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**Financial Management Practices and Financial Performance of Commercial and
Manufacturing State Corporations in Kenya**

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Financial Management Practices and Financial Performance of Commercial and Manufacturing State Corporations in Kenya

(An Independent Study in Finance)



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Abstract

Purpose: This independent study in finance attempts to investigate effect of Financial Management Practices on Financial Performance of Commercial and Manufacturing State Corporations in Kenya.

Methodology: Researcher intends to adopt a positivist philosophy that demands researcher to be independent of the study. Explanatory non-experimental research design will be employed in the study. For the purposes of this study, a census of all Commercial and Manufacturing Corporations will be used in study. The study will use Secondary data from financial statements of Commercial and Manufacturing State Corporations for period 2020-2025. Data will be obtained from office of auditor general and Kenya Parliament Library. Researcher proposes to use a panel multiple linear regression model in the analysis and Baron & Kenny (1986) methodology to test for mediation and moderation effects.

Findings: The study anticipates that effective financial management practices will significantly enhance Financial performance with internal cashflows mediating this effect, particularly moderated by firm size in Commercial and Manufacturing State Corporations in Kenya. The study will determine whether the financial management practices significantly affect Financial Performance of Commercial and Manufacturing State Corporations In Kenya and give advise to Management and those charged with governance of these corporations on management practices of serious concerns for improvement. Findings will guide management to prioritize risk management practices, advising governance bodies on reforms to improve financial health and reduce bailout dependencies.

Unique Contribution to Theory, Practice and Policy: Management of Commercial and Manufacturing State Corporations will be able to tell how financial management practices affect their financial performance. The study intends to enriches literature by testing mediation and moderation in an African SOEs context, potentially refining Resource based Theory for resource-constrained environments. The study informs turnaround strategies for Kenyan SOEs, such as optimizing capital structure to boost performance amid economic volatility. Finally, the study will provide evidence for policymakers (e.g., Treasury) to enforce better financial practices, supporting sustainable development goals.

Keywords: *Liquidity Management, Financial Risk Management, Capital Structure Management, Working Capital Management, Internal Cashflows, Firm Size, Financial Performance*

JEL Codes: *G32, G31, G30, L25, L32*

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INTRODUCTION

State Corporations are instrumental in fostering economic growth, stability and country's development (Kruhlov, 2024). State Corporations steer industrialization of an economy by driving industrial output through production of goods and services thereby contributing to a country's GDP growth (Bognetti, 2020). Recent demand by general public for radical changes in financial management practices has yielded a wave of desire for reforms in liquidity, risk, capital structure and working capital management practices among state corporations globally (He & Wei, 2023). In south Africa performance of state corporations has been negatively affected by government bail outs and guarantees on loans advanced to SOEs which burdens national fiscus (Marimuthu, 2020).

Although grouped under State Owned Enterprises, Commercial and Manufacturing State Corporations differ significantly in terms of their operational structure and capital intensity. According to Bruton et al, (2015), Manufacturing State Corporations are usually more capital intensive since they require substantial investment in fixed assets such as plant, machinery, production facilities and technology in order to support large-scale production. These Corporations also incur higher operational costs pertaining to raw materials, labour and maintenance of production infrastructure. In contrast, Commercial state corporations are relatively less capital intensive and are primarily engaged in trading, distribution, and provision of goods and services, which typically require lower levels of fixed asset investment but higher levels of working capital to support their operational activities (Cuervo-Cazurra et. al, 2014). The above mentioned structural differences influence financial management priorities, particularly in areas such as capital structure decisions, liquidity management, and working capital requirements. Consequently, understanding these sectoral differences is vital when examining the influence of financial management practices on performance of Commercial and Manufacturing State Corporations (Bernier, 2017; Peng et. al, 2016). Consequently, the differences in capital intensity and operational requirements between commercial and manufacturing state corporations are likely to influence how these state corporations manage critical financial management practices such as liquidity management, financial risk management, capital structure, and working capital management, which in turn determine their overall financial performance.

The success and performance of state corporations depend heavily on prudent financial-management practices (Jermias, Fu and Chen (2023). Management of these state corporations must therefore seek strategies to enhance profitability and actualize growth and sustainability (Lee et al., 2022). Just like profit-oriented firms, commercial and manufacturing state corporations should engage in income generating activities for profit and wealth maximization. Dang, Nguyen & Taghizadeh, (2021) observes that inefficient and ineffective financial management practices often put firms into serious financial performance and sustainability challenges. The emerging importance of financial management raises vital questions on whether state owned enterprises (SOEs) are actually improving their management practices to improve their profitability (Adebayo & Ackers, 2022). Liquidity management challenges arise from inability to timely convert current assets to cash or incurring big losses from bad debts (Njue, 2020). Efficient management of firm's working capital brings improvement in performance of a business concern and aids firms in meeting their short-term liquidity (Rop & Jagongo, 2021). Capital-structure management is proactively managing a state corporation's financing of debt and equity financing for purposes of optimizing financial position, reducing capital cost of and maximizing firm's value (Filatova, Kulyk & Kravchenko, 2024). Working

capital management practices requires investing in liquidatable current assets and liabilities and is therefore important for company's financial performance (Kadima, 2024). Management of cashflows is vital to success of firm since it allows firms fulfil short-term obligations, invest in development and mitigate financial instability (Barnabas & Oloyede, 2024). Firms with higher tangibility of assets lower their external financing costs to improve profitability (Iltas & Demirgunes, 2020). In Kenya (Kaino, Kiragu, David & Mburu, 2025) established that variations in state owned enterprises performance can be explained by financial practices and deviations from best practices can have dire effect on performance of these corporations.

In Kenya, Commercial and Manufacturing State Corporations help redistribute regional income and provide essential monopolistic service and goods at subsidized prices that private sector is unable to provide (Fiebelkorn, Owuor & Nzioki, 2021). To drive economy towards realization of vision 2030, National Treasury of Kenya through Inspectorate of State Corporations, is tasked with mandate of overseeing performance of over 250 State owned Corporations (Fiebelkorn, Owuor & Nzioki, 2021). Financial management of State Corporations in Kenya is guided by the Public Finance Management (PFM) Act of 2012 and the State Corporations Act (Cap 446). These legal frameworks establish principles of transparency, accountability, fiscal discipline, and effective oversight, requiring boards and management to adopt prudent financial practices in areas such as liquidity management, capital structure, financial risk management, and working capital, thereby shaping the performance of commercial and manufacturing state corporations.

Statement of the Problem

State Corporations are critical in global economies for providing strategic goods, supporting industrialization, and stabilizing key sectors such as energy, transport, and manufacturing (Singh & Chen, 2020). Globally, SOEs face challenges including weak financial management, operational inefficiencies, and high debt levels, often resulting in poor financial performance and fiscal burdens for governments (Marimuthu, 2020). In Africa, SOEs remain central to economic development and industrialization, yet many struggle with liquidity constraints, weak financial controls, and excessive reliance on debt financing (OECD, 2023) and (World Bank, 2022). These inefficiencies frequently necessitate government support, limiting resources available for broader development priorities (African Development Bank, 2022) and (World Bank, 2023).

In Kenya, commercial and manufacturing state corporations support industrial growth, employment, and strategic sectors aligned with Kenya Vision 2030 (Maina & Kihara, 2025) and the Bottom-Up Economic Transformation Agenda (BETA). Kenya has about 33 state corporations in these categories, expected to operate efficiently while delivering public value (Republic of Kenya, 2023). However, between 2020 and 2025, these corporations experienced declining profitability, liquidity challenges, and inefficient resource utilization, further exacerbated by the COVID-19 pandemic, supply chain disruptions, and fiscal pressures (KNBS, 2024). For instance, manufacturing output rose from Ksh 2,376,423 million in 2020 to KSh 3,691,742 million in 2024 and yet value-added contributions stood low due to high intermediate consumption and operational inefficiencies (KNBS, 2024). Empirical studies show that prolonged receivables collection, inefficient working capital management, and excessive financial leverage have negatively impacted returns on assets in Kenyan SOEs (Chanua et al., 2025) and (Obonyo & Opuodho, 2025; Simiyu, 2025). Despite governance

reforms under the Mwongozo Code of Governance for State Corporations and the State Corporations Act of Kenya, performance gaps persist.

Most existing studies on financial management practices and financial performance of Kenyan State Corporations rely heavily on survey-based primary data, capturing subjective perceptions of State Corporations Managers and those charged with governance. Whilst these studies provide useful insights, their reliance on self-reported data introduces potential bias thus limiting ability to objectively assess effects of financial management practices on financial performance. Moreover, prior research often focused on single financial management variables or employed cross-sectional designs, leaving a methodological gap in understanding the collective and dynamic impact of these financial management practices over time. To address this gap, the present study seeks to adopt a longitudinal approach using secondary data from audited financial statements of all commercial and manufacturing state corporations in Kenya for period 2020–2025, obtained from the Office of the Auditor General (OAG). A panel multiple regression analysis will be employed to examine how liquidity management, financial risk management, capital structure, and working capital management collectively influence financial performance over a volatile period, providing objective and robust evidence to guide policy and governance reforms.

Objectives of the Study

General Objective

To investigate effect of financial management practices on financial performance of Commercial and Manufacturing State Corporations in Kenya.

Specific Objectives

The study will be guided by the following specific objectives: -

- i. To determine effect of Liquidity Management on Performance of Commercial and Manufacturing State Corporations in Kenya.
- ii. To establish effect of Financial Risk Management on Performance of Commercial and Manufacturing State Corporations in Kenya.
- iii. To determine effect of Capital Structure Management on Performance of Commercial and Manufacturing State Corporations in Kenya.
- iv. To establish effect of Working Capital Management on Performance of Commercial and Manufacturing State Corporations in Kenya.
- v. To determine moderating effect of firm size on relationship between financial management practices and performance of Commercial and Manufacturing State Corporations in Kenya.
- vi. To establish mediating effect of internal cashflows on the relationship between financial management practices and performance of Commercial and Manufacturing State Corporations in Kenya.

Research Hypotheses

1. **H₀₁**: There is no statistically significant relationship between liquidity management and performance of Commercial and Manufacturing State Corporations in Kenya.
2. **H₀₂**: There is no statistically significant relationship between financial risk management and performance of Commercial and Manufacturing State Corporations in Kenya.

3. **H₀₃**: There is no statistically significant relationship between capital structure management and performance of Commercial and Manufacturing State Corporations in Kenya.
4. **H₀₅**: Internal cashflow does not mediate relationship between financial management practices and performance of Commercial and Manufacturing State Corporations in Kenya.
5. **H₀₆**: Firm Size does not moderate relationship between financial management practices and performance of Commercial and Manufacturing State Corporations in Kenya.

Significance of the Study

Findings of this study are expected to provide significant benefit to government of Kenya, the management of state corporations and academic community. First and foremost, study will be crucial to National Treasury and State Corporations Advisory Committee (SCAC). Given that study covers period ending in 2025 following major reforms of 2025, findings will provide empirical data on financial health of these entities post-restructuring. By evaluating relationship between financial management practices and performance, study will offer evidence-based policy recommendations that guide formulation of future fiscal guidelines and performance contracting frameworks for State Corporations, ultimately aiding in the reduction of reliance on the exchequer.

Secondly, it is instrumental to boards of directors, management teams of Commercial and Manufacturing State Corporations. By specifically assessing effects of liquidity, financial risk, capital structure and working capital management, study will highlight specific areas where financial inefficiencies exist. The results will enable managers make right decisions regarding capital allocation, risk mitigation, and cash flow management. Furthermore, by establishing moderating role of firm size and mediation role of internal cash flows, study will provide tailored insights for larger corporations versus smaller ones, helping managers understand how their specific firm characteristics influence the success of their financial strategies.

Finally, study will contribute to academia and bridge existing research gaps. While previous studies have examined financial management in the private sector or across all State Corporations generally, few have focused exclusively on the Commercial and Manufacturing sub-sectors using a census approach. By integrating a moderator and a mediator into the financial management-performance relationship, this study will offer a more nuanced theoretical framework than has previously been available. This will become a valuable reference for researchers and scholars interested in public sector finance, particularly in developing economies facing similar fiscal constraints.

Scope of the Study

This study confines specific thematic, geographical, and temporal boundaries ensuring feasibility and relevance. In terms of subject scope, it focuses on four key independent variables: Liquidity, Financial Risk, Capital Structure and Working Capital Management. Dependent variable is performance of state corporations, measured using return on asset. Additionally, study incorporates firm size as moderator and internal cashflows as mediator variables to give comprehensive analysis of relationships under investigation.

Geographical and institutional scope is strictly limited to Kenya's Commercial and Manufacturing State Corporations. These parastatals were established by government to engage in trade and industrial activities. The study utilizes a census design and will include

entire population of currently active Commercial and Manufacturing State Corporations to ensure that findings are representative of the entire sector rather than a generalized sample. The study covers period of five years, from fiscal year 2020 to 2025. This timeframe is significant as it captures the financial performance of these corporations before the 2025 reforms, allowing for a longitudinal analysis of trends, and includes the immediate post-reform period to assess initial impacts. Data will be primarily derived from annual financial statements and audited accounts of state corporations for years under review.

LITERATURE REVIEW

Theoretical Framework

The study will be pinned on Agency-theory, Public choice theory, Shiftability theory of liquidity Management, Working Capital Management and Resource-Based theories.

Agency Theory

Jensen and Meckling (1978) proposed this theory which posits that managers would go for self-interests and not bother of maximizing returns to equity holders. Jensen (1986) argued that when firms are faced with huge debts, management and those charged with governance are under duress to invest in gainful ventures to generate cashflows to settle debts. According to Nidumolu (2018), agency theory is intended to resolve problems arising from conflicts of interest between managers and shareholders so as to maximize performance. Tuan (2019) acknowledges debt is vital tool for mitigating impact of agency costs on firm's profitability. According to Agency theory, clear performance-based incentives such as bonuses tied to profit or efficiency metrics would motivate management and those charged with governance to prioritize financial wellbeing of SOEs thereby reducing wasteful spending or mismanagement (Morrison, Adu & Guo, 2024). Agency theory emphasizes transparency in minimizing information asymmetry between management and stakeholders (Panda & Leepsa, 2017). Transparent reporting of financial metrics such as revenue, expenditures and debt levels enables the government to assess state owned enterprise's performance and make necessary interventions if necessary (Park, 2021). In this study, agency theory therefore supports performance variable.

In the context of Kenyan SOEs, the Common Agency problem arises as managers and boards answer to multiple principals, including line ministries, the National Treasury, and Parliament. This multi-principal structure increases the potential for conflicting objectives, making the alignment of managerial actions with overall organizational goals more complex. Agency theory suggests that transparent reporting, performance-based incentives, and strong oversight mechanisms are critical to mitigating these conflicts and enhancing financial performance.

Public Choice Theory

Public Choice Theory, developed by Buchanan and Tullock (1962), posits that individuals in public organizations act in their self-interest, influenced by political pressures and institutional constraints. In Kenyan commercial and manufacturing state corporations, managers often navigate competing demands from line ministries, the National Treasury, and Parliament, which can lead to deviations from best financial management practices (Ireru, 2021). This theory supports the study's focus on liquidity management, financial risk management, capital structure, and working capital management, explaining how political and bureaucratic influences affect financial performance. It highlights the importance of governance, oversight,

and accountability mechanisms in ensuring prudent financial management and enhancing SOE performance.

Shiftability Theory

Moulton (1918) propounded shiftability theory which posits that an organization can maintain liquidity by holding assets that can easily get sold or "shifted" to other entities such as financial markets or other institutions without significant loss in value. This theory emphasizes the ability to convert assets into cash quickly through market transactions, rather than relying solely on cash reserves or maturing assets (Ndruru, 2025). This theory asserts that for assets to be shiftable, they ought to be directly transferable without any loss of capital if need for liquidity emerges. Shiftable assets include investments such as treasury bills and bonds that firms can sell directly to raise needed funding (Kozlowski, 2021).

In general circumstances when firms need liquidity shiftability theory needs firms to acquire such assets which can be shifted on to central bank as lender of last resort (Arin, Nyahas & Ekoja, 2024). The merit of shiftability theory is that firms can obtain sound assets shiftable to other financial institutions (Rijal, 2022). Shares, debentures, treasury bills and bonds of big firms are considered shiftable liquid assets (Mootian & Mukoma, 2020). Commercial and Manufacturing State Corporations should therefore maintain shiftable assets that are easily convertible to immediate cash should a need arise (Asiedu, 2020).

The core principle of this theory assumes that liquidity is ensured by holding marketable assets such as government securities, bonds, or other tradable instruments that can be sold or pledged in secondary markets to meet cash needs, especially during unexpected shortfalls (Arin, Nyahas & Ekoja, 2024). This theory underpins need to see assets of Commercial State Corporations as source of liquidity because the approach intends keeping the firm liquid by advocating shifting of assets. This theory supports liquidity management variable in the study.

Working Capital Management Theory

Weston and Brigham (1962) are prominent scholars in field of financial management, best known for their seminal textbook *Managerial Finance* which formalized key concepts in corporate finance, including Working Capital Management Theory. Their work has been instrumental in shaping modern financial management practices, particularly for optimizing liquid assets and ensure liquidity and profitability (Kadima, 2024).

This theory gives a robust framework for managing short-term liquid assets in commercial and manufacturing state owned enterprises (Peng, 2021). It supports liquidity management practices by ensuring operational cash flow, optimizing cash conversion-cycle, balancing liquidity and financial health, mitigating risks and enabling strategic investments (Panigrahi, 2022). If commercial and manufacturing state corporations efficiently managed their working capital, they would realize growth (Amponsah & Asiamah, 2021). Firms may apply conservative or aggressive policies in managing their working capitals (Addin, 2022). This theory supports linkage between working capital and performance variables.

Resource Based Theory

Propounded by Penrose (1959), it posits that firms are collections of resources whose growth depends on managerial capabilities and accumulated knowledge. This perspective was instrumental in shaping the Resource-Based View that influenced prominent scholars including Wernerfelt and Barney. This theory is a strategic management framework explaining how firms

can acquire and sustain competitive-advantage by deploying their unique internal capabilities and resources (Deszczyński, 2021).

This theory suggested a model to effectively manage resources of a firm and strategy diversification (Barney, Ketchen & Wright, 2021). Penrose likened a firm to a consolidated resource bundle that help it achieve goals. This theory provides a framework for predicting fundamentals of competitive advantage and organizational performance. Accordingly, internal factors such as including resources and capabilities help in determining firm's profitability. Firm's acquire competitive advantage but making use of critical assets, developing potential capabilities, accumulation of tangible assets and skills acquisition (Avila, 2022).

If valuable resources which are expensive and hard to imitate are owned by few firms, the firms owing such resources always generate sustainable competitive advantage (Kuo, Fang & LePage, 2022). Large assets can provide valuable benefits like economies of scale, access to capital, and bargaining power, however, these are not automatic. State corporations must overcome challenges like bureaucratic inefficiencies and ensure their size serves both economic and social goals (Giustiziero, Kretschmer, Somaya & Wu, 2023). In other words, firm size alone is not enough but its effective utilization is what determines competitive advantage according to Resource Based Theory (Lutfi et al, 2025). This theory therefore supports link between firm size and performance in Commercial and Manufacturing State Corporations.

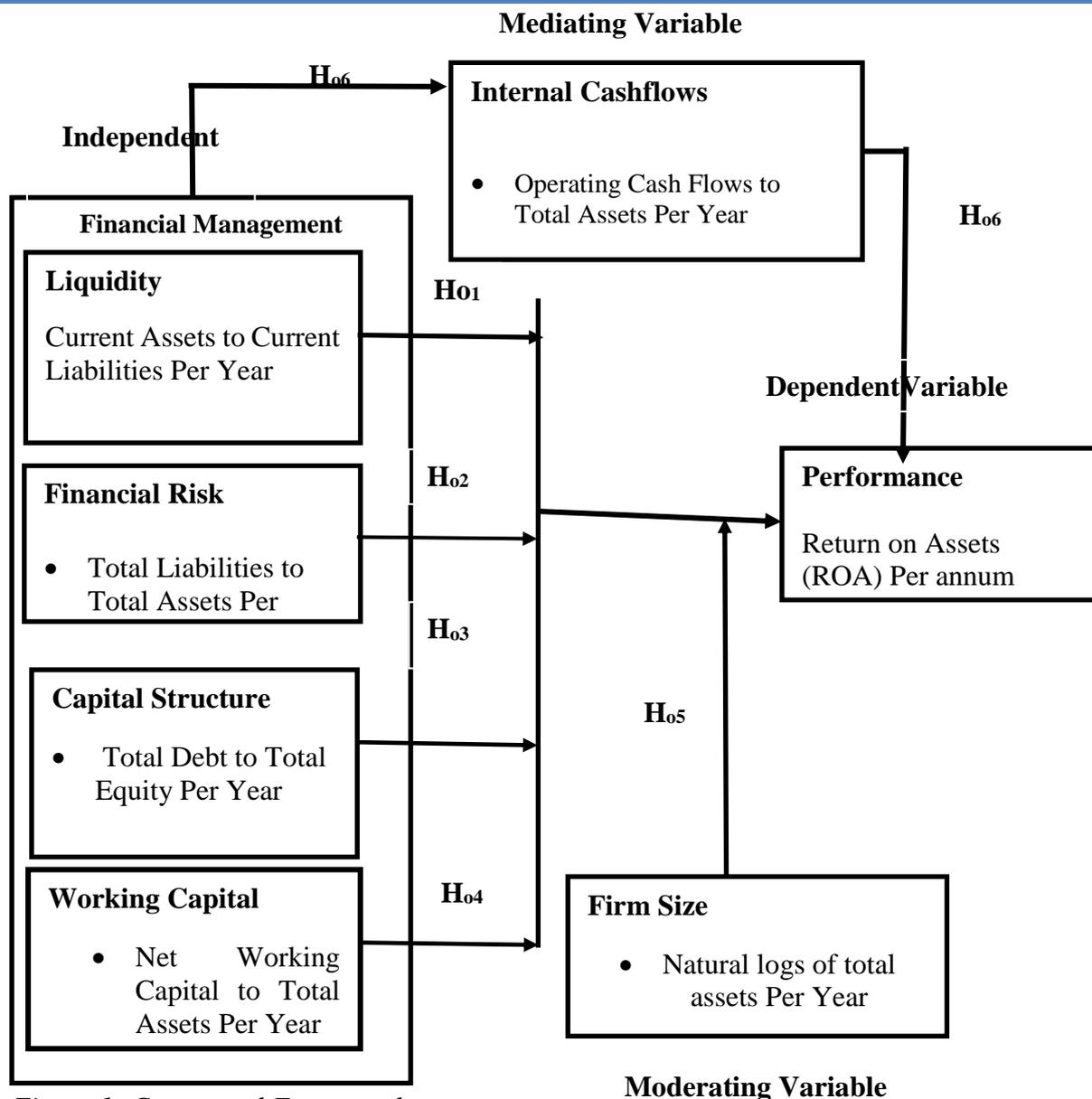


Figure 1: Conceptual Framework

Source: Researcher (2026)

Empirical Review

Liquidity Management and Financial Performance

Empirical evidence indicates that effect of liquidity management on firm's financial performance varies across economic and industrial contexts. For instance, Sundas and Butt (2021) found a positive and significant impact of liquidity on profitability in Pakistan's textile sector, whereas Khansa, Nugroho, and Nurachyono (2022) reported an insignificant effect of liquidity on performance in Indonesian mining firms. Similarly, Permana (2023) found liquidity significantly affected performance in three Indonesian state-owned mining companies, but the study did not account for capital structure, working capital, or firm size.

In the Kenyan context, studies by Mwangi (2024) and Fwamba (2018) confirmed that liquidity practices, alongside working capital and capital structure, influence financial performance in commercial and manufacturing state corporations. Kaino, Kiragu, David, and Mburu (2025) further established that financial management practices overall affect SOE performance in Kenya, while Habineza and Cortez (2023) observed the positive effect of budgeting practices on performance in Rwandan SOEs. These findings demonstrate that liquidity management interacts with other financial management practices, and its effectiveness is shaped by the institutional, industrial, and governance environment.

Collectively, the mixed evidence from Indonesia, Pakistan, and East African SOEs highlights the need for a context-specific study in Kenya that examines liquidity management alongside capital structure, working capital, firm size, and internal cash flows to understand their combined impact on the performance of commercial and manufacturing state corporations.

Financial Risk Management and Financial Performance

Studies on financial risk management demonstrate that its impact on financial performance is highly context-dependent. In Kenya for instance, Rop and Jagongo (2021) found that liquidity risk management positively influences SOE financial performance, while Kinyua, Gakure, Gekara, and Orwa (2015) reported that risk management significantly affects financial performance of listed Kenyan firms, though these findings are limited to private sector firms listed on the Nairobi Securities Exchange. Similarly, Irene and Bunyasi (2017) found that risk assessment and internal audit standards positively affected performance of Kenyan state corporations, but their study did not account for liquidity, capital structure, working capital, or cash flow management practices.

Across Africa, Mohuba (2023) recommends that South African SOEs adopt effective risk management practices to safeguard market value, while Adediran, Abdullahi, Oladipo, and Puke (2025) found mixed effects of financial risk measures on bank's financial performance in Nigeria, earnings volatility positively affected performance, whereas debt-to-equity ratios had negative or insignificant effects. These contrasting results illustrate that the effectiveness of financial risk management practices depends on institutional, industrial, and governance contexts, as well as interactions with other financial management practices. In Kenya, commercial and manufacturing SOEs operate under unique constraints, including government oversight, bureaucratic procedures, and fiscal pressures. Prior studies largely focus on isolated risk measures or private firms, leaving a gap in understanding how financial risk management interacts with liquidity, capital structure, working capital, firm size, and internal cash flows to influence financial performance. The current study addresses this gap by examining the combined and context-specific effects of these variables in Kenyan commercial and manufacturing SOEs from 2020–2025.

Capital Structure Management and Financial Performance

Reviewed empirical literature demonstrates that capital structure significantly influences firm's financial performance, though the effect varies across countries and institutional contexts. For instance, Ajibola, Wisdom, and Qudus (2018) found that capital structure positively affected performance in Nigerian listed firms, with long-term debt recommended as a strategic financing tool. Similarly, Nassar (2016) reported that capital structure affected financial performance of 136 listed Turkish companies, though the study did not consider other explanatory variables such as working capital, internal cash flows, or firm size.

In Kenya, Nyongesa and Jagongo (2024) examined the effect of equity and debt on profitability of state corporations over a ten-year period and confirmed significant effects of capital structure on financial performance. However, the study did not integrate liquidity, working capital, firm size, or cash flows, which may interact with capital structure to shape overall financial outcomes. These findings highlight that while capital structure is an important determinant of performance, its effectiveness is context-specific, influenced by industry type, firm characteristics, and governance structures. Kenyan commercial and manufacturing SOEs, which operate under government oversight and fiscal constraints, require a comprehensive analysis examining how capital structure interacts with liquidity, financial risk, working capital, firm size, and internal cash flows. The current study addresses this gap using longitudinal data from 2020–2025 to determine combined effect of financial management practices on performance of commercial and manufacturing state corporations in Kenya.

Working Capital Management and Financial Performance

With regard to effect of working capital management on financial performance, empirical evidence shows mixed results across different contexts. For instance, Amponsah (2021) found that working capital positively influenced profitability in 20 Ghanaian manufacturing firms during 2015–2019, highlighting the importance of efficient management of short-term assets and liabilities. Conversely, Akgun and Memi (2021) reported a negative effect of working capital on performance in 28 European firms over 2003–2012, suggesting that overly conservative or excessive investment in current assets may reduce efficiency and returns. These contradicting results indicate that the impact of working capital is context and industry-specific, influenced by regulatory environment, firm characteristics, and other financial management practices. Prior studies examined above also omitted critical variables such as capital structure, liquidity, internal cash flows, and firm size, limiting their ability to capture the full effect of financial management practices on performance.

In the Kenyan context, commercial and manufacturing state corporations operate under unique management, fiscal and industrial constraints. To address these gaps, current study will examine how working capital interacts with liquidity, risk management, capital structure, firm size, and internal cash flows to influence financial performance of Kenyan SOEs in the period from fiscal years 2020–2025.

Moderating effect of Firm Size on Financial Management Practices and Performance

Empirical evidence indicates that firm size can influence the relationship between financial management practices and performance, but the effect varies by context (industry). Suu, Tien, and Wong (2021) found that firm size positively affected Tobin's Q in Vietnamese state-owned firms, while growth and leverage also positively impacted performance. Conversely, Arifaj, Berisha, Morina, and Avdyli (2023) reported that in publicly traded firms in Kosovo, larger firm size was associated with diminishing financial performance, although high debt improved performance. These mixed findings suggest that the moderating role of firm size is highly context-dependent, influenced by industry characteristics, financial practices, and structure of governance. Previous reviewed studies have often excluded the interactive effects of capital structure, liquidity management, working capital, and internal cash flows, limiting comprehension of how firm size moderates financial performance. The current study seeks to fill this gap by examining the moderating effect of firm size on the relationship between financial management practices; including liquidity, risk, capital structure, and working capital and financial performance of SOEs for the period 2020–2025.

Mediating effect of Internal CashFlows on Financial Management Practices and Performance

Various literatures reviewed on mediating effect of internal cash flows on relationship between financial management practices and financial performance also exhibited mixed effects across different countries and contexts. Olufemi (2025) found that cash flows had an insignificant effect on performance in 49 Nigerian listed firms, suggesting that liquidity generated internally may not always translate into improved financial performance contradicting findings by Omoruyi, Yusuff, Ilias, Oke, Bot, and Oladele (2025) who observed that cash flows and liquidity significantly impacted profitability in Nigerian manufacturing firms, while Margie and Habibah (2025) found positive effects of cash flows on stock returns in Indonesian firms. Similarly, Laghari, Ahmed, and López (2023) reported that cash flows positively affected firm performance in over 20,000 Chinese non-financial firms.

These divergent findings highlight that the impact of internal cash flows is contextual and sector-specific and may be influenced by firm size, governance structures, and the overall financial management environment. Prior studies also often excluded interaction effects with other financial management practices, such as liquidity management, capital structure, working capital, and firm size. In Kenya, commercial and manufacturing state corporations operate under unique regulatory and industrial constraints, including oversight by line ministries and the Auditor General. The current study addresses these gaps by examining the mediating role of internal cash flows on the relationship between financial management practices; including liquidity, financial risk management, capital structure, working capital and financial performance of Kenyan commercial and manufacturing state corporations for the period 2020–2025.

Summary of Literature Review and Research Gaps

Empirical studies indicate that the impact of financial management practices on firm's financial performance varies across countries, industries, and firm types. For example, liquidity positively affected profitability in Pakistan's textile sector (Sundas & Butt, 2021) and Ghanaian manufacturing firms (Amponsah, 2021), but showed insignificant effects in Indonesian mining firms (Khansa, Nugroho & Nurachyono, 2022) and (Permana, 2023). Similarly, financial risk management, capital structure, and working capital show mixed results across Nigeria, Turkey, China, and Kenya (Ajibola, Wisdom & Qudus, 2018), (Nyongesa & Jagongo, 2024) and (Olufemi, 2025), reflecting context- and governance-specific influences. Moderating effects of firm size and mediating effects of internal cash flows also differed by country, industry, and firm type.

Several research gaps therefore emerge from above empirical reviews. First, most studies focused on isolated financial management practices, ignoring interactions between liquidity, risk, capital structure, working capital, firm size, and cash flows. Second, few studies examined moderating and mediating effects, which can shape financial performance outcomes. Thirdly, Kenyan studies reviewed often relied on survey-based primary data, rather than objective, audited financial statements. Fourthly, prior evidence is largely from non-Kenyan context and private firms, limiting applicability to commercial and manufacturing SOEs under Kenyan governance and fiscal constraints. Finally, longitudinal panel regression analyses tracking performance over time have been rarely employed in studies reviewed above. The current study seeks to address these gaps by using audited financial data for Kenyan Commercial and Manufacturing State Corporations in the years 2020 through 2025 and applying panel multiple

regression analysis to examine integrated effect of financial management practices, including the moderating role of firm size and mediating role of internal cash flows thereby providing a context-specific understanding of effect of financial management practices on financial performance.

METHODOLOGY

This section discusses research philosophies, research designs, proposed empirical model and operationalization and measurement of variables.

Proposed Research Philosophy

Refers to beliefs, assumptions and principles which directs how a study is to be undertaken, including the methodology and data is interpretation (Kirongo & Odoyo, 2020). Philosophy refers to an individual's attempt to knowing something out of curiosity with an attitude of doubt. According to Al-Ababneh (2020), research philosophy shapes researcher's approach to investigation and defines their perspective on reality (ontology) and knowledge (epistemology).

Positivism emphasizes use of objective and scientific methods to study phenomena (Park, Konge & Artino Jr, 2020). Positivism assumes that reality is stable, observable, and can be measured through empirical evidence, free from subjective bias (Ali, 2024). Positivism originated from Auguste Comte in the 19th century and is common in natural and social sciences such as physics and economics where researchers apply structured techniques such statistical analysis to test hypotheses (Maretha, 2023). Positivists believe there is only one reality (singularity) which can be examined using established designs and tools, emphasizes quantifiable observations and statistical analysis, aiming for law-like generalizations (Kalelioğlu, 2020). This study will be anchored on positivism paradigm which is hinged on notion that nature of reality is the only source of knowledge (Maretha, 2023). The primary objective of a positivist is to produce explanatory relationships or causal associations which helps predict and control phenomena that is investigated (Park, Konge & Artino (2020).

Proposed Research Design

Research design refers to strategy for collection, measurement and data analysis that outlines procedures that guide researcher in addressing research questions effectively and outlines what researcher will undertake to address research questions (Myers et al., 2013). Research designs are structured frameworks that guide how a study is conducted including how data is collected, analyzed and interpreted (Chun, Birks & Francis, (2019). This study intends to use explanatory design to explore financial management practices and performance of state corporations in Kenya. Explanatory (causal) design establishes cause and effect associations. It helps achieve objective by testing hypothesis to deduce nature of association among variables.

Proposed Sample, Sampling Technique

Due to the small population of commercial and manufacturing state corporations entities, researcher intends to conduct this study on a census of all commercial and manufacturing state corporations in Kenya for period 2020 through 2025.

Proposed Empirical Model

Researcher intends to use panel linear regression suitable for data having time-series and cross-sectional dimensions. Use of panel data analysis is of great advantage than using time series or cross-sectional data alone since researcher can account for the undetected heterogeneity. Panel

data helps achieve a larger sample size compared to using cross sectional or time data alone. Panel data creates a much bigger data set with huge variability and reduced collinearity among the variables. Moreover, Panel data has fewer limiting assumptions due to its expansion upon analysis. Panel data analysis solves the problems of undetectable (unobserved) effects that are present in cross sectional and time series data sets.

The general model of study adopted from Birisi (2024) is as follows:

The model is expressed as $Y_{it} = \beta_0 + \beta_1 X_{it} + e_{it}$

Where; Y_{it} = Performance of state corporation i at time t (Return on Assets)

β_0 = Constant term

β_1 = Coefficients

e = Error term

Decomposing equation above to be applied in panel linear regression analysis model we obtain the following equation: -

$$Y_{it} = \beta_0 + \beta_1 LM_{it} + \beta_2 RM_{it} + \beta_3 CM_{it} + \beta_4 WM_{it} + e_{it}$$

Where:

Y_{it} = Performance

LM_{it} = Liquidity Management

RM_{it} = Financial Risk Management

CM_{it} = Capital Structure Management

WM_{it} = Working Capital Management

β_0 = the intercept

$\beta_1, \beta_2, \beta_3, \beta_4$ = Coefficients

e_{it} = Error Term

Test for Moderation Effect

Baron and Kenny (1986) methodology will be used to test for moderating effect of firm size on the relationship between financial management practices and financial performance. Interaction between financial management practices and moderating variable (firm size) will be modelled as shown in the equations below:

$$Y_{(it)} = \beta_0 + \beta_1 LM_{it} + \beta_2 RM_{it} + \beta_3 CM_{it} + \beta_4 WM_{it} + \beta_5 Z_{it} + e_{it}$$

$$Y_{(it)} = \beta_0 + \beta_1 LM_{it} + \beta_2 RM_{it} + \beta_3 CM_{it} + \beta_4 WM_{it} + \beta_5 Z_{it} + \beta_6 LM_{it} * Z_{it} + \beta_7 RM_{it} * Z_{it} + \beta_8 CM_{it} * Z_{it} + \beta_9 WM_{it} * Z_{it} + e_{it}$$

$Y_{(it)}$ = Performance.

LM_{it} = Liquidity Management

RM_{it} = Financial Risk Management

CM_{it} = Capital Structure Management

WM_{it} = Working Capital Management

Z_{it} = Moderator (Firm Size)

Test for Mediation Effect

To examine whether internal cashflows mediate the relationship between financial management practices (liquidity management, financial risk management, capital structure management, and working capital management) and performance (ROA) of commercial and manufacturing state corporations, the study will adopt the classic four-step Baron and Kenny (1986) mediation testing procedure using stepwise regression in the panel data framework.

Step 1: Establish the total effect (significant direct relationship without the mediator)

The independent variables (financial management practices) must significantly predict the dependent variable (Performance). This step tests the overall relationship before introducing the mediator.

The regression model is:

$$Y_{it} = \beta_0 + \beta_1 LM_{it} + \beta_2 RM_{it} + \beta_3 CM_{it} + \beta_4 WM_{it} + e_{it}$$

Where:

- Y_{it} = Performance (Return on Assets-ROA) of firm i at time t
- LM_{it} = Liquidity Management
- RM_{it} = Financial Risk Management
- CM_{it} = Capital Structure Management
- WM_{it} = Working Capital Management
- β_0 = Intercept
- e_{it} = Error term

At least one of the coefficients β_1 , β_2 , β_3 , or β_4 must be **statistically significant** ($p < 0.05$ to satisfy this condition).

Step 2: Establish relationship between independent variables and mediator

The independent variables (financial management practices) must significantly predict the mediator (internal cashflows).

The regression model is:

$$M_{it} = \beta_0 + \beta_1 LM_{it} + \beta_2 RM_{it} + \beta_3 CM_{it} + \beta_4 WM_{it} + e_{it}$$

Where:

- M_{it} = Mediator (Internal Cashflows, measured as Operating Cash Flows to Total Assets)
- Other variables are defined as above

At least one of the coefficients β_1 , β_2 , β_3 , or β_4 must be **statistically significant** in this equation.

Step 3: Establish relationship between mediator and dependent variable (controlling for the independent variables)

The mediator must significantly predict the dependent variable even after controlling for the independent variables.

The regression model is:

$$Y_{it} = \beta_0 + \beta_1 LM_{it} + \beta_2 RM_{it} + \beta_3 CM_{it} + \beta_4 WM_{it} + \beta_5 M_{it} + e_{it}$$

Where β_5 is the coefficient of the mediator (internal cashflows). β_5 must be statistically significant.

Step 4: Determine full or partial mediation

The final model includes both the independent variables and the mediator:

$$Y_{it} = \beta_0 + \beta_1 LM_{it} + \beta_2 RM_{it} + \beta_3 CM_{it} + \beta_4 WM_{it} + \beta_5 M_{it} + e_{it}$$

Mediation is established by comparing the coefficients of the independent variables (β_1 to β_4) in Step 1 (total effect) with those in Step 4 (direct effect after controlling for mediator):

- Full mediation occurs if the coefficients $\beta_1, \beta_2, \beta_3, \beta_4$ become non-significant ($p > 0.05$ or $p > 0.10$) in Step 4, while β_5 (mediator) remains significant. This indicates that the effect of financial management practices on performance is completely transmitted through internal cashflows.
- Partial mediation occurs if the coefficients $\beta_1, \beta_2, \beta_3, \beta_4$ remain statistically significant in Step 4 and β_5 is also significant. This indicates that internal cashflows transmit part of the effect, but there is also a direct effect remaining.

Operationalization and Measurement of Variables

Table 1: Operationalization and Measurement of Variables

Variable	Type	Operationalisation of Variables	Measurement	Scale	Hypothesised Direction
Liquidity Management	Independent	Ability of the firm to meet its short-term financial obligations as they fall due.	Current Assets to Current Liabilities per year	Ratio	Positive /Negative
Financial Risk	Independent	The level of financial leverage and exposure to debt-related risk.	Total Liabilities to Total Assets per year	Ratio	Positive /Negative
Capital Structure	Independent	Proportion of debt versus equity used in financing the firm's assets and operations.	Total debt to Total Equity per year	Ratio	Positive /Negative
Working Capital	Independent	The efficiency in managing short-term assets and liabilities to support day-to-day operations.	Working Ratio Capital to Total Assets per year	Ratio	Positive /Negative
Internal Cashflows	Mediator	The firm's ability to generate cash from core business operations relative to its size.	Operating Cash Flows to Total Assets per year	Ratio	Positive /Negative
Firm Size	Moderator	The scale or magnitude of the firm's operations.	Natural Logarithm of Total Assets per year	Log	Positive /Negative
Performance	Dependent	Return on assets is profit generated by each shilling invested in firm's assets.	Return on Assets (ROA) per annum	Ratio	Positive /Negative

Source: Researcher (2026)

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