

**INFLUENCE OF PUBLIC FINANCIAL MANAGEMENT REFORMS  
ON ORGANISATIONAL PERFORMANCE OF COMMERCIAL STATE  
CORPORATIONS IN KENYA**

**BY**

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## DECLARATION

I, the undersigned, hereby declare that this research project is my original work and has not been previously published or submitted elsewhere for award of a degree. I also declare that this contains no material written or published by other people except where due reference is made and author duly acknowledged.

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I do hereby confirm that I have examined the master's dissertation of Jane Nzula Mutinda.

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## ABSTRACT

Most commercial state corporations in Kenya have challenges in financial management which have remained below average and this is evidenced by streak of losses. The poor performance has been attributed to lack of sound financial management, poor reporting, and insufficient internal controls among others. These challenges have necessitated the need to interrogate the linkage amongst public financial management reforms and organizational performance of commercial state corporations. The specific objectives guiding the study were: to determine the extent to which financial planning reforms influenced organisational performance of commercial state corporations in Kenya; to investigate the effect of internal control systems on organisational performance of commercial state-owned entities in Kenya; to examine the influence financial reporting has on organisational performance of Kenya's commercial state owned entities; and to determine the effect of revenue mobilization practices of organisational performance of commercial state corporations in Kenya. A corresponding number of hypotheses were formulated and tested at 95 percent level of confidence. The study was anchored on three theories; new public financial management theory, the agency theory and the theory of participatory budgeting. This study adopted a mixed method research design. It combined cross-sectional, descriptive and correlational research designs. The study focused on 30 commercial state corporations as the target population and utilised questionnaires to obtain primary data from one respondent from each of the thirty corporations. The questionnaires were administered online to the sample of 30 corporations out of which 24 filled and returned the questionnaires. This was a response rate of 80 percent. The data was analysed using simple and multiple linear regression for independent effects and combined effects respectively. Results of the independent effect of financial planning indicated a positive and a statistically significant association with organisation performance. However, financial planning reforms could only explain 21.9 percent of performance. Furthermore, jointly with other variables, financial performance was found not to have a significant association with performance of state corporations. On its own, internal control systems were found to account only for 2.8 percent variation in organisational performance. Further, the independent effect of internal control systems was found not to be statistically significant. Jointly with other variables, internal control systems were however found to have a statistically significant influence on performance. Financial reporting reforms were found to have a strong and positive correlation with organisational performance of 0.954 and were found to account for 90.9 percent variations in performance of state-owned organisations. Independently, financial reporting reforms were found to have a positive statistically significant association with performance. Jointly with other variables, financial reporting was also found to have a direct and statistically significant effect on state-owned entities performance. Revenue mobilization practices were found not to have a statistical effect on organizational performance, either individually or when combined with the other variables of the study. On its own, revenue mobilization reforms only accounted for 1.3 percent of performance and had a positive though weak correlation with performance. In addition, the association between revenue mobilization and financial performance was found not to be statistically significant. Similarly, the combined effect of revenue mobilization practices was found to have a statistically insignificant association with performance. The results of the combined effect of the public financial management reforms were found to account for 92.8 percent change in organisation performance of state-owned entities. The study offered a theoretical linkage between public financial management theories and performance.

**Key words:** Public Financial Management Reforms, Organisational performance

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## **DEDICATION**

This research is firstly dedicated to myself as I have beyond all odds been able to achieve a milestone in my educational journey. In hopes that this research will be impactful to commercial state corporations, this work is dedicated to those organizations not only in Kenya but in Africa at large. Also, I dedicate this project to my family who supported me and believed in me.

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## **ACRONYMS AND ABBREVIATIONS**

|             |                                     |
|-------------|-------------------------------------|
| <b>GOK</b>  | Government of Kenya                 |
| <b>NGO</b>  | Non-Governmental Organization       |
| <b>PFM</b>  | Public Financial Management         |
| <b>PFMR</b> | Public Financial Management Reforms |

## OPERATIONAL DEFINITION OF TERMS

|   |   |
|---|---|
| <b>Financial Reporting</b>                  | Disclosure of necessary financial information to interested stakeholders showing the extent the firm has attained its financial objectives.     |
| <b>Internal Control:</b>                    | These are the routines done at the work place to achieve the set organizational objectives and to measure a company's performance               |
| <b>Organizational Performance:</b>          | The aptitude of a firm to utilize resources at its disposal and aimed at meeting specified operational goals measurable in non-financial terms. |
| <b>Public Financial Management Reforms:</b> | Reforms in governance and in economic programmes that aims at promoting fiscal discipline in management of public resources.                    |
| <b>Public Financial Management</b>          | The administration of aspects of financial resources mobilization as well as management of expenditure decisions in the broad public sector.    |
| <b>Revenue Mobilization</b>                 | Sourcing for financial resources in order to permit public institutions finance critical public goods.  |

## CHAPTER ONE

### INTRODUCTION

#### 1.1 Background of the Study

The overall financial well-being of commercial state corporations as indicated by superior financial performance is taken as a key factor in the wellbeing of the society (Al-Thuneibat, Al-Rehaily, & Basodan, 2015). Successful public financial management reforms (PFMR) are essential in strengthening public sector institutions accountability and performance (Alkaraan, 2018). Over the past years, government in many countries have introduced far reaching reforms to allow for public financial management policies that prove to be more dependable and current (Mironiucă, Carpb, & Chersanc, 2015). The stronger the reforms in the management of public finances are critical to service delivery and drives stellar financial performance (Nyamita, Dorasamy, & Garbharran, 2015). In addition, effective PFMRs helps in maximizing efficiency, improving on transparency and accountability, while at the same time making contributions to long term financial success (Tkachenko, 2020). It has been argued that some of the major public financial management functions relates to financial planning, financial reporting, internal control measures and mobilization of revenue (Cheruiyot, Namusonge, & Sakwa, 2017).

Successful public financial management reforms result to well designed, well-functioning PFM systems (Alkaraan, 2018). If well executed, PFMRs results to additional revenue, better planning and budget execution decisions. However, poorly executed PFMRs might not guarantee proper revenue collection and expenditure decisions and might contribute to a decline in financial performance (Apunda & Ndede, 2020). Further, poor execution of the reforms would occasion persistent budget deficits (Akinyemi & Adejumo, 2018). The Kenyan government undertakes commercial activities through semi-autonomous

government agencies while focusing on subsidized but commercial options of service delivery (Apunda & Ndede, 2020). Public financial management presents a critical competitive edge by adding value to administration's financial and operating decisions. Consequently, state corporations are expected to employ PFM practices including financial planning, resources mobilisation, budgeting and independent oversight as part of their operational functions and to attain profitability. It is in line with this in mind that the Government of Kenya various reforms in the public financial management with an aim of improving of performance of state corporations.

### ***1.1.1 Public Financial Management Reforms***

Reforms in public financial management systems are geared towards improving performance. In improving performance of a public management system(Quak, 2020).Globally, there is an increasing trend and focus on advancing the quality of public financial management(Tkachenko, 2020). A number of countries, both developed and developing have made and some are still carrying out important tasks geared to strengthening achievements in public financial management. However, this is as a result of pressure from both external and internal stakeholders to mitigate on financial mismanagement, to promote public confidence while adopting commercial and social trends (Apunda & Ndede, 2020). While improving Public Financial Management (PFM) should not be looked at face value, rather reforms in PFM should be viewed as playing a key role in enhancing profitability of state-owned enterprises (Goryakin, Revill, & Mirelman, 2017).

The government of Philippine has over the past decade adopted a systematic approach to PFM reform and formulated the PFM reform roadmap with an aim of strengthening the reforms (World Bank Group, 2016). According to the World Bank Group (2016) report, the PFM roadmap consisted of a five-year action plan that sought to establish more credible PFM system supported by integrated financial management information system. The PFM reforms

in Philippine aimed was geared towards provision of timely, accurate financial reports as well as supporting the budget, ensuring proper financial controls and management of cash flows. While improvement was observed in financial reporting, no progress was observed in budgeting, cash management and in financial controls (World Bank Group, 2016).

In the United Arabs Emirates, Alkaraan (2018) provided a comprehensive analytical review of the PFMR process over the period 2003 to 2016. The study argued that the PFMR process was part of the broader initiative meant to strengthen public accountability for performance. New Zealand adopted public financial management reforms in the early 1990's with an aim of improving public sector performance by establishing effective accountability requirements (Schnatz, 2019). The reforms, as Schnatz, (2019) asserts transformed the New Zealand government fiscal performance and eased fiscal pressures through accountability and by reducing public sector bills. Weakness in PFM systems have long been regarded as impeding good governance, accountability and efficiency in public institutions in Sub-Saharan African countries (African Development Bank, 2018). African countries have been working on long-term PFM reforms agenda since the late 1990's supported by many international and regional partners (Nyamita et al., 2015).

However, the reform implementation has been slow and has often been hindered by limited financial capacity and other institutional factors. In South Africa, the government has instituted reforms in management of public finance across all governance structures. A PFM progress index assess key functions that includes budgeting, accounting, financial audit show that while considerable progress has been made, there still exists varying degrees of accountability and capacity to conform and hence variances in reform outcomes (Ajam & Fourie, 2016). Ghana's PFM reforms have been going on since 1997/98 with the country putting in place strategies aimed at moving the West African nation beyond reforms to consolidation and strategy (Abdulai, 2020). Furthermore, as Abdulai (2020) argues, there is

need to have periodic assessment of the PFM reforms, consolidation or sustainability efforts using the available PFM measurement frameworks. Somalia has made sizeable investment in public finance management reforms. However, the mechanism for monitoring and evaluating has been fragile. The success of PFMR in Somalia is dependent on establishment of strong budgetary system and strong public finance management training programs, and strong and active oversight by the national assembly, in a bid to enhance accountability (Warsame & Ileri, 2017). In Tanzania, PFM performance seems to have stalled and reversed in the past 15 years in comparison to other countries in the region despite initial high performance (Quak, 2020). According to Quak (2020), the main challenges regarding the PFM performance remained budget credibility, expenditure overruns, low revenue mobilisation and misuse of public finances.

Embezzlement of funds from public coffers, inequities arising in resource redistribution and inadequate checks and balances necessitated reforms in management of public resources (Society for International Development, 2016). The Government of Kenya, had in the early 2000 identified a well function PFM system as a corner stone of attaining sustainable economic growth with the initial public management reforms covering the years 2006 to 2011 (Mutai, Namusonge, & Sakwa, 2018). However, there were gaps in implementation of the PFMR by the end of the targeted period. Furthermore, the 2010 change of the Kenyan Constitution brought with it prospects of instituting reforms in the management of public finances. The country's constitution advocates for not just accountability but also fairness and openness in raising and distribution of public financial resources. In addition, the enactment of the Public Finance Management Act 2012 and other PFM related legislations widened the scope and demand for PFM reforms (Cheruiyot et al, 2017). These issues among other formed the foundation upon which the 2016-2020 public finance management reform strategy in Kenya was formulated (The National Treasury,

2016). The PFMR strategy is structured along priority theme four of which relates to the annual budget cycle and other two which are cross cutting. According to The National Treasury, (2016), resource mobilization, resource allocation, budget execution, accounting and review and independent audit and oversight relate to the budget cycle while as legal and institutional framework and IFMIS re-engineering are cross cutting. PFMRs in Kenya seek to ensure fiscal efficiency and discipline in the use of public finances thus ensuring available resources are used in the best interest of Kenyan people (Kenya National Audit Office, 2016)

Despite the level of investment in the public financial management reforms in both developed and developing countries, monitoring and evaluation appear to have been comparatively weak. Until recently, assessment of PFM reforms has been hampered by lack of performance-based indicators (Nyamita et al., 2015). The report by The National Treasury (2016) indicates that though the PFMR in Kenya has overtime made progress, this has not been translated into noticeable improved performance. Areas of concern have been cited as the extent of unreported government operations, timeliness and regularity of accounts reconciliation, availability of information on resource received by service delivery units and follow up of external audit (The National Treasury, 2016).

### ***1.1.2 Organizational Performance***

State owned commercial corporations are instruments with varied purposes corresponding to their intentions and objectives. Though there is inconsistent in objectives across different state-owned commercial enterprises and even within the same firm, the common goals are that all the commercial entities undertake the various activities with intentions of succeeding (Ongeti & Machuki, 2018). Organizational performance is one of the measures an organisation adopts to determine if they have attained their goals. Ongeti and Machuki (2018) define organizational performance as the ability of a firm to achieve its objective through efficient and effective usage of resources at its disposal. The concept of

organizational performance has been receiving significant attention from a wide array of scholars in fields of business and finance. Ongeti and Machuki (2018) argues that it might be the case since financial performance cannot be effectively explained by a solitary variable. Due to this, researchers must examine different variables whose combined influence might impact on performance. A growing numbers of researchers in finance and accounting continue to observe organizational performance as an endogenous variable. However, there are suggestions for it to be taken as exogenous variable is still being debated (Chepkosgei, Mwangi, & Kinyua, 2020). Moreover, there is still no consensus on methods of measuring organizational performance, and this makes a thorny issue not only among the research scholars, but also in practice.

While some of the existing literatures have used financial accounting-based measures that includes return on assets, returns on investment and return on equity (Cheruiyot, et. al 2017; Waweru & Simiyu, 2019; Apunda & Ndede, 2020). Other studies use non-financial measures that include customer satisfaction and learning in addition to other aspects of the balanced score card. Use of financial data to measure performance has been criticized due to its short-term and selfish outlook (Waweru & Simiyu, 2019). Financial based measures of performance ignore the long-term horizon and fail to consider the interest of other stakeholders besides the owners (Owino, Senaji, & Ntara, 2017). To overcome the inefficiencies of financial measures of performance, the balanced score card and the triple bottom line approach have been adopted as non-financial measures of organizational performance (Ongeti & Machuki, 2018). The balanced score card approach evaluates organizational performance from four different perspectives- financial, internal business processes, customers and learning growth. On its part, the triple bottom line incorporates economic, social and environmental constructs in measuring performance of an organization (Mutai et al., 2018). As regards to government institutions, Waweru and Simiyu

(2019) posit that multiple stakeholders elavates the need to adopt non financial measures to evaluate performance.Considering the forgoing, this study adopts a combination of both balanced score card and triple bottom line measures in measuring organizational performance.

### ***1.1.3 Public Financial Management Reforms and Organizational Performance***

Commercial state entities are incorporated with the Kenyan government as the owners to attain financial and social needs while at the same time correct market failures. The entities provide social transformation in form of service delivery of public service to the general public(Mbo & Adjasi, 2017). Performance of the Kenya’s commercial state corporations thus raises concerns not just to the government but also to the general public as well as other stakeholders. These concerns have led the Kenyan government to undertake various public financial management reforms aimed at improving performance of the state corporations. According to African Development Bank (2018), public financial management reforms are aimed at improving governance transparency, prudent apportionment of resources, accountability and performance. Waweru and Simiyu (2019) posit that adoption of public financialmagament reforms allows state owned entities to enhance their organizational performance. However, there exists evidence, that while some of the state corporations have attained superior performance, others have constantly underperformed. For instance, an evaluation of perfomance of state corporations by the Kenyan government revealed that only four, of the eighteen state corporations were profitable while other were not able to deliver on their mandate(National Treasury, 2021).

Extant literature indicates differing approaches on the relationship between public financial management reforms and organizational performance. For instance, Cheruiyot, et al (2017) developed an empirical model that examined the relationship between public financial management practices and performance of devolved units in Kenya. The study pointed out

that reforms in public financial management were important in improving quality of the performance of public entities. The researchers pointed out that the reforms in the public financial management influenced fundraising efforts and more so availability of financial resources and their cost effectiveness of public duties. Public financial management reforms enactment is essential in advancing transparency as well as improving on performance of public institutions (Nogueira & Jorge, 2017). While examining the effectiveness of reforms in public sectors, Nogueira and Jorge (2017) pointed out of the presence of positive and significant relationship between the reforms in the public financial management and performance of Municipalities in Portugal.

According to Goryakin et al., (2017) predicts that enhanced public financial management reforms positively impacted on various performance measures of health services delivery in developing countries. Wahome, Kagwiria and Shano (2017) argued that public sector financial management reforms informed performance of state corporation positively and significantly. They however argued that failure in some of the corporations could be explained by poor implementation of public financial sector management reforms. However, the study did not provided empirical grounding. According to Cheruiyot et al., (2017), the Kenya's journey of public financial management reforms aims at improving efficiency, better service delivery and performance of state owned entities. In United Arab Emirates, Alkaraan (2018) pointed out that the public financial management reforms cannot be viewed in isolation but as part of reforms in public management aimed at strengthening public performance.

#### ***1.1.4 Commercial State Corporations in Kenya***

State Corporations, also government owned enterprises or parastatals or public corporations are quasi government agencies linked to government ministries or departments. State Corporations are body corporates in which the majority or all of the shares are controlled by the government. Globally, commercial state corporations have gained prominence in the economic perspective as they are important for value creation aimed at benefiting the society(Akinyemi & Adejumo, 2018). In Kenya, there are eight broad classifications of the state corporations: higher intuitions of learning; universities; financial; regional authorities; service entities; manufacturing; commercial and regulatory. Kenyan commercial state corporations are involved in trading and direct market activities and seek to meet the country's increasing economic and social goals. However, the entities have been lagging behind other parastatals in regard to financial performance(Apunda & Ndede, 2020). As a result, at their current state, commercial government owned entities have become huge liability to the government. This is exemplified by decline in profitability to Kenya shillings 5,099 million in the financial year 2019/2020 from Kenya shillings 61,907 million in the financial in the period 2017/2018 and Kenya Shillings 31,747 million in the period 2018/2019(Government of Kenya, 2020).How the corporations owned by the state perform is critical for the broad growth of nay economy(Ongeti & Machuki, 2018). The Government of Kenya (GOK) acknowledges that poor financial performance of the entities has hindered the realisation of the sustained economic growth(Institute of Certified Public Accountants of Kenya, 2017).Arising out of the poor performance of the commercial state corporations, compared to their private counterparts, the GOK found it necessary to institute public financial management reforms in a bid to return the entities to profitability(The National Treasury, 2016). The pursuit of the PFM reforms is centred among others, enhancing

financial performance and improving financial stewardship and discipline(Kimunguyi, Memba, & Njeru, 2015).

## **1.2 Statement of the Problem**

Commercial state corporations have become tools for some countries to better position themselves for future global economies given increased global competition for finance, talent and resources (PwC, 2017). The mandate of commercial state corporations in Kenya is changing the social economic welfare by offering services to citizens and in return make profits (Chepkosgei et al., 2020). In addition, commercial state corporations provide physical infrastructure, create stability in times of crisis within and across supply chains (Ajam & Fourie, 2016). The adoption of the PFMRs, by the commercial state corporations was meant to advocate for private sector practices in public service by introducing financial planning, budgetary reforms revenue mobilisation reforms financial reporting and internal control (Mbithi & Maina, 2016).

Despite the reforms in public financial management, some commercial state corporations in Kenya have consistently performed well while others have been found to perennially under perform (Rugutt, Naibei, & Cheruiyot, 2019). Equally, some have destroyed value by not adopting best practices in public financial management (Kamau, Rotich, & Anyango, 2017). Key challenge faced by the government owned commercial entities is poor financial management as reflected in the misuse of financial resources and inefficiencies in internal control systems resulting into loss of taxpayers' funds (Mbo & Adjasi, 2017).Further, many Kenyan State Corporations have been recording a decline in performance.According to the consolidated financial statements for state corporations over the 2019/2020 financial year, 17 out of 30 (57 percent) commercial state corporations recorded losses over the period (Government of Kenya, 2020). Due to these challenges, there is need to assess the effect of implementing sound public financial management practices

including financial planning, revenue mobilisation and internal control measures to improve organizational performance.

There is empirical evidence from extant literature that public financial management reforms have an influence on performance (Nogueira & Jorge, 2017; Rugutt et al., 2019; Wali & Masmoudi, 2020). Nonetheless, research gaps exist in extant studies that this study seeks to fill. The gaps in literature are related to the concepts of the study, the context in which the study was undertaken and the research methodology adopted. Methodological gaps relate to choice of population, as some studies were based on cases. On the other hand, contextually, there have been studies on Kenyan government owned entities. For instance, Kamau et al., (2017) investigated the role of budgeting process on performance of state corporations in Kenya and focussed on Kenyatta National Hospital. Though the study found out that there was a positive and significant association between the variables, the conclusion can not be inferred on the entire population of commercial state corporations, since only one corporation was investigated. In addition, the hospital is not a commercial state entity. Other studies on government entities in Kenya including Njiru and Bunyasi (2016); Cheruiyot et al. (2017) and Rugutt et al., (2019) did not focus on commercial state corporations. Whileas Njiru and Bunyasi (2016) focused on Water Service providers in Kenya, Cheruiyot et al. (2017) and Rugutt et al. (2019) studies had their contextually leaning on county governments in Kenya. Thus, their findings cannot be generalised on the Kenya state corporations and hence a gap in literature.

Conceptually, the relationship between public financial reforms and organizational performance has been studied. However, there still remains unresolved issues. While some researchers have concluded that certain aspects of public financial reforms positively influence organizational performance, (Nogueira & Jorge, 2017; Scott, 2018), others found that reforms in public financial management negatively impacted on

organizational performance (Ngazi & Ali, 2019; Wali & Masmoudi, 2020). Other studies (Owino et al., 2017; Al-Thuneibat et al., 2015) failed to link the public finance reforms to organizational performance as they found no association or insignificant association amongst the variables. There is thus need, to establish if at all public financial management reforms impacts on organizational performance and if so, in what direction. This study is thus attempted to address the gaps in literature by answering the question, what is the influence of public financial management reforms on organizational performance of commercial state corporation corporations in Kenya?

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

#### ***1.3.1 General Objective***

The main objective of this study was to analyse the influence of public financial management reforms on organizational performance of commercial state corporations in Kenya.

#### ***1.3.2 Specific Objectives***

This study was guided by the following specific objectives:

- i. To assess the influence of financial planning reforms on organizational performance of commercial state corporations in Kenya.
- ii. To determine the influence of internal control systems on organizational performance of commercial state corporations in Kenya.
- iii. To evaluate the influence of financial reporting on organizational performance of commercial state corporations in Kenya.
- iv. To examine the influence of revenue mobilization practices on organizational performance of commercial state corporations in Kenya.

## **1.4 Research Hypotheses**

This study adopted the following hypotheses in their null form.

*H<sub>01</sub>: Financial planning reforms have no significant effect on organizational performance of commercial state corporations in Kenya.*

*H<sub>02</sub>: Internal control systems have no significant effect of organizational performance of commercial state corporations in Kenya.*

*H<sub>03</sub>: Financial reporting reforms have no significant effect on organizational performance of commercial state corporations in Kenya.*

*H<sub>04</sub>: Revenue mobilization practices have no significant effect on organizational performance of commercial state corporations in Kenya.*

## **1.5 Significance of the Study**

The findings of the present study make significant contribution to a variety of stakeholders;

### ***1.5.1 To the Policy Makers***

This study is hoped that it shall make valuable contribution to the policy makers in the government of Kenya including state departments, corporations and ministries as it shall act as a guide in creating regulations that shall guide the public financial management reforms. Through the study's recommendations, it is hoped that the policy makers in the government shall make adjustments in the management of public finance in a bid to improve the performance of each of the commercial state-owned enterprises.

### ***1.5.2 To the Academia***

The findings from this study are expected to broaden and contribute to new knowledge in the area of finance and how it relates to organizational performance of commercial state corporations. The results in this study shall not only act as reference

material to other researchers, but shall also act as guide for future research through the gaps it shall have created.

### ***1.5.3 The General Public***

The general public shall gain great benefits in the value the government gains through the implementation of the public financial management process that is more transparent and improves its governance hence better service delivery to the general public. Further, the study is hoped that it shall inform the general public of the public financial management reforms undertaken by the government in a bid to enhance performance.

### **1.6 Scope of the Study**

This study examined the relationship between public financial management reforms and performance of Kenya's commercial state corporations. Specifically, the study focussed on financial planning reforms, internal control systems, financial reporting reforms and revenue mobilization practices and their influence of organizational performance. This study was conducted between March 2021 and September 2021 and targeted all the commercial state corporations in Kenya.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.1 Introduction

The focus of this chapter is comprehensive review of literature. At first, the various theories anchoring the study are reviewed and summarised. This is followed by empirical review where a pairwise review of the study variables along the hypothesised relationship is discussed. This exposes gaps in literature which are summarised. A conceptual framework is presented alongside operationalization of the study variables. The new public management finance theory(Osborne & Gaebler, 1992), agency theory(Jensen & Meckling, 1976)and theory of participatory budgeting (Williams & Harju, 2018), will

##### 2.2.1 *New Public Finance Management Theory*

Osborne and Gaebler (1992) proposed the new public finance management theory that advocates the use of private sector style models, organisation ideas and values to improve the efficiency, service orientation and financial performance of the public sector. As part of the new regulation in the financial sector, the theory promotes the application of transparency and accountability of company expenditures, risk management and value for money(Adikara, 2014).The major focus of the theory relating to areas that would improve on efficiency of government run institutions(Barlte & Ma, 2018). The theory reflects on reforms introduced in state corporations and enterprises geared towards attaining efficient and effective management use of public financial resources. According to Osborne and Gaebler (1992)incorporates not just expenses but also incomes and debt instruments from the perspective of public financial planning, internal controls and financial reporting.

Adikara (2014)notes that this theory advocates for implementation of public policy that would make government corporations efficient, effective, transparent and accountable by

adopting private sector approaches in delivery of service. The new public finance management theory, argues that techniques employed by the private sector are superior compared to the those from public administration, and thus the theory is heavily dependent on the the philosophy of the private sector(Osborne & Gaebler, 1992). The theory has been applied successfully in empirical literature. For instance, Vickland and Nieuwenhuijs (2005) anchored their study on the theory and argued that public financial management automation introduction in the public sector of Bosnia and Herzegovina resulted to positive experience in budget execution, auditing and financial reporting. It was argued that the adoption brought substantial improvement in the mangement of public funded institutions in the country(Vickland & Nieuwenhuijs, 2005). Though the theory has been associated with good financial performance(Akinyemi & Adejumo, 2018), critics argue that running public instutions as private institutes as theory suggests, may have serious ramifications. They point out that private entities exhibits disimilar leadership and managerial styles from state owned entities. Further, private and public organisations differ in leadership roles, environment and effectiveness (Hooijberg & Choi, 2001).

Despite the criticism, the assumptions of new public finance management theory effortless anchors public financial management to financial performance. The theories perspectives emphasize that public financial management is the coordination of public financial resources for efficiency in public service delivery. It involves financial planning, internal controls, financial reporting and revenue mobilisation, among others with a view to promoting performance (Broback & Sjolander, 2016). This is expected to invigorate performance(Barlte & Ma, 2018). The new public management finance theoryis applied in this study to link effective and best public financial management reforms in financial planning, internal controls, financial reporting and revenue mobilisation to organizational performance.

### ***2.2.2 Agency Theory***

The concept of agency theory as postulated by Jensen and Meckling (1976) tries to solve the conflicts that arise in the principal-agent relationships. In its basic form, the theory points the principal as one who is dependent on the agent in the execution of certain financial choices and could be swayed and end up with diminished performance. However, according to the theory, the principals expectations are that the agent, in making the financial decisions will act rationally while considering all information while making financial decisions (Watts, 1988). According to Jensen and Meckling (1976), the separation of ownership and control of the state corporations heralds the issue of principals, the citizens of the country who are the owners of the state corporations, and the agents, in this case the management. Due to the principal overreliance on the agent to make the correct decisions, there might be varied disagreements and conflicts that might arise.

Agency theory thus strives to cure twin issues; the conflict between the objectives of the principal and those of the agents. The second is to verify the agent's appetite to risk and more so, when the principal and the agent have different risk outlooks (Jensen & Meckling, 1976). The supporters of agency theory such as Watts (1988) perceive public financial management, with specific bias to internal control and financial reporting reforms as being an assessment and monitoring device. Internal controls, to the proponents of the theory, seek to minimise the problems associated with principal-agent relationship (Muiruri & Wepukhulu, 2018). According to proponents the theory, internal controls and financial reporting enhances the monitoring mechanism and provides additional information on the actions of the agent to the principal (Nogueira & Jorge, 2017). The shareholders, in this case the tax payers, incur agency expenses that includes expenses such as those for monitoring the management as well as disciplining them. There are additional costs such as losses and expenses occasioned by

the managers as they pursue self-seeking opportunities at the expenses of the corporations. This therefore places internal controls and financial reporting as the most fundamental agency costs as proposed by the proponents of the theory. However, critics of the theory argue that control mechanisms proposed by the theory are not only cost ineffective but also economically unviable (Alkaraan, 2018).

The agency theory is applicable to this study and anchors both the internal controls and financial performance reporting variables in the context of public sector organisation. Some of the internal control measures adopted including the internal audit function stems from the theory. In the present study, the agency framework helps in explaining the existence of internal controls and also financial reporting to the principals, who in this case are the citizens, the tax payers of a country. Financial reporting informs the principals of the state corporations how the managers utilize the assets and resources available to and enhance performance.

### ***2.2.3 Theory of Participatory Budgeting***

Williams and Harju (2018) developed the theory of participatory budgeting with hope of clearly defining varied dimensions of decision making that could be measured. The theory of participatory budgeting advocates for increased public and stakeholders engagement in financial planning and routes for real transfer of financial planning powers including budgeting from managers of corporations to tax payers and citizens. According to the theory, tax payers are coopted in the financial planning process through increased and mandatory public participation. In order to attain meaningful public participation, the theory holds that the taxpayers are allowed to have a say on the project that a corporation undertakes by voting for specific projects. The project voted for are in turn implemented by the state owned entities and in most cases would include a component of value that would enhance social justice in addition to superior performance (Williams & Harju, 2018).

Theory is an advancement of the citizen participation in budgeting theory that was proposed by Ebdon and Franklin (2006). The theory identified elements that were believed to influence the participation process(Ebdon & Franklin, 2006). However, the theory failed to uncover the collaborative influence thus failing to make advancements on it so as to invigorate it and hence the necessity to make improvements on it. Despite the theories being relatively new, participatory budgeting has been the most successful instruments of public participation for the past three decades. Before spreading to other countries, public participation was successful used in Brazil in early 1990 before spreading to other parts of the globe(Mutai et al., 2018). In the Kenyan context, the 2010 constitution heralded the public participation not only in financial planning but also in other areas that affected Kenyan's life(African Development Bank, 2018).

In this study, financial planning is considered using the theory of participatory budgeting. In financial planning, and in line with the theory of participatory budgeting, helps an organisation and its key stakeholders agree on how well to attain the firm's goals and within stated timelines. In this regard, the theory informs the financial planning reforms variable.

### **2.3 Empirical Review**

This section reviews what other researchers have done along the hypothesised relationship that has been conducted in the field of public financial management practices and organizational performance. The subsections that follow present a review of extant literature in line with the specific objectives of the study. In examining the empirical literature, various knowledge gaps are exposed. The research gaps are along contextual, conceptual and methodological realms. The subsequent sub sections detail all these aspects.

### ***2.3.1 Financial Planning Reforms and Organizational Performance***

Kimunguyiet al., (2015) sought to establish the influence of financial planning on financial performance of Non-Governmental Organization(NGOs') in health sector in Kenya by applying the priority based budgeting theory. Fundrasing efficiency ratio, working capital ratio and development ratio to programmme service ratio were adopted as financial performance, the dependent variable measures. On the other hand, the independent variable was proxied by budget planning, budget information system and budget skills competencies. The study was cross sectional in nature and employed survey research design. The study randomly sampled 270 NGOs' from a population of 16,844 NGO that were registered to operate in the health sector as at February 2015 (Kimunguyi et al., 2015).

The study employed both primary and secondary data. Primary data was collected using questionnaires from a single respondent in each of the sampled firms. Secondary data was obtained from each firm audited financial statements. The study employed a multiple linear regression model which was analysed using the statistical package for social sciences. Findings of the study indicated that financial planning significantly and positively influenced financial performance of the NGOs'in the health sector in Kenya. Kimunguyiet al.,(2015) however focussed on the Non governmtal organisation sector whose regulatory framework is different from commercial state corporations that the present study focuses on. It is thus not clear if the findings can be ported.

Cheruiyot et. al. (2017) examined the effect of public financial management practices on performance of county governments in Kenya for the financial year 2016/2017. The study adopted financial planning; revenue mobilization and internal control as the independent variables. Locally collected revenue and citizens' service delivery were adopted as the measures of the dependent variable performance. The reseach was anchored on the theory of participative budgeting and the institutional theory. The study was conducted using mixed

methods with correlational and descriptive research design being adopted. The counties included Nairobi, Mombasa, Kiambu, Nakuru, Narok, Machakos, Kisumu, Uasin Gishu, Nyeri and Kilifi. The study used both primary and secondary data. Primary data was collected using questionnaires from 21 respondents from each sampled counties. Secondary data was obtained from annual budget implementation report prepared by the Office of the Controller of Budget. The findings of the study indicated that financial planning and internal controls had positive statistically significant effect on performance of county governments in Kenya. Similarly, revenue mobilisation practices had statistically significant positive effects on performance of county governments in Kenya. The study however was carried out in the county government and findings may not be generalised in commercial state corporations.

Kamau et al., (2017) examined the influence of budgetary process on budget performance in state corporations in Kenya and focused on the Kenyatta National Hospital. The proxies for the independent variable, the budgetary process were budgetary participation, budgeting sophistication, budget feedback and budgetary controls. The study adopted budget compliance, value for money and budget goal achievement as the measures for budgetary performance. The theoretical underpinning of the study was hinged on the theory of budgeting, agency theory, theory of control and theory of accounting. Kamau et al., (2017) employed descriptive cross sectional research design and purposively sampled 72 staff involved in budget making at Kenyatta National Hospital in the year 2015. Primary data was collected from the respondents using a questionnaire as the research instrument. A multiple linear regression was used to analyse the relationship between the dependent and independent variables. A positive and significant association was found to exist between the hypothesised variables of budgetary process and budgetary performance. However, the study focused only on one state corporation and it is not clear if the findings can be generalised to all commercial

state corporations. In addition, the study used budgetary performance as a dependent variable while the present study hypothesises organizational performance as the dependent variable.

### ***2.3.2 Internal Control Systems and Organizational Performance***

Al-Thuneibat et al., (2015) investigated the impact of internal control requirements on profitability of Saudi shareholding companies listed on the Saudi bourse in the year 2011. The internal control requirements, the independent variable was proxied by control environment, control activities, communication and information, risk assessment and monitoring. The study used earnings per share, return on assets, return on equity and net profit margin as proxies for the dependent variable. Al-Thuneibat et al., (2015), adopted cross-sectional research design and purposefully sampled 120 firms from a target population of 160 listed firms. The study used both primary and secondary data. Primary data on internal control components was obtained using questionnaires from financial managers and auditors of the targeted firms. Secondary data on profitability was obtained from each of the firms financial statements. Thereafter, multiple regression was used to test the hypotheses. The results from the study indicated that internal control had significant and positive effects on profitability as indicated by return on assets and return on equity. The effects of internal controls on earnings per share and profitability margin were positive but statistically insignificant (Al-Thuneibat et al., 2015).

Njiru and Bunyasi (2016) investigated the effect of internal controls on financial performance of water service providers in Kenya and targeted providers under the Tana water services board in Kenya as of December 2014. The study was anchored on agency, institutional and stakeholders theories. The study adopted a descriptive research design and purposively targeted four senior officers in 22 water service providers operating under the wings of Tana water services board. The researchers used primary data obtained using structured questionnaires from the respondents. Findings of the study revealed a strong

positive relationship between internal control and financial performance(Njiru & Bunyasi, 2016).

Nogueira and Jorge (2017) analysed the extent to which internal control influenced the perceived usefulness of financial information across all the 308 Portuguese municipalities. Internal controls were operationalised as accounting control, political controls, administrative controls and operational controls. The research adopted a positivist and quantitative approaches, based on a cross-sectional research design designed on a local government context. The study used primary data collected using questionnaires distributed to a targeted population of 616 decision makers across all Portuguese municipalities and adopted a census approach. Findings of the study indicated a positive and significant relationship between internal control and perceived usefulness of financial information(Nogueira & Jorge, 2017).

Wali and Masmoudi (2020) examined whether internal system quality improved the level of real earnings management of listed French firms over the period 2010 to 2015. The dependent variable real earnings management was measured by inventory overproduction, discretionary expenses reduction and sales manipulation. Data concerning internal controls was derived from annual reports while the financial statements relating data was obtained from Data stream database (Wali & Masmoudi, 2020). The study adopted longitudinal research design with multiple regression analysis to examine the association between internal control and real earnings management. The findings of the study showed that higher internal control index negatively impacted on real earnings management.

### ***2.3.3 Financial Reporting Reforms and Organizational Performance***

Mironiuca et al., (2015) examined how financial reporting affected performance using a sample of 65 companies quoted in the Bucharest stock exchange, Romania over the period 2012 to 2015. According to Mironiuca et al., (2015), financial reporting reforms are related to

the revelation of financial data to the stakeholders of the company and other interested parties. The study argued that financial reporting reforms help gauge the financial performance of an entity. In addition, the paper examined the disparities between comprehensive income versus net income and the direction of the top four companies took in improving financial reporting of the two components. Findings of the study indicate that net income and comprehensive income reporting was positively associated with firm value and performance (Mironiuc et al., 2015). The study was however done in Romania and focused on commercial corporations while the present study focus is on Kenya's state corporations thus creating a contextual gap. Further, the study was carried out more than five years ago and the findings might have been overtaken by time.

Rugutt et al., (2019) investigated the association between reforms in financial reporting and financial performance of a select group of county governments in Kenya. The study adopted a descriptive research design and was undertaken in Bomet, Kericho, Nakuru and Narok counties. Financial reforms were operationalised by several indicators that included; adoption of the international public sector accounting standards; preparation of consolidated accounts and generation of quality financial reports. The targeted respondents were all the 184-treasurer staff from the four county governments. Primary data used by the study was obtained using questionnaires. The findings of the study indicated that there was a positive and a statistically significant association between financial reforms and performance of county governments in Kenya. In addition, the study found out that 67 percent of the Kenya's county government performance could be explained by financial reporting reforms (Rugutt et al., 2019). However, the study targeted county governments in Kenya and the findings may not be generalised to commercial state corporations in the country.

Ndzovu and Ng'ang'a, (2019) assessed the impact of financial reporting automation on financial performance of Kwale county government in Kenya. The dependent variable was

indicated by public oversight, financial analysis, customised reports and accounts reconciliation. The independent variable, financial performance was measured through an index for development, attainment of own source revenues and compliance with a set budget. Three theories were used in anchoring the study, the resource based theory, diffusion of innovation theory and the instrumental theory. The study adopted descriptive research design and used stratified random sampling method to select 142 respondents. Primary data was collected from the respondents through the use of questionnaires (Ndzovu & Ng'ang'a, 2019). Findings from the study indicated that financial reporting reforms had a positive and statistically significant effect on financial performance of the county government of Kwale.

#### ***2.3.4 Revenue Mobilization Practices and Organizational Performance***

Owino et al., (2017) examined the influence of revenue collection automation process on organisational performance of the Nairobi city county. The study independent variable revenue collection automation was indicated by online billing process, online payment process and online receipting process. On the other hand, the dependent variable organisational performance operationalised as growth in county own source revenues. The study adopted descriptive research design and targeted 384 senior managers at the county based on which stratified random sampling was used to select a sample of 111 (Owino et al., 2017). The study used primary data that was collected from the respondents using semi structured questionnaires. Further, the study conducted a multiple regression analysis to establish the relationship between the variables. The study findings indicated that revenue collection automation had a statistically insignificant association with organisational performance of the Nairobi city county.

Scott (2018) analysed the influence of revenue mobilization practices on service delivery among the decentralized governments in Ghana. The study employed policies, sources of revenue, cost effectiveness, efficiency and adequacy of revenues as proxies for

revenue mobilization practices. The dependent variable service delivery was measured as service availability, quality of service and cost of services. Scott (2018) employed mixed methods research design and had a target population of 170 decentralized regions that existed in Ghana as of 2008. Multi stage sampling was adopted and primary data was collected using questionnaires. Data from the respondents was analysed using regression analysis. Findings of the study revealed that revenue mobilization practices had a positive and statistically significant association with service delivery.

Ngazi and Ali (2019) examined the effect of public financial management reforms and the financial performance of the county government in Mombasa and focused on the period 2018. specifically, the study examined the role of played by financial planning reforms on performance of the county, the influence of revenue mobilization reforms on financial performance, the effect of internal control and budgeting on financial performance of Mombasa County government. The study by Ngazi and Ali (2019) was premised on three theories; the new public finance management theory, the systems theory and the allocative efficiency framework. Revenue mobilization practices were operationalized as attainment and adequacy of own source revenue; transparency in the revenue collection efforts and efficiency in revenue collection. On the other hand, control environment and activities, internal audit and risk assessment were adopted by the study to operationalise internal controls. The variable financial planning was indicated by financial reporting and analysis; financial strategy and financial controls. The dependent variable financial performance was operationalised as attainment of set targeted in revenues collection, employment, capital accumulation and high ratings of services. The study adopted a descriptive research design and targeted 210 senior employees of the Mombasa County government who included audit managers, finance officers and financemanagers in office as of 2018.

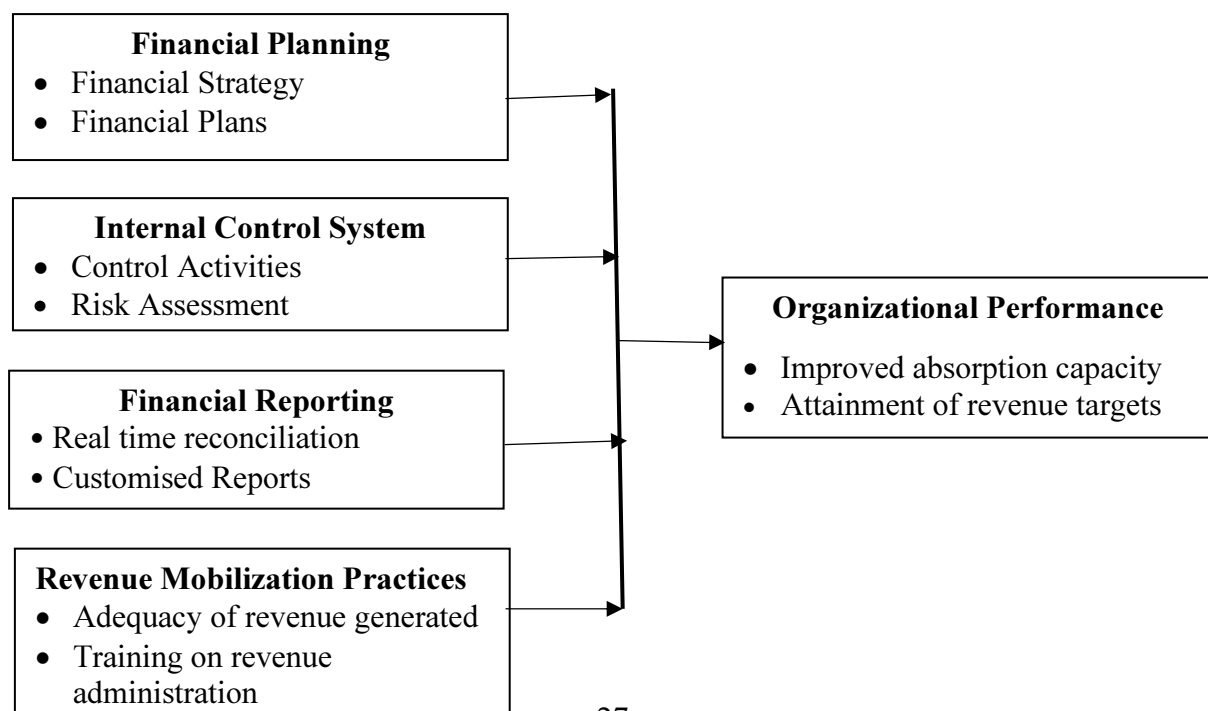
The study used stratified random sampling technique to obtain a sample of 138 respondents and employed primary data collected from the respondents' using questionnaires. The results of the study indicated that revenue mobilization and budgeting practices had no significant influence on financial performance of Mombasa County government. However, internal controls were found to be positively associated with financial performance while financial planning exhibited negative influence on financial performance of Mombasa County government.

## 2.4 Conceptual Framework

The conceptual framework, a schematic representation of the variable being studied, helps illustrate the relationships among the study constructs as well as aiding in their operationalisation. The present study conceptualises a relationship between public financial management reforms and organizational performance. Public Financial management reforms are conceptualised to have an independent influence on organizational performance which is the dependent variable. The conceptualframework of the study is presented in Figure 2.1.

**Figure 2.1 Conceptual Framework**

**INDEPENDENT VARIABLE** **DEPENDENT VARIABLE**



## 2.5 Operationalization and Measurement of Study Variable

Operationalization of the variables being investigated is significant as it allows for their quantitative measurement and thus allowing for the testing of the hypotheses as formulated. In specifying the manner in which the variables are operationalised, a meaning is attached to them and operations necessary to operationalize it are specified (Kothari, 2011). A summary of how the variables were operationalized is presented in Table 2.1

**Table 2.1 Operationalization and Measurement of Study Variables**

| Variable  | Measurement   | Scale   |
|---|---|---|
| Organizational Performance<br>(Dependent)       | Improved absorption capacity<br>Attainment of revenue targets<br>Improved internal business processes.        | Ratio/Responses to be provided in Likert Scale of 1-5 |
| Financial Planning<br>(Independent)             | Financial reporting and analysis<br>Budgeting planning<br>Budget control                                      | Ratio/Responses to be provided in Likert Scale of 1-5 |
| Internal Control Practices<br>(Independent)     | Regular internal audits<br>Receipt expenditures<br>IT controlled systems                                      | Ratio/Responses to be provided in Likert Scale of 1-5 |
| Financial Reporting (Independent)               | Recording financial statements<br>Documentation for expenses  | Ratio/Responses to be provided in Likert Scale of 1-5 |
| Revenue Mobilization Practices<br>(Independent) | Revenue policy and legislation<br>Revenue administration and automation<br>Revenue compliance and enforcement | Ratio/Responses to be provided in Likert Scale of 1-5 |

**Source: Literature Review (2021)**

## CHAPTER THREE

### RESEARCH METHODOLOGY

#### 3.1 Introduction

The current chapter elaborates on the research methodology employed by the study. In the chapter, the research design is presented and discussed. Thereafter, the target population is discussed in addition to sampling design and sample size. The chapter equally demonstrates the research instruments the study intends to employ as well as the procedures for collecting data. Further, the pilot test, validity and reliability tests and analysis of data is discussed. Finally, the chapter presents the diagnostic tests.

#### 3.2 Research Design

Kothari (2011), defines research design as a master-plan that postulated the approaches and ways of collecting, processing and analysing information necessary to test hypothesised relationships. Furthermore, a more refined definition for research design has been argued that it is a structured plan that provides for means of answering research questions (Saunders, Lewis, & Thornhill, 2015). The study proposed to use multi-method research design. The multi plan research design allows for improved robustness in analysis and helps in providing full answers to research objectives and questions (Saunders et al., 2015). This cross-sectional study adopted descriptive and correlation research designs. In a descriptive study, data is collected without changing the environment and involves answering questions of where, when, why and what of the study (Cooper & Schindler, 2014). The design was adopted as it enabled the description of both dependent and independent variable; on one hand, commercial state entities organizational performance as the dependent variable, while on the other hand, public financial management reforms in terms of financial planning, internal control systems, financial reporting reforms and revenue mobilisation. The correlation design on the other hand measures the relationship between two variables without the researcher controlling either of them.

It comprises of collecting data to determine whether and to what extent, a relationship exists between two or more variables(Saunders et al., 2015). Correlation design was therefore appropriate in this case since the study intended to establish the effect of public financial management reforms on organizational performance of commercial state corporations in Kenya. Cross-sectional studies are carried out at a point in time.

### **3.3 Target Population**

The targeted population is the group of individuals that the intervention intends to conduct research in and draw conclusions from.(Saunders et al., 2015). The study targeted 30 state commercial states corporations as the unit of analysis (Appendix I). As the target population was small, no sampling was required. The study chose census survey and the entire population was studied. According to Cooper and Schindler (2014), census is the total count of all the elements in the targeted population and is feasible when the population is small and when elements are different from each other. Data shall be obtained from a single respondent per corporation.

### **3.5 Research Instruments**

The study proposed to use primary data collection instruments. Primary data entails collection of information for the first time and it will be done through the use of structured questionnaires. A questionnaire is a pre-formulated written set of questions to which the respondents record the answers usually within rather closely delineated alternatives. Structured questions are used so as to capture the opinion of the respondent. Use of questionnaires gives some control or guidance on the answers given. In addition, questionnaires are inexpensive, practical and scalable while yielding fast and comparable results (Cooper & Schindler, 2014).

### **3.6 Data Collection Procedure**

The systematic process of obtaining and measuring information from the sampled population allowing for testing and evaluating outcomes of the stated hypotheses is data collection (Mackey & Gass, 2015). In the process of collecting the data from the respondents, an open-ended questionnaire will be adopted. The questionnaire was formulated on a 5-point Likert scale set between one and five. Using the Likert scale allowed the respondents either to agree or disagree with various statements expressing either a positive or negative attitude towards the subject matter of interest. Statements on the questionnaire were generated from previous empirical literature, theory and the researchers own context-based questions.

The questionnaires captured information on the variables and were sub-divided into three parts. The first part captured general information with the second section capturing information on Public financial management reforms while the third part covered information on organizational performance. The questionnaires were administered through drop and pick technique to a single respondent, who was a senior manager, preferably the corporate planning manager, in each of the firm. One senior manager per corporation was sufficient as they were considered to be knowledgeable with the firms' operations. In addition, this ensured consistency of responses from each corporation.

### **3.7 Pilot Testing**

Pilot testing is a small-scale trial, which is intended to assess the adequacy of the research design and of instruments to be used for data collection which is a small-scale version or trial run of the major study. This is preliminary analysis conducted before the actual study is carried out and is thus a research of the main study. The main objective of carrying out a feasibility study is investigating the practicability of the intended large-scale approach is undertaken (Mugenda, 2014). Piloting tests the level of the language used and highlights probable typographic errors. To conduct an effective study, the sample for pilot

study must be representative of the variety of individuals that the main study intends to cover. The pilot test was carried out in ten non-commercial state corporations and randomly selected 20 senior officials, two each from each institution. The pattern of the feedback obtained from the pilot study was utilized in revising and refining the questionnaires.

### ***3.7.1 Validity Test***

The degree to which a questionnaire measures what it is required to measure is referred to as validity. According to Saunders et al., (2015), validity implies that the research instruments measure accurately what it is supposed to measure. The major focus of validity test is on content validity, the extent to which questionnaire items cover all the areas of interest. As there are no quantitative measures of content validity, this study relied on the expert advice of the supervisor and by carefully checking the items against their operationalization.

### ***3.7.2 Reliability Test***

Reliability is the consistency of a set of measurement items (Cooper & Schindler, 2014). Reliability ensures that results can be replicated either by another study or in another sector and still get the same results. After data collection, the questionnaires were coded and input prepared into database of SPSS where the reliability coefficient shall be generated. The study adopted the Cronbach's Alpha coefficient ( $\alpha$ ) generated by SPSS. The Cronbach's alpha values range from 0 to 1 with values closer to one implying better internal consistency while those closer to zero indicating no reliability. This study adopted a cut off value of 0.7 to indicate internal consistency of questionnaire items as recommended by (Cooper & Schindler, 2014).

### **3.8 Data Processing and Analysis**

Data processing refers to conversion of raw data to meaningful information. In this study, after the responses from the respondents are edited, they were classified, coded and tabulated before further analysing it using Statistical Package for Social Sciences (SPSS) version 21. Data collected was analysed using descriptive and inferential statistics. Descriptive statistics was used to present and organize data in tables, and to describe quantitative features and included frequency, mean and standard deviation. Inferential statistics was used to estimate the parameters and test the statistical significance of the hypotheses.

#### **3.8.1 Correlational Analysis**

The degree of relationship or the strength of that relationship is correlation. Correlation analysis was computed in a bid to assist in determining the extent of the relationship between the study variables. This study used the Pearson correlation coefficient in measuring the degree to which there is an association amongst the variables.

#### **3.8.2 Regression Analysis**

Regression analysis helped to explain the changes in the dependent variable, in this case organizational performance, as a result of changes the specific variables adopted as the independent variables, financial planning reforms, internal controls, financial reporting and revenue mobilization practices. To describe the nature of the relationship in an explicit manner, a statistical equation is presented as model 1.

$$Y = \alpha_0 + \alpha_1 X_1 + \alpha_2 X_2 + \alpha_3 X_3 + \alpha_4 X_4 + e \dots \dots \dots (1)$$

Where: -

Y represents Organizational performance

$\alpha_0$  represents regression constant

$\alpha_1, \alpha_2, \alpha_3, \alpha_4$  represents the regression coefficients

$X_1$ : - Financial Planning Reforms

$X_2$ : - Internal Control System

$X_3$ : - Financial Reporting Reforms

$X_4$ : - Revenue Mobilisation Practices

e: represents the error term.

### **3.9 Diagnostic Tests**

It is paramount, that before the statistical equation is estimated, that the assumptions of linear regression are tested. Linear regression analysis has certain assumptions that must be met and whose violation would result to spurious regression. The assumptions and the required tests are outlined in the subsections that follows.

#### **3.9.1 Normality Tests**

The assumption of normality requires that the error term follow a normal distribution. When error terms are normally distributed, and the assumption is not violated, hypotheses testing generates reliable confidence intervals (Gujarati & Sangeetha, 2013). In testing for the assumption of normality, this study adopted the Shapiro-Wilk test. Results of Shapiro-Wilk test ranges with values exceeding 0.05 indicates that the error terms are normally distributed. However, values below 0.05 indicate violation of the normality assumption.

#### **3.9.2 Multicollinearity**

Independent variables in a regression analysis are assumed not to be any way related with each other, to remain truly independent and not to be correlated with each other. In the event the independent variables are correlated with each other, fitting the model and interpretation of the results will be difficult while reducing the power of the model in

identifying the statistically significant independent variables (Gujarati & Sangeetha, 2013). To test for the presence of multicollinearity, the study carried out the Variance Inflation Factor test. Value of VIF lying between 0 and 5 indicates absence of multicollinearity while as any other value shall indicate that independent variables are correlated.

### **3.9.3 Heteroscedasticity**

Error terms or residuals of the independent variables are assumed to equal variance, that is there are homoscedastic. In the event this assumption is violated and the error terms have unequal variance, heteroscedastic, spurious results may occur (Gujarati & Sangeetha, 2013). Due to the small sample size, this study adopted Koenker test where p-value above 0.05 indicated that the data is homoscedastic.

## CHAPTER FOUR

### DATA ANALYSIS, RESULTS AND DISCUSSIONS

#### 4.1 Introduction

The general objective of this study was to establish the influence of public financial management reforms on organisational performance of commercial state corporations in Kenya. To achieve this goal, four specific objectives were set out in addition to corresponding hypotheses. In this chapter, the study respondents' demographic profile as well as the response rate is presented. Further, diagnostic tests, descriptive and inferential statistics are presented and discussed. Finally, the chapter presents and discuss the results for hypotheses tests together with a summary.

#### 4.2 Study's Response Rate

In carrying out this study, cross sectional research design was applied whereby all the 30 commercial state corporations were targeted. A census approach was adopted and all the thirty firms were approached and served with the research instrument. Twenty-four questionnaires were filled and returned translating to 80 percent response rate. The response rate was adequate and compared favourably with other local and international studies. For instance, Nogueira and Jorge (2017) with 50 percent response rate, Apunda and Ndede (2020) undertook a study on state corporations in Kenya and had a response rate of 58 percent. While Ongeti and Machuki (2018) study of Kenya's state corporations attained just over 66 percent. According to Waweru and Simiyu (2019), a response rate of more than 70 percent is good enough and the results from such studies can be generalised on a population. Table 4.1 presents the response rate.

**Table 4.1: Response Rate**

| Questionnaires | Frequency | Percent |
|----------------|-----------|---------|
| Returned       | 24        | 80      |

|              |           |            |
|--------------|-----------|------------|
| Not Returned | 6         | 20         |
| <b>Total</b> | <b>30</b> | <b>100</b> |

**Source: Research Data (2021)**

### 4.3 Reliability Tests

In order to assess the extent to which the questionnaire yielded consistent results after repeated trials, reliability test was carried out. Cronbach Alpha coefficient was used in evaluating the internal consistence of the research instrument. Cooper and Schindler (2014) suggests a value of not less than 0.7 as an indication of internal consistency of the items in the questionnaire. In line with the recommendations, this study adopted an alpha value of atleast 0.7. Table 4.2 indicates the alpha coefficients for the questionnaire.

**Table 4.2 Cronbach Test for Reliability**

| Variable                   | Items in the<br>questionnaire | Statistic | Verdict  |
|----------------------------|-------------------------------|-----------|----------|
| Financial Planning         | 6                             | 0.716     | Reliable |
| Internal Control           | 6                             | 0.704     | Reliable |
| Financial Reporting        | 6                             | 0.786     | Reliable |
| Revenue Mobilization       | 6                             | 0.747     | Reliable |
| Organisational Performance | 8                             | 0.710     | Reliable |

**Source: Research Data (2021)**

Results in Table 4.2 show that all the items included in the questionnaire were reliable. Financial planning had a value of 0.716 whereas internal control items alpha statistics was 0.704, Others where financial reporting, that attained the highest alpha coefficient of 0.786, revenue mobilization, 0.747 and the dependent variable had 0.710. All the items were within the threshold of 0.7 that the study had set. This was consistent with Cooper and Schindler (2014) propositions. The study therefore concluded that all the study variables were reliable.

#### 4.4 Diagnostic Testing

To ensure non-violation of classical linear regression assumptions that statistical tests rely upon, various diagnostic tests were carried out. This ensured that findings of the study can be relied upon in decision making. This study carried out the tests for normality, multicollinearity and homoscedasticity.

##### 4.4.1 Test for Normality

To ensure that the data set is well modelled by a normal distribution, normality tests was carried out. The test indicates the likelihood of the random variable underlying test data is normally distributed. Violation of the assumption makes inferences and interpretation of the findings unreliable. Due to the small sample size, the study adopted the Shapiro-Wilk tests. The null hypothesis for the test is that data is normally distributed. If the p-value is greater than 0.05, the null is not rejected. However, if the p-value is less than 0.05, the null is rejected.

**Table 4.3 Test for Normality**

| Item                     | Kolmogorov-Smirnov <sup>a</sup> |    |       | Shapiro-Wilk |    |       |
|--------------------------|---------------------------------|----|-------|--------------|----|-------|
|                          | Statistic                       | df | Sig.  | Statistic    | df | Sig.  |
| Financial Planning       | 0.100                           | 24 | 0.200 | 0.978        | 24 | 0.846 |
| Internal Control         | 0.164                           | 24 | 0.127 | 0.952        | 24 | 0.298 |
| Financial Performance    | 0.135                           | 24 | 0.200 | 0.963        | 24 | 0.500 |
| Revenue Mobilization     | 0.141                           | 24 | 0.200 | 0.954        | 24 | 0.330 |
| Organisation Performance | 0.130                           | 24 | 0.200 | 0.981        | 24 | 0.917 |

**Source: Research Data (2021)**

The results in Table 4.3 indicates that all the p-value in the Shapiro-Wilk test is greater than 0.05. This is confirmed by the significance values in the Kolmogorov-Smirnov survey which were all above the set threshold of 5 percent. As a result, the study did not reject the null hypotheses that the data was normally distributed and a conclusion that all the variables were normally distributed was made.

#### 4.4.2 *Multicollinearity Test*

Multicollinearity arises in circumstances where there is a high degree of correlation between the regressor and the regress and. If multicollinearity is present, standard errors of the coefficients is high and this might make variables statistically insignificant while they are significant. In testing for multicollinearity, this study used the variance Inflation Factor tests. A cut of Variance Inflation Factor (VIF) was adopted to test for multicollinearity where VIF values of less than 5 indicated absence of multicollinearity. The results of the test are presented in Table 4.4.

**Table 4.4 Collinearity Statistics**

| <b>Variable</b>       | <b>Tolerance</b> | <b>VIF</b> |
|-----------------------|------------------|------------|
| Financial Planning    | 0.589            | 1.698      |
| Internal Control      | 0.993            | 1.007      |
| Financial Performance | 0.780            | 1.283      |
| Revenue Mobilization  | 0.734            | 1.363      |

**Source: Research Data (2021)**

The results presented in Table 4.4 shows all the VIF values are less than 5. The study therefore concluded that chances of multicollinearity were minimal and thus not harmful. In other words, this implied that the dependent variables did not exhibit collinearity amongst them.

#### 4.4.3 *Homoscedastic Test*

Error terms are assumed to have constant variance across the data. When this assumption is violated, heteroscedasticity is said to be present. Heteroscedasticity is present when the variance of the residual term is different across different values of the independent variable. To test if heteroscedasticity is present or otherwise, this study adopted the Koenker test. The null hypothesis was heteroscedasticity was not present if the computed p-value was greater than 0.05. Table 4.5 presents the results.

**Table 4.5 Koenker Test**

| <b>Breusch-Pagan and Koenker test statistics</b> |       |       |
|--|-------|-------|
|  | LM    | Sig   |
| Breusch-Pagan                                    | 4.039 | 0.401 |
| Koenker  | 5.390 | 0.250 |

**Source: Research Data (2021)**

The results presented in Table 4.5 shows that the p-value was greater than 0.05 and thus the study concluded that the data was homoscedastic and hence there was absence of heteroscedasticity.

#### **4.5 Organisations Demographic Characteristics**

Information relating to certain aspects of the firms being studied was collected. The information that was put into consideration consisted of age of the firm and the scope of its operations. Findings of the study are presented in Table 4.6.

Results in Table 4.66 indicated that 75 percent of the corporations had existed for more than 25 years. The rest had existed for periods ranging from 11 years to 25 years. Age was considered to be necessary as the study purposed to investigate the performance of the organisation and this extends over a period of time. The results further indicated that 83.33 percent of the entities had operations covering the entire country, none of them was reginal while 16.67 percent of the corporations had operations extending beyond the borders. Scope of operations data was also necessary as it helped explain the spread of the corporations' activities

**Table 4.6 Organisations Demographic Profiles**

| <b>Age of the Corporation</b> |           |            |
|-------------------------------|-----------|------------|
| Age                           | Frequency | Percent    |
| Less than 6 years             | 0         | 0          |
| 6 – 10 years                  | 0         | 0          |
| 11 – 15 years                 | 2         | 8.33       |
| 16-20 years                   | 3         | 12.5       |
| 21- 25 years                  | 1         | 4.17       |
| Above 25 years                | 18        | 75         |
| <b>Total</b>                  | <b>24</b> | <b>100</b> |
| <b>Scope of Operations</b>    |           |            |
| Entire Republic of Kenya      | 20        | 83.33      |
| Parts of Kenya                | 0         | 0          |
| International                 | 4         | 16.67      |
| <b>Total</b>                  | <b>24</b> | <b>100</b> |

**Source: Research Data (2021)**

#### **4.6 Descriptive Statistics**

To gain a better understanding of the role public financial management reforms on organisational performance, the independent variable was disaggregated into four specific categories viz; financial planning reforms; internal control systems; financial reporting reforms and revenue mobilization practices. The operationalization was guided by extant literature. To capture data on the various specific objectives, descriptive statements were presented to the respondents on a five-point Likert scale. The respondents were asked to indicate the extent to which the statements were applicable to their organizations. In the subsections that follows, findings are presented.

##### **4.6.1 Financial Planning Reforms**

Financial planning reforms were hypothesised to influence organisation performance. To establish the extent to which financial reforms were applicable in each of the

organisations, the respondents were asked to rate a 5-point Likert scale the extent to which varied items applied in their firms. Table 4.7 presents the results.

**Table 4.7 Financial Planning Reforms**

| <b>Statements</b>   | <b>Mean</b>   | <b>SD</b> | <b>CV</b> |
|---|---------------|-----------|-----------|
| Integrated development plan is the core financial planning document.                    | 3.6667        | 1.1293    | 0.3080    |
| There are consultations when preparing financial plans and related documents.           | 3.2917        | 1.2329    | 0.3745    |
| Financial position analysis is part of the financial planning process.                  | 2.9167        | 0.9743    | 0.3340    |
| There is a monitoring mechanism embedded in financial plans.                            | 3.2083        | 1.3181    | 0.4108    |
| Annual and monthly budget analysis is conducted.  | 3.2500        | 1.2597    | 0.3876    |
| The financial plans contain strategies for achieving and maintaining financial balance. | 3.5000        | 1.2158    | 0.3474    |
| <b>Average</b>  | <b>3.3056</b> |           |           |

**Source: Research Data (2021)**

From the findings presented in Table 4.7, the overall mean of the financial planning reforms is indicated as 3.3056 corresponding to a moderate extent. The statement that the main document for financial planning was the integrated development plan had the highest mean score (mean score 3.667, standard deviation 1.1293) corresponding to a large extent, meaning that the respondents appreciated that state corporations needed to use the integrated plan as the main document for ensuring proper financial planning. Conversely, the statement during financial planning process, financial position analysis was incorporated had the lowest average score (mean =2.92, SD = 0.97). This was moderately high ranking with respect to financial position analysis. The statement that monitoring mechanism was embedded in financial plans of the corporations had the highest Coefficient of Variation (CV) value of 0.4108, meaning that there was lack of consensus amongst the sampled population to the degree to which corporations the statement applied to the corporations.

#### **4.6.2 Internal Control Systems**

According to Wali and Masmoudi (2020) internal control systems ensures reliability of financial information and have effects on organisational performance. Internal controls can

be sub divided into reliability of financial data, the effectiveness and efficiency of operations in addition to compliance to relevant laws and regulations. Respondents were asked to state the extent the internal control systems was present in their firms. Table 4.8 presents the results obtained from the field.

**Table 4.8 Internal Control Systems**

| <b>Statements</b>   | <b>Mean</b>   | <b>SD</b> | <b>CV</b> |
|---|---------------|-----------|-----------|
| The corporation has a conducive internal control environment.   | 4.2917        | 0.5500    | 0.1282    |
| There are standardized documents to record financial transactions and they are consistently maintained.       | 3.8333        | 1.0072    | 0.2628    |
| Access to different parts of the accounting systems is restricted by passwords, lock outs and electronically. | 3.6250        | 0.9697    | 0.2675    |
| There is a robust access tracking mechanism that serves to deter fraudulent access.                           | 3.0000        | 0.8847    | 0.2949    |
| Physical audits are frequently conducted on all tangible assets tracked on the accounting system.             | 3.2083        | 1.2504    | 0.3897    |
| Regular risk assessment is carried out.   | 3.5000        | 1.1034    | 0.3152    |
| <b>Average Mean Score</b>   | <b>3.5764</b> |           |           |

**Source: Research Data (2021)**

Results presented in Table 4.8 point to an average mean score for internal control system was 3.5764 (to a large extent). This infers that respondent in general felt that constructs in internal control systems had been favourable to their corporations. The statement that firms had favourable internal control environment had the highest mean score of 4.2917 and a standard deviation of 0.55. This revealed that to a large extent, internal controls have been conducive. The statement also had the lowest coefficient of variation of 0.1282 indicating that there was concurrence amongst the respondent on the extent of favourability of the internal control environment. Conversely, the statement that had the highest variability was frequency of physical audits on tangible assets (CV = 0.3897) suggesting a big dispersion around the mean on the reach of physical audits in the corporation. The statement had the second lowest mean score of 3.2083 implying that physical audits was predicable to a moderate extent. The presence of a robust tracking system that helped deter fraud had the lowest mean score of 3.00. This indicated that the general

feeling amongst the respondents was that deterrence of fraud cases only applied to a moderate extent. The results indicated that standardized records of financial transactions were maintained while restrictions through passwords were in place and that regular risk assessments were carried out had means score of 3.8333, 3.6250 and 3.5000, respectively. This indicated agreements to a large extent on the stated dimensions of internal controls.

#### 4.6.3 Financial Reporting Reforms

The respondents were asked to indicate the extent to which a number of statements relating to financial reporting reforms applied in their organisation and the results are presented in Table 4.9.

**Table 4.9 Financial Reporting Reforms**

| <b>Statements</b>   | <b>Mean</b>   | <b>SD</b> | <b>CV</b> |
|---|---------------|-----------|-----------|
| It is possible to extract customized reports from the automated financial reporting module to facilitate decision making.   | 3.8333        | 1.0072    | 0.2628    |
| Staff can easily access the automated financial reporting module for specific job-related information.                      | 3.7917        | 1.0624    | 0.2802    |
| There is an in-built statistical program that eases analysis of trend across different elements of operations.              | 3.0833        | 1.0598    | 0.3437    |
| Through Financial reporting reforms, facilitates real time reconciliation of transaction data.                              | 3.5833        | 1.1156    | 0.2002    |
| The automation of financial reporting enables the county to generate customised reports for both internal and external use. | 3.1250        | 1.1156    | 0.3570    |
| Reports generated facilitates understanding by different stakeholders providing oversight.                                  | 3.7083        | 0.8065    | 0.2175    |
| <b>Average Mean Score</b>   | <b>3.5208</b> |           |           |

**Source: Research Data (2021)**

Table 4.9 presents the findings indicating that the overall mean score for financial reporting reforms was 3.5208. This implies that almost all the statement had a ranking of above 3.50 corresponding to a large extent hence conclusion that most of the respondent agreed with the fact that financial reporting reforms were highly embraced by their firms. In addition, the variability of responses was moderately low as evidenced by coefficients of variations ranging from between 0.20 and 0.36.

The statement automation of financial reporting allowed for generation of customised reports had the highest coefficient of variation of 0.3570 implying lack of consensus amongst the respondents on the extent and capability of financial reporting automation. Conversely, “the statement that reforms in financial reporting allowed real-time reconciliation”, was ranked lowest in terms of variability (CV = 0.2002) inferring agreement amongst the respondents on the extent of real time reconciliation facilitation. The statement that it was possible to generate customised reports to facilitate faster decision making had the highest mean score of 3.8333 meaning that to a large extent, the respondents were in agreement with the statement. However, the statement on presence of inbuilt analytical program had the lowest mean score of 3.0833 corresponding to a moderate rating by the respondents.

#### **4.6.4 Revenue Mobilization Practices**

To capture data on the various aspects of revenue mobilization practices, respondents were asked to rate in which various statements on revenue mobilization applied in their organisations. The findings are presented in Table 4.10.

**Table 4.10 Revenue Mobilization**

| <b>Statements</b>  | <b>Mean</b>   | <b>SD</b> | <b>CV</b> |
|--|---------------|-----------|-----------|
| The revenue management system at the corporation conforms to existing national policies.                                   | 3.5842        | 1.2482    | 0.3483    |
| Our staff are sufficiently trained on revenue administration.  | 3.5833        | 1.1001    | 0.3070    |
| The corporation has developed new and sustainable strategies to improve revenue mobilisation.                              | 3.4167        | 1.0598    | 0.3102    |
| The corporation has been making efforts to optimize own source revenues.   | 3.0417        | 1.3667    | 0.4493    |
| The corporation is legally and politically doing everything to motivate the residents to fulfil their revenue obligations. | 2.5000        | 1.4744    | 0.5898    |
| Revenue management automation has enhanced revenue collection efforts at the corporation.                                  | 3.3750        | 0.8754    | 0.2594    |
| <b>Average Mean Score</b>  | <b>3.2500</b> |           |           |

**Source: Research Data (2021)**

The results in Table 4.10 indicates that on overall, the average mean score for the six statements used to measure revenue mobilization was 3.2500. This showed that the respondents rated this construct moderately. The statements that revenue system was in line

with the policy framework and staff were adequately trained on revenue administration had the highest mean score of 3.5842 and 3.5833 respectively meaning that the respondents appreciated that their firms followed national policy and had well trained staff. The results showed that development of sustainable strategies, optimization of own source revenues received moderate rating. However, motivating residents to meet their obligations on revenue had the lowest mean score (mean score = 2.50, standard deviation 1.4744) corresponding to a small extent. Furthermore, the statement had the highest variability (coefficient of variation = 0.5898) indicating disparity from the sampled population in relation to degree in which the organisation met this goal. Adequately trained staff and their availability was rated last in terms of variability (CV= 0.3070). The implication of this was there was agreement that corporations retained well trained employees.

#### ***4.6.5 Organisational Performance***

The study sought to establish the extent commercial state corporations had attained organisational performance measures. Organisational performance was operationalised using amalgamation of triple bottom line and balanced score card indicators. The study requested the targeted population to rate their firm's possession of varied performance measures all of which were non-financial in nature. Table 4.11 is a presentation of the results.

**Table 4.11 Organisational Performance Measures**

| Statements   | Mean          | SD     | CV     |
|--|---------------|--------|--------|
| The corporation has regularly been attaining the annual revenue targets over the past three years. | 3.2917        | 1.1971 | 0.3637 |
| The government, which is a major investor has earned more on its investment.                       | 3.8750        | 0.8999 | 0.2322 |
| The increase in return on investment can be attributed to PFM reforms.                             | 3.6667        | 1.0500 | 0.2862 |
| The corporation's internal processes have improved considerably in the past three years.           | 3.1250        | 0.9918 | 0.3174 |
| The asset base has grown tremendously over the past three years                                    | 3.5833        | 0.8806 | 0.2457 |
| PFMR has enhance efficient allocation of funds to for development expenditure.                     | 3.2500        | 0.8470 | 0.2606 |
| PFMR has improved the absorption rate of funds in the corporation.                                 | 3.6250        | 0.9697 | 0.2675 |
| As a result of the PFM reforms, transparency, efficiency and accountability has been promoted.     | 3.5833        | 1.0178 | 0.2841 |
| <b>Average Mean Score</b>  | <b>3.5000</b> |        |        |

**Source: Research Data (2021)**

Results presented in Table 4.11 indicates that the declaration that the government as the main shareholder had earned more on its investment had the highest mean score (mean score = 3.8750, standard deviation = 0.8999). Furthermore, this statement had the lowest variability in responses (CV = 0.2322) implying a broad consensus amongst the targeted firms on the degree they had achieve this goal. That the firms had attained annual targets received the most varied rating (coefficient of variation = 0.3637 indicating that the respondents lacked consensus on whether or not state corporations had attained this measure. The overall mean score of 3.5000 was attained indicated that the respondents' felts that in general, corporations attained this measure to a large extent.

#### **4.7 Hypotheses Testing and Discussions**

The broad objective of this study was to determine the influence of public financial management reforms on organizational performance. The subsections that follow outline, first the individual effects of each variable on performance and thereafter the combined effect. All tests are done with a 95 percent confidence interval.

#### 4.7.1 Financial Planning Reforms and Performance

The first specific objective of this study was to investigate the extent to which financial planning reforms impacted on organizational performance of state-owned entities in Kenya. A corresponding hypothesis in its null form was formulated and tested.

H<sub>01</sub>: Financial planning reforms do not have a significant impact on organisational performance of commercial state corporations in Kenya. Table 4.12 summarises the results.

**Table 4.12 Independent Influence of Financial Planning Reforms**

| Model Summary             |                             |            |                           |                            |                   |
|---------------------------|-----------------------------|------------|---------------------------|----------------------------|-------------------|
| Model 1                   | R                           | R Square   | Adjusted R Square         | Std. Error of the Estimate |                   |
|                           | .468 <sup>a</sup>           | .219       | .184                      | .51271                     |                   |
| ANOVA <sup>a</sup>        |                             |            |                           |                            |                   |
| Model 1                   | Sum of Squares              | df         | Mean Square               | F                          | Sig.              |
| Regression                | 1.626                       | 1          | 1.626                     | 6.185                      | .021 <sup>b</sup> |
| Residual                  | 5.783                       | 22         | .263                      |                            |                   |
| Total                     | 7.409                       | 23         |                           |                            |                   |
| Coefficients <sup>a</sup> |                             |            |                           |                            |                   |
| Model 1                   | Unstandardized Coefficients |            | Standardized Coefficients | t                          | Sig.              |
|                           | B                           | Std. Error | Beta                      |                            |                   |
| (Constant)                | 2.358                       | .472       |                           | 4.993                      | .000              |
| Financial Planning        | .346                        | .139       | .468                      | 2.487                      | .021              |

a. Dependent Variable: Organisation Performance

b. Predictors: (Constant), Financial Planning

**Source: Research Data (2021)**

The results in Table 4.12 show the independent effect of financial planning on performance are statistically significant (p-value = 0.021). Financial planning correlate positively but moderately with performance (R = 0.468) and explain 21.9 percent of variations in organisation performance (R square = 0.219). Based on the results, the first hypothesis was not supported and in respect of this, the study rejected the null hypothesis and accepted the alternative hypothesis that financial planning reforms had a positive and

statistically significant effect on organisational performance of Kenyan commercial state corporations. The relationship on Table 4.12 is represented by the equation ii.

$$\text{Organisation Performance} = 2.358 + 0.346 \text{ Financial Planning} \text{ ----- (ii)}$$

The regression equation in model (ii) shows that if financial planning reforms were to change by one unit, there would be a 0.346 change in organisation performance. This means that state corporations should focus on financial planning reforms as they lead to an increase in financial performance. The results of the study confirmed the conclusions in Kimunguyi et. al. (2015) who found that financial planning relates strongly to organizational performance. The results also concur with other studies (Cheruiyot et. al, 2017; Kamau et. al, 2017) which concluded that reforms in financial planning leads to superior performance.

#### 4.7.2 Internal Control Systems and Performance

The second specific objective of the study was to investigate the extent to which internal control systems influenced organizational performance of commercial state-owned companies in Kenya. To achieve this objective, a matching hypothesis was formulated and tested. The hypothesis was: H02: Internal control systems has no significant association with organisational performance of commercial state-owned entities in Kenya. Findings of the analysis are presented in Table 4.13.

**Table 4.13 Independent Effect of Internal Control Systems**

| Model Summary             |                |          |                   |                            |      |
|---------------------------|----------------|----------|-------------------|----------------------------|------|
| Model 1                   | R              | R Square | Adjusted R Square | Std. Error of the Estimate |      |
|                           | .166           | .028     | -.016             | .57222                     |      |
| ANOVA <sup>a</sup>        |                |          |                   |                            |      |
| Model 1                   | Sum of Squares | df       | Mean Square       | F                          | Sig. |
| Regression                | .205           | 1        | .205              | .627                       | .437 |
| Residual                  | 7.204          | 22       | .327              |                            |      |
| Total                     | 7.409          | 23       |                   |                            |      |
| Coefficients <sup>a</sup> |                |          |                   |                            |      |

| Model 1          | Unstandardized Coefficients |            | Standardized Coefficients | t     | Sig. |
|------------------|-----------------------------|------------|---------------------------|-------|------|
|                  | B                           | Std. Error | Beta                      |       |      |
| (Constant)       | 2.963                       | .692       |                           | 4.279 | .000 |
| Internal Control | .151                        | .191       | .166                      | .792  | .437 |

- a. Dependent Variable: Organisation Performance  
b. Predictors: (Constant), Internal Control Systems

**Source: Research Data (2021)**

The results in Table 4.14 show that internal control systems had a positive but weak correlation with organisational performance (R-value = 0.166). The R-squared value was 0.028 an indication that internal controls only explained a 2.8 percent change in organizational performance with the other 97.2 percent being explained by other factors that the study did not consider. The model was also not significant as evidenced by a p-value of 0.437. The import of this was that the study could not reject the null and as such it concluded that indeed, internal control systems did not have a statistically significant influence on organisation performance in commercial state corporations in Kenya. These results were however in variance with (Al-Thuneibat et.al. 2015; Njiru and Bunyasi, 2016; Nogueira and Jorge, 2017) whose studies concluded that internal control systems had a positive and significant influence on organisational performance. The results further differed with Wali and Masmoudi (2020) whose findings were that internal control systems negatively influenced organisational performance.

#### ***4.7.3 Financial Reporting Reforms and Organizational Performance***

The study third specific objective was to evaluate the influence of financial reporting reforms on performance of commercial state corporations in Kenya. In order to attain the objective, the hypothesis: “**H<sub>03</sub>: Financial reporting reforms had no significant effect on organizational performance of commercial state corporations in Kenya**”, was formulated and tested. The results are presented in Table 4.14.

**Table 4.14 Independent Influence of Financial Reporting Reforms**

| Model Summary             |                             |            |                           |                            |      |
|---------------------------|-----------------------------|------------|---------------------------|----------------------------|------|
| Model 1                   | R                           | R Square   | Adjusted R Square         | Std. Error of the Estimate |      |
|                           | .954                        | .909       | .905                      | .17486                     |      |
| ANOVA <sup>a</sup>        |                             |            |                           |                            |      |
| Model 1                   | Sum of Squares              | df         | Mean Square               | F                          | Sig. |
| Regression                | 6.736                       | 1          | 6.736                     | 220.308                    | .000 |
| Residual                  | .673                        | 22         | .031                      |                            |      |
| Total                     | 7.409                       | 23         |                           |                            |      |
| Coefficients <sup>a</sup> |                             |            |                           |                            |      |
| Model 1                   | Unstandardized Coefficients |            | Standardized Coefficients | t                          | Sig. |
|                           | B                           | Std. Error | Beta                      |                            |      |
| (Constant)                | .685                        | .193       |                           | 3.544                      | .002 |
| Financial Reporting       | .801                        | .054       | .954                      | 14.843                     | .000 |

- a. Dependent Variable: Organisation Performance
- b. Predictors: (Constant), Financial Reporting Reforms

**Source: Research Data (2021)**

The results in Table 4.14 shows that financial reporting reforms correlate with organisational performance up to 0.954 (R-value = .954) indicating a strong and positive relationship. The results indicates that the independent effect of financial reporting on performance were positive and statistically significant (p-value = 0.000).

The results are in agreement with (Mironiuca et.al, 2015; Ndzovu and Ng’ang’a, 2019; Rugutt et. al, 2019) whose findings indicated that financial reporting reforms positively and significantly influenced performance. The relationship in Table 4.14 is presented as model iii.

$$\text{Organisation Performance} = 0.685 + 0.801 \text{ Financial Reporting} \text{ ----- (iii)}$$

The regression equation shown in model iii indicates that a unit change in financial reporting reforms causes an increase of 0.801 on organisational performance. This suggests

that state corporations should focus on reforms in financial reporting as they are positively related to organisational performance.

#### 4.7.4 Revenue Mobilization Practices and Organisational Performance

The last specific objective of the study was to evaluate the impact of revenue mobilization practice on financial performance of commercial state corporations in Kenya. A corresponding hypothesis was presented and tested. The hypothesis in its null form was presented as: “H<sub>04</sub>: Revenue mobilization practices has no significant effect on organizational performance of commercial state corporations in Kenya.” The results of the independent effects of revenue mobilization practices on organisational performance are presented in Table 4.15.

**Table 4.15 Independent Effects of Revenue Mobilization Practices**

| Model Summary             |                             |            |                           |                            |      |
|---------------------------|-----------------------------|------------|---------------------------|----------------------------|------|
| Model 1                   | R                           | R Square   | Adjusted R Square         | Std. Error of the Estimate |      |
|                           | .114                        | .013       | -.032                     | .57653                     |      |
| ANOVA <sup>a</sup>        |                             |            |                           |                            |      |
| Model 1                   | Sum of Squares              | df         | Mean Square               | F                          | Sig. |
| Regression                | .096                        | 1          | .096                      | .290                       | .596 |
| Residual                  | 7.313                       | 22         | .332                      |                            |      |
| Total                     | 7.409                       | 23         |                           |                            |      |
| Coefficients <sup>a</sup> |                             |            |                           |                            |      |
| Model 1                   | Unstandardized Coefficients |            | Standardized Coefficients | t                          | Sig. |
|                           | B                           | Std. Error | Beta                      |                            |      |
| (Constant)                | 3.240                       | .503       |                           | 6.447                      | .000 |
| Revenue Mobilization      | .081                        | .150       | .114                      | .538                       | .596 |

a. Dependent Variable: Organisation Performance

b. Predictors: (Constant), Revenue Mobilization Practices

**Source: Research Data (2021)**

The results in Table 4.15 shows that the coefficient of determination (R-Square) was 0.013 which indicates that 1.3 percent of variation in organisational performance was

explained by revenue mobilization practices. The remaining 98.7 percent was explained by other factors not considered by the study. The results also indicated a statistically not significant model (p-value =0.596). This indicated that revenue mobilization practices do not influence performance. This confirmed the results in (Owino et. al 2017; Ngazi and Ali, 2019) who concluded that revenue mobilization practices had no influence on organizational performance. Notheless, the findings did not concur with Scott (2018) whose findings were that revenue practices had a positive and significant effect on organizational performance.

#### ***4.7.5 Joint Effect of Public Financial Management Reforms***

This study sought to establish the influence of public financial management reforms on organisational performance of state corporations in Kenya. The findings are presented in Table 4.16. The results in Table 4.15 jointly, PFMRs had a strong and positive association with organisational performance (R-value = 0.964) and explained 92.8 percent of variations in performance. The results of analysis of variance further indicates that the model was statistically significant (p-value = 0.000). The results further show the beta coefficient of the specific variables. The relationship was expressed by the following equation.

$$Y = 0.295 + 0.040X_1 + 0.117X_2 + 0.780X_3 - 0.027X_4$$

Y represents Organizational performance; X<sub>1</sub>: represents Financial Planning Reforms; X<sub>2</sub>: Internal Control System; X<sub>3</sub>: Financial Reporting Reforms and X<sub>4</sub>: Revenue Mobilisation Reforms.

The results shows that all reforms have positive effects on performance except for revenue mobilization. A unit change in reforms in financial planning, internal controls and financial reforms yields a 0.04, 0.117 and 0.780 positive change in performance though in financial planning the results were not statistically significant. Surprisingly revenue mobilization reforms yielded a negative, but not statistically significant change in

performance. Notably, the joint effects of the reforms weaken the effect of each resource compared to the independent tests.

**Table 4.16 Combined Effect of Public Financial Management Reforms**

| Model Summary             |                             |            |                           |                            |      |
|---------------------------|-----------------------------|------------|---------------------------|----------------------------|------|
| Model 1                   | R                           | R Square   | Adjusted R Square         | Std. Error of the Estimate |      |
|                           | .964 <sup>b</sup>           | .928       | .913                      | .16715                     |      |
| ANOVA <sup>a</sup>        |                             |            |                           |                            |      |
| Model 1                   | Sum of Squares              | df         | Mean Square               | F                          | Sig. |
| Regression                | 6.878                       | 4          | 1.720                     | 61.544                     | .000 |
| Residual                  | .531                        | 19         | .028                      |                            |      |
| Total                     | 7.409                       | 23         |                           |                            |      |
| Coefficients <sup>a</sup> |                             |            |                           |                            |      |
| Model 1                   | Unstandardized Coefficients |            | Standardized Coefficients | t                          | Sig. |
|                           | B                           | Std. Error | Beta                      |                            |      |
| (Constant)                | .295                        | .290       |                           | 1.015                      | .323 |
| Financial Planning        | .040                        | .059       | .055                      | .682                       | .504 |
| Internal Control          | .117                        | .056       | .129                      | 2.089                      | .050 |
| Financial Reporting       | .780                        | .058       | .929                      | 13.356                     | .000 |
| Revenue Mobilization      | -.027                       | .051       | -.038                     | -.535                      | .599 |

a. Dependent Variable: Organisation Performance

b. Predictors: (Constant), Revenue Mobilization Practices, Internal Control Systems, Financial Reporting Reforms, Financial Planning Reforms

**Source: Research Data (2021)**

The results in Table 4.15 indicates that the influence of public financial management reforms on organisational performance are statistically significant. This is evidenced by a high F-value of 61.54 and a p-value less than 0.05. PFMRs correlate with organisational performance up to 0.964 corresponding to a strong positive correlation. They explain 92.8 percent of the variations in organisational performance. The relationship is represented in the equation:

$$Y = 0.295 + 0.040X_1 + 0.117X_2 + 0.780X_3 - 0.027X_4$$

Where: - Y represents Organizational performance;  $X_1$ : - Financial Planning Reforms;  $X_2$ : - Internal Control System;  $X_3$ : -Financial Reporting Reforms and  $X_4$ : -Revenue Mobilisation Practices. In the equation, the coefficients of financial planning reforms, internal control system, financial reporting reforms are 0.040, 0.117 and 0.780, respectively. The coefficients of the three variables are all positive and they indicate that a unit change in financial planning reforms; internal control system and financial reporting reforms jointly contributes to a 4 percentage, 11.7 percent 78 percentage change in organisational performance respectively. However, a unit change revenue mobilization practice, jointly with others, were found to account for a reduction in organisational performance of up to 2.7 percent.

#### 4.8 Summary of Hypotheses Tests

This section presents a summary of findings of the four hypotheses and is presented in table 4.16.

**Table 4.17 Summary Results of Tests of Hypotheses**

| <b>Objectives</b>   | <b>Hypotheses</b>  | <b>Decision</b>  |
|---|--|------------------|
| <b>Objective One:</b> To assess the influence of financial planning reforms on organizational performance of commercial state corporations in Kenya.  | <b>H<sub>01</sub>:</b> Financial planning reforms has no significant effect on organizational performance of commercial state corporations in Kenya. | Rejected         |
| <b>Objective Two:</b> To determine the influence of internal control systems on organizational performance of commercial state corporations in Kenya. | <b>H<sub>02</sub>:</b> Internal control systems has no significant effect of organizational performance of commercial state corporations in Kenya.   | Failed to Reject |
| <b>Objective Three:</b> To evaluate the influence of financial reporting on organizational performance of commercial state corporations in            | <b>H<sub>03</sub>:</b> Financial reporting reforms has no significant effect on organizational performance of commercial state corporations in       | Rejected         |

|  |  |                  |
|--|--|------------------|
| Kenya.   | Kenya.   |                  |
| <b>Objective Four:</b> To examine the influence of revenue mobilization practices on organizational performance of commercial state corporations in Kenya. | <b>H<sub>04</sub>:</b> Revenue mobilization practices has no significant effect on organizational performance of commercial state corporations in Kenya. | Failed to Reject |

**Source: Research Data (2021)**

## CHAPTER FIVE

### SUMMARY, CONCLUSION AND RECOMMENDATIONS

#### 5.1 Introduction

The purpose of this study was to establish the influence of public financial management reforms on organizational performance of commercial state corporations in Kenya. This chapter presents the summary of findings, conclusions, recommendations and limitations of the study.

#### 5.2 Summary of Findings

The study's main objective was disaggregated into four specific objectives with corresponding hypotheses. The study examined both independent effects and joint effects of the variables on performance. This section presents a summary of the study based on the four specific objectives.

##### 5.2.1 *Financial Planning Reforms and Organizational Performance*

The first specific objective sought to evaluate the effect of financial planning reforms on organizational performance of state-owned entities in Kenya. Using simple linear regression, the study found that on its own, financial planning reforms had a positive and a statistically significant effect on organization performance. The study thus rejected the null hypothesis corresponding to objective one and accepted the alternative that financial planning reforms had a significant effect on performance. The combined effect of financial planning reforms was found to have been statistically significant thus contradicting the findings of the independent effect.

##### 5.2.2 *Internal Control Systems and Organizational Performance*

In its second specific objective, the study determined the influence of internal control systems on the performance of the organisation. Internal control was operationalised as

regular internal audits and information technology-controlled systems. The independent effect, obtained using simple linear regression revealed that internal control systems had no statistically significant effect on organisational performance. The study thus failed to reject the null hypothesis. These findings were however contrary to the multiple regression analysis which concluded that jointly with other variables, internal control systems had a statistically significant influence on performance.

### ***5.3.3 Financial Reporting Reforms and Organizational Performance***

In a bid to evaluate the effect of financial reporting reforms of organizational performance, the third objective, the study adopted regular recording of financial transactions and expenses documentation as the operational indicators. Results of the regression results revealed financial reporting reforms had a positive and a statistically significant influence on performance. on this basis the study rejected the null hypotheses. Thus, the alternative hypothesis that financial reporting reforms had a significant influence on performance was accepted. This was confirmed by the results of multiple regression where jointly with other variables, financial reporting reforms was found to have a statistically significant effect on performance of the state-owned organizations.

### ***5.2.4 Revenue Mobilization Practices and Organizational Performance***

The fourth and final objective of the study sought to examine the influence of revenue mobilization practices on organization performance of commercial state-owned firms in Kenya. In so doing, a corresponding hypothesis was formulated and tested. The study utilized regression analysis and found that revenue mobilization practices did not have a statistically significant influence on performance of the state agencies. On strength of this, the study failed to reject the null hypothesis and accepted that revenue mobilization practice had no significant influence on performance. Similarly, the combined influence of revenue

mobilization practices with the rest of the hypothesized was found to be significantly related to organizational performance of commercial state corporations in Kenya.

### **5.3 Conclusion of the Study**

This study investigated the effect public financial management reforms had on commercial state-owned entities financial performance. To attain this goal, the study set four objectives and four hypotheses and investigated them. A conceptual model explaining the relationship was developed. Descriptive and inferential statistics was carried out using both simple and multiple regression analysis. The study findings were however mixed. The findings were compared with the anchoring theories and extant literature and several conclusions have been drawn. Overall, there is a significant association between public financial management reforms and organizational performance. This reforms, jointly, were found to explain more than ninety six percent of the variations in performance. Independently, internal control systems and revenue mobilization practices were found not have statistically significant impact on the corporation's performance. This might be as a result of feeble appearance of planning and reporting in Kenya's state corporations. The results further provided theoretical linkage, while confirming the new public financial management theory as well as the theory of participatory budgeting. Agency theory has also been proved.

### **5.4 Recommendations of the Study**

Results of this have implied that public financial management reforms are critical to organizational success. However, there exists limited empirical literature on the influence of the reforms on performance of state corporations. This study sought to determine this association. The results of this study will arouse deeper scholarly discussions of the relationship of the hypothesised concepts, form a basis of firming the existing policy in addition to management of commercial state corporations in Kenya and elsewhere in the

world. This study thus recommends for the promotion of a deeper conceptual and theoretical debate on the relationships amongst the hypothesised variables. Furthermore, this study focussed on commercial state corporations and though it met its objectives, it aroused issues requiring further research. Researchers should consider investigating both commercial and non-commercial state-owned entities.

#### ***5.4.1 Recommendations for Further Research***

The recommendations of this study are on additional research on more independent variables that would influence organisational performance. In some cases, the independent effect of individual variables accounted for less than 10 percent of variation in performance implying the likelihood of other variables that would better explain organisational performance. The recommendation of this study is for evaluation of both qualitative and quantitative variables. Whereas different measures of organisational performance exist, both financial and non-financial, this study only considered non-financial measures of organisational performance. It is thus recommended for further research be undertaken and compare the different measures of performance. Furthermore, the focus of this study was on commercial state-owned entities in Kenya and it is not clear if the finding can be ported and generalised on all other state corporations. Considering that different regulatory framework exists for both commercial and non-commercial entities, it is therefore fitting, and this study recommends, for another study to focus on non-commercial state owned corporations, and indeed all state corporations.

#### ***5.4.2 Recommendations to Theory***

The results in this study makes contribution that strengthens the existing empirical literature by making confirmation that public financial management practices have an influence on financial performance. This contribution is made by identifies the specific reforms in public financial management that impact on performance. The study thus

recommends to the management to focus on such variables as they strive to enhance performance. This study findings further extends the theoretical discussion on the new public financial management theory, the agency theory and the theory of participatory budgeting. This is done by empirically examining the extent of the association among the reforms in public financial management and organisational performance of commercial state-owned agencies.

#### **5.4.3 Recommendations to Policy**

The results in this study have policy implications to management of state corporations in Kenya. Most of the state enterprises are expected to spur growth in the economy and help the county attain its Vision 2030 blue print. As a result, the state corporation advisory council and the inspectorate of state corporations should make a policy decision of having the state-owned agencies indicate the extent to which reforms in public financial management policies have enhanced performance. Such policies would aid in improving the organisational performance of such entities and herald better decision making.

#### **5.4.4 Recommendations to Managerial Practice**

The management should strive and make deliberate efforts in disclosing additional performance gained or lost as a result of implementing the public financial management policies. In addition, managers should make an attempt of gaining an understanding of how reforms improve not only profitability but also overall performance. As different public financial management reforms have different impacts on performance, managers should continuously evaluate which of the reforms makes more contribution to performance and focus on such.

### **5.5 Limitations of the Study**

Despite meeting its objectives, this study was not without limitations. For instance, it only focussed on commercial state corporations and did not consider other non-commercial

corporations. While this might have been to avoid generalization of findings, it would be great if future studies considered other classification of state corporations. Moreover, respondents identified in this study were restricted to top managers in each corporation. Their responses were therefore one sided. Despite them being well informed on internal affairs of the corporations they headed; element of bias cannot be without merit. The fact that state corporations in Kenya were undergoing restructuring with some earmarked for merger, privatisation or disposal reduced the response rate. Furthermore, the geographical spread of the entities was an expensive affair in data collection. Considering that the researcher is self-sponsored, this put a strain on the financial resources.

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## **APPEDICIES**

### **Appendix I: Commercial State Corporations**

1. AFFA Pyrethrum Processing Company of Kenya
2. Agro-Chemicals and Food Company
3. Chemelil Sugar Company
4. East African Portland Cement Company
5. Jomo Kenyatta Foundation
6. Kenya Airports Authority
7. Kenya Broadcasting Corporation
8. Kenya Civil Aviation Authority
9. Kenya Electricity Generating Company
10. Kenya Electricity Transmission Company
11. Kenya Literature Bureau
12. Kenya Ordinance Factories Corporation
13. Kenya Pipeline Company
14. Kenya Ports Authority
15. Kenya Power and Lighting Company
16. Kenya Railways Corporation
17. Kenya Safari Lodges and Hotels
18. Kenya Seed Company Limited
19. Kenyatta International Convention Centre
20. National Cereals and Produce Board
21. National Housing Corporation
22. National Oil Corporation of Kenya
23. National Water Conservation and Pipeline Corporation
24. New Kenya Co-operative Creameries Ltd
25. Numerical Machining Complex
26. Nzoia Sugar Company
27. Postal Corporation of Kenya
28. School Equipment Production Unit
29. South Nyanza Sugar Company
30. University of Nairobi Enterprises and Service Limited

**Source: State Corporations Advisory Committee (2021)**

**Appendix II: Questionnaire**

Dear Respondent;

My name is Jane Nzula. I am conducting academic research on the influence of public financial management reforms on organizational performance of commercial state corporations in Kenya. Any information provided shall be treated as confidential and shall not be used for any other purpose other than for which data is collected. I will appreciate if you spared a moment of your time to fill the questionnaire.

Thank You.

**Section 1: Demographic Profile of the Corporation**

1. State Corporation’s Name (Optional)-----
2. Affiliated Ministry (Optional)-----
3. Using the scale provided, indicate the time that the corporation was founded.

|                           |           |         |          |          |          |            |
|---------------------------|-----------|---------|----------|----------|----------|------------|
| Years since incorporation | > 6 years | 6 to 10 | 11 to 15 | 16 to 20 | 21 to 25 | < 25 years |
| Tick as appropriate       |           |         |          |          |          |            |

4. Which of the following best describes the jurisdiction of your operations?

| Scope of operations           | Tick one |
|-------------------------------|----------|
| Entire Republic of Kenya      |          |
| In Specific Counties in Kenya |          |
| International                 |          |

5. State at least three major products/Services offered by the corporation
  - a. ....
  - b. ....
  - c. ....

## SECTION II: Public Financial Management Reforms

The independent aspect of this study is the Public Financial Management Reforms. The variable has been disaggregated into; financial planning reforms, internal control systems, financial reporting reforms and revenue mobilization practices. Statements on the role played the reforms are summarised in the subsection that follows. On a five-point Likert scale indicate the extent to which the statements applied in the state corporation you work for in the past three financial years.

Where 5 = Very large extent; 4 = Large extent; 3 = Moderate extent; 2 = Less extent and 1 = No extent

| <b>Financial Planning Reforms</b> |  |          |          |          |          |          |
|-----------------------------------|--|----------|----------|----------|----------|----------|
| <b>Statement</b>                  |  | <b>1</b> | <b>2</b> | <b>3</b> | <b>4</b> | <b>5</b> |
| <b>i.</b>                         | The corporation utilizes integrated development plan as its primary financial planning document.   |          |          |          |          |          |
| <b>ii.</b>                        | The process of preparing the financial planning documents is consultative.   |          |          |          |          |          |
| <b>iii.</b>                       | The financial planning process includes an analysis of the financial environment, revenue and expenditure forecast, debt position and affordability analysis |          |          |          |          |          |
| <b>iv.</b>                        | The financial plans have monitoring mechanisms that indicates financial health.  |          |          |          |          |          |
| <b>v.</b>                         | The corporation conducts monthly and yearly budget variances analysis.   |          |          |          |          |          |
| <b>vi.</b>                        | The financial plans contain strategies for achieving and maintaining financial balance.  |          |          |          |          |          |
| <b>Internal Control Systems</b>   |  |          |          |          |          |          |
| <b>Statement</b>                  |  | <b>1</b> | <b>2</b> | <b>3</b> | <b>4</b> | <b>5</b> |
| <b>i.</b>                         | The corporation has a conducive internal control environment.  |          |          |          |          |          |
| <b>ii.</b>                        | There are standardized documents to record financial transactions and they are consistently maintained.  |          |          |          |          |          |
| <b>iii.</b>                       | Access to different parts of the accounting systems is restricted by passwords, lock outs and electronically.  |          |          |          |          |          |
| <b>iv.</b>                        | There is a robust access tracking mechanism that serves to deter fraudulent access.  |          |          |          |          |          |
| <b>v.</b>                         | Physical audits are frequently conducted on all tangible assets tracked on the accounting system.  |          |          |          |          |          |
| <b>vi.</b>                        | Regular risk assessment is carried out.  |          |          |          |          |          |

| <b>Financial Reporting Reforms</b>    |   |          |          |          |          |          |
|---------------------------------------|---|----------|----------|----------|----------|----------|
| <b>Statements</b>                     |   | <b>1</b> | <b>2</b> | <b>3</b> | <b>4</b> | <b>5</b> |
| <b>i.</b>                             | It is possible to extract customized reports from the automated financial reporting module to facilitate decision making.   |          |          |          |          |          |
| <b>ii.</b>                            | Staff can easily access the automated financial reporting module for specific job-related information.                      |          |          |          |          |          |
| <b>iii.</b>                           | There is an in-built statistical program that eases analysis of trend across different elements of operations.              |          |          |          |          |          |
| <b>iv.</b>                            | Through Financial reporting reforms, facilitates real time reconciliation of transaction data.                              |          |          |          |          |          |
| <b>v.</b>                             | The Automation of financial reporting enables the county to generate customised reports for both internal and external use. |          |          |          |          |          |
| <b>vi.</b>                            | Reports generated facilitates understanding by different stakeholders providing oversight.                                  |          |          |          |          |          |
| <b>Revenue Mobilization Practices</b> |   |          |          |          |          |          |
| <b>Statements</b>                     |   | <b>1</b> | <b>2</b> | <b>3</b> | <b>4</b> | <b>5</b> |
| <b>i.</b>                             | The revenue management system at the corporation conforms to existing national policies.                                    |          |          |          |          |          |
| <b>ii.</b>                            | Our staff are sufficiently trained on revenue administration.   |          |          |          |          |          |
| <b>iii.</b>                           | The corporation has developed new and sustainable strategies to improve revenue mobilisation.                               |          |          |          |          |          |
| <b>iv.</b>                            | The corporation has been making efforts to optimize own source revenues.  |          |          |          |          |          |
| <b>v.</b>                             | The corporation is legally and politically doing everything to motivate the residents to fulfil their revenue obligations.  |          |          |          |          |          |
| <b>vi.</b>                            | Revenue management automation has enhanced revenue collection efforts at the corporation.                                   |          |          |          |          |          |

### **Section III: Organizational Performance**

6. The following statements relate to organizational performance which has been taken as the dependent variable. Please indicate the extent to which your organisation has achieved the following financial measures in the past three years. Use the key below to tick as appropriate.

**Key: 1= Not at all; 2 = Less extent; 3 = Moderate extent; 4 = Large extent; 5 = Very large extent.**

| Statements |  | 1 | 2 | 3 | 4 | 5 |
|------------|--|---|---|---|---|---|
| i.         | The corporation has regularly been attaining the annual revenue targets over the past three years. |   |   |   |   |   |
| ii.        | The government, which is a major investor has earned more on its investment.                       |   |   |   |   |   |
| iii.       | The increase in return on investment can be attributed to PFM reforms.                             |   |   |   |   |   |
| iv.        | The corporation's internal processes have improved considerably in the past three years.           |   |   |   |   |   |
| v.         | The asset base has grown tremendously over the past three years                                    |   |   |   |   |   |
| vi.        | PFMR has enhance efficient allocation of funds to for development expenditure.                     |   |   |   |   |   |
| vii.       | PFMR has improved the absorption rate of funds in the corporation.                                 |   |   |   |   |   |
| viii.      | As a result of the PFM reforms, transparency, efficiency and accountability has been promoted.     |   |   |   |   |   |

### **Appendix III: Personal Letter of Introduction**

**MUTINDA, Jane Nzula**

KCA University,

P. O. Box 56808–00200,

Nairobi, Kenya.

15<sup>th</sup> September 2021

To Whom It May Concern

Dear Sir/Madam

**RE: PUBLIC FINANCIAL MANAGEMENT REFORMS AND ORGANISATIONAL  
PERFORMANCE OF COMMERCIAL STATE CORPORATIONS IN KENYA**

I am a Master of Science student in the School of Business, University of Nairobi. As part of the requirements for the award of the degree, am required to undertake a project on a specified contemporary topic. In this regard, am humbly asking for your participation in a study that investigates the influence of public financial management reforms on organisational performance of commercial state corporations in Kenya.

The participation is through the use of an online questionnaire that has been emailed to you. The questionnaire should take not more than fifteen minutes to complete. Kindly answer all the questions as completely as possible. The research results will be used for academic purposes only and will be treated with utmost confidentiality. Only summary results, with no identifying information will be made public.

Your co-operation is highly appreciated.

Yours Sincerely,

Jane Nzula Mutinda

## Appendix IV: Letter of Introduction from the University



Teliko Road, Kasarani  
P.O. Box 56808-00200 Nairobi Kenya  
Plot Area: +254 20 8070418/9

Tel: +254 20 20207842  
Fax: +254 20 8361077  
Website: +254 704 888022, 710 888022  
Email: [hr@kca.ac.ke](mailto:hr@kca.ac.ke)  
Website: [www.kca.ac.ke](http://www.kca.ac.ke)

### SCHOOL OF GRADUATE STUDIES AND RESEARCH

KCA/SGS/Sept.. 21/1

14<sup>th</sup> September 2021

#### TO WHOM IT MAY CONCERN

Dear Sir/Madam,

**RE: JANE NZULA MUTINDA REG NO. 19/06229**

It is my distinct pleasure to introduce to you Ms. Jane Mutinda who is a student in our institution pursuing a Master of Science in Commerce at the College of Business.

Jane is conducting a research on a topic titled: "*Influence Of Public Financial Management Reforms On Organisational Performance Of Commercial State Corporations In Kenya*" which is part of the requirements of the program her is pursuing. The research as well as the data procured thereof shall be used for academic purposes only.

Any assistance accorded to her is highly appreciated.

In case of further inquiry, do not hesitate to contact the undersigned.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Nyaribo Misuko'.

Dr. Nyaribo Misuko  
Dean, School of Graduate Studies & Research