

**THE MODERATING EFFECTS OF THE MWONGOZO CODE OF GOVERNANCE  
ON THE DRIVERS OF FINANCIAL SUSTAINABILITY IN STATE  
CORPORATIONS IN KENYA**

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## **DECLARATION**

I declare that this work has not been previously submitted and approved for the award of a degree by this or any other University. To the best of my knowledge and belief, the research project contains no material that has been previously published or written by another person, except where due reference is made within the project itself.

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## **DEDICATION**

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## ABSTRACT

Due to resource scarcity, environmental concerns, the need for sustainable reporting, and rising societal expectations, the question of how government-owned entities can achieve financial sustainability while reducing their reliance on government subsidies persists. The poor performance of State-Owned Enterprises (SOEs) and failing Public Universities, characterized by an over-reliance on government subsidies, has continued to raise concerns about the governance of government entities. Corruption, insufficient technological advancement, inadequate service delivery, and numerous losses have raised the need for improved governance and privatization, highlighting unsustainable and inept behaviour. State Corporation (SC) resilience in an ever-changing world requires a sharp focus at the policy level. Sustainability is critical to managing firms, considering economic, social, and environmental concerns. This research aimed to examine the moderating role of the Mwongozo Code on sustainability in the public sector, specifically its impact on the drivers of financial sustainability. The primary objective was to assess the moderating effect of Chapter Seven of the Mwongozo Code of Governance on the financial sustainability drivers of State Corporations in Kenya. The specific objectives of the research included assessing the effects of working capital management on the financial sustainability of SOEs in Kenya, examining the impact of financial risk on the financial sustainability of SOEs in Kenya, investigating the effects of board diversity on the financial sustainability of SOEs in Kenya, assessing the impact of financial investment on the financial sustainability of SOEs in Kenya, and evaluating the moderating effect of the Mwongozo Code on the relationship between drivers and financial sustainability of SOEs in Kenya. The study utilized a multi-theoretical approach to explain the relationship between variables and sustainability. Stakeholder Theory, Resource-based Theory, and Corporate Sustainability Theories supported the study's framework. Top-level managers in Kenya's State-owned corporations, spanning the financial, regulatory, service, and commercial sectors, were the primary focus due to their strict compliance regulations and standards, as well as their significant revenue contributions. Out of Ninety-Seven (97) respondents for the study, only 58 participated. A positivist research philosophy and explanatory research design were employed. Structured online questionnaires were distributed among the respondents. Data were analyzed through descriptive and inferential statistics, including Pearson's correlation and ordinary least squares regression analysis. The regression results indicated that financial risk, financial investment, board diversity, and working capital management had a significant positive relationship with the financial sustainability of State Corporations. However, financial risk management exhibited the most significant change among the variables in relation to sustainability. The Mwongozo Code of Governance, as a moderator, demonstrated a significantly positive impact on the relationship between financial sustainability and its drivers in Kenya's State-owned corporations. This suggests that governance plays a significant role in sustainability, and risk policies related to mitigation strategies should be prioritized in all State Corporations. An investment committee should be made part of the board's responsibility, and equally separate the two parameters in the Mwongozo Code of Governance. Furthermore, financial investment policies within the State Corporation would enhance risk assessment and performance monitoring, thereby facilitating faster and more informed decision-making. Finally, adherence to the code should be included in the performance contracts for executive management during the board's evaluation. This enhances its compliance and transparency of governance matters.

Key words: Financial sustainability, Governance, State Corporations

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## **ABBREVIATIONS AND ACRONYMS**

|        |   |
|--------|---|
| ACCA   | Association of Chartered Certified Accountants          |
| CEO    | Chief Executive Officer                                 |
| CSR    | Corporate Social Responsibility                         |
| FS     | Financial sustainability                                |
| FSS    | Financial Self-Sufficiency                              |
| GoE    | Government Owned Entities                               |
| GIMIS  | Government Investment Management Information System     |
| ICDC   | Industrial & Commercial Development Corporation         |
| ISC    | Institute of State Corporation of Kenya                 |
| KIPPRA | Kenya Institute of Public Policy Research and Analysis  |
| NEPAD  | New Partnership for Africa's Development                |
| OECD   | The Organisation for Economic Cooperation & Development |
| PSC    | Public Service Commission                               |
| SoE    | State-owned Enterprises                                 |
| SoC    | State-Owned Corporations                                |
| SCAC   | State Corporations Advisory Committee                   |
| SAGAs  | : Semi-Autonomous Government Agencies                   |

## DEFINITION OF TERMS

|                                   |  |
|-----------------------------------|--|
| Sustainability                    | “the capacity of an organization to carry out its current operations and fulfill its future financial obligations (IPSASB, 2013)   |
| Sustainable development           | Sustainable development, as defined by the Brundtland Commission, is progress that allows for the needs of the present without compromising those of future generations. (Desai, 2007)   |
| Sustainable growth rate           | The rate at which a company can expand while maintaining current profitability and management strategy levels. (OECD, 2015)  |
| State Corporations                | Is a corporation in which the State owns or controls a majority of the Shares, as defined by Section 3 of the State Corporations Act, Cap 446; by an act of Parliament; or under the Companies Act, Cap 486. Additionally, a State Corporation's subsidiary is also a State Corporation (GOK, 2012 |
| Financial sustainability          | The extent to which an organization can meet its long-term and short-term financial responsibilities to its citizens by maintaining a stable tax base and adequate service delivery. (Liubov Lysiak, 2020)   |
| A research paradigm or philosophy | “Scientific consensus refers to the consensus held by the scientific community on how a problem should be analyzed and solved.” (Greener, 2008).   |
| Financial Risk Management         | To maximize investment returns and earnings for a given level of risk, companies must identify, measure, and analyze risks, and then take preventive steps to reduce or mitigate them. (Harvey, 2008)  |
| Working Capital Management        | Refers to a firm’s investment in short-term assets, that is, cash and cash equivalents, accounts receivable, short-term or marketable securities, and inventories (Asghar, 2012).  |
| Corporate Governance              | The process and structure used to direct and manage the business and affairs of the company aim to promote business prosperity   |

|  |  |
|--|--|
|  | and corporate accountability, with the ultimate objective of realizing long-term shareholder value while considering the interests of other stakeholders (L'huillier, 2014).   |
| Agenda 2063  | A rallying cry and a set of guidelines for proceeding with continental development. Underpinned by the AU Vision to create an integrated, prosperous, and peaceful Africa, an Africa driven and managed by its citizens and representing a dynamic force in the international arena, this initiative represents both a collective effort and an opportunity for Africa to regain the power to determine its destiny. (Union, 2013) |
| Mwongozo Code of Governance for State Corporations | It is a corporate governance tool that provides the framework, principles, and values to be adhered to by State Corporations.  |



## **CHAPTER ONE:**

### **INTRODUCTION**

#### **1.1 Background of the Study**

State-owned enterprises (SOEs) play a significant role in any economy by managing infrastructure-focused amenities, having a substantial economic impact, and providing valuable insights to the government. However, many face challenges from macroeconomic instabilities, geopolitical influence, digitalization, climate change, and the artificial intelligence revolution. Globally, half of the largest 126 state-owned enterprises (SOEs) on the Fortune Global 500 list operate in the sectors of hydrocarbons, engineering, utilities, energy, metals, and construction. Additionally, only 29% of corporations have climate-related policies (OECD, 2024). State Corporations generate up to 40% of national output and provide essential services in vital economic spheres, including infrastructure, banking, and environmental protection (Cuttaree & Salazar, 2018). Evidence from the World Bank Group (2024) indicates that poor SOE performance is not primarily caused by exogenous or sector-specific problems, but rather by fundamental governance issues within these organizations. In this regard, many countries have taken solid and significant steps to address corporate governance challenges. Evidence from studies such as Claessens and Yurtoglu (2013); Curi et al. (2016); Richmond et al. (2019) shows that a good corporate governance system in SOEs is associated with several benefits for all companies, which include better access to external finance by firms, which in turn can lead to larger investments, higher growth, higher firm valuation, which make investments more attractive; improved performance and financial sustainability, among other benefits.

Globally, state-owned enterprises (SOEs) are a significant and growing force in the economy. Between 2005 and 2014, the percentage of state-owned enterprises (SOEs) in the Fortune Global 500 increased from 9% to 23%, with a corresponding rise in representation in the top tier (PwC, 2015). The rise of China's state-owned enterprises (SOEs) to prominence among the Global 500 is the primary reason for this trend (Kwiatkowski & Augustynowicz, 2015). A survey conducted in 2009 found that 25 OECD member countries, representing a wide spectrum of established and emerging economies, held shares in over 2,000 state-owned enterprises (SOEs), with a total value of \$1.2 trillion, accounting for 15 percent of aggregate GDP (World Bank Group, 2014).

In the economies of the Middle East and North Africa, as well as major Asia countries (ME & CA), state-owned enterprises (SOEs) play a central role. There is a total of 180 multinational

state-owned enterprises (SOEs) in the Middle East and Central Asia (ME&CA), with 164 based in the Middle East and North Africa (MENAP) and 16 in Central Asia (CCA), primarily in the natural resource and finance sectors. In India, Goel (2018) found that the need to improve performance in firms across various sectors led to the necessity for corporate governance reforms in the country. Since then, good governance in the capital market has remained a high priority. This is evident from the frequent updates to guidelines, rules, and regulations by the Securities and Exchange Board of India (SEBI) to ensure transparency, accountability, robust performance, and financial sustainability. Furthermore, due to technological advancements, such results cannot be generalized to the Kenyan context, highlighting the need for further research.

In Kenya, enterprises wholly or partially owned by the government play a crucial role in the country's efforts to foster economic growth and development. They contribute 4-5% to the national GDP. Despite this modest contribution, they incur significant fiscal risks due to the grants and subsidies necessary for their support. To enhance the state's ability and technical capacity to promote national development, these institutions are essential and guided by a code of governance. They serve as vital tools for improving the delivery of public services, such as providing necessities to citizens. They are utilized in various contexts to expand high-quality employment opportunities for many people.

### **1.1.1 Drivers of Financial Sustainability**

#### **1.1.1.0 Working Capital Management**

For many seemingly successful companies, the inability to satisfy short-term debts when they come due is the final straw that leads to their demise. To keep your firm afloat, you need to master the art of managing your working capital (WC). The inability to manage liquidity, and thus working capital, is a leading cause of business failure" (Ashworth, 2015). Standard WC metrics include liquidity ratios, quick ratios, and efficiency ratios, among others. WCM refers to capital assets and liabilities that comprise a significant portion of a company's assets.

Several scholars (Ahmed, 2021; Fondo, 2016) have investigated the drivers of financial sustainability, identifying effective working capital management as one of the key drivers. However, the conclusion did not address the non-financial effects. In the study of microfinance institutions in Kenya, with a focus on capital adequacy at the Kenya Women Finance Trust

(KWFT), it was concluded that capital adequacy significantly influenced the sustainability of the institution. Wambugu and Ngugi (2012)

Sharma and Kumar (2011) conducted a study on the effect of working capital management on the profitability of Indian firms, and the findings showed a positive correlation between the two variables. Additionally, a recent study by Pestonji and Wichitsathian examined the effect of working capital investment and financing policies on the sustainability of firms' performance, involving 68 listed firms. The study found that working capital investment policy had a positive and significant impact on firms' profitability, whereas working capital financing policy negatively impacted firms' profitability. (Najib H. S Farhan 1, 2021) A problem similar to that experienced in Namibia has underpinned the poor financial performance reflected in the financial results of state-owned enterprises (SOEs) in Kenya. This is supported by Musau (2015), who emphasizes the importance of efficiently managing an organization's working capital in enhancing its profitability. There is a compelling case for state-owned enterprises (SOEs) in Kenya to increase their profit margins to achieve sustainability.

#### **1.1.1.1 Financial Risk Management**

To manage risks effectively, one must first recognize them, assess their significance, and develop strategies to address them. Practical risk management aims to implement preventative measures instead of relying solely on crisis management. Every national government entity should comply with the PFM Act 2012, Section 73, establish appropriate arrangements for risk-based assessment, and ensure value for money in accordance with the applicable Accounting Standards Board guidelines and any other relevant regulations. (Treasury, 2012). A solid risk management strategy is crucial for minimizing the likelihood of a risk occurring and mitigating its potential effects. The significance of risk management for public entities has been recognized. As a result, the Kenyan government issued a directive through National Treasury Circular No. 3/2009, dated 23 February 2009, which provided a policy framework for developing and implementing customized risk management strategies. High-risk state corporations still lack essential features, such as key financial risk indicators and a detailed outline of direct and indirect government support or guarantees (Andreas Fiebelkorn, 2021). Disclosure of material risk factors, financial performance, and relationships with stakeholders, among other required information, should be included in the financial statements and directors' reports of state-owned enterprises. (OECD, 2015)

Korin Kane of the OECD's Corporate Affairs Division authored a paper in which the Directorate for Financial and Enterprise Affairs evaluates risk management requirements and practices at both the national and enterprise levels. The paper is a product of the continued efforts of the OECD-Asia Network on Corporate Governance of State-Owned Enterprises, which provides a venue for policymakers in Asia to share best practices for enhancing the corporate governance of SOEs. However, the study did not provide specific sector results for the SOE in Asia.

From a regional viewpoint, the transformation of state-owned firms as part of the development agenda has been a trend throughout Africa. The study focusing on South African SOEs contends that African State-Owned Enterprises have adopted the suggested principles of corporate governance while dealing with structural changes that impact their organizational performance regarding risk and corporate governance (Musili, 2019). The legal measures on corporate governance in state corporations are being examined to integrate the concept of corporate governance into stakeholder- and government-supported solutions. As a result of the emerging difficulties, the institutions' financial viability has experienced a steep decline. Gachanja (2017) conducted research to determine the effect that enterprise risk management methods have on the overall performance of Kenya's 34 commercial state businesses. The researcher concluded that the way in which risk management is executed during the process of managing SOEs significantly impacts the financial performance of organizations.

### **1.1.1.2 Financial Investment**

Investments involve setting aside money with the expectation of generating returns over a specific period. In a company, investment can take the form of Treasury bonds, stocks, real estate, and other financial instruments (Ivanov, 2018). The purpose of investing is to convert once-savings into highly liquid assets and generate future income. It can be external, domestic, or international as an investor aims to pursue different goals. Financial investment aids a company in pursuing its strategic objectives while preserving equity (Brodunov et al., 2020). While exploring the essence and specific features of corporate financial investment, Brodunov et al. (2020) argued that before selecting an investment plan, corporations should assess the risk factors, tenure, and conditions, among other things. They should also have a solid understanding of the company's needs, available revenue, and sustainability. This means that

prior to any investment, a company should conduct a thorough analysis and adopt a focused and strategic approach.

In Saudi Arabia, Sulimany et al. (2021), while examining the relationship between corporate governance, financial sustainability, and shareholder value, revealed that the status of corporate governance affected the investment opportunities in companies in Saudi Arabia. The study focused on companies in the food and beverage sector listed on the Saudi Stock Exchange. The findings also reveal that financial sustainability mediates the relationship between corporate governance and shareholder value (share price) of companies in Saudi Arabia. These findings align with a study by Al-Gamrh et al. (2020), which investigated investment opportunities, corporate governance quality, and firm performance in the United Arab Emirates (UAE). This research encompassed all listed firms on the Abu Dhabi Stock Exchange (ADX) and the Dubai Financial Market (DFM). The findings indicate that, according to the corporate governance index, the level of corporate governance practiced in the UAE was weak. Furthermore, investment opportunities were found to negatively influence firm performance. It was also established that strong corporate governance mitigates the adverse effects of investment opportunities. Additionally, this study argued that shareholders seek high investment opportunities in firms with robust and suitable governance systems to safeguard their interests.

In India, Srivastava and Kathuria (2020) examined the impact of corporate governance norms on the performance of Indian utilities. The study was conducted on 48 power utilities from 19 Indian states between 2016 and 2017. The findings show a positive relationship between the corporate governance index and the performance of the utilities. The study revealed that the cycle of poor financial performance resulted from underinvestment, leading to poor service quality, weak payment discipline, and subsequently low revenues and internal cash generation, resulting in structural financial weakness. This study contrasts with a study by Werner Gleißner (2022), where the authors claimed that sustaining an investment in the company makes economic sense when an investment in one's own company is profitable and/or offers an attractive risk-return profile to its owners or investors in comparison with alternative investment opportunities.

Locally, Wachira (2018) examined the determinants of financial sustainability for government-owned entities in Kenya. The study sought to determine the influence of financial investments on financial sustainability. The target population comprised 36 government-owned entities in Kenya. Both primary and secondary data sources were used. Primary data was collected using

a structured questionnaire, and secondary data involved a review of published information and financial statements of government entities covering the period from 2009 to 2015 financial years. The data were analyzed using both descriptive and inferential statistics. The study's findings revealed that financial investments had a significantly positive influence on the financial sustainability of government-owned entities.

Financial sustainability is regarded as a crucial control parameter that complements shareholder value and can be viewed by risk-averse investors as a secondary condition for investment decisions (Werner Gleißner, 2022). However, there has been little discussion about financial investment and sustainability in developing markets such as Africa especially in the context of State Corporations. This is a position supported by Kusi et al. (2018) who also revealed a lack of empirical studies, especially in the context of Africa looking at the relationship between aspects of corporate governance and financial sustainability. The study indicated that higher financial investments lead to higher valuations, higher profits, less bankruptcy risks, and more dividends to their shareholders. A lack of adequate empirical studies in this context leaves a gap that this study is seeking to fill to provide additional insight for expanding financial investment strategies for state corporations, especially those listed in the NSE, who are required to adhere to the NSE ESG disclosure guidelines in order to promote sustainability. (Dr. Kariuki Muigua, 2022)

### **1.1.1.3 Board Diversity**

According to the OECD, the board has a role in ensuring effective governance and that internal controls are in place to improve the reliability and credibility of sustainability disclosures (OECD, 2018). There has been substantial attention and ongoing debate in corporate governance literature regarding the impact of board diversity on firm performance and financial sustainability. Empirical studies on the effect of board diversity on firm performance (for example, Aggarwal et al., 2019; Fernández-Temprano & Tejerina-Gaite, 2020; Ozdemir, 2020) have examined characteristics of board members' diversity, including gender, age, nationality, educational qualifications, ethnic diversity, board autonomy, and tenure, among others.

In the United Kingdom, EmadEldeen et al. (2021) investigated the impact of board diversity (age, gender, education, and nationality) on firm performance using cross-sectional data from the London Stock Exchange (FTSE 350) for non-financial companies from 2000 to 2016. The findings indicated that age diversity adversely affected firm performance and sustainability, suggesting that younger board members enhance and improve firm performance. Additionally,

education diversity negatively influenced firm performance and financial sustainability. Conversely, gender diversity positively impacted firm performance and financial sustainability, indicating that increasing the number of women on the board of directors could boost firm performance. Nationality diversity was also found to positively affect firm performance and financial sustainability. These findings align with Simionescu et al. (2021), who studied IT companies in the United States and discovered a positive influence of the number and percentage of women on boards concerning the price-to-earnings ratio. They reported that enhancing gender diversity in the boardroom can strengthen boards' ability to fulfill their control and strategic roles. The presence of women on boards, for instance, could improve corporate governance mechanisms, such as transparency and accountability, by contributing to the reduction of fraud, which also impacts financial sustainability.

In India, Aggarwal, Jindal, and Seth (2019) examined the relationship between board diversity and firm performance using data from listed firms in India. The findings indicate that board diversity (gender, age, education, and tenure) had a significantly adverse effect on performance for group-affiliated firms but a notably positive impact on standalone firms. Based on the findings, the study suggested that the relationship between board diversity and firm performance requires re-examination in countries where group affiliation is common.

In Nigeria, Bamisaye et al. (2021) investigated the relationship between board diversity variables and the financial performance of Nigeria's listed firms. The board diversity variables examined were board independence, board gender diversity, and board size; financial performance was measured by after-tax profit, and company size was a control variable. The study extracted data from the financial statements of 10 Nigerian listed firms, and analyzed data using methods such as the restricted F-test and Hausmann test, as well as correlation and panel regression analysis. It was established that board independence, board gender diversity, and board size positively impacted the after-tax profits of selected listed companies in Nigeria, but with only a minimal effect. It was concluded that there is a slight positive link between the diversity of the Nigerian board of directors and the financial performance of listed companies. This was further found to affect the financial sustainability of the firms.

In Kenya, Gitonga (2021) examined the relationship between corporate governance and the financial sustainability of nongovernmental organisations. Data for the study was sourced from secondary sources. The research analyzed four variables of corporate governance: board size, board composition, CEO duality, and board diversity. The findings showed a positive and

strong association between board size, board composition, CEO duality, board diversity, and the financial sustainability of the firms. The study concluded that an increase in board diversity would lead to an increase in the financial sustainability of firms.

From the literature reviewed, board diversity as an aspect of corporate governance has garnered significant attention in recent years, and its effects have been explored from various perspectives. The reviewed studies indicate that there are research studies conducted globally, regionally, and locally on the relationship between board diversity and the financial sustainability of firms. Moreover, there is limited research examining the relationship between these two variables in state corporations, particularly focusing on tenure, ethnicity, and religion, according to Saleh F. A et al. (Elamer, 2020). This represents an unfilled research gap that this proposed study seeks to address by examining the effect of board diversity on the financial sustainability decisions made for SOEs in Kenya and addressing the underexplored board diversity variables. This is related to the Mwongozo code, which recommends disclosing the composition of a board in the company's financial report. It provides provisions for, among others: the appointment criteria for boards (appointees must have sufficient expertise to perform their roles); the gazettement of all board members by name, including government representatives; the composition, proper mix, and size of the boards; the roles of the boards, chairpersons, board members, and CEOs; the position of the company/corporation secretary in all boards; tenure limits for board members and CEOs; the maximum number of boards any one person can serve on; guidelines for board committees; board induction and evaluation mechanisms; succession planning and strategies; the regulation of ethical conduct in boards; and the requirement for governance audits (Mwongozo, 2015).

### **1.1.2 Financial Sustainability**

In state-owned enterprises (SOEs) worldwide, maintaining stable finances is a constant source of stress. The concept of sustainable development, which encompasses the economic, social, and environmental dimensions of development along with a multi-generational perspective, originated at the United Nations Conference on Environment and Development (UNCED), held in Rio de Janeiro, Brazil, from June 3rd to 14th, 1992. This view is shared by many (Ashworth, 2015). A company is considered financially sustainable if it exhibits the following characteristics: a positive real growth rate; a high probability of survival (low probability of insolvency); a low earnings risk; and a risk-return profile that makes it an attractive investment for its owners (Gleißner et al., 2022). Organizations around the world are developing plans and strategies to enhance their bottom lines and quality of life, including state-owned enterprises.

The profitability and viability of state-owned firms hinge largely on their ability to maintain stable financial operations over the long term. Sustainability refers to the capacity to maintain consistent actions over time (Desai, 2007). Financial sustainability, as defined by the MIX Market, requires a degree of operational self-sufficiency of 110% or higher, while operational sustainability necessitates a level of operational self-sufficiency (OSS) of 100% or higher. Total financial revenue minus total financial expenses plus operating expenses equals operational self-sufficiency (Rai, 2012). According to Liubov, financial sustainability is defined as the extent to which an organization can meet its long-term and short-term financial responsibilities to its citizens by maintaining a stable tax base and adequate service delivery. In 1987, the United Nations Brundtland Commission defined Sustainability as “meeting the needs of the present without compromising the ability of future generations to meet their own needs” (Brundtland Commission, 1987). For this study, we shall use the definition by Rai, which chooses to define sustainability as a mix market incorporating the various variables and looking at the self-sufficiency of the State Corporations moderated by the governance requirement on sustainability.

Between 25% and 50% of the urban economy in developing economies is driven by GoEs. They have the potential to be useful additions to states' development agendas, and they do affect the business climate of their country more generally (OECD, 2014). Lesotho, Mauritius, Mozambique, South Africa, Tanzania, and Zambia, among others, have been conducting assessments of these GoEs to learn more about the vital role they play in their societies and how they might be made more sustainable (OECD, 2014). Regionally, Wezel and Carvalho (2022) state that SOEs often accumulate a high debt load, including from the private sector, which is considered a contingent liability for the government. Since many SOEs are not included in the central government accounts and may only appear in the general government sphere, their losses and possibly unsustainable debt may go unnoticed by the public for years until an ailing institution requires more immediate support that then prompts outright transfers from the central budget or, if government guarantees given to private creditors are invoked, payments to third parties. Therefore, SOEs are generally considered financially unsustainable due to their overdependence on federal bailouts. (Carvalho, 2022)

Rosalyn Wachira, in her study of the FS determinants of GoE in Kenya, discussed the GoEs in the Ministry of Agriculture, Livestock and Fisheries, excluding other GoEs that would also have similar issues. According to the research, the problem stems from inadequate corporate

governance procedures leading to excessive reliance on public support and widespread unsustainable behaviors. In a study by Wagofya reviewing the financial performance of Kifanya Saccos Ltd in Tanzania, an assessment of clients' historical financial services and working capital growth was conducted from 2003 to 2017. The analysis of financial sustainability utilized yearly data on loan borrowing and computation of operational self-sufficiency using the sustainability index method and subsidy dependency index method. The study's results showed a positive trend in the sustainability index of the Saccos, growing towards 1.

Today, SOEs are under strong pressure to improve their performance and financial sustainability. Unfortunately, some state corporations in Kenya, such as East African Portland Cement, Kenya Railways (KQ), Posta, and Kenya Power, remain financially unsustainable despite the government's efforts to support them through additional funding and subsidies (Herbling, 2021). Some of the reasons cited for these challenges include poor management and corruption that stem from weak corporate governance (Ileri, 2016). Given the financial challenges facing most SOEs, which threaten their existence, this study seeks to determine the effect of the Mwongozo code of sustainability in an effort to influence the drivers of financial sustainability for state-owned enterprises in Kenya.

### **1.1.3 Mwongozo Code on Sustainability as a Moderator**

State businesses were established in Kenya during its independence to carry out the government's goals and programs for the country's economic and social development. The Mwongozo Code of Governance was created in 2015 for State corporations by the State Corporations Advisory Committee (SCAC) and the Public Service Commission (Committee, 2015). The purpose of the Mwongozo policy paper, also known as the Code of Governance for State Corporations, is to integrate corporate governance principles into the operation of Kenya's State Corporations. The Mwongozo Code is founded on and supported by the Constitution and Section 27 of the State Corporations Act, which establishes SCAC. The Mwongozo Code of Governance features elements that align with international practices. It addresses the effectiveness of boards, transparency and disclosure, accountability, risk management, internal controls, stakeholder relationships, compliance with laws and regulations, ethical leadership, sustainability, performance management, and good corporate citizenship. For the study, ~~chapter~~ Chapter seven-Seven (7) of the Mwongozo Code on sustainability and performance management will be included. All SC are required to disclose if they are a going concern based on the Triple Bottom Line concept, explained in the theory section in compliance with

sustainability reporting. This section also requires the SC to adopt policies that meet present needs without compromising their ability to sustain future development needs and objectives. They should take a holistic approach to economic, social, and environmental issues in their core business strategy, continuous innovation, and long-term talent development. (Mwongozo, 2015)

Kenya's decentralized government is supported by various institutions established under the country's 2010 constitution. Cost-cutting, increased efficiency, and enhanced productivity have been priorities in Kenya's public sector reforms as the country strives to better serve its citizens (Musili, 2019). The Presidential Task Force on Parastatal Reforms (PTPR) was established in July 2013 with the mandate to examine the management and governance policies of Kenya's parastatals to determine how effectively they contribute to the pursuit of national development aspirations, thereby facilitating the transformation of our country into a great land of prosperity and opportunity for all (Kenya, 2013). For instance, in FY 2021/22, the Taskforce-recommended and completed merger of the ICDC, TFC, and IDB's capital (GOK, 2021), which has been implemented so far. Recommendations made by the KIPPR study for public sector changes aimed to reduce wasteful spending and enhance productivity so that public services might be better oriented toward serving the public. Administrative capacity building, strengthening the policy process, institutional changes, and right-sizing the civil service were among the significant cross-cutting concerns in the public service sub-sectors that focused the study's attention. The researchers recognized that the reforms were not a one-off event but rather a continuous cycle, making it all the more important for the government to secure funding, possibly including conditional grants, to see the process through to a successful conclusion. Having personnel who are dedicated, appropriately oriented toward specific tasks, and fully committed to serving the interests of the organization and the public; instilling visionary leadership attributes at all levels of government; and engaging key stakeholders in the policy process were also identified as factors that will support the successful implementation of the reform agenda. The question at hand is whether the code can survive the corruption, lack of transparency, and scarce resources that have long plagued the management and supervision of public companies in the country. Therefore, the purpose of this research is to investigate whether and how these sustainability and performance management principles have contributed to the long-term viability of semi-autonomous organizations and their state-owned enterprise (SOE) parent companies.

#### **1.1.4 State Owned Corporations of Kenya**

There is no universally accepted definition of a state-owned enterprise (SOE), and the terminology used to describe them varies significantly from one country to another. Throughout this research, the phrase "State Corporations" (in the Kenyan context) is used to designate both for-profit and non-profit organizations in which the government owns or controls the vast majority of the voting stock. This study considers the definition as outlined in the Consolidated National Government Investment Report FY2020/21 prepared by the Government Investment and Public Enterprises Department of the National Treasury, while section 2.2 provides a detailed discussion of the de jure and de facto definitions and classifications used in the Kenyan context (NT). Accordingly, it distinguishes between commercial SOEs and non-commercial SOEs by defining the former as organizations that generally operate on commercial principles to perform a strategic function profitably, (ii) are primarily self-financing and sustainable, except in financing investment for public policy objectives, and (iii) are accountable to all stakeholders and the public through the relevant departmental and oversight committees of Parliament.

Non-commercial SCs are also separate legal entities with operational independence from the government; however, they are required to operate on a cost recovery basis and are primarily funded through appropriations from Parliament, taxes, and user fees. Examples include institutions of higher education, research labs, governmental bodies, and medical centers used as referrals. Services provided by non-commercial SOEs are generally funded by grants or loans from the National Budgets rather than from the business sector. Financial, Regulatory, Service, Commercial, Public Universities, Regional Development Authorities, Research and Training Institutions, and tertiary Institutions are the eight categories into which SCAC further divides the SoEs.

Kenya's commercial SoEs portfolio is extremely concentrated, as is the case in most SSA countries. Energy accounted for 61% of sales, while transportation accounted for a further 22.5%, for 83.50% in FY2019/20. More than two-thirds of all commercial SOES revenue in FY2019/20 came from just four SOESs: the Kenya Power and Lighting Company (KPLC), the Kenya Ports Authority (KPA), KenGen, and the Kenya Pipeline Company (Fiebelkorn et al., 2021). Currently, Kenya has at least 248<sup>1</sup> GOEs were developed to help the government

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<sup>1</sup> As described above, the number of SCs varies by oversight agency. The numbers in this report are based on data provided by NT

achieve its short-term and long-term economic goals, according to the Office of the Controller of Budget. They perform different roles, including stimulating the development of the private sector, enhancing local businesses' performance, and correcting market failures to create revenue and employment opportunities. If SOEs face adverse shocks and financial distress, they can impact the government budget or balance sheet through numerous transmission channels. (Baum, Medas, Soler, & Sy, 2021)

However, most SOEs have faced challenges that threaten their existence. According to an article by Herbling (2021), Kenya is facing fiscal risk from unprofitable SOEs and at least 18 organizations require 382 billion shillings to maintain their operations in the next five years. Corporations such as East African Portland Cement, Kenya Railways (KQ), Posta, and Kenya Power are financially unsustainable despite the government's efforts to support them by offering additional funding. Their combined financial shortage is almost 70 million per annum (Herbling, 2021). Given the financial challenges facing most of the SOEs, the government plans to sell 26 firms to private investors to limit overdependence on the exchequer. The funds from the sale of these institutions will play a critical role in mobilizing the necessary resources, enhancing activities in the Nairobi Stock Exchange (NSE), and supporting the national budget.

Some of the enterprises approved for privatization include the Development Bank of Kenya, the Kenya Meat Commission, the Consolidated Bank of Kenya, the National Bank of Kenya, the Kenya Ports Authority, the Kenya Pipeline Corporation, the KICC, and Kengen. Similarly, Muhoroni, Miwani, Nzoia, and Sony sugar millers are up for sale due to poor performance, making it challenging to meet their financial obligations. (Government, 2020) In the hotel industry, the following SOEs have been approved for sale: Kenya Safari Lodges and Hotels Ltd, Sunset Hotel Ltd, Golf Hotel Ltd, Mt Elgon Lodge Ltd, and Kabarnet Hotel. Moreover, there has been concern about the general financial stability of public universities in Kenya (Munene, 2019). The scrapping of the parallel module in Public universities resulted in a financial crisis in public higher learning institutions. According to the consolidated National Government report for FY 2020/21, state corporations internally generated funds stood at Kshs . 677,932 million, transfers and subsidies to state corporations were at Kshs. 377,990 million, profits/surplus increased marginally to Kshs. 37,328 million up from Kshs. 9,542 million in Fy 2019/20. This was attributed to the high declaration of profits by NSSF which posted Kshs. 35,015 million surplus fund and Kenya Power posting Kshs. 943 million profit from a loss of Kshs 7 508 in the previous financial year 2019/20. In addition, the GoK received Kshs. 49,570

million from government investments in the form of dividends, loans, interest payments and directors' fees. (GOK, 2021)

## **1.2 Statement of the Problem**

Over the past years, there has been a significant reduction in the number of SOEs in Kenya as some institutions have collapsed due to poor management and corruption; for example, Uchumi, Public Universities and East African Portland Cement Company. Additionally, the number of organizations struggling financially has increased because of the negative impacts of COVID-19 and other internal and external challenges. The primary concern is to determine the factors contributing to the failure of most of the SOEs. According to the Kenya Business Guide (2019), one of the risks affecting the the Kenyan budget is the financial needs and demands of struggling SOEs. It implies that the amount SOEs consume from the exchequer is more than the revenues gained by the government from them in the the form of taxes. Corporate governance mechanisms, such as board diversity and regulatory compliance, would play a significant role in financial performance and sustainability. According to a study by Ileri (2016) on the problems facing state-owned enterprises in Kenya, many SOEs face poor performance due to various reasons such as a weak legal framework, a compromised appointment process due to politics, corruption, oversight institutions with a weak governance structure, structural adjustments of programs by the donor community, and finally, the balance of payments cutbacks (Ileri, 2016). While some international studies may indicate that there has been a general improvement in the performance of various SOEs globally over the years, African countries, including Kenya, have recorded a low percentage of SOEs that have achieved the desired financial sustainability.

Wachira (2018); Chumba et al. (2019); Gitonga (2021) among others, show that the existing studies have been conducted in different contexts and in diverse firms (both in public and private sectors). In addition, these studies have looked different perspectives of corporate governance and unique variables, some different from this study, hence it's not possible to generalize their findings to this proposed study. On the other hand, there is little research studies globally, regionally and locally on the contribution of corporate governance to the financial sustainability on SOEs especially with the use of the Mwongozo code of governance. This study contributes to the moderating effect of the Mwongozo code specifically on sustainability issues which generally affect the performance of these State Corporations. The drivers selected are extensively studied for their effects on the overall performance of the

agencies, but not on financial sustainability, as shown in Table 2.4, Summary of Research Gaps.

### **1.3 Research Objectives**

#### **1.3.1 General Objectives**

The study aims to assess the moderating role of the Mwongozo Code of Governance on the drivers of financial sustainability in state-owned corporations in Kenya.

#### **1.3.2 Specific Objectives**

To enhance the general objectives, the study will answer the following specific objectives:

1. To assess the effects of working capital management on the financial sustainability of SOEs in Kenya.
2. To examine the effects of financial risk management on the financial sustainability of SOEs in Kenya.
3. To investigate the effect of board diversity on the financial sustainability of SOEs in Kenya.
4. To assess the effects of financial investment on the financial sustainability of SOEs in Kenya.
5. To assess the moderating effects of the Mwongozo code of sustainability on the relationship between drivers and financial sustainability of SOEs in Kenya.

### **1.4 Research Questions**

The study aims to address the following questions in light of the identified research objectives.

1. What effect does working capital management have on the financial sustainability of state-owned enterprises in Kenya?
2. What are the effects of financial risk management on the financial sustainability of SOEs in Kenya?
3. How does board diversity impact the financial sustainability of state-owned enterprises (SOEs) in Kenya?
4. How does financial investment affect the financial sustainability of State corporations in Kenya?
5. What are the implications of the Mwongozo code on sustainability on the relationship between the drivers of financial sustainability of State Corporations in Kenya?

### **1.5 Scope of the study**

The research focused on commercial and service, financial Class A, and regulatory firms that the Kenyan government wholly or partially owns. These are one hundred and twenty-nine (129) in number. Financial organizations are stricter on compliance standards and regulations, and

are more exposed to financial risks due to their nature. Regulatory organizations make their decisions strategically and are expected to perform well. Lastly, commercial and service-oriented firms have a duty to a larger number of stakeholders. Therefore, the expectation of high performance and sustainability makes them a good target to study in comparison to the rest. Approximately 75 parastatals, such as the Kenya Institute of Curriculum Development (KICD), Energy and Petroleum Regulatory Authority (EPRA) and the Retirement Benefits Authority (RBA), provide services or regulate the market and are therefore included in the service and regulatory category (Kimia, 2019). The aforementioned decision was made so that the government (commercial), industry regulators, and the financial sector, all of whom are essential to the country's long-term financial health, may take stock of their most important stakeholders. The research focused solely on state-owned corporations where the state government owns either 100% or the vast majority of the shares.

## **1.6 Significance of the Study**

The study will be beneficial to the following:

### **1.6.1 Public Policymakers and Regulators**

Financial sustainability is key to a company's stability. To contribute towards sustainable development goals, public policy makers, ministries require to have information on the performance of the State Corporation as they contribute significantly to economic growth as well understanding on how to best manage them and advise accordingly.

In addition, regulators such as SCAC, Presidential Taskforce Committee and ISC need to know sustainability status of the parastatals so that they how best to improve on their policies and guidelines.

### **1.6.2 Board of Directors in State Corporations**

A sustainable organization can only be achieved when decisions from top management are governed by good governance, effective analysis of our internal and external environments, and a reduction of risks associated with the firm's investment strategies. Therefore, this study will assist the board in making sustainable decisions strategically in the plans and overall management of their State Corporations in the quest to improve performance.

### **1.6.3 Academicians and Researchers in Finance Discipline**

Sustainable Finance has replaced the traditional Finance. It's important for the Finance disciplines to understand that Finance requires a multifaceted approach rather than risk and return focus. Profitability is no longer the determinant of the success of a firm but rather

incorporates other factors that would holistically show a sustainable firm. This study will assist in understanding this concept by identifying the implication Mwongozo code of governance on the financial sustainability of State Corporations.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.1 Introduction

The literature in this chapter has been consistently published and is related to the research problem. It discusses the theoretical and empirical literature relevant to the study on the drivers of financial sustainability among state corporations in Kenya. To implement the intended financial sustainability intervention among enterprises, drawing from more than one theory may be necessary. This is particularly true for situations that require a multifaceted approach, such as those found in business, where the constant flux of external factors makes it difficult to predict which course of action will yield the desired result. One theoretical framework may complement another, clarifying the various channels through which the intervention impacts the financial sustainability of organizations. This is essential because multiple pathways may need to be targeted to bring about the expected changes in profitability. The subsection of this chapter demonstrating the link between the variables is determined by the specific variables and research topics being addressed. In the final section, the study examines the critical literature that is directly relevant to the issue at hand. Additionally, this chapter identifies the gaps in the literature. Finally, the research problem is formulated, explained, and operationalized.

#### 2.2 Theoretical Framework

This study's framework will use a multi-theoretical approach that incorporates more than one theory. Relying on a single theory would restrict the robustness and explanation of sustainability. This limitation arises from sustainability not being fully defined, and several theories have been identified (Annuar, 2019). However, for this study, theory triangulation will be employed: Stakeholder, Resource-based, and corporate sustainability theory. Stakeholder theory and Resource-based theories are interconnected, highlighting a relationship that explains the 3 Pillars of sustainability (People, planet and profit) influencing high performance in a firm. However, corporate sustainability theory provides a better explanation of the “planet” aspect of sustainability and how corporate governance plays a role in fulfilling sustainability as a priority in organizations.

##### 2.2.1 Stakeholder Theory

Organizational theorist Ian Mitroff first defined stakeholder theory in his 1983 book, *\*Stakeholders of the Organizational Mind\** (Mitroff, 1984). Almost immediately afterward, a

philosopher and professor of business administration named R. Edward Freeman wrote an article on stakeholder theory in the *California Management Review*. Numerous works on business sustainability and sustainability management, whether textbooks, research papers, or policy publications, use references to "stakeholders" and stakeholder theory as a jumping-off point for their analysis (Darnall et al., 2010; Doh & Guay, 2006; Husted & Allen, 2011; Kolk & Pinkse, 2007; Lee, 2011; Perez-Batres, Doh, Miller, & Pisani, 2012). According to Stead and Stead (1996), there is "a big cadre of stakeholders" concerned about the environment, and the authors go on to detail the roles and responsibilities of these individuals. They list consumers (including other enterprises), financiers, employees, environmental interest groups, regulators, lenders, insurers, and standard setters among the stakeholders (including business associations). Nearly two decades later, there are strong arguments suggesting that these groups' influence has only grown. Businesses can run more smoothly if they have a firm grasp on how they interact with both the government and non-traditional groups like environmentalists and special interest groups. In keeping with this analysis, Starik and Kanashiro (2013) have recently sparked an important debate on the use of theories in sustainability management by drawing attention to the importance of giving sustainability challenges and the role theories play in addressing these challenges more consideration. They "define sustainability management as the formulation, implementation, and evaluation of both environmental and socioeconomic sustainability-related decisions and actions" (Starik & Kanashiro, 2013), with reference to former work by Bell and Morse (2008) and Dunphy, Benveniste, Griffiths, and Sutton (2000).

The idea that firms are players in the social environment and therefore should respond to pressures and requests from their stakeholders to achieve their strategic purpose is one of the cornerstones of the stakeholder approach. According to proponents of the shareholder approach, companies exist solely to increase their owners' wealth. However, according to the stakeholder theory, businesses should prioritize their stakeholders' requirements above everything else if they want to survive in the long run. For proponents of the stakeholder hypothesis, a company's ability to stay in business is the most pressing concern. Shareholders are not the only ones who have an impact; employees, governments, customers, and the general public also do. Besides setting up a framework for a distinct sustainability management theory, Starik and Kanashiro (2013) identify fruitful fields for future research as they encourage sustainability scholars "to continue to explore how traditional theories can be used to examine and advance sustainability management (Starik, Marcus, & Illitch, 2000)." Garvare and Johannson (2010) recognize a

similar research gap, as they state that the “relation between sustainability, stakeholder theory and quality management can still be developed.

Sustainability management places a stronger emphasis on the connections between societal, ecological, and economic goals than the stakeholder approach does, even though both seek to advance the interests and values of all parties involved. This study will help us understand whether a sustainable stakeholder relationship gives a state corporation a competitive advantage, hence making it sustainable.

### **2.2.3 Resource-Based View Theory**

The Resources-Based View Theory (RBV) was first developed by Wernerfelt in 1984, and since then it has been widely accepted and applied, especially in the field of strategic management. The key tenet of RBV is that the resources possessed by a firm are the primary determinants of its performance and may contribute to a sustainable competitive advantage of a firm (Newbert, 2007). In his article titled "Firm Resources and Sustained Competitive Advance" Barney (1991) states that in the RBV perspective, firm resources include all assets, capabilities, organizational processes, company attributes, information, knowledge, and others that are controlled by the company which enables the company to understand and implement strategies to increase efficiency and effectiveness of the company (Barney, 1991).

Accord to Barney and Clark (2007), Jafari and Rezaee (2014) for a company to be successful, it should focus on its core competence as well as invest its resources in creating value and ensuring that its resources are a source of sustainable performance and competitive advantage. The firm's resources include financial resources, among other resources, such as physical resources, technological resources, human resources, and organizational resources. Godwin-Opara (2016) asserts that the theory provides a framework for understanding the importance of firms' resources and explains that an organization's performance and sustainability depend on how it invests the resources it owns and controls. As applied to the study, the RBV provides the theoretical lens to understand that an organization's resources can be a source of sustainable performance and competitive advantage. But this depends on how a firm organizes and invests its resources so that they may contribute to the business success (Edward R. Freeman, 2021). The application of the RBV is therefore helpful in guiding firms to identify strategies to enhance financial investment to ensure financial sustainability. RBV therefore supports the sustainability understanding in relation to sustainable stakeholder relationships as well as

understanding the financial investments criteria in a bid to achieve financial sustainability of state corporations in Kenya.

#### **2.2.4 Corporate Sustainability Theory**

Corporate Sustainability (theory), an aspect of sustainable development, originated from the Brundtland Commission report (Brundtland Commission, 1987) and has gained more attention. It has been applied in various fields of research. The problem is that there is no agreed-upon definition of CS. Corporate Social Responsibility (CSR) is linked to financial performance in most firms, but FS is not dependent on CSR. In contrast, the TBL framework introduces the notion of economic sustainability. Typically, the Triple Bottom Line (TBL) framework—a concept proposed by Elkington—is used to put corporate sustainability into practice. TBL considers economic, social, and environmental factors (ESG). (Walkshäusl, 2022) In traditional accounting, the bottom line refers to net income. In addition to the traditional economic bottom line, the TBL framework also considers a company's social and environmental impacts, which is very different from how most reporting is done. Wider acceptance of the TBL method has occurred. According to Jamali, for instance, a management strategy that considers TBL can help a company take steps toward sustainable development. Research by Melissa and Lenita (2007) suggests that a company's competitive edge might be boosted by concentrating on the TBL. However, some academics question TBL's value. For instance, according to Gray (2010), sustainability and the need to retain profit are inherently at odds with one another, and TBL reports have very little to do with sustainability.

Sustainable business models provide an additional useful perspective on CS, complementing the TBL's operationalization of the notion of sustainability in the business environment. The promotion of CS relies heavily on the business model (BM). Sustainable business models (SBM) are those BMs that incorporate the TBL approach and consider various stakeholder interests (Bocken et al., 2014). BMs define how businesses gain a competitive advantage through their product or service. By integrating sustainability into their core strategies and operations, SBM helps businesses enhance their competitive edge while also improving the world at large. Several studies have examined how SBM might help businesses become more sustainable, potentially giving them an advantage in the marketplace.

However, TBL cannot be employed in most financial economies, which is one of its significant limitations. Every business cannot embrace all three bottom lines due to the lack of a defined method for calculating the monetary benefits to society and the environment (Sridhar & Jones,

2013). Nevertheless, the TBL will be useful for gauging the extent to which SOEs prioritize sustainable development. It will be evident from the TBL that the economic, social, and environmental effects of a company's actions are the most important metrics by which to measure success. By using the TBL sustainability framework, businesses of the future can be shaped in ways that are both innovative and profitable. It encourages organizations to enhance their productivity, efficiency, and success by considering non-financial variables such as social and environmental responsibility in addition to traditional measures of success like profits. This theory, therefore, guides this study by helping to understand the concept of financial sustainability (of SOEs) in relation to ecological and social sustainability issues that may arise in the analysis as other factors.

## **2.3 Empirical Literature**

Given the gap between sustainability and corporate governance, this section seeks to undertake an extensive review of past studies/theories highlighting Working capital management, financial risk management, financial investment, and board diversity as drivers of financial sustainability in State Corporations.

### **2.3.1 Working Capital Management and Financial Sustainability**

In an increasingly competitive environment, the importance of effective working capital (WC) management in enhancing profitability cannot be overemphasized. This focus is justified by the need to implement new business models that ensure long-term financial sustainability. A firm's ability to create shareholders' equity depends on the effective and efficient management of WC (Knauer & Wöhrmann, 2013). Furthermore, the primary goal of WC management is to maintain a balance among all WC components, facilitating cash flow and liquidity to ensure that an organization meets its short-term and long-term operational needs. Therefore, it is crucial to emphasize the importance of effective working capital management in enhancing the profitability of State corporations.

Wachira (2020) focused on entities within the Ministry of Agriculture, Livestock, and Fisheries, highlighting that strategic WCM practices, such as prudent resource allocation and investment in sustainable projects, are vital for the long-term financial health. This is agreeable with Alnuaimi and Nobanee (2020) who examined the link between working capital management and the financial sustainability of firms. This was an empirical review study that drew on previous peer-reviewed journals to gain a deeper understanding of the research topic. Data and empirical evidence were gathered by assessing 20 SCOPUS and 5 SSRN articles. The

study revealed that when well-managed, working capital has a significant and positive impact on revenue levels, further ensuring the financial sustainability of firms. This also has a subsequent effect on increasing the shareholder dividend rate and enhancing the associated corporate goodwill. However, the authors argue that this depends on the leadership and managerial capabilities of corporate managers in making strategic choices and implementing the right policies accordingly. While this study examined the relationship between working capital management and the financial sustainability of firms, several research gaps remain. First, the study does not specify the geographical scope and the categories of firms it focused on. Secondly, this empirical review study purely relied on empirical evidence from other published studies and did not collect its own primary or secondary data to form its conclusions. The findings of this study have limitations and cannot be directly applied to the proposed study, which specifically focuses on the financial sustainability of SCs in Kenya. The proposed study will rely on both primary and secondary data to help answer its objectives.

Nduta (2015) analyzed the influence of working capital (WC) management on the financial performance of manufacturing firms among corporations listed on the Nairobi Securities Exchange (NSE). The primary objective for managing WC is to maintain an optimal balance between various WC components, including payables, inventory, receivables, and cash. These factors are critical in the general corporate strategy to create value and critical resources to enhance competitive advantage. The study collected data from only eight manufacturing firms listed in the NSE, increasing the need for focusing on additional organizations to collect adequate data about the subject under investigation. The findings showed a significant and positive relationship between manufacturing firms' current ratio and the return on equity, as well as the current liabilities to total liabilities ratio. The research recommendation is for managers to focus on conservative policies that require high stock reserves and cash balances, as the return on assets is positively related to the current ratio in the manufacturing sector in Kenya. Although this study provides research evidence on the impact of capital management on the financial performance of organizations, it focuses solely on the manufacturing industry and firms listed on the NSE. The research evidence from this study may not be generalizable in the context of this study, which focuses on working capital management and the financial sustainability performance of SOEs. This study aims to address this gap by focusing on financial sustainability rather than financial performance in State Corporations in Kenya.

### **2.3.2 Financial Risk Management and Financial Sustainability**

Financial risk management involves adopting strategies that assist an organization in identifying potential events that may impact its operations while managing its risk to ensure it remains within acceptable levels, thereby supporting the achievement of organizational goals (Lundqvist, 2014). The primary purpose is to implement an integrated approach to risk management and establish a corporate risk strategy or philosophy that maximizes organizational value. Regardless of their legal forms, Kenya has developed specific guidelines or regulations for SOEs regarding risk management (OECD, 2018).

In the European context, Ghazieh and Chebana (2021) examined the effectiveness of the risk management system on firm performance. The study sample consisted of large companies selected from the European market, which included companies from France, Germany, and the United Kingdom. This study employed quantitative analysis, using a dataset involving 320 companies listed on the stock exchange over ten years from 2005 to 2014. The study's findings revealed that a company's risk management and control system significantly and positively influence its management, and its performance level and value creation also improve. The findings demonstrated a significant strengthening of the role of risk management in ensuring firm performance. The study recommended that risk management can be reinforced through internal control systems (Chebana, 2021). This study was conducted in the European context, with a focus on developed economies rather than Kenya. In addition, the study related risk management to the firm performance of private firms, not the financial sustainability of SOEs, which is the focus of this study. Therefore, this study has unfilled research gaps which will be addressed by this proposed study.

Kimotho (2015) assessed how enterprise risk management practices relate to the financial performance of commercial state corporations in Kenya. The study used a descriptive research design to collect relevant information from the targeted 55 commercial state corporations in Kenya. The findings revealed a significant and positive correlation between government, financial, strategic, and operational risk management practices and the financial performance of commercial state corporations in Kenya. It is evident that enterprise risk management practices affect the financial performance of state commercial corporations in the country to a larger extent. Therefore, commercial state corporations should implement robust enterprise risk management practices and continuously evaluate their functioning and effectiveness. The study identified that there is need for future research to focus on the impact of enterprise risk management in SOEs' performance in Kenya. It will involve focusing on

additional state agencies in Kenya and the use of a panel regression analysis. This research will help in addressing this gap by considering different SOEs in Kenya facing financial instability issues over the past years to determine the most appropriate policies to improve their performance. Additionally, the study will consider other factors that are likely to affect the financial sustainability of SOEs in the country, apart from adequate enterprise risk management practices. This study will add to the existing literature by examining other factors that can affect SOEs financial sustainability.

### **2.3.3 Financial Investment and Financial Sustainability**

Wang et al. (2021) examined whether mixed ownership intensity affects financial investment among SOEs in China. The research revealed that increasing mixed ownership intensity reduces the financial investment of non-financial SOEs. These outcomes align with the findings of other robustness tests. Moreover, the study adopted a cross-sectional analysis method to demonstrate the significant adverse impact of mixed ownership intensity on the financial investment levels among organizations in Eastern China, particularly those corporations under significant local government control.

Kölbl et al. (2020) examined whether sustainable investment can save the world by reviewing investor impact mechanisms; indirect impacts, capital allocation, and shareholder engagement. The study showed that there is adequate literature to support shareholders' engagement impact, partial evidence of capital allocation influence, and inadequate empirical support of indirect impacts. The study's findings showed that investors seeking impact should pursue shareholder engagement in all their investment portfolios, focus on sustainable organizations that consider only external financing conditions, and screen out firms according to their ability to include governance, social, and environmental practices at reduced costs. The increased concentration on sustainable investing includes governance, social, and environmental information to achieve sustainability. Currently, sustainable investment attracts various investors because of the altruistic motives with the expectation that sustainable investment will enable them to have a positive impact. SOEs should consider addressing these expectations by considering investment options that emphasize on sustainability.

Zubair et al. (2020) analyzed how financial crises affect the real investment of private firms, specifically SMEs, in the Netherlands. The study adopted the Q-theory, which states that a firm increases its investment when there are opportunities for valuable growth (Siraz Zubair, 2020). Similarly, the research employed the asymmetric investment theory, which asserts that

imperfections in financial markets result in varying degrees of financing constraints, leading to differences in the investments undertaken. Both theories indicate that investment will decline during a financial crisis due to higher financial constraints and lower growth opportunities. The study's findings showed that SME investment declined significantly before and after a financial crisis. Furthermore, it was evident that investment becomes more dependent on external finance rather than internal finance during a financial crisis. This study will be useful in identifying some of the challenges facing SOEs that hinder their investment opportunities in achieving desired financial sustainability.

In Kenya, Wachira (2018) assessed the determinants of financial sustainability for government-owned entities. The study aimed to investigate the impact of financial investments and resource utilization, among other factors, on financial sustainability. The target population comprised 36 government-owned entities in Kenya. Both primary and secondary sources of data were used. Primary data were collected using a structured questionnaire, and secondary data were gathered from published reports and financial statements of government entities covering the period between the 2009 and 2015 financial years. The data were analyzed using descriptive statistics, Pearson correlation, and regression analysis. The study findings indicate that financial investments had a significant positive influence on the financial sustainability of government-owned entities. The study recommended that these institutions align their goals with the available funds. Although this study examined the relationship between financial investments and financial sustainability, it did not incorporate the concept of ongoing corporate governance principles, which is a key focus in sustainability and a key dependent variable guiding this study. Hence, there is an unfilled research gap that will be addressed by this proposed study.

#### **2.3.4 Board Diversity and Financial Sustainability**

Board diversity, as an aspect of corporate governance, has gained attention recently, and its effects have been explored from different perspectives. In the United States, Ozdemir (2020) investigated the relationship between board diversity and firm performance in the tourism sector, focusing on institutional ownership. The study population comprised listed companies from the US restaurant, hotel, and airline industries. A two-way fixed effects regression was used to test the hypothesis. The study's findings indicated that board diversity was positively associated with financial performance, and its effect was contingent on the degree of institutional ownership structure. Board diversity had a larger effect on performance when

ownership was low in its structure. Since the study was conducted in a developed country (USA) and focused on the tourism sector, the present study examines a developing country and encompasses a broader study of SOEs in Kenya.

The study on the relationship between board diversity and ESG controversies investigates whether women affect ESG performance. The sample included non-financial companies from 13 European countries between 2004 and 2021 (7 years) and employed pooled ordinary least squares regression. The findings indicated that the relationship is primarily influenced by industry, governance, and the company's environmental performance. However, it does not specify which industries are affected by governance issues. Therefore, the study recommends increasing women's representation on boards to mitigate ESG controversies and enhance firms' performance (Hanaysha, 2023). Cheuk et al. (2018) examined the impact of board diversity on improving the financial sustainability of charities in Malaysia. The sample comprised active charities (companies limited by guarantee). Data on board diversity (specifically age, gender, race, and tenure) as well as financial sustainability were obtained and analyzed through binary logistic regression. The results revealed that director tenure diversity significantly predicts the financial sustainability of charities. In contrast, board age, race, and ethnic diversity were found to be insignificant in relation to financial sustainability. This study focused on charity institutions in Malaysia, not SOEs. The operations of a charity institution differ from those of SOEs, so the findings of this study cannot be generalized to the context of this proposed study. In another Nigerian study, the author assessed the effect of board diversity on financial performance of the Nigerian listed firms. The study relied on annual reports and accounts of 70 firms for a period of eight years (2012 - 2019). These firms were purposely selected. Two-step system generalised method of moments (GMM) model was used to analyse the data. The study findings showed a positive significant relationship of board gender diversity and foreign directors, with financial performance of firms. However, the effect of CEO financial expertise on the firms' return on assets (ROA), return on equity (ROE), and return on sales (ROS) appeared positive but insignificant. The study concluded that the Nigerian listed firms should attach more emphasis to constituting a smaller board size with a considerable number of female and foreign directors to maximise their performance and financial sustainability.

In Kenya, Ncurai et al. (2022) investigated whether board diversity influences the performance of Deposit Taking SACCOs in Kenya. The study was based on the domain of corporate governance and anchored in Resource Dependence Theory. It applied descriptive cross-

sectional and correlational research designs. Both stratified and simple random sampling techniques were used to select the sample size. Data were analyzed through descriptive statistics and inferential statistics - Pearson's correlation and regression analysis. The results indicate that board diversity had a strong and significant relationship with the performance of Deposit Taking SACCOs in Kenya. The study recommended that more women be included on boards of companies to ensure diversity, legitimacy, and build trust.

A review of the literature of the existing shows that there exist gaps in empirical studies relating to board diversity and financial sustainability in SOEs. From the above reviewed literature, it can be seen that most of the studies conducted in this area are majorly in private firms/ companies with very few conducted on SOEs. In addition, there are very few studies conducted in the Kenyan context meaning there is little empirical evidences to rely on in the context of Kenya These are the gaps that this study seeks to fill.

### **2.3.5 Mwongozo Code on Sustainability and Financial Sustainability**

The financial crisis experienced by most of the SOEs in Kenya has revealed the existing challenges in the corporate governance among these institutions. The current standards have failed to offer the necessary checks and balances that will help SOEs adopt sound business practices that guarantee long-term financial sustainability. Corporate governance as a holistic process and system responsible for governing an organization in a way that ensures adherence to the identified rules and regulations by all the stakeholders (Adu, 2022). It plays a critical role in addressing institutional framework and providing guideline for managers and leaders saddled with different responsibilities. Sound corporate governance is vital in transforming organization to achieve high economic returns. Corporate governance practices outline a clear roadmap for organizations to follow to achieve high performance. (Adu, 2022) Functional corporate governance helps in initiating action plans, corrective and preventive measures, and averting risks.

Botlhale (2020) assessed corporate governance in SOEs in Lesotho with an aim of influencing policy discussions. The research adopted a qualitative approach and a case study method. Some of the secondary sources used for data collection include newspaper articles, government publications, and independent publications like World Bank. The findings of the study revealed that there are various cases of poor governance among SOEs in Lesotho, limiting their ability to improve performance and achieve financial sustainability. Some of the examples of bad governance practices identified among most SOEs include the inability to submit audited

financial statements and lack of adherence to the 2012 Public Financial Management Act. One of the limitations of this study is that the study was based on a specific case, making it challenging to generalize the findings to other cases in other countries and industries. However, there are significant lessons developing countries, specifically African countries can learn from the study. For example, the research outlines the need for SOEs' legal-institutional architecture reconfiguration to create public value and achieve financial sustainability. Apart from outlining poor corporate governance among SOEs instances in Lesotho, the study proposes some of the policies to improve corporate governance.

Similarly, the World Bank (2024) Toolkit offers insight into the general framework and applicable tools and frameworks that government officials and other policymakers can adopt to develop and implement corporate governance reforms to help SOEs achieve their financial sustainability. It includes multiple corporate governance key elements, such as protecting the interests of shareholders, fostering transparency and disclosure, and implementing performance management systems. According to the Toolkit, no single approach is universally applicable, making the adopted measures vary based on the country and organization's circumstances. This Toolkit offers vital information on model documents, case list, case examples, and different frameworks aimed at helping policymakers make appropriate decisions based on the prevailing circumstances. It concludes by discussing the different ways of managing reform processes, specifically prioritizing and sequencing reforms, engaging stakeholders, and building capacity. This source adds to existing literature on the impact of good corporate governance practices on SOEs' financial sustainability. For the duration of Kenya's existence as an independent nation, the management of state parastatals has been plagued with scandals and the theft of taxpayer money. Parastatals in Kenya are used to high-stakes corruption investigations and blame games involving large sums of money. Some of the more well-known examples are the Anglo Leasing case, the Goldenberg affair, the Chicken Gate scandal, the New York State money saga, the Eurobond controversy, and the Afya House incident. The Mwongozo code of governance is the best model for open and accountable leadership in Kenya's parastatals, despite the 2010 constitution's claims to be the bedrock upon which all other reform efforts rest. Mwongozo was set up to make sure the counties reach the goals laid forth in Kenya Vision 2030, and it takes many cues from the OECD's principles for state-owned parastatals in order to do so (PSC, 2015). Mwongozo code insists on transparency and disclosure, accountability, risk management, internal controls, and ethical consideration in the board discharging its mandate as enshrined in Article 232 of the Constitution of Kenya,

2010. This is in recognition of the fact that the success of parastatals is founded on the independence of the board members appointed and their competence and ability to serve (Nyingi, 2015). Although the Mwongozo code of governance holds enormous promise for our corporate sector, it is threatened by a number of factors that could prevent it from ever being fully implemented. The fact that the governance code does not allow the board the power to punish bad actors is a significant obstacle. Instead, it claims to have been founded in accordance with Section 30 of the State Corporation Act, Cap. In order to make the rules stick, an organization needs the support of its whole board of directors (Nyingi, 2015). For this reason, the study will focus on the board diversity as a contributing factor to financial sustainability in State corporations.

#### **2.4 Summary of the Literature and Research Gap (s)**

The below table shows the tabular matrix of the research gaps identified and how the present study will fill the gaps.

**Table 1: Research Summary of Literature and Gaps**

| Research Variable                | Research topic  | Authors                     | Literature Review  | Research Findings   | How Present study fills the Gap  |
|----------------------------------|---|-----------------------------|--|---|--|
| Working Capital Management (WCM) | Examining the link between working capital management and the financial sustainability of firms   | Alnuaimi and Nobanee (2020) | Data and empirical evidence were gathered by assessing 20 SCOPUS and 5 SSRN articles.  | The study revealed that working capital, when well managed, will have a great impact on the revenue levels, which further ensures the financial sustainability of firms. The authors of this study, however, argue that this is dependent on leadership and the managerial capabilities of the managers of the corporations in being able to make strategic choices and the right policies accordingly. | The study was an empirical review study that purely relied on empirical evidence from other published studies. The present study will be specific to firms in Kenya and collect up to date information for analysis. |
| Working Capital Management (WCM) | The study analyzed the influence of WC management on manufacturing firms' financial performance among corporations listed in Nairobi Security Exchange (NSE). | Nduta (2015)                | The study claimed that WC aim is to maintain an optimal balance between payables, inventory, receivables, and cash. These factors are crucial in the overall corporate strategy for creating value and are critical sources for enhancing competitive advantage. | The findings showed that there is a positive relationship between manufacturing firms' current ratio and the return on equity on the current liabilities to total liabilities ratio.  | The study collected data from only eight manufacturing firms listed on the NSE, underscoring the need to focus on additional organizations to collect adequate data about the subject under investigation.           |
| Mwongozo Code of Governance      | Sustainable banking initiatives, environmental disclosure and financial performance: The moderating impact of corporate governance mechanisms                 | Adu (2022)                  | Examines the impact of corporate governance on sustainable banking initiatives   | Corporate governance mechanisms moderate the positive relationship between sustainable banking initiatives and financial performance.   | The study examined the banking sector, whereas this study focuses on state corporations, specifically Chapter 7 of the Mwongozo code of governance, which serves as the moderating mechanism.                        |

| Research Variable         | Research topic   | Authors        | Literature Review   | Research Findings  | How Present study fills the Gap  |
|---------------------------|--|----------------|---|--|--|
| Financial Risk Management | Examined the effectiveness of the risk management system on firm performance                         | Chebana (2021) | Used a multi-theoretical approach and employed quantitative analysis, using a data set involving 320 companies listed on the stock exchange over ten years from 2005 to 2014.   | The study findings revealed that risk management and control system by a company positively influences its management, and its performance level and value creation also improve. It demonstrated a significant strengthening of the role of the risk management in ensuring firm performance. | Risk Management varies between large, small, and medium enterprises and therefore this study will analyze the context in Kenya and on various firm sizes as the control variable of our study.   |
| Financial Investment      | Financial Sustainability Determinants of Government-owned Entities in Kenya. Nairobi                 | Wachira (2018) | The study sought to determine the influence of financial investments, financial resource utilization (among other variables) on financial sustainability. The target population consisted of 36 government-owned Entities in Kenya. Both primary and secondary sources of data were used. | The study findings indicate that financial investments had a significant positive influence on the financial sustainability of Government-owned Entities.  | Although this study examined the relationship between financial investments and financial sustainability, it did not incorporate the concept of corporate governance principles, a key focus in sustainability. The present study analyses the relationship between FI and CG. |
| Financial Investment      | How does a financial crisis change the effect of financing on investment? Evidence from private SMEs | Siraz (2020)   | The paper examines the real effects of the financial crisis for private firms. Analyzing a novel dataset from the Netherlands and controlling for multiple key factors. The study also use a multi-theoretical approach .   | The study found that investments of small and medium-sized private enterprises reduced significantly during and after the financial crisis. Additionally, both internal and external financing sources had a significant positive relationship with investment during the pre-                 | The study didn't explain why the findings were like this and the factors that could have led to these findings. The present study will seek to understand these findings by the primary questionnaire to the managers and the effect of CG and Covid-19                        |

| Research Variable | Research topic  | Authors              | Literature Review   | Research Findings  | How Present study fills the Gap   |
|-------------------|---|----------------------|---|--|---|
|                   |   |                      |   | crisis and post-crisis periods.  | during pre and post-times by analyzing the FS of the SC.  |
| Board Diversity   | Investigated the impact of board diversity in improving charity financial sustainability in Malaysia. | Cheuk et al. (2018)  | The sample comprised of active charities (companies limited by guarantee). Data on board diversity (that is, age, gender, race and tenure) as well as financial sustainability were obtained and analysed through binary logistic regression  | The results showed that director tenure diversity significantly predicts financial sustainability of charities. On the other hand, Board Age, race and ethnic diversity were found to be insignificant with financial sustainability | The study will look at the same variables but now focusing on the State Corporations in Kenya and see whether the results would be similar. |
| Board Diversity   | Investigated whether board diversity influences performance of Deposit Taking SACCOs in Kenya         | Ncurai et al. (2022) | The study was based on the domain of CG and anchored on Resource Dependence Theory. It applied descriptive, cross-sectional, and correlational research designs. Both stratified and simple random sampling technique was applied to select the sample size. Data were analyzed using descriptive statistics and inferential statistics, including Pearson's correlation and regression analysis. | The results indicate that board diversity had a strong and significant relationship with performance of deposit taking SACCOs in Kenya   | The Study will now focus on SC and report whether the findings would be similar or otherwise.   |

Source: Author ( 2025)

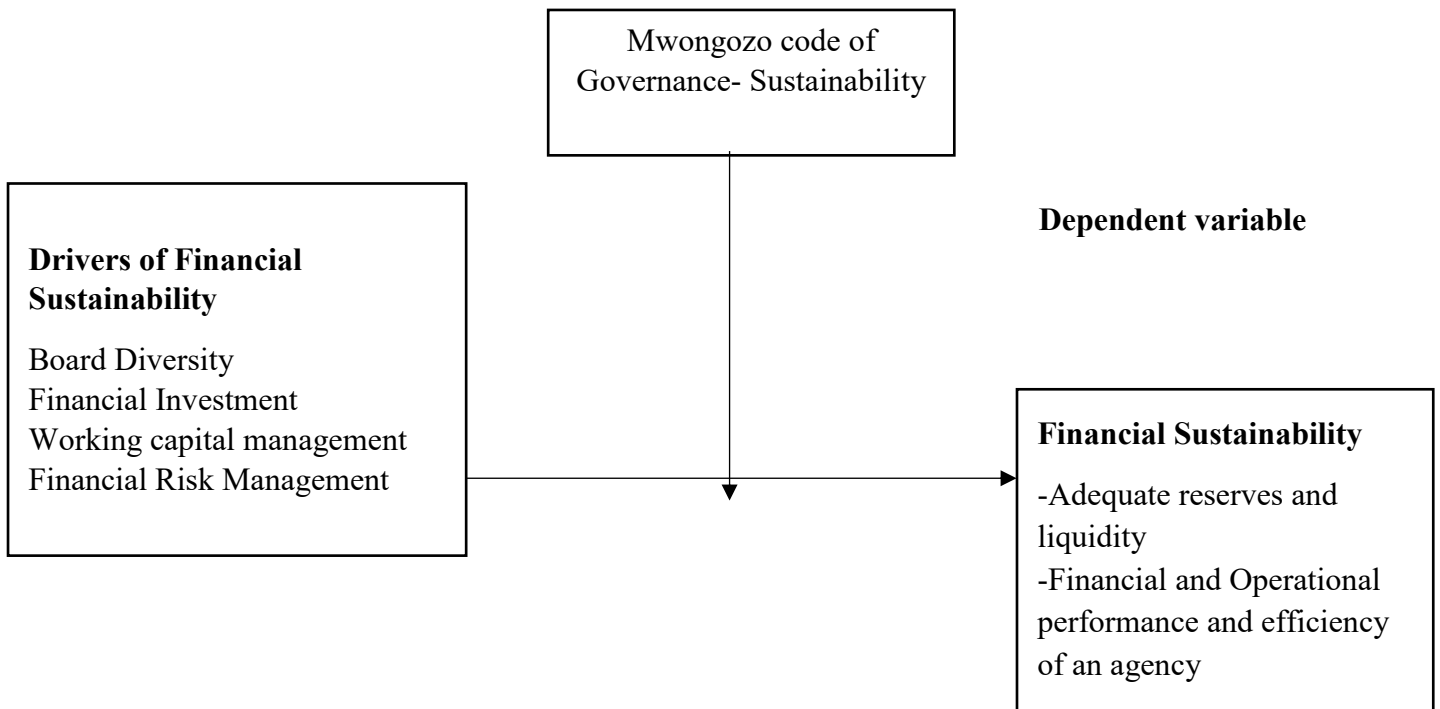
## **2.5 Conceptual Framework**

According to the definition provided by Kellstedt and Whitten (2013), a conceptual framework is "a logical and coherent presentation of the study's independent and dependent variables." To aid in producing new variables and identifying existing ones, it is helpful to have a conceptual framework in place that considers the theoretical and conceptual difficulties pertaining to the research at hand. In scientific inquiry, the dependent variable is the one over which the researcher exerts control (Mugenda, 2003 & 2019). In this study, figure 1 shows the conceptual framework. The dependent variable is financial sustainability, with its selected drivers—board diversity, risk management, working capital management, and financial investment as the independent variables. Government regulations, particularly the Mwongozo code on sustainability, act as the moderating variable.

**Figure 1: Conceptual framework**

**Independent Variables**

**Moderating variables indicators**



### **2.5.1 Operationalization of the study's variables**

The study will consider the following variables based on the conceptual framework outlined in section 2.4.

For this study, an operationalization table has been considered for primary data for each of the variables to differentiate how each variable will be measured, the indicators, methods of analysis, and its relevance to the research.

**Table 2: Operationalization Table for Primary Data**

| Variable                            | Variable Definition   | Variable Indicators   | Measurement Scale    | Supporting Literature                     | Supporting Theories                                   |
|-------------------------------------|---|---|----------------------|---|---|
| <b>Dependent Variable</b>           |   |   |                      |   |   |
| Financial sustainability            | The extent to which an organization can meet its long-term and short-term financial responsibilities to its citizens by maintaining a stable tax base and adequate service delivery. (Liubov Lysiak, 2020)                              | <ul style="list-style-type: none"> <li>• Pillars of Sustainability</li> <li>• Adherence to Chapter 7 of the Mwongozo Code of Governance</li> </ul>          | 5-point Likert Scale | Marco (2017)                              | Corporate Sustainability Theory<br>Stakeholder theory |
| <b>Independent (test) variables</b> |   |   |                      |   |   |
| Working capital Management          | Net current assets accessible for use in the company's normal operations. (ACCA)  | • Budget Management Practices   | 5-point Likert scale | Agyei (2011)<br>Nzitunga (2019)           | Corporate Sustainability Theory                       |
| Financial Risk Management           | The process of identifying, measuring and analysing risks and taking precautionary steps to reduce/curb the risk within the organizations in order to maximize investment returns and earnings for a given level of risk (Harvey, 2008) | • Credit/Liquidity/Operational Risk Management practices  | 5-point Likert scale | COSO (2004)<br>(Andreas Fiebelkorn, 2021) | Stakeholder theory                                    |
| Financial investment                | Putting aside some amount of money with the expectation of generating some returns over a certain period of time. A company's financial   | <ul style="list-style-type: none"> <li>• Long/short-term investments</li> <li>• Capital Investments</li> <li>• Growth in resources/ Total assets</li> </ul> | 5-point Likert scale | Kölbel et al. (2020)<br>Wachira (2018)    | Resource Based View                                   |

| Variable   | Variable Definition  | Variable Indicators  | Measurement Scale  | Supporting Literature                                     | Supporting Theories             |
|--|--|--|--|---|---------------------------------|
|  | investment may take the form of purchasing stock, bonds, real estate property, or other instruments. |  |  | Zubair et al. (2020)                                      |                                 |
| Board Diversity  | Composition of the firm's board and characteristics of board members                                 | <ul style="list-style-type: none"> <li>• Gender diversity</li> <li>• Age diversity,</li> <li>• nationality diversity,</li> <li>• Educational level diversity qualifications,</li> <li>• Board autonomy and independence</li> <li>• Religion</li> </ul> | 5-point Likert scale   | Ozdemir, (2020)<br>Aggarwal et al., (2019)<br>Sani (2021) | Stakeholder Theory              |
| <b>Moderating variables</b>                            |  |  |  |   |                                 |
| Mwongozo code of governance as a Government Regulation | Chapter 7 of the Code on sustainability and performance Management                                   | Corporate Governance Sustainability Index  | =0 period before Mwongozo code enactment<br>1=period after Mwongozo code enactment | State Corporations Act (2012)<br>GOK (2016)               | Corporate Sustainability Theory |

Source : Author (20225)

## CHAPTER THREE

### RESEARCH METHODOLOGY

#### 3.1 Introduction

This chapter explains the methodology used in the study to achieve the research objective. The topics covered include the research design, study, and target population, sample and sampling techniques, methods and instruments of data collection, data collection and analysis procedures, reliability and validity, and ethical considerations of the study.

#### 3.2 Research Philosophy

A number of research paradigms have been discussed; these include ontology and epistemology. Ontology is the philosophy that studies people's views of reality and existence, focusing on 'what is' regarding the nature of being. Epistemology, on the other hand, provides a philosophical basis for determining what types of knowledge are legitimate and adequate (Scotland, 2012). Conversely, Scotland (2012) classified research paradigms into three categories: Positivism, Interpretivism/Constructivism, and Critical Theory. Saunders et al. (2019) classified paradigms into five: positivism, initial realism, interpretivism, post-modernism, and pragmatism (Saunders, 2019). For this study, positivism was employed. The positivist paradigm, popularized by Auguste Comte, is viewed as a philosophy that relies on observation and reason to understand human behavior, treating human beings as phenomena that can be studied scientifically (Ekere, 2021). He further explained that positivism seeks to identify cause-and-effect relationships in nature and aims to deliver explanations and predictions based on measurable outcomes. This study aimed to understand the moderating role of the Mwongozo code on sustainability and performance management, as well as its impact on the drivers of financial sustainability in state corporations. The methods emphasize the importance of re-evaluating financial sustainability drivers and the relationship between risk, working capital, board diversity, and financial investment.

#### 3.3 Research Design

Research designs, as defined by Paradis et al. (2016), are comprehensive plans for conducting studies that outline how information is gathered, analyzed, and communicated. Working capital, financial risk, financial investment, and board diversity factors were all examined as independent variables in this study, with the financial sustainability of state-owned firms in Kenya serving as the dependent variable. An explanatory (causal) research design was employed to gain a deeper understanding of the situation and its underlying causes. And to explain the cause-and-effect relationship between the independent and dependent variables. As

a problem-solving strategy, explanatory research is typically used to uncover overlooked or underexplored information (Saunders, 2019). Throughout the research process, it was essential to adjust the approach based on new insights and existing knowledge (Scotland, 2012). The purpose of conducting explanatory research was to gain a deeper understanding of the subject of financial sustainability under study.

### 3.4 Population and Sampling

The target population refers to the group to which the study findings are applicable and from which conclusions are drawn regarding the topic under discussion. Therefore, the target population for this study consisted of state corporations in Kenya. It is essential to determine the units of observation and analysis when designing a research project. A unit of analysis is an entity that the study aims to discuss after conducting the research and serves as the primary focus of the study (Kumar, 2018). According to the Guidelines on Management of State Corporations (GoK, 2024), Kenya has 343 State Corporations. Table 2 presents the classification of state corporations and their numbers according to the study. The study included State Corporations from the Commercial and service, Regulatory, Training and research, and Financial categories, totaling one hundred twenty-nine (129). It excluded Public Universities, National Referral Hospitals, and tertiary education and training.

| <b>Firm</b>                       | <b>Number of SC</b> | <b>Sample Size<br/>Sample ratio 97/129=0.75</b> |
|-----------------------------------|---------------------|---|
| Regulatory Class A                | 17                  | 13  |
| Research institutions             | 15                  | 11  |
| Financial -A                      | 23                  | 17  |
| Commercial & Service Corporations | 74                  | 56  |
| <b>TOTAL</b>                      | <b>129</b>          | <b>97</b>                                       |

**Table 3: Classification of the Target Population**

The researcher used the Cochran formula to determine the sample size from the population, as shown in the equation below.

$$n = (Z^2 * p * (1 - p)) / e^2, \text{ where } n \text{ is the desired sample size, } Z \text{ equals } 1.96 \text{ for a } 95\% \text{ confidence level, } p \text{ is } 0.5, \text{ and } e \text{ represents the margin of error, which equals } 0.05.$$

The units of analysis for this study included the 97 state corporations in Kenya that had at least one response from senior management officers knowledgeable about the information sought in the questionnaire. Moreover, a unit of observation refers to the item that the researcher collects, measures, or observes when trying to learn something about the unit of analysis. For this research, the units of observation for primary data included board members and top managers

in the state-owned enterprises (SOEs), such as CEOs, CFOs, Finance Managers, Operations Managers, and their deputies.

### **3.5 Data Collection Methods**

The study proposed to collect quantitative data from primary sources. Structured questionnaires were issued to collect primary data from the selected sample of SCs.

#### **3.5.1 Use of Mobile Data Collection Platform**

During data collection, online questionnaires were verified for completeness, consistency, correct recording of results, and legibility of the questions and a test was done on 2 respondents. During these checks, questionnaires were verified for any corrections required, or call backs were conducted to ensure only correct information was captured and transmitted. The researcher also ensured that the set response rate was achieved by implementing multiple strategies to minimize refusals, missed callbacks, and observations from the collections. Upon confirming the questionnaires' accuracy, the data was received into an open-source application. It was then validated and downloaded to the appropriate format (MS Excel) for further analysis. For consistency purposes, the questions captured in the questionnaire was on a 5-point Likert scale. The questionnaire comprised of five sections. The first section comprised of the background information of the respondent's organization, including age, gender, years working with the organization, and designation. The second section focused on the financial sustainability of SOEs in Kenya. The third, fourth, and fifth sections evaluate the impact of WC management, financial risk management practices, financial investment, and Board diversity on SOEs' financial sustainability, respectively. The last two sections assessed the Mwongozo code principles and the general effect remote working had on SOEs' financial sustainability in Kenya.

### **3.6 Data Analysis**

As defined by Mugenda and Mugenda (2003), data analysis is the process of collecting and analyzing data. It consists of three distinct sub-processes: data reduction, data display drawing, and unifying findings. This study coded the respective variables and then prepared them in SPSS software and MS Excel for all quantitative data. Descriptive and inferential statistics were applied to both between- and within-variable analyses. Frequency and proportions were part of the descriptive statistics. In contrast, inferential statistics were used to analyze the relationships among variables and indicators, including tests of association and significance difference, correlation, and regression analysis of the drivers. All analysis was documented in the online software and exported to MS Excel for further analysis and verification. A

comparative data analysis was conducted based on the document survey analysis to identify sustainability issues among the State corporations.

Since the goal was to compare several State corporations, a regression model was necessary, which required collecting information across multiple entities. Results from quantitative methods were presented as tables, figures, and charts to display the aggregated data. Averages, means, and other numerical data points, as well as correlation of variables, VIF and Regression diagnostics, were also used. Suppose there will be a response variable that takes the form of an ordinal value. In that case, the study will consider ordinal logistic regression to model the association between that variable and a set of predictors. (Parry, 2020) An ordinal variable is a categorical variable for which there is a clear ordering of the category levels. The ordinal regression equations for the primary study will be as follows;

$$FSS = \beta_0 + \beta_1 BD + \beta_2 FI + \beta_3 WCM + \beta_4 FRM + \beta_4 \sum \text{Controls} \dots\dots\dots(1)$$

$$FSS = \beta_0 + \beta_1 BD + \beta_2 FI + \beta_3 WCM + \beta_4 FRM + \beta_5 Z + \beta_6 BD * Z + \beta_7 FI * Z + \beta_8 WCM * Z + \beta_9 FRM * Z + \beta_{10} \sum \text{Controls} \dots\dots\dots(2)$$

where Z = moderating variable

FSS= Financial Sustainability

BD=Board Diversity

FI= Financial Investment

WCM= Working Capital Management

FRM= Financial Risk Management

### 3.7 Research Quality – Validity, Reliability and Objectivity

Research validity refers to the extent to which the questionnaire accurately measures the objectives it intends to measure. High validity implies fewer errors. Using a purposive random sampling approach for the drivers helps preserve construct and content validity. It also involved conducting a pilot test with potential respondents to ensure that the study question measures the intended objective and that all relevant respondents understand it consistently. The suitability of the questions was confirmed by seeking feedback from the respondents. After obtaining feedback from the initial pilot tests, the questions were revised and validated to ensure reliability across all respondents.

Reliability refers to the extent to which a measuring tool produces stable and consistent results. This study used Cronbach’s Alpha ( $\alpha$ ) to determine the consistency of the questionnaire results. Cronbach’s alpha measures the extent of reliability of research instruments. A coefficient value

of above 0.7 indicated that the questionnaire was reliable, making it appropriate for use in the study.

### **3.8 Ethical Considerations**

The study of what actions are moral and what actions are immoral is known as ethics. Ethical consideration is crucial in safeguarding participants' rights. The researcher did not use coercion to persuade participants to participate in the study, as this would violate the principle of voluntary participation. Informed consent and privacy are two principles that are closely linked to voluntary participation. The study adhered to the principle of anonymity by using a unique link to access the online questionnaire, which ensured that participants' identities and organizations would be concealed unless they voluntarily provided this information. Additionally, prior consent from Nacosti was sought before data collection, which was shared with respondents.

### **3.9 Pilot Study**

A pilot study is a small-scale preliminary study that tests the feasibility, design, and instruments before conducting the full study. It is useful because the research project utilized a questionnaire, which required validation of the data collection logistics. An initial pilot study was undertaken before the distribution of the questionnaire. This was issued to five respondents from the State Corporations of the Ministry of Energy and Petroleum. Upon receiving the feedback, changes were made to address the existing gap prior to final distribution to the target population.

## CHAPTER FOUR:

### PRESENTATION AND ANALYSIS OF RESEARCH FINDINGS

#### 4.1 INTRODUCTION

This chapter discusses the research results and analyzes them. It presents the descriptive statistical findings of the research as well as the inferential statistical findings on the moderating effects of the Mwongozo code of sustainability on the drivers of FS in the three categories of State corporations in Kenya.

The data was collected through personal interviews using the online Google Forms survey software, which provides overall insight into the study variables, cost efficiency, and an overview of the institution's background information based on available public information. The findings addressed the questions regarding how working capital management, board diversity, financial risk management, and financial investment affect the financial statements of state corporations. Additionally, the findings offered an overview of the implications of the Mwongozo code of sustainability on the relationship between the dependent variables. Tables, figures, and statistical data are presented in the findings.

#### 4.2 RESPONSE RATE

This section presents the overall response rate and the descriptive statistics on the demographic profiles.

##### 4.2.1 Response Rate

The researcher distributed questionnaires to 97 selected respondents and received responses from 58 of them. This results in a response rate of 60%, which is considered adequate for the study, as shown in Table 4.

**Table 4: Response Rate**

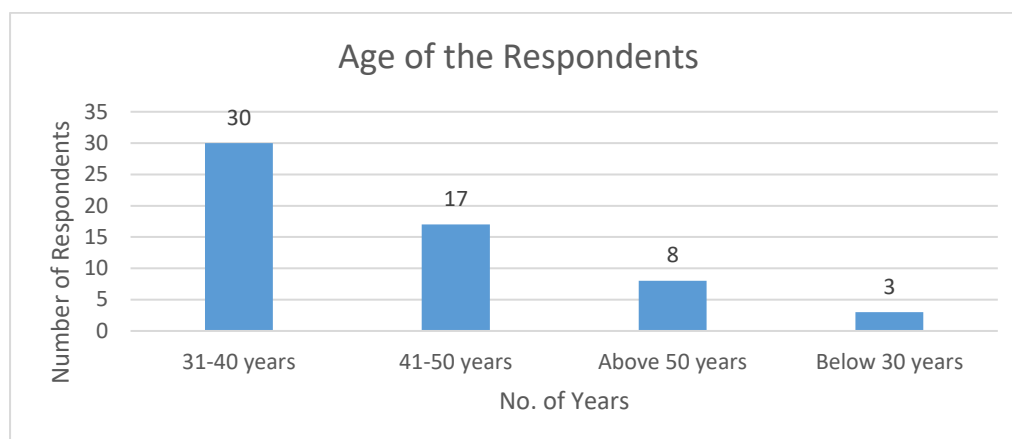
| <b>Firm</b>                       | <b>Sample Size</b> | <b>Response</b> |
|-----------------------------------|--------------------|-----------------|
| Regulatory Class A                | 13                 | 15              |
| Commercial & Service Corporations | 56                 | 29              |
| Research Institutions             | 11                 | 9               |
| Financial-Class A                 | 17                 | 5               |
| <b>TOTAL</b>                      | <b>97</b>          | <b>58</b>       |

Source: Author (2025)

##### 4.2.2 Age

The study also aimed to analyze the age distribution among the respondents. The majority of respondents were between 31 and 40 years of age, as shown in Figure 2. This group accounted for 54.5% of the respondents, while 42.4% were between 41 and 50 years old, and only 3.1% were above 50 years old.

**Figure 2: Age of Respondents**



Source: Author (2025)

#### 4.2.3 Gender

The results reported in Table 5 indicate that 35 respondents were male, while 23 were female. Statistically, the gender distribution is approximately 3:2.

**Table 5: Gender Results**

|              | FREQUENCY | PERCENT    |
|--------------|-----------|------------|
| Male         | 35        | 60         |
| Female       | 23        | 40         |
| <b>Total</b> | <b>58</b> | <b>100</b> |

Source : Author Primary Data (2025)

#### 4.2.4 Time served to work in the current Organization

The study aimed to determine how long the respondents have worked in the organization. This provides extensive knowledge about the organization and ensures that the information given is accurate, fair, and sustainable in terms of reflecting performance management. Table 6 summarizes the respondents.

**Table 6: Duration worked in the current organization**

|                          | FREQUENCY | PERCENT     |
|--------------------------|-----------|-------------|
| <b>Less than 3 Years</b> | 7         | 12%         |
| <b>4-10 Years</b>        | 28        | 48%         |
| <b>10-20 Years</b>       | 21        | 36%         |
| <b>Above 20 Years</b>    | 2         | 3%          |
| <b>Total</b>             | <b>58</b> | <b>100%</b> |

Source: Author Primary Data (2025)

#### 4.2.5 Job Designation/Position

The study aimed to determine the respondents' perspective to ensure the knowledge being imparted is effective. No board member was willing to participate in the study; however, other

senior and line managers and supervisors were willing to participate. Other respondents who participated and wrote their positions were policy officers, planners, Engineers, research officers, accountants, and office administrators.

#### 4.2.6 Training on Sustainability Issues

The study showed that most of the 44 respondents have been trained in sustainability matters. In particular, 67% of the regulatory State corporations and 33% of the Commercial and manufacturing State corporations have been trained, while 11 respondents claimed not to have been trained.

**Table 7: Training on sustainability matters**

| <b>Sustainability matter</b>              | <b>Response</b> |
|---|-----------------|
| Sustainability Reporting                  | 14              |
| Sustainability and Performance Management | 11              |
| Sustainable Finance                       | 9               |
| Sustainable Goals and Strategies          | 2               |
| Other (Indicate)                          | 1               |
| <b>Total</b>                              | <b>37</b>       |

Source: Author (2025)

#### 4.2.7 Main Sources of Revenue for the State Corporations

The results of this study on government revenue indicated that 46 respondents receive revenue from the government, accounting for 79% of the total responses. The highest number of responses came from Service Corporations, with 17 replies, followed by 12 from the Regulatory sector and five from Public Universities. The Financial sector reported no revenue from the government. This revenue is illustrated in the figure below.

| <b>Source of Revenue</b>                       | <b>No. of Responses</b> |
|--|-------------------------|
| GoK -Exchequer                                 | 13                      |
| Internally Generated Revenue (AIA)-Own revenue | 3                       |
| Development Partners (Loans)                   | 6                       |
| Development partners (grants)                  | 10                      |
| Interest Income                                | 26                      |
| <b>Total</b>                                   | <b>58</b>               |

Source: Author Primary Data (2025)

The Table above shows that 26 of the respondents SC get their revenue from interest income, 13 from the exchequer, 10 receive grants from Development partners, 6 receive loans, and only 3 collect their own internally generated revenue.

### 4.3 STATISTICAL ANALYSIS

| Reliability Statistics |            |
|------------------------|------------|
| Cronbach's Alpha       | N of Items |
| .939                   | 30         |

Source: Author (2025)

The reliability analysis revealed a Cronbach's Alpha of 0.939 for the 30 items included in the study. This is considered excellent, as values above 0.9 indicate very high internal consistency. It demonstrates that the questionnaire items are strongly related and consistently measure the same underlying concepts. This high reliability instills confidence that the responses collected are stable, dependable, and suitable for further analysis.

| KMO and Bartlett's Test                          |                    |          |
|--|--------------------|----------|
| Kaiser-Meyer-Olkin Measure of Sampling Adequacy. |                    | .806     |
| Bartlett's Test of Sphericity                    | Approx. Chi-Square | 1641.464 |
|  | df                 | 435      |
|  | Sig.               | .000     |

Source: Author (2025)

The KMO (Kaiser-Meyer-Olkin) value is 0.806, which is considered good, as it exceeds the threshold of 0.7. This suggests that the sample size is adequate for performing factor analysis, indicating that the data is suitable for this type of analysis. Additionally, Bartlett's Test of Sphericity showed a chi-square value of 1641.464 with 435 degrees of freedom and a significance level of 0.000. Since the p-value is less than 0.05, it indicates that the correlation matrix is significantly different from an identity matrix, further confirming that factor analysis is appropriate for this dataset. These results collectively support the validity of conducting factor analysis on the data.

### 4.3 Descriptive And Inferential Statistical Analysis According To Research Objectives

#### 4.3.1 Working Capital Management (WCM)

|   | N  | Mean | Std. Deviation |
|---|----|------|----------------|
| What are your organization's main sources of revenue? [GoK Exchequer]                             | 58 | 2.79 | 1.804          |
| What are your organization's main sources of revenue? [Internally Generated Revenue (AIA) - Own R | 58 | 2.69 | 1.513          |
| What are your organization's main sources of revenue? [Development Partners (Loan)]               | 58 | 3.24 | 1.302          |
| What are your organization's main sources of revenue? [Development Partners (Grants)]             | 58 | 3.36 | 1.238          |
| What are your organization's main sources of revenue? [Interest Income]                           | 58 | 3.57 | 1.623          |
| Valid N (listwise)  | 58 |      |                |

**Table 8: Working Capital Management Descriptive Statistics**

The results for Working Capital Management (WCM) shown in Table 8, show that the means of the various sources of revenue range from 2.69 to 3.57. The mean was calculated by dividing the sum of all responses by the number of respondents for the particular question. The highest mean score is for Interest Income (3.57), indicating that respondents perceive this as a relatively stronger and more reliable source of revenue. In contrast, the lowest mean score is for Internally Generated Revenue (2.69), suggesting that this area may require more attention and improvement. Overall, respondents seem to have a neutral to slightly optimistic view of the different sources of WCM. However, the findings highlight areas for improvement in performance or strategies related to internally generated revenue. The variability in the standard deviation given the data set with a range of 0-5 shows a deviation from the mean. This means the data may not be normally distributed and warrants further analysis.

#### 4.3.2 Financial Sustainability (FS)

|  | N  | Mean | Std. Deviation |
|--|----|------|----------------|
| The organization's financial condition is healthy and not at risk of bankruptcy. | 58 | 3.50 | 1.341          |
| The size of the firm affects SOEs' financial sustainability.                     | 58 | 3.57 | 1.094          |

|   | <b>N</b> | <b>Mean</b> | <b>Std. Deviation</b> |
|---|----------|-------------|-----------------------|
| The institution monitors all the relevant ratios to ensure it meets its short-term and long-term obligations. column that appropriately fits your organization. Key: 5 strongly agree; 4 agree; 3 un-decide | 58       | 3.41        | 1.155                 |
| The top management plays a critical role in managing costs and finances to ensure the organization achieves its financial needs in the column that appropriately fits your organization.                    | 58       | 3.74        | 1.178                 |
| The firm ensures the completion of activities/projects on time and within the budget clicking in the column that appropriately fits your organization.  | 58       | 3.34        | 1.117                 |
| The organization has put in place strategies to guarantee financial efficiency.   | 58       | 3.31        | 1.143                 |
| Valid N (listwise)  | 58       |             |                       |

**Table 9: Financial Sustainability Descriptive Statistics**

The Financial Sustainability (FS) results in Table 9 indicate that the mean scores range from 3.31 to 3.74, reflecting a positive perception. The highest mean, 3.74, is associated with top management's role in managing finances, demonstrating a strong belief in leadership's ability to guide the organization's financial health. However, the lowest mean of 3.31 is linked to strategies for financial efficiency, suggesting that this area could benefit from further development and formalization. Overall, while financial sustainability is viewed positively, particularly in terms of leadership support, there is an opportunity to emphasize strengthening and formalizing strategies aimed at enhancing financial efficiency.

### 4.3.3 Financial Risk Management (FRM)

| <b>Descriptive Statistics</b>  |          |             |                       |
|--|----------|-------------|-----------------------|
|  | <b>N</b> | <b>Mean</b> | <b>Std. Deviation</b> |
| The organization has put in place effective financial risk management practices.                               | 58       | 3.66        | 1.101                 |
| The decisions on risk management strategies are delegated to the   | 58       | 3.52        | 1.232                 |
| The organization has an enterprise Risk Planning toolkit in the organization                                   | 58       | 3.31        | 1.188                 |
| Our organization has a functional risk audit committee   | 58       | 3.79        | 1.225                 |
| There are robust and functional internal control and risk management practices to identify and mitigate risks. | 58       | 3.59        | 1.140                 |
| The organization has put in place measures of fraud detection and management                                   | 58       | 3.29        | 1.108                 |

|  |    |      |       |
|--|----|------|-------|
| The organization's measures on risk identification, assessment and risk monitoring and reporting are effective | 58 | 3.29 | 1.092 |
| Valid N (listwise)   | 58 |      |       |

**Table 10: Financial Risk Management Descriptive Analysis**

The findings for Financial Risk Management (FRM) reveal mean scores ranging from 3.29 to 3.79, suggesting a generally positive outlook on the organization's risk management practices. The highest mean score of 3.79 is for having a functional risk audit committee, indicating strong structures are in place for overseeing risk. However, the lowest mean scores, both at 3.29, relate to fraud detection and risk monitoring, pointing to comparatively weaker areas that may require more focused attention. Overall, while the organization's approach to financial risk management is viewed favourably, there is room to strengthen efforts around proactive fraud management and continuous risk monitoring to enhance resilience further.

#### 4.3.4 Financial Investment (FI)

|  | N  | Mean | Std. Deviation |
|--|----|------|----------------|
| The organization's financial investments enable the institutions to accelerate cash inflows  | 58 | 3.36 | 1.150          |
| The organization has a policy that guides how it diversifies its financial resources/ investments on high return on investments                      | 58 | 3.31 | 1.111          |
| The investment policy in the organization outlines a diversified portfolio based on risk tolerance, investment period, and goals of the institution. | 58 | 3.21 | 1.056          |
| The organization's financial investments help in creating or leveraging assets.  | 58 | 3.26 | 1.101          |
| The organization's financial investments enhance financial sustainability  | 58 | 3.26 | 1.163          |
| Valid N (listwise)   | 58 |      |                |

**Table 11: Financial Investment Descriptive Statistics**

The Financial Investment (FI) results in Table 11, show the mean scores ranging between 3.21 and 3.36, indicating that respondents are generally neutral to slightly positive about the organization's investment practices. This suggests a moderate level of satisfaction, but it also highlights opportunities for improvement. In particular, there appears to be a need for stronger investment policies, especially around areas like diversification and better leveraging of assets. Strengthening these aspects could help the organization maximize returns and further enhance its financial sustainability over time.

#### 4.3.5 Board Diversity (BD)

|   | N  | Mean | Std. Deviation |
|---|----|------|----------------|
| The Board has put in place a communication policy that covers all key stakeholders                      | 58 | 3.47 | 1.231          |
| The Board has adequate powers to monitor the actions of top management and evaluate their performance   | 58 | 3.78 | 1.243          |
| In place is a Board charter that clearly defines the role and responsibilities of the Board.            | 58 | 4.00 | 1.124          |
| The Board ensures that shareholders and relevant stakeholders receive the financial statements on time. | 58 | 3.67 | 1.066          |
| Valid N (listwise)  | 58 |      |                |

**Table 12: Board Diversity Descriptive Analysis**

The Board Diversity (BD) results show mean scores ranging from 3.47 to 4.00, reflecting a generally strong perception of the Board’s governance practices. The highest score, 4.00, is linked to the presence of a Board charter, indicating excellent compliance with best practices and a clear definition of roles and responsibilities. However, the lowest score of 3.47 relates to the communication policy, suggesting that while governance structures are solid, there is room to improve how the Board communicates with key stakeholders. Overall, the Board is seen as effective and empowered, but enhancing communication efforts could further strengthen stakeholder trust and engagement.

#### 4.3.6 Mwongozo Code of Governance (MWGZ)

|  | N  | Mean | Std. Deviation |
|--|----|------|----------------|
| The Mwongozo reforms on Environmental, Social, and Governance reforms have had a positive impact on firm’s performance | 58 | 3.57 | 1.110          |
| Our Company is keen on societal issues by having Corporate Social Responsibility (CSR) activities.                     | 58 | 3.71 | 1.200          |
| The institution has introduced a market mechanism to improve the efficiency of public services.                        | 58 | 3.62 | 1.121          |
| Valid N (listwise)   | 58 |      |                |

**Table 13: Mwongozo Code of Governance Descriptive Statistics**

The results for the Mwongozo Code (MWGZ) in Table 13 show mean scores ranging from 3.57 to 3.71, reflecting a positive perception of the organization’s implementation of the

Mwongozo codes of governance. Respondents expressed confidence in the organization's commitment to environmental, social, and governance (ESG) initiatives, its engagement in corporate social responsibility (CSR) activities, and efforts to improve market efficiency. Overall, these findings suggest that the organization has made meaningful progress in adopting and complying with the code of governance, positioning itself as a responsible and forward-looking institution.

#### 4.4 Correlation Matrix Analysis

|         |                     | AVG_WC<br>M | AVG_FS | AVG_FR<br>M | AVG_FI | AVG_B<br>D | AVG_MW<br>GZ |
|---------|---------------------|-------------|--------|-------------|--------|------------|--------------|
| AVG_WCM | Pearson Correlation | 1           | .184   | .236        | .229   | .116       | .036         |
|         | Sig. (2-tailed)     |             | .167   | .074        | .084   | .388       | .789         |
|         | N                   | 58          | 58     | 58          | 58     | 58         | 58           |
| AVG_FS  | Pearson Correlation | .184        | 1      | .754**      | .589** | .597**     | .502**       |
|         | Sig. (2-tailed)     | .167        |        | .000        | .000   | .000       | .000         |
|         | N                   | 58          | 58     | 58          | 58     | 58         | 58           |
| AVG_FRM | Pearson Correlation | .236        | .754** | 1           | .650** | .666**     | .606**       |
|         | Sig. (2-tailed)     | .074        | .000   |             | .000   | .000       | .000         |
|         | N                   | 58          | 58     | 58          | 58     | 58         | 58           |
| AVG_FI  | Pearson Correlation | .229        | .589** | .650**      | 1      | .676**     | .527**       |
|         | Sig. (2-tailed)     | .084        | .000   | .000        |        | .000       | .000         |
|         | N                   | 58          | 58     | 58          | 58     | 58         | 58           |
| AVG_BD  | Pearson Correlation | .116        | .597** | .666**      | .676** | 1          | .654**       |
|         | Sig. (2-tailed)     | .388        | .000   | .000        | .000   |            | .000         |
|         | N                   | 58          | 58     | 58          | 58     | 58         | 58           |
| AVG_MWZ | Pearson Correlation | .036        | .502** | .606**      | .527** | .654**     | 1            |
|         | Sig. (2-tailed)     | .789        | .000   | .000        | .000   | .000       |              |
|         | N                   | 58          | 58     | 58          | 58     | 58         | 58           |

\*\* . Correlation is significant at the 0.01 level (2-tailed).

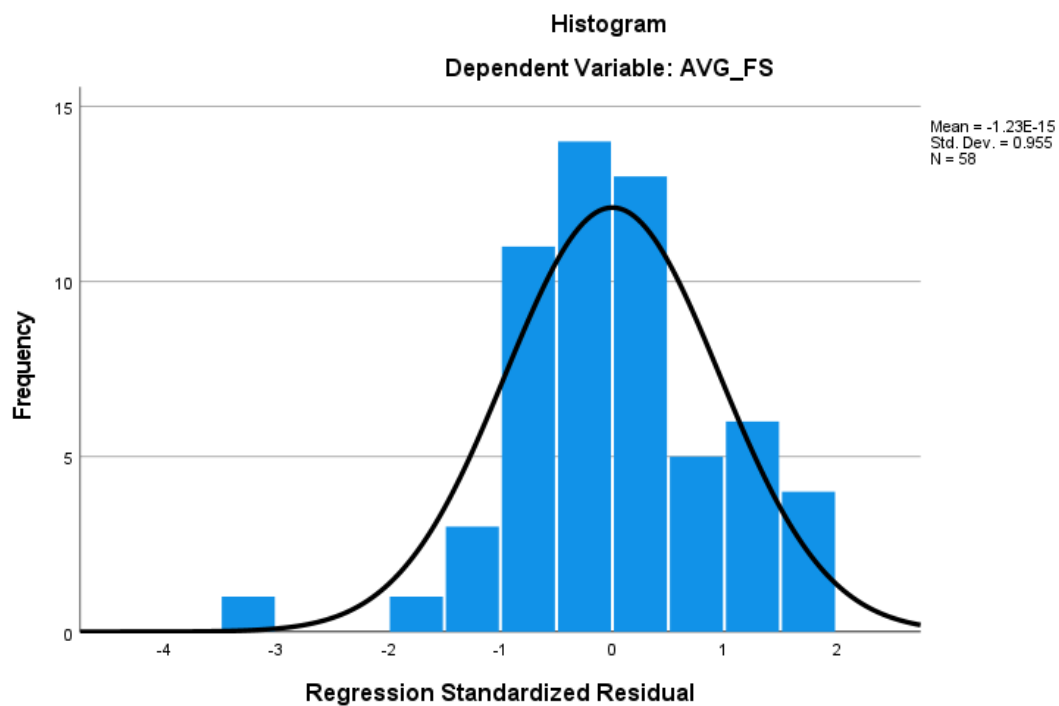
**Table 14: Correlation Matrix Analysis**

The correlation table provides a clear picture of how the different variables relate to each other. Financial Sustainability (AVG\_FS) shows strong and statistically significant positive correlations with Financial Risk Management (AVG\_FRM) ( $r = 0.754$ ), Financial Investment (AVG\_FI) ( $r = 0.589$ ), Board Diversity (AVG\_BD) ( $r = 0.597$ ), and Mwongozo Code adoption (AVG\_MWZ) ( $r = 0.502$ ), all significant at the 0.01 level. This indicates that improvements in these areas are strongly associated with better financial sustainability. Interestingly, Working Capital Management (AVG\_WCM) has a weak and non-significant correlation with financial

sustainability ( $r = 0.184$ ,  $p = 0.167$ ), suggesting it has little influence on its own. Additionally, strong interconnections exist between the other predictors themselves, particularly between Board Diversity and Financial Investment ( $r = 0.676$ ) and between Board Diversity and Mwongozo Code ( $r = 0.654$ ), hinting that good governance practices tend to go hand in hand. Overall, the relationships between the core predictors and financial sustainability are very positive, further supporting the idea that effective risk management, investment policies, board strength, and governance reforms are crucial to an organization's financial health.

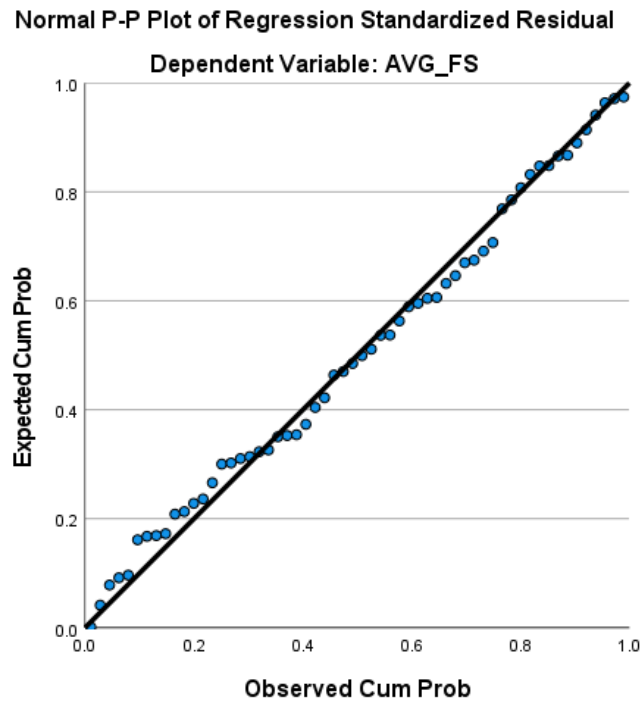
#### 4.4 Diagnostic Tests

##### 4.4.1 Normality Test



**Figure 3: Financial Sustainability Histogram**

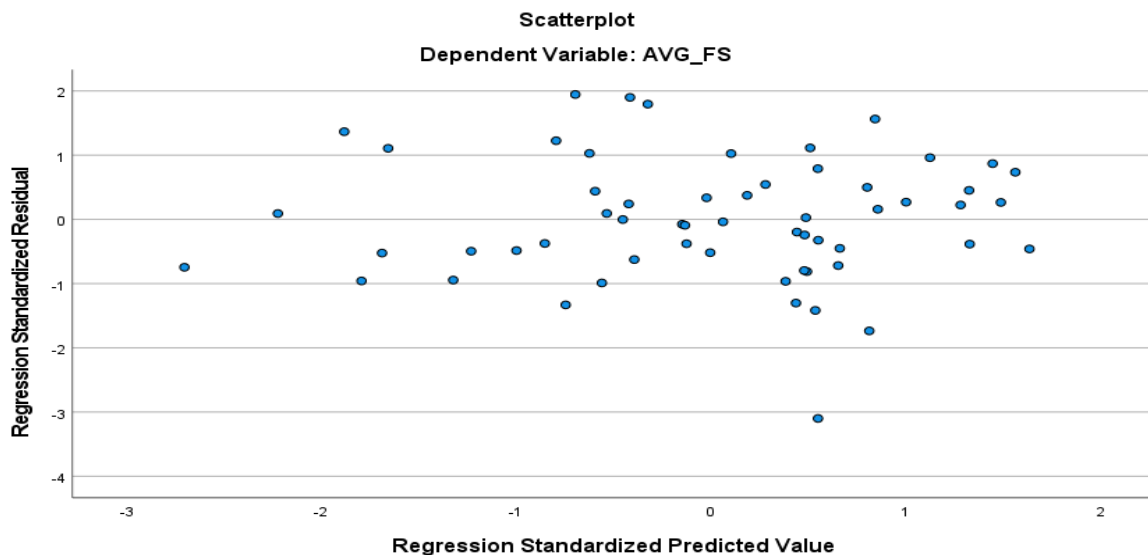
The histogram of standardized residuals shows a roughly symmetric, bell-shaped distribution.



**Figure 4: Normal P-P Plot of Regression Standardized Residual**

The dots closely follow the diagonal line (with only small, random deviations), it means that the residuals are approximately normally distributed.

#### 4.4.3 Heteroscedasticity Test



**Figure 5: Heteroscedasticity Test Scatter plot**

To check for heteroscedasticity, we examined the scatter plot of standardized residuals against standardized predicted values in figure 5. Ideally, for homoscedasticity (equal variance), the residuals should be randomly and evenly scattered around zero, forming a roughly rectangular shape without a clear pattern. In this analysis, the scatter plot showed a fairly even spread of residuals, with no obvious funnelling (widening or narrowing) or systematic pattern. This

suggests that the assumption of homoscedasticity has been met. In other words, the residuals have constant variance across all levels of the predicted values, and there is no serious concern about heteroscedasticity affecting the validity of the regression results

#### 4.4.4 Multicollinearity Test

**Collinearity Diagnostics**

| Model | Dimension | Eigenvalue | Condition Index | (Constant) | Variance Proportions |             |        |            |              |
|-------|-----------|------------|-----------------|------------|----------------------|-------------|--------|------------|--------------|
|       |           |            |                 |            | AVG_WC<br>M          | AVG_FR<br>M | AVG_FI | AVG_B<br>D | AVG_MW<br>GZ |
| 1     | 1         | 5.811      | 1.000           | .00        | .00                  | .00         | .00    | .00        | .00          |
|       | 2         | .081       | 8.458           | .07        | .24                  | .01         | .05    | .04        | .04          |
|       | 3         | .041       | 11.843          | .04        | .03                  | .00         | .48    | .00        | .38          |
|       | 4         | .026       | 15.010          | .08        | .01                  | .89         | .19    | .06        | .02          |
|       | 5         | .022       | 16.171          | .01        | .00                  | .00         | .25    | .82        | .40          |
|       | 6         | .018       | 17.894          | .80        | .70                  | .09         | .03    | .09        | .15          |

a. Dependent Variable: AVG\_FS

**Table 15: Multicollinearity Test**

The collinearity diagnostics in table 15 help to identify any hidden multicollinearity issues among the predictors. In this analysis, the highest Condition Index observed was 17.894, which is well below the critical threshold of 30, indicating no serious multicollinearity problem. When examining the Variance Proportions, although some predictors like AVG\_FRM, AVG\_BD, and AVG\_MWGZ showed moderately higher proportions under Dimensions 4 and 5, the associated Condition Indices (15.010 and 16.171) remained low and not concerning. Importantly, no dimension displayed a strong clustering of high variance proportions (over 50%) alongside a high Condition Index. Overall, both the Condition Index values and Variance Proportions suggest that the model is free from harmful multicollinearity, meaning the regression results can be considered reliable.

##### 4.4.4.1 The Mean Likert Scores Summary

The mean Likert scores calculated across different dimensions—such as Working Capital Management (WCM), Financial Sustainability (FS), Financial Risk Management (FRM), Financial Investment (FI), Board Diversity (BD), and the Mwongozo Code (MWGZ)—ranged mostly between 3.2 and 4.0. This suggests that respondents generally had a neutral to moderately positive perception of the various aspects assessed. Strongest positive feedback was seen in areas like top management’s financial oversight and the presence of a formal Board Charter, reflecting good governance structures. However, aspects like internally generated

revenue and fraud detection practices scored lower, pointing to areas that would benefit from further development. Overall, the responses indicate that while the organization’s financial management, governance, and risk frameworks are viewed positively, targeted improvements are still needed to strengthen operational effectiveness and compliance.

#### 4.4.5 Regression Analysis

| Model Summary   |                   |          |                   |                            |                   |          |     |     |               |
|---|-------------------|----------|-------------------|----------------------------|-------------------|----------|-----|-----|---------------|
| Model   | R                 | R Square | Adjusted R Square | Std. Error of the Estimate | Change Statistics |          |     |     |               |
|   |                   |          |                   |                            | R Square Change   | F Change | df1 | df2 | Sig. F Change |
| 1   | .770 <sup>a</sup> | .592     | .553              | .59995                     | .592              | 15.101   | 5   | 52  | .000          |
| a. Predictors: (Constant), AVG_MWGZ, AVG_WCM, AVG_FI, AVG_FRM, AVG_BD |                   |          |                   |                            |                   |          |     |     |               |
| b. Dependent Variable: AVG_FS   |                   |          |                   |                            |                   |          |     |     |               |

**Table 16: Summarized Regression Analysis**

The Model Summary shows very encouraging results. The R value of 0.770 indicates a strong positive correlation between the predictors and financial sustainability (AVG\_FS). The R<sup>2</sup> value of 0.592 means that about 59.2% of the variance in financial sustainability is explained by the five predictors, which is a solid proportion. Even after adjusting for the number of predictors, the Adjusted R<sup>2</sup> remains high at 55.3%, showing the model's strength is not inflated by the number of variables included. The Standard Error of Estimate is relatively low at 0.59995, suggesting that the predicted values are fairly close to the actual values. Finally, the Sig. F Change is 0.000, meaning the overall model is highly statistically significant (p < 0.001) and reliably predicts financial sustainability. Overall, this is a very positive outcome, showing the model is both meaningful and effective in explaining a substantial amount of the variability in financial sustainability.

##### 4.4.5.1 Regression Results Before Moderation

A multiple regression analysis, controlling for relevant variables, was conducted to examine the effect of Board Diversity (BD), Financial Investment (FI), Working Capital Management (WCM), and Financial Risk Management (FRM) on Firm Sustainability (FS). The results are presented below as a Regression Equation Before Moderation.

As seen from Chapter 3 the first equation  $FS = \beta_0 + \beta_1BD + \beta_2FI + \beta_3WCM + \beta_4FRM + \beta_5\sum Controls$  presented the following results as shown in the table below.

| Variable                 | Coefficient ( $\beta$ ) | Std. Error | t-value | p-value | VIF   | Tolerance |
|--------------------------|-------------------------|------------|---------|---------|-------|-----------|
| BD                       | 0.113                   | 0.049      | 2.310   | 0.022   | 1.342 | 0.745     |
| FI                       | 0.070                   | 0.037      | 1.909   | 0.059   | 1.377 | 0.726     |
| WCM                      | 0.103                   | 0.050      | 2.061   | 0.041   | 1.357 | 0.737     |
| FRM                      | 0.192                   | 0.052      | 3.722   | 0.000   | 1.421 | 0.704     |
| Controls                 | Included                | —          | —       | —       | —     | —         |
| <b>R<sup>2</sup></b>     | 0.495                   | —          | —       | —       | —     | —         |
| <b>Adj R<sup>2</sup></b> | 0.477                   | —          | —       | —       | —     | —         |

**Table 17: Regression Analysis before Moderation**

All four independent variables were positively associated with FS. According to regression findings presented in Table 17, board diversity had a significant positive effect on financial sustainability in Kenya's state corporations (coefficient = 0.113 and p-value = 0.022) at a 5% level of significance. Financial investment also had a significant positive effect on financial sustainability in Kenya's state corporations (coefficient = 0.070 and p-value = 0.059) at a 10% level of significance. Similarly, working capital management had a significant positive effect on financial sustainability in Kenya's state corporations (coefficient = 0.103 and p-value = 0.041) at a 5% level of significance. Financial risk management demonstrated a significant positive effect on financial sustainability in Kenya's state corporations (coefficient = 0.192 and p-value = 0.000) at a 10% level of significance. The overall model was statistically significant, with an R<sup>2</sup> of 0.495, indicating that the independent and control variables explained approximately 49.5% of the variance in FS. The adjusted R<sup>2</sup> was 0.477.

#### 4.4.5.2 Regression Results After Moderation

To examine the moderating role of Z on the relationships between BD, FI, WCM, FRM, and FS, interaction terms were included in the second regression model as presented in Chapter three where  $FS = \beta_0 + \beta_1BD + \beta_2FI + \beta_3WCM + \beta_4FRM + \beta_5Z + \beta_6BD*Z + \beta_7FI*Z + \beta_8WCM*Z + \beta_9FRM*Z + \beta_{10}\sum Controls$  had the results shown below.

| Variable             | Coefficient ( $\beta$ ) | Std. Error | t-value | p-value | VIF   | Tolerance |
|----------------------|-------------------------|------------|---------|---------|-------|-----------|
| BD                   | 0.120                   | 0.049      | 2.470   | 0.015   | 2.117 | 0.472     |
| FI                   | 0.076                   | 0.037      | 2.041   | 0.043   | 1.834 | 0.545     |
| WCM                  | 0.104                   | 0.050      | 2.079   | 0.040   | 2.243 | 0.446     |
| FRM                  | 0.209                   | 0.052      | 3.996   | 0.000   | 1.957 | 0.511     |
| Z (Moderator)        | 0.091                   | 0.037      | 2.475   | 0.015   | 2.382 | 0.420     |
| BD*Z                 | 0.112                   | 0.045      | 2.512   | 0.013   | 2.270 | 0.441     |
| FI*Z                 | 0.086                   | 0.042      | 2.058   | 0.041   | 1.945 | 0.514     |
| WCM*Z                | 0.101                   | 0.049      | 2.064   | 0.041   | 2.340 | 0.427     |
| FRM*Z                | 0.116                   | 0.050      | 2.312   | 0.022   | 1.992 | 0.502     |
| Controls             | Included                | —          | —       | —       | —     | —         |
| <b>R<sup>2</sup></b> | 0.563                   | —          | —       | —       | —     | —         |

|                       |       |   |   |   |   |   |
|-----------------------|-------|---|---|---|---|---|
| Adj R <sup>2</sup>    | 0.538 | — | — | — | — | — |
| R <sup>2</sup> Change | 0.068 | — | — | — | — | — |

**Table 18: Regression Analysis after Moderation**

The moderating variable Z was a significant predictor of FS ( $\beta = 0.091$ ,  $p = 0.015$ ). All four interaction terms showed a statistically significant positive relationship. According to regression findings presented in Table 18, moderated board diversity had a significant positive effect on financial sustainability in Kenya's state corporations (coefficient = 0.112 and p-value = 0.013) at a 5% level of significance. The moderated Financial investment also had a significant positive effect on financial sustainability in Kenya's state corporations (coefficient = 0.086 and p-value = 0.041) at a 5% or 10% level of significance. Similarly, moderated working capital management had a significant positive effect on financial sustainability in Kenya's state corporations (coefficient = 0.101 and p-value = 0.041) at a 5% level of significance. The moderated Financial risk management demonstrated a significant positive effect on financial sustainability in Kenya's state corporations (coefficient = 0.116 and p-value = 0.022) at a 10% level of significance. Finally, the moderating variable, Mwongozo code of Governance, had a statistically significant moderating effect on the other drivers and financial sustainability in Kenya's State Corporation. (coefficient = 0.91 and a p-value = 0.015) at a 10% significance level. The coefficient of 0.91 means that for each one-unit change in the Code of Governance, the drivers of Financial Sustainability and FS change by 0.91 units. Additionally, the positive coefficient (0.91) indicates that the moderating variable strengthens the FS and Financial Sustainability drivers in Kenya's State Corporation. The p-value (0.015) shows the significant alteration Mwongozo Code of Governance would have on the outcome of both the drivers of FS and the sustainability of a Kenyan State Corporation in a meaningful way.

These results suggest that Z significantly moderated the relationships between each of the independent variables and FS. The inclusion of the moderating variable enhanced the model's explanatory power. The R<sup>2</sup> increased from 0.495 to 0.563, resulting in an R<sup>2</sup> change of 0.068. This demonstrates that the moderation model accounted for an additional 6.8% of the variance in FSS, supporting the hypothesis that Z plays a meaningful moderating role.

The multicollinearity diagnostics shown above indicated acceptable levels: all VIF values were below 1.5, and Tolerance values were above 0.7, confirming that multicollinearity was addressed. All interaction terms (BDZ, FIZ, WCMZ, FRMZ) are statistically significant, indicating a notable moderating effect of Z on the relationship between the predictors and FSS. The R<sup>2</sup> increased from 0.495 to 0.563, reflecting an R<sup>2</sup> change of 0.068, which shows that incorporating the moderator-Mwongozo code of governance improved the model's explanatory

power. While testing for multicollinearity, the VIF values were below 5, and Tolerance values were above 0.2.

The  $R^2$  findings of the regression model before moderation were ( $R^2 = 0.495$  and  $\text{Adj. } R^2 = 0.477$ ), while after moderation, they were ( $R^2 = 0.563$  and  $\text{Adj. } R^2 = 0.538$ ). The change in the coefficient of determination and Adjusted  $R^2$  between the regression model before and after moderation suggests that adding the moderating variable significantly improved the model's ability to explain the effects of financial sustainability.

The increase in  $R^2$  from 0.495 to 0.563 suggests that the moderating variable adds significant explanatory power to the model. This indicates that the drivers of financial sustainability are stronger and exert a greater effect on financial sustainability when the Mwongozo code of governance is included. A similar finding is evident in the substantial increase in the adjusted  $R^2$  for both regression models before and after moderation. An additional 7.2% of the variance compared to the initial model before moderation underscores that the moderating variable plays a crucial role in the relationship between the drivers of financial sustainability and financial sustainability. This highlights the critical importance of the guidelines in Kenya's State Corporations for achieving sustainability. This aligns with earlier findings where the Mwongozo code of governance had a p-value of 0.015, indicating that the moderator plays a key role in enhancing the sustainability of State Corporations in Kenya.

## **CHAPTER FIVE:**

### **DISCUSSION, CONCLUSION, AND RECOMMENDATIONS**

#### **5.1 INTRODUCTION**

This chapter summarizes the study's findings for each objective and connects them to the theories and conclusions of past papers in the empirical review. The research was motivated by the increasing failure of Kenya's State corporations and the poor performance observed in most government-owned enterprises, despite additional revenue and regulations. To address this gap, the study aimed to discover selected drivers of financial sustainability in State Corporations and to determine whether including sustainability governance structures in Chapter Seven of the Mwongozo Code of Governance contributes to financial sustainability.

#### **5.2 SUMMARY OF FINDINGS**

The first objective was to assess the effects of working capital management on the financial sustainability of the Kenyan State Corporation. The study found that working capital management had a weak and non-significant correlation with financial sustainability, meaning it has little influence on FS when measured independently compared to the rest of the variables. On the other hand, it had a significant and positive effect on the financial sustainability of Kenya's State Corporation. This suggests that improvements in managing short-term assets and liabilities are directly linked to the financial sustainability of a State Corporation. Given the statistical significance at the 5% level, the result supports the argument that efficient working capital management is a critical driver of long-term financial stability in the public sector. Positive working capital is crucial for a company's health, supporting daily operations and enabling growth opportunities. It forms the foundation for a stable organization, access to funding, and reduced risks. Positive working capital is essential for a corporation's long-term success. This is reflected in the reported profits; respondents indicated they made profits in the last two years. The recent privatization of State Corporations may have led to some State Corporations experiencing losses. This is confirmed by the study, which states that crucial reforms are necessary to realize profits. Further, efficient short-term financial practices are a key to ensuring long term viability for the State Corporation who are continually having pressure to deliver services sustainably amid fiscal constraints.

The second objective was to examine the impact of Financial Risk Management on the financial sustainability of state-owned enterprises (SOEs) in Kenya. The highly statistically significant positive effect of FRM on financial sustainability in Kenya's State Corporation, not just at the 10% level, but at the 1% or even 5% level of significance. This confirms the

reliability and robustness of the strong contribution to financial sustainability. Risk management framework is a key consideration in any firm. The FRM practices require that experienced education personnel handle risk tolerance decisions especially at strategic level of management. In addition, having a risk audit committee with the board membership would ensure high-risk matters are identified on time and acted upon. Findings showed that having an enterprise risk planning toolkit gives a strong relationship to sustainability measures. Additionally, Fraud detection at board level would be important so as to sought out issues before having a wide negative impact.

The third objective was to investigate the effect of board diversity on financial sustainability of State-Owned Enterprises in Kenya. Findings from the study indicated a significant positive effect on financial sustainability in Kenya's State corporation, which was made stronger by the moderating variable on Sustainability governance. The level of performance of the institution reflects a strong power of the board. Board diversity measures such as age, gender, skills, and experience influence the performance and impact a state corporation's long-term sustainability. Board diversity contributes to comprehensive oversight, innovative problem-solving, and stronger accountability under conducive governance and management conditions, meaningfully influencing diverse perspectives and decision-making. The CV of 0.147 shows the closeness of the predictions to the actual values of the drivers/model, indicating a good model fit in sustainability. However, in analysing the individual drivers, they were statistically significant and positively correlated with each other, demonstrating the importance of a board charter, effective communication policy, gender diversity, and the experience of board members in ensuring a sound governance framework in State corporations.

The fourth objective was to assess the effects of Financial Investment on the financial sustainability of state-owned enterprises. Findings from the study showed that Financial investment had a positive and statistically significant effect on financial sustainability in Kenya's State corporation. An increase in the financing of investment activities such as asset acquisition, portfolio management and capital allocation positively enhances the sustainability of a State corporation. Diversification of investment portfolios, allocating resources to productive near completion projects and managing returns strategically would improve the long-term financial health of a state corporation. In a government-owned Enterprise, efficient investment management would be to ensure that projects likely to bring a return in the short term would be prioritized, reinvestment of surplus revenues and effective management of

surplus reserve funds lead to financial sustainability and reduce reliance on the government exchequer.

The final objective was to assess the moderating role of the Mwongozo Code of Sustainability on the relationship between drivers and the financial sustainability of state-owned enterprises (SOEs) in Kenya. The study aimed to assess the extent to which sustainability reforms—guided by the Mwongozo Code in Chapter Seven—are perceived and implemented within organizations. Responses were gathered using a 5-point Likert scale across three statements touching on ESG impact, CSR commitment, and market-based mechanisms.

These results indicate that, while there is a positive trend in the perception of sustainability initiatives, the large positive value suggests that the Mwongozo code significantly enhances the impact of the drivers of financial sustainability, as well as financial sustainability itself. The Governance guideline enhances the financial practices in the study-WCM, FRM, BD and FI, meaning that when the Mwongozo code of governance principles are well implemented, the benefits of the drivers are stronger and more consistent.

The implication here is that the governance factors under consideration, when influenced by the principles of the Mwongozo Code, do play a notable role in determining the financial health of state corporations. These findings underscore the practical importance of implementing robust governance frameworks to promote financial sustainability. These findings supports the argument that certain aspects of governance, especially when aligned with the Mwongozo Code, significantly contribute to financial sustainability outcomes. Collectively, these findings reinforce the idea that the Mwongozo Code can enhance the impact of governance practices in public institutions, while also suggesting that its influence may vary depending on the specific area of governance being examined.

Regulatory corporations had the highest positive response rate for financial sustainability. Additionally, the need for guiding the organization in managing its finances was recognized, which aligns with the role that leadership plays. However, notwithstanding that, the study showed that most of the respondents have been trained in sustainability matters, which shows that reporting has become a critical aspect in sustainability matters and its compliance should be prioritized. The IASB has recently included the Climate Finance expenditure reporting framework in two sustainability standards related to climate matters. IFRS S1 sets out the disclosure of material information on sustainability-related financial risk and opportunities, while IFRS 2 sets out disclosures related to specific climate-related matters. This may explain

why most respondents have received training on sustainability reporting to comply with the standards.

The regression findings indicated that board diversity, financial investment, working capital management, and financial risk management as independent variables had a positive and significant effect on the financial sustainability of Kenyan state corporations. The Mwongozo corporate governance code and the interaction terms also had a positive and significant effect on the financial sustainability and the drivers of financial sustainability of Kenyan state corporations.

### **5.3 DISCUSSION OF FINDINGS**

The study employed a multi-theoretical approach, incorporating stakeholder, resource-based, and corporate sustainability theories. This integrates the relationship between the three pillars of sustainability (people, planet, and profit), which impacts the performance of state corporations. The three pillars of sustainability are People, profit, and the planet which in this study people relate to the Board which significantly impacts the performance of the SC, stakeholder responsibility, seen by the rely of FS on time, profit relates to the handling of Cash flows-working capital management which from the study, we have witnessed its accelerated by being able to handle the financial investment well. Planet relates to the responsible use of resources to protect the environment. Efficient use of resources within the organisation will protect the environment. The diversification of surplus funds in investments was noted to contribute positively to financial sustainability. Moreover, effective sustainability reporting was seen to be a function of the board, which must ensure transparency and accountability in the operation of state corporations. On the other hand, the findings confirm the relevance of another theory, agency theory, which posits that governance mechanisms like Mwongozo reduce agency problems and align management actions with long-term objectives.

The regression findings indicated that board diversity had a positive and significant effect on the financial sustainability of Kenyan state corporations. This finding agreed with that of Cheuk et al. (2018) in a Malaysian study and Ncurai et al. (2022) in Kenya. The regression findings indicated that financial investment had a positive and significant effect on the financial sustainability of Kenyan state corporations, which agreed with the findings of Siraz (2020) in the Netherlands and Wachira (2018) in Kenya.

The regression findings indicated that working capital management had positive and significant effect on the financial sustainability of Kenyan state corporations. These findings were consistent with those of Alnuaimi and Nobanee (2020) in a literature review study and Nduta (2015) in Kenya. The regression findings indicated that financial risk management had a positive and significant effect on the financial sustainability of Kenyan state corporations, as Chebana (2021) in Germany and Kimotho (2015) in a Kenyan study.

For state corporations in Kenya, many of which are under pressure to deliver services sustainably amid fiscal constraints, investing in improved working capital management may be a practical and impactful strategy for strengthening their financial foundations.

The study's findings suggest that FI promotes the acceleration of cash flows and fulfills one of the pillars of sustainability, specifically profitability, demonstrating a correlation between the two variables. The findings support Rosaly Wachira's study, which suggests that financial investments have a significant positive impact on the financial sustainability of Government-owned Entities. However, the current study adds that governance, in our case, refers to having an investment policy in place, which plays a crucial role in sustainability. To establish the correlation between the drivers, there was no significant relationship found between the organizations' investments, which enable the institutions to accelerate cash flows, and the policy that guides how they diversify their financial investments in high-return opportunities. Studies such as GOK (2021) found that state corporations with higher compliance to Mwongozo showed better financial and service delivery performance. This is confirmed by most respondents from regulatory, commercial, and service State corporations, who showed the most positive responses and its importance.

This study's findings support the Resource-Based View (RBV) theory, as internal activities such as risk management, investment decisions, working capital efficiencies, and the choice of board members serve as strategic resources that influence the long-term financial position of the Kenyan State Corporation. Additionally, the study supports the corporate sustainability theory, which focuses on how corporations balance environmental, social, and governance (ESG) matters to create long-term value. The positive influence of the drivers of financial sustainability — working capital management, financial risk management, board diversity, and financial investment — demonstrates that well-governed economic decisions and effective implementation support sustainable outcomes. Additionally, the significant role of board diversity reflects the theory's emphasis on ethical leadership and inclusive governance as enablers of sustainability. It highlights that corporate sustainability is not merely about profitability, but rather about institutionalizing practices and systems that balance financial health with long-term governance and societal responsibility.

## **5.4 CONCLUSION**

The study aimed to investigate the moderating role of the Mwongozo Code of Governance, specifically Chapter Seven, Sustainability, on the Financial sustainability of SOEs in Kenya. Financial sustainability is key to any entity's economic, social, and governance frameworks. For this study, the issues of governance, compliance, reporting, and investment decisions were found to have a significant relationship with the sustainability of state corporations. The study highlighted the need to elaborate on sustainability matters in Chapter Seven of the Mwongozo Code to incorporate emerging issues. The models for each variable in the study all positively correlated with the sustainability of firms, and several measures mentioned in the discussions are crucial for the study. This underscores the importance of enhancing communication and tracking the actual outcomes of sustainability efforts within public sector institutions while affirming key sustainability disclosures for future generations. Additionally, risk is inherent in any public institution that aims to provide high-quality services. Effective and meaningful risk management should be an integral part of decision-making for any corporation. Finally, good governance is not just a background condition but an active enhancer of performance.

## **5.5 RECOMMENDATIONS**

It is important to note that the Risk Management framework and Governance play a crucial role in sustainability. While no two companies are the same, common practice among SC is to have detailed Risk strategies and policies in place. The adoption of a Governance, Risk, and Compliance model would ensure a proactive approach to reducing risk, thus maintaining the WC and promoting sustainability. Secondly, the Government needs to implement sustainability Risk management policies to ensure ESG considerations are incorporated into the Risk management Framework and establish compliance with reporting timelines. This will facilitate early detection of governance weaknesses. The Institute of State Corporations in Kenya should consistently update information on the number of State Corporations in Kenya and their performance at least every five years. This ensures scrutiny of the SC's existence and sustainability levels.

### **5.6.1 Recommendation for Policy Makers**

As part of working capital management practices, clear working capital policies should be considered so that state corporations have a structured policy for managing their payables, inventory, and receivables to minimise inefficiencies and any cash flow gaps.

With the introduction of performance management, risk management indicators should be integrated as part of performance contracts and annual reviews in the State corporation

leadership. Not just for compliance purpose but to identify issues and solve them before causing alarm.

Since board diversity plays a crucial role in overseeing State Corporations, regular review of board membership would ensure diverse decision-making and voices to ensure the strategic influence and oversight necessary to meet the evolving needs of a state corporation.

Enhancement of investment governance- The Mwongozo code of governance has put together corporate Social responsibility and investment parameters. However, financial Investment form an integral part of an organization since it shows how funds are being utilised or in the future. And therefore, the separation of the two parameters would be crucial to ensure an investment committee is formed and made mandatory within the board, whose responsibilities will be investment risk assessment, performance monitoring in investment, which will guide decision making. Further, strategic financial investment policies could improve the governance structure and align investment with an organization's broader goals.

Adherence to the Mwongozo code of governance principles should be made part of performance contracts for Executive management and in the evaluation of boards. This will enhance its compliance and transparency of governance matters.

### **5.6.2 Recommendation for the Board of Directors in State Corporations**

The board members should ensure that the state Corporations they lead adopt a formal risk management policy aligned with global practices like COSO or ISO 31000 tailored to the public sector. Currently, there is compliance with global practices, which regulators can enhance. Strengthen internal audit functions and ensure audit committees are empowered to oversee financial risk issues, not just compliance. In addition, the oversight audit committee functions in the State corporations need to be strengthened and empowered to oversee financial risk issues independently, and not just for compliance purposes.

State corporations should adopt and operationalize the Mwongozo code of Governance principles, not just for formal purposes.

### **5.7 LIMITATIONS OF THE STUDY**

During the study, narrowing down the previously listed State Corporations was challenging, as the researcher discovered other State Corporations that exist but are not updated on the National Treasury website or ISC. Additionally, there has been a change in how the SCs are categorized, but the regulations and guidelines have been challenged; therefore, authorities need to have standardized guidelines as per law. For this reason, data was collected as actual information which was provided according to the new guidelines' categories, which limits the

generalization of the findings to all public institutions in different countries or regions with varying governance codes.

Furthermore, the study's information on sustainability posed a challenge for the respondents, whom I had to guide through the questions. Most were unaware of the sustainability disclosures or their role in ensuring a sustainable State Corporation.

The study potently omitted other moderators. While the research employed the Mwongozo code of governance as a moderator, other variables, such as political influence and external economic conditions, may significantly influence the relationship between the drivers and financial sustainability, which was not examined.

## **5.8 SUGGESTED AREAS FOR FURTHER RESEARCH**

The study was limited to the four categories that contribute the most to GDP; therefore, it is important to research additional categories to identify the sustainability issues in the State Corporations. The study also considered one moderating variable. Future research should examine additional moderating factors, such as leadership styles, political influence, and external economic environments, to provide a more comprehensive understanding of the financial sustainability framework.

Moreover, the impact of the Mwongozo Code of Governance was insignificant during the study. In other words, the level of impact was not sought. Thus, further research on the value addition to state corporations in Kenya and potential improvements is warranted. Finally, sustainability is an ongoing concern in all State corporations; hence, it is crucial to identify specific variables that drive sustainable State Corporations to prevent bankruptcy and the liquidation of these entities. Further research can also be conducted using secondary data, specifically, financial statements of State corporations over a defined period, which would provide numerical analysis and profitability values regarding the sustainability status of the State Corporations. Additionally, technology is rapidly changing, and digital governance innovations are increasing. Future research could examine how digital governance practices interact with formal governance principles like Mwongozo to influence financial sustainability.

Lastly, board dynamics, individual governance elements, and institutional factors can also be isolated and studied separately to ascertain their impact. This is also true for the specific elements within the Mwongozo code of governance; for example, risk management, performance contracting, and ethical leadership could be isolated and examined to understand their individual contributions to sustainability.

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# APPENDICES

## Appendix I: INTRODUCTION LETTER



Tuesday, April 23, 2024

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

Dear Sir,

### **RE: FACILITATION OF RESEARCH – MUSAU, LUCY KASIVA**

This is to introduce Musau, Lucy Kasiva, a Master of Science in Development Finance (MDF) Student at Strathmore University Business School, admission number MDF/ 124175/20. As part of our MDF Program, Lucy is expected to do applied research and undertake a project, which is in partial fulfillment of the MDF course requirements.

Lucy is undertaking a research paper on "*The Moderating Effect of Mwongozo Code of Sustainability on the Drivers of Financial Sustainability in State Corporations in Kenya.*" *The information obtained will be treated confidentially and used for academic purposes only.*

Our MDF seeks to establish links with industry, and one way to do this is by directing our research to areas that would be of direct use to industry. We would be glad to share our findings with you after the research.

We appreciate your support and shall be willing to provide any further information if required.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Alois Njenga".

Alois Njenga,  
Manager - Graduate Programmes.

Association of African  
Business Schools



Strathmore Business School is a Proud member of:



## Appendix II: ETHICAL REVIEW APPROVAL



12<sup>th</sup> April 2024

Ms Musau Lucy,  
lucy.musau@strathmore.edu

Dear Ms Musau,

**RE: Moderating Effect of Mwongozo Code of Sustainability on the Drivers of Financial Sustainability in State Corporations in Kenya**

This is to inform you that SU-ISERC has reviewed and **approved** your above **SU-masters** research proposal. Your application reference number is **SU-ISERC2155 /24**. The approval period is from **12<sup>th</sup> April 2024 to 11<sup>th</sup> April 2025**.

This approval is subject to compliance with the following requirements:

- i. Only approved documents including (informed consents, study instruments, MTA) will be used.
- ii. All changes including (amendments, deviations, and violations) are submitted for review and approval by SU-ISERC.
- iii. Death and life-threatening problems and serious adverse events or unexpected adverse events whether related or unrelated to the study must be reported to SU-ISERC within 72 hours of notification.
- iv. Any changes anticipated or otherwise that may increase the risks or affected safety or welfare of study participants and others or affect the integrity of the research must be reported to SU-ISERC within 72 hours.
- v. Clearance for the export of biological specimens must be obtained from relevant institutions.
- vi. Submission of a request for renewal of approval at least 60 days prior to the expiry of the approval period. Attach a comprehensive progress report to support the renewal.
- vii. Submission of an executive summary report within 90 days of completion of the study to SU-ISERC.

Before commencing your study, you will be expected to obtain a research license from National Commission for Science, Technology, and Innovation (NACOSTI) <https://research-portal.nacosti.go.ke/> and obtain other clearances needed.

Yours sincerely,

**Mr Ambrose Rachier,**  
**Chairperson; SU-ISERC**



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Email [admissions@strathmore.edu](mailto:admissions@strathmore.edu) [www.strathmore.edu](http://www.strathmore.edu)



**APPENDIX III: QUESTIONNAIRE**

The focus of this study is to assess the moderating effects of the Mwongozo code on sustainability and performance management on the drivers of financial sustainability in State Corporations in Kenya.

All responses will be treated in strict confidentiality and will not be used for any other purpose apart from that stated. There are no “right” or “wrong” answers to these questions; so please be honest and thoughtful. Please answer all the questions in all the sections as indicated by either ticking or filling in the blank spaces provided as instructed under each section. If in doubt, please seek clarification.

Name of Organisation (Optional) .....

The State Corporation Advisory Committee (SCAC) classifies State corporations in the following categories. Kindly choose the one that applies

Commercial       Regulatory          Financial     Service     Tertiary and Research  
Institutions

**Section A: Background Information**

1. What is your age bracket?

Below 30 years [ ]                  31-40 years [ ]                  41-50 years [ ]  
Above 50 years [ ]

2. What is your gender?

Male [ ]      Female [ ]      Prefer not to say [ ]

3. How long have you been working in your current organization?

Less than 3 years [ ]                  4-10 years [ ]                  10-20 years [ ]  
Above 20 years [ ]

4. What is your job designation/position?

Board member [ ] Senior Manager [ ]      Line Manager [ ]      Supervisor [ ]  
Any other (Please specify) .....

5. Have you studied or been trained on sustainability matters? Yes /No

6. If you answered **yes** in question five, please indicate the areas trained /studied on

|   | <b>Please tick where applicable</b> |
|---|-------------------------------------|
| Sustainability Reporting                  |                                     |
| Sustainability and Performance Management |                                     |
| Sustainable Finance                       |                                     |

|                                     |  |
|-------------------------------------|--|
| Sustainability Goals and Strategies |  |
| Other(indicate)                     |  |

7. Does your State Corporation receive revenue from the Government?

Yes                      No

8. What are your organization's main sources of revenue? (Please indicate the score that applies in order of highest to lowest source of revenue. E.g. **1 being your highest source of revenue while 5 is the lowest**)

| Source of Revenue                              | Score |
|--|-------|
| GoK -Exchequer                                 |       |
| Internally Generated Revenue (AIA)-Own revenue |       |
| Development Partners (Loans)                   |       |
| Development partners (grants)                  |       |
| Interest Income                                |       |

9. Do you have a positive working capital (PWC)? (where PWC means Current assets are more than current liabilities)

Yes                      No                      Not sure

10. Has your corporation made profits in the last two (2) years?

Yes                      No

**Section B: Financial Sustainability of State-Owned Enterprises**

11. Comments on sustainability should be included in the half-yearly and Annual Reports. Please indicate whether your organization is compliant.

Yes                      No                      I don't know

12. To what extent do you agree with the following statements on the financial sustainability as observed in your organization? Please indicate so by marking an X or a checkmark (√) in the column that appropriately fits your organization. Key: 5 strongly agree; 4 agree; 3 un-decided; 2 disagree; 1 strongly disagree;

| Statements   | 1 | 2 | 3 | 4 | 5 |
|--|---|---|---|---|---|
| The organization's financial condition is healthy and not at risk of bankruptcy. |   |   |   |   |   |
| The size of the firm affects SOEs' financial sustainability.                     |   |   |   |   |   |

|  |  |  |  |  |  |
|--|--|--|--|--|--|
| The institution monitors all the relevant ratios to ensure it meets its short-term and long-term obligations.                    |  |  |  |  |  |
| The top management plays a critical role in managing costs and finances to ensure the organization achieves its financial needs. |  |  |  |  |  |
| The firm ensures the completion of activities/projects on time and within the budget.  |  |  |  |  |  |
| The organization has put in place strategies to guarantee financial efficiency.  |  |  |  |  |  |

**SECTION D: FINANCIAL RISK MANAGEMENT**

13. Does your organization have an audit committee? Yes  No

14. To whom are risk tolerance decisions communicated?

Board  Chief Risk Officer  Top level manager  None

Other (specify)..... I don't know

15. To what extent do you agree with the following statements on the financial risk management in your organization? Please indicate so by marking an X or a checkmark (√) in the column that appropriately fits your organization. Key: 5 strongly agree; 4 agree; 3 un-decided; 2 disagree; 1 is strongly disagree

| Statements  | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| The organization has put in place effective financial risk management practices.                                |   |   |   |   |   |
| The decisions on risk management strategies are delegated to the Board  |   |   |   |   |   |
| The organization has an enterprise Risk Planning toolkit in the organization                                    |   |   |   |   |   |
| Our organization has a functional risk audit committee  |   |   |   |   |   |
| There are robust and functional internal control and risk management practices to identify and mitigate risks.  |   |   |   |   |   |
| The organization has put in place measures of fraud detection and management                                    |   |   |   |   |   |
| The organization's measures on risk identification, assessment and risk monitoring, and reporting are effective |   |   |   |   |   |

**SECTION E: FINANCIAL INVESTMENTS**

10. Which types of investments has your organization allocated its financial resources to?

(Tick all that applies by marking an X or a checkmark (√))

| Type of investment         | Tick here |
|----------------------------|-----------|
| Shares                     |           |
| Stocks                     |           |
| Infrastructure Development |           |
| Treasury Bonds/Bills       |           |
| Green finance              |           |
| Other (specify) .....      |           |

I do not know

11. To what extent do you agree with the following statements on financial investments in your organization? Please indicate so by marking an X or a checkmark (√) in the column that appropriately fits your organization. Key: 5 strongly agree; 4 agree; 3 un-decided; 2 disagree; 1 is strongly disagree

| Statements   | 1 | 2 | 3 | 4 | 5 |
|--|---|---|---|---|---|
| The organization’s financial investments enable the institutions to accelerate cash inflows  |   |   |   |   |   |
| The organization has a policy that guides how it diversifies its financial resources/ investments on high return on investment.                      |   |   |   |   |   |
| The investment policy in the organization outlines a diversified portfolio based on risk tolerance, investment period, and goals of the institution. |   |   |   |   |   |
| The organization’s financial investments help in creating or leveraging assets.  |   |   |   |   |   |
| The organization’s financial investments enhance improved financial sustainability   |   |   |   |   |   |

**SECTION F: BOARD DIVERSITY**

16. We have a balanced Gender Board composition.

Yes      No      I do not Know

17. Do the Board members represent a mix of skills, experience, business knowledge, and independence to enable the discharge of their duties?

Yes      No      I do not know

18. Is the Board size adequate for the exercise of the company's business?

Yes      No      I do not know

19. We have non-executive Directors sitting on the board, who have been appointed according to regulations and requirements of the code.

Yes      No      I do not know

20. Please indicate your agreement level with the following statements relating to corporate governance approaches adopted by the institution to improve its financial sustainability. Use a scale of 1-5 where 1=strongly disagree, 2=disagree, 3=undecided, 4= agree and 5= strongly agree.

| Statements  | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| The Board has put in place a communication policy that covers all key stakeholders                      |   |   |   |   |   |
| There is in place a Board charter that clearly defines the role and responsibilities of the Board.      |   |   |   |   |   |
| The Board has adequate powers to monitor the actions of top management and evaluate their performance   |   |   |   |   |   |
| The Board ensures that shareholders and relevant stakeholders receive the financial statements on time. |   |   |   |   |   |

#### SECTION D: MWONGOZO CODE ON SUSTAINABILITY REFORMS

1. Has your company developed and published a Board Charter which is periodically reviewed and which sets out the Board's responsibility for internal control?

Yes      No

2. Is there a statement in the Board Charter indicating the responsibility of Board members for the application of corporate governance policies and procedures of the company?

Yes      No      I do not know

3. How has the Board ensured all directors, CEOs, and top management are fully aware of the requirements of this Code? (*Choose any option that applies*)

Board Induction is done

Training is done for the code

Departmental Sustainability sensitization is done

4. Does the company strategy promote the sustainability of the company?

Yes      No      I am not aware

5. If you answered Yes to Question 14, choose the following options that apply

We have an approved 5-year strategic plan (SP)

- An Implementation and Risk Management Matrix is in the SP
- A sustainability report is contained in the Company's Annual report
6. Does the Board include in its Annual Report a policy statement on good governance and the status of applying the Mwongozo Code?
- Yes       No       I do not know
7. Who monitors and ensures compliance with the Mwongozo code?
- State Corporation Advisory Committee (SCAC)
- The Accounting Officer in the Ministry
- Head of Public Service
- I do not know
8. Please indicate your agreement level with the following statements relating to Mwongozo code of Governance sustainability reforms adopted by the institution to improve its financial sustainability. Use a scale of 1-5 where 1=strongly disagree, 2=disagree, 3- is undecided, 4= agree and 5= strongly agree.

|  | 1 | 2 | 3 | 4 | 5 |
|--|---|---|---|---|---|
| The Mwongozo reforms on Environmental, Social, and Governance reforms have impacted positively on firm's performance |   |   |   |   |   |
| Our Company is keen on societal issues by having Corporate Social Responsibility (CSR) activities.                   |   |   |   |   |   |
| The institution has introduced a market mechanism to improve the efficiency of public services.                      |   |   |   |   |   |

**Thank You for participation in this study.**

**Do you need the results shared? (indicate Contacts)      Yes [ ]      No [ ]**

### APPENDIX III: LIST OF STATE CORPORATIONS FOR THIS STUDY

| <b>NAME OF STATE CORPORATIONS</b>                      |
|--|
| Kenya Investment Authority                             |
| IDB Capital  |
| Consolidated Bank                                      |
| Deposit Protection Fund Board                          |
| Industrial and Commercial Development Corporation      |
| Industrial Development Bank                            |
| Kenya Industrial Estates                               |
| Kenya National Assurance Co.                           |
| Kenya Re-Insurance Corporation                         |
| Kenya Revenue Authority                                |
| Kenya Roads Board                                      |
| Kenya Tourist Development Corporation                  |
| National Bank of Kenya                                 |
| National Hospital Insurance Fund                       |
| National Social Security Fund                          |
| Agro- Chemical and Food Company                        |
| Chemelil Sugar Company                                 |
| East Africa Portland Cement                            |
| Gilgil Telecommunication Industries                    |
| Jomo Kenyatta Foundation                               |
| Kenya Airports Authority-KAA                           |
| Kenya Broadcasting Corporation -KBC                    |
| Kenya Electricity Generating Company -KENGEN           |
| Geothermal Development Company-GDC                     |
| Kenya Literature Bureau                                |
| Kenya Ordinance Factories Corporation                  |
| Kenya Medical Supplies Agency-KEMSA                    |
| University of Nairobi Enterprises and Services Limited |
| New Kenya Co-operative Creameries Ltd                  |
| Kenya Electricity Transmission Company -KETRACO        |
| Kenya Pipeline Company                                 |
| Kenya Ports Authority                                  |
| Kenya Power and Lighting Company                       |
| Kenya Safari Lodges and Hotels                         |
| Kenya Seed Company Limited                             |
| Kenya Wine Agencies                                    |
| Kenyatta International Convention Centre               |
| Konza Technopolis Development Authority                |
| National Cereals and Produce Board                     |
| National Housing Corporation-NHC                       |
| National Oil Corporation of Kenya -NOCK                |
| National Water Conservation and Pipeline Corporation   |
| Numerical Machining Complex                            |
| Nzoia Sugar Company                                    |

|  |
|--|
| Postal Corporation of Kenya                                  |
| Pyrethrum Board of Kenya                                     |
| School Equipment Production Unit                             |
| South Nyanza Sugar Company                                   |
| Telkom Kenya Limited   |
| Kenya Veterinary Board                                       |
| Kenya Leather Development Council                            |
| Unclaimed Financial Asset Authority                          |
| Capital Markets Authority                                    |
| Catering and Tourism Development Levy Trust                  |
| Insurance Regulatory Authority                               |
| Coffee Board of Kenya  |
| Commission for University Education                          |
| Communication Authority                                      |
| Council for Legal Education                                  |
| Energy & Petroleum Regulatory Commission                     |
| Export Promotion Council                                     |
| Horticultural Crops Development Authority                    |
| Kenya Bureau of Standards -KEBS                              |
| Kenya Dairy Board  |
| Kenya Industrial Property Institute                          |
| Kenya Plant Health Inspectorate Services                     |
| Kenya Sisal Board  |
| Kenya Sugar Board  |
| Maritime Authority   |
| National Environment Management Authority                    |
| National Irrigation Board                                    |
| Public Benefits Organisation Regulatory Authority            |
| Athi Water Works Development Agency                          |
| Tea Board of Kenya   |
| Water Service Regulatory Board                               |
| Transport Licensing Board                                    |
| University of Nairobi  |
| Export Promotion Council                                     |
| Export Processing Zones Authority                            |
| Agricultural Development Corporation                         |
| Kenya Accountants and Secretaries National Examination Board |
| Kenya Forest Service   |
| Public Service Superannuation Fund Board                     |
| Kenya Biovax Institute                                       |
| Bomas of Kenya   |
| Simlaw Seeds Kenya Ltd                                       |
| Rural Electrification renewable Corporation-REREC            |
| Nuclear Power and Energy Agency-NUPEA                        |
| National Construction Authority                              |
| Kenya Maritime Authority                                     |
| Institute of Certified Public Accountants of Kenya           |
| Institute of Certified Investment and Financial Analysts     |

|   |
|---|
| Embu University                                   |
| National Drought Management Authority             |
| Kenya Industrial Research & Development Institute |
| Central Bank of Kenya                             |
| Pwani University                                  |

**Source: State Corporation Advisory Committee**

<https://www.scac.go.ke/sites/default/files/202311/Guidelines%20on%20Terms%20and%20Conditions%20of%20Service%20for%20State%20Corporations%202004%20%2816%29.pdf>