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Regulatory Framework and Financial Corporate Compliance in Public Universities in Kenya

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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 regulatory 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 study findings indicated that regulatory framework affects positively financial corporate compliance during the period of study and its effects are significant. The study also found that the universities are regulated by accredited regulatory bodies as stipulated by the constitution. 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: *Regulatory 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).

A regulatory framework is a model which universities use to reform and enact regulations effectively and logically. The defense of political basic rights and the efficient administration of public universities are dependent on clear legal and constitutional provisions. Regulators and academics have long recognized that the disclosure of relevant and reliable information depends heavily on corporate governance and the individuals responsible for the preparation and certification of prudential and non-Prudential reports (Brown, 2020). Ideally, regulators should be able to accurately identify and assess compliance and non-compliance of the "universe" (all regulated entities) in a given area to obtain a statistically significant level of compliance (Baxt, 2018). Regulators should periodically abandon their preferred monitoring and inspection tactics to screen all eligible members and establish appropriate levels of compliance for the entire community of regulated organizations. This is then used to identify high-risk sites for breaches, which can form the basis for targeted inspections for years to come. This is great, but in reality, the costs of gathering information often outweigh the benefits because it needs to be done efficiently (Ayres & Braithwaite, 2017).

1.1 Problem Statement

The regulatory framework established by the institution's governing body serves as the basis for corporate economic compliance in all educational institutions. Government money supports educational activity at universities, which are institutions of higher learning. To enable residents of the town to pursue higher education, they are maintained at taxpayer expense. The government bears the costs of overseeing, controlling, and paying professors at colleges (Odofin & Omojuwa, 2019). The corporate governance frameworks of the institutions give forth the rights and responsibilities of a wide range of participants, including the board, chancellor, vice-chancellor, and other investors. Good corporate governance encourages excellent educational and training standards 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 regulatory framework on financial corporate compliance at Kenya's public universities.

1.2 Research Hypothesis

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

2.0 Literature Review

During various stages of a regulation's compliance lifecycle, regulators take pictures to monitor how parties regulated are achieving established goals and objectives. Similarly, to this, regulators must evaluate the entire compliance lifespan of regulation to determine whether the parties regulated achieve specified goals and objectives when managing regulatory compliance (Casper, 2019). By ensuring that those accused of corruption and related offenses receive a prompt and impartial trial, the judiciary is obligated to uphold anti-corruption laws. It also has the authority to punish those found guilty justly by the law, demonstrating that corruption does not pony up. The judiciary must ensure a fair and prompt resolution of civil disputes so that parties are not tempted to evade the law because they can't get to it quickly enough.

To safeguard witnesses and informants, legislation is introduced by the Attorney General's office. Additionally included are disclosure requirements, spending caps, regulations, and government subsidies for political party finance. The workplace of the Head legal officer presents regulations to manage tax evasion and continuous wrongdoing; increase the number of qualified legal teams and judges; improve the systems for providing services; modernize commercial law; and make the company register and management of records computerized. In addition, it completes annual return filing and identifies requirements. The initial reaction to the announcement of a new regulation is frequently one of fear or disdain. However, the initial, most ardent opponents end up benefiting from its effects, such as accountability and transparency, which are often quite beneficial in the long run. Operating policies typically specify the procedures an organization uses to guarantee effective governance and obligation compliance. Important corporate obligations may not be met by government policy, law, statute, or regulation if operating policies are either inadequate or absent. Public universities may face significant obstacles to financial corporate compliance due to the scope, complexity, and costs of compliance procedures.

Regulators and other interested parties have always been interested in the reliability and quality of financial reports following accounting crises involving large, reputable institutions. Poor corporate governance (CG) practices are frequently linked to organizational issues, so numerous studies claim that accounting crises were the driving force behind the development of CG. Risks of corporate mismanagement and conflicts of interest between shareholders and the board of directors frequently cause issues for businesses (Zango, 2019). According to Austin and Jones (2020), employees in higher education who have auxiliary responsibilities for regulatory compliance must choose between their primary responsibilities and the frequently conflicting priorities of regulatory compliance actions. According to Ariely's premise (2020), governments frequently enact regulations that provide both positive and negative incentives to encourage individuals and organizations to adopt their preferred behaviors. When it comes to implicit regulation and the government, there is rarely any room for choice. Because the decision has already been made by force, personal and institutional motives must be ignored. However, this does not rule out opportunity cost, a fundamental concept in microeconomics. The benefits sacrificed when making a decision have been referred to as opportunity cost (Black et al.,2017), in contrast to McConnell et al.2019) defined it as the

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next best thing that was sacrificed. There are two ways to quantify this sacrifice: specifically, as the sum of money that would have been used to pay for the direct costs of the decision; as well as implicitly, as the best alternative or benefit sacrificed. Compliance in higher education can have finances and "skills and energy use"; expenditures that deviate from the main goals of higher education, teaching, and scholarships; besides the fact that they influence trust in university decision-making (Kaplin & Lee, 2018).

Regulation is the primary mechanism by which accountability in higher education is accomplished if accountability is defined as being held accountable for one's conduct. Institutions are governed by federal, state, and municipal governments (Kaplin & Lee, 2018). Regulations for universities exploded in the 2000s and 2010s as a result of the accountability movement, escalating tensions and driving up compliance costs (Bok, 2019). Because legislators routinely employ legislation to encourage desirable actions, regulations are now frequently attached to funding to ensure that it is used as intended (Ariely, 2020). Higher education, which views compliance obligations as unfunded mandates that pass costs onto students, has generally rejected such precise regulations (Casper, 2019).

Between the 1970s and the 1990s, a significant shift occurred in the relationship between universities and the government. As a result, much regulation of higher education is relatively recent. In the past, most institutions were expected to act responsibly; The industry was now specifically targeted as a result of increased government surveillance and regulations (Case, 2018). Despite the No Child Left Behind Act of 2002's primary attention on elementary and secondary education, it had a big impact on how higher education developed an accountability culture (Eaton, 2019). Universities faced an uptick in opposition to policies they perceived as burdensome or unnecessary in the 2010s. The Association of American Universities, the Association of Public and Land-grant Universities, and the Council on Government Relations (2016) demanded that unduly onerous regulations be eliminated and that smaller universities be given more leeway when it comes to complying with them.

As a result of the significant increase in regulation, university education governance has been described as being in a regulated state that does not appear to be going away (Austin & Jones, 2020). Despite the widening political divide in the United States, both the political left and right have embraced the accountability-related regulatory environment. According to Klick and Mitchell (2019), the regulatory framework is analogous to caregivers who are overly protective and ultimately hinder their children's development. Casper (2019) mocked the increasing burden of government regulation and the time-consuming certification process on institutions, describing them as bulky and ambiguous at the same time. It was portrayed similarly by Vance (2018). Institutions are focusing on this growing body of regulatory compliance to "guarantee survival" in the face of legal sanctions (Turner &Angulo, 2018).

A case study was presented by Rouvière and Caswel (2019) that demonstrated how regulatory enforcement frameworks evolved from co-regulation with the parties regulated to the regulator alone ensuring compliance. The case study looked into how well the conceptual framework could be used to evaluate how well-enforced self-regulation works. In this setting, regulators formulate and lay down regulations, which are then implemented in conjunction with the parties regulated. Consequently, the regulated parties demonstrated self-regulation by successfully switching from punishment to deterrence mode.

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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. Further 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 Regulatory Framework and Financial Corporate Compliance

The study sought to examine the regulatory framework and financial corporate compliance in Kenya's public universities. The constructs utilized here were the Regulations, Financial Management Acts, and Statutes. 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 regulatory framework.

Table 1: Regulatory Framework on Financial Corporate Compliance

Regulatory Framework	Agree	Disagree	Neutral	Total
The university is regulated by accredited regulatory bodies as stipulated by the constitution	86.33%	1.33%	12.67%	100%
The financial management acts are followed during decision-making in the university	81.33%	2%	16.67%	100%
The university recognizes the statutes governing the regulatory frameworks	62.67%	8.67%	28%	100%

Results from the table above indicate that 86.33% agreed with the statement that the university is regulated by accredited regulatory bodies as stipulated by the constitution. Of these, 1.33% disagreed while 12.67% remained neutral. This indicated that to a great extent, The university is regulated by accredited regulatory bodies as stipulated by the constitution. The second statement was that the financial management acts are followed during decision-making in the university. Out of the 150 respondents, 81.33% agreed with the statement, 2% disagreed and 16.67% remained neutral. These findings indicate that financial management acts are followed during decision-making in the university. The third statement was that the university recognizes the statutes governing the regulatory frameworks of which of the 150 respondents, 62.67% agreed with the statement, 8.67% disagreed and 28% remained neutral. These results suggest that the majority of Kenya's public universities are aware of the laws governing the regulatory frameworks. The findings of Harry (2017), who examined institutional impacts as predictors of learning outcomes, were in agreement with the findings of this study. Harry concluded that institutional framework had an impact on financial company 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

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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)
Regulatory Framework Pearson Chi-Square	98.04[a]	1	.000	.000	.000
Likelihood Ratio	52.672	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 regulatory 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 Regulatory 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	Regulatory Framework
Financial Corporate Compliance	1.000000	
Regulatory Framework	0.207491**	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 regulatory framework and financial corporate compliance (0.207491**). This implied that an improvement in the regulatory framework influences financial corporate compliance in public universities. Based on this finding, the null hypothesis, $H_{04:}$ Regulatory framework does not substantially impact the Kenyan public universities' financial corporate compliance was rejected. This meant that the regulatory framework significantly influences financial corporate compliance in public universities.

5.0 Conclusion

The study concluded that regulatory framework affects positively financial corporate compliance during the period of study and its effects are significant. The study also found that the universities are regulated by accredited regulatory bodies as stipulated by the constitution. Further, the study also found that financial management acts are followed during decision-making in the university and that the university recognizes the statutes governing the regulatory frameworks. As such, regulating public universities with an appropriate framework enables them to run smoothly under the given guidelines. This boosts corporate compliance and in the long run, improves the performance of the universities.

6.0 Recommendations

The study recommends all public universities to be keeping track of all activities required to be adhered to by public institution finance departments 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.

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