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

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ABSTRACT

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

Key Words: *financial management, performance**,** internal control system, budgeting, risk management, reporting and tracking, organization culture, state owned enterprises*

INTRODUCTION

Financial experts employed in state corporations desire to improve on budgeting, act on changes in financial reporting, strengthening risk management, reporting and governance frameworks besides eradication of corruption and fraud (Cangiano, Curristine & Lazare, 2013). All these are conducted so as to realize the create value for money in the public sector.

In China, Elliott and Yan (2013) revealed that the financial system has been improved to play the critical of fueling the economic growth and expansion in the different sectors.. In the USA, McKinney (2015) shares that for effective financial management, there is need to strengthen the public financial management and governance through developing policies and regulations. This can be done by having a stringent budget and financial reporting and tracking how the finances are put into usage.

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

STATEMENT OF THE PROBLEM

State Owned Enterprises (SOEs) are entities operating under the parliamentary act where they are to increase the quality of products and services delivered to citizens. Production and service delivery is possible whenever these enterprises implement proper financial management in their investment and expenditure decisions (Mukah, 2015). However, the key challenge faced by most SOEs is poor financial management as reflected in misuse of financial resources and inefficiencies in internal control systems. Poor financial management among SOEs is also reflected in increased collusion and corruption among the management officials resulting into loss of huge tax payers' money (Mbo, 2017). Several studies have been conducted on financial management and performance; such as Nkwag (2015) analyzed the implications of financial management on the level of accountability using a case of Nigeria's public sector. It was shown that the adoption of financial management leads to greater accountability especially in the public sector context. Ong'onge and Awino (2015) study on Kenyan owned commercial corporations looking at autonomy and its effect on financial performance. Kamande (2015) sought to determine the link between financial management and their influence on how Kenyan dairy firms perform financially. None of these studies have looked at financial management and performance, thus creating a research gap. This study filled this gap by assessing financial management and performance in service parastatals in Kenya.

OBJECTIVES OF THE STUDY

1. To assess the internal control system and performance in Commercial State-Owned Enterprises in Kenya
2. To determine budgeting and performance in Commercial State-Owned Enterprises in Kenya
3. To evaluate financial reporting and tracking and performance in Commercial State-Owned Enterprises in Kenya
4. To examine risk management and performance in Commercial State-Owned Enterprises in Kenya
5. To assess the effect of organizational culture as a moderating variable in the relationship between financial management and performance of Commercial State-Owned Enterprises in Kenya

RESEARCH HYPOTHESIS

H_{01}: Internal Control system has no significant effect on financial performance of Commercial State-Owned Enterprises in Kenya

H_{02}: Budgeting has no significant effect on financial performance of Commercial State-Owned Enterprises in Kenya

H_{03}: Financial Reporting and Tracking has no significant effect on financial performance of Commercial State-Owned Enterprises in Kenya

H_{04}: Risk Management has no significant effect on financial performance of Commercial State-Owned Enterprises in Kenya

H_{05}: Organization culture has no significant moderating effect in the relationship between financial management and performance of Commercial State-Owned Enterprises in Kenya

THEORETICAL FRAMEWORK

Contingency Theory

The contingency theory was proposed by Burrell and Morgan (1979) and it argues that an organization does not exist and operate in isolation but rather interacts with the forces within its environment. The theory indicates that only firms that are able to cope with the changes in the environment can effectively survive (Burrell & Morgan, 1979). One of these systems within an organization is the financial reporting of the firm. Therefore, in this context management choice / adoption of new financial reporting practices is dependent on a number of constraints within an organization. Each of which can be conceptualized as falling into one of the four classes in the contingency framework (Donaldson, 1999). Such contingency variable includes; social factors affecting the financial reporting systems, organization environment (different accounting methods, organizational attributes such as size, capital out lay) and lastly the user characteristics namely decision models, decision making styles and cognitive traits (Child, 1975).This theory links organizational culture and how it moderates the relationship between financial management and performance. It also links financial reporting system with financial performance.

Modern Portfolio Theory

This theory was put forward by Markowit (1952) to relate risk and return trade off in an investment. Investments are made with risks and thus before committing resources in a project, all efforts should be made to determine viability and probable risk level. In order to minimize risk exposure, the theory advocates for portfolio selection. The theory argues that risk in an investment can be reduced or rather minimized by diversification. Diversification is made possible through proper portfolio selection. A portfolio is defined as group of assets held by investors so as to minimize risk while maximizing returns. Through holding of portfolio, an investor will have diversified the investment and thus minimizing risk exposure which ultimately maximizes returns. The ways through which an investor selects and combines various assets in the portfolio form the basis of risk minimization and maximization of possible returns (Grasse, Whaley & Ihrke, 2016).The theory is therefore relevant to the study as it links risk management and its influence come. The concept of risk is well addressed in this Modern portfolio theory

Resource Based Theory

The theory was advanced by Wernerfelt (1984). The theory is premised on the fact that resources endowment of an organization results into performance. Differences in performance between firms may therefore be explained by differences in resource endowment. An organization therefore gains superior performance by possession of unique resources. The works of Penrose (1959) and Chandler (1962) formed the basis of this theory. The theory suggests that organizations can be perceived as bundles of resources. The resources of possessed by an organization have certain characteristics those results into performance. First, the resources are distributed heterogeneously across firms and the differences in these resources are in force over time (Wernefelt, 1984). The other characteristics of resources possessed by an organization include the fact that they are rate, non-substitutable and inimitable. These features of resources help an organization to gain competitive advantage and therefore performance (Barney, 1995). Having an organizational culture that pushes all staff to work as a team, in a cohesive manner improves the financial performance of service parastatals.

EMPIRICAL REVIEW

In a study conducted in Nigeria by Ademola, Adedoyin and Alade (2015) on how internal systems of control affected public sector, it was revealed that capital significantly influenced earning quality. As part of recommendations, there is need for change in market share and management of commercial banks. This study was carried out in Nigeria and not in Kenyan which brings the research gap. Ndembu (2015) sought to determine how internal control systems affected financial performance in Nairobi County amongst its manufacturing companies. The variables examined included control, monitoring, ICT, risk assessment and control environment and return on assets. From the findings, control activities, sharing of information, management of risk and control environment all significantly influenced the firms' performance financially in the Kenyan manufacturing sector. In an assessment of the effect of budgeting on performance of Kenyatta National Hospital, Anyango, Rotich and Kamau (2017) revealed that participation in budgeting greatly influenced performance of state corporations.

Financial reporting is the disclosure of financial information to stakeholders about the financial performance of a company Financial reporting and tracking is therefore able to gauge the performance of in-service parastatals through the financial position of the parastatal (Nyakundi, Nyamita & Tinega, 2014).Ouma (2017) looked at effect of quality of reporting on financial performance. The study was done among firms listed on NSE Kenya. It was noted that when an organization complies with financial reporting quality, financial performance in terms of the liquidity and solvency improves. Mwangi (2012) investigated how management of credit risk influenced financial performance. The study was done among Kenyan banking sector. The study established that credit risk management significantly influenced financial performance through loan performance and credit adequacy. The study further revealed that the ratio of non-performing loans and that of capital adequacy is inversely and significantly related with return on equity. The study recommends that risk profile of borrowers should be defined by the system in relation to the involved risk.

Another study was done by Mutua (2014) on sound management of credit risk influenced performance of the firm financially, specifically the commercial banks. The study broadly investigated the various types of credit risk faced by commercial banks and how the affected performance. The study revealed that risk assessment as a credit risk management practice is so crucial among commercial banks. Risk analysis helps banks discover mistakes early and it therefore can be important for risk management which helps in risk monitoring. The study concentrated on commercial banks and not on SOEs. Mucheru (2016) looked at risk management and its influence on performance of firms financially, specifically the insurance firms. It was seen that insurance companies have adopted and utilized risk management practices in their activities which essentially strongly impacted on financial performance. Risk reduction positively influenced on financial performance. Therefore, adopting risk management strategies has a positive influence on financial performance of insurance firms.

RESEARCH METHODOLOGY

Research Design

A descriptive research design was adopted in this study. In a descriptive study, data is collected without change in environment. This design was effective because it helped the study to establish financial management and how it has influenced performance of state owned enterprises in Kenya.

Empirical Model

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

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

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon_i \quad \text{......i}$$

Where: Y = Financial Performance; X_1 = Internal Control; X_2 =Budgeting; X_3= Financial Reporting and tracking; X_4 = Risk Management; β_0 = Intercept coefficient; ε_i = Error term

Step2: Introduce the organizational culture and note the new r square (r^2_2). This is illustrated in the reduced Model below;

$$Y = \beta_0 + \beta_1 FM + \beta_2 OC + \varepsilon_i \quad \text{......ii}$$

Where: Y = Financial Performance; FM = Financial Management; OC =Organizational Culture; β_0 = Intercept coefficient; ε_i = Error term

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

The product model follows this format:

$$Y = \beta_0 + \beta_1 FM + \beta_2 OC + FM*OC\ \varepsilon_i \quad \text{......iii}$$

Where: FM = Financial Management; OC =Organizational Culture

Target Population

The target population is those elements the researcher is interested in and has information that will respond to the research questions (Creswell, 2013). The study targeted 29 state owned enterprises in Kenya and the respondents included 111 finance managers, accountants, risk managers and supply chain managers drawn from these SOEs.

Sampling Design and Sample Size

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

Data Collection Instrument

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

Data Collection Procedure

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

Data Analysis and Presentation

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

RESEARCH RESULTS

Internal Control System

The researcher carefully identified a number of statements on internal control system and how it influence financial performance of commercial state corporations. On a five-point Likert scale where 1=strongly disagree and 5=strongly agree, respondents were asked to rate show the extent of their agreement with each of these statements. From the findings, regular audits had improved financial performance in parastatals (M= 3.66 SD= 0.475).The top management initiated internal auditing of finances at the institution (M=3.75 SD=0.957). These findings contradict with Mugo (2013) whose study revealed that the department of internal audit had no sufficient staff and therefore regular audits were not conducted. Most of the respondents were neutral on whether the financial activities were closely monitored by a special team (M=3.42 SD= 1.14). In a study by Mugo (2013), it was revealed that in all the studied learning institutions, the management showed commitment to control systems, it monitored and reviewed performance and supervised all activities taking part within institutions.

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

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

Budgeting

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

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

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

Financial Reporting and Tracking

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

Risk Management

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

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

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

Organization Culture

The study sought to determine how organizational culture influenced financial performance of commercial state enterprises. Most respondents were not certain whether their state enterprise had developed a culture that was unique differentiating them from other parastatals (M=3.42;SD=0.971). The culture advocated for working as a team to improve financial performance (M=4.14;SD= 0.353). The finding is in agreement with Popadak (2013) who established that for increased performance, high quality of products and efficient service delivery, the employees in a firm must work as a team. All staff participated in all organizational activities and this increased performance (M=4.15;SD=0.903). Most of the respondents held their organizations in high esteem to maintain reputation (M= 3.87;SD= 0.669). According to Guiso, Sapienza and Zingales (2015),when the public for the case of government entities; and the customers for private enterprises hold an organization in high esteem and see it as reliable, reputable and responsible, then the culture leads to high organizational performance.

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

Financial Performance

The findings on financial performance of commercial state enterprises indicated that investors had earned more on their investment (M=3.83;SD=0.376). The increase in ROI has been attributed to proper financial management(M=3.69 SD=1.00).According to Onyango and Muturi

(2013), financial performance measurements can take the form of growth capital employed, turnover, asset base, divided among other forms.

INFERENTIAL STATISTICS

The researcher regressed financial management against performance of state owned enterprises to determine the interaction between them. The model did not include organizational culture as the moderating variable but only included the independent and the dependent variables. Table 1 shows that findings of the Model Summary.

Table 1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.832[a]	.693	.673	.99287

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

The findings in Table 1 indicate the coefficient of determination R square of 0.693 and the adjusted R square of 0.673. Thus, 67.3% change in financial performance of commercial state enterprises is explained by their financial management. The researcher also carried out an Analysis of Variance at 5% level of significance and the findings are reported in Table 2.

Table 2: Analysis of Variance (ANOVA)

	Sum of Squares	df	Mean Square	F	Sig.
Regression	171.155	4	42.789	43.976	.000[b]
Residual	75.906	78	.973		
Total	247.060	82			

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

From the ANOVA Table 2, $F_{calculated}$=43.976 while $F_{critical}$= 2.27. It can therefore be inferred that the overall model was significant. The regression coefficients and the p-values of the study are shown in Table 3. The interpretation of p values was done at 5% level of significance (0.05).

Table 3: Regression Coefficients

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	3.260	1.494		2.181	.032
Internal Control	.256	.109	.182	2.343	.022
Budgeting	.410	.102	.285	4.010	.000
Financial Reporting and Tracking	.126	.040	.030	3.145	.000
Risk Management	.462	.110	.138	4.191	.000

The resultant regression equation becomes;

$$\mathbf{Y=3.260+0.256X_1+0.410X_2+0.126X_3+0.462X_4}$$

Where: Y=Financial Performance; $X_{1....5}$ represents the independent variables of the study.

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

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

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

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

To capture the moderating effect in the model, the researcher included organizational culture together with the independent variables. Table 4 shows that findings of the model summary.

Table 4: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.872[a]	.760	.750	.93023

From Table 4, the value of R square is 0.760 which is also equal to 76%. Table 5 reports the findings on the Analysis of Variance whose essence was to determine the overall significance of the model.

Table 5: Analysis of Variance

	Sum of Squares	df	Mean Square	F	Sig.
Regression	323.634	2	161.817	126.816	.000[b]
Residual	102.108	80	1.276		
Total	425.742	82			

Table 5 shows that the value of F critical is 4.33 while F calculated is 126.816. Comparing these values of F, it can be seen that $F_{calculated} > F_{Critical}$. Thus, it can be inferred that the overall regression model was significant.

The findings on the beta coefficients together with the p values are shown in Table 6.

Table 6: Beta Coefficients and P values

	Unstandardized Coefficients		Standardized Coefficients		
Model	B	Std. Error	Beta	t	Sig.
(Constant)	4.420	1.327		3.331	.000
Financial Management	.214	.068	.081	3.143	.006
Organizational Culture	.193	.048	.114	4.021	.000

Level of Significance at 0.05

The resultant equation becomes;

$$\mathbf{Y = 4.420+0.214X_1+0.193X_2}$$

From Table 13, financial management has a positive and statistical beta coefficient (β=0.214; p=0.006<0.05). This can be interpreted to mean that financial management has significant influence on performance of state owned enterprises. This finding is supported by Nkwag (2015) who analyzed the implications of financial management on accountability of Nigeria public sector and showed that financial management adoption enhances accountability in the Nigerian public sector as the standards pave way for improved management of public funds. Strong financial management in state owned enterprises can be characterized by adherence to internal controls, budgeting, financial reporting and tracking and risk management that collectively influence the way state owned enterprise perform.

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

HYPOTHESIS TESTING

Based on regression results above, the study rejects all the null hypotheses. A summary of the adopted hypotheses is shown in Table 7.

Table 7: Hypothesis Testing

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

CONCLUSION

Internal control system has significant effect on financial performance of Commercial State-Owned Enterprises. Employees in most state commercial state-owned enterprises have separate roles in handling finances which improved performance. Using IT controlled systems leads to high financial performance. Implementing internal control systems improves performance. The top management initiates internal auditing of finances at the institution.

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

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

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

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

RECOMMENDATIONS

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

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

From the analysis, financial reporting and tracking has an effect on performance of state owned enterprises. Therefore, the CEOs of state owned enterprises should ensure that the financial reports are prepared within statutory timing. These CEOs should further ensure that the issues raised on the financial reports are acted on. The accountants of state owned enterprises should ensure that regular financial reports are prepared in line with International Financial Reporting Standards. The finance managers should invest more resources in financial and tracking systems to directly realize improvement in their financial performance.

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

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

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