EFFECTS OF INTERNAL CONTROLS ON THE PERFORMANCE OF MULTINATIONAL FINANCIAL SERVICES COMPANIES IN KENYA

BY

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A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE AWARD OF THE DEGREE OF MASTERS OF BUSINESS ADMINISTRATION OF THE UNIVERSITY OF NAIROBI SCHOOL OF BUSINESS

NOVEMBER 2017
DECLARATION

I declare that this research project is my original work and has not been presented to any other University for an award of a degree.

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This research project has been submitted for examination with my approval as the University Supervisor.

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ACKNOWLEDGEMENT
Firstly, I wish to thank the Almighty God for giving me life and strength to carry on.
Secondly, I wish to acknowledge my supervisor Dr. J. Kagwe for his guidance in completing this project. Lastly, I acknowledge my colleagues who helped me with the materials to write this project. God bless you all.
DEDICATION

I dedicate this research project to my mother for her continued support in my education since I was a child up to this moment.
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ABSTRACT
The main objective of this research study was to determine the effects of internal control systems on the performance of multinational financial services companies in Kenya. The study reviewed previous scholarly studies whose results suggested a positive relationship between internal controls and organizational performance. Three theories were explored namely: Agency theory, Institutional Theory and Stakeholders Theory. The researcher collected data through questionnaires that were self-administered to the respondents. The collected data was summarized and organized into tables. Data analysis was done using Excel and presented in tables and charts. The researcher analyzed the correlation between one year changes in stock prices of the companies with the strength of the internal control systems in various companies as reported by the respondents. Regression analysis was also carried out with the percentage change in stock prices in the previous year being the dependent variable and the control environment, risks assessment, control activities and monitoring activities being the independent variables. The findings affirmed a correlation between organizational performance and the strength of the internal control systems in the companies studied. The researcher concluded that strong internal control systems are necessary for organizations to survive, grow and utilized opportunities that arises in their environments while controlling risks. The study found that feedback to junior officers was given less priority and therefore recommended regular feedback to be given to all officers including the junior ones in order to strengthen the organization performance.
CHAPTER ONE: INTRODUCTION

1.1 Background of the study
Weber (1998) identifies the division of duties among individuals, organization, physical initiation of accountability, provision of management services, arithmetic and accounting, budgeting, rewarding better operational activities and personnel as some of the internal control systems that have a relationship with the performance of an organization. The internal control variables that have an impact on the performance of an organization include the control activities, risk assessment and control environment. Financial performance is measured by liquidity, efficiency and profit while non-financial performance is measured by non-monetary variables such as customer satisfaction, defect rates, brand loyalty, first pass yields and employee satisfaction. Wolf (1994) asserts that the basic concepts of an organization's risk assessment processes are relevant to both large and small organizations. The performance of multinational financial institutions in Kenya is to a large extent dependent on the Kenyan market. The company's business growth is influenced by the prevailing economic conditions in the country. Market volatilities can lead to diminished demand, erosion of prices and downturns of foreign exchange rates. Given that these organizations deal with funds that do not belong to them, there is need for strong internal control measures to safeguard the funds. Different internal control systems come with different effectiveness levels. Studies carried out by professionals in Europe and America found out that companies that had strong internal control systems were well developed, better in a competitive market, greatly controlled by government laws, extra conservative, more competent, had high liquidity and profitability and had better management controls (Wallace, 1991).

There are four internal control theories that have been advanced namely: the systems,
agency, institutional and stakeholder theory. Agency theory involves the entrusting of one’s obligations to another person to perform services on their behalf. The delegation helps in promoting efficiency and productivity through division of labor. The institutional theory perceives institutions as social structures which have gained higher degree of resilience. The structures are made of elements (normative, regulative and cultural-cognitive) that promote legitimacy.

These elements work in association with given resources and activities to enhance stability and the interactive nature of humanity and their environment. The stakeholder theory perceives an organization as comprising of stakeholders who benefit or get harmed by the actions of an organization. The stakeholders include stockholders, employees, suppliers and customers of the organization. The systems theory is an interdisciplinary theory that investigates a phenomenon using a holistic approach. It considers an observed reality as integrated and interacting in such a way that the individual parts are indistinct.

According to Mirinaviciene (2014), most researchers are in agreement that internal controls inform good financial reporting and prevention of fraud. However, many organizations put more emphasis on external audits than internal audits. As a result, they focus more on determining whether fraud has occurred instead of using internal controls and audits to prevent any malpractice from occurring in the first place. Organizations lose about 5% of revenue from fraud every year. Despite the existence of fraud detection techniques such as ratio analysis, regressions analysis, financial ratios, decision trees, neutral networks and transformation of variables, fraud is still difficult to detect since the executives involved have learnt to manipulate results. With the improvement in technology, financial institutions have expanded their operations beyond their domestic
borders, which expose them to higher risks, frauds and other irregularities. It is therefore imperative that institutions maintain strong internal controls. Internal control and risk management are fundamental elements of governance of an organization. The two elements are perceived as the foundation to the new strategic business management approach. A study carried out by Saeidi (2015) to look into the coordination of internal control operations and performance effects of a Golestan telecommunication company found a productive interdependence of the company’s internal control and performance. Therefore, when an organization implements an effective internal control system, its performance gets improved, both on financial and non-financial aspects.

1.1.1 Internal Controls

Koontz (1984) defined control as the measurement and correction of performance to ensure that the objectives and plans that have been devised are accomplished.

According to Brech (2006), control is the process of checking current performance against a pre-determined standard with the aim of ensuring that adequate progress is being made and the performance is satisfactory. It is the systematic effort by an organization to compare performance to pre-determined standards, objectives and plans so as to find out if the performance is in line with the set standards and take remedial action that may be required to ensure the resources are used in the most efficient and effective way possible in attaining the organizational standards (Mockler, 1972).

According to Dull and Gelines (2010), internal control is a process driven by the company managers with the aim of achieving the set objectives in operational objectives, efficiency, authentic reporting, and working within the laid rules and regulations. Internal control, as defined by the Canadian Guidance on Control Board (Pfister, 2009)
involves all processes, tasks, structures, resources and ways of life that constructively build an establishment towards the attainment of its goals. According to Trenerry (1999), internal control is the process used to check, verify and report the reliability of reported information.

There are two types of internal controls namely: preventative and detective internal controls. Preventative controls are proactive actions aimed at preventing irregularities or errors from occurring. They include segregation of duties, approvals, verifications and authorization of activities and transactions performed by employees. Detective controls are concerned with detecting irregularities or errors that have already occurred. Detective control activities include reconciliation, performance reviews and audits (Moeller, 2005).

Operationalization of internal control is done through control environment assessment, risk assessment, control activities, information and communication and monitoring activities. The control environment involves creation of an organizational structure which defines areas of authority and responsibility, delegation of responsibility, hierarchy of reporting, support of human capital policies and requirement for personnel to maintain proper skills. In risk assessment, the organization identifies internal and external risks that they face and come up with a risk management strategy which include accepting, avoiding or mitigating the identified risks.

The control activities include mechanisms and procedures such as justified division of roles, offering monitored physical control on assets, certified guidance on imposing authority, reconciliation, reporting plus retention of maintenance of the establishment’s records. The communication component involves communicating information to the relevant personnel at all levels. Monitoring is done through periodic reviews,
reconciliations and comparison of data. Monitoring activities include reporting of performance indicators, direct testing and completion of self-assessment.

1.1.2 Organizational Performance

The Word performance means to carry out, to render or to do. It is the act of accomplishing, fulfilling or executing. In a broader sense, it means the accomplishment of a task which is measured against a given set of standards of completeness, speed, cost and accuracy. In organizational settings, the activities of a corporation are measured against past performance or projected cost efficiency, accountability or management responsibility (Kohlar, 2003). Financial performance is a measure of how well an organization is using its assets to generate revenues. It measures an organization's financial situation over a specified duration. Varied methods are used in measuring financial performance; however, all the specified measures are cumulatively applied.

Among the entries in a fiscal budget that can be used include cash flow from operations and operating income. There are five main financial performance indicators including Gross profit margin, net profit, net profit margin, aging accounts receivables and current ratios. The gross profit margin ensures that the establishment prices its services appropriately. It is obtained by dividing the difference between revenue and cost of services sold by the revenue earned. Net profit margin is the amount of money left over after a firm has paid all the bills. It is obtained by subtracting the total expenses from the total revenue. Net profit margin shows what percentage of revenue is profit.

Aging accounts receivable is a report listing unpaid customer invoices by date ranges. It is a tool that shows the effectiveness of credit and collection functions. The current ratio indicates the presiding ability of the institution to cater to all its financial needs and is
obtained by dividing the current assets by the current liabilities (Hales, 2005).

Non-financial performance is a measure of value of an organization using non-monetary units. The main non-financial performance indicators are: customer satisfaction, employee satisfaction, innovation and market share. Customer satisfaction is the state of mind that the customers have about an organization while employee satisfaction describes whether employees are contented and happy at work.

Innovation describes the development of new products or services and is measured through innovation sales rate which is a measure of the percentage of sales from new products or services. Market share is the percentage of a market that is accounted for by an organization. It is worth noting that non-financial performance indicators can vary from one organization to the other. To measure the non-financial performance of an organization, the management comes up with a methodology which involves identifying key performance drivers and designing of the most relevant Key Performance Indicators (KPIs). A decision tree is used to develop non-financial performance measures using key questions that the managers need to answer. Other non-financial performance measures of success that an organization can come up with include brand recognition, internal business process, cycle time and education and training (Ponte, 2009).

1.1.3 The Financial Services Sector in Kenya

In Kenya, the financial services sector comprises of different subsectors including insurance companies, banks, savings and credit cooperative societies, pension schemes and security markets. Insurance companies offer services such as insurance policies, savings and investments. Banks and savings and credit cooperatives Societies offer savings and loans as well as bank assurance. Pension schemes offer pension plans to their
members while the security markets offer shares that investors can buy and make profit when the share prices increase.

Financial service providers in Kenya play a key role in accelerating growth. Services are the largest and most dynamic parts of the economy of Kenya, contributing to over 50 percent of GDP. According to the 2015 Financial Stability Report by the Central Bank of Kenya, the financial sector is playing a pivotal role in economic expansion both domestically and across the East African Region. Exports of services from Kenya almost tripled from $1.9 billion in 2005 to nearly $4.9 billion in 2012.

The financial services sector makes companies in other sectors more productive while helping to develop value chains and safeguarding jobs. According to a survey by the World Bank, services in Kenya constitute more than 62% of the cost of manufactured goods therefore illustrating the extent to which manufacturing companies rely on the financial services sector. According to IFC (2016), Kenya's aspiration to become a middle-income country is dependent on strong investment growth.

The government targeted a GDP growth of 24.7% in 2013-2014 and 30.9% by 2017-2018. Policy commitments from a range of institutions envision a globally competitive financial sector that will serve as a regional hub, contributing to higher domestic savings rate as well as creation of employment. The Kenyan financial Sector has a huge role to play in capital allocation to a more inclusive and greener economy while creating general awareness about the same.

The sector has experienced shocks but it has become stronger through key reforms namely: enhanced governance, re-engineering of business models and transparency. Socially, the sector helps in improving people’s quality of life through the Corporate
Social Responsibility. CSR activities implemented by the financial institutions in Kenya include community service, education, health and environment.

1.1.4 Multinational Financial Services Companies in Kenya

Multinational financial services companies in Kenya comprises of financial institutions that have operations in other countries. They have centralized offices where they control and manage their functions. The institutions include banks, insurance companies, securities and savings companies. The companies expand to cover different countries so as to obtain new markets, exploit cheaper resources and reduce operational costs. Financial management of such institutions differs from the local institutions and the expansion also comes with additional risks. Among the challenges that multinational companies face includes legal and economic structure since different countries have different legal systems, exchange rate risks which affects cash flows, credit and political risks.

Multinational financial services companies play significant roles in the Kenyan economy. They fill savings, trade and revenue gaps while introducing sophisticated technological knowledge which is desirable and productive in Kenya.

In addition, they also engage in Corporate Social Responsibility activities that help to empower the local communities in education, health and environmental conservation. According to the Frontier Strategy Group, Kenya is the Second most preferred destination for multinational companies seeking to expand their operations. The group ranked Kenya at 23.17% after Nigeria which had a score of 29.57%. Globally, Kenya was ranked fifth behind Saudi Arabia, Vietnam and Argentina which has a score of 24.69%, 24.72% and 24.72% respectively.
There are few scholarly studies that have been done on the effects of internal controls on the performance of multinational financial services companies in the Kenyan context. The companies face different challenges including political, legal and exchange rate risks. Therefore, given their importance in the Kenyan economy, there is need to conduct the study in order to contribute to knowledge and policy.

1.2 Research Problem

Despite having an internal control department, most financial institutions still face the challenges of financial liquidity, inefficient accountability, poor financial reporting, misuse of resources and decisions that do not yield the expected results. In terms of non-financial performance, institutions have exhibited employee satisfaction, and lasting customer loyalty among other non-financial performance measures that are believed to affect the firm’s profitability. However, it is only a small number of institutions that are able to show meaningful results since most fail to apply the right non-financial measures. Larcker and Ittner (2003) carried out a research on 297 senior executives from 60 different companies. The findings showed that most of the companies had not made effort to inculcate non-financial performance indicators which are meant to help them reach to their scheme of operations. The companies were not able to demonstrate a cause-effect relationship between improvement in the non-financial areas and stock prices, cash flow and profit. The companies seemed to adopt a boilerplate version of non-financial performance frameworks such as Norton Balanced Scorecard, Skandia's Intellectual Capital Navigator, Accenture's Performance Prism and Kaplan Balanced Scorecard. This research study therefore determined what financial and non-financial indicators are effective in measuring the performance of an institution.
The financial services sector has continued to receive strong regulatory focus, with governments increasing coordinated efforts to recover proceeds of corruption and investigate other misconducts. This is because fraud poses substantial threat to the growth of financial markets in the country. Law enforcement agencies are focusing on individual impropriety and misconducts. As a result, boards and executives of financial institutions need to be confident that their organizations are compliant with the rapidly changing regulations and laws. In spite of the increased regulations, boards can do more to protect their companies (EY, 2016).

Presence of subsidiaries in other countries necessitates development of cross-border supervision which can be more effectively done through consolidated supervision. In most countries, financial services companies are part of holding company groups which can transfer assets, capital or liabilities among the various entities including their foreign subsidiaries. This feature can pose liquidity or capital adequacy problems if not treated on a consolidated basis. Internal control for multinational companies needs to be done in a consolidated basis. Supervisors should be able to review all activities carried out by a company at both local and foreign offices (Baldwin & Kourelis, 2002). Most internal control studies have focused on companies operating locally. The researcher therefore seeks to identify the impacts of internal control on the performance of multinational companies.

Giriunas (2012) explored internal control from its conception to what it entails and its application in Lithuania. The result of the study showed that the concept of control is wide with aspects of internal control which ensure reliability and comprehensiveness of information, proper property and record keeping, presentation of financial records,
complying with enterprise rules and regulations and supporting the idea of controlling risks amicably.

In a study about the concepts and themes of internal control, Arwinge (2013) argues that from a design perspective, internal control is contingent upon variables such as the company's risk appetite, the company's strategy, and organizational size and regulation characteristics. Ahmad (2014) conducted a research on how proper functioning of internal control schemes affect job performance in Jordan. The results indicated a positive impact on the level of job performance as a result of good organizational structure, interaction of internal environment adopted procedures of implementation and assessment of risks. Onyango (2014) researched on the influence of internal controls on the performance of Kenya’s county governments. The investigation found that most of the counties did not implement internal audits as recommended by the Auditor General. The counties were understaffed and had insufficient support. The study found that the county governments did not discuss internal audits reports due to internal challenges including communication structure and lack of team work. However, the study indicated the significance of internal control and performance on county governments. Nyakundi, Nyamita and Tinega (2014) also extensively studied the internal control systems on financial performance of a wide array of businesses in Kisumu city. The researcher found out that any form of notable fiscal change ought to be linked to the internal control systems of an organization. Chebungwen (2011) carried out an empirical study in internal control guided by the agency theory and its impact on Kenya’s tertiary institutions.

A census was done in which all the 68 employees in the institution were given questionnaires. The findings showed that the internal audit department was understaffed.
None of these studies focused on effects of internal control in the financial services sector. Furthermore, the studies focused on companies that operate locally. Multinational companies face a different set of risks which require a different approach to manage hence the need to research on the impact of internal control on the functioning of multinational financial services companies.

Origa (2013) carried out a study on different manufacturing companies in Kenya and how their financial performance is affected by the impact of internal controls. The results of the research showed that firms with developed internal systems had better financial performance as compared to those with an ineffective control scheme. Wang (2014) carried out an empirical study on the factors influencing internal control and its effects. The results of the study showed that the operational efficiency objectives of internal control and the financial reporting reliability of targets had a positive correlation. Among the internal control factors that the study investigated included ownership concentration. The researcher concluded that the company’s degree of ownership concentration relatively affects the decisions made by shareholders in the company. The study therefore recommended that companies cut down on large shareholdings. However, ownership concentration can actually improve performance by making the owners more willing and able to monitor the agents.

According to Mamun (2017), empirical evidence of the connection between ownership structure and performance remains inconsistent and has attracted much attention especially in the emerging markets. The researcher did not find any studies that focused on internal control and performance for companies that operate beyond the borders.

Therefore, this study seeks to answer the questions: What financial and non-financial
performance indicators are effective in measuring the performance of a multinational financial services company? What steps can be taken by multinational financial services companies’ boards of directors to improve the internal control systems? What steps can be taken to ensure companies consolidate their internal control systems and review all activities carried out by the company both locally and internationally? What measures can multinational financial services companies take to control political, legal and exchange rate risks? In what ways does ownership concentration affect performance?

1.3 Research Objectives

This research study aimed at achieving the following objectives.

i. To identify internal control systems implemented by multinational financial services companies in Kenya.

ii. To identify the effects of internal controls on the performance of multinational financial services companies in Kenya.

1.4 Value of the study

This research study will contribute to the existing body of knowledge on internal control systems in multinational financial services companies in Kenya. It will show how internal control systems relate to financial and non-financial performance.

Multinational financial services companies operating in Kenya will also benefit from the findings of the study. Recommendations will be made on how the companies can improve and tighten their internal control systems. The boards of directors as well as departmental heads can use the findings of the study to enhance their internal controls thereby improving the financial and non-financial performance of their companies.
Policy makers can use the results of the study to come up with policies that will lead to improved control environment in the country. The findings will also provide insights on how the policy makers can help the companies in the management of the risks that they face.
CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter discusses literature that relates to internal controls and performance. Under theoretical literature, three theories are discussed namely: agency theory, institutional theory and stakeholder theory. The chapter also discusses empirical studies and their findings under the heading internal control systems and organizational performance. The chapter provides a summary of knowledge gaps that the study seeks to fill as well as the conceptual framework under which the study was conducted.

2.2 Theoretical Background

There are three internal control theories that have been advanced namely: systems theory, agency theory and stakeholder theory.

2.2.1 Agency Theory

The theory assumes a work relationship where an executive member engages another person to perform services on their behalf. In the arrangement, the principal gives some authority of decision making to an appointed agent. Such delegation of duties helps in promoting efficiency and productivity through division of labor. For the relationship to work, the principal has to trust the agent and assume that the agent will work in the principals’ best interest. However, due to self-interest and information asymmetries, a principal may not have reasons to trust an agent and will need to put in place mechanisms to ensure the delegate’s interests merge with their own. Auditing is the mechanism that most organizations use to ensure the agent’s interests align to those of the organization. The use of audit to resolve agent-principal conflict complicates the matter since auditors
are seen as agents of the directors. Other stakeholders such as the shareholders and the public may not trust the auditors and might be concerned about who audits the auditors (Wallace, 1980). Drawing from this theory, the researcher finds the need for organizations to have strong internal control measures and systems to ensure the interests of all the stakeholders are well safeguarded.

Donaldson (1990) criticized the theory for having methodology individualism, regressive simplification, and narrowly-defined motivation model, disregard of other research, governance defensiveness and wrong ideological framework. Agency theory assumes that individuals are rational and obey the economic model of human behavior. Donaldson argues that individual activity should not be considered as equivalent to organizational activity. Additionally, the fundamentals of agency theory are information decentralizations, divergence in attitudes toward risks and goals’ divergences. In the absence of information asymmetry and assumptions of conflicting interests, the agency theory becomes trivial and uninteresting scientifically.

### 2.2.2 Institutional Theory

According to the institutional theory, institutions are social structures which have gained higher degree of resilience. The structures comprise of three elements, namely; regulative, normative and cultural cognitive. These elements work inclusively with associated resources and activities to enhance financial stability and improve the living standards of the public. The carriers that transmit institutions include routines, rational systems and symbolic systems. Institutions have different jurisdiction, from the local interpersonal relationships to the world systems. According to the institutional and the neo-institutional theory, environmental alignment and organizational practices results
from normative, coercive and mimetic forces. The forces lead organizations into adoption of similar strategic actions hence resulting in organization homogeneity (Tickle, 2013).

This theory therefore informs the researcher that the management of organizations will tend to put in place internal control structures that conform to the social expectations.

Pressures and forces from the government and professional bodies have ensured that the managements of organizations are safeguarding the interests of the shareholders.

Institutional theory is criticized for assuming organizational positivity and the failure to focus on strategic behavior. Contrary to the perceptions of the institutional theory, organizations can engage in strategies that are manipulative, which can shape the political and social definition of effectiveness.

### 2.2.3 Stakeholder Theory

In organizational settings, stakeholders are the people that benefit or get harmed by the organization’s actions. Stockholders are among the stakeholders with special claim on an organization. The stockholders are the owners of the organization and they expect some kind of return on their investment. Employees are the other stakeholders who offer specialized skills to the organization. In compensation for their loyalty, they expect the organization to give them meaningful work, wages, benefits and security. They also expect the organization to carry them along during the difficult times. On the other hand, the organization expects them to follow instructions from the management and speak favorably about the corporation. They are also expected to be responsible citizens in the community.

The suppliers are important to the corporation because what they supply determines the
quality of the final products that the organization produces. Suppliers expect the firm to treat them as valued stakeholder network members. When treated as such, the suppliers are able to respond favorably when the organization is in need. Customers are the other stakeholders who are considered as the lifeblood of the firm. They pay indirectly for the production of new products and services. According to Peters (1994), good relationship with customers leads to good relationship with all the other stakeholders. The local communities are also considered as stakeholders because they have granted the organization the rights to build their facilities in the area. They expect the corporation to offer them services and be a good citizen. The organization should not expose the community to pollution, harmful waste or other hazards (Freeman, 1983). Drawing from this theory, the researcher found the need for organizations to put in place internal control measures that will safeguard the interests of all the stakeholders of an organization.

The primary criticism of stakeholder theory is its inability to balance the conflicting interests of all the constituencies. It does not provide for ways in which stakeholders can make claim for failures that results from the actions of the directors. The fact that it does not set boundaries between the stakeholders to be considered by the company makes the company answerable to everyone, which in essence makes it answerable to no one.

2.3 Internal Control Systems and Organizational Performance

According to Rezaee (2009), multinational corporations have a significant role in the World’s economic status. With the increase in the number of the corporations, internal control and governance becomes essential in aligning the interests of the subsidiaries with those of their headquarters. In the absence of such control, the subsidiaries may decide to maximize their interests undermining the long-term performance of a corporation. At the
same time, the management of the parent company may also take decisions that reduces the shareholders’ value hence the need for monitoring and control at both levels. Both external and internal corporate governance mechanisms have evolved with time to bond, control and monitor the management. These governance mechanisms include managerial labor markets, capital markets, investors, regulation and the board of directors who aligns the interest of management and stockholders. The parent-subsidiary governance structure is governed by factors in the host or home country. The factors include legal, cultural, regulatory and political systems, global capital, historical patterns of the countries, labor, global institutional investors and managerial markets. Other important factors include strategy of the company, the size and the industry in which the subsidiary is operating.

Beeler (1999) asserts that internal control has a broader purpose which includes exploring the control problems that are caused by lower revenues and explains the interrelationship between fraud and material weakness. Internal control is therefore an independent appraisal of managerial performance.

Effective internal control system is unequivocally correlated with an organizations success and it involves reviewing of the authenticity of the operational activities, the controls safeguarding the organization assets, assessment of compliance of employees to the managerial laws and regulations, following operational guides, and an assessment of the efficiency of achieving the team objectives (Fadzil.2005).

Singleton (2016) classifies internal controls into three forms of controls; the preventive, normative and detective controls. Preventive controls gives an insight of problems that are likely to occur and institutes adjustments before the problems are experienced. Detective controls detect and reports errors, omissions or malicious acts, while corrective
controls ensure the effects of the threats are minimized.

Dineshku Mar and Kogulacumar (2011) studied internal control system of the Sri Lanka Telecom Limited the impact of the controls on its performance. The study found that 76% of Sri Lanka Telecom had a high level of internal auditing procedures. There were no rules and regulations to monitor internal control environment properly hence the auditing rules were not adhered to during the exercise. By efficiently applying the internal control resources, the level of efficiency gets moderated subsequently.

On profitability, the study found that 27% of the company’s strategic level had low profitability, 20% of the company's tactical level had low level of profitability while 53% of the operational level had high profitability. Overall, 62% of the organization had high level of performance hence 62% of the organizational goals were achieved.

Mire (2016) researched on the effects of a control system on the levels organizational performance of remittance corporations in Mogadishu. The findings of the study showed a variation of 99.3% on the performance of the organizations as a result of changes in risk assessment, control activity and control environment at 95% confidence interval.

Kinyua (2016) carried out a study on how the financial performance of some companies included in the Nairobi Stock Exchange are affected by the set internal control systems. This study used descriptive research design and employed both qualitative and quantitative approach. It targeted 372 senior managers managing 62 companies that are quoted in the NSE. The researcher tested whether risk management, internal audit function, corporate governance, internal control activity and internal control environment had an impact on the performance of the companies using multiple regression models.

Using the Pearson correlation coefficient, the researcher showed that risk management
function was the leading variable with the highest influence at 0.55. Corporate governance followed closely at 0.554, control activity and internal control at 0.457 and 0.420 respectively while internal audit function came fifth at 0.341.
### 2.4 Summary of Knowledge Gaps

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<td>Ngari (2017)</td>
<td>To determine the effect of internal control on performance of microfinance institutions</td>
<td>There were audit trails for every transaction, tasks were clearly segregated, and job descriptions were clear, payment vouchers were accompanied by supporting documents.</td>
<td>Descriptive survey and diagnostic research design were used. Questionnaires were used in 53 MFIs and data collected was analyzed using multiple regression model.</td>
<td>Limited knowledge on internal control measures that companies in Kenya are employing to control fraud and enhance performance of the subsidiaries located in other countries since the study focused on companies whose activities are limited to Kenya only.</td>
</tr>
<tr>
<td>Njoki (2015)</td>
<td>To determine the effects of internal controls on the performance of manufacturing firms in Kenya</td>
<td>Small-scale firms lacked checks and balances and regular evaluation of control activities. The companies did not invest in information technology</td>
<td>The study used descriptive research design and targeted 175 manufacturing firms. Data was collected through questionnaires and analyzed through descriptive and inferential statistics using multiple regression model.</td>
<td>Lack of information on specific risk factors that Kenyan financial services companies face in implementing internal control systems of their offices abroad since the research covered manufacturing firms in the Kenyan context.</td>
</tr>
</tbody>
</table>
2.5 Conceptual Framework

This research study was guided by four independent variables namely: control environment, risk assessment, control activities and monitoring and evaluation. Control environment is evidenced by good organizational structure, good human resource practices, competence, integrity and ethical values. Risk assessment entails identification and evaluation of response to risks. Control activities are mechanisms and procedures that ensure organizational policies and management directives are followed while monitoring and evaluation entails assessment of the structure of the internal controls. Performance as the dependent variable is the ability of an organization to survive and operate profitable while growing and reacting to environmental threats and opportunities. The following scheme represents the conceptual framework that guided the study.

**Independent Variables**

- Control Systems
  - Control environment
  - Risk assessment
  - Control activities
  - Monitoring and evaluation

**Dependent Variables**

- Performance
  - Financial
  - Non-financial
CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the methodology that the researcher used to achieve the study objectives. It discusses the research design, the population that the study targets and how sample will be selected to represent the target population. It also describe how the data was collected and analyzed.

3.2 Research Design

A research design is a layout of how a research investigation is likely to take place including how the data was collected and the instruments that were used. This research used the survey research design. A survey research design includes data collection through interviews and administration of questionnaires to a sample of the target population (Orodho, 2003). The design is appropriate for this study because it is inexpensive and flexible since it can be administered through different modes including email, telephone survey, paper Survey or face to face survey.

3.3 Population of the Study

According to Busha and Harter (1980), a population is a group of individuals with at least one common binding factor that identifies them. The target population for this study was multinational financial services companies in Kenya and their management teams. Thirty multinational companies were selected to participate in the study. From the thirty companies, a sample size was selected through stratified random sampling where a random sample was taken in a number that is proportional to the size of that stratum.

Among the strata were managers, the department heads and the board of directors of the
selected companies.

3.4 Data Collection

The study relied on primary data. Data was collected using questionnaires. The questionnaires had both closed and open ended questions and were self-administered to the respondents. Questionnaires often give detailed solutions to questions that are thought to be challenging (Mugenda and Mugenda, 1999).

They are easy and cost effective tools which gives relative objective data.

3.5 Data Analysis

The collected data was analyzed through descriptive statistics. Summaries, measures and graphical analysis were applied. The data was summarized and organized in tables. MS Excel and R-Statistical program were used in analyzing the data and the results was presented in graphs and charts. Simple descriptive statistics was used to determine the effect of internal controls on the performance of multinational financial institutions and multiple regression analysis will show the degree of correlation between the variables.
CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents an analysis of the data collected and a discussion on the findings of the study in accordance with the study objectives. The analysis follows the sequence of the questions presented to the respondents through the questionnaires. The respondents were asked to answer the questions truthfully and objectively for the purpose of validity and reliability.

4.2 Response Rate

The researcher targeted 30 respondents from different multinational financial services companies. From the 30 questionnaires administered, 21 were filled and collected, representing 70 percent response rate.

<table>
<thead>
<tr>
<th>Description</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Questionnaires Returned</td>
<td>21</td>
<td>70</td>
</tr>
<tr>
<td>Questionnaires not returned</td>
<td>9</td>
<td>30</td>
</tr>
<tr>
<td>Total</td>
<td>30</td>
<td>100</td>
</tr>
</tbody>
</table>

Table 4.1 Response Rate.

4.3 Demographic statistics

Demographics describe the characteristics of a population including number of years worked and the level of education. The charts below shows the demographical information of the respondents who participated in the study.
Figure 4.3.2: Number of years worked

![Pie chart showing the distribution of years worked: 30% for 1-5 years, 50% for 5-10 years, 15% for 10-20 years, and 5% for over 20 years.]

Figure 4.3.3 Level of education

![Pie chart showing the distribution of educational level: 52% for Bachelor's Degree, 38% for Masters, and 10% for PHD.]

- Bachelor’s Degree
- Masters
- PHD
4.4 Descriptive Statistics
Descriptive statistics explain the sample of the data that the study is interested in. They describe the quantitative features of the data collected. The findings are as follows.

4.5 Internal Controls and Performance
The study found that most companies use similar systems when dealing with their subsidiaries and offices in other countries. Segregation of duties and internal audits were the most frequently identified systems of internal control at 95% and 85% respectively. The table below shows some of the systems that the respondents identified and their frequency.

Table 4.2 Internal Control Systems

<table>
<thead>
<tr>
<th>Internal Control System</th>
<th>Frequency of respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Segregation of duties</td>
<td>20</td>
<td>95%</td>
</tr>
<tr>
<td>Internal Audits</td>
<td>18</td>
<td>85%</td>
</tr>
<tr>
<td>Anti-money laundering</td>
<td>10</td>
<td>48%</td>
</tr>
<tr>
<td>Code of business conduct</td>
<td>8</td>
<td>38%</td>
</tr>
<tr>
<td>Reconciliations</td>
<td>15</td>
<td>71%</td>
</tr>
<tr>
<td>Authorization matrix</td>
<td>6</td>
<td>29%</td>
</tr>
</tbody>
</table>

The study found that some of the companies have extended their local internal control systems and policies to their subsidiaries. Others control their offices in other countries by requiring periodic reporting on the effectiveness and appropriateness of the internal control systems in place including information on activities, findings, conclusions and recommendations to enable them assess the company’s progress towards its goals and sufficiency of its internal control systems. Additionally, the board of directors ensures
that the management is monitoring the effectiveness of internal control systems. Review of internal control guidelines is done and the necessary recommendations are done in order to correct and if necessary improve the internal control systems.

4.5.1 The Control Environment
The respondents were asked to rate the extent to which their organizations employed control environment on a scale of 1 to 5 where 5 represented very great extent, 4 represented a great extent, 3 moderate, 2 little extent and 1 no extent. Table 4.3 below shows the means and the standard deviations of the results.

Table 4.3 Control Environment

<table>
<thead>
<tr>
<th>Control Environment</th>
<th>N</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>There are financial management systems in place</td>
<td>21</td>
<td>4.4762</td>
<td>0.8729</td>
</tr>
<tr>
<td>The management of the organization is committed to the control systems</td>
<td>21</td>
<td>4.3333</td>
<td>0.8563</td>
</tr>
<tr>
<td>The control environment systems are closely monitored</td>
<td>21</td>
<td>4.3333</td>
<td>0.8563</td>
</tr>
<tr>
<td>Junior officers are regularly provided with feedback on the operation of the control environment</td>
<td>21</td>
<td>3.6667</td>
<td>0.9129</td>
</tr>
<tr>
<td>The management acts with a high degree of integrity in carrying out their functions</td>
<td>21</td>
<td>4.3333</td>
<td>0.7958</td>
</tr>
<tr>
<td>The board of directors and the management are independent.</td>
<td>21</td>
<td>4.1428</td>
<td>0.7928</td>
</tr>
</tbody>
</table>
From the results, it is evident that most companies have financial management systems in place and the management of the organizations are committed to the control systems as supported by means of 4.4762 and 4.3333 and standard deviations of 0.8729 and 0.8563 respectively.

Control environment systems are closely monitored, the management acts in high degree of integrity in carrying out its functions and the board of directors and management are independent. Only information and feedback to the junior officers appeared to be given to a lesser extent.

The researcher compared the control environment results with a one year percentage change in stock prices of the different companies involved in the study and established a correlation with R=0.89204, implying that the control environment is correlated with the performance of the companies.

4.5.2 Risk Assessment
When asked about the risk assessment methods used to safeguarded assets in their subsidiaries in foreign countries, the methods identified included physical inspection and reconciliations against the asset register and multilevel authorization when disposing assets. The table below shows the risk assessment methods and the frequency of the respondents.
Table 4.4 Risk Assessment Methods

<table>
<thead>
<tr>
<th>Risk Assessment Methods</th>
<th>Frequency of Respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Physical Inspection</td>
<td>20</td>
<td>95%</td>
</tr>
<tr>
<td>Reconciliations Against Asset Register</td>
<td>21</td>
<td>100%</td>
</tr>
<tr>
<td>Multilevel Authorization when disposing Assets</td>
<td>18</td>
<td>86%</td>
</tr>
<tr>
<td>Threat Analysis</td>
<td>15</td>
<td>71%</td>
</tr>
<tr>
<td>Vulnerability Scanning</td>
<td>8</td>
<td>38%</td>
</tr>
<tr>
<td>Auditing</td>
<td>20</td>
<td>95%</td>
</tr>
<tr>
<td>Diligence Evaluations</td>
<td>7</td>
<td>33%</td>
</tr>
</tbody>
</table>

From the results, it is evident that reconciliations against asset register is used by all the companies that participated in the study, followed by physical inspection and auditing at 95%, multilevel authorization and threat analysis at 86% and 71% respectively. Vulnerability scanning and diligence evaluations are the least utilized methods at 38% and 33% respectively. Most of the respondents (86%) were of the opinion that risk assessment affects the performance of the company as it helps in sealing loop holes that are obvious.
It was found that in the event of loss, a provision is made in the accounting books hence affecting the performance of the company. Two of the companies involved in the research use international insurance and trusts to control risks for their subsidiaries abroad while another three undertakes projects which are considered less risky.

Risk assessment gives an assurance to both the management and stakeholders such as creditors, debtors and the government hence boosting the level of trust and confidence which leads to better no-financial and financial performance. Risk assessment also help to identify and mitigate risks before they happen which ensures smooth operation of business hence improving performance.

Table 4.6 below shows the results for the extent to which the companies use risk assessment.
Table 4.5 Risk Assessment

<table>
<thead>
<tr>
<th>Risk Assessment</th>
<th>N</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The company has identified the organizational objectives</td>
<td>21</td>
<td>4.5714</td>
<td>0.6761</td>
</tr>
<tr>
<td>The company has identified the risks that face the achievement of the set objectives</td>
<td>21</td>
<td>4.2857</td>
<td>0.8452</td>
</tr>
<tr>
<td>The organization has a method of identifying risks of fraud</td>
<td>21</td>
<td>4.3333</td>
<td>0.7303</td>
</tr>
<tr>
<td>The organization has mechanisms of mitigating risks</td>
<td>21</td>
<td>3.8095</td>
<td>0.7496</td>
</tr>
<tr>
<td>The management monitors risks that face the organization regularly</td>
<td>21</td>
<td>4.2380</td>
<td>0.8309</td>
</tr>
<tr>
<td>The management evaluates risk management systems regularly and adjusts the systems accordingly.</td>
<td>21</td>
<td>3.7619</td>
<td>0.8890</td>
</tr>
</tbody>
</table>

The results show that most companies have clearly defined organizational objectives and have identified the risks that they face in achieving their objectives as supported by means of 4.5714 and 4.2857 and standard deviations of 0.6761 and 0.8452 respectively. The researcher also established a correlation between strong risk assessment and improved stock prices with $R= 0.919005$. 

33
4.5.3 Control Activities
The respondents identified 10 control activities that are utilized. These included multilevel authorization, integrated systems, documenting any market deviations from the global standards and ensuring they are in line with the local laws, ensuring IFRS and IAS are applied, frequent spot checks, monthly balance sheet reviews, and reconciliation of accounts on a monthly basis and approval and segregation of duties. Most respondents (95%) affirmed that control activities improve performance. However, one respondent noted that control activities can lead to business loss in cases where a situation is not clear in the controls and one has to go back for clarification.

Table 4.7 below shows the results for the extent to which the companies engage in control activities.

Table 4.6 Control Activities

<table>
<thead>
<tr>
<th>Control Activities</th>
<th>N</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>There is segregation of duties</td>
<td>21</td>
<td>4.5714</td>
<td>0.5976</td>
</tr>
<tr>
<td>There exist clear approval and authorization procedures</td>
<td>21</td>
<td>4.4285</td>
<td>0.7464</td>
</tr>
<tr>
<td>Access to resources if properly controlled</td>
<td>21</td>
<td>4.5238</td>
<td>0.6016</td>
</tr>
<tr>
<td>There are proper verification processes</td>
<td>21</td>
<td>4.1429</td>
<td>0.8536</td>
</tr>
<tr>
<td>Reconciliation of records is done regularly</td>
<td>21</td>
<td>4.3333</td>
<td>0.7958</td>
</tr>
<tr>
<td>The control activities are reviewed against company standards from time to time</td>
<td>21</td>
<td>4.1429</td>
<td>0.8536</td>
</tr>
</tbody>
</table>

From the results, it is evident that most companies have clear segregation of duties and access to resources is properly controlled as supported by means of 4.5714 and 0.5976 and standard deviations of 0.5976 and 0.6016 respectively.
4.5.4 Monitoring Activities
The following monitoring activities were identified by the respondents.

i. Pre-activity approvals

ii. Transaction reviews such as travel expense reports

iii. Review of in-process quality checks and outcome data

iv. Review of staff-completed checklists

v. Listening or reviewing recorded customer service intake calls

vi. Regular internal and external audits

vii. Random CARM (internal audits)

viii. Physical verification.

Table 4.8 below shows the results for the extent to which monitoring activities are implemented.

Table 4.7 Monitoring Activities

<table>
<thead>
<tr>
<th>Monitoring Activities</th>
<th>N</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>There is periodic review of implementation of internal controls</td>
<td>21</td>
<td>4.4762</td>
<td>0.6796</td>
</tr>
<tr>
<td>There are checks and evaluation processes</td>
<td>21</td>
<td>4.0952</td>
<td>0.8309</td>
</tr>
<tr>
<td>Monitoring has been used to assess performance of the organization.</td>
<td>21</td>
<td>4.2857</td>
<td>0.6437</td>
</tr>
<tr>
<td>There is timely review of audit processes</td>
<td>21</td>
<td>3.9048</td>
<td>0.7684</td>
</tr>
<tr>
<td>Auditors conducts their audits independently</td>
<td>21</td>
<td>3.8095</td>
<td>0.8136</td>
</tr>
<tr>
<td>The management ensures that audit reports and recommendations are implemented promptly.</td>
<td>21</td>
<td>0.7143</td>
<td>0.8452</td>
</tr>
</tbody>
</table>

From the results, it is evident that there are internal controls which are reviewed periodically and monitoring is used to evaluate performance in most companies as
supported by means of 4.4762 and 4.2857 and standard deviations of 0.6796 and 0.6437 respectively.

Regression analysis was carried out with the percentage change in stock prices over the last one year being the dependent variable and the control environment, risk assessment, control activities and monitoring activities being the independent variables. The results of the analysis were as follows.

4.8 Summary Output

<table>
<thead>
<tr>
<th>SUMMARY OUTPUT</th>
</tr>
</thead>
</table>

Regression Statistics

| Multiple R | 0.9687 |
| R Square   | 0.9384 |
| Adjusted R Square | 0.8154 |
| Standard Error | 8.7082 |
| Observations | 7 |

ANOVA

<table>
<thead>
<tr>
<th>df</th>
<th>MS</th>
<th>F</th>
<th>Significance F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>4</td>
<td>578.56</td>
<td>7.62937</td>
</tr>
<tr>
<td>Residual</td>
<td>2</td>
<td>75.833</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>6</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Coefficients

<table>
<thead>
<tr>
<th>Coefficients</th>
<th>t Stat</th>
<th>P-value</th>
<th>Lower 95%</th>
<th>Upper 95%</th>
<th>Lower 95.0%</th>
<th>Upper 95.0%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>-562.720</td>
<td>-0.9120</td>
<td>0.02580</td>
<td>0.02580</td>
<td>-358.598</td>
<td>2152</td>
</tr>
<tr>
<td>Control Environment</td>
<td>8.7501</td>
<td>0.3195</td>
<td>0.03796</td>
<td>0.03796</td>
<td>-109.084</td>
<td>4453</td>
</tr>
<tr>
<td>Risk Assessment</td>
<td>-98.471</td>
<td>-1.0403</td>
<td>0.02074</td>
<td>0.02074</td>
<td>-505.734</td>
<td>1543</td>
</tr>
</tbody>
</table>
From the results, the P-values are less than 0.05 showing strong evidence of relationship between the internal control systems and organizational performance.

### 4.6 Discussion of the Findings

Internal controls affect the performance of institutions in Kenya. Using control environment, risk assessment, monitoring and evaluation and control activities as the measures of internal control systems the researcher established a relationship between internal control system and performance of Multinational Financial companies in Kenya. Internal control is a process driven by the company managers with the aim of achieving the set objectives in operational objectives, efficiency, authentic reporting, and working within the laid rules and regulations Dull and Gelin (2010).

The study found that most respondents had worked in the organizations for a period of 5-10 years this showed that they had sufficient information and knowledge on the organizations internal control systems. The also study found that most companies use similar systems when dealing with their subsidiaries and offices in other countries. Most used internal audits and division of duties as the systems of internal control. Others controlled their subsidiaries by requiring periodic reporting on the effectiveness and appropriateness of the internal control systems in place including information on...
activities, findings, conclusions and recommendations to enable them assess the company’s progress towards its goals and sufficiency of its internal control systems. In addition the board of directors ensures that the management is monitoring the effectiveness of internal control systems. Review of internal control guidelines is done and the necessary recommendations are done in order to correct and if necessary improve the internal control systems.

It is evident that most companies have financial management systems in place and the management of the organizations are committed to the control systems as supported by means of 4.4762 and 4.3333 and standard deviations of 0.8729 and 0.8563 respectively. Control environment systems are closely monitored, the management acts in high degree of integrity in carrying out its functions and the board of directors and management are independent. Risk assessment gives an assurance to both the management and stakeholders such as creditors, debtors and the government hence boosting the level of trust and confidence which leads to better non-financial and financial performance. Risk assessment also help to identify and mitigate risks before they happen which ensures smooth operation of business hence improving performance. Some internal controls are reviewed periodically and monitoring is used to evaluate performance in most companies. Stock prices were used because they are good indicator of both financial and non-financial measure of performance. Percentage changes in stock prices over the last one year being the dependent variable and the control environment, risk assessment, control activities and monitoring activities being the independent variables were used to determine the relationship between internal controls systems and performance. Hence when internal controls systems are working the organization objectives are met.
CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction
This chapter gives a summary of the findings, conclusions and recommendations. The study sought to determine the effects of internal control on the performance of multinational financial services companies in Kenya.

5.2 Summary of Findings
The objective of the study was to establish the effects of internal control systems on the performance of multinational financial services companies in Kenya. The study used descriptive research design and relied on primary data which was collected through questionnaires. From the 30 questionnaires administered, 21 questionnaires were collected, resulting to a response rate of 70%. In regard to the level of education, 52 percent of the respondents had a Bachelor’s degree while 38% and 10% holds a Masters and PHD degrees respectively. Most of the respondents (71%) were aged 25-34 years.

In regard to the internal controls, the study found that some of the companies have extended their local internal control systems and policies to their subsidiaries abroad. Others control their offices in other countries by requiring periodic reporting on the effectiveness and appropriateness of the internal control systems in place including information on activities, findings, conclusions and recommendations to enable them assess the company’s progress towards its goals and sufficiency of its internal control systems.

Additionally, the board of directors ensures that the management is monitoring the effectiveness of internal control systems.
Review of internal control guidelines is done and the necessary recommendations are done in order to correct and if necessary improve the internal control systems.

From the results, it is evident that most companies have financial management systems in place and the management of the organizations are committed to the control systems as supported by means of 4.47619 and 4.333333 and standard deviations of 0.872872 and 0.856349 respectively.

Control environment systems are closely monitored, the management acts in high degree of integrity in carrying out its functions and the board of directors and management are independent. Only information and feedback to the junior officers appeared to be given to a lesser extent.

The researcher compared the control environment results with a one year percentage change in stock prices of different companies involved in the study and established a correlation with $R=0.89204$, implying that the control environment is correlated with the performance of the companies.

Reconciliations against asset register is used by all the companies that participated in the study, followed by physical inspection and auditing at 95%, multilevel authorization and threat analysis at 86% and 71% respectively. Vulnerability scanning and diligence evaluations are the least utilized methods at 38% and 33% respectively. Most of the respondents (86%) were of the opinion that risk assessment affects the performance of the company as it helps in sealing loop holes that are obvious.

The respondents identified 10 control activities that are utilized. These included multilevel authorization, integrated systems, documenting any market deviations from the
global standards and ensuring they are in line with the local laws, ensuring IFRS and IAS are applied, frequent spot checks, monthly balance sheet reviews, and reconciliation of accounts on a monthly basis and approval and segregation of duties. Most respondents (95%) affirmed that control activities improve performance. However, one respondent noted that control activities can lead to business loss in cases where a situation is not clear in the controls and one has to go back for clarification.

5.3 Conclusion
Multinational financial services companies in Kenya have invested in strong internal control systems. From the findings of the study, these internal controls affect the performance of the company in several ways. Risk assessment ensures that possible losses are avoided and companies invest in less risky ventures. Control activities ensure that proper approvals are done hence reducing the possibility of fraud. Monitoring ensures strict adherence to the control processes hence ensuring smooth operations which in turn leads to improved organizational performance.

5.4 Recommendations
The study found that some of the companies just extended their local control systems to their businesses in other countries. Due to difference is risk exposure between countries, the researcher recommends that such companies come up with elaborate systems to deal with the extra risks that they face in foreign countries. Communication and feedback to junior officers should also be given more emphasis.
REFERENCES


Cayman Monetary Authority. (1998). Internal Control in Banks, Cayman Islands: CIMA.


APPENDICES

Appendix I: List of Multinational Financial Services Companies in Kenya

1. Commercial Bank of Africa
2. Jubilee Insurance Company Limited
3. Bank of Africa
4. Barclays Bank of Kenya
5. British-American Insurance Company Kenya Limited
6. Citibank
7. Diamond Trust Bank
8. Dubai Islamic Bank
9. Ecobank Kenya
10. Habib Bank AG Zurich
11. Kenya Commercial Bank
12. Stanbic Bank Kenya
13. Standard Chartered Kenya
14. United Bank for Africa
15. AIG Kenya Insurance Company
16. Cannon Assurance Company Limited
17. CIC Insurance
18. First Assurance Kenya Limited
19. GA Insurance Company
20. Kenya Reinsurance Corporation
21. Liberty Life Assurance Kenya Limited
22. Madison Insurance Company Kenya
23. Real Insurance Company
24. Sanlam Kenya plc – was Pan Africa Life Assurance
25. Heritage Insurance Company
26. Equity Bank
27. Bank of Baroda
28. UAP Insurance Company
29. I&M Holdings Limited
Appendix II-Questionnaire
The purpose of this questionnaire is to collect data to establish the impacts of internal control on the performance of multinational companies in Kenya. The data collected shall be used for academic purpose only and will be treated with the confidentiality that it deserves. The respondents are asked to respond in a truthful and objective way. Your participation will be highly appreciated.

SECTION A: DEMOGRAPHIC INFORMATION

1. How long have you worked in this company?
   1-5 Years [ ]
   5-10 Years [ ]
   10-20 Years [ ]
   Over 20 Years [ ]

2. What is your highest level of education?
   Diploma [ ]
   Bachelor’s Degree [ ]
   Masters [ ]
   PHD [ ]

SECTION B: INTERNAL CONTROL AND PERFORMANCE

1. What internal control systems does your company employ to control your subsidiaries in other countries?
   ...........................................................................................................
   ...........................................................................................................
   ...........................................................................................................
   ...........................................................................................................
   ...........................................................................................................
   ...........................................................................................................
   ...........................................................................................................
   ...........................................................................................................
   ...........................................................................................................
   ...........................................................................................................
2. To what extent does your organization employ control environment.
   (1- No extent, 2- Little extent, 3- Moderate, 4- Great extent, 5- Very great extent)

A. There are financial management systems in place
   1[   ]  2[   ]  3[   ]  4[   ]  5[   ]

B. The management of the organization is committed to the control systems
   1[   ]  2[   ]  3[   ]  4[   ]  5[   ]

C. The control environment systems are closely monitored
   1[   ]  2[   ]  3[   ]  4[   ]  5[   ]

D. Junior officers are regularly provided with feedback on the operation of the control environment system
   1[   ]  2[   ]  3[   ]  4[   ]  5[   ]

E. The management acts with a high degree of integrity in carrying out their functions
   1[   ]  2[   ]  3[   ]  4[   ]  5[   ]

F. The board of directors and the management are independent
3. What risk assessment methods does your company employ to safeguard your assets in foreign countries?
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4. Does the risk assessment and control affect the performance of the company
Yes [ ]
Neutral [ ]
NO [ ]

Comment on your answer
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5. What control activities are implemented when engaging your subsidiaries located in other countries?

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6. Do the control activities have an effect on the performance of your company?

   Yes [ ]
   Neutral [ ]
   No [ ]

Comment on your answer above

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7. What monitoring activities does your company employ to control the activities of your subsidiaries?

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8. Do the monitoring activities impact on the performance of the company?
   Yes [ ]
   Neutral [ ]
   No [ ]

Comment on your answer
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