

**FINANCIAL MANAGEMENT AND PERFORMANCE OF COMMERCIAL STATE-  
OWNED ENTERPRISES IN KENYA**

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## DECLARATION

This research project is my original work and it has never been presented in any other university for the award of any degree

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## **DEDICATION**

I dedicate this research project to my wife Jane and children Peter and Joyce for the support during this project undertaking.

## **ACKNOWLEDGMENTS**

I thank God for sufficient grace that helped me to complete this project. I also owe special thanks to Dr. Eddie Simiyu, my friends and the classmates who supported an encouraged me as I was working on this project.

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## **OPERATIONAL DEFINITION OF TERMS**

**Budgeting:** It is an exercise using tools that facilitate realization of organizational objectives by fairly allocating resources.

**Financial Management:** They are all the actions undertaken to ensure a judicious use of available financial resources and accounting for its usage in achieving set goals

**Financial Performance:** it is the ability for the department heads to acquire and utilize the scarce resources allocated to them, in pursuit of its operational goals and the mandate. Public organizations financial performance is measured in terms of asset turnover, returns on investments made, return on capital employed and net profits margins.

**Financial Reporting:** It involves disclosing relevant financial information to the key stakeholders of the firm in respect to how a firm is performing in financial terms.

**Internal Control:** These are the routines done at the work place to achieve the set organizational objectives and to measure a company's performance

**Organizational Culture:** It is a set of behaviors, patterns, norms, values and beliefs that are adopted by a group of people and help in differentiating one organization from another one

**Return on Investment:** It measures the loss or gain that the firm generates from its investments on the basis of the initial capital outlay. This measure is usually expressed in percentage form.

**Risk Management:** It is the process through which an organization identifies areas where it may experience losses facing it and chooses the most appropriate techniques for treating such exposures

**State-Owned Enterprises:** state corporations owned by the national government, formed to meet social and commercial objectives. They are business entities that provide affordable service and employment to citizens.

## **ABBREVIATIONS AND ACRONYMS**

AIS:	Accounting Information Systems
ANOVA:	Analysis of Variance
BSC:	Balanced Scorecard
CSM:	Capital Structure Management
FAM:	Fixed Asset Management
FRA:	Financial Reporting and Analysis
GBE:	Government Business Enterprises
IFAS:	International Financial Accounting Standards
INGOs:	International Non-Governmental Organizations
IPPF:	International Professional Practice Framework
M & E:	Monitoring and Evaluation
NPM:	New Public Management
PFM:	Public Finance Management
ROCE:	Return on Capital Employed
ROI:	Return on Investment
SACCOs:	Savings and Credit Cooperative Societies
SOEs:	State -Owned Enterprises
SPSS:	Statistical Package for Social Sciences
UNECA:	Union and United Nations Economic Commission for Africa
WCM:	Working Capital Management

## ABSTRACT

Most SOEs are faced with a challenge of poor financial management as reflected in misuse of financial resources and inefficiencies in internal control systems. At the same time, most state-owned enterprises (SOEs) have consistently been making losses and some of the reasons cited are lack of sound financial management, poor reporting and tracking systems, lack of internal control systems and audit teams. These challenges result into the need of determining the interaction between financial management and performance. The main objective of this study was to assess financial management and performance of Commercial State-Owned Enterprises in Kenya. Specifically, the study sought to determine how internal control system, budgeting, financial reporting and tracking and risk management influence performance of SOEs. At the same time, the study sought to determine the moderating effect of organizational culture in the link between financial management and performance. The study was anchored on three theories including contingency, risk and resource-based theory, the empirical literature covers the five independent variables and the dependent one and the conceptual framework draws a picture of the variables and measuring indicators and the linkage of the variables. The type of design employed was descriptive in nature. The population of the study comprised of 29 Commercial State-Owned Enterprises and the respondents were 111 finance directors from these firms. Census sampling was adopted where all the 111 finance directors formed the study sample. For collection of data, questionnaires were used. The analysis of the collected data was done descriptively and inferentially. To present findings, tables and figures were used. From inferential statistics, internal control, budgeting, financial reporting and tracking, risk management and organizational culture all statistically influence how SOEs perform financially. The study concludes that internal control, budgeting, and financial reporting and tracking, risk management and organizational culture all have statistical and significant influence on the ability of SOEs to perform financially. The study recommends that the Chief Executive Officers of State-owned enterprises should initiate policy guidelines in regard to corporate governance and ensure that their full implementation with regular feedback. The finance managers of state-owned enterprises should closely work with budgeting committee to ensure that proper budget is put in place for improved performance of the organizations. The accountants of state-owned enterprises should ensure that regular financial reports are prepared in line with International Financial Reporting Standards. Risk managers of all state-owned enterprises should regularly assess and advice the management on inherent risks that are likely to affect financial performance. The management of state-owned enterprises should improve on the norms and beliefs of employees through increased team work, performance appraisal and reward systems.

## CHAPTER ONE

### INTRODUCTION

#### 1.1 Background of the Study

All countries whether developing or the developed ones continue struggling with issues in public financial management and the state of change. Financial experts employed in state corporations desire to improve on budgeting, act on changes in financial reporting, strengthening risk management, reporting and governance frameworks besides eradication of corruption and fraud (Cangiano, Curristine & Lazare, 2013). Besides, a lot of emphasis is on public financial management across most governments strives to achieve growth and fiscal sustainability. For effective fiscal management among governments, new tools and models need to be formulated. The public demand for radical improvement of the state corporations' management has resulted in a wave of organizational, managerial, financial and accounting reforms in the state corporations worldwide, both in service and production sectors (Ntim & Soobaroyen, 2013).

In China, Elliott and Yan (2013) revealed that the financial system has been improved to play the critical of fueling the economic growth and expansion in the different sectors. Sound financial management adopted by the national government and the set policies implemented by all sectors of the economy, have pushed country to grow and become the second largest economy in the world. The government through strong business ethical conduct has led to the thriving of the business sector with high returns from investment. The government has implicit and open transactions that have cut down on corruption meaning that all the government resources are allocated and used properly. In the USA, McKinney (2015) shares that for effective financial management, there is need to strengthen the public financial management and governance through developing policies and regulations. This can be done by having a stringent budget and financial reporting and tracking how the finances are put into usage.

The corporate world faces a lot of risks and hence for improved financial performance, there is need to have in place sound and effective risk management. Alshatti (2015) showed that risk management is not applicable in the commercial sector but can apply even in government setting and any other sector of the economy. This is due to the fact, that all organizations need resources for delivery of products and services. The resources are limited in supply and hence the need for proper management to attain set objectives.

In Kenya, Ong'onge and Awino (2015) noted that public financial management is changing with emphasis on the value for money, fiscal discipline and management and prioritizing expenditures. Therefore, it is critical for global donors, local and national governments, professional bodies of accounting and regulator to partner and work together for attainment of accountability and transparency in public financial management. Simiyu (2015) stated that the government has introduced performance contracting in an effort to improve the performance in the government departments. This was met with some resistance, but after its introduction, more resources are put to good use as service delivery improves and quality of products is high.

Financial management in organizations can be done in an effective manner by adopting prudent budgeting systems that put into account all the revenues versus all projects and programs the revenues are spent in. Koech (2015) investigated on budgetary controls and noted that with a well formulated budget, there is better planning of organizational resources and create avenues for documenting and giving feedback for all the expenses incurred. According to Macharia (2015), internal control system that encourage better financial management through conducting regular and thorough audits and an organizational culture that encourages staff to be responsible in handling organizational resources.

Financial reporting and tracking is another method used in ensuring proper financial management within public and private organizations. Kitonga (2013) shares that reporting of

available financial resources and the intention of expenditure is best handled by the monitoring and evaluation team and auditors. These teams check through the financial statements and records, accounts and feedback given by stakeholders of the firm; this information will be used in making sound policies and regulations that guide proper management of finances in different firms.

Muriungi, Waithaka, Were and Muriuki (2017) who looked at risk management share that in finance, managers must be carefully to consider risk avoidance structure and channels that allay the fear of financial losses. Sometime, the firms must take measures to share or transfer the risks by taking insurance policies or spreading the investment portfolios such that when one sector of the economy is depreciating, the flourishing, and the organization can leverage on them. Mucheru (2016) revealed that establishing a risk management department or mitigation measures ensures sound financial management.

On organizational culture and its effect on financial performance, Doerr, O'Reilly, Caldwell and Chatman (2014) note that organizational culture refers to the norms and beliefs that are shared by members of an organization which determine how the firm performs. Strong organizational culture ensures that all practices formulated are confronted leading to higher financial performance. Honesty, integrity, transparency and accountability are some of the positive cultures that management in organizations wish to reach. Acar and Acar (2014) opine that adhering to these elements means that financial resources will be properly utilized and realize high returns in terms of net profit margins, increase in asset base and increase in investment portfolios.

Yesil and Kaya (2013) shared that positive organizational culture affects the firm's financial performance as culture shapes the beliefs, behavior and characteristics of people. These aspects of culture are important especially when dealing with finance as it affects the operations and performance of the entire organization.

### **1.1.1 Financial Management**

For better performance and improvement in outcomes of the public services, public financial management is so critical (Kibachia, Iravo & Luvanda, 2014). Public financial management has an influence on how funds are used in addressing local and national priorities, cost efficiency and effectiveness of public services and making sure sufficient resources are available for investment purpose. Furthermore, there is a higher likelihood that the public in general will have trust in service state owned corporations where there exist strong transparency, accountability and financial stewardship in regard to the use of public funds. Public financial management has an influence on wide range of areas including resource allocation and mobilization and fiscal sustainability and therefore governments need to prioritize it. Public financial management looks at the budgeting, issues relating to governance like accountability and transparency, oversight, control and compliance besides strong emphasis on value for money in every transaction (Wang, 2014).

In order to ensure affective allocation of resources and sound decision making processes, there is need for accurate financial information. Sound financial management not only entails protection, development and use of resources to enhance economic growth but also it covers effective and efficient management of all resources at the national level (Fowler & Rorke, 2013). All countries whether developed or the developing one's struggle with dynamics in public financial management and the rapidly growing change. This requires all finance professionals and experts working within service state corporations to strengthen financial management systems especially in budgeting, governance issues involving collusion, corruption and fraud (Lam, 2014).

Financial management is a factor of adopted practices that increase the financial performance of an organization (Alshatti, 2015). The practices ranges from internal control measures through creating systems and operational procedures that enable an organization attain its

mandate and objectives (Lerno, 2016). The internal control ensures the annual, monthly and weekly budgets reflect the available resources and expectations of stakeholders. The budgeting process covers participation and input from all stakeholders and clear communication channels, such all employees are able to work towards achieving one aim (Irungu, 2014).

All operating and functioning organizations suffer from one form or another of risks, proper financial management include aspects of risk management. Some of the common risks affecting organizations include financial risks, operational risks, reputational risks, credit risks among others. The risks are specific to an organization or an industry, while some are general to all sectors of the economy. Risks management consist of creating avenues for risk transfer using insurance policies, risk minimization through audits and proper planning, risk avoidance and creating teams to plan ahead and implement policies (Mucheru, 2016).

### **1.1.2 Financial Performance**

Performance is important in implementing the set objectives into outcomes and desired results. All institutions and organizations across the world, work hard to ensure they improve their performance by adopting measures and practices. In the business sector, performance is measured using financial elements, effectiveness in resource utilization and efficient processes that add value to the organization. Many people often assume that high performance is all about the profitability of an enterprise, but performance is examined and evaluated specifically to the type of business organization, philosophies adopted, management thinking, organizational mission and the prevailing environmental conditions and other numerous factors (Van-Dooren & Van-de-Walle, 2016).

Financial performance refers to organizational output registered within a given time frame. It is used to measure the efficiency of the management team in utilizing the available resources for wealth creation (Epstein, Buhovac & Yuthas, 2015). It basically describes how an organization has performed over a period of time (Maritim, 2013). This is merely used to

measure how well an organization is moving towards attainment of its vision and mission. The study is concerned with non-financial performance of the Genghis Capital Investment Bank.

The key indicators and measures of financial performance of the firm include returns on assets, equities and investments, sales turnover and gross margin. On the other hand, non-financial measures include customer satisfaction and learning. A measure of organizational performance can be established through comparison of performance across different horizons and periods in addition to performance of other firms. However, there is no unique measure of performance capturing all aspects of performance and this limit applicability of one measure (Epstein, *et al.*, 2015).

Financial performance within government institutions is simply the ability for the department heads to acquire and utilize the scarce resources allocated to it by the national government and from its own income generating activities, in pursuit of its operational goals and the mandate. Public organizations performance is based on service delivery, economy improvement, infrastructure development (Onyango & Muturi, 2013). The non-financial measures looked at aspects on the balanced scorecard (BSC) performance index, concentrating on the human attributes that contribute to overall improved performance. Performance is measured by the public by how easy it is to access services that are offered by the national government, county governments, ministries and departments. To be able to achieve high performance, the government institutions must have a sound budgeting team that is able to effect internal controls of resources including human capital and report on the financial outcomes. Governments run with tight budgets, hence there is an increasing demand to re-examine their spending priorities, the financial reporting system should cut out misappropriation of funds and inefficiencies in the operating systems.

### **1.1.3 State Owned Enterprises in Kenya**

State Owned Enterprises (SOEs) in African countries have been in existence since early 1950s and continued to grow in the sub-Saharan Africa by the 1980s. They are however, associated with history of continued poor performance (Mbo, 2017). Rising expectations by the taxpayers have influenced Governments and have forced them to reform the corporate governance systems and practices in state owned enterprises, so as to improve their operations hence improved performance. State owned enterprises emerged in Kenya with the colonial Government and were to provide services which the private sector couldn't provide (Franklin, 2018). The areas or sectors included export of agricultural produce, communication and transportation, manufacturing and agricultural trade facilitation. They are formed through an act of parliament, section 2 of the state corporation Act, a legal notice or through the normal State-Owned Enterprises Act Cap 486. These state-owned Enterprises have however, been performing poor financially leading to constant bail-out by the Government (Mihyo & Mukuna, 2018). Despite the Government bailout some of the State-Owned Enterprises do not perform well while others perform well after the bail-out. It's on this basis that this study is investigating the effects Government bail-out has on the financial performance of the state-owned enterprises (Onyango, 2016).

In Kenya, state corporations are formed to meet social and commercial objectives. Such corporations exist for a number of reasons, for example, as instruments used to correct market failure, to supply basic services such as health and education, to increase development in marginalized areas, and to achieve political objectives. Commercial state corporations can be fully owned or partially owned by government. Examples of such entities in Kenya include, Kenya Power and Lighting Company, Kenya Pipeline Company Limited and the Kenya Ports Authority among others (National Treasury, 2018).

The main characteristic of state corporations in Kenya is that they are all owned by the state. Going by the interpretative section of the State Corporations Act, a commercial state

corporation is a commercial entity that is either owned or controlled by the state. A commercial state corporation is also a body corporate which is established by the order of the president (Ong'onge & Awino, 2015). Accordingly, the functions of a specific commercial state corporation will be dictated by the constitutive instrument such as the memorandum and articles of association for the entities that are limited liability companies, the various statutes for the statutory state corporations the order which is specific to it for those that are created by way of an executive order (Shaheer, Yi, Li & Chen, 2017). Another important characteristic of these corporations is that the entities and their employees are subject to a specific legal framework that binds public entities and public servants. In Kenya, this legal framework cumulatively encompasses the legislative, regulatory and institutional frameworks for the control and governance of these enterprises (Government Owned Entities Bill, 2014). The main limitation of this is that such a legal framework has the effect of subjecting these enterprises, their Boards, managers and employees to extra and more stringent quality controls by both government authorities and investors (Gitundu, Kisaka, Kiprop & Kibet, 2016).

The main goal of an enterprise is to perform a commercial role. The most basic objectives of any business would be to create wealth by increasing its profitability by either increasing production or minimization of operating costs or both. Minimising costs and maximizing profits, is, in summary, the main aim of doing business (Nyamita, Dorasamy & Garbharran, 2015). Commercial state corporations could be successful if they served only a commercial function, but unfortunately, they are oftentimes used for non-commercial objectives such as social cohesion, universal access to basic services and resource redistribution purposes. The effect of this is that they end up serving conflicting aims and objectives, which in turn, subject them to inefficiency in the performance of their functions (Dorcas, 2014).

Commercial state corporations also serve a governance role. They are deemed to be an extension of the Executive and as such their employees are public servants and they will be

subjected to all the governance structures and statutes that relate to the public service. This dual role cannot be overlooked (Mbo, 2017). They are, firstly, political, and secondly, mandated to serve a public interest function which involves being accountable to and responsible for the general public through the various public accountability checks. The mechanisms in place to ensure that state-owned companies perform their governance role effectively include safeguards to promote transparency in their operations conducted on a daily basis like in relation to financing and auditing, and safeguards to promote ethics, anti-corruption and leadership among others (Dorcas, 2014).

Some of the problems faced by state owned corporations stem mainly from political interests which usually results in the mismanagement of assets of the commercial state-owned corporations. The reason for political influence in appointments of Chief Executives and their boards is that such politicians are in most cases aiming at controlling commercial state-owned corporations for political reasons. This leads to poor performance of SOEs, corruption and misappropriation of public funds (Mohamed, 2013).

### 1.1.3.1 Financial Performance of State Owned Enterprises in Kenya

According to the Report of the Presidential Taskforce on Parastatal Reforms (2013), state owned enterprises have consistently been making losses which are attributed to poor financial management in place. Table 1.1 gives the breakdown on financial performance of SOEs.

**Table 1.1: Financial Performance of State Owned Enterprises in Kenya**

Name of the institution		Loss (Kshs.)		
		2009/10	2010/11	2011/12
1	National Cereals & Produce Board	332,672,000	478,227,000	166,713,000
2	IDB Capital Limited	35,907,000	37,343,000	9,536,000
3	Numerical Machining Complex	5,644,000	1,259,000	20,061,000
4	Kenya Industrial Estates Ltd.	68,611,000	80,263,000	12,236,000
5	Kenya National Trading Corporation	11,786,000	14,729,000	29,472,000

From Table 1.1, it can be deduced that most SOEs have been reporting losses which are attributed to poor financial management. It is against this background of consistent loss

making of SOEs that the current study sought to determine the influence of financial management on financial performance of SOEs.

## **1.2 Statement of the Problem**

State Owned Enterprises (SOEs) are entities operating under the parliamentary act where they are to increase the quality of products and services delivered to citizens. Production and service delivery is possible whenever these enterprises implement proper financial management in their investment and expenditure decisions (Mukah, 2015). However, the key challenge faced by most SOEs is poor financial management as reflected in misuse of financial resources and inefficiencies in internal control systems. Poor financial management among SOEs is also reflected in increased collusion and corruption among the management officials resulting into loss of huge tax payers' money (Mbo, 2017).

Financial reports from the State-owned enterprises reveal poor resource allocation, usage and accountability leading to low service delivery to the masses, economic decline and poor quality of manufactured products (Tanjeh, 2016). The 2013 presidential taskforce revealed that state-owned enterprises (SOEs) made losses in the financial year 2009/10 and 2010/11 and some of the reasons cited are lack of sound financial management, poor reporting and tracking systems, lack of internal control systems and audit teams and bad attitude in handling financial resources. The management and leadership in the SOEs failed to make necessary arrangements to counter the risks involved in their operations and set risk management policies and structure. Due to these challenges, there is need to assess the effect of implementing sound financial management like internal control measures, budgeting, financial reporting and tracking and risk management to improved financial performance.

Several studies have been conducted on financial management and performance; such as Nkwag (2015) analyzed the implications of financial management on the level of accountability using a case of Nigeria's public sector. It was shown that the adoption of

financial management leads to greater accountability especially in the public sector context. The study is based on the public sector and accountability failing to mention service parastatals the adopted financial management and financial performance. Ong'onge and Awino (2015) study on Kenyan owned commercial corporations looking at autonomy and its effect on financial performance. This study was done on commercial state corporations and doesn't look at the service state corporations creating a knowledge gap. Kamande (2015) sought to determine the link between financial management and their influence on how Kenyan dairy firms perform financially. The study was done in the dairy industry and does not touch on parastatals hence creating a knowledge gap.

None of these studies have looked at financial management and performance, thus creating a research gap. This study filled this gap by assessing financial management and performance in service parastatals in Kenya.

### **1.3 Objectives of the Study**

#### **1.3.1 General Objective**

This study's main objective was to analyze the effect of financial management on performance in Commercial State-Owned Enterprises in Kenya.

#### **1.3.2 Specific Objective**

The study was guided by the following specific objectives;

- i. To assess the internal control system and performance in Commercial State-Owned Enterprises in Kenya
- ii. To determine budgeting and performance in Commercial State-Owned Enterprises in Kenya
- iii. To evaluate financial reporting and tracking and performance in Commercial State-Owned Enterprises in Kenya
- iv. To examine risk management and performance in Commercial State-Owned Enterprises in Kenya

- v. To assess the effect of organizational culture as a moderating variable in the relationship between financial management and performance of Commercial State-Owned Enterprises in Kenya

#### **1.4 Research Hypothesis**

The study adopted Null hypothesis

**H<sub>01</sub>:** Internal Control system has no significant effect on financial performance of Commercial State-Owned Enterprises in Kenya

**H<sub>02</sub>:** Budgeting has no significant effect on financial performance of Commercial State-Owned Enterprises in Kenya

**H<sub>03</sub>:** Financial Reporting and Tracking has no significant effect on financial performance of Commercial State-Owned Enterprises in Kenya

**H<sub>04</sub>:** Risk Management has no significant effect on financial performance of Commercial State-Owned Enterprises in Kenya

**H<sub>05</sub>:** Organization culture has no significant moderating effect in the relationship between financial management and performance of Commercial State-Owned Enterprises in Kenya

#### **1.5 Significance of the Study**

The study findings shall be significant to a number of stakeholders as mentioned here:

This study would be of value to the government as it would guide the government departments, corporations and ministries in creating legislation that shall guide the public financial management. Through the study's recommendations, the government would be able to make adjustments in the management of finances so as to improve each state-owned enterprise's financial performance.

The findings from this study would contribute new knowledge in the area of financial management and performance of state-owned enterprises in Kenya. It would also be reference material sources to other academicians. The researchers would find this research material to be a useful source of reference and the recommendations would guide future researchers on study areas. This study would give areas where further research can be done in and researchers can further knowledge on. It would also help fill the knowledge gap regarding the area of study.

The general public would gain great insight in the value the government gains through the implementation of accounting processes that is more transparent and improves its governance hence better service delivery to the general public. The public would also understand better the historical journey taken by the governments to look for avenues to maximize usage of collected revenues.

### **1.6 Scope of the study**

The study concentrated on financial management and performance in commercial State-Owned Enterprises in Kenya. More specifically, the study focused on internal control system, budgeting, financial reporting and tracking and risk management and their influence on performance. The moderating role of organizational culture was also examined. The study concentrated on State Owned Enterprises in Kenya. The study was conducted in August, 2018.

### **1.7 Limitations and Delimitations of the Study**

Limitations are conditions, shortcomings or influences restricting the resultant methodologies and conclusions of the study. The researcher foresaw that respondents may fail to respond to research questionnaire for fear of that the information given out would be used to intimidate them. To overcome this challenge, the researcher explained to respondents and the

organization that the study was only for academic purpose. The researcher also carried a letter of introduction that stated the objective of the study.

### **1.8 Organization of Study**

Chapter one provides the background of the study covering the study variables, statement of the problem and the research objectives. It also has sections on significance, scope and limitations of this study.

Chapter two presents the theoretical framework, literature review on the financial management and performance in service parastatals; the conceptual framework shows the relationship of the variables and research gap.

Chapter three deals with the methodology that were applied in the research showing the research design, technique that were adopted to get the sample size from the target population. It shows the data collection instrument, procedure and how analysis will be done.

Chapter four contains the results of the analysis on the data that was collected from the field. The analysis covers the descriptive as well as the inferential statistics. Chapter five summarizes the analyzed findings with conclusions and recommendations besides the areas for further research.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

In this chapter literature which is related to and consistent with the objective of the study which is the effect of implementation of international public-sector account standards on financial performance. The literature was reviewed as per study's specific objectives. The review is divided into theoretical and empirical review, the conceptual framework shows the variables relationship and the gaps in research.

#### **2.2 Theoretical Framework**

The contingency theory by Burrell and Morgan (1979) and Modern Portfolio Theory (Markowitz, 1952) and resource-based theory founded by Wernerfelt (1984) will provide anchorage to the study.

##### **2.2.1 Contingency Theory**

The contingency theory was proposed by Burrell and Morgan (1979) and it argues that an organization does not exist and operate in isolation but rather interacts with the forces within its environment. The theory indicates that only firms that are able to cope with the changes in the environment can effectively survive (Burrell & Morgan, 1979). One of these systems within an organization is the financial reporting of the firm.

Contingency theories were first used to explain variations in structures of organizations. Studies have confirmed that organizational design is contingent on uncertainty within environments (Duncan, 1972) and the size of an organization (Child, 1975). Scholars have confirmed that contingency theory may give a more wholesome approach of designing management accounting and reporting systems (Waterhouse & Tiessen, 1978). Other studies have confirmed that changes in environment may result into discrepancies in systems of financial reporting (Thomas, 1986).

Therefore, in this context management choice / adoption of new financial reporting practices is dependent on a number of constraints within an organization. Each of which can be conceptualized as falling into one of the four classes in the contingency framework (Donaldson, 1999). Such contingency variable includes; social factors affecting the financial reporting systems, organization environment (different accounting methods, organizational attributes such as size, capital out lay) and lastly the user characteristics namely decision models, decision making styles and cognitive traits (Child, 1975). This theory links organizational culture and how it moderates the relationship between financial management and performance. It also links financial reporting system with financial performance.

### **2.2.2 Modern Portfolio Theory**

This theory was put forward by Markowitz (1952) to relate risk and return trade off in an investment. Investments are made with risks and thus before committing resources in a project, all efforts should be made to determine viability and probable risk level. In order to minimize risk exposure, the theory advocates for portfolio selection. The theory argues that risk in an investment can be reduced or rather minimized by diversification.

Diversification is made possible through proper portfolio selection. A portfolio is defined as group of assets held by investors so as to minimize risk while maximizing returns. Through holding of portfolio, an investor will have diversified the investment and thus minimizing risk exposure which ultimately maximizes returns. The ways through which an investor selects and combines various assets in the portfolio form the basis of risk minimization and maximization of possible returns (Grasse, Whaley & Ihrke, 2016).

Financial management involves decisions that risky for instance capital budgeting and capital structure decisions. Budgeting decisions for instance require an organization to commit resources in several investments (that act as assets). For optimal returns, risk return tradeoff is important which is best explained by this Modern portfolio theory (Fama & French, 2004).

The theory is therefore relevant to the study as it links risk management and its influence come. The concept of risk is well addressed in this Modern portfolio theory

### **2.2.3 Resource Based Theory**

The theory was advanced by Wernerfelt (1984). The theory is premised on the fact that resources endowment of an organization results into performance. Differences in performance between firms may therefore be explained by differences in resource endowment. An organization therefore gains superior performance by possession of unique resources. The works of Penrose (1959) and Chandler (1962) formed the basis of this theory.

The theory suggests that organizations can be perceived as bundles of resources. The resources of possessed by an organization have certain characteristics those results into performance. First, the resources are distributed heterogeneously across firms and the differences in these resources are in force over time (Wernefelt, 1984). The other characteristics of resources possessed by an organization include the fact that they are rare, non-substitutable and inimitable. These features of resources help an organization to gain competitive advantage and therefore performance (Barney, 1995).

The theory further argues about resource slack of organization. Unlike the total quality of resources possessed by an organization, resource slack acts a river in the growth of an organization (Penrose, 1959). Slack is the difference between the actual resources that firms possess and the ones that it demands currently. It is possible for two firms to possess same level of resources with different need for resources for current business (Mishina 2004). The difference in slack may further the growth of an organization (Mishina, 2004).

The theory points out need for strategic and efficient management of resources to enhance performance. The relevancy of the theory to the study lies in the fact that it expounds on the role that employee in a firm hold in conducting internal controls in ensuring proper financial management, through sound budgeting process and tracking and reporting on the usage of the

limited resources. Having an organizational culture that pushes all staff to work as a team, in a cohesive manner improves the financial performance of service parastatals.

## **2.3 Empirical Literature Review**

### **2.3.1 Internal Control System and Financial Performance**

Internal control system refers to planned routines that aim at securing all the transactions and processes of an organization for attainment of the set goals and objectives. Internal controls ensure that an organization operate in strong conformance with administrative and financial reporting requirements (Lerno, 2016). Any organization striving to fully attain its established goals and objectives must therefore critically examine its internal control systems in place. Internal controls are important yardsticks of determining how an organization is performing in financial and non-financial terms.

Mugo (2013) did a study to determine how internal controls affected financial performance among Kenyan learning institutions. Among all the studied learning institutions, the management showed commitment to control systems, it monitored and reviewed performance and supervised all activities taking part within institutions. The top management team initiated all activities within institutions. However, the department of internal audit had no sufficient staff and therefore regular audits were not conducted. Roles were clearly separated and weaknesses in systems were highly dealt with. There were training programs for improving the skills set and knowledge of employees to effectively carry out their assigned duties and responsibilities. The key limitation of the system was however inadequate channels of sharing information and measures for security of safeguarding the company assets. As a concluding remark, the study showed that institutions of learning are faced with a challenge of accessing adequate finances for realization of the goals and objectives. This study however concentrated on learning institutions and not specifically the SOEs which brings about the research gap.

In a study conducted in Nigeria by Ademola, Adedoyin and Alade (2015) on how internal systems of control affected public sector, it was revealed that capital significantly influenced earning quality. As part of recommendations, there is need for change in market share and management of commercial banks. This study was carried out in Nigeria and not in Kenyan which brings the research gap. In a recent study conducted by Lerno (2016) link between internal control and performance of Kenyan Counties. The target population included the county respondents of 47 counties in Kenya. The findings show that the respondents are not certain whether or not internal controls led to an increase in county assets. The respondents are also not certain whether the accounting system efficiently recognizes receipt and expenditure of grand contracts. In addition, they were uncertain about where the adoption of the internal controls system has led to the full payment of outstanding levies. Another uncertainty the respondents had on the county government was whether or not the county had efficient funds to carry out county projects and to fulfill their overall activities. Therefore, the study concluded that the adoption of the internal controls system has not led to the improvement in the performance of the county. The study focused on counties and not SOEs in Kenya which creates research gap.

Tinega, Nyamita and Nyakundi (2014) analyzed the link between internal systems of control and financial performance. The study used a case of small scale businesses in city of Kisumu. The study specifically examined the interaction between systems of internal control and returns on assets and investments. Specifically, the study assessed how internal control systems affected return on investment and from the findings, internal control significantly influenced financial performance of small businesses. As a recommendation, it is important to train proprietors of business on the need for internal control systems. The focus of the study was on SMEs and not the SOEs hence creating the research gap.

Ndembu (2015) sought to determine how internal control systems affected financial performance in Nairobi County amongst its manufacturing companies. The variables

examined included control, monitoring, ICT, risk assessment and control environment and return on assets. From the findings, control activities, sharing of information, management of risk and control environment all significantly influenced the firms' performance financially in the Kenyan manufacturing sector. Mogunde (2016) looked at internal control and its influence on how organizations perform. Performance was measured using return on capital employed. The study was done among companies manufacturing cement. From the findings, internal control had positive correlation with organizational performance.

### **2.3.2 Budgeting and Financial Performance**

An organization leverages on a budget to effectively realize and attain the set goals and objectives. At the same time, some organizations determine their past performance through the use of budgets. This helps in predicting how the firm will perform in future (Gessaroli, Brigham, Nason & Ehrhardt, 2016). Maritim (2013) evaluated how budgeting processes affected financial performance. The study used a case of Kenyan commercial and manufacturing parastatals. From the findings, budgetary sophistication, budgetary participation and budgetary planning were three key practices among the studies organizations. Allowing employees to take in part in budgeting process has resulted into successful actualization of the set plans in a given period.

A similar study done by Gekonde (2013) to investigate the impact of performance budgeting on the management of parastatals in Kenya, the research employed a descriptive design method and the population was a census study of the parastatals in Kenya. The study found that use of performance information, performance targets in budgeting, performance evaluations and spending reviews are significant in explaining the difference in the management of parastatals in Kenya. The study recommends that the management of human resource component for managing results should aim towards stronger performance-based incentives for public officials. To accompany this, employment should be flexible, poor

performers should be dismissed and there should be an ease of transferring employees from one program to another. This study failed to relate budgeting and performance directly which creates research gap.

In an assessment of the effect of budgeting on performance of Kenyatta National Hospital, Anyango, Rotich and Kamau (2017) revealed that participation in budgeting greatly influenced performance of state corporations. Mbugua (2013) sought to determine the interaction between budgeting and firm performance with reference to Kenya's water sector. The study showed that there was a positive effect of budget planning on revenue collection. The study therefore concludes that budget planning participation in budgeting by members of staff is critical and should be considered in order to improve performance in the provision of water services. The study was done in the health sector and not all the SOEs which creates research gap. Zakkies (2016) investigated how capital budgeting affected returns of matatu industry. From the findings, capital budgeting techniques were not greatly carried out in most matatu operators. The study recommends that SACCOs need to come up with plans of establishing common pooling funds. The focus of the study was on the matatu industry and not the SOEs which brings the research gap.

Mutungi (2017) examined budgeting and how it influences financial performance of Kenyan systems of devolution. The study investigated budgeting and budgeting control, managerial performance and county regulation effects on financial performance of county government. The study noted that there are key challenges being experienced in the bid to implement public financial management. As a recommendation, the study holds that bills should be passed with the county assembly on a regular basis within a given financial year. This would result into improvement in how counties perform. The study focused on devolved systems and not specifically the SOEs which brings research gap.

Gicheha (2013) examined the implementation of budgets with the key challenges encountered and how these influence how Kenyan NGOs perform. The key finding was that budgeting has an influence on performance. The study recommends that INGOs should address challenges of budget implementation and also adopt a participative budgeting by all stakeholders. This study covered the NGOs and not the SOEs hence the research gap. A similar study adopted by Kativa (2013), sought to evaluate the effects of budgeting on the performance in non-governmental organizations. It was established that greater budgeting participation reduces sub-ordinate propensity to create organization performance in situations of high task intensity. These studies concentrated on the SMEs and not among SOEs hence bringing the research gap.

Koech (2015) analyzed how budgetary controls affected performance of manufacturing firms in Kenya. The study noted that budget committee was notified of any deviation in budgets for review. Budget policies are given to managers to control over expenditures. Financial managers were actively involved in process of setting of budgets. The study concludes that the budgetary controls in place greatly influenced competitiveness and financial performance.

Wokabi (2014) critically examined a link between techniques of capital budgeting and performance of non-financial listed firms in Kenya. From the findings, capital budgeting techniques influence performance in terms of returns on investment. A unit increase in the age of the company will have an effect on the return on investment. Therefore, this study shows that capital budgeting techniques should increase the effectiveness of a firm's performance. Irungu (2014) sought to find out the link between capital budgeting techniques and their influence on how Kenyan listed firms perform. Specifically, the study examined how the capital budgeting techniques in appraisal of projects affected performance. The study revealed that financial performance of listed companies was significantly influenced by the capital budgeting techniques. The study concentrated on listed firms and not specifically on SOEs hence the research gap.

### **2.3.3 Financial Reporting, Tracking and Financial Performance**

Financial reporting is the disclosure of financial information to stakeholders about the financial performance of a company. Financial reporting and tracking is therefore able to gauge the performance of in-service parastatals through the financial position of the parastatal (Nyakundi, Nyamita & Tinega, 2014). Muinde (2013) sought to determine the link between the practices of financial reporting and how Kenyan SMEs perform. The design employed was descriptive cross sectional. For collection of information, questionnaires were administered. The key finding was that financial reporting and management significantly influences the ability of firms to perform financially. In order to boost financial management practices, financial reporting practices, financial analysis practices and management accounting practices, there is need for management of small and medium enterprises because it was found that financial reporting and analysis practices affects the financial performance. The study focused on the SMEs and not specifically among ther SOEs hence the research hap.

A study was done by Gamayuni (2017) the influence of the internal function of audit on financial reports generated. From the findings, effectiveness in internal audit function significantly influenced financial reporting. However, the weaknesses established to affect the internal audit were mainly felt in terms of the resource management in areas of coordination, reporting to leadership, product development, quality control and following up of public complaints. Ouma (2017) looked at effect of quality of reporting on financial performance. The study was done among firms listed on NSE Kenya. It was noted that when an organization complies with financial reporting quality, financial performance in terms of the liquidity and solvency improves. Mironiuc, Carp and Chersan (2015) examined how financial reporting affected performance. The study used a case of companies from Roman. The study identified two accounting areas that are significantly related with the price of shares. Hence, international investors adopt the accounting standards then it will increase the

relevance and usefulness for the investors on the Romanian financial market. This study was done in Rome and not in Kenya hence creating the research gap.

Kitonga (2013) evaluated how financial management practices affected financial performance. The study was done among shipping entities in Kenta. From the findings, there were various financial management practices in place among shipping companies. These financial management practices helped in solving finance related problems. The study further revealed that financial management practices had positive influence on performance. Another study was done by Ferrero (2014) on how quality of financial reporting affected performance. Three proxies were used; earning quality, accruals quality and conservatism. From the findings, quality of financial reporting had positive influence on performance. Lapteş and Sofian (2016) sought to develop a study regarding the theory of integrated reporting based on a research documentary published by the International Integrated Reporting Council and other related organizations. The integrated report explains the journey towards achieving its vision and it also provides information about the past and future performance. Most of these studies however were not conducted in Kenya but in other advanced countries hence creating a research gap.

#### **2.3.4 Risk Management and Financial Performance**

Risk management helps an organization to timely identify key areas that are bringing losses to an organization and decides on the critical technique of dealing with such an exposure (Muriungi, Waithaka, Were & Muriuki, 2017). Keitany (2015) sought to determine the interaction between risk management and delivery of services in Kenya's government owned entities. The design embraced was descriptive and governmental entities formed the study population. The study found that government owned agencies have embraced operational risk management practices and other commonly used practices and following the assigned rules and regulations. A challenge identified was the lack of support when it comes to

operational risk management practices. These factors also have an influence on the level of service delivery. The study looked at service delivery and not performance hence a conceptual gap.

Muriungi, Waithaka, Were and Muriuki (2017) analyzed how the practices of managing risks influenced financial stability of SOEs in Kenya. The study concentrated on the tourism sector. The study established that in financial risk management; defaulting credit risk management leading to financial stability in the corporation, the process of financial risk management is continual in its process in state corporations, and that state corporations have installed measures to reduce liquidity risk. The respondents also agreed that financial risk management helped to improve investments. In terms of operational risk, a lot of resources have been directed to information technology risk management, risk-audit activities, and assessments of operational risks and prepare recommendations for risk reduction. Risk management enhances financial stability. Finally, operational risk management emerged as a strong predictor of success in state corporations in Kenya. In this study therefore, it is crucial to understand the financial performance of in service parastatals, in order to determine whether or not set targets are being achieved as a measurement of success of the parastatal. This study looked at financial stability and not performance hence a conceptual gap to be filled by the current study.

Cheruiyot (2013) looked at a different perspective on risk management in terms of its influence on the strategic management process at Kenya Power. The findings showed that the risks facing the organization include legal or contractual risks, technical or ICT risks, management risks, environmental risks, safety risks and political risks. The enterprise risk management of an organization was found to be affected by several factors. They include mandate from the top, assessment of risk process and determination, operation of the control framework, the periodic reporting and analysis process of the firm. The risk assessment process was made part of the decision-making process so as to ensure that the leadership

should have an assurance to what extent the strategic objectives of the firm are being met. The study concentrated on strategic management and not on performance hence creating a gap for the current study.

Mwangi (2012) investigated how management of credit risk influenced financial performance. The study was done among Kenyan banking sector. The study established that credit risk management significantly influenced financial performance through loan performance and credit adequacy. The study further revealed that the ratio of non-performing loans and that of capital adequacy is inversely and significantly related with return on equity. The study recommends that risk profile of borrowers should be defined by the system in relation to the involved risk. The study concentrated on commercial banks in Kenya and not the SOEs hence creating a research gap.

Another study was done by Mutua (2014) on sound management of credit risk influenced performance of the firm financially, specifically the commercial banks. The study broadly investigated the various types of credit risk faced by commercial banks and how they affected performance. The study revealed that risk assessment as a credit risk management practice is so crucial among commercial banks. Risk analysis helps banks discover mistakes early and it therefore can be important for risk management which helps in risk monitoring. The study concentrated on commercial banks and not on SOEs.

Mucheru (2016) looked at risk management and its influence on performance of firms financially, specifically the insurance firms. It was seen that insurance companies have adopted and utilized risk management practices in their activities which essentially strongly impacted on financial performance. Risk reduction positively influenced on financial performance. Therefore, adopting risk management strategies has a positive influence on financial performance of insurance firms. The study focused on insurance firms and not specifically on SOEs.

### **2.3.5 Financial Performance**

Financial performance, according to Nyakundi, Nyamita and Tinega (2014) measures the extent to which financial objectives have been met. It also describes a firm's financial performance as how a company utilizes its assets effectively in order to conduct business and generate revenue (Indriasih & Koeswayo, 2014). Therefore, financial performance can be used to measure a firm's level of success and it forms the crucial objective the firms essentially desire to achieve. According to Onyango and Muturi (2013), financial performance deals with items that affect financial statements like balance sheets. The measurements can take the form of growth capital employed, turnover, asset base, divided among other forms. Financial performance is a crucial indicator to measure some economic units in order to determine its level of success in achieving set goals.

Maritim (2013) analyzed the process of budgeting and its influence on how firms perform. The study used a case of manufacturing and commercial SOEs in Kenya. The study revealed that the key budgeting practices among SOEs include involving individuals to participate in the budgeting process and budget sophistication. Allowing staff to take part in the process of budgeting significantly contributes towards attainment of the goals and objective.

Moshi (2018) conducted a similar study on the financial performance evaluation of one of the public corporations through the district development corporations. The study was conducted in Tanzania. The results showed that the financial performance of district development corporations was seen to be poor. This outcome was as a result of poor financial management. The aspect of cost benefit analysis was missing in procurement, allocation and administration of resources. The corporation was also involved in projects where feasibility studies were not considered before embarking on the project. Indiscipline on the part of workers was also seen to be a valid cause. Finally, a lack of a proper accounting system was also a practice that the management was engaging in so as to hide their inefficiencies and the added tendency to pass the blame to others. The researcher recommended the intervention of

the government in order for the district development corporations to operate in line with the policies and priorities of the country. The application of feasibility studies before embarking on the project would assist in efficient utilization of resources; all staffs need to take responsibilities for their actions and auditing of financial statements done regularly. Finally, introduction of clear personnel policies with regard to promotion, termination of services and disciplinary action should be emphasized.

Ongore and Kusa (2013) analyzed the key factors influencing Kenyan banks to perform financially. It was shown that bank specific factors have an influence on how firms perform financially. The results show that in Kenya financial performance in commercial banks is mainly driven by board and financial decisions while macro-economic factors have an insignificant contribution.

Guzeh (2012) sought to determine how corporate governance affected financial performance among Kenyan parastatals. Financial performance was measured by return on assets while corporate governance was determined by size and structure of the board besides the audit committee. The study established that corporate government was directly related with ROA and therefore sound corporate governance practices improves financial performance of parastatals. Ageng'a (2012) analyzed the interaction between privatization and its influence on Kenyan parastatals ability to perform financially. The findings of this research showed a positive effect of privatization over a firm's performance.

### **2.3.6 Organizational Culture**

Culture refers to the beliefs, values and aspirations that are adopted by a group of people and help in differentiating one organization from another one (Valmohammadi & Roshanzamir, 2015). Organizational culture pushes individuals within an organization to act as a team in achieving the organizational strategic goals and objectives. According to Popadak (2013) a new employee is able to shift his/her perspectives, behaviors and the way of doing things by

learning the processes and behave in a similar manner as the older employees of the organization. For increased performance, high quality of products and efficient service delivery, the employees in a firm must work as a team. The team must be gelled together and work as unified system. This is only possible through adapting to an organizational culture where all employees participate in all organizational activities (Popadak, 2013).

Guiso, Sapienza and Zingales (2015) mentions that organizational culture and reputation are intangible assets that organizational management can use to create competitiveness. When the public for the case of government entities; and the customers for private enterprises hold an organization in high esteem and see it as reliable, reputable and responsible, then the culture leads to high organizational performance.

The core organizational value set is the belief system adopted and the ways of functioning at the workplace. All organizations must have a value system that they teach to new employees as they orient them into the new working place. Having a common system at the work place is deemed to increase productivity of each individual, department and at last the entire organization. This is due to the fact that all the employees work as a well-oiled machine, in purpose and behave in an approved behavior code. Culture deems that all employees adhere to the organizational code of conduct, as this covers their attitudes at work, perspectives to the challenges faced at the work place and solving them to realize the stated organizational goals and objectives (Graham, Harvey, Popadak & Rajgopal, 2017).

The culture of the employees in an organization may determine how effective will the financial management practices be in ensuring improved financial performance. Honest and transparency organizational culture ensures that budget and audit control measures and effected and higher financial performance is realized (Naranjo-Valencia, Jiménez-Jiménez & Sanz-Valle, 2016). Having a norm and belief system that judiciously follows financial

management codes and regulations in report and tracking all receipts for expenses and auditing all projects where the finances have been expensed on.

## 2.4 Summary of Literature and Research Gaps

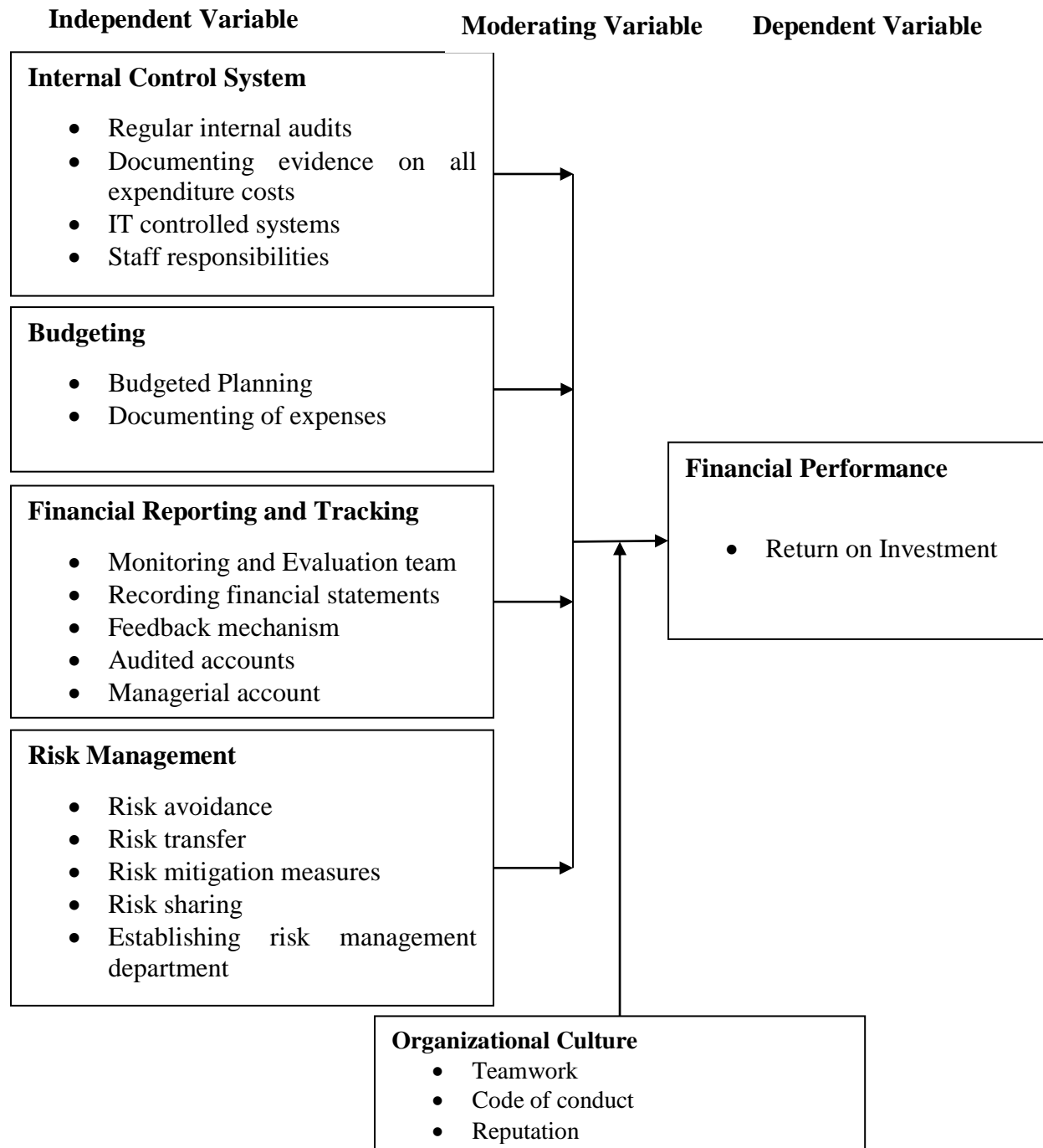
These studies have looked at different aspects of financial management and performance in service parastatals. For instance:

Author/year	Title	Findings	Gaps
Lerno (2016)	How internal control and performance of Kenyan counties interrelate	The adoption of the internal controls system has not led to the improvement in the performance of the county.	The topic is specific to internal controls in county governments and not among SOEs
Mugo (2013)	Internal control and its influence on performance of Kenyan technical training institutes	Most learning institutions have inadequate finances for meeting expenditures	The study covered educational institutions and not SOEs
Ademola, Adedoyin and Alade (2015)	Internal controls and their influence on performance of Public sector in Nigeria	The study found out that there is a significant relationship between capital and earnings quality.	The study was carried out on energy sector of the Nigerian National Petroleum corporation and not in Kenya.
Gekonde (2013)	How budgeting impacts on effective management of Kenyan parastatals	The use of performance information, performance targets in budgeting, performance evaluations and spending reviews are significant in explaining the difference in the management of parastatals in Kenya	The study focused on effective management and not on performance of SOEs
Kamau, Rotich and Anyango (2017)	Capital budgeting process and its influences on SOEs performance in Kenyan SOEs with reference to Kenyatta National Hospital	Budgeting influences performance of the firm	The study adopted a case of Kenyatta National Hospital which is merely one of the SOEs in Kenya
Muinde (2013)	The relationship between financial reporting practices and financial performance of small and medium enterprises in Kenya	The study established that there was a strong positive relationship between financial reporting and financial analysis, financial management, management accounting and financial performance	The study concentrated on small and medium enterprises in Kenya and not the SOEs
Gamayuni (2017)	The internal audit	Effective internal audit	This study

	effectiveness in ensuring quality reporting of financial information	significantly influence the reporting quality of financial information	focuses on the quality of financial reporting and financial information and not on performance of SOEs.
Keitany (2015)	The practices of managing risks and how they influence delivery of services in Kenyan government units	The study found that operational risk management self-assessment had a positive influence on service delivery. It was also found that operational risk management identification practices had a positive influence on service delivery.	The study was conducted among devolved units and not specifically among SOEs in Kenya
Muriungi, Waithaka, Were and Muriuki (2017)	Management of risk and its influence on stability of Kenyan state corporations	The study established that in financial risk management; defaulting credit risk management leading to financial stability in the corporation, the process of financial risk management is continual in its process in state corporations, and that state corporations have installed measures to reduce liquidity risk. Also, strategic risk management is important for the success of a state corporation.	This study links risk management to the financial stability of state corporations and not performance
Cheruiyot (2013)	The influence of enterprise risk management on strategic management process of Kenya power and lighting company limited	The findings showed that the risks facing the organization include legal or contractual risks, technical or ICT risks, management risks, environmental risks, safety risks and political risks. The enterprise risk management of an organization was found to be affected by several factors	The study fails to link risk management and performance and only focuses on strategic management instead
Maritim (2013)	How budgeting influences the ability of firms to perform financially with key focus on commercial and manufacturing SOEs in Kenya	Allowing employees to take part in the budgeting process has an influence on firm performance	The study is limited in its scope in the area of manufacturing and commercial parastatals in Kenya.

## 2.5 Conceptual Framework

The conceptual framework is a diagrammatic representation of the study variables together with their constructs (Yin, 2017). It helps in operationalization of the study variables. The conceptual framework of the study is presented in Figure 2.1.



**Figure 2.1: Conceptual Framework**  
Source: Author (2018)

From Figure 2.1, the dependent study variables include internal control system, budgeting, financial reporting and tracking as well as risk management. The dependent variable on the other hand is the financial performance. There is also a moderating variable represented by organizational culture.

**CHAPTER THREE**  
**RESEARCH METHODOLOGY**

**3.1 Introduction**

The design and the targeted respondents of the study are indicated in this chapter. Besides, the means of determining the sample size, the methods for collecting and analysis of data are also presented. The ethical concerns and issues adhered to are also clearly pointed out.

**3.2 Research Design**

A descriptive research design was adopted in this study. In a descriptive study, data is collected without change in environment. A descriptive research design answers questions of where, when, why and what of the study (Creswell 2013). This design was effective because it helped the study to establish financial management and how it has influenced performance of state owned enterprises in Kenya. A descriptive research design portrayed an accurate profile of people, events or situations.

**3.3 Empirical Model**

In an effort to test the relationship between the study variables (the independent variables, moderating variables and dependent variable), the study adopted the following steps.

Step 1: Regress performance against financial management (excluding organizational culture) and note the r square ( $r^2_1$ )

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon_i \dots \dots \dots i$$

Where:

Y = Financial Performance

X<sub>1</sub> = Internal Control

X<sub>2</sub> = Budgeting

X<sub>3</sub> = Financial Reporting and tracking

X<sub>4</sub> = Risk Management

$\beta_0$  = Intercept coefficient

$\epsilon_i$  = Error term

Step 2: Introduce the organizational culture and note the new r square ( $r^2_2$ ). This is illustrated in the reduced Model below;

$$Y = \beta_0 + \beta_1 FM + \beta_2 OC + \epsilon_i \dots \dots \dots \text{ii}$$

Where:

Y = Financial Performance

FM = Financial Management

OC = Organizational Culture

$\beta_0$  = Intercept coefficient

$\epsilon_i$  = Error term

Fairchild and MacKinnon (2009) argued that the difference in the r square ( $r^2_1 - r^2_2$ ) represents the moderating effect in the relationship between the independent and the dependent variables of the model.

The product model follows this format:

$$Y = \beta_0 + \beta_1 FM + \beta_2 OC + FM * OC \epsilon_i \dots \dots \dots \text{iii}$$

Where;

FM = Financial Management

OC = Organizational Culture

### 3.3.1 Operationalization and Measurement of Variables

The operationalization of the study variables is shown in Table 3.1.

**Table 3.1 Operationalization and Measurement of Variables**

Variable	Type	Indicators	Measurement Scales
Internal Control System	• Independent Variable	<ul style="list-style-type: none"> <li>• Regular internal audits</li> <li>• Receipt expenditures</li> <li>• IT controlled systems</li> </ul>	ordinal
Budgeting	• Independent Variable	<ul style="list-style-type: none"> <li>• Budgeted Planning</li> <li>• Staff participation</li> <li>• Feedback mechanism</li> </ul>	ordinal
Financial reporting and tracking	• Independent Variable	<ul style="list-style-type: none"> <li>• M&amp;E team</li> <li>• Recording financial statements</li> <li>• Documentation for expenses</li> </ul>	ordinal
Risk Management	• Independent Variable	<ul style="list-style-type: none"> <li>• Risk assessment</li> <li>• Risk reduction measures</li> <li>• IT usage on risk management</li> </ul>	ordinal
Organizational Culture	• Moderating Variable	<ul style="list-style-type: none"> <li>• Teamwork</li> <li>• Code of conduct</li> <li>• Reputation</li> </ul>	ordinal
Financial Performance	• Dependent Variable	<ul style="list-style-type: none"> <li>• Return on Investment</li> </ul>	ordinal

### 3.4 Target Population

The target population is those elements the researcher is interested in and has information that will respond to the research questions (Creswell, 2013). The study targeted 29 state owned enterprises in Kenya and the respondents included 111 finance managers, accountants, risk managers and supply chain managers drawn from these SOEs (Appendix VIII). This population is shown in Table 3.2. The number of risk managers is less because some of the SOEs have an audit instead of risk department.

**Table 3.2: Target Population**

Position	Frequency
Finance Manager	29
Accountants	29
Risk Managers	24
Supply Chain Managers	29
<b>Total</b>	<b>111</b>

### **3.5 Sampling Design and Sample Size**

Sampling techniques is a process adopted by researchers in selecting respondents who participate in a study from the target population. The study used purposive sampling technique where only individuals conversant with information being sought by the study were included in the study. The study adopted a census hence the sample size was 111 respondents. Creswell (2013) mentions that the population is a small available and has sufficient information to respond to the research questions and then census sampling can be adopted.

### **3.6 Data Collection Instrument**

To gather information from respondents, questionnaires were used containing close ended questions. The study structured questionnaires into sections based on research objectives. Some of the questions on the questionnaire were structured on five point Likert scale where 1=strongly disagree and 5=strongly agree. The questionnaires were used because of their ability to contain fixed responses.

### **3.7 Data Collection Procedure**

The study sought for an introduction letter from Kenyatta University after which an application for research permit started. The letter of introduction stated the purpose of the study as being for academic purpose. The study applied this research permit from NACOSTI. The study then sought for authority from the management of SOE informing them of the study objectives. During data collection in the field, the study adopted a drop and pick latter method to issue out questionnaires to respondents.

### **3.8 Pilot Test**

The research instruments were piloted to determine how reliable and valid the research instruments are. Respondents taking part in the pilot study were not included in the final

sample size. Detailed information on measurement of validity and reliability are outlined below:

### 3.8.1 Validity

Validity is the extent which the drawn inferences are accurate and meaningful in regard to the findings of the study. According to Yin (2013), validity is the extent which the analyzed data represent actual measures. Validity only exists when the data collected measures its intended measure. The researcher sought supervisor’s opinion to enhance the instruments’ validity and experts in the field of financial management.

### 3.8.2 Reliability

Ten respondents from the ministry of Finance were selected and used in the pilot study to determine reliability of research instruments. A pilot test was done in order to identify and correct inconsistencies arising from the research instruments. This helped in ensuring that the research instruments measure what that are supposed to. Cronbach Alpha coefficient was computed in assessing and determining levels of reliability. A Cronbach coefficient of 0.7 and above indicated that the research instruments were reliable (Yin, 2013). The findings on reliability analysis are shown in Table 3.3.

**Table 3.3: Reliability Results**

<b>Variable</b>	<b>Number of Items</b>	<b>Cronbach Alpha coefficient</b>
Internal Controls	7	0.874
Budgeting	8	0.781
Financial Reporting and Tracking	6	0.779
Risk Management	7	0.765
Organizational Culture	6	0.862
Financial Performance	4	0.737

**Source; Survey Data (2018)**

From Table 3.3, all the values of Cronbach Alpha coefficients for the study variables were over 0.7. This finding is so important because it shows that the instruments used in collection of data were reliable. This is consistent with Yin (2013) who indicated that reliable scale should have Cronbach coefficients of over 0.7.

### **3.9 Data Analysis and Presentation**

The collected data was edited and cleaned before analysis using descriptive and inferential statistics. Means and standard deviations were part of the descriptive statistics while regression analysis formed the inferential statistics. The study findings were presented in form of figures and tables by the use of frequencies and percentages so as to compare the findings and enhance research analysis (Yin, 2017). This helped to enhance the presentation and ease of understanding the findings for readers. This helped to eliminate data redundancies.

#### **3.9.1 Diagnostic Tests**

The study used multicollinearity, normality and autocorrelation tests to determine the suitability of the data set for regression modeling.

#### **3.9.2 Multicollinearity Test**

Multicollinearity (also called collinearity) occurs when one independent variable is highly correlated with the dependent variable. It tests whether two or more independent variables have linear relationship (Iacobucci, Schneider, Popovich & Bakamitsos, 2017). The study used Variance of Inflation Factor VIF to test for Multicollinearity.

#### **3.9.3 Normality Test**

Normality tests determine whether the data set observes a normal distribution (Kothari, 2004). Before carrying out inferential analysis, it is important that normality of the data set is assessed (Gujarati & Porter, 2009). Skewness and Kurtosis were used in determination of normality of the data set.

### **3.10 Ethical Consideration**

Ethics in research pushes the researcher to behavior in integrity and abide by the set standards of research (Gajjar, 2013). It ensures that no person comes to harm in the course of collecting data for the study.

The research sought permission from the top leadership in the service parastatals, using an introduction letter from Kenyatta University. The letter explained the purpose for collecting data as for academic purposes only. The researcher endeavored to maintain the confidentiality of the identities of respondents and of the information shared. Informed consent by the respondents was also signed before commencement of data collection. Participation was on voluntary basis and those not comfortable to take part were excluded. The study abided by the APA citation to avoid plagiarism.

## CHAPTER FOUR

### DATA ANALYSIS AND INTERPRETATION

#### 4.1 Introduction

This chapter presents the analysis of the collected findings. It is structured into sections based on how the questionnaire was designed. These sections cover the general information, the presentation on means and standard deviations besides the regression results.

##### 4.1.1 Response Rate

The researcher sampled out and distributed 111 questionnaires to finance directors in all the 29 commercial state-owned enterprises in the country. Out of these questionnaires, 83 of them were dully filled and returned resulting into a response rate of 74.8% as shown in Table 4.1.

**Table 4.1: Response Rate**

	Frequency	Percentage
Returned Questionnaires	83	74.8
Unreturned Questionnaires	28	25.2
<b>Total Number of Questionnaires Issued</b>	<b>111</b>	<b>100</b>

#### Survey Data (2018)

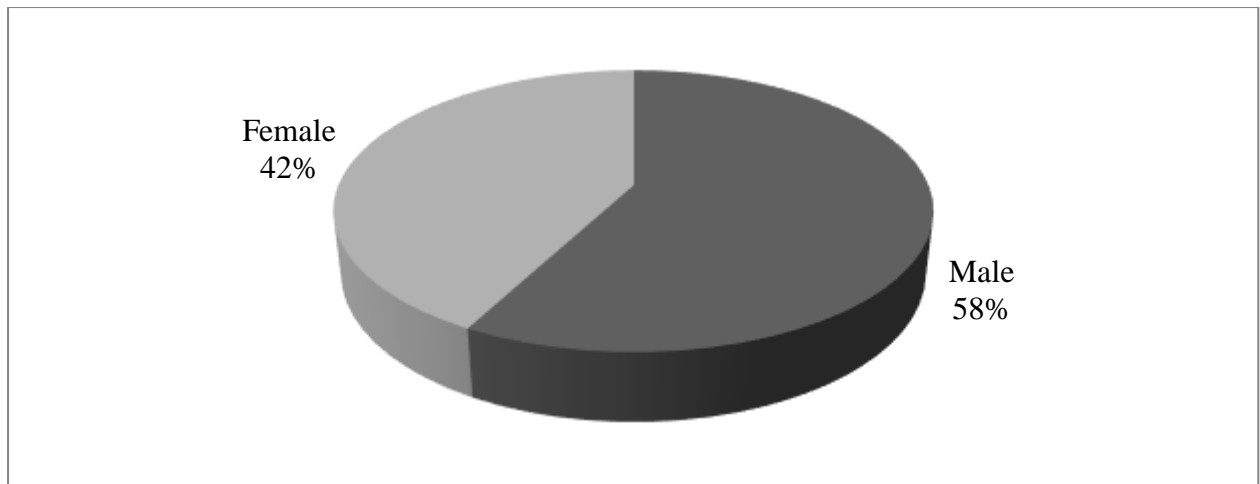
The above response rate concurred with the stipulation of Babbie (2010) who argued that a response rate of 70% or above is satisfactory for analyzing the findings.

#### 4.2 General Information

The researcher asked respondents to indicate their gender, the number of years they had worked in their current organization and their highest level of education. The findings as reported by respondents are shown in subsequent sections.

##### 4.2.1 Gender Distribution

The study sought to assess the number of male and female respondents as shown in Figure 4.1.



**Figure 4.1: Gender Distribution  
Survey Data (2018)**

From Figure 4.1 above, most of the respondents 58% were male while 42% were female. Thus, the study sought representative findings from respondents and this reduced biasness.

#### **4.2.2 Years of Experience**

Respondents were requested to indicate the number of years they had worked in their current organizations. The findings are summarized in Table 4.2.

**Table 4.2: Years of Experience**

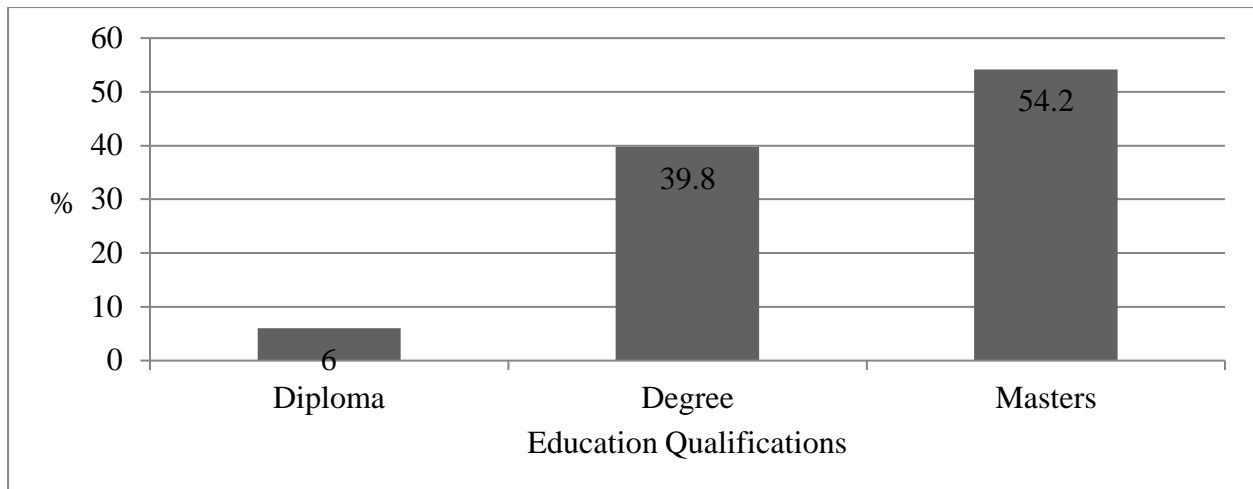
	<b>Frequency</b>	<b>Percentage</b>
1-5 Years	7	8.4
5-10 Years	21	25.3
10-15 Years	32	38.6
15-20 Years	22	26.5
> 20 Years	1	1.2
<b>Total</b>	<b>83</b>	<b>100.0</b>

**Survey Data (2018)**

The findings in Table 4.2 indicate that 38.6% of the respondents had worked for 10-15 years, 26.5% for 15-20 years, 25.3% for 5-10 years, 8.4% for 1-5 years and 1.2% for over 20 years. This shows that the respondents of the study were knowledgeable on the study due to their exposure.

#### **4.2.3 Highest Level of Education**

The study investigated the highest education qualifications of respondents as represented in Figure 4.2.



**Figure 4.2: Highest Level of Education Survey Data (2018)**

The findings in Figure 4.2 reveal that most of the respondents 54.2% had masters, 39.8% had degrees while 6% had diplomas. Thus, respondents of the study were learnt therefore responded to research questionnaires appropriately.

#### **4.3 Internal Control System**

The researcher carefully identified a number of statements on internal control system and how it influence financial performance of commercial state corporations. On a five-point Likert scale where 1=strongly disagree and 5=strongly agree, respondents were asked to rate show the extent of their agreement with each of these statements.

**Table 4.3: Internal Control System**

	<b>Mean</b>	<b>Std. Dev.</b>
Our regular audits have improved our financial performance in our parastatals	3.66	.475
Our top management initiates internal auditing of finances at our institution	3.75	.957
All our financial activities are closely monitored by a special team	3.42	1.14
Our employees have separate roles in handling finances which improves our performance	4.13	.341
We keep receipts to record all our expenditure thus improving our performance	3.65	.501
Using IT controlled systems leads to high financial performance	3.97	.540
Implementing internal control systems improves our performance	3.95	.561
<b>Average Mean</b>	<b>3.79</b>	<b>0.645</b>

**Survey Data (2018)**

From Table 4.3, regular audits had improved financial performance in parastatals (M= 3.66 SD= 0.475). The top management initiated internal auditing of finances at the institution (M=3.75 SD=0.957). These findings contradict with Mugo (2013) whose study revealed that the department of internal audit had no sufficient staff and therefore regular audits were not conducted. Most of the respondents were neutral on whether the financial activities were closely monitored by a special team (M=3.42 SD= 1.14). In a study by Mugo (2013), it was revealed that in all the studied learning institutions, the management showed commitment to control systems, it monitored and reviewed performance and supervised all activities taking part within institutions.

The findings of the study indicated that employees had separate roles in handling finances which improved performance (M=4.13 SD=0.341). The finding is consistent with Mugo (2013) whose study revealed that roles were clearly separated and weaknesses in systems were addressed. Receipts were kept to record all expenditure thus improving performance (M= 3.65 SD= 0.501). In a study by Lerno (2016) on internal controls relationship and performance of county government in Kenya, respondents are also not certain whether the accounting system efficiently recognizes receipt and expenditure of grand contracts.

Using IT controlled systems led to high financial performance (M=3.97; SD=0.540). Implementing internal control systems improved performance (M=3.95; SD=0.561). The aggregate mean on internal controls (M=3.79; SD=0.645) which shows that on average, respondents agreed that internal controls influenced financial performance of commercial state corporations. These findings are in line with Lerno (2016) who established internal controls are the heart of the organization as they determine how goals are attained.

#### 4.4 Budgeting

The study examined how budgeting influenced financial performance of commercial state corporations. The findings are shown in Table 4.4 below.

**Table 4.4: Budgeting**

	<b>Mean</b>	<b>Std. Dev</b>
Our budgeting is an instrument to realize our institutional goals	3.53	.502
We plan for our budgets at departmental level	3.87	.817
Our employee participation in budget preparation has improved our performance	3.83	.376
Our open feedback mechanism has improved our budgeting process leading to higher financial performance	3.86	.341
Our budgets at the parastatals are simple for easy understanding	3.68	1.12
We conduct spending reviews at department level to improve our performance	3.90	.835
Setting performance targets in our budget improves our performance	4.25	.677
Our top management conducts regular follow-ups on the budget to improve financial performance.	3.79	.920
<b>Average Mean</b>	<b>3.83</b>	<b>0.698</b>

#### **Survey Data (2018)**

The findings in Table 4.4 show that budgeting was an instrument to realize institutional goals (M=3.53; SD=0.502). According to Brigham, Ehrhardt, Nason and Gessaroli (2016), governments are able to realize their goals and objective through budgets in place. The organization planned for its budgets at departmental level (M=3.87; SD=0.817). Employee participation in budget preparation had improved performance (M=3.83; SD= 0.376). The finding is in line Maritim (2013) who noted that budgetary sophistication, budgetary participation and budgetary planning were three key practices among the studies organizations.

The open feedback mechanism had improved budgeting process leading to higher financial performance (M=3.86; SD=0.341). The finding is in line with Maritim (2013) who evaluated how budgeting processes affected financial performance and revealed that feedback mechanism was proved to be important in the actualization of the budget. The budgets at the parastatals were simple for easy understanding (M=3.68; SD=1.12). Most of the commercial state corporations conducted spending reviews at department level to improve their performance (M=3.90; SD=0.835). Gekonde (2013) investigated the impact of performance budgeting on the management of parastatals in Kenya and revealed that spending reviews is significant in explaining the difference in the management of parastatals in Kenya.

Setting performance targets in budget improved performance (M=4.25; SD=0.677). The top management conducted regular follow-ups on the budget to improve financial performance (M=3.79; SD=0.920). The aggregate mean on budgeting (M=3.83; SD= 0.698). This shows that respondents generally agreed on statements of budgeting and how it influences financial performance among commercial state corporations. These findings are in line with Koech (2015) who noted that budgetary controls in place greatly influenced competitiveness and financial performance.

#### **4.5 Financial Reporting and Tracking**

The findings on the influence of financial reporting and tracking on financial performance of commercial state corporations are shown in Table 4.5.

**Table 4.5: Financial Reporting and Tracking**

<b>Statements</b>	<b>Mean</b>	<b>Std. Dev</b>
Informing our stakeholders on our finances leads to high financial performance	4.07	.823
Strengthening our financial accounting controls improves our financial performance	3.80	.688
Compliance with financial reporting quality leads to improved financial performance	4.13	.341
Setting financial management practices has solved our financial management problems	4.04	.622
Our M&E team through its reporting improves our financial performance	3.61	.934
We record all our financial transactions so as to improve our turnover	3.98	.594
<b>Average Mean Score</b>	<b>3.93</b>	<b>0.667</b>

**Survey Data (2018)**

The findings of the study indicate that informing stakeholders on finances led to high financial performance (M=4.07; SD=0.823). Financial reporting according to Nyakundi, Nyamita and Tinega (2014) is the disclosure of financial information to stakeholders about the financial performance of a company. Strengthening financial accounting controls improved financial performance (M= 3.80; SD= 0.688). Compliance with financial reporting quality led to improved financial performance (M=4.13; SD=0.341). Setting financial management practices had solved financial management problems (M=4.04; SD= 0.622). The M&E team through its reporting improved financial performance (M= 3.61; SD= 0.934). All financial transactions were recorded so as to improve turnover (M=3.98; SD= 0.594). The aggregate mean on financial reporting and tracking (M= 3.93; SD= 0.594). This implies that respondents agreed on statements under review and how they influenced financial performance.

#### **4.6 Risk Management**

The responses on risk management and how it influences financial performance of commercial state corporations are shown in Table 4.6.

**Table 4.6: Risk Management**

	<b>Mean</b>	<b>Std. Dev</b>
Our risk management aims at reducing our institutional losses	3.97	.471
Adhering to set rules and regulations improves our financial performance	3.57	1.00
We have adopted operational risk management practices to cut losses while improving returns	3.71	.456
Conducting assessments increases our turnovers at our parastatal	3.35	1.07
We use IT based system when handling finances which has improved our performance	3.71	.456
Installing risk reduction measures has improved our financial performance	3.77	.860
We have integrated risk management in our objectives that has positively affected our financial performance.	3.86	.341
<b>Average Mean score</b>	<b>3.73</b>	<b>0.664</b>
<b>Survey Data (2018)</b>		

Table 4.6 indicates that risk management aimed at reducing institutional losses (M= 3.97; SD= 0.471). Adhering to set rules and regulations improved financial performance (M=3.57; SD= 1.00). The finding concurs with Keitany (2015) who found that government owned agencies have embraced operational risk management practices and other commonly used practices and following the assigned rules and regulations. Most commercial state corporations had adopted operational risk management practices to cut losses while improving returns (M=3.71; SD=0.456). Keitany (2015) found that government owned agencies have embraced operational risk management practices and other commonly used practices and following the assigned rules and regulations

Conducting assessments increased turnover at the parastatal (M=3.35; SD=1.07). Most state-owned enterprises used IT based system when handling finances which had improved performance (M=3.71; SD=0.456). Installing risk reduction measures had improved financial performance (M=3.77; SD=0.860). Muriungi, Waithaka, Were and Muriuki (2017) noted that a lot of resources have been directed to information technology risk management, risk-audit activities, assessments of operational risks and prepare recommendations for risk reduction

Most commercial state enterprises had integrated risk management in their objectives that had positively affected their financial performance (M=3.86; SD=0.341). The overall mean (M= 3.73; SD=0.664) shows that respondents generally were in agreement that risk management had an influence on financial performance of commercial state enterprises. The findings are in line with Muriungi, Waithaka, Were and Muriuki (2017) who did a study on the relationship between risk management practices and financial stability in state corporations in Kenya and revealed that strategic risk management is important for the success of a state corporation

#### 4.7 Organization Culture

The study sought to determine how organizational culture influenced financial performance of commercial state enterprises. The findings are shown in Table 4.7.

**Table 4.7: Organization Culture**

	<b>Mean</b>	<b>Std. Dev</b>
We have developed a culture that is unique differentiating us from other parastatals	3.42	.971
Our culture advocates for working as a team to improve our financial performance	4.14	.353
All our staff participate in all organizational activities increasing our performance	4.15	.903
We hold our organization in high esteem to maintain our reputation	3.87	.669
Our organizational culture is aimed at pulling resources together so as to boost financial effectiveness	4.38	.489
Adhering to our code of conduct improves our financial performance	4.33	.769
<b>Average Mean</b>	<b>4.08</b>	<b>0.692</b>

#### Survey Data (2018)

Most respondents in Table 4.7 were not certain whether their state enterprise had developed a culture that was unique differentiating them from other parastatals (M=3.42; SD=0.971). The culture advocated for working as a team to improve financial performance (M=4.14; SD=0.353). The finding is in agreement with Popadak (2013) who established that for increased performance, high quality of products and efficient service delivery, the employees in a firm must work as a team. All staff participated in all organizational activities and this increased performance (M=4.15; SD=0.903). Most of the respondents held their organizations in high

esteem to maintain reputation (M= 3.87; SD= 0.669). According to Guiso, Sapienza and Zingales (2015), when the public for the case of government entities; and the customers for private enterprises hold an organization in high esteem and see it as reliable, reputable and responsible, then the culture leads to high organizational performance.

The organizational culture aimed at pulling resources together so as to boost financial effectiveness (M=4.38; SD=0.489). Adhering to the code of conduct improved financial performance (M=4.33 SD=0.769). Culture according to Graham, Harvey, Popadak and Rajgopal (2017) deems that all employees adhere to the organizational code of conduct, as this covers their attitudes at work, perspectives to the challenges faced at the work place and solving them to realize the stated organizational goals and objectives. The overall mean on the statement (M=4.08; SD=0.692) shows that respondents were in agreement in organizational culture and how it influenced financial performance of commercial state enterprises.

#### 4.8 Financial Performance

The findings on financial performance of commercial state enterprises are indicated in Table 4.8.

**Table 4.8: Financial Performance**

	<b>Mean</b>	<b>Std. Dev</b>
Our investors have earned more on their investment	3.83	.376
The increase in ROI has been attributed to proper financial management	3.69	1.00
<b>Mean Score</b>	<b>3.92</b>	<b>0.694</b>

#### **Survey Data (2018)**

From the findings, investors had earned more on their investment (M=3.83; SD=0.376). The increase in ROI has been attributed to proper financial management (M=3.69 SD=1.00). According to Onyango and Muturi (2013), financial performance measurements can take the form of growth capital employed, turnover, asset base, divided among other forms.

#### 4.9 Diagnostic Tests

The researcher conducted normality and multicollinearity tests as reported in subsequent sections.

**Table 4.9: Normality Tests**

	N	Skewness		Kurtosis	
		Statistic	Std. Error	Statistic	Std. Error
Financial Performance	83	-.931	.264	.291	.523
Internal Control	83	-.203	.264	-.733	.523
Budgeting	83	-.640	.264	.231	.523
Financial Reporting and Tracking	83	-.118	.264	-.128	.523
Risk Management	83	-.061	.264	-.967	.523
Organizational Culture	83	.208	.264	-.681	.523

#### Survey Data (2018)

The findings in Table 4.9 shows values of Skewness and Kurtosis for all variables were all within the range of  $n+2$  and  $-2$ . This shows that the data set was normally distributed.

**Table 4.10: Multicollinearity Test**

	Collinearity Statistics	
	Tolerance	VIF
Internal Control	.150	6.652
Budgeting	.137	7.308
Financial Reporting and Tracking	.938	1.066
Risk Management	.986	1.014
Organizational Culture	.203	4.938

#### Survey Data (2018)

From Table 4.10, all the VIF values are within the range of 1-10. This suggests that the data set had no multicollinearity and therefore suitable for carrying out regression analysis.

#### 4.10 Regression Results without Moderation Effect

This section presents the linear regression as well as the multiple regression model used to test the effect of financial management on performance.

#### 4.10.1 Internal Control System and Performance

Simple regression analysis was conducted to determine the effect of internal control system on performance of SOEs. Table 4.11 gives the findings of the Model Summary.

**Table 4.11: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.895 <sup>a</sup>	.801	.798	.98992

a. Predictors: (Constant), Internal Control System

From Table 4.11, the value of R square is 0.801; this means that 80.1% change in performance of SOEs is explained by change in internal control. The findings on the Analysis of Variance (ANOVA) are shown in Table 4.12.

**Table 4.12: Analysis of Variance**

	Sum of Squares	df	Mean Square	F	Sig.
Regression	319.372	1	319.372	325.910	.000 <sup>b</sup>
Residual	79.375	81	.980		
<b>Total</b>	<b>398.747</b>	<b>82</b>			

a. Dependent Variable: Performance

b. Predictors: (Constant), Internal Control System

From Table 4.12, the value of F calculated is 325.910; this implies that the overall regression model is significant. The findings on the beta coefficients are shown in Table 4.13.

**Table 4.13: Regression Coefficients**

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	5.352	1.507		3.550	.001
Internal Control System	.771	.043	.895	18.053	.000

a. Dependent Variable: Performance

From Table 4.13, internal control system ( $p < 0.05$ ) has positive and significant effect on performance of SOEs. This implies that efforts to improve on internal controls would lead to an increase in performance. The finding is consistent with Tinega *et al.* (2014) who established that internal control significantly influenced financial performance of small businesses. Ndembu (2015) also established that control activities, sharing of information, management of risk and control environment all significantly influenced the firms'

performance financially in the Kenyan manufacturing sector. Mogunde (2016) found out that internal control had positive correlation with organizational performance.

#### 4.10.2 Budgeting and Performance

The linear regression findings on budgeting and its influence on performance are indicated in this section. Table 4.14 gives the findings of the model summary.

**Table 4.14: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.830 <sup>a</sup>	.688	.684	1.23880

a. Predictors: (Constant), Budgeting

From the results, the value of R square is 0.688; this means that 68.8% change in performance of SOEs is explained by changes in budgeting. The findings on the ANOVA are shown in Table 4.15.

**Table 4.15: Analysis of Variance**

	Sum of Squares	df	Mean Square	F	Sig.
Regression	274.442	1	274.442	178.834	.000 <sup>b</sup>
Residual	124.304	81	1.535		
<b>Total</b>	<b>398.747</b>	<b>82</b>			

a. Dependent Variable: Performance

b. Predictors: (Constant), Budgeting

The findings in Table 4.15 indicate the value of F calculated as 178.834; this means that the overall simple regression model was significant. Table 4.16 gives the findings of the regression coefficients and the significance.

**Table 4.16: Regression Coefficients**

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	5.795	2.001		2.896	.005
Budgeting	.681	.051	.830	13.373	.000

a. Dependent Variable: Performance

Table 4.16 shows that budgeting ( $p < 0.05$ ) has positive and significant effect on performance of SOEs. The findings are in line with Anyango *et al.* (2017) who revealed that participation

in budgeting greatly influenced performance of state corporations. Mbugua (2013) showed that there was a positive effect of budget planning on revenue collection.

#### 4.10.3 Financial Reporting, Tracking and Performance

The study sought to determine the influence on financial reporting and tracking on performance. The findings of the model summary are shown in Table 4.17.

**Table 4.17: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.876 <sup>a</sup>	.768	.765	1.06837

a. Predictors: (Constant), Financial Reporting and Tracking

As shown in Table 4.17, the value of R square is 0.768; this means that 76.8% change in performance of SOEs is explained by their financial reporting and tracking in place. The findings on the Analysis of Variance (ANOVA) are shown in Table 4.18.

**Table 4.18: Analysis of Variance**

	Sum of Squares	df	Mean Square	F	Sig.
Regression	306.292	1	306.292	268.344	.000 <sup>b</sup>
Residual	92.455	81	1.141		
<b>Total</b>	<b>398.747</b>	<b>82</b>			

a. Dependent Variable: Performance

b. Predictors: (Constant), Financial Reporting and Tracking

The findings in Table 4.18 show that the value of F calculated is 268.344; this means that the overall linear model was significant. Table 4.19 gives the findings on the beta coefficients and significance of individual variables.

**Table 4.19: Regression Coefficients**

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	11.018	2.659		4.144	.000
Financial Reporting and Tracking	1.224	.075	.876	16.381	.000

a. Dependent Variable: Performance

As reported in Table 4.19, financial reporting and tracking ( $p < 0.05$ ) has significant effect on performance. This finding is consistent with Ferrero (2014) who looked at how quality of

financial reporting affected performance and showed that the quality of financial reporting had positive influence on performance.

#### 4.10.4 Risk Management and Performance

The findings on simple regression analysis are indicated in this section. Table 4.20 reports the findings of the model summary.

**Table 4.20: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.772 <sup>a</sup>	.596	.591	1.41057

a. Predictors: (Constant), Risk Management

From Table 4.20, the value of R square is 0.596; this means that 59.6% change in performance of SOEs is explained by risk management. Table 4.21 shows the findings of the ANOVA.

**Table 4.21: Analysis of Variance**

	Sum of Squares	df	Mean Square	F	Sig.
Regression	237.580	1	237.580	119.404	.000 <sup>b</sup>
Residual	161.167	81	1.990		
<b>Total</b>	<b>398.747</b>	<b>82</b>			

a. Dependent Variable: Performance

b. Predictors: (Constant), Risk Management

Table 4.21 shows that the value of F calculated is 119.404; this means that the overall regression model was significant. The findings on the regression coefficients and the significance are indicated in Table 4.22.

**Table 4.22: Regression Coefficients**

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	18.860	1.257		15.001	.000
Risk Management	.838	.077	.772	10.927	.000

a. Dependent Variable: Performance

As indicated in Table 4.22, risk management ( $p < 0.05$ ) has positive as well as significant effect on performance of SOEs. The finding is in line with Mwangi (2012) who established that credit risk management significantly influenced financial performance through loan performance and credit adequacy. Mutua (2014) revealed that risk assessment as a credit risk

management practice is so crucial among commercial banks while risk analysis helps banks discover mistakes early and it therefore can be important for risk management which helps in risk monitoring

#### 4.10.5 Overall Regression Model without Moderation Effect

The researcher regressed financial management against performance of state owned enterprises to determine the interaction between them. The model did not include organizational culture as the moderating variable but only included the independent and the dependent variables. Table 4.23 shows that findings of the Model Summary.

**Table 4.23: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.832 <sup>a</sup>	.693	.673	.99287

a. Predictors: (Constant) Budgeting, Internal Control, Risk Management, Financial Reporting and Tracking

#### Survey Data (2018)

The findings in Table 4.23 indicate the coefficient of determination R square of 0.693 and the adjusted R square of 0.673. Thus, 67.3% change in financial performance of commercial state enterprises is explained by their financial management.

The researcher carried out an Analysis of Variance at 5% level of significance and the findings are reported in Table 4.24.

**Table 4.24: Analysis of Variance (ANOVA)**

	Sum of Squares	df	Mean Square	F	Sig.
Regression	171.155	4	42.789	43.976	.000 <sup>b</sup>
Residual	75.906	78	.973		
<b>Total</b>	<b>247.060</b>	<b>82</b>			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant) Budgeting, Internal Control, Risk Management, Financial Reporting and Tracking

#### Survey Data (2018)

From the ANOVA Table 4.24,  $F_{\text{calculated}} = 43.976$  while  $F_{\text{critical}} = 2.27$ . It can therefore be inferred that the overall model was significant. The regression coefficients and the p-values of the study are shown in Table 4.25. The interpretation of p values was done at 5% level of significance (0.05).

**Table 4.25: Regression Coefficients**

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	3.260	1.494		2.181	.032
Internal Control	.256	.109	.382	2.343	.022
Budgeting	.410	.102	.685	4.010	.000
Financial Reporting and Tracking	.126	.040	.030	3.145	.000
Risk Management	.462	.110	.838	4.191	.000

a. Dependent Variable: Financial Performance

Level of Significance at 0.05

### Survey Data (2018)

The resultant regression equation becomes;

$$Y=3.260+0.256X_1+0.410X_2+0.126X_3+0.462X_4$$

Where Y=Financial Performance;  $X_1, \dots, X_5$  represents the independent variables of the study.

Internal control has a positive statistical beta coefficient ( $\beta=0.256$ ,  $p=0.022<0.05$ ). This means internal control has a significant influence on the performance of state owned enterprises. This result support the finding of Nyakundi, Nyamita and Tinega (2014) who looked at how internal control systems affected financial performance and revealed that internal control significantly influenced financial performance of small businesses. Internal control is critical in the state enterprise, especially those of commercial in nature and it directly determines how they attain their goals and objectives and thus financial performance.

Budgeting has a positive statistical beta coefficient ( $\beta=0.410$ ,  $p=0.000$ ). This infers that budgeting has significant effect on performance of state owned enterprises. The finding is supported by Mbugua (2013) who sought to establish the relationship between budget practices and performance of organizations in the water sector in Kenya and revealed that there was a positive effect of budget planning on revenue collection. Budgeting is so crucial in state owned enterprises because it determines how resources are efficiently allocated for improved performance and realization of goals in place.

Financial reporting and tracking has a positive statistical beta ( $\beta=0.126$ ;  $p=0.000$ ). This shows that financial reporting and tracking has a significant effect on performance of state owned enterprises. The finding is supported by Muinde (2013) who sought to establish the relationship between financial reporting practices and financial performance of small and medium enterprises in Kenya and revealed that there was a strong positive relationship between financial reporting and financial analysis, financial management, management accounting and financial performance. Financial reporting and tracking plays an important role as far as performance of state owned enterprises is concerned and it can be enhanced by strong adherence to Generally Accepted Accounting Principles (GAAPs). Financial reporting and tracking result into significant reports that may be used by investors, shareholder, the government for tax compliance purposes.

Risk management has a positive statistical beta coefficient ( $\beta=0.462$ ;  $p=0.000$ ). It can therefore be deduced that risk management has significant effect on performance of state owned enterprises. The result supports the findings of Mwangi (2012) who investigated how management of credit risk influenced financial performance and revealed that credit risk management significantly influenced financial performance through loan performance and credit adequacy. Risk management is equally an important aspect of financial management of state owned enterprises because it predicts the degree of losses or profits especially among commercial state owned enterprises.

#### **4.11 Regression Results with Moderation Effect**

To capture the moderating effect in the model, the researcher included organizational culture together with the independent variables. Table 4.26 shows that findings of the model summary.

**Table 4.26: Model Summary**

<b>Model</b>	<b>R</b>	<b>R Square</b>	<b>Adjusted R Square</b>	<b>Std. Error of the Estimate</b>
1	.872 <sup>a</sup>	.760	.750	.93023

From Table 4.26, the value of R square is 0.760 which is also equal to 76%. Compare this R square with the previous one in Table 4.11 where it was 0.693 which is equal to 69.3%. Thus, the difference in R square (76%-69.3%) equals to 6.7%. This represents the moderating influence of organizational culture in the relationship between financial management and performance of state owned enterprises in Kenya.

Table 4.27 reports the findings on the Analysis of Variance whose essence was to determine the overall significance of the model.

**Table 4.27: Analysis of Variance**

	<b>Sum of Squares</b>	<b>df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>
Regression	323.634	2	161.817	126.816	.000 <sup>b</sup>
Residual	102.108	80	1.276		
<b>Total</b>	<b>425.742</b>	<b>82</b>			

Table 4.27 shows that the value of F critical is 4.33 while F calculated is 126.816. Comparing these values of F, it can be seen that  $F_{\text{calculated}} > F_{\text{Critical}}$ . Thus, it can be inferred that the overall regression model was significant.

The findings on the beta coefficients together with the p values are shown in Table 4.28.

**Table 4.28: Beta Coefficients and P values**

<b>Model</b>	<b>Unstandardized Coefficients</b>		<b>Standardized Coefficients</b>	<b>t</b>	<b>Sig.</b>
	<b>B</b>	<b>Std. Error</b>	<b>Beta</b>		
(Constant)	4.420	1.327		3.331	.000
Financial Management	.214	.068	.081	3.143	.006
Organizational Culture	.193	.048	.674	4.021	.000

Level of Significance at 0.05

The resultant equation becomes;

$$Y = 4.420 + 0.214X_1 + 0.193X_2$$

From Table 4.16, financial management has a positive and statistical beta coefficient ( $\beta=0.214$ ;  $p=0.006 < 0.05$ ). This can be interpreted to mean that financial management has significant influence on performance of state owned enterprises. This finding is supported by Nkwag (2015) who analyzed the implications of financial management on accountability of

Nigeria public sector and showed that financial management adoption enhances accountability in the Nigerian public sector as the standards pave way for improved management of public funds. Strong financial management in state owned enterprises can be characterized by adherence to internal controls, budgeting, financial reporting and tracking and risk management that collectively influence the way state owned enterprise perform.

Organizational culture has a positive and significant beta coefficient ( $\beta=0.193$ ;  $p=0.000$ ). This shows that organizational culture has a positive and significant moderating effect in the relationship between financial management and performance of state owned enterprises. The finding is supported by Valmohammadi and Roshanzamir (2015) who indicated that organizational culture pushes individuals within an organization to act as a team in achieving the organizational strategic goals and objectives. Organizational culture define the norms, belief and the value system that shape how employees in different departments of state owned enterprises behave and this would significantly influence performance.

#### 4.12 Hypothesis Testing

Based on regression results above, the study rejects all the null hypotheses. A summary of the adopted hypotheses is shown in Table 4.29.

**Table 4.29: Hypothesis Testing**

Hypotheses	P-values	Remarks
<b>H<sub>01</sub></b> : Internal Control has no effect on financial performance of Commercial State-Owned Enterprises in Kenya	0.022	Reject
<b>H<sub>02</sub></b> : Budgeting has no effect on financial performance of Commercial State-Owned Enterprises in Kenya	0.000	Reject
<b>H<sub>03</sub></b> : Financial Reporting and Tracking has no effect on financial performance of Commercial State-Owned Enterprises in Kenya	0.000	Reject
<b>H<sub>04</sub></b> : Risk Management has no effect on financial performance of Commercial State-Owned Enterprises in Kenya	0.000	Reject
<b>H<sub>05</sub></b> : Organization culture has no moderating effect in the relationship between financial management and performance of Commercial State-Owned Enterprises in Kenya	0.000	Reject

#### Survey Data (2018)

## CHAPTER FIVE

### SUMMARY, CONCLUSION AND RECOMMENDATIONS

#### 5.1 Introduction

The key findings emanating from the analysis are summarized in this chapter. The conclusions and recommendations arising from the key findings are also presented. The areas for further studies are also clearly pointed out.

#### 5.2 Summary of the Findings

This section summarizes the analyzed findings as informed by the specific objectives of the study. The main objective of this study was to assess financial management and performance of Commercial State-Owned Enterprises in Kenya. Specifically, the study sought to determine how internal control system, budgeting, financial reporting and tracking and risk management influence performance of SOEs. At the same time, the study sought to determine the moderating effect of organizational culture in the link between financial management and performance.

The significance of individual variables of the study based on their p values indicated that internal control system, budgeting, financial reporting and tracking, risk management and organizational culture all had statistically significant influence on financial performance of commercial state enterprises. The study thus rejects all the null hypotheses.

From descriptive statistics on internal control, the top management initiated internal auditing of finances at the institution. Employees had separate roles in handling finances which improved performance. Using IT controlled systems led to high financial performance. Implementing internal control systems improved performance.

On budgeting, the organization planned for its budgets at departmental level. Employee participation in budget preparation had improved performance. The open feedback

mechanism had improved budgeting process leading to higher financial performance. Most of the commercial state corporations conducted spending reviews at department level to improve their performance. Setting performance targets in budget improved performance.

In view of financial reporting and tracking, the findings of the study indicate that informing stakeholders on finances led to high financial performance. Strengthening financial accounting controls improved financial performance. Compliance with financial reporting quality led to improved financial performance. Setting financial management practices had solved financial management problems. All financial transactions were recorded so as to improve turnover.

The study established that risk management aimed at reducing institutional losses. Most commercial state corporations had adopted operational risk management practices to cut losses while improving returns. Installing risk reduction measures had improved financial performance. Most commercial state enterprises had integrated risk management in their objectives that had positively affected their financial performance.

The culture advocated for working as a team to improve financial performance. All staff participated in all organizational activities and this increased performance. Most of the respondents held their organizations in high esteem to maintain reputation. The organizational culture aimed at pulling resources together so as to boost financial effectiveness. Adhering to the code of conduct improved financial performance.

### **5.3 Conclusion**

Internal control system has significant effect on financial performance of Commercial State-Owned Enterprises. Employees in most state commercial state-owned enterprises have separate roles in handling finances which improved performance. Using IT controlled

systems leads to high financial performance. Implementing internal control systems improves performance. The top management initiates internal auditing of finances at the institution.

Budgeting has significant effect on financial performance of Commercial State-Owned Enterprises. Setting performance targets in budget improves performance. Most of the commercial state corporations conduct spending reviews at department level to improve their performance. Most organization plan for their budgets at departmental level. The open feedback mechanism improves budgeting process leading to higher financial performance. Employee participation in budget preparation improves performance.

Financial reporting and tracking have significant effect on financial performance of Commercial State-Owned Enterprises. Compliance with financial reporting quality leads to improved financial performance. Informing stakeholders on finances leads to high financial performance. Setting financial management practices solve financial management problems. All financial transactions are recorded so as to improve turnover. Strengthening financial accounting controls improves financial performance.

Risk management has significant effect on financial performance of Commercial State-Owned Enterprises. Risk management aims at reducing institutional losses. Most commercial state enterprises have integrated risk management in their objectives that has positively affected their financial performance. Installing risk reduction measures improves financial performance. Most state-owned enterprises use IT based system when handling finances which has improved their performance. Most commercial state corporations adopt operational risk management practices to cut losses while improving returns.

Organization culture has significant moderating effect in the relationship between financial management and performance of Commercial State-Owned Enterprises. The organizational culture aims at pulling resources together so as to boost financial effectiveness. Adhering to the code of conduct improves financial performance. All staff participates in all

organizational activities and this increases performance. The culture advocates for working as a team to improve financial performance.

#### **5.4 Policy Recommendations**

From the analysis, internal control system has an effect on financial performance of state owned enterprises. Based on this, the Chief Executive Officers of State owned enterprises should initiate policy guidelines in regard to corporate governance and ensure that their full implementation with regular feedback. The finance managers of state owned enterprises in Kenya should ensure proper authorization and approvals. The accountants of state owned enterprises in Kenya should ensure that all the expenditure is done within the vote and for the intended purpose. The risk managers of state owned enterprises should examine weaknesses in internal controls and regularly advice the management on the how best to minimize or eliminate risks. The supply chain managers of state owned enterprises in Kenya should ensure that specified goods at fair prices are procured.

From the analysis, budgeting affects performance of state owned enterprises. Based on this, the CEOs of state owned enterprises should ensure that enough budgets have been allocated for attainment of organizational objectives. The finance managers of state owned enterprises should closely work with budgeting committee to ensure that proper budget is put in place for improved performance of the organizations. The accountants in state owned enterprises should ensure that all expenditure is done as per the budget of their organizations.

From the analysis, financial reporting and tracking has an effect on performance of state owned enterprises. Therefore, the CEOs of state owned enterprises should ensure that the financial reports are prepared within statutory timing. These CEOs should further ensure that the issues raised on the financial reports are acted on. The accountants of state owned enterprises should ensure that regular financial reports are prepared in line with International

Financial Reporting Standards. The finance managers should invest more resources in financial and tracking systems to directly realize improvement in their financial performance.

From the analysis, risk management influences performance of state owned enterprises. Therefore, risk managers of all state owned enterprises should regularly assess and advice the management on inherent risks that are likely to affect financial performance. The risk managers of state owned enterprises should set clearly established risk tolerance levels for improved performance of their organizations.

From the analysis, organizational culture influenced performance of state owned enterprises. Therefore, the management of state owned enterprises should improve on the norms and beliefs of employees through increased team work, performance appraisal and reward systems. The management of all state owned enterprises should ensure strong compliance with internal control system and regulatory (Public Financial Management) guidelines among employees.

### **5.5 Suggestions for Further Studies**

The study recommends the need for further studies in the private sector to compare the findings with those obtained in the public sector. Financial management in the current study only explained 67.3% change in financial performance of commercial state enterprises. Hence, there exist other variables with an influence on how firms perform in financial terms that should be a focus by future studies.

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## APPENDICES

### APPENDIX I: LETTER OF INTRODUCTION

Dear Sir /Madam,

#### **RE: AUTHORITY FOR DATA COLLECTION**

I am a postgraduate student at Kenyatta University in the School of Business undertaking a management research project on **financial management and performance of commercial state-owned enterprises in Kenya** as part of the requirement in MBA (Finance) Degree.

In order to accomplish this purpose, you have been selected to participate in this scholarly research. I therefore, kindly request you to assist me collect the data by filling in the attached research questionnaire. The information that you will provide will be exclusively used for academic purposes and will be treated with utmost confidence. A copy of the final report will be availed to you upon request.

Your assistance will be highly appreciated.

Thank you.

Yours faithfully,

Allan Kamau Waweru

## APPENDIX II: QUESTIONNAIRE

Please answer all questions with an honest opinion of each statement on the topic:

### FINANCIAL MANAGEMENT AND PERFORMANCE IN STATE OWNED PARASTATALS IN KENYA

Please mark with an [ x] in the spaces provided.

1. What is your gender

Male [     ]     Female [     ]

2. Which state owned parastatals do you work in?

.....

3. How long have you worked in that state-owned parastatals?

1-5years [     ]     5-10years [     ]

10-15years [     ]     15-20years [     ]

More than 20years [     ]

4. What is your highest level of education?

Certificate [     ]

Diploma [     ]

Degree [     ]

Masters [     ]

PhD [     ]

## INTERNAL CONTROL SYSTEM

5. To what extent do you agree with the following statements on internal control system affect the financial performance in state-owned parastatal? Use a scale of 1-5 where 1=no extent, 2= little extent, 3=moderate extent, 4=great extent and 5=very great extent.

Our regular audits have improved our financial performance in our parastatals	1	2	3	4	5
Our top management initiates internal auditing of finances at our institution					
All our financial activities are closely monitored by a special team					
Our employees have separate roles in handling finances which improves our performance					
We keep receipts to record all our expenditure thus improving our performance					
Using IT controlled systems leads to high financial performance					
Implementing internal control systems improves our performance					

6. In general, how does internal control affect financial performance in your state-owned parastatal in Kenya?

Not at all [      ]

Little Extent [      ]

Moderate Extent [      ]

Large Extent [      ]

Very Large Extent [      ]

## BUDGETING

7. To what extent do you agree with the following statements on budgeting as it affects financial performance in state-owned parastatal? Use a scale of 1-5 where 1=no extent, 2= little extent, 3=moderate extent, 4=great extent and 5=very great extent.

	1	2	3	4	5
Our budgeting is an instrument to realize our institutional goals					
We plan for our budgets at departmental level					
Our employee participation in budget preparation has improved our performance					
Our open feedback mechanism has improved our budgeting process leading to higher financial performance					
Our budgets at the parastatals are simple for easy understanding					
We conduct spending reviews at department level to improve our performance					
Setting performance targets in our budget improves our performance					
Our top management conducts regular follow-ups on the budget to improve financial performance.					

8. To what extent does budgeting affect financial performance in your state-owned parastatal in Kenya?

Not at all [     ]

Little Extent [     ]

Moderate Extent [     ]

Large Extent [     ]

Very Large Extent [     ]

### **FINANCIAL REPORTING AND TRACKING**

9. To what extent do you agree with the following statements on financial reporting and tracking on financial performance in state-owned parastatal? Use a scale of 1-5 where 1=no extent, 2= little extent, 3=moderate extent, 4=great extent and 5=very great extent.

	1	2	3	4	5
Informing on our stakeholders on our finances leads to high financial performance					
Strengthening our financial accounting controls improves our financial performance					
Compliance with financial reporting quality leads to improved financial performance					
Setting financial management practices has solved our financial management problems					
Our M&E team through its reporting improves our financial performance					
We record all our financial transactions so as to improve our turnover					

10. In general, to what extent do you agree on financial reporting and tracking on financial performance in your state-owned parastatal in Kenya?

Not at all [     ]

Little Extent [     ]

Moderate Extent [     ]

Large Extent [     ]

Very Large Extent [     ]

### **RISK MANAGEMENT**

11. To what extent do you agree with the following statements on risk management affects the financial performance in state-owned parastatal? Use a scale of 1-5 where 1=no extent, 2= little extent, 3=moderate extent, 4=great extent and 5=very great extent.

	1	2	3	4	5
Our risk management aims at reducing our institutional losses					
Adhering to set rules and regulations improves our financial performance					
We have adopted operational risk management practices to cut losses while improving returns					
Conducting assessments increases our turnovers at our parastatal					
We use IT based system when handling finances which has improved our performance					
Installing risk reduction measures has improved our financial performance					
We have integrated risk management in our objectives that has positively affected our financial performance.					

12. In general, how does risk management affect financial performance in your state-owned parastatal in Kenya?

Not at all [     ]

Little Extent [     ]

Moderate Extent [     ]

Large Extent [     ]

Very Large Extent [     ]

### **ORGANIZATIONAL CULTURE**

13. To what extent do you agree with the following statements on organizational culture as an intervening variable and its effect to financial performance in state-owned parastatal? Use a scale of 1-5 where 1=no extent, 2= little extent, 3=moderate extent, 4=great extent and 5=very great extent.

	1	2	3	4	5
We have developed a culture that is unique differentiating us from other parastatals					
Our culture advocates for working as a team to improve our financial performance					
All our staff participate in all organizational activities increasing our performance					
We hold our organization in high esteem to maintain our reputation					
Our organizational culture is aimed at pulling resources together so as to boost financial effectiveness					
Adhering to our code of conduct improves our financial performance					

14. In general, how does organizational culture influence the financial performance in your state-owned parastatal in Kenya?

Not at all [     ]

Little Extent [     ]

Moderate Extent [     ]

Large Extent [     ]

Very Large Extent [     ]

### **FINANCIAL PERFORMANCE**

15. These are statements on financial performance in state-owned parastatal. Use a scale of 1-5 where 1=no extent, 2= little extent, 3=moderate extent, 4=great extent and 5=very great extent to rate the extent of agreement with each statement.

	1	2	3	4	5
Our investors have earned more on their investment					
The increase in ROI has been attributed to proper financial management					

***THANK YOU***

***THE END***

### APPENDIX III: LIST OF STATE-OWNED ENTERPRISES IN KENYA

- 1 Agro-Chemical and Food Company
- 2 Kenya Meat Commission
- 3 Muhoroni Sugar Company
- 4 Miwani Sugar Company
- 5 Nzoia Sugar Company
- 6 South Nyanza Sugar Company
- 7 Agricultural Development Corporation
- 8 Nyayo Tea Zones Development Corporation
- 9 New Kenya Creameries Cooperative Limited
- 10 Kenya Electricity Generating Company
- 11 Kenya Pipeline Company
- 12 Kenya Power and Lighting Company
- 13 National Oil Corporation of Kenya
- 14 Agricultural Finance Corporation
- 15 Consolidated Bank of Kenya
- 16 Kenya Post Office Savings Bank
- 17 National Bank of Kenya
- 18 National Housing Corporation
- 19 East African Portland Cement
- 20 IDB Capital Limited
- 22 Kenya Broadcasting Corporation
- 23 Postal Corporation of Kenya
- 24 Kenya National Trading Corporation
- 25 Kenya Tourist Development Corporation (*Converted to Kenya Tourism Finance Corporation*)
- 26 Uchumi supermarket ltd
- 27 Kenya Industrial Estates
- 28 Kenya Airways
- 29 Mumias Sugar Company

DIX IV: APPROVAL FO RESEARCH PROPOSAL



KENYATTA UNIVERSITY  
GRADUATE SCHOOL

E-mail: [dean-graduate@ku.ac.ke](mailto:dean-graduate@ku.ac.ke)

Website: [www.ku.ac.ke](http://www.ku.ac.ke)

P.O. Box 43844, 00100  
NAIROBI, KENYA  
Tel. 810901 Ext. 4150

Internal Memo

FROM: Dean, Graduate School

DATE: 15<sup>th</sup> October, 2018

TO: Waweru Allan Kamau  
C/o Accounting and Finance Dept.

REF: D53/CTY/PT/33390/2014

**SUBJECT: APPROVAL OF RESEARCH PROPOSAL.**

We acknowledge receipt of your revised Research Proposal as per our recommendations raised by the Graduate School Board of 19<sup>th</sup> September, 2018 entitled "Financial Management and Performance of Commercial State-owned enterprises in Kenya".

You may now proceed with your Data Collection, Subject to Clearance with Director General, National Commission for Science, Technology and Innovation.

As you embark on your data collection, please note that you will be required to submit to Graduate School completed Supervision Tracking Forms per semester. The form has been developed to replace the Progress Report Forms. The Supervision Tracking Forms are available at the University's Website under Graduate School webpage downloads.

Thank you.

A handwritten signature in blue ink, appearing to read 'Harriet Isaboke', written over a printed name and title.

HARRIET ISABOKE  
FOR: DEAN, GRADUATE SCHOOL

C.c. Chairman, Department of Accounting and Finance

Supervisors:

1. Dr. Eddie Simiyu  
C/o Department of Accounting and Finance  
Kenyatta University

HI/lan

## APPENDIX V: RESEARCH AUTHORIZATION TO NACOSTI



KENYATTA UNIVERSITY  
GRADUATE SCHOOL

E-mail: [dean-graduate@ku.ac.ke](mailto:dean-graduate@ku.ac.ke)

Website: [www.ku.ac.ke](http://www.ku.ac.ke)

P.O. Box 43844, 00100  
NAIROBI, KENYA  
Tel. 8710901 Ext. 57530

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Our Ref: D53/CTY/PT/33390/2014

DATE: 15<sup>th</sup> October, 2018

Director General,  
National Commission for Science, Technology  
and Innovation  
P.O. Box 30623-00100  
**NAIROBI**

Dear Sir/Madam,

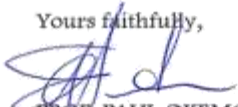
RE: RESEARCH AUTHORIZATION FOR WAWERU ALLAN KAMAU – REG. NO. D53/CTY/PT/33390/2014.

I write to introduce Waweru Allan Kamau who is a Postgraduate Student of this University. The student is registered for MBA degree programme in the Department of Accounting and Finance.

Waweru intends to conduct research for a MBA Project Proposal entitled, “Financial Management and Performance of Commercial State-owned enterprises in Kenya”.

Any assistance given will be highly appreciated.

Yours faithfully,

  
PROF. PAUL OKEMO  
DEAN, GRADUATE SCHOOL

*HI/inn*

## APPENDIX VI: RESEARCH AUTHORIZATION FROM NACOSTI



### NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY AND INNOVATION

Telephone: +254-20-2213471,  
2241349, 3310571, 2219420  
Fax: +254-20-318245, 318249  
Email: [dj@nacosti.go.ke](mailto:dj@nacosti.go.ke)  
Website: [www.nacosti.go.ke](http://www.nacosti.go.ke)  
When replying please quote

NACOSTI, Upper Kabete  
Off Waiyaki Way  
P.O. Box 30623-00100  
NAIROBI-KENYA

Ref: No. **NACOSTI/P/18/70724/26327**

Date: **15<sup>th</sup> November, 2018**

Allan Kamau Waweru  
Kenyatta University  
P. O. Box 43844-00100  
**NAIROBI.**

#### **RE: RESEARCH AUTHORIZATION**

Following your application for authority to carry out research on *“Financial management and performance of Commercial State-Owned Enterprises in Kenya”* I am pleased to inform you that you have been authorized to undertake research in **Nairobi County** for the period ending **15<sup>th</sup> November, 2019**.

You are advised to report to **the County Commissioner and the County Director of Education, Nairobi County** before embarking on the research project.

Kindly note that, as an applicant who has been licensed under the Science, Technology and Innovation Act, 2013 to conduct research in Kenya, you shall deposit a **copy** of the final research report to the Commission within **one year** of completion. The soft copy of the same should be submitted through the Online Research Information System.



**GODFREY P. KALERWA MSc., MBA, MKIM  
FOR: DIRECTOR-GENERAL/CEO**

Copy to:

The County Commissioner  
Nairobi County.



**COUNTY COMMISSIONER  
NAIROBI COUNTY  
P.O. Box 30124-00100, NBI  
TEL: 341666**

The County Director of Education  
Nairobi County.

*National Commission for Science, Technology and Innovation is ISO9001:2008 Certified*

## APPENDIX VII: RESEARCH AUTHORIZATION/REGIONAL



Republic of Kenya  
MINISTRY OF EDUCATION  
STATE DEPARTMENT OF EARLY LEARNING & BASIC EDUCATION

Telegrams: "SCHOOLING", Nairobi  
Telephone: Nairobi 020 2453699  
Email: [rcenairobi@gmail.com](mailto:rcenairobi@gmail.com)  
[cdenairobi@gmail.com](mailto:cdenairobi@gmail.com)

REGIONAL COORDINATOR OF EDUCATION  
NAIROBI REGION  
NYAYO HOUSE  
P.O. Box 74629 – 00200  
NAIROBI

When replying please quote

Ref: RCE/NRB/RESEARCH/1//64VOL. 1

DATE: 20<sup>th</sup> November, 2018

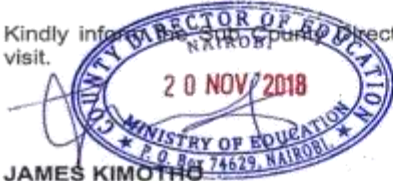
Allan Kamau Waweru  
Kenyatta University  
P O Box 43844-00100  
NAIROBI

**RE: RESEARCH AUTHORIZATION**

We are in receipt of a letter from the National Commission for Science, Technology and Innovation regarding research authorization in Nairobi County on "**Financial management and performance of Commercial State-Owned Enterprises in Kenya**".

This office has no objection and authority is hereby granted for a period ending **15<sup>th</sup> November, 2019** as indicated in the request letter.

Kindly inform the Sub County Director of Education of the Sub County you intend to visit.



**JAMES KIMOTHO**  
FOR: REGIONAL COORDINATOR OF EDUCATION  
NAIROBI

c.c

Director General/CEO  
National Commission for Science, Technology and Innovation  
NAIROBI