

# How Strategic Financial Controls Determines Success in Universities

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## Abstract

The study examined how strategic financial controls determines success (organizational performance) in private universities in Kenya. The study was based on the strategic leadership theory and a correlational research design used a positivist philosophy paradigm. It involved a census technique whereby all the 17 private universities in Kenya accredited by Commission of University Education. The unit of analysis was board of directors, vice chancellors, heads of departments which was one hundred and thirty-six. A structured questionnaire was used to collect data from the respondents. Regression was used to determine whether there was significant linear relationships between the predictor and the outcome variables. The results of the study found that strategic financial controls explained a significant proportion of variance in success/organizational performance,  $R^2 = .659$ . The study found that strategic financial controls significantly predicted organizational performance,  $\beta = .812$ ,  $t(121) = 15.221$ ,  $p = .000$ . The findings from the study imply that for every one-unit change in strategic and financial controls, organizational performance increases by 0.760 hence implying a positive impact of strategic and financial controls on organizational performance. Therefore, based on the results the study recommends that university management should develop stronger policies that will encourage a strong and reliable internal control systems to encourage prudent resource management in private universities.

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**Keywords:** Strategic, financial, internal controls, performance, organizational, education, universities, leadership.

## **Introduction**

Upon accreditation universities are expected to use their resources prudently not only by executing the mandate of generating, transmitting, storage and retrieving knowledge but also to form persons of virtue and integrity the living standards of their employees and their immediate environment (World Bank, 2016). Some employees in various universities are often found guilty of diverting university resources for their personal use, (Lent, 2004). This often makes the management of many universities institute surprise forensic audits, which serves as a method of control to check mismanagement of funds (Anthony & Young, 2003). Good financial control practices demand that key management models and principles such as sustainability, accountability and transparency are employed to ensure resource administrative efficacy. A number of universities have also ensured that this administrative efficiency is realized, by fitting well organised internal control processes.

Todowede (2013) submits that the concept of financial management refers to planning, organising, directing and controlling the financial activities such as procurement and utilization of funds of the institution. That, financial management is the management of the finances of a business/organization in order to achieve financial objectives. In general terms, it means applying general management principles to catalysing and sustaining the financial resources of the institution. Management councils of most universities uses the internal control in a flexible way, in order to make the system check itself and any irregularities herein the system, are being detected corrected and updated. For system efficacy, university management could consider implementing controls such as: segregations of duty, supervision of work and acknowledgement of performance.

The effective arrangement and implementation of this financial control system needs to ensure proper management on financial aspects of running universities and can be described as the application of planning and control to the finance function of a university. It benefits are in profit planning, measuring costs, and controlling inventories and accounts receivables. Additionally, it supports in monitoring the effective deployment of funds in non-current asset and in working capital which aims at ensuring that adequate cash is on hand, to meet the required current and capital expenditure. This ensures that significant capital is obtained at the minimum cost to maintain adequate cash on hand, and to meet any needs that may arise in the course of business (David, 2008). Prudent financial management aids in determining and managing not only current requirements but also future needs of a university (ACCA, 2014). Universities manage their finances by execution in an economic way, and strive to actualize their goals in the most effective efficient way.

## **Statement of the Problem**

Umashankar and Dutta (2007) portends that organizational problems originates from lack of strategic planning, mediocre organization structure, poor recruitment and retention of staff, ineffective internal control, and poor budgeting and lack of prudent cash-flows which often cause organizational failure. The obligation for establishing strategic financial controls is basically that of the management. For institutions of higher education to achieve the anticipated goals and objectives, the strategic internal control must be strong and reliable. To achieve this, all the basic characteristic that guarantee effective running of the internal financial control must be readily available and policy enabled. These characteristics include: approvals, separation of duties, physical control, and system control enabled for accountability. However, recent happenings have exposed and demonstrated that where due diligence in terms of approvals or authorization have not been granted by suitable authorities (the university governing council) this often leads to wastages and mismanagement of resources. Private universities get good student enrolments and tuition is paid in time but challenges associated with segregation of duties, which is also a major characteristic weakness of internal control, has led to problem of collusion, fraud and misstatement (doctored) of financial records in many private universities in Kenya. Therefore, this study therefore examined how strategic financial controls determines success (organizational performance) in private universities in Kenya.

## **Relevant Literature**

### **Strategic Leadership Theory**

The study is grounded on the strategic leadership theory which states that organizations are reflections of their top managers, and that the specific knowledge, experience, values and preferences of top managers are reflected not only in their decisions, but in their assessments of decision environments (Ireland, Hoskisson & Hitt, 2013).

Organizations require stability for them to prosper and grow. Balanced organizational controls are a critical component to sustain strategic leaders to shape credibility, demonstrate the value of the strategies to the organization's stakeholders and encourage and support strategic change on one hand, but also to provide the parameters to implement strategies as well as the remedial actions to address related adjustments as required on the other (Ireland & Robert, 2016). This study examined systems set up to provide controls and feedback by the university leadership. It provided and determined measurements of success indicators in the universities.

## **Financial Management**

The prime drive of financial management is (Todowede (2013)) concerned with procurement, allocation and control of financial resources of the institution. The critical focus of financial management specifically includes:

- ❖ Regular and adequate supply of funds
- ❖ Optimal funds utilization
- ❖ Safety on investment decisions.
- ❖ Overall control of resources
- ❖ Guidance to all departments in all financial matters, preparation and monitoring of budgets
- ❖ Accounting, reporting and internal control procedures
- ❖ Maintaining the financial information system
- ❖ Administration of pay-roll, loan and pension schemes
- ❖ Tax obligation administration
- ❖ Administration of insurance cover for the University's assets
- ❖ Ensuring that surplus funds are invested and managed prudently.

Universities must have an efficient internal audit system as an independent appraisal function within the institution with the aim of reviewing the system of control and enhancing the quality of service performance and compliance. This ensures strict adherence to stipulated work instructions and assist the management in effective running of the organisation's administration, control cost, and ensure maximum utilisation of capacity and benefit available for the organization (Unegbu & Obi, 2012).

## **Importance of Strategic Financial Controls**

The existing volatile economic environment in Kenya and the attendant financial constraints in higher education landscape has caused unprecedented major challenges. The Government is not capable of ideally funding higher education effectively and efficiently due to lack of accurate baseline statistics, asymmetrical planning and prevalent economic circumstances (MoEST 2015). The sustainability of higher education financing in the country is dependant on, all stakeholders, parents and guardian, the society in general, the private sector and nongovernmental agencies. The education sector can only approach the highest pinnacle in provision and production when every stakeholder strives to do its part on the financing of higher education in Kenya (Balsam & Harris, 2014).

Strategic controls are basically subjective criteria intended to verify that the firm is using appropriate strategies for the conditions in the external environment and the company's competitive advantage. It examines the fit between what the firm might do and what it might not do. Effective strategic

controls help the firm to comprehend what it considers to be successful (Turner & Makhija, 2006). Strategic controls are used to evaluate the degree to which the firm focusses on the requirements to implement its strategies. Financial controls on the other hand, are objective criteria used to measure the firm's performance against previously established quantitative standards (Ireland, Hoskisson & Hitt, 2015). These measures comprise of return on investment (ROI) and return on assets (ROA) as well as economic value-added are just examples of financial controls.

Strategic controls require information-based exchanges among the chief executives, leadership team members, and employees. The exercise of effective strategic controls needs leaders to acquire conceptual understanding of the competitive conditions and dynamics of each of the units or divisions for which they are responsible. Information exchange occurs through both informal, unplanned meetings and interactions scheduled on a routine formal basis. The effectiveness of strategic controls is increased substantially when strategic leaders can integrate different sets of information to yield competitively relevant insights (Hitt, Ireland & Hoskisson, 2015). Financial controls focus on short-term financial outcome.

### **Balanced Scorecard**

Kaplan and Norton (2001), developed a business framework used in tracking, monitoring and managing an organization's strategy called The Balanced Scorecard (BSC). The focus was on the fact that managers needed a balanced demonstration of both financial and operational measures, contained in four perspectives as the drivers of future financial performance. The drivers include: Customer perspective which is concerned with how do customers perceive the organization. Internal perspective which is concerned with what must the firm excel at. Innovation and learning perspective which is concerned with how the firm can continue to improve and create value. Financial perspective which is concerned with how do stakeholders perceive the organization.

The scorecard affords top managers with a comprehensive framework that translates a company's strategic objectives into a logical set of performance measures. It represents a fundamental change in the underlying assumptions about performance measurement and helps focus the strategic vision. Kaplan and Norton (2001), defines the balanced scorecard as a frame work which firms can use to verify what they have established both strategic and financial controls to access performance. This technique is most appropriate for use when dealing with business organizational level strategies, however it can also be used with the other strategy's firms may choose to implement.

In addition, maintaining high financial performance without competitive compensation is likely not sustainable as it could put an organization at risk of high turnover and potentially disrupt an organization's financial stability. Therefore, the impact of the combination of lower than median compensation and high financial performance can go either way. Lastly, if performance and compensation are both low, an organization may be able to garner donations in the short term as undesirable financial performance can be attributable to the lack of appropriate employee compensation and signify a need for additional private funding (Balsam & Harris, 2014).

There is a definite relationship among the leadership's characteristics, an organization's strategies, and its performance. When the board of directors and the leadership in the organization are involved in shaping an organization's direction, the organization generally improves its performance which is a critical element of strategic leadership and organizational performance, and enhances the ability of leadership to manage and utilize the organization's resource portfolio. This includes integrating resources to create capabilities and leveraging those capabilities through strategies to build competitive advantages and high-performance organizations (Ireland, Hoskisson & Hitt, 2013).

## **Methodology**

This study is a descriptive correlational research based on primary data obtained from all the 17 private universities in Kenya; Adventist University, University of Eastern Africa, Baraton, Catholic University of Eastern Africa (CUEA), Daystar University, Scott Christian University, United States International University, St. Paul's University, Pan Africa Christian University, KAG – East University, Africa International University, Kenya Highlands Evangelical University, Africa Nazarene University, Kenya Methodist University, Strathmore University, Kabarak University, Great Lakes University of Kisumu, KCA University and Mount Kenya University in Kenya by Commission of University Education (CUE, 2017). All these universities were selected using census technique. The questionnaires used for the research work were self designed. The data obtained was analyzed by use of descriptive statistics (percentages, means, and standard deviation) and inferential statistics (correlations and linear regression) which were used to determine whether there were significant association/linear relationships between the predictors and the outcome variable using SPSS. Prior to conducting inferential analysis assumptions for linear regression such as checking for normality of the data, homoscedasticity, multicollinearity and linearity were done.

## Results

The study examined the how strategic financial controls determines success (organizational performance) in private universities in Kenya. Data was analyzed at two levels where the first level entailed determining strategic financial controls. The second part involved analyzing results on the effect of strategic financial controls on organizational performance.

### Factor Analysis Results on Strategic Financial Controls

Factor analysis was conducted in the study to describe variability among items of strategic financial controls. Strategic financial controls construct was measured using ten (10) items thereby the construct was factor analyzed to come up with an appropriate measure. The study found that strategic financial controls had KMO value of 0.884 and Bartlett's test,  $\chi^2(45, N = 124) = , p = .000$ . This was meritorious; therefore, the adequacy of the sample was acceptable. Therefore, sampling was adequate for strategic financial controls as given by the Kaiser-Meyer-Olkin Measure of Sampling Adequacy value.

The study also carried out the Eigen values for the factors under strategic financial controls. According to the findings, the first factor accounts for 58.677% of the variance in strategic financial controls. The results for scree plot indicated that one component had Eigen values for strategic financial controls that was greater than one. This finding corroborates total variance explained results for strategic financial controls.

The study sought to determine the factor loadings for strategic financial controls. The findings obtained indicated that "The University has clear objectives on how strategic financial control is done" had the highest factor loading in the first component with 0.873.

### Mean and Standard Deviation for Strategic Financial Controls

The study also sought to analyze the views of respondents on strategic financial controls using a table of means and standard deviations. A Likert scale data was collected rating the views in a scale. The mean results are therefore given on a scale interval where a mean value of 1 is an indication of strongly disagree; 2 is disagree; 3 is neutral, 4 is agree and a mean value of 5 is an indication of strongly agree. Findings on strategic financial controls are shown in Table 4.69.

According to the findings, the respondents agreed to the following statements: The university has control measures which have enabled the university to meet its financial goals ( $M = 3.77, SD = 0.878$ ); the control measures have contributed significantly to the university's financial growth ( $M = 3.73, SD = 1.065$ ); the university has a plan on how resource mobilization is done ( $M = 3.70, SD = 1.038$ ); the university has multiple sources of finances

( $M = 3.19$ ,  $SD = 1.192$ ); the university always encourage knowledge sharing ( $M = 3.61$ ,  $SD = 1.048$ ); the university has clear objectives on how strategic financial control is done ( $M = 3.67$ ,  $SD = 1.071$ ); the university communicates internally on how the strategy of the organization will be implemented ( $M = 3.71$ ,  $SD = 1.109$ ); communication in the university clearly shows how integration and coordination of activities will be done ( $M = 3.57$ ,  $SD = 1.059$ ); I am always given clear directions concerning my work ( $M = 3.80$ ,  $SD = 0.993$ ); and all channels of communication available in the university are exploited ( $M = 3.72$ ,  $SD = 0.964$ ) as detailed I in Table 1.



**Table 1: Means and Standard Deviations on Strategic Financial Controls**

	N	Mean	Std. Deviation
The university has control measures which have enabled the university to meet its financial goals	122	3.7705	.89799
The control measures have contributed significantly to the university's financial growth	121	3.7273	1.06458
The university has a plan on how resource mobilization is done	121	3.7025	1.03798
The university has multiple sources of finances	121	3.1901	1.19243
The university always encourage knowledge sharing	122	3.6148	1.04799
The university has clear objectives on how strategic and financial control is done	122	3.6721	1.07136
The university communicates internally on how the strategy of the organization will be implemented	122	3.7131	1.10953
Communication in the university clearly shows how integration and coordination of activities will be done	122	3.5738	1.05953
I am always given clear directions concerning my work	122	3.8033	.99286
All channels of communication available in the university are exploited	122	3.7213	.96434

**Correlation between Strategic Financial Controls and Organizational Performance**

The study sought to determine the relationship between strategic financial controls index and organizational performance using correlation analysis and found that the two variables were strongly correlated  $r(122) = .812, p = .000$ . The results are as shown in Table 2.

**Table 2: Correlation Analysis on Strategic Financial Controls Index**

		Organizational Performance
Strategic Financial Controls	Pearson Correlation	.812**
	Sig. (2-tailed)	.000
	N	122

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

**Table 3: Model Summary for Strategic Financial Controls**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.812 <sup>a</sup>	.659	.656	.43394

a. Predictors: (Constant), Strategic Financial Controls

The findings indicated that the significance value in testing the reliability of the model for the relationship between strategic financial controls and organizational performance was  $F(1, 121) = 231.693, p = 0.00$ . Therefore, the model is statistically significant in predicting the relationship between strategic financial controls and organizational performance. Results are as presented in Table 4.

**Table 4: ANOVA for Strategic Financial Controls**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	43.628	1	43.628	231.693	.000 <sup>b</sup>
	Residual	22.596	120	.188		
	Total	66.224	121			

a. Dependent Variable: Organizational Performance

b. Predictors: (Constant), Strategic Financial Controls

The study found that strategic financial controls significantly predicted organizational performance,  $\beta = .812, t(121) = 15.221, p = .000$ . The study therefore concluded that strategic financial controls significantly influence organizational performance in private universities in Kenya. The results are presented in Table 5.

**Table 5: Regression Coefficients for Strategic Financial Controls**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.067	.186		5.726	.000
	Strategic and Financial Controls	.760	.050	.812	15.221	.000

a. Dependent Variable: Organizational Performance

The findings obtained in the study imply that for every one-unit change in strategic financial controls, organizational performance increases by 0.760 hence implying a positive impact of strategic financial controls on organizational performance.

## **Conclusion**

This study focused on how strategic financial controls determines success (organizational performance) in higher education particularly in private universities in Kenya and the consequences of internal financial controls in service delivery. It emphasises that effective internal control helps in attainment of the organisation goals and objectives. The findings of this study show that properly established and implemented financial internal control has significant relationship with the prudent management of organisation resources in the private universities in Kenya. In summary:

- ❖ A properly established and implemented internal financial control will significantly enhance prudent management of organisation resources.
- ❖ Ensuring employees work done are acknowledged and effective supervision contributes significantly to the attainment of university goals and objectives.
- ❖ Weakness in the internal control can cause gradual and systematic collapse of the universities.

## **Recommendations**

The study recommends the following measures: The management council of the universities should have a well-developed system (strategy) that will ensure the submission of the internal control department is always implemented because this contributes to the prudent management of the university's resources. The attainment of university goal and objectives can be enhanced if the staff are regularly trained. Therefore, management should include some selected internal control personnel in the planning process in the universities, so that the goal of the organisation can be easily achieved with the available resources. Lastly, that internal audit department should be regularly monitored to reduce bias judgement and prevent gradual or systematic collapse of the universities.

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