty one percent of the respondents felt that endowments should be started as this fairly important and important source of revenue.

4.1.6 Commercial activities KU should undertake

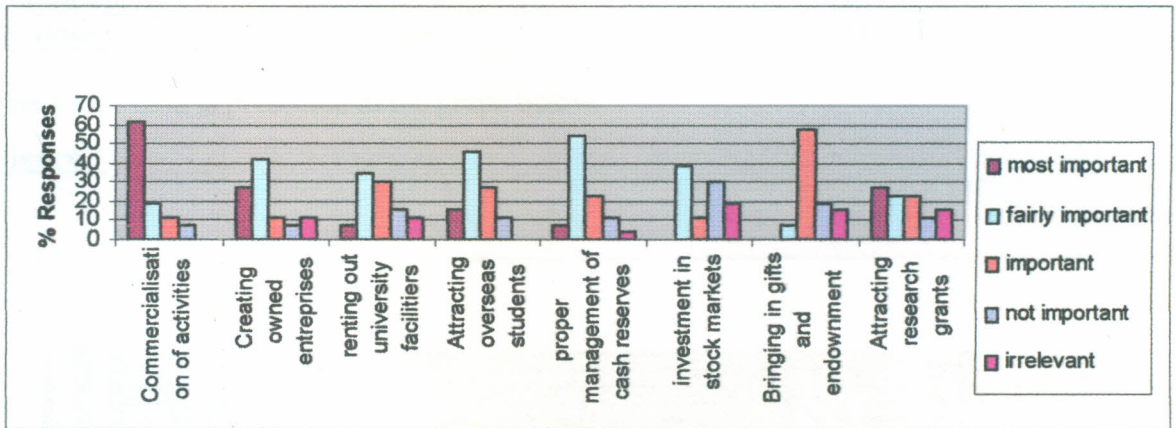
The respondents were asked to rank commercial activities KU should undertake in a scale of 1 to 5 where 1 represents most important and 5 represents irrelevant. The results were as follows;

Table 4.1.6

Activity	Number of respondents by ranks										Total	
	1	%	2	%	3	%	4	%	5	%		%
Commercialisation of activities	16	62	5	19	3	12	2	8	0	0	26	100
Creating owned enterprises	7	27	11	42	3	12	2	8	3	12	26	100
Renting out university facilities	2	8	9	35	8	31	4	15	3	12	26	100
Attracting overseas students	4	15	12	46	7	27	3	12	0	0	26	100
Proper management of cash reserves	2	8	14	54	6	23	3	12	1	4	26	100
Investment in stock markets	0	0	10	38	3	12	8	31	5	19	26	100
Bringing in gifts and endowments	0	0	2	8	15	58	5	19	4	15	26	100
Attracting research grants	7	27	6	23	6	23	3	12	4	15	26	100

The data above is presented using the bar graph below

Figure 6



Sixty two percent of the respondents were of the view that the most important commercial activity the university should undertake is the commercialisation of university programmes and activities. Forty two percent and thirty five percent felt that creating university owned enterprises and renting out university facilities are fairly important and important, activities the university should undertake. Forty six percent of the respondents were of the view that attracting overseas students at differential rates on full cost basis could boost the university revenue. Fifty four percent of the respondents felt that proper management of cash reserves was fairly important commercial activity that the university should undertake so as to maximise interest income. Fifty eight percent felt that starting endowments are very important sources of revenue.

4.1.7 Benefits of alternative financing sources

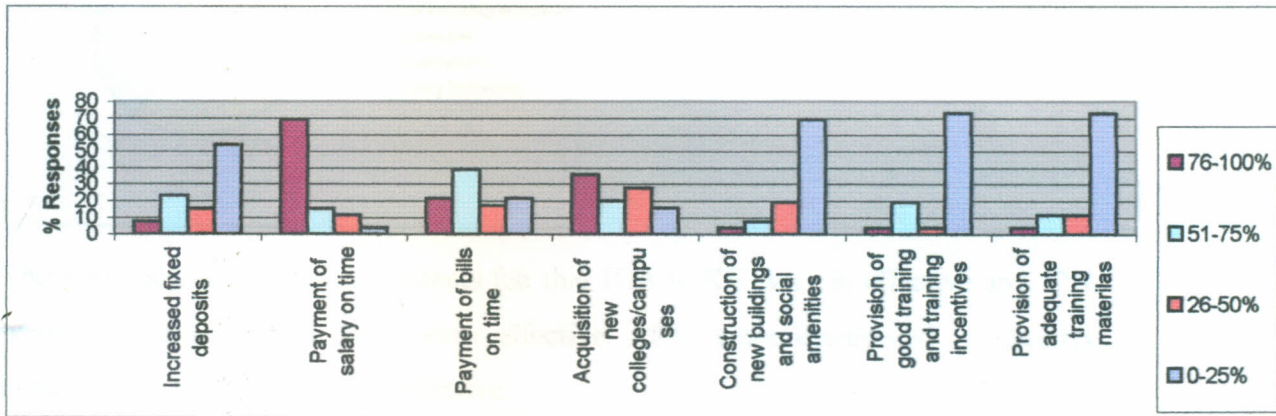
The respondents were asked to indicate the extent to which KU has benefited as a result of alternative financing in a scale of 0 to 100%. The results were as indicated below;

Table 4.1.7

Type of benefit	Number of respondents by category								Total	
	76-100%	%	51-75%	%	26-50%	%	0-25%	%		
Increased fixed deposits	2	7.69	6	23	4	15.4	14	54	26	100
Payment of salary on time	18	69.2	4	15	3	11.5	1	3.8	26	100
Payment of bills on time	8	21.7	9	39	4	17.4	5	22	26	100
Acquisition of new colleges/campuses	9	36	5	20	7	28	4	16	25	100
Construction of new buildings and social amenities	1	3.85	2	8	5	19.2	18	69	26	100
Provision of good training and training incentives	1	3.85	5	19	1	3.85	19	73	26	100
Provision of adequate training materials	1	3.85	3	12	3	11.5	19	73	26	100

The above data is presented in the graph below

Figure 7



Fifty four percent of the respondents felt that due to alternative financing, the university has benefited in the range of 0 to 25% in terms of increase in fixed deposits. Seventy percent were of the view that the university has been able to pay salaries on time and the benefit is in the range of 76 to 100%. Over 60% of the respondents were of the view that the university has not benefited much in the area of construction of new building and social amenities, provision of good training and training incentives and the provision of adequate training materials. This is so because the benefit derived in the range of 0 to 25%.

4.2.1 Performance of IGA in KU

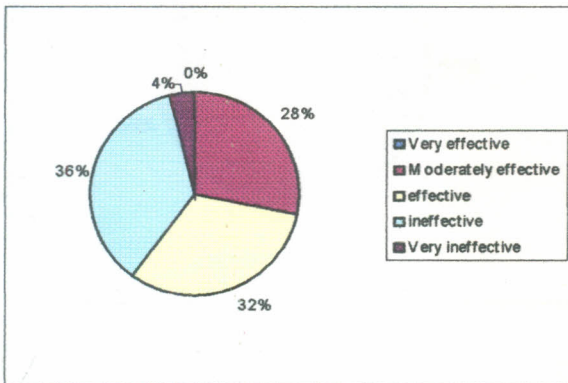
The respondents were asked to rate the performance of IGA in KU in a scale of 1 to 5 where 1 represents very effective and 5 represents very ineffective. The results were as indicated below

Table 4.2.1 (a)

Rate of performance	Respondents	
	No.	%
Very effective	0	0
Moderately effective	7	28
Effective	8	32
Ineffective	9	36
Very ineffective	1	4
Total	25	100

The above data is presented in the pie chart below

Figure 8



Thirty six percent of the respondents felt that IGA in KU were in effective and 32% were of the view that IGA were effective. 28% were considered moderately effective. Four percent were ineffective.

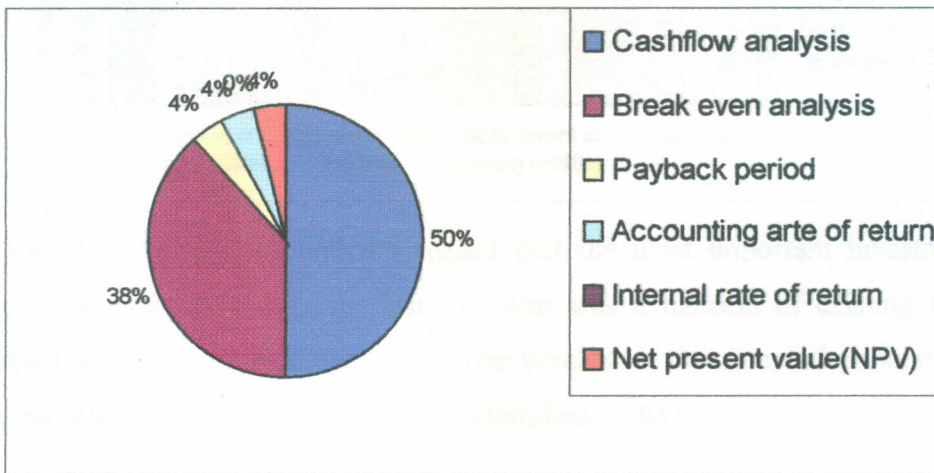
The respondents were also asked to state the method used for evaluating IGA in KU. The results were as indicated below

Table 4.2.1 (b)

Method for evaluating IGA	Respondents	
	No.	%
Cash flow analysis	13	50
Break even analysis	10	38
Payback period	1	4
Accounting arte of return	1	4
Internal rate of return	0	0
Net present value (NPV)	1	4
Total	26	100

The is analysed in the pie chart below

Figure 9



Out of the respondents sampled 50% argued that cash flow analysis was the common method used to evaluate IGA in KU. Thirty eight percent felt that break-even analysis was also used.

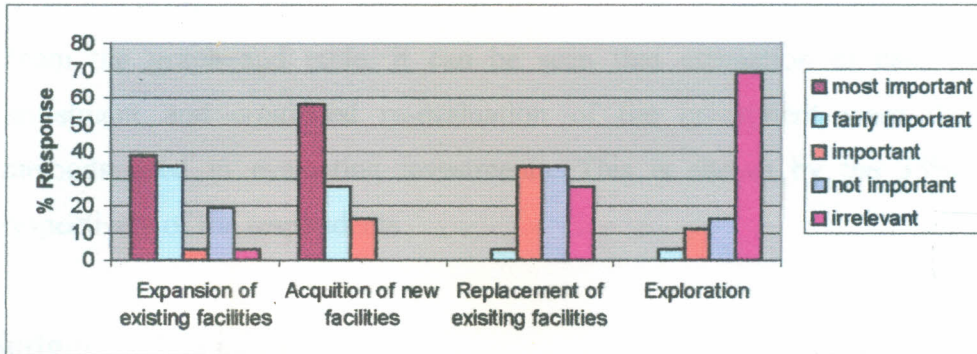
4.2.2 Investment activities undertaken by KU

The respondents were asked to rank investments undertaken by KU over the last one year in a scale of 1 to 5 where 1 represents most important and 5 represents irrelevant. The results were as indicated below

Table 4.2.2

Investment activity	Number of respondents by ranks										Total	
	1	%	2	%	3	%	4	%	5	%		100
Expansion of existing facilities	10	38	9	35	1	4	5	19	1	4	26	100
Acquisition of new facilities	15	58	7	27	4	15	0	0	0	0	26	100
Replacement of existing facilities	0	0	1	4	9	35	9	35	7	27	26	100
Exploration	0	0	1	4	3	12	4	15	18	69	26	100

The data is presented in the bar graph below

Figure 10

Over 30% of the respondents argued that the most important investment activity undertaken by KU over the last one year was expansion of existing facilities and acquisition of new facilities. Sixty nine percent of the sampled population held the view that exploration had not been undertaken by KU.

4.2.3 Steps of capital budgeting

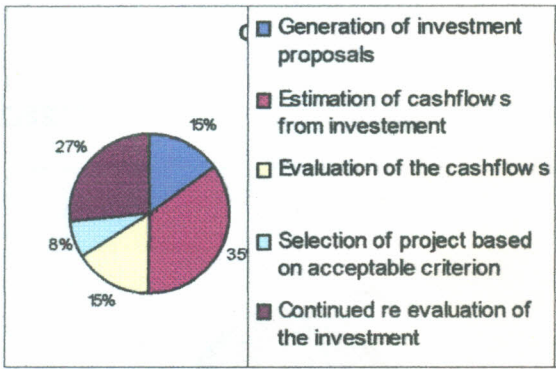
The respondents were asked to state the steps used by KU in evaluating investments. The results were summarised as below.

Table 4.2.3

Capital budgeting steps	Respondents	
	No.	%
Generation of investment proposals	4	15
Estimation of cash flows from investment	9	35
Evaluation of the cash flows	4	15
Selection of project based on acceptable criterion	2	8
Continued re evaluation of the investment	7	27
Total	26	100

The above data is presented in the pie chart below

Figure 11



From the graph and table, it can be seen that estimation of cash flows from investment and continued re-evaluation of the investment were the common methods used in evaluating investments. This is shown by the 35% and 27% respectively of the respondents.

4.3 Budgeting Decisions

4.3.1 Budgeting process

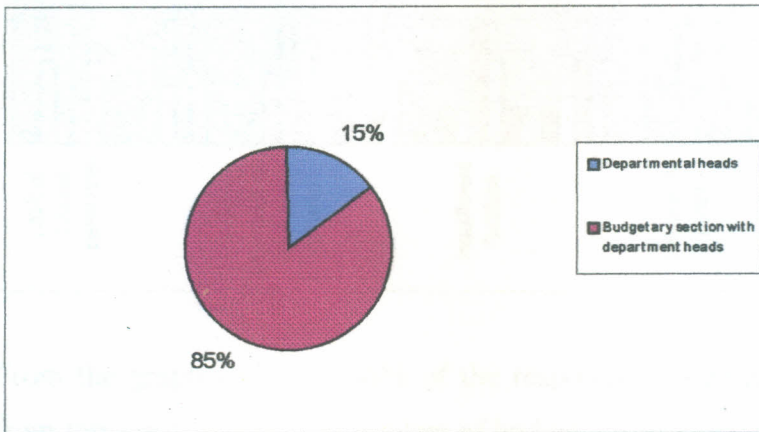
The respondents were asked to state who does the budgeting process in KU. The table below shows the results.

Table 4.3.1

Budgeting	Respondents	
	No.	%
Departmental heads	4	15
Budgetary section with department heads	22	85
Total	26	100

The above data is presented in the pie chart below

Figure 12



Eighty five percent of the respondents were of the view that in KU budgeting is done by budgetary section in conjunction with heads of department.

4.3.2 Problems of KU budgeting system

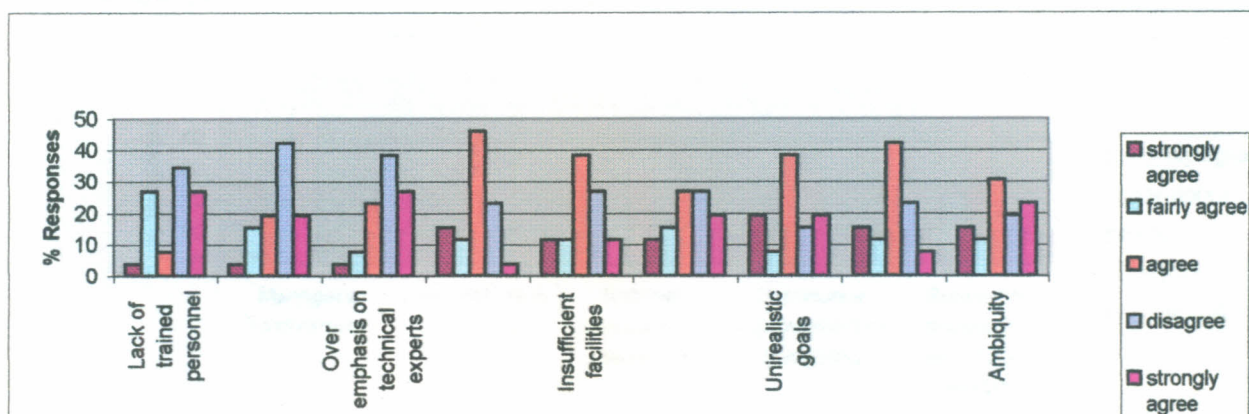
The respondents were required to rank the problems of KU budgeting system in the scale of 1 to 5 where 1 represents strongly agree and 5 represents strongly disagree as shown below.

Table 4.3.2

Problems of budgeting	Number of respondents by ranks										Total	
	1	%	2	%	3	%	4	%	5	%		
Lack of trained personnel	1	4	7	27	2	8	9	35	7	27	26	100
Lack of capability in using data	1	4	4	15	5	19	11	42	5	19	26	100
Over emphasis on technical experts	1	4	2	8	6	23	10	38	7	27	26	100
In adequate from top management	4	15	3	12	12	46	6	23	1	4	26	100
Insufficient facilities	3	12	3	12	10	38	7	27	3	12	26	100
Financial performance is not important	3	12	4	15	7	27	7	27	5	19	26	100
Unrealistic goals	5	19	2	8	10	38	4	15	5	19	26	100
Timing	4	15	3	12	11	42	6	23	2	8	26	100
Ambiguity	4	15	3	12	8	31	5	19	6	23	26	100

The above data is presented in the bar graph below

Figure13



From the graph and table 46% of the respondents agreed that inadequate support from top management is a problem of budgeting process in KU. Thirty eight percent and over of the respondents agreed that insufficient facilities, unrealistic goals and timing are other problems of budgeting.

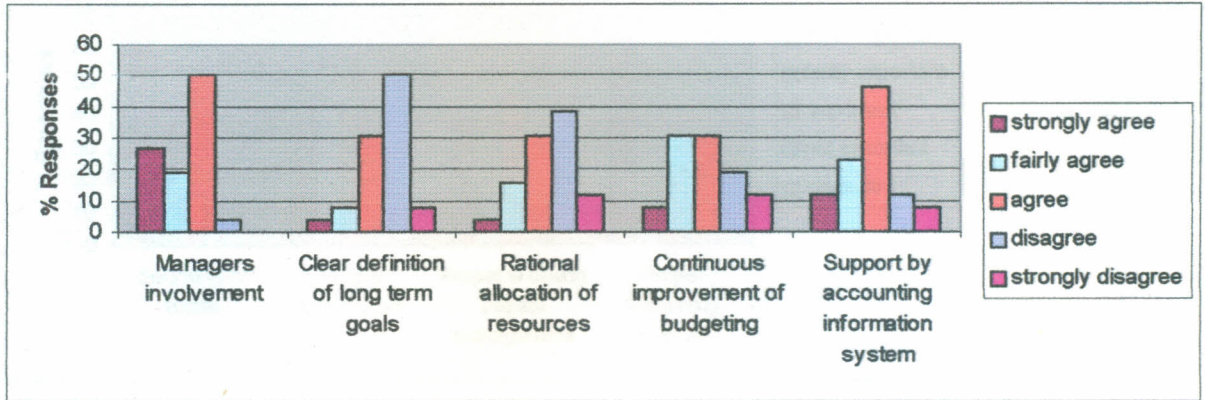
4.3.3 Characteristics of KU budgeting system

Respondents were required to state the characteristics of KU budgeting system in the scale of 1 to 5 where 1 represents strongly agree and 5 represents strongly disagree. The results were analysed as below.

Table 4.3.3

Characteristics of budgeting	Number of respondents by ranks										Total	
	1	%	2	%	3	%	4	%	5	%		
Managers involvement	7	27	5	19	13	50	1	4	0	0	26	100
Clear definition of long term goals	1	4	2	8	8	31	13	50	2	8	26	100
Rational allocation of resources	1	4	4	15	8	31	10	38	3	12	26	100
Continuous improvement of budgeting	2	8	8	31	8	31	5	19	3	12	26	100
Support by accounting information system	3	12	6	23	12	46	3	12	2	8	26	100

The above data is presented in the bar graph below



from the graph it was noted that 50% of the respondents agree that there is managers involvement in the budgeting process. Fifty percent felt that there was no clear definition of long-term goals, realistic achievement and understandable goals of the budget. Forty six percent argued that budgeting process is supported by accounting information. Thirty one percent of them agreed that there is continuous improvement in the budget.

4.3.4 Challenges facing KU in financial management

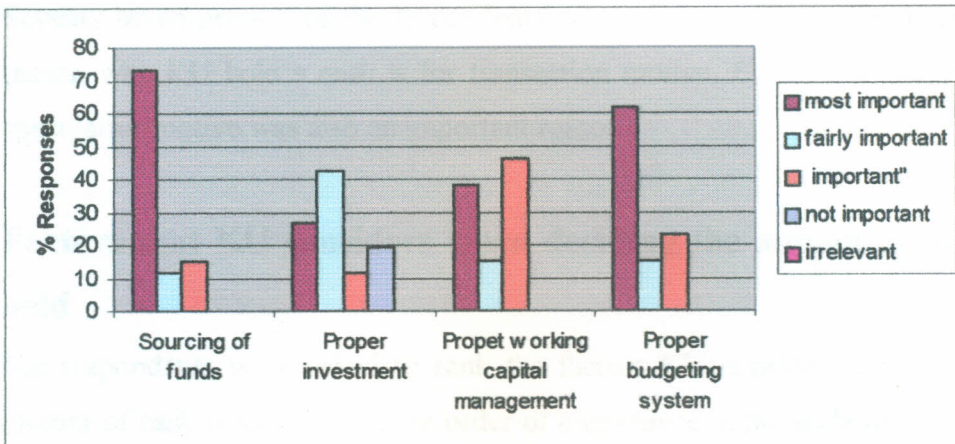
The respondents were required to state the challenges facing KU in financial management, in a scale of 1 to 5 where 1 represents most important and 5 represents irrelevant. The results were analysed by way of table and graph as shown below.

Table 4.3.4

Challenges	Number of respondents by ranks										Total	
	1	%	2	%	3	%	4	%	5	%		
sourcing of funds	19	73	5	12	4	15	0	0	0	0	26	100
Proper investment	7	27	11	42	3	12	5	19	0	0	26	100
Proper working capital management	10	38	4	15	12	46	0	0	0	0	26	100
Proper budgeting system	16	62	4	15	6	23	0	0	0	0	26	100

The above data is presented in the bar graph below.

Figure 15



Seventy three percent of the respondents felt that sourcing of funds was the most important challenge facing KU. Sixty two percent were of the view that proper budgeting was also the most important challenge.

4.4 Working capital management

4.4.1 Reasons why KU holds cash

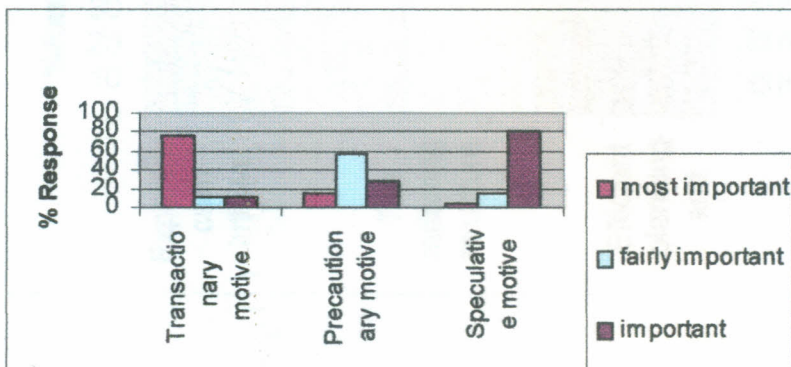
The respondents were asked to rank the reasons why KU holds cash in the scale of 1 to 3 where 1 represents most important and 3 represents important. The results were as follows.

Table 4.4.1

Reasons for holding cash	Number of respondents by ranks						Total	
	1	%	2	%	3	%		
Transactionary motive	20	77	3	12	3	12	26	100
Precautionary motive	4	15	15	58	7	27	26	100
Speculative motive	1	4	4	15	21	81	26	100

The above is presented in the bar graph below

Figure 16



Seventy seven percent of the respondents were of the view that the most important reason why KU hold s cash is for transaction motive. Eighty one percent felt that speculative motive was also an important reason.

4.4.2 Factors that KU considers when deciding the amount of balance to hold

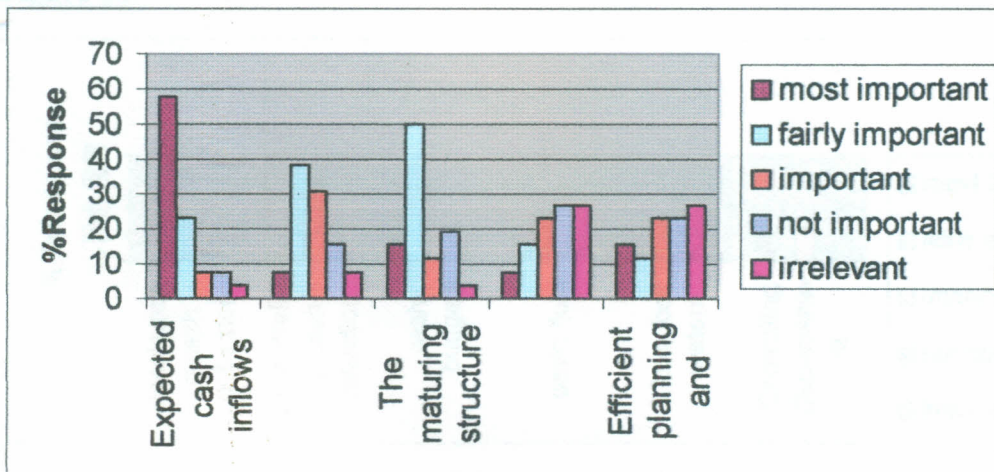
The respondents were asked to rank the factors KU considers when deciding the amount of cash balance to hold in order of importance in the scale of 1 to 5, where 1 represents most important and 5 represents irrelevant. The results were as analysed below.

Table 4.4.2

Factors	Number of respondents by ranks										Total	
	1	%	2	%	3	%	4	%	5	%		
Expected cash inflows and outflows	15	58	6	23	2	8	2	8	1	4	26	100
The degree of deviation	2	8	10	38	8	31	4	15	2	8	26	100
The maturing structure	4	15	13	50	3	12	5	19	1	4	26	100
The ability to borrow	2	8	4	15	6	23	7	27	7	27	26	100
Efficient planning and control of cash	4	15	3	12	6	23	6	23	7	27	26	100

The above data presented in the bar graph below

Figure 17



Fifty eight percent of the respondents were of the view that the most important factor KU considers when deciding on the amount of cash balance to be held is the expected cash inflows and out flows. Over 30% felt that the degree of deviation between the expected and actual net cash flows was a fairly important and important factor considered. Only 4% of the respondents felt expected cash flow, as a factor was irrelevant.

4.4.3 Methods used by KU in managing cash flows

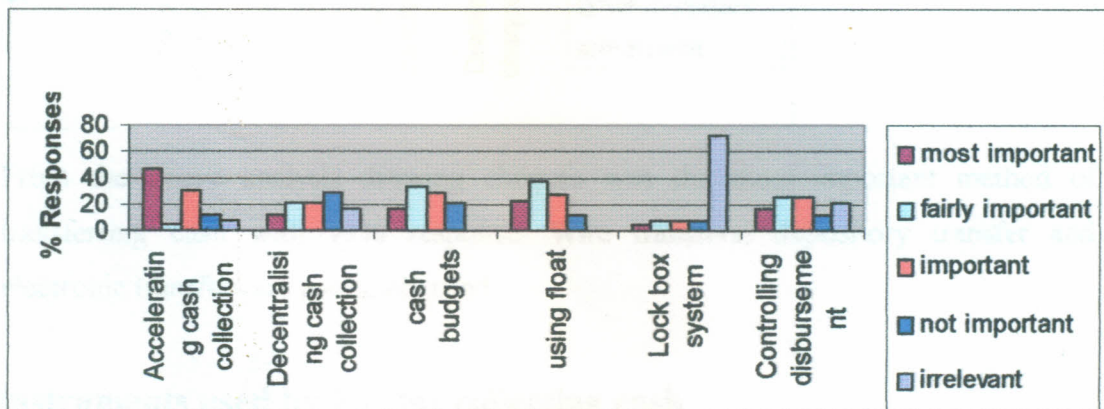
Respondents were asked to rank the methods used by KU in managing cash flows in a scale 1 to 5, where 1 represents most important and 5 represents irrelevant. The outcome was as shown below

Table 4.4.3

Methods	Number of respondents by ranks										Total	
	1	%	2	%	3	%	4	%	5	%		
Accelerating cash collection	12	46	1	4	8	31	3	12	2	8	26	100
Decentralising cash collection	3	13	5	21	5	21	7	29	4	17	24	100
Cash budgets	4	17	8	33	7	29	5	21	0	0	24	100
Using float	6	23	10	38	7	27	3	12	0	0	26	100
Lock box system	1	4	2	8	2	8	2	8	19	73	26	100
Controlling disbursement	4	17	6	25	6	25	3	13	5	21	24	100

The above data is presented in the bar graph below

Figure 18



From the table and the graph it can be seen that accelerating cash collections and using float are methods used by KU in managing cash flows as very few

respondents that is below 20% felt it was neither not important nor irrelevant. Seventy three percent of the respondents were of the view that lock box system is an irrelevant method as its not used in KU. Cash budgets and use of float are averagely used as shown by over 20% of the respondents.

4.4.4 Methods used by KU in transferring cash

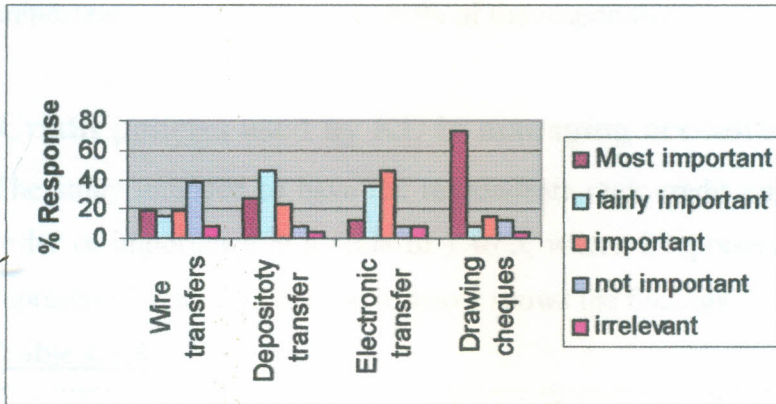
In this particular situation, the survey was to establish the techniques used by KU in transferring cash. The respondents were to rank in order of importance in the scale of 1 to 5, where 1 represents most important and 5 represents irrelevant. The study found the following results;

Table 4.4.4

Techniques	Number of respondents by ranks										Total	
	1	%	2	%	3	%	4	%	5	%		100
Wire transfers	5	19	4	15	5	19	10	38	2	8	26	100
Depository transfer	7	27	12	46	6	23	2	8	1	4	26	100
Electronic transfer	3	12	9	35	12	46	2	8	2	8	26	100
Drawing cheques	19	73	2	8	4	15	3	12	1	4	26	100

The above data is presented in the bar graph below

Figure 19



From the above analysis drawing cheques was the most important method of transferring cash with 73% response. Wire transfers, depository transfer and electronic transfers are averagely used.

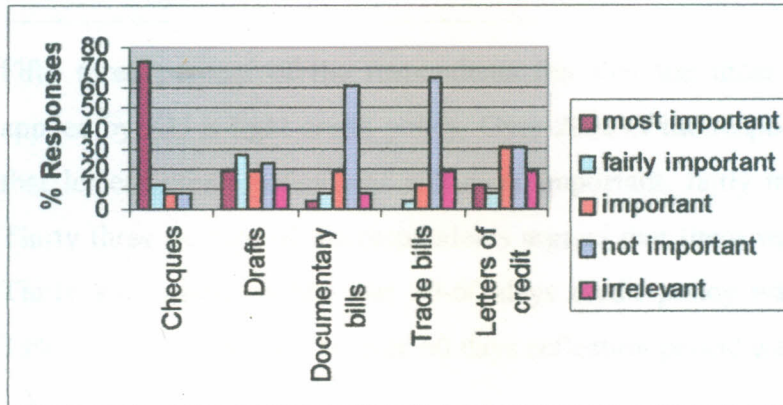
4.4.5 Instruments used by KU for collecting cash

Respondents were asked to rank the instruments used for collecting cash in a scale of 1 to 5, where 1 represents most important and 5 represents irrelevant. The following results were obtained;

Table 4.4.5

Techniques	Number of respondents by ranks										Total	
	1	%	2	%	3	%	4	%	5	%		%
Cheques	19	73	3	12	2	8	2	8	0	0	26	100
Drafts	5	19	7	27	5	19	6	23	3	12	26	100
Documentary bills	1	4	2	8	5	19	16	62	2	8	26	100
Trade bills	0	0	1	4	3	12	17	65	5	19	26	100
Letters of credit	3	12	2	8	8	31	8	31	5	19	26	100

The data is presented in the graph below

Figure 20

Seventy three percent of the respondents felt that cheques were the most important method for collecting cash in KU. Documentary bills and trade bills are not important as revealed by over 60% of the respondents.

4.4.6 Credit policies used by KU in managing accounts receivable

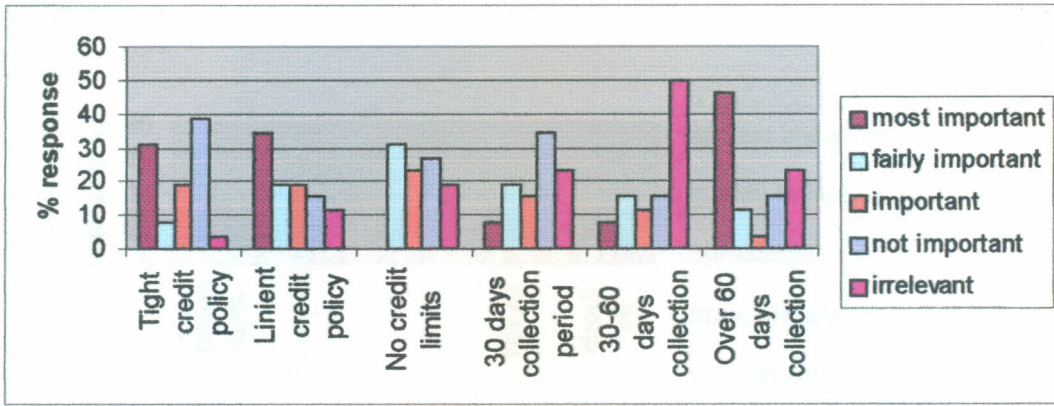
The study intended to have the respondents rank credit policy employed by KU in order of importance in a scale of 1 to 5, where 1 represents most important and 5 represents irrelevant. The table below shows the findings.

Table 4.4.6

Credit policy	Number of respondents by ranks										Total	
	1	%	2	%	3	%	4	%	5	%		%
Tight credit policy	8	31	2	8	5	19	10	38	1	4	26	100
Lenient credit policy	9	35	5	19	5	19	4	15	3	12	26	100
No credit limits	0	0	8	31	6	23	7	27	5	19	26	100
30 days collection period	2	8	5	19	4	15	9	35	6	23	26	100
30-60 days collection period	2	8	4	15	3	12	4	15	13	50	26	100
Over 60 days collection period	12	46	3	12	1	4	4	15	6	23	26	100

The above data was presented in the bar graph below.

Table 21



Fifty three percent of the respondents felt that the most important credit policy applied by KU is tight credit policy. Over 20% of the respondents were of the view that lenient credit policy was still most important, fairly important and important. Thirty three percent of the respondents argued that there was no credit limit in KU. Thirty seven percent felt that 30-60 days credit policy was irrelevant to KU and 33% held the view that the over 60 days collection period was still most important.

4.4.7 Methods used by KU to collect debts.

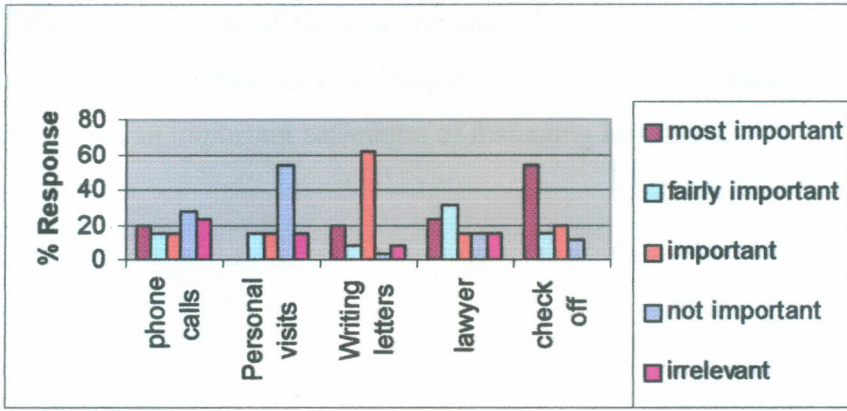
The respondents were required to rank method used by KU to collect debts in a scale of 1 to 5, where 1 represents most important and 5 represents irrelevant. The results were analysed as follows;

Table 4.4.7

Methods	Number of respondents by ranks										Total	
	1	%	2	%	3	%	4	%	5	%		
phone calls	5	19	4	15	4	15	7	27	6	23	26	100
Personal visits	0	0	4	15	4	15	14	54	4	15	26	100
Writing letters	5	19	2	8	16	62	1	4	2	8	26	100
lawyer	6	23	8	31	4	15	4	15	4	15	26	100
check off	14	54	4	15	5	19	3	12	0	0	26	100

The above data is presented in the bar graph below

Figure 22



Fifty Sixty two percent of the respondents argued that writing letters was an important method of collecting debts in KU. Fifty four percent felt that check off is the most important method especially for staff that are on the university payroll. Those who felt that personal visits are not important were 54%.

4.4.8 Inventory management techniques used by KU

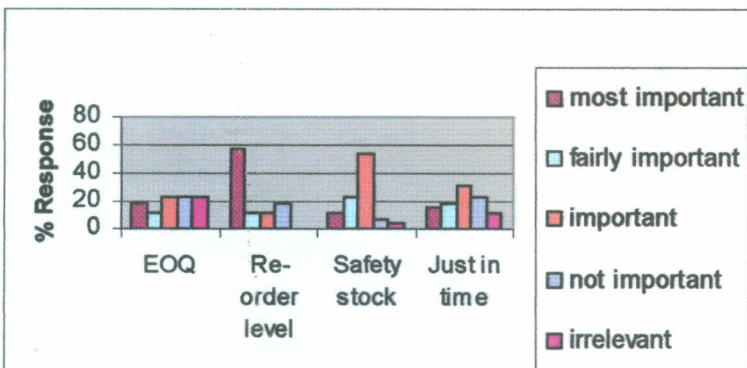
The respondents were required to rank the inventory management techniques used by KU in order of importance in a scale of 1 to 5, where 1 represents most important and 5 represents irrelevant.. The results are analysed below.

Table 4.4.8

Techniques	Number of respondents by ranks										Total	
	1	%	2	%	3	%	4	%	5	%		
EOQ	5	19	3	12	6	23	6	23	6	23	26	100
Re-order level	15	58	3	12	3	12	5	19	0	0	26	100
Safety stock	3	12	6	23	14	54	2	8	1	4	26	100
Just in time	4	15	5	19	8	31	6	23	3	12	26	100

The above data is presented in a bar graph as shown below

Figure 23



CHAPTER FIVE

SUMMARY AND RECOMMENDATIONS

5.0 Introduction

This chapter gives the summary of research findings and the conclusions drawn there from. The limitations of the study and suggested areas of further research are highlighted.

5.1 Summary

5.1.1 Financing decisions

From the study it is clear that the major challenges facing KU in financial management is the sourcing of funds and proper budgeting systems. Once these are in place the university will be able to have surplus funds to be invested. Over the years, KU has had financial difficulties and as a result it has to look for options to pursue in order to reduce its financial difficulties. The study findings indicated that KU should broaden its sources of revenue to match the needs of the university. It should introduce more wide range of competitive courses and enhance efficiency of services as a way of marketing them. It should venture into commercial activities such as petrol stations. KU should introduce innovations such as intellectual properties (patents and books). This will help generate more revenue for the university. Endowments are good income generating activity hence worth starting.

5.1.2 Budgeting decisions

The study indicated that budgeting is never given the much attention needed. Budgeting system has not been able to define clear long-term goals. There has been inadequate support from top management. Budgets play a crucial role in controlling spending. Budgeting systems once approved need to be more strictly maintained and followed in order to meet its obligations. A clear timetable should be set in advance and all expenditures outside the budget should be avoided. Top management of the university should provide sufficient facilities and support its implementation.

5.1.3 Investment decisions

Investments are a good source of revenue if the right investment is done and well managed. Capital budgeting provides good steps of evaluating investments. If these steps are followed good choices of viable investments can be made. Investments therefore should be done after proper evaluation using good appraisal techniques. IGA in KU should thus be evaluated and scrapped if not viable. Where possible they should be privatised. Good examples of IGA I recommend for privatisation are the

cafeterias and university bookshop. The University should build more hostels especially in self-sponsored campuses in order to attract more students and market the programmes. The university should also make use of the vast land by engaging in farming activities. If possible all IGA programmes should be run independently as a private entity so as to give them good control and proper management.

5.1.4 Working capital management

An organisation needs working capital in order to facilitate its day-to-day operations. KU should employ tight credit policy in order to collect all its debts. This can be well done by sending reminders, personal visits and use of university lawyer where possible. All bills should be collected when they fall due. This therefore requires the adoption of an aggressive policy. For proper management of inventory KU should adopt good inventory management techniques such as economic order quantity, having reorder levels and maintaining safety stocks. All excess cash should be invested in high interest earning activities.

5.2 Conclusion

Study findings indicate that KU has not explored the several options available to generate more income such as intellectual properties, commercial activities and endowments. Most of the IGA operating in KU are ineffective and efforts must be put in place to revive them. Budgeting process is still facing serious problems such as unrealistic goals, timing, ambiguity and inadequate support from top management. Lastly efforts need to be made to improve the management of accounts receivable.

5.3 Limitations of the study

There were various limitations that were encountered during the study.

- Time was not adequate for a comprehensive study
- Some of the questionnaires were never returned and some were returned late hence could not be analysed.
- Due to limited time, a case study was undertaken. This could not give a clear picture of what happens in other public universities.

5.4 Recommendations for further research

It is recommend that further research be carried out in the area of budgeting systems in public universities as its more crucial to their survival in these current times of limited resources. There is need for the documentation of financial management policies to act as a guide in daily operations.

Researchers should be encouraged to carry out studies on the investment opportunities available for KU to explore in order to generate more income. This will help eliminate financial difficulties experienced. Examples of investments that need to be researched on are provision of hospital services to the public at market rates, publications, farming projects and endowments.

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APPENDIX 1

SPECIMEN LETTER TO THE RESPONDENTS AND THE QUESTIONNAIRE

Dear Sir or Madam

I am a Post Graduate student at Kenyatta University carrying out a project entitled: "An evaluation of financial management practices in Kenyatta University."

The attached questionnaire has been designed to help gather data on the project. I kindly request your assistance on collecting the information by answering the questions herein as precisely and factually as possible.

The information collected shall be used for academic purposes only and strict confidentiality is assured.

Yours faithfully

Henry Wandabwa
Kenyatta University.

APPENDIX II

QUESTIONNAIRE

SECTION A

1. Tick the appropriate one.

- (i) Gender: Male [] Female []
- (ii) Age: 20-30 [] 31-40 [] Over 40 []
- (iii) Level of education Secondary [] University []
Others specify.....
- (iv) Level of training
CPA Part I [] CPA Part II [] CPA Part III [] KATC []
CIMA I [] CIMA I [] CIMA I [] CIMA I []
DIPLOMA [] HND []
Degree: Bachelors [] Masters []
Others specify.....
- (v) How long have you worked in finance department

SECTION B

FINANCING DECISIONS

2. Why has Kenyatta University (KU) diversified into other training areas? Rank in order of importance of reasons where; 1=most important 2=fairly important 3=important 4=not important 5=irrelevant

- (i) Global University []
- (ii) Make relevant courses []
- (iii) Fully Utilise the facilities []
- (iv) Generate more income []
- (v) Achieve a competitive Edge []
- Others (Specify and rank).....
-

3. To what extent do you agree with the following statements concerning changes in sources of funding in KU. Rank as follows; 1=strongly agree 2=fairly agree 3=agree 4=disagree 5=strongly disagree

- (i) State support has decreased over the years []
- (ii) Donor funds have been frozen []
- (iii) Tuition fees has increased []
- (iv) Others (specify and rank).....
-
-

4. Indicate how KU is reacting to the cases in question 3. 1=strongly agree 2=fairly agree 3=agree 4=disagree 5=strongly disagree

- (i) Undertaking cost reduction measures []
 - (ii) Minimising revenue losses []
 - (iii) Looking for other revenue sources []
 - (iv) Increased tuition fees over the years []
 - (v) Others (specify and rank).....
-
-

5. What are the current sources of Revenue in KU? Rank in order of importance where 1=most important 2=fairly important 3=important 4=not important 5=irrelevant

- (i) Tuition fees []
 - (ii) Investment in Short term Deposits []
 - (iii) Hire of Facilities []
 - (iv) Hospital Services []
 - (v) Publications []
 - (vi) Research Programmes []
 - (v) Government grants []
 - (vi) Others (specify and rank).....
-
-

6. Which of the following options do you think KU should pursue to reduce its financial difficulties? Rank in order of importance where

1=most important 2=fairly important 3=important 4=not important 5=irrelevant

- (i) Foreign Aid []
 - (ii) Intellectual properties (patents and books) []
 - (iii) Commercial activities (printing, software, manufacturing, farming etc)[]
 - (iv) Investment in the stock market []
 - (v) Endowments []
 - (vi) Others (specify and rank).....
-

7. Which of the following commercial activities do think KU should undertake to facilitate the generation of more income? Rank in order of importance where

1=most important 2=fairly important 3=important 4=not important 5=irrelevant

- (i) Commercialisation and marketing of university programmes and activities []
- (ii) Creating University owned enterprises, commercialising of patents and innovations []
- (iii) Renting out university facilities and space []
- (iv) Increasing tuition fees []
- (v) Attracting overseas students at differential fees on full cost basis []
- (vi) Managing the cash reserve in such a way that it generates as much interest as possible []
- (vii) Investing in stock markets []
- (viii) Bringing in endowment and gifts from alumni []
- (ix) Attracting research grants from National and International resources. []
- (x) Others (specify and rank).....
.....
.....

8. Please indicate the extent to which KU has benefited as a result of alternative financing sources? Tick the appropriate one.

Type of Benefit	76-100%	51-75%	26-50%	0-25%
Increased Fixed deposits				
Payment of salary on time				
Payment of bills on time				
Acquisition of new campuses/colleges				
Construction of new buildings & social amenities				
Provision of good training and training incentives				
Provision of adequate training materials				

Others (specify and rate).....
.....

INVESTMENTS DECISIONS

9. How do you rate the performance of IGA's in the University? Tick one.

- (i) Very effective []
- (ii) Moderate effective []
- (iii) effective []
- (iv) in effective []
- (v) Very ineffective []

10. Which method do you use to evaluate the viability of IGA at KU? Tick the appropriate one.

- (i) Cash flow analysis []
- (ii) Break even analysis []
- (iii) Payback period []
- (iv) Accounting rate of return []
- (v) Internal rate of return []
- (vi) Net present value analysis []

11. Indicate which of the following investment activities KU has undertaken in the last one year. Rank in order of importance where 1=most important 2=fairly important 3=important 4=not important 5=irrelevant

- (i) Expansion of existing facilities []
- (ii) Acquisition of new facilities []
- (iii) Replacement of existing facility []
- (iv) Exploration []
- (v) Others (specify and rank).....

12. The following are steps of capital budgeting. State which steps KU used in evaluating the investments in question 11. Tick the appropriate one.

- (i) Generation of investment proposals []
- (ii) Estimation of cash flows for the proposals []
- (iii) Evaluation of cash flows []
- (iv) Selection of project based on acceptable criterion []
- (v) Continued re evaluation of the investment project after their acceptance []

BUDGETING DECISIONS

13. Kindly indicate whether budgeting is done at KU? Tick the appropriate one.

Yes [] No []

14. If yes who does the budgeting process? Tick one.

(i) Departmental heads []

(ii) Budgetary Section in conjunction with heads of departments []

(iii) Others (specify)

15. Indicate whether the following are problems of KU budgeting system? Tick the appropriate one

Problem	Strongly agree	Fairly Agree	Agree	Disagree	Strongly Disagree
Lack of trained personnel					
Lack of capability in using data					
Over-emphasis on technical experts					
Inadequate support from top management					
Insufficient facilities					
Financial performance is not important					
Unrealistic goals					
Timing					
Ambiguity					

Others (Specify and rank).....

16. Indicate which of the following characteristics are observed by KU budgeting systems

Characteristics	Strongly Agree	Fairly Agree	Agree	Disagree	Strongly Disagree
Managers Involvement					
Clear definitions of long-term goals					

realistic achievement and understandable goals of the budget.					
Rational allocation of resources by comparing costs and benefits.					
Continuous improvement of the budget					
Support by accounting information systems.					

17. What are the challenges facing KU in Financial Management? Tick the appropriate one.

Challenges	Most important	Fairly important	important	Not important	irrelevant
Sourcing of funds					
Proper Investment					
Proper working capital management					
Proper budgeting systems					

Others (Specify and rank).....

CASH MANAGEMENT

18. Indicate the reason why KU holds cash. Rank in order of importance using a scale of 1-3 where 1=most important 2=fairly important 3=important

- (i) Transaction motive []
- (ii) Precautionary motive []
- (iii) Speculative motive []

19. Indicate the factors that KU considers when deciding the amount of cash balances to be held? Rank in terms of importance where 1=most important 2=fairly important 3=important 4=not important 5=irrelevant

- (i) Expected cash inflows and outflows based on the cash budget and

- forecasts []
 - (ii) The degree of deviation between the expected and actual net cash flows []
 - The maturing structure of the liabilities []
 - (iii) The ability to borrow at short notice in the event of any emergency []
 - (v) Efficient planning and control of cash []
- Others (Specify and rank).....
-

20. Which of the following methods are used by KU in managing cash

flows? Rank in terms of importance where 1=most important

2=fairly important 3=important 4=not important 5=irrelevant

- (i) Accelerating cash collections []
 - (ii) Decentralising cash collections []
 - (iii) cash budgets []
 - (iv) Using float []
 - (v) Lock box system []
 - (vi) Controlling disbursements []
- Others (Specify and rank).....
-

21. Indicate which of the following techniques are used for transferring cash. Rank in terms of importance where 1=most important 2=fairly important 3=important 4=not important

5=irrelevant

- (i) Wire transfers []
 - (ii) Depository transfer []
 - (iii) Electronic transfer []
 - (iv) Drawing cheques []
- Others (Specify and rank).....
-

22. Indicate which of the following instruments are used for collecting cash. Rank in terms of importance where 1=most important 2=fairly important 3=important 4=not important

5=irrelevant

- (i) Cheques []
- (ii) Drafts []
- (iii) Documentary bills []
- (iv) Trade bills []

(v) Letters of credit []

Others (Specify and rank).....
.....

23. Indicate, which of the following are employed by KU when managing accounts receivables. Rank in terms of importance where 1=most important 2=fairly important 3=important 4=not important 5=irrelevant

(i) tight credit policy []

(ii) Lenient credit policy []

(iii) No credit limits []

(iv) 30 days collection period []

(v) 30-60 days collection period []

(vi) Over 60 days collection period []

Others (Specify and rank).....
.....

24. Indicate what methods are used by KU to collect debts. Rank in terms of importance where 1=most important 2=fairly important 3=important 4=not important 5=irrelevant

(i) Making phone calls []

(ii) Personal visits []

(iii) Writing letters []

(iv) Through the University lawyer []

(v) Through check off []

(vi) Others (Specify and).....

INVENTORY MANAGEMENT

25. Indicate which of the following Inventory management techniques are used by KU. Rank in terms of importance where 1=most important 2=fairly important 3=important 4=not important 5=irrelevant

(i) Economic order quantity []

(ii) Maintaining a re-order level []

(iii) Maintaining a safety stock []

(iv) Use of just in time management techniques. []

Others (Specify and rank).....
.....

**APPENDIX III
TIME SCHEDULE**

Activity	Description of Activity	Estimated time in weeks
1	Preparation and pilot study	4
2	Adjustments	8
3	Data Collection	3
4	Data analysis	2
5	Report writing	2
6	Proofing reading and compiling	<u>2</u>
	TOTAL	<u>21</u>