EdinBurg Peer Reviewed Journals and Books Publishers
Journal of Finance and Accounting
Vol. 2, No. 2, pp. 11-18: ISSN 2789-0201
Email: info@edinburgjournals.org

EdinBurg
Peer Reviewed Journals & Books Publishers

Institutional Framework and Financial Corporate Compliance in Public Universities in Kenya

[1*]Vincent Chokaa, [2]Dr. Bernard Baimwera (PhD), [3]Dr. Ken Mugambi (PhD) and [4]Prof. Thomas A. Senaji (PhD)

[123]School of Business and Economics, Kenya Methodist University

[4]School of Business and Economics, The East African University

***Corresponding Email: Vchokaa@yahoo.com**

How to cite this article: Chokaa, V., Baimwera, B., Mugambi, K., & Senaji, T.A. (2022). Institutional Framework and Financial Corporate Compliance in Public Universities in Kenya. *Journal of Finance and Accounting, 2*(2), 11-18.

Abstract

One of the important components of corporate governance that improves accountability and transparency in an institution's financial management is financial corporate compliance. The emergence of alarming cases of financial impropriety in Kenya's public universities has intensified the demand for financial accountability in the public sector and exposed the boards and management to increasing scrutiny. Public organizations have reported cases of inadequate or absence of financial compliance, and public universities have also cited comparable circumstances in audit reports. It is unclear, however, what the causes of this compliance are or what function corporate governance plays in it. The purpose of this study was to determine the effect of the institutional framework on financial corporate compliance at Kenya's public universities. The study adopted a descriptive survey research design. The study's target population was 40 accredited public universities in Kenya. The data were gathered through the use of extensive, quasi-structured questionnaires. The study used descriptive statistics such as frequency distribution tables, percentages, and measures of central tendency such as the mean. Chi-square and correlation analysis were used to establish the relationship between the study variables. The results of the study showed that institutional framework has a positive impact on financial corporation compliance. This illustrated that institutional framework had a compelling impact on financial corporate compliance. This study recommends that the government should employ thorough accountability measures and policies that will make every officer in public universities be held responsible for every activity he/she has undertaken on behalf of the university that may lead the university to incur some expenditures.

Keywords: *Institutional framework, financial corporate compliance, public universities*

1.0 Introduction

Financial corporate compliance used to be a topic of attention because it affected how well universities performed. Regulation and enforcement of financial laws and regulations are known as financial corporate compliance (Levine, 2017). Every healthy organization should have the idea of good corporate governance (GCG), as it is a critical component. It is a governance system based on strict guidelines for competence, effectiveness, and openness that inspire market confidence and, over time, raise the value and competitiveness of the company

or organization. It is also a clear, professional connection between a company's board of directors, management, and the rest of the business (Beiner, Drobetz, & Zimmermann, 2019).

Financial corporate compliance safeguards the interests of all parties involved, particularly shareholders, from any ethical controversies that can jeopardize the short- and long-term profitability of their companies. It seeks to safeguard its assets and maximize the return on its investment. Access to timely, accurate information that encourages sound decision-making must be ensured for the long-term reputation and financial performance of the organization. In its Guidelines on Corporate Governance for G20 member countries, the OECD also outlines this (Bhagat & Jefferis, 2018).

An institutional framework is legislation or other legal instruments that give a particular entity primary responsibility and authority for gathering, processing, and dispensing services in public universities. Institutions create particular frameworks, plans, and guidelines to fulfill the unique learning and teaching needs and expectations of their strategic planning to adhere to the standards set by the regulating authorities of the tertiary education sector. These aims, objectives, plans, and instruments, whether they are used university-wide or to support a specific teaching method, guarantee the reliability of the goods and services the institution offers.

1.1 Problem Statement

Any educational institution's corporate economic compliance is guided by the institutional structure established by the governing body of the school. Universities are places of higher education where government funds are used to support educational activity. They are maintained with taxpayer money so that residents of the town can enroll in college. The government pays for the costs of managing, overseeing, and rewarding professors at institutions (Odofin & Omojuwa, 2019). The corporate governance frameworks of the institutions outline the rights and duties of numerous participants, including the board, chancellor, vice-chancellor, and other investors. High educational and training standards are encouraged in educational institutions, which in turn enhances service provision, learning results, and infrastructure development. It has been demonstrated that better corporate governance reduces waste, demonizes corruption, and ultimately affects how well learning services are delivered overall. Furthermore, it continues to be challenging for public schools to recruit and retain a capable university board (Olola, 2018). Despite the paucity of empirical research in the field of higher education, corporate governance has gained importance in Kenyan public universities over the past few decades (Mushanga, 2018). Most public universities still face governance challenges, including issues with fee determination and missed payment deadlines, unrest among students and staff, financial impropriety, corruption, as well as legal action against the governing board that may be related to institutional unrest and corporate governance (Marishane & Botha, 2017). This is clear from the financial irregularities seen at Masinde Muliro University and Egerton University, two of Kenya's top public universities. Despite the clear evidence of deficient implementation of financial compliance in public higher education institutions, the majority of attention on the topic has been focused on commercial firms. The purpose of this study was to determine the effect of the institutional framework on financial corporate compliance at Kenya's public universities.

1.2 Research Hypothesis

$H_{01:}$ Institutional framework has no significant influence on financial corporate compliance of Kenyan public universities

2.0 Literature Review

Through processes of corporate governance, the public and stakeholders are guaranteed that their investments will yield acceptable returns. Although institutional frameworks vary by nation, Zattoni and Cuomo (2018) discovered that institutions with strong corporate governance portfolios typically outperform those with weak institutional governance portfolios. Krambia and Psaros (2018) investigated how newly established education organizations in Cyprus implemented institutional principles. Their findings suggested that there was no performance benefit unless other initiatives were also implemented. According to Storey (2020), developing countries must comply with universally accepted standards of corporate governance, which are implied by the Anglo-Saxon model, to be globally competitive and attractive to foreign investment.

Westphal (2019) asserts that for the Anglo-Saxon strategy to be successful, many different owners must hold institutional shares. The institutional framework specifies the policies and procedures for making decisions on the institution's business as well as the allocation of rights and duties among its numerous stakeholders.

The Anti-Corruption Campaign Steering Committee, a program of the then Ministry of Justice and Constitutional Affairs, was responsible for leading the anti-corruption effort. It stands out as one of the most active anti-corruption organizations in Kenya, establishing a formal and informal reporting relationship with the EACC and working closely with the Kenya Anti-Corruption Commission. It primarily serves as a civil society-run public awareness organization with the mission of bringing the fight against corruption to the masses. Think tanks, religious institutions, civil society, and other interested parties make up the diverse group's membership.

The Public Audit Act of 2003 governs the Kenya National Audit Office in addition to the National Anti-Corruption Campaign Steering Committee. The office has financial independence under the Act, and it is required to provide reports to the national parliament via the minister of finance. It is in charge of auditing state businesses and government agencies to see if voters are getting a good deal. It is necessary to establish employment conditions and a salary.

Financial systems are influenced in a variety of ways, both directly and indirectly, by the aforementioned programs. They are tasked with monitoring employee behavior to ensure compliance with the company's procedures and policies. The primary focus of monitoring is data collection and analysis. It may occur as a result of periodic compliance audits of organizational processes in addition to more structured organizational monitoring, which is carried out in real-time in a specialized "control room. "As part of the monitoring procedure, employee interactions are monitored. Data sorting and risk detection are common applications of technological tools, and their capacity for data collection and processing is only expected to expand. Compliance officers say that they are gathering more data than they can examine. As a result, the use of analytical methods based on "big data" to monitor the business is at the forefront of technology and compliance.

If a company's monitoring measures reveal potential misconduct, an internal investigation is likely. Employees who refuse to answer questions run the risk of losing their jobs. As a result, the company's monitoring activities are kept out of the public eye during the internal investigation, which typically results in the state receiving evidence of serious misconduct in the hopes of lowering the corporation's fine.

A neo-institutional theoretical paradigm centered on three levels of analysis is proposed by Scott (2018) actors in institutional contexts, institutional governance frameworks, and societal institutions. Society institutions provide the institutional setting in which acceptable methods and models are suggested and implemented (Scott, 2018). Higher-level institutions can have an impact on lower-level institutions by influencing, limiting, and promoting structures at lower levels. Institutional governance structures, which include both the companies themselves and organizational fields, are located in the middle of Scott's model. It is also believed that the level of organizational learning is important because companies vary in size, structure, complexity, and culture and because they all influence and are affected by their institutional environment and organizational areas. Actors in the institutional context are the lowest level of Scott's paradigm, consisting of individuals or groups.

Within the constraints of the theoretical paradigm of the neo-institutional, DiMaggio and Powell (2018) identified three types of institutional pressures. The existence of organizations that have the authority to compel and/or encourage players to adhere to CG practices is the first category, which is referred to succinctly as "coercive or regulative. "In our case, it refers, for instance, to the demands made by the Financial Reporting Council and the London Stock Exchange to adhere to and disclose information regarding CG practices. The ability of an actor to observe and imitate the actions of other actors is included in the second category, which is known as "cognitive or mimetic."This merely suggests that a company might follow in the footsteps of others to adhere to proper CG procedures. The last kind of pressure is known as "normative," and it refers to actions that are regarded as acceptable and expected by a particular social group. This suggests that all businesses may eventually adopt the code of excellent CG practices as the standard. According to Scott (2018), each of these three forms of organizational pressures can and do have an impact on the forces of dissemination and enforcement of organizational values and practices. Institutional isomorphism is the similarity of procedures, processes, ideas, structures, and behaviors caused by these forces and limitations working together.

Factors that stimulate or hinder the adoption of various corporate practices, such as international accounting practices (Makkai & Braithwaite, 2019), CSR practices (Ntim & Soobaroyen, 2018a), and CG legitimacy (Judge et al., have been described in national studies previously used a neo-institutional theoretical perspective. 2018) and CG regulatory compliance (Hakim, 2018). However, this concept is rarely used at the business level to study CG practice issues. This study uses a neo-institutional approach ("efficiency and legitimacy perspective") to understand and explain differences in CG practices at the corporate analysis level.

3.0 Methodology

A descriptive survey was used as the research design for the study. The study's target population was 40 accredited public universities in Kenya. The Vice-Chancellor, Deputy Vice-Chancellor, Dean, Accountant, Internal Auditor, and Financial Manager were the intended participants. The data were gathered through the use of extensive, quasi-structured questionnaires. The study used descriptive statistics such as frequency distribution tables, percentages, and measures of central tendency such as the mean. Chi-square and correlation analysis were used to establish the relationship between the study variables. The results were presented in tables.

4.0 Results and Discussion

4.1 Institutional Framework and Financial Corporate Compliance

EdinBurg Peer Reviewed Journals and Books Publishers
Journal of Finance and Accounting
Vol. 2, No. 2, pp. 11-18: ISSN 2789-0201
Email: info@edinburgjournals.org

The study sought to examine the institutional framework and financial corporate compliance in Kenyan public universities. The constructs utilized were the leadership perspectives codes of ethics and the university rules. The respondents were asked to rate how much they agreed with each particular construct's statements. Table 1 gives a summary of frequencies on the institutional framework.

Table 1: Institutional Framework on Financial Corporate Compliance

Institutional Framework	Agree	Disagree	Neutral	Total
Different Leadership perspectives and styles affect the institutional framework.	85.33%	2.67%	12%	100%
The university operates under an effective code of ethics	82.66%	4%	13.33%	100%
The university has institutional frameworks that develop rules and regulations	68.7%	6.67%	24.67%	100%

The results from the table above indicate that 85.33% agreed with the statement that different leadership perspectives and styles affect the institutional framework. Of these, 2.67% disagreed while 12% remained neutral. This indicated that to a great extent, Leadership perspectives and styles affect the institutional framework. The second statement was that the university operates under an effective code of ethics. Out of the 150 respondents, 82.66% agreed with the statement, 4% disagreed and 13.33% remained neutral. These findings indicate that the public universities in Kenya operate under an effective code of ethics which boosts financial corporate compliance. The third statement was that the university has institutional frameworks that develop rules and regulations of which of the 150 respondents, 68.7% agreed with the statement, 6.67% disagreed and 24.67% remained neutral. These findings indicate that a majority of Kenya's public universities have institutional frameworks that develop rules and regulations. The Findings of this study are consistent with the findings of Harry (2017) who investigated the institutional effects as determinants of learning outcomes and found that institutional framework influences financial corporate compliance.

4.2 Chi-Square Test Analysis for independent and dependent variables

In this study, Chi-square test analysis was used to measure the association of the independent variable with the dependent variable. Chi-square statistical test measures the association between two categorical variables. The level of statistical significance is often expressed as a P-value between 0 and 1. The smaller the p-value the stronger the evidence that a statistically significant relationship exists between categorical variables. A p-value less or equal to the significance level (0.05) indicates that there is significant evidence that a statistically significant relationship exists between the categorical variables. A p-value higher than the significant level is not statistically significant. In the study, the significant level is 5% (0.05). Table 2 shows the Chi-Square test analysis for independent and dependent variables

Table 2: Chi-Square Test

	Value	Df	Asymptotic Significance (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Institutional framework Pearson Chi-Square	92.86[a]	1	.000	.000	.000
Likelihood Ratio	58.011	1	.000	.000	.000
N of Valid Cases	150				

From the results above, the study shows a p-value that is less than 0.05 (P-value of 0.000). This means that institutional framework has a statistically significant relationship with financial corporate compliance. This signifies that for universities to comply fully with the corporate's requirement, they ought to strictly follow the institutional framework outlined in the legal structure. The study findings further indicated that public Universities in Kenya execute their roles most appropriately to give room for incorporating the best out of the most probable choices of interest.

4.3 Relationship between Institutional Framework and Financial Corporate Compliance

Table 3 provides an overview of the correlation analysis findings.

Table 3: Correlation Analysis for The Study Variables

	Financial Corporate Compliance	Institutional Framework
Financial Corporate Compliance	1.000000	
Institutional Framework	0.131494**	1.000000

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

The findings above indicate that there was a positive and significant relationship between institutional framework and financial corporate compliance (0.131494**). This implied that an improvement in institutional framework influences financial corporate compliance in public universities. Based on this finding, the null hypothesis, $H_{03:}$ Institutional framework does not substantially impact the Kenyan public universities' financial corporate compliance was rejected. This meant that the institutional framework significantly influences financial corporate compliance in public universities.

5.0 Conclusion

The results of the study showed that institutional framework has a positive impact on financial corporation compliance. This illustrated that institutional framework had a compelling impact on financial corporate compliance. The study also found that different leadership perspectives and styles affect the institutional framework. Further, the university operates under an effective code of ethics which in turn boosts financial corporate compliance Institutional frameworks in public universities determine the financial corporate performance of public universities, and hence if properly enhanced, the financial performance increases.

EdinBurg
Peer Reviewed Journals & Books Publishers

6.0 Recommendations

The study recommends all public universities to be keeping track of all activities required to be adhered to by the public institution finance department more regularly to ensure the smooth running of the institutions. It is also recommended the university management facilitate regular training for the officers in the finance department to equip them with the relevant information of the newly amended policies by the government to govern the finances used to run public universities.

Finance is a very essential resource in ensuring the presence of smooth running of any institution and poor management may fail or collapse an institution. Most government employees fail to dedicate much of their effort in their lines of duty due to the absence of much pressure in the public institution. Therefore, this study recommends that the government should employ thorough accountability measures and policies that will make every officer in public universities be held responsible for every activity he/she has undertaken on behalf of the university that may lead the university to incur some expenditures.

References

Beiner, S., Drobetz, W. & Zimmermann, H. (2019). An integrated framework of corporate governance and firm valuation. *European Financial Management*, 12(2), 249-283

Bhagat, S & Jefferis, E (2018), *The Econometrics of Corporate Governance Studies*, MIT Press, Cambridge.

DiMaggio, P.J. and Powell, W.W. (2018). "*The new institutionalism in organizational analysis*", Chicago, IL: the University of Chicago Press

Harry, A.P. (2017), *Institutional Effects as Determinants of Learning Outcomes. Exploring State Variations in Mexico*, HDN Policy Research Working Paper 4286. Washington, DC: Human Development Network, World Bank.

Levine, R. (2017). Africa's Growth Tragedy: Policies and Ethnic Divisions, Quarterly Journal of Economics, 79, 1041–1060

Makkai, T. & Braithwaite, J. (2019), "Praise, pride and corporate compliance", *21 International Journal of the Sociology of Law*, pp. 73–9

Marishane, R. N. & Botha, R. J. (2017). Empowering school-based management through decentralized financial control. *Africa Education Review*, 1(1):95-112.

Mushanga, M. (2018). Crime and Deviance: An introduction to criminology, Nairobi, East African Literature bureau

Ntim, C.G., and Soobaroyen, T. (2018a), "Corporate governance and performance in Socially responsible corporations: New empirical insights from a neo-institutional framework", *Corporate Governance: An International Review*, Vol. 21 No. 5, pp.468–494.

Odofin, A. P. and Omojuwa, K. A. (2019). *The Challenges of Democratisation Process in Nigeria,* Zaria, A.Y. Sule Digital Printers

Olola, J.O. (2018). *Slaying the Corruption Dragon with Bare Hands: A Case for Granting Prosecutorial Powers to Kenya's Ethics Anti–Corruption Commission*, a published L.L.M Thesis, Faculty of Law, University of Nairobi

Scott, C. (2018), "Analysing regulatory space: Implications for institutional design and reform", *Law & Society Association Annual Conference*, Aspen, Colorado, June.

Storey, H. (2020). University Governance in Victoria, Report of the Ministerial Committee of Advice on University Governance in Victoria, Government of Victoria, Melbourne.

Westphal, J (2019). 'Board Games: How CEOs Adapt to Increases in Structural Board Independence from Management', Administrative Science Quarterly, vol. 43, no. 3, pp. 511-37

Zattoni, A., & Cuomo, F. (2018), "Why adopt codes of good governance? A comparison of institutional and efficiency perspectives", *Corporate Governance: An International Review*, Vol. 16 No. 1, pp.1–15