FINANCIAL MANAGEMENT PRACTICES AND FINANCIAL PERFORMANCE OF STATE CORPORATIONS UNDER STATE DEPARTMENT FOR TOURISM IN KENYA

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ABSTRACT

The study sought to find the effect of financial management practices on the financial performance of State Department for Tourism in Kenya. It specifically sought to analyse the effects of financial planning procedures, internal controls practices, financial reporting analysis, and fixed assets management practices. The study was informed by budget control theory, contingency theory, accounting theory and conservative plan theory.

The research used a descriptive research design that targeted a population of 71 selected employees employed at various levels of staff establishment in the 8 state corporations under the State Department for Tourism in Kenya. Since the target population was rather small, a census approach was chosen. Primary and secondary data were employed in the investigation. Secondary data was gathered from the individual state corporations' annual audited reports. With the aid of semi-structured questionnaires, primary data was gathered. A pilot test was carried out to evaluate the study instruments reliability and validity. Both quantitative and qualitative data were produced by the questionnaires. The results of the thematic analysis used to analyze the qualitative data were presented narratively. Using SPSS version 24, inferential and descriptive statistics were utilized to analyze quantitative data. The frequency distribution, standard deviation, percentages, and mean were all examples of descriptive statistics. The Pearson correlation coefficient and multivariate linear regression analysis were used for inferential analysis. The study's findings were presented using tables and figures (line graphs). The findings of the inferential analysis revealed that the performance of State Corporations under the State Department for Tourism in Kenya is positively and significantly impacted by financial planning techniques and internal control procedures. The study therefore concluded that financial management practices have a significant effect financial performance of state corporations in Kenya. The study recommends that state corporations under the state department for tourism develop plans to boost revenue generation and cut costs associated with service provision, increase the frequency of risk assessment to monthly basis, increase frequency of income statement analysis and cash flow statement to at least quarterly basis. Further the study recommended that training should be given on the significance of lowering the possibility of loss, theft, or insufficient control over assets. In addition, state corporations under state department for tourism should develop an asset safety and maintenance strategy.

Keywords: Financial management practices, Internal control procedures, Financial planning practices, Financial performance

INTRODUCTION

State corporations play essential role in national growth and development of an economy. In an effort to improve revenue generation and enhance financial performance, finance managers in diverse sectors have recommended use of financial management practices (Singh & Bagga, 2019). The use of public funds is governed by a system of laws and institutions, processes, and policies known as financial management (PFM) practices, which guides in accountability and transparency of public funds through financial reporting, public debt management practices, revenue collection, budget preparation process for national government entities for the long term and medium-term planning. Financial management practices are essential for democratic governance, accountability and effectiveness in the use of available resources, poverty reduction and macro-economic stability. Sound PFM practices are preconditions for enabling effective allocation of resources for service delivery in public institutions (Arkhipova, Dibrov, Beskrovnaya & Shchukina, 2016). Organizational performance measures focus on both financial and non-financial factors, including customer service, social responsibility, and employee stewardship. Financial performance, which is a key determinant of success in any firm, is often measured through financial ratios such as solvency, profitability, and efficiency ratios. Cash flow ratios can also be employed to assess a company's performance, as they indicate the ability to meet debt obligations with cash. Financial performance can also be measured and assessed using net income and sales, return on assets (ROA), and market to book value of equity. In the case of state corporations and not for profit organizations, the surplus and deficits have been used to measure financial performance due to the nature of their business of service delivery. Financial performance has traditionally been the primary indicator of success for many companies worldwide. Good corporate governance increasingly incorporates non-financial factors into performance measurement to achieve organizational goals (Mahasi, Mwanza & Ombaba, 2020). Financial management methods, such as resource management, budgeting process, financial policies, and internal audit, have a significant impact on financial performance. The financial performance of government entities and local governments is positively and significantly impacted by financial management methods (Cheruiyot and Oketch (2017).

Statement of the problem

The effectiveness of financial management practices can greatly influence the financial performance of government institutions in Kenya. The implementation of the PFM Act, 2012, and PFM regulations is inconsistent among government institutions. According to the OAG and Controller of Budgets reports, State corporations in Kenya have faced various difficulties in fulfilling their mandates, which has led to losses and deficits, debt, and corruption scandals. State Corporation's overall performance index in 2018 was 68%, which fell to 57.3% in 2019 and further decline to 44.3% in 2020. In terms of efficient and economic use of resources, the performance fell from 88.7% in 2018 to 68% in 2019 and to 57.3% in 2020 (Public Service Commission, 2020). The Medium-Term Plan (MTP) III& IV reports, indicate that Kenya's tourism industry experienced significant growth, with a 9.8% increase in international tourist arrivals in 2017 compared to the previous year. The sector contributed 8.5% to Kenya's GDP and provided employment opportunities for about 1.2 million people. In 2018, the growth trend continued with an increase in international tourist arrivals of 37.33% compared to the previous year. The sector also contributed Ksh 790.6

billion to Kenya's economy, equivalent to 8.8% of GDP. However, the financial performance of State Corporation under State Department for Tourism has generally been declining, with some entities reporting deficits, alternating upward and downward movements in surpluses, and declining efficiency and economic use of resources. The average surplus in the State Corporation under State Department for Tourism increased by 13% and 18% in 2018 and 2019 respectively, this was followed by a decline of 10% in 2020 and a further decrease in 2021 by 12%. Additionally, some entities have faced issues such as inaccuracies in financial statements, long outstanding receivables, unrecovered prepayments, poor fixed assets management practices, and inadequate procurement planning. Unpaid bills and revenue reduction have also been reported for some entities with Department of Commerce and Tourism having pending bills totaling Ksh. 249 million (Office of the Auditor-General, 2020). The study thus emphasizes the necessity of conducting empirical research to investigate the link between financial management strategies and financial performance in relation to the issues raised in the OAG reports, specifically with regard to State Corporations under the State Department for Tourism in Kenya.

Objectives of the study

i. To determine effect of financial planning practices on the performance of state corporations under state department for tourism in Kenya
ii. To examine the effect of internal controls practices on the performance of state corporations under state department for tourism in Kenya

LITERATURE REVIEW

Theoretical Review

The budgeting control theory and contingency theory, served as the study's pillars.

Budget Control Theory

Aaron Wildavsky created the budgeting control theory in 1964. According to the notion, an organization's need to prepare and think through how to handle potential risks and possibilities in the future is typically resolved by an effective budgetary control by developing an effective control system. According to Albert Hyde, budgeting is partially political, partially economic, partially accounting, and partially administrative (Khan & Hildreth, 2002). It establishes a ceiling on government expenditure as an accounting document and imposes a duty on the government to stay within the allotted budget. As an administrative and managerial document, it outlines the procedures for delivering public services and provides standards by which they will be monitored, measured, and assessed.

In this study, the effect of financial planning techniques on the performance of state corporations under the State Department for Tourism in Kenya was examined using the budgeting control theory. The theory states that an effective budgetary control usually solves the need of an organization to plan. To ensure performance and sustainability, proper financial planning should be able to address effectiveness and efficiency of the organization’s income as well as expenditure. Therefore, State Corporations under State Department for Tourism should form an efficient financial planning to enable them handle future possible risks as well as opportunities.

Contingency Theory

Fiedler founded the aforementioned hypothesis in 1964. The theory attempts to explain how variables like technologies, culture, and forces of both the internal and external environment affect the functioning and design of an organization by focusing primarily on behavioral concerns and aspects of an organization (Kabue, 2020). According to the notion, there is no one type of organizational structure that is appropriate for all businesses; rather, the level of effectiveness is determined by technology, relative sizes, environmental changes, and organizational features (Skaife, Veenman & Wangerin, 2013). Additionally, it makes the case that the ideal organizational structure is one that accommodates known operational risk, such as the environment.

The notion is crucial for describing how internal control procedures and performance—in particular, the efficiency and dependability of the financial reporting system—are related. This idea states that internal auditors who have a focus on internal auditing will significantly increase the effectiveness of their operations thanks to the internal controls put in place. The notion is pertinent because it explains how Kenya's top state enterprises operating under the state department for tourism can improve internal controls.

Conceptual Framework

This is a diagram that shows the presumptive relationship between the variables being studied (Tandberg and Pavesic-Skerlep, 2018). The dependent variable was the financial performance of state firms, while the independent variables were financial planning procedures, internal controls practices, financial reporting analyses, and fixed asset management practices. Figure 2.1 shows the conceptual framework.

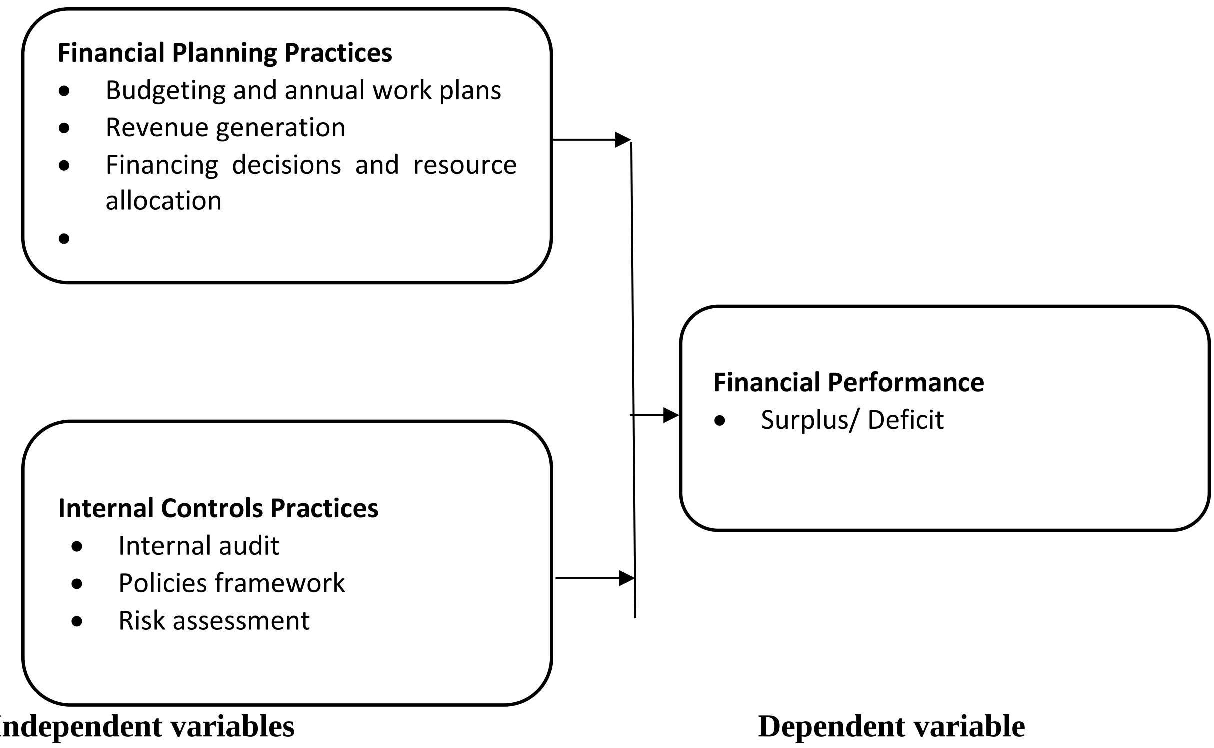

Figure 2.1: Conceptual Framework
Source: Researcher (2023)

RESEARCH METHODOLOGY

An explanatory research design was utilized in this research study. Explanatory research determines whether one occurrence leads to another (Creswell & Creswell, 2017). Explanatory study can also be carried out to evaluate the effects of particular modifications on current norms, various procedures as well as performance. In this study explanatory research approach was the suitable research approach in examining the effects of financial management practices on performance of state corporations under State Department for Tourism in Kenya. The target population was the 71 staff working in different levels of staff establishment in the 8 State Corporations under the State Department for Tourism. As a result of small target population, this research used census approach and entire population was used during the study. Census is the examination of the entire population under investigation and includes all components of the investigation which gives a full representation of the entire population thus eliminating errors. The study used primary and secondary data, structured questionnaires and audited financial statements respectively. The questionnaires generated quantitative data and qualitative data. The analysis of qualitative data was done via thematic analysis and the results were presented in a narrative form. Inferential and descriptive statistics were used in analyzing quantitative data with the aid of SPSS version 24. Descriptive statistics included frequency distribution, standard deviation, percentages and mean. This study involved 8 State corporations under the State Department for Tourism for a period of five years (2017-2021). Inferential analysis was performed by employing the Pearson correlation coefficient and multivariate linear regression analysis. Tables and figures (line graphs) were used to display study's results. Financial performance in functional model was the dependent variable whilst independent variables encompassed financial planning practices, internal controls practices, financial reporting analysis and fixed assets management practices. The empirical model functional association was:

$FP = f\,(FPP, ICP)$ ………………………………….…. (1)

Regression model was;

$Y_{it} = \alpha + \beta_1 X_{1it} + \beta 2 X_{2it} + \varepsilon_{it}$ ……………………………….….. (2)

Where Y is……… ……Financial performance,

α …………..…. Y intercept (Constant)

$\beta_1, \beta_2, \beta_3, \beta_4$…coefficients of determination, X_1…… Financial Planning Practices, X_2…Internal Control Practices, *t* …time,*i* …number of state corporations, ε……error term

RESEARCH FINDINGS AND DISCUSSIONS

Descriptive Analysis of the Study Variables

This section covers descriptive statistics on financial planning practices and internal controls practices. Quantitative information was gathered from both the closed-ended questions and the items that were scored on a 5-point Likert scale, with 1 denoting strongly disagree, 2 denoting disagree, 3 denoting moderately agree, 4 denoting agree, and 5 denoting strongly agree. According to Creswell & Creswell's (2017) interpretation of the arithmetic mean on a 5-point Likert scale, strongly agree (SA) ranges from 4.5 to 5.0, agree (A) ranges from 3.5 to 4.5, moderately agree (M) ranges from 2.5 to 3.5, disagree (C) ranges from 1.5 to 2.5, and strongly disagree (SD) ranges from 1 to 2.5.

Financial Planning Practices

The first objective of the study was to determine effect of financial planning practices on the performance of state corporations under state department for tourism in Kenya. The respondents were asked to indicate their level of agreement with various statements on financial planning practices and financial performance of state corporations under state department for tourism in Kenya. The results were as shown in Table 4.2.

Table: Aspects of Financial Planning Practices

	1	2	3	4	5	Mean	Std. Deviation
Budgets and work plans align with organization strategic plan and objectives.	3.0	6.1	9.1	36.4	45.5	4.151	1.026
Our organization regularly monitors resource allocation	3.0	9.1	15.2	33.3	39.4	3.969	1.095
Our organization has set up deadline for the achievement of the set goals	6.1	6.1	9.1	39.4	39.4	4.000	1.136
Budget analysis is essential in the organization	3.0	6.1	21.2	36.4	33.3	3.909	1.033
The amount of revenue generated over the last years has been decreasing	6.1	6.1	18.2	27.3	42.4	3.939	1.188
The amount of revenue generated has been increasing	13.6	43.9	19.7	15.2	7.6	2.491	1.136
Am satisfied with the amount of revenue generated by our organization	24.2	40.9	12.1	10.6	12.1	2.455	1.303
Finance decisions ensure proper balance between debt and equity so that stability is maintained	6.1	6.1	18.2	33.3	36.4	3.878	1.157
Our organization often make decision on when, where, and how to acquire funds.	0.0	6.1	15.2	30.3	48.5	4.212	.920
Our organization has specified clearly how resources will be allocated	3.0	6.1	18.2	39.4	33.3	3.939	1.020

From the results, the respondents agreed with a mean of 4.212 (SD=0.920) that their organizations often make decision on when, where, and how to acquire funds. The respondents agreed that budgets and work plans align with organization strategic plan and objectives, as shown by a mean of 4.151

(SD=1.026). The respondents agreed that their organization has set up deadline for the achievement of the set goals, as shown by a mean of 4.001 (SD=1.136). With a mean of 3.969 (SD=1.095), the respondents agreed that their organization regularly monitors resource allocation. The findings agree with Adongo and Jagongo (2018) emphasis on the regular monitoring of resource allocation in an organization.

From the results, the respondents agreed with a mean of 3.939 (SD=1.188) that the amount of revenue generated over the last years has been decreasing. The respondents agreed that their organization has specified clearly how resources will be allocated, as shown by a mean of 3.939 (SD=1.020). With a mean of 3.909 (SD=1.033), the respondents agreed that budget analysis is essential in the organization. These findings agree with Olugbenga et al. (2021) observation that the development and analysis of budget is important in ensuring the growth of an organization.

From the results, the respondents agreed with a mean of 3.878 (SD=1.157) that finance decisions ensure proper balance between debt and equity so that stability is maintained. However, with a mean of 2.491 (SD=1.136), the respondents disagreed with the statement indicating that the amount of revenue generated has been increasing. With a mean of 2.455 (SD=1.303), the respondents disagreed with the statement indicating that they were satisfied with the amount of revenue generated by their organizations.

The respondents were asked to indicate how else financial planning practices influence the financial performance of state corporations under state department for tourism in Kenya. Financial planning helps in establishing the total cost of each type of resource, summing the costs to create a budget, and identifying any risks and issues with the budget. The use of financial planning encourages organizations to prepare statement of comparison of budget and actual amounts of both revenues and expenditures in the quarterly and annual financial statements and explain any material variances. In addition, financial Planning practices help in ensuring a reasonable balance between outflow and inflow of funds so that stability is maintained. In addition financial planning practices allow the organization to accommodate the changing market conditions to reduce uncertainties. These findings agree with Adongo and Jagongo (2018) observation that financial planning practices allow the business entity or the person to accommodate the changing market conditions and, in turn, revise their plan and helps in decreasing uncertainties which can interfere with the company's development.

Internal Control Practices

The second objective of the study was to examine the effect of internal controls practices on the performance of state corporations under state department for tourism in Kenya. The respondents were requested to indicate their level of agreement on various statements in relation to internal control practices. The results were as shown in the Table 4.3.

Table: Aspects of Internal control practices

	1	2	3	4	5	Mean	Std. Deviation
Our organization conducts internal audit on regular basis	18.2	42.4	13.6	12.1	13.6	2.406	1.299
Internal audit has enhanced the integrity of financial and accounting information in our organization	3.0	12.1	15.2	36.4	33.3	3.848	1.112
Internal audit encourage accountability and prevent fraud	6.1	3.0	12.1	33.3	45.5	4.090	1.119
Our organization has a policy framework that governs internal controls	0.0	6.1	18.2	48.5	27.3	3.969	.840
The policy framework guides access of sensitive data in our organization	6.1	6.1	21.2	30.3	36.4	3.848	1.166
Our policy framework guides access and protection to sensitive data	6.1	9.1	12.1	39.4	33.3	3.848	1.166
Our organization has been assessing risks	0.0	6.1	24.2	33.3	36.4	4.000	.928
Assessing of risks in organization informs risk mitigation plan	6.1	6.1	27.3	24.2	36.4	3.787	1.183
Risk assessment in our organization is conducted on monthly basis	24.2	33.3	21.2	13.6	7.6	2.469	1.218

With a mean of 4.090 (SD=1.119), the respondents agreed that Internal audit encourage accountability and prevent fraud. The findings agree with Yahya (2018) findings that internal controls guarantee the accuracy of its financial and accounting data, foster accountability, and combat fraud. The respondents agreed that their organization has been assessing risks, as shown by a mean of 4.00 (SD=0.928). The findings concur with Muturi (2019) findings that internal controls improve record accuracy and reduce risks. With a mean of 3.969 (SD=0.840), the respondents agreed that their organization has a policy framework that governs internal controls.

The respondents agreed that their policy framework guides access and protection to sensitive data as shown by a mean of 3.848 (SD=1.66). With a mean of 3.848 (SD=1.66), the respondents agreed that the policy framework guides access of sensitive data in their organization. These findings are in line with Joelle (2019) argument that laws, rules, and regulations guide are important in guiding accessing all types of data. From the results, the respondents agreed with a mean of 3.848 (SD=1.112) that Internal audit has enhanced the integrity of financial and accounting information in our organization. With a mean of 3.787 (SD=1.183) the respondents agreed that assessing of risks in organization informs risk mitigation plan. However, the respondents disagreed with the statement indicating that risk assessment in their organization is conducted on monthly basis, as shown by a mean 2.469 (SD=1.218). In addition, the respondents disagreed with the statement indicating that their organization conducts internal audit on regular basis, as shown by a mean of 2.406 (SD=1.299). The respondents were asked to indicate how else internal controls practices influence financial performance of state corporations under state department for tourism in Kenya. The results indicated that internal controls guarantee the accuracy of financial and accounting data, fosters accountability, and combats fraud. These findings agree with Kabue (2020) observation that internal controls are the systems, guidelines, and practices that a business uses to guarantee the accuracy of its financial and accounting data, foster accountability, and combat fraud. In addition, the use of internal controls guarantees that risks are minimized, that assets are protected, that records are accurate, that operations are run efficiently, and that laws, rules, and regulations are followed. Also, the respondents indicated that internal controls ensure that the organization comply with the various government laws and regulations that affect the business processes.

Financial Performance

The financial performance of state corporations under state department for tourism in Kenya was measured in terms of surplus and deficit. Figure below shows the financial performance of state corporations under state department for tourism in Kenya from the financial year 2016/17 to 2020/21.

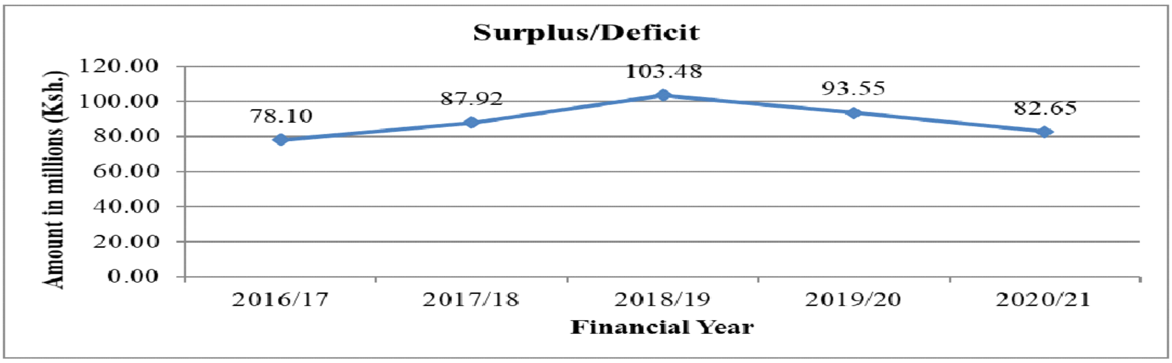

Figure: Financial Performance of State Corporations

From the results, the average surplus in state corporations under state department for tourism in Kenya in the financial year 2016/17 was Ksh. 78.10 million, which increased to Ksh. 87.92 million in the financial year 2017/18. The surplus then increased to Ksh.103.48 million in 2018/19. However, the surplus then decreased to Ksh. 93.55 in 2019/20 and Ksh. 82.65 million in 2020/21. These findings agree with Office of the Auditor-General (2020) observation that the financial performance of state corporations under state department for tourism in Kenya has been declining.

Inferential Results

Overall Model (Multiple Regression Model)

The multivariate regression analysis was used in this study to determine the relationship between independent variables (financial planning practices and internal controls practices,) and dependent variable (financial performance) of state corporations under state department for tourism in Kenya.

Table1: Model Summary

Model	R	R0Square	Adjusted R0Square	Std. Error of the Estimate
1	.858[a]	0.736	0.727	0.848

a. Predictors:0(Constant), Fixed0Assets Management0Practices, Internal0Controls Practices

As shown in Table 1, the R-squared for the relationship between financial management practices and performance of state corporations under state department for tourism in Kenya was 0.736. This implied that 73.6% of the variation of the dependent variable (performance of state corporations under state department for tourism in Kenya) could be explained by the independent variables (financial planning practices and internal controls practices,).

Table2: Analysis of Variance

Model0		Sum0of Squares	df0	Mean0Square	F0	Sig.0
1	Regression	53619.872	4	13404.968	30.841	.000[b]
	Residual	26513.738	61	434.651		
	Total	80133.609	65			

a. Dependent0Variable: Financial0Performance

b. Predictors: (Constant), Fixed0Assets Management0Practices Internal0Controls Practices

This study employed the Analysis of Variance (ANOVA) to assess the model's suitability for the data. Table 2 demonstrates that the computed F was 30.841 and the calculated F-critical was 2.52. The model was deemed to be a good fit for the data because the calculated F exceeded the F crucial and the p-value (0.000) was below the significance threshold (0.05).

Table 3: Regression Coefficients

Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
		B	**Std. Error**	**Beta**		
1	(Constant)	31.158	8.842		3.524	0.018
	Financial Planning Practices	26.228	10.487	0.76	2.501	0.031
	Internal Controls Practices	90.038	21.122	4.006	4.263	0.000

a. Dependent Variable: Financial Performance

Regression equation was;

$Y = 31.158 + 26.228X_1 + 90.038X_2 + \varepsilon$

The study findings indicated that financial planning practices have a positive significant effect on performance of state corporations under state department for tourism in Kenya (β_1=26.228, p value= 0.031). Since, the p-value (0.031) was less than the significant level of 0.05, the association was considered to be significant. This denotes that an increase in financial planning practices will lead to a 0.534 improvement in performance of state corporations under state department for tourism in Kenya. These findings concur with Mogaka et al. (2017) argument that financial planning practices have a significant influence on County Governments' performance in Kenya. The findings also agree with Kang'aru and Tirimba (2018) findings that financial planning techniques have a significant effect on performance of firms in Kiambu County.

In addition, the study findings revealed that internal controls practices have positive and significant effect on performance of state corporations under state department for tourism in Kenya (β_2=90.038, p value=0.000). The association was significant as significant level (0.05) was more than p-value (0.000). This denotes that increase in internal controls practices will lead to a 0.722 improvement in performance of state corporations under state department for tourism in Kenya. These findings concur with Kabue (2020) argument that internal controls such as internal audit expertise and internal audit controls had a significant effect on performance. In addition, Mbugua (2017) observed that state corporations in Nakuru had internal control mechanisms that had a significant impact on how financial resources.

The study variables were tested for normality and the p-value were above significance level of 0.05. The financial planning practices had p-value of 0.445, internal controls practices had a p-value of 0.223. This implies that data was normally distributed. The autocorrelation test showed the p-value of 1.605 which is greater than the significance level 0.05, therefore the null hypothesis was not rejected. Therefore, there was no autocorrelation among the study variables.

Conclusions and Recommendations

The study found that financial planning, internal controls, financial reporting analysis, and fixed assets management practices have a significant effect on the performance of state corporations under the state department for tourism in Kenya. Financial planning practices such as budgeting, work plans, revenue generation, financing decisions, and resource allocation are important in improving the performance of state corporations. Internal controls practices such as internal audit, risk assessment, and policy framework ensure the accuracy of financial and accounting data, foster accountability, and combat fraud. Financial reporting analysis practices such as income statement analysis, balance sheet analysis and cash flow statement analysis provide valuable information about the organization's profitability, solvency, operational efficiency, and liquidity positions. Fixed assets management practices such as fixed asset policy, asset safety, and maintenance, and asset recording have facilitated asset availability, safety, and reliability in state corporations under the state department for tourism. The study suggests that improving these practices can lead to better performance of state corporations in the tourism sector in Kenya.

Recommendations Policy and Implications

The study investigated the influence of financial planning, internal controls, financial reporting analysis, and fixed assets management practices on the financial performance of state corporations under the state department for tourism in Kenya. The study found that these practices have a significant effect on the performance of state corporations, and recommended that state corporations should make use of budgeting, annual work plans, internal audit, risk assessment, income statement analysis, balance sheet and leverage ratios, cash flow statement analysis, fixed assets policy, asset safety and maintenance, asset performance, and fixed asset recording to improve performance. The study also suggested that training should be carried out on the importance of reducing the risk of loss, theft, or inadequate control over assets, and that state corporations should develop an asset safety and maintenance strategy.

Areas for Further Research

The purpose of this study was to determine the effects of financial management practices on performance of state corporations under state department for tourism in Kenya. However, the study was limited to state corporations under state department for tourism in Kenya and hence the findings cannot be applied to other sectors in Kenya. This study recommends further studies on financial management practices and performance of other state corporations in Kenya. Further, the study found that 73.6% of the performance of state corporations under state department for tourism in Kenya could be explained by financial planning practices and internal controls practices. As such, more studies ought to be carried out to examine other factors that influence the performance of state corporations under state department for tourism in Kenya.

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