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Effect of Capital Budgeting Practices on Financial Distress in Kenyan Public Universities

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ABSTRACT:- Financial distress describes any situation where an individual's or an institution"s financial condition leaves them struggling to meet their obligations when they are due. A number of public Universities are struggling financially to meet their daily operations and they have also failed to meet their obligations to creditors. Many studies have been done with emphasis on the private enterprises and many other studies fail to link financial management practices and distress in public universities. The objectives of the study was to assess the effect of capital budgeting practices on financial distress in Kenyan public Universities. The study also sought to evaluate the moderating influence of internal governance practices on the effect of capital budgeting practices on financial distress of public Universities in Kenya. The study was anchored on the budgetary control theory. The pragmatism research philosophy guided the study. A mixed methods research methodology was used for the investigation. The study's target demographic comprised internal auditors, finance officers, ICT officers, and deputy vice chancellors of finance and administration from Kenya's 35 public universities. The researcher collected the data from the target demographic through a census. Primary data were gathered through questionnaires, and information on the dependent variable was gathered through secondary data. Cronbach's Alpha was used to test for reliability. Factor analysis and experts were used to evaluate the validity of the instrument. The data was examined utilizing descriptive statistics, including means, standard deviations, and variances. Inferential statistics included correlation analysis and multiple regression analysis to determine the association between the chosen financial management techniques and financial distress. The study depicted that financial management practices explains 54.5% and 59.4% variation in financial distress without and with moderating effect of internal governance practices. Regression analysis indicated that capital budgeting practices had a significant effect on financial distress with a coefficient of -0.097 without moderating effect internal governance practices and -0.083, with moderating effect internal governance practices. The study concluded that capital budgeting practices had a negative and significant effect on financial distress. The study therefore recommended that universities should prioritize establishing good capital budgeting practices.

Keywords: Capital budgeting practices: Financial distress: Public Universities

I. BACKGROUND OF THE STUDY

Financial distress occurs when a corporation cannot fulfill its financial obligations as they become due or does so with significant challenges. The problem is typically preceded by inadequate cash flows, a decrease in revenue streams, profit shortfalls, and minimal growth in the fundamentals that underpin the institutions' profits (Menifield, 2020). Ifeanyichukwu et al., (2020) observes that this situation results in enormous economic consequences. In many cases, failure is preceded by a period of uncertainty and the financial status of the organization is often considered to be that of financial distress.

Many universities are struggling with financial issues of varying degrees of seriousness in the current century. They are struggling financially to meet their daily operations and most importantly, they have failed to honor short term and long-term obligations. Ineffective financial management practices have been shown to be the primary cause of many public sector institution failures in terms of financial trouble, inappropriate credit management, and a lack of long-term cash to cover daily operational costs and capital structure (Lane & Milesi-Ferretti, 2018).

Universities in financial distress usually get into a tight cash situation which makes it difficult to honour its financial obligations when they are due. If prolonged, this situation can force the owing entity into bankruptcy or forced liquidation. It is compounded by the fact that financial institutions consider such organizations in this position as not being credit worthy (Sureka et al., 2022).

Financial distress in learning institution has deeply affected many Kenyan universities. University of Nairobi was unable to remit Sh673.6 million in statutory deductions from staff salaries in the year 2018/2019 and these unpaid obligations rose to Kshs 6.73 billion. Reports show that public Universities unpaid obligations amount to a total of Kshs 45 billion and this value is expected to increase with government insisting that

universities have to find internal ways of generating addition funds to sustain their own operations (Commissioner for University Education Report , 2019).

Financially distressed Universities are institutions facing financial challenges in sustaining their operations, and in extreme circumstances, they encounter issues related to inadequate service delivery, as finance is deemed a facilitator of such delivery. According to empirical and theoretical literature that focuses on the topic, financial distress has recently drawn a lot of attention. This focus necessitates a thorough examination of the reasons why financial distress is important to institutions and global economies in general (Altman, Iwanicz, & Laitinen, 2017).

Financial distress is a widely recognized topic that has been studied in numerous countries globally. The topic is progressively evolving into a multifaceted idea, as seen by numerous enterprises that are considered stable ultimately encountering trouble and insolvency (Muigai & Muriithi, 2017). If left uncontrolled, the repercussions of financial distress may result in bankruptcy. Any economy, company, or business entity may experience the exceedingly uncomfortable situation of a financial crisis that results in bankruptcy. It adversely affects both overall economic activity and particular institutional operations (Madhushani & Kawshala, 2018). Therefore, it is crucial that University management finds strategic ways to increase its resources in order to achieve continued growth and financial stability. Currently, governments and funding agencies are pressing universities to develop, execute, and rapidly modify their financial management policies. Universities must formulate and execute effective financial management plans to mitigate risks and enhance their funding sources, thereby alleviating financial strain.

The chosen financial management approaches at the universities encompass capital budgeting. The capital budgeting practices of a university refers to setting financial plans to be achieved and monitored basing on procuring and usage controls, finance sources, expenditures and budget making that help to manage capital expenditures (Munoz, Sepulveda, & Velo, 2021).

Jamaican government advanced a policy of rebalancing the funding of education in public Universities by reducing its allocation. For example, the University of the West Indies (UWI) campus at Mona was advised to operate with a budget that was 28.5% less than that of the previous year's budget for the 2016/2017 academic year. The time schedule for this massive reduction created uncertain in operations it also meant that Universities in the public sector will have to find new ways of meeting their annual budgets. In fact, the target set by government stipulated that the Universities will be responsible for 30% of the cost of higher education (Hyacinth Evans & Olivene Burke, 2018).

Organizations in Europe have been experiencing financial challenges due to poor tracking of financial transactions, poor recording of financial information. An efficient financial management information system (FMIS) was established and was capable of tracking financial transactions and occurrences, recording them, and summarizing them so as to provide financial information. In order to meet the expectations of the users and to comply with the requirements of the operational environment in which the system is installed, FMIS performed more tasks than a typical accounting system. The application of financial information and communications technology for financial management is referred to as FMIS. By automating the creation of budgets, revenue collection, and the timely and accurate generation of important financial reports and statements, it aids financial management (Lagsten & Andersson, 2018).

In the Kenyan education sector, financial distress has been a problem to many public and private Universities. Public Institutions are facing significant challenges in light of the economic crisis. This economic crisis has resulted to financial distress to majority of the Universities more so public Universities. However, the need to continue the expansion of tertiary education especially at the University level, is central to the development of a country's economy. A clear relationship exists between investments in higher education and enhanced national growth. However, this expansion necessitates the availability of massive funding that cannot be borne by either parents or the students themselves, especially in a climate of economic contraction. Therefore, governments should not intend to reduce budgets allocation to the public Universities in order to cope with financial distress within these institutions (Kenya Economic Report, 2022).

II. STATEMENT OF THE PROBLEM

Kenyan public universities are increasingly facing financial distress, with unpaid obligations reaching critical levels. For instance, the University of Nairobi was unable to remit statutory deductions amounting to Sh673.6 million from staff salaries in the 2018/2019 fiscal year, a liability that has now escalated to Kshs 6 billion. Cumulatively, unpaid obligations across public universities in Kenya amount to approximately Kshs 45 billion, and this figure is projected to rise further as government directives push universities to find alternative sources of income to sustain their operations. The budget deficits and financial strains within these institutions are intensifying, creating an urgent need to address the situation. Institutions like Egerton University, grappling with debts of Kshs 4.5 billion, have considered downsizing to maintain operational stability. In response to these deficits, some universities are exploring options such as increasing student fees. Previous research on financial

distress has primarily focused on commercial banks, manufacturing firms, county governments, parastatals, and tertiary colleges, with limited attention given to public universities. Current research on financial management strategies in the public sector frequently offers broad conclusions without investigating the particular causal links between these policies and financial difficulty. Moreover, the moderating role of internal governance in mitigating financial distress has not been fully examined. This study seeks to address the research gap by examining the impact of specific financial management characteristics on financial distress at Kenyan public universities and the moderating role of internal governance in this connection. Addressing this problem will provide actionable insights that could aid public universities in alleviating their financial distress and achieving greater financial sustainability.

III. OBJECTIVES OF THE STUDY

i. To assess the effect of capital budgeting practices on financial distress of public Universities in Kenya.
ii. To evaluate the moderating influence of internal governance practices on the effect of capital budgeting practices on financial distress of public Universities in Kenya.

Research Hypothesis

H_{o_1}**:** Capital budgeting practices have no significant effect on financial distress in public Universities in Kenya.

H_{o_2}: Internal governance practices have no significant moderating influence on the effect of capital budgeting practices on financial distress in public Universities in Kenya.

IV. LITERATURE REVIEW

Theoretical Review

Budgetary Control Theory

Bozeman and Straussman, (1982), are the modern proponents of budgetary control theory. According to budgetary control theory, a solid budgeting system must be capable of addressing the organization's expenditure's efficiency and effectiveness. The level of income of the company determines a budget justification. A budgeting system is a tool that a company uses as a framework for expenditure and revenue allocation. To avoid wasting the firm's resources, the company must be able to develop an effective budgeting system. This is critical because it ensures that the results generated and services provided meet the objectives.

This theory is based on two dimensions which are descriptive and normative dimensions. Participation in public sector activities is the focus of the descriptive dimension. Theorists describe event sequences, patterns, and infer cases. The normative dimension is more concerned with value than with observation. The descriptive portion of the theory says that budget planning implies at least, to choosing specified target levels of service by activity and then finding out beforehand what it would cost in terms of personnel and materials to reach those precise goals (Schick, 1988).

This approach encourages for departments to request what they require in order to complete certain duties. According to the normative perspective of budget theory, there should be widespread public engagement in budgeting, and budgets should reflect the typical person. The organization has to set up appropriate controls to guarantee the budget is accurately kept and allocated. An efficiently operating corporation can devote greater revenue to the organization. This is achieved by reducing costs to enhance the quality and quantity of goods and services offered by the firm. But, if an organization has a lower revenue, it may have to borrow and restructure its taxes to pay its expected budget (Marginson, 1999).

The budget is used to assess the performance of every organization. It states whether they are capable of managing the organization and the firm’s resource. For instance, performance-based budgeting system is one of the budgeting system models. It tries to increase the efficiency and effectiveness of organization spending. Unlike other budgeting systems, performance-based budgeting uses resources to ensure that the desired results and outcomes are met based on the targeted area or strategy (Surianti & Dalimunthe, 2015).

Budgetary control theory has developed various models of analysis, such as cost volume profit analysis and standard costing, which serve as a standard setting in budgeting. Theory plays a crucial normative function in evaluating budget and control measures that will be used. Theory has aided in forecasting the potential impact of budget action in a given set of circumstances, as well as the effect of any change in conditions (Egbunike & Unamma, 2017). According to budgetary control theory, a firm is a separate entity whose activities are independent from those of its owners. These concepts provide impetus to the overall notion of the budget as a tool for good management (Lambovska, Rajnoha, & Dobrovic, 2019).

This theory was applicable in this study as it assisted the researcher in identifying whether capital budgeting practices of public universities in Kenya are in line with the budgets set by the management of the University to manage capital expenditures in these institutions. A detail understanding of budgetary control system is required to give a full understanding of procedures followed in budgeting and if the capital budgeting practices are implemented according to the budget of the university.

Conceptual Framework

Independent Variable **Dependent Variable**

Financial Management Practices **Financial Distress**

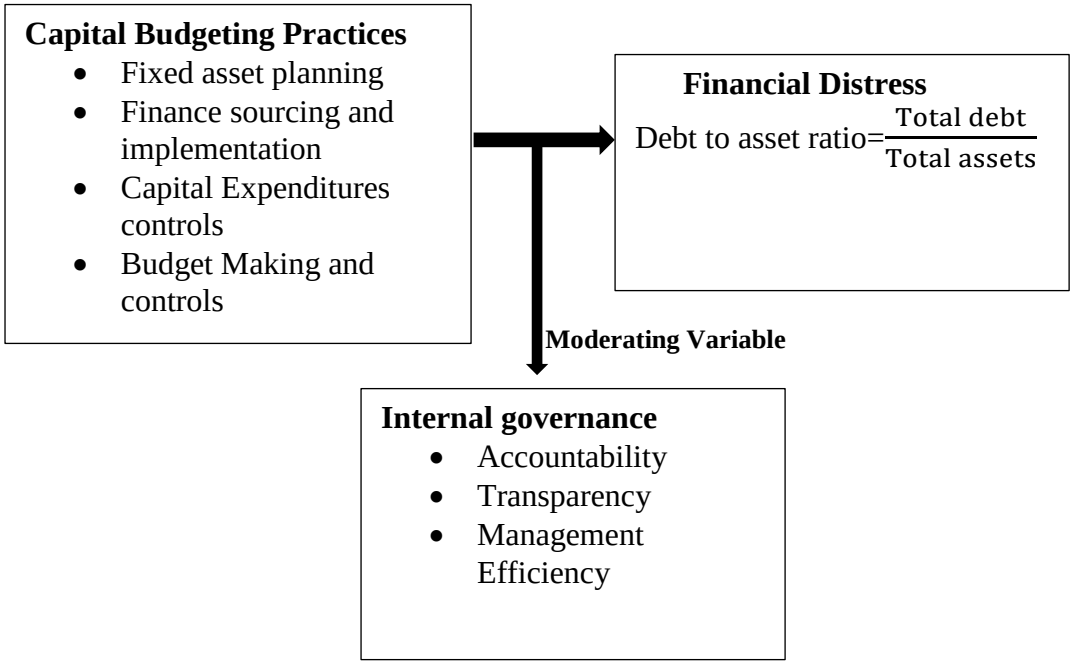

Figure 2. 1: **Conceptual Framework**
Source: Researchers Conceptualization

Empirical Literature Review

Alayli (2023) conducted research to investigate how capital budgeting strategies affect Lebanese financial institutions' financial performance. Nine different banks in Lebanon were included in the research sample. The audited financial statements of the chosen institutions provided secondary data. The period covered by the data was 2015–2020. In order to collect primary data, questionnaires were utilized. The results of the study show that capital budgeting techniques have a favorable and substantial impact on Lebanon's financial institutions' financial performance.

Shimeles (2018) carried out a study to look at Ethiopian construction businesses' performance and capital budgeting practices. A mixed research approach was used in the study along with a case study design. Questionnaires were distributed to managers and experts involved in the company's capital budgeting operations in order to gather research data. Interviews and document reviews were conducted in order to obtain sufficient proof for evaluating capital budgeting techniques. To analyze the data, both descriptive and inferential statistics were used. The findings show that construction companies' performance is positively and significantly impacted by capital budgeting.

A study by Bakri, Fifield, and Power (2022) evaluated how capital budgeting practices affected political risk in Lebanon. The study made use of primary data collected via questionnaires from selected businesses. Range criteria were used in the study to calculate the sample size. A survey design was used for the study. Both descriptive and inferential statistics were used to analyze the collected data. According to the study's findings, capital budgeting practices have a big impact on the political risk that Lebanon's businesses face.

A study by Namahoro, Githui, and Mathenge (2019) assessed how capital budgeting techniques affected the financial results of industrial companies that were listed on the NSE. Data was collected from a population of eight manufacturing companies listed on the NSE using a census survey. A questionnaire was used to gather primary data, and the public financial statements of the companies provided secondary data. The independent and dependent variables' correlation coefficient was calculated. The results of the study show that capital budgeting strategies have a favorable and substantial impact on the financial performance of manufacturing companies that are publicly traded.

Andrew and Iwedi (2020) investigated the relationship between corporate financing choices and capital budgeting for one hundred (100) publicly traded Nigerian enterprises. The National Stock Exchange Fact Book's Annual Reports for 2011 through 2015 provided the secondary data used in the study. The study focused on 100 companies that were listed on public exchanges. The research design used in the study was cross-sectional. To

analyze the data, multiple regressions using E-Views were used. The results of the study show that capital budgeting and the corporate finance mix of Nigerian publicly traded companies are significantly correlated.

Research Gaps

Nevertheless, some gaps are still present in the literature stream regarding capital budgeting practices and its effectiveness on organizational results. Alayli (2023) and Namahoro et al. (2019) present studies that analyze the connection between capital budgeting techniques and financial performance, but the former investigates the Lebanese financial institutions while the latter focuses on the Kenyan publicly listed manufacturing firms. Shimeles (2018) also discusses how capital budgeting affects construction firms in Ethiopia, although the subject is not financial distress as in this study. While Bakri et al. (2022) analyse the impact of capital budgeting on political risk and Andrew and Iwedi (2020) examine the effect of capital budgeting on corporate financing decision, none of them examines the direct relationship between capital budgeting practices and financial distress in the context of public universities. In addition, little research has been conducted on capital budgeting decision making in the context of the higher education sector particularly public universities in Kenya and as such there is a gap in the literature on how capital budgeting impacts the financial viability and distress of these universities. Therefore, this study seeks to address this research question by examining the effects of capital budgeting practices on the financial distress of public universities in Kenya.

V. RESEARCH METHODOLOGY

Research Philosophy

This research was guided by the pragmatism research philosophy. Pragmatism as a research philosophy centers around the idea that knowledge is derived from practical consequences and real-world applications. Unlike positivism, which seeks objective truth through observation and data, pragmatism emphasizes action and problem-solving, advocating that theories and concepts should be evaluated based on their usefulness in addressing real-world problems. Pragmatists view reality as dynamic and constantly evolving, shaped by human experiences and interactions, and thus the researcher's role is to focus on finding solutions that work in practice rather than uncovering universal laws (Collins & Hussey, 2014).

Pragmatism was appropriate for this study because it allowed for the exploration of practical solutions to financial distress by focusing on what works best in specific situations, rather than adhering strictly to any one methodology. This philosophy supported a problem-solving approach, where the researcher sought to generate knowledge that could be applied to improve financial management practices in a way that is both realistic and adaptable to changing circumstances.

Research Design

This study employed a mixed methods research strategy, integrating both quantitative and qualitative methodologies to offer a more thorough grasp of the research issue. Researchers employ a mixed methods study design to leverage the advantages of both methodologies while mitigating their respective limitations. absent substantial researcher intervention and, when feasible, derive credible conclusions (Sileyew, 2019).

3.4 Target Population

The study targeted 140 respondents comprising of 35 Deputy Vice chancellors (Finance and Administration), 35 finance officers, 35 auditors, 35 Officers in charge of the ICT departments in thirty-five public chartered Universities in Kenya.

Census sampling

Considering the number of public universities in Kenya which at the time of research were 35, the number of subjects is considered to be manageable, and therefore the study considered a census as an appropriate method. Therefore, through census the researcher used all the 35 public Universities in Kenya for data collection.

Data Collection Instruments

A questionnaire was utilized to collect main data. Closed-ended questions were employed for their efficiency and simplicity for responders, along with their straightforward administration, evaluation, and analysis. They are suitable as they ensure respondents' secrecy, enabling them to answer without apprehension or prejudice. The Likert scale was employed to quantify the questions for simplified analysis. Secondary data was gathered via a data collection sheet.

Data Collection Procedures

The researcher first trained research assistants that helped in collecting data. The research instrument

was delivered by the assistants and secondary data was collected. A period of one month was given to the respondents after which the assistant collected the filled-up questionnaires.

Pilot Test

According to the rule of thumb, the pilot study can be carried out from 10% of the targeted sample (Cooper & Schindler, 2011). The 10% of the targeted population from the sample of 35 universities meant that the pilot study was to be carried out on 3.5 of the total population which was 3 constituent university colleges that were be selected at random, they were Turkana University College, Bomet University College, Koitaleel Samoei University College. The constituent university colleges in Kenya, were selected because they are considered to have similar characteristics as the fully chartered public universities. There were six constituent colleges as per the commission of university education (2023).

Reliability

Reliability refers to the extent to which a research instrument yields consistent results over multiple trials and accurately reflects the entire population under investigation. Cronbach's alpha, with values spanning from 0 to 1, was employed to assess reliability. Values between 0.7 and 1.00 indicate a high level of reliability and are deemed acceptable, whilst values below 0.70 signify lower reliability and are considered unsuitable (Kothari & Gaurav, 2014).

Table 1: Cronbach's Alpha Reliability

Construct	Number of Items	Cronbach alpha	Conclusion
Capital budgeting practices	10	0.831	Reliable
Internal governance practices	10	0.804	Reliable
Financial distress	10	0.813	Reliable

(Source: Research Data, 2024)

The Cronbach alpha value of capital budgeting practices, internal governance practices and financial distress was 0.831, 0.804 and 0.813 respectively as presented in the Table 1. Cronbach's Alpha value of all the constructs of financial management practices exceeded the 0.7 suggesting high reliability.

Validity

This is the assessment of the extent to which a test measure accurately reflects its intended purpose (Kothari & Gaurav, 2014). Using an expert analysis, the validity of the questionnaires was examined to see if they accurately measure the intended outcomes. Experts such as supervisors were given the questionnaires to review. To check if the questionnaires have the necessary information, it was necessary to review them. The study also utilized the KMO and Bartlett tests to determine validity. The KMO value indicates the adequacy of the sample size for conducting factor analysis. It measures how much variance in the data can be explained by underlying factors. KMO values range from 0 to 1, with the following interpretation, above 0.90: Excellent .0.80 - 0.89: Good .0.70 - 0.79: Adequate .0.60 - 0.69: Mediocre, below 0.60: Unsuitable for factor analysis. The bartlett test checks whether the correlation matrix is an identity matrix, which would suggest that factor analysis is inappropriate. A significant result (p-value < 0.05) means that the correlations between variables are sufficiently large for factor analysis.

Table 2: KMO and Bartlett's Tests

	Items retained	KMO	Bartlett's test		
			χ^2	df	p-value
Capital budgeting practices	10	0.896	721.775	45	0.003
Internal governance practices	9	0.762	511.616	45	0.000
Financial distress	7	0.766	632.671	45	0.001

(Source: Research Data, 2024)

The validity of the factor analysis models used is presented in the Table 2 below. The KMO statistic values for capital budgeting practices, internal governance practices and financial distress were 0.896, 0.762 and 0.766 respectively. As it can be seen from the table most of the KMO values are in the 'good' category, one is 'excellent' and two are 'adequate'. This means that your dataset is suitable for factor analysis. From the analysis of the sample, Bartlett's test was used and in this test, the chi-square statistic is used to determine the

significance of the sample. As illustrated in Table 3.4, Bartlett's test of sphericity for all the p-values is less than 0.05, meaning that the datasets can undergo factor analysis.

Data Processing and Analysis

Data analysis involves scrutinizing the information gathered in a study and deriving conclusions and inferences from the obtained data (Kamilaris, Kartakoullis, & Prenafeta, 2017). Prior to the analysis, the data was cleaned, sorted, and coded before being sent to a statistical tool for social science for examination. The dependent variable related to financial distress was assessed by ratio-based inquiries and the asset-to-debt ratio.

Data analysis employed both descriptive and inferential statistics. Descriptive data included means, standard deviations, and percentages. Inferential statistics include multiple linear regression and correlation analysis. Multiple linear regression models were employed to determine the association between capital budgeting practices and financial distress. The multiple linear regression model in equation 3.4 and 3.5 facilitated the determination of the moderating effect of internal governance.

$$\boldsymbol{y = \beta_0 + \beta_1 CBP + \varepsilon_1} \quad \textbf{(3.4)}$$

$$\boldsymbol{y = \propto_0 + \propto_1 CBP\ IG + \varepsilon_2} \quad \textbf{(3.5)}$$

Where:

y = Dependent Variable

βo = Constant of the regression model without the Moderator variable

β_1 = Coefficients of the regression model without the moderator variable

$\propto_0$= Constant of the regression model with the Moderator variable

$\propto_1$ = Coefficients of the regression model with the moderator variable

CBP = Capital budgeting Practices

IG= Internal Governance

ε_1= Error term of the model without the moderating variable

ε_2= Error term of the model with the moderating variable

VI. RESEARCH FINDINGS AND DISCUSSION

Response rate

The research focused on 140 participants from 35 public universities in Kenya. Responses were collected from 31 public universities, giving a total of 114 respondents. This represented 81.4% response rate. The above response rate is deemed adequate for this study. This is supported by Sileyew, (2019) who stated that a response rate above 60% is adequate for a social science study and also go on to affirm that typical surveys conducted through questionnaires considered a response rate of anthing above 60% as excellent Edward and Roberts (2002) deemed a response rate below 60% as inadequate and above 60% as satisfactory.

Table 3: Response rate

Targeted respondents	returned questionnaires	Response Rate
140	**114**	**81.4%**

(Source: Research Data, 2024)

Descriptive statistics

Capital budgeting practices and financial distress

Respondents were asked various questions that helped in establishing the effect of capital budgeting practices on financial distress in public Universities in Kenya. The responses were shown in Table 4.

Table 4: Capital budgeting practices and financial distress

No	statement	YES			NO	
1.	The University has a fixed asset management registry	63 (55.3)			51 (44.7%)	
	The University has a budget making and control committee	70 (61.4%)			44 (38.6%)	
		1-SD	**2-D**	**3-N**	**4-A**	**5- SA**
2.	Management of fixed assets improves financial position of the university	13 (11.4%)	18 (15.8%)	10 (8.8%)	41 (36.0%)	32 (28.1%)
3.	The University has stable financial sources	34 (29.8%)	34 (28.9%)	12 (10.5%)	18 (15.8%)	16 (14.0%)
4.	Stable financial sources help the University achieve its operational objectives	15 (13.2%)	20 (17.5%)	8 (7.0%)	40 (35.1%)	31 (27.2%)
5.	All the Capital expenditures within the	32	35	9	21	17

	university are always approved by the university management	(28.1%)	(30.7%)	(7.9%)	(18.4%)	(14.9%)
6.	Control of the capital expenditures in the university improves the financial state of the university	14 (12.3%)	14 (12.3%)	12 (10.5%)	43 (37.7%)	31 (27.2%)
7.	Budget making and control in the university helps in regulating university capital expenditures	16 (14.0%)	17 (14.9%)	9 (7.9%)	46 (40.4%)	26 (22.8%)
8.	The University usually adheres and implements the prepared budget	27 (23.7%)	46 (40.4%)	13 (11.4%)	8 (7%)	20 (17.5%)
9.	Adherence to the University budget reduces the level of financial distress	18 (15.8%)	20 (17.5%)	11 (9.6%)	39 (34.2%)	26 (22.8%)

From the above findings, respondents were inquired whether the University has a fixed asset management register. The results in Table 4 shows that 55.3% of the respondents had effective fixed asset management registry while 44.7% stated that there is no effective fixed asset management registry. The study aimed to ascertain whether the University possesses a budget formulation and oversight committee. The responses from the respondents shows that 61.4% agreed that the University had a budget making and control committee while 38.6% had a controversial opinion. The study aimed to determine if the management of fixed assets enhances the university's financial condition. The results indicate that 11.4% severely disagreed, 15.8% disagreed, 8.8% were neutral, 36.0% agreed, and 28.1% strongly agreed that the management of fixed assets enhances the university's financial condition. The study wanted to determine on whether the University has stable financial sources. From the findings in Table 4.4, 29.8% strongly disagreed, 29.8% disagreed, 10.5% remained neutral, 15.8% agreed and 14.0% strongly agreed that the University has stable financial source. The study sought to establish on whether stable financial sources help the University achieve its operational objectives effectively hence reducing financial distress. Table 4. indicates that 13.2% strongly disagreed, 17.5% disagreed, 7.0% remained neutral, 35.1% agreed, and 27.2% strongly agreed that stable revenue sources facilitate the University in effectively achieving its operational objectives. The research sought to establish whether all the expenditures within the university are always approved by the university management. The data in Table 4 reveals that a significant portion of respondents are skeptical about the university management's role in approving all expenditures. Specifically, 58.8% (28.1% strongly disagree and 30.7% disagree) do not believe that all expenditures are always approved by management, while only 33.3% (18.4% agree and 14.9% strongly agree) think they are. The remaining 7.9% are neutral. Respondents were inquired if the regulation of university expenses enhances its financial condition. Table 4 indicates that 12.3% strongly opposed, 12.3% disagreed, 10.5% were neutral, 37.7% agreed, and 27.2% strongly agreed that controlling spending at the institution enhances its financial condition. Respondents had to answer whether budget formulation and oversight at the institution assist in managing university spending. According to the data in Table 4, 14.0% strongly opposed, 14.9% disagreed, 7.9% were neutral, 40.4% agreed, and 22.8% strongly agreed that budget formulation and oversight at the institution assist in limiting spending. The study sought to find out whether the University usually adheres and implements the prepared budget. The results shows that 23.7% strongly disagreed, 40.4% disagreed, 11.4% were neutral, 7.0% agreed and 17.5% strongly agreed that the University usually adheres and implements the prepared budget. The data indicates mixed perceptions about the relationship between adherence to the university budget and reducing financial distress. A majority of the respondents (57%) agree or strongly agree that adherence to the university budget helps reduce financial distress (34.2% agree, 22.8% strongly agree). However, 33.3% (15.8% strongly disagree, 17.5% disagree) believe otherwise, while 9.6% are neutral.

Internal governance practices

Respondents were asked various questions that helped to assess the moderating effect of internal governance on the effect of capital budgeting practices on the financial distress of public Universities in Kenya. The results were shown on Table 5.

Table 5: Internal Governance Practice

No.	Statement	1-SD	2-D	3-N	4-A	5- SA
1.	The University has internal governance systems	12 (10.5%)	16 (14.0%)	3 (2.6%)	53 (46.5%)	30 (26.3%)
2.	Staff are always accountable for the decisions and judgment they make	14 (12.3%)	19 (16.7%)	7 (6.1%)	35 (30.7%)	39 (34.2%)
3.	High level of accountability helps the institution to curb mismanagement of	17 (14.9%)	19 (16.7%)	11 (9.6%)	41 (36.0%)	26 (22.8%)

	resources					
4.	There is a high level of transparency during preparation of financial statements	37 (32.5%)	35 (30.7%)	10 (8.8%)	19 (16.7%)	13 (11.4%)
5.	Transparency helps to reduce financial distress	13 (11.4%)	15 (13.2%)	4 (3.5%)	45 (39.5%)	37 (32.5%)
6.	Corruption cases in the University are minimal	35 (30.7%)	36 (31.6%)	9 (7.9%)	16 (14.0%)	17 (15.8%)
7.	The University has adequate internal financial controls that to help manage the level of financial distress	16 (14%)	20 (17.5%)	5 (4.4%)	39 (34.2%)	34 (29.8%)
8.	All the transactions are accompanied by supportive documents to reduce the incidences of corruption	19 (23.7%)	24 (34.2%)	5 (4.4%)	39 (21.1%)	27 (16.7%)
9.	There is high management efficiency in the University when implementing the university policies	32 (28.1%)	40 (35.1%)	7 (6.1%)	16 (14.0%)	19 (16.7%)

From the above findings, the study sought to establish on whether the University has internal governance systems. The results shows that 10.5% strongly disagreed, 14.0% disagreed, 2.6% remained neutral, 46.5% agreed and 26.3% strongly agreed that the University has internal governance systems. The researcher wanted to evaluate on whether staff are always accountable for the decisions and judgment they make. The findings shows that 12.3% strongly disagreed, 16.7% disagreed, 6.1%, 30.7% agreed and 34.2% strongly agreed that staff are always accountable for the decisions and judgment they make. The studied needed to establish if high level of accountability helps the institution to curb mismanagement of resources. The findings shows that 14.9% strongly disagreed, 16.7% disagreed, 9.6% were neutral, 36.0% agreed and 22.8% strongly agreed that high level of accountability helps the institution to curb mismanagement of resources as shown in Table 5. The researcher wanted to establish if there is a high level of transparency during preparation of financial statements. The results in Table 5 shows that 32.5% strongly disagreed, 30.7% disagreed, 8.8% remained neutral, 16.7% agreed and 11.4% strongly agreed that high level of transparency during preparation of financial statements. The research aimed to determine whether transparency mitigates financial suffering. The results indicate that 11.4% strongly disagreed, 13.2% disagreed, 3.5% remained neutral, 39.5% agreed, and 32.5% strongly agreed that high transparency mitigates financial suffering. Respondents were inquired on the prevalence of corruption cases within the University. Table 5 indicates that 30.7% strongly disagreed, 31.6% disagreed, 7.9% were neutral, 14.0% agreed, and 15.8% strongly agreed that instances of corruption at the University are low. The study aimed to determine if the institution possessed sufficient internal financial controls to manage financial hardship effectively. The data in Table 5 indicates that 14.0% strongly disagreed, 17.5% disagreed, 4.4% were neutral, 34.2% agreed, and 29.8% strongly agreed that the organization possessed sufficient internal financial controls to mitigate financial distress. The study sought to find if all the transactions are accompanied by supportive documents to reduce the incidences of corruption. Table 5 indicates that 23.7% strongly opposed, 34.2% disagreed, 4.4% were neutral, 21.1% agreed, and 16.7% highly agreed that all transactions are supported by supporting paperwork to mitigate instances of corruption. Respondents were inquired about the level of managerial efficiency at the University in the execution of university policy. Table 5 indicates that 28.1% strongly disagreed, 35.1% disagreed, 6.1% were neutral, 14.0% agreed, and 16.7% highly agreed on the high management efficiency in the University throughout the implementation of university policies.

Financial distress

Respondents were asked to rate various statements that helped in establishing the financial distress of public Universities in Kenya. The responses were shown in Table 6.

Table 6: Financial distress

		1-SD	2-D	3-N	4-A	5- SA
1.	The university budget run out ratio is high	12 (10.5%)	19 (16.7%)	9 (7.9%)	47 (41.2%)	27 (23.7%)
2.	The salary to total revenue ratio is high	10 (8.8%)	11 (9.6%)	9 (7.9%)	50 (43.9%)	34 (29.8%)
3.	The net debt to total operating revenue ratio is high	13 (11.4%)	19 (16.7%)	8 (7.0%)	49 (43.0%)	25 (21.9%)
4.	The suppliers are paid in full and on time	30	39	9	17	19

		(26.3%)	(34.2%)	(7.9%)	(14.9%)	(17.6%)
5.	The University will often vire finances from other accounts to cover for deficits in other departments that have shortfalls	13 (11.4%)	19 (16.7%)	8 (7.0%)	49 (43.0%)	25 (21.9%)
6.	The Auditor general's office has queried expenditures during the audit process	13 (11.4%)	15 (13.2%)	4 (3.5%)	45 (39.5%)	37 (32.5%)
7.	The University clears all its part time obligations before the end of the financial year, as well as all the pending creditors	34 (29.8%)	50 (43.9%)	9 (7.9%)	11 (9.6%)	10 (8.8%)

From the above findings, respondents were asked whether the university budget run out ratio is high implying that sometimes it spends more than it has budgeted. The results in Table 6 shows that 10.5% strongly disagreed, 16.7% disagreed, 7.9% were neutral, 41.2% agreed, 23.7% strongly agreed that the university budget run out ratio is high. Respondents requested information whether the salary to total operating income ratio is elevated, indicating that compensation expenses constitute over 70% of the operating revenue. Table 6 indicates that 8.8% strongly agreed, 9.6% disagreed, 7.9% remained neutral, 43.9% agreed, and 29.8% strongly agreed that the pay to total operating revenue ratio is elevated. The study aimed to determine whether a high net debt to total operating revenue ratio indicates significant indebtedness of the university. The results indicate that 11.4% strongly disagreed, 16.7% disagreed, 7.0% remained neutral, 43.0% agreed, and 21.9% strongly agreed that the net debt to total operating revenue ratio is high, signifying that the university is significantly indebted. The researcher was in need of finding if the University has a debt repayment policy and the suppliers are paid in full and on time. Table 6 shows that 26.3% strongly disagreed, 34.2% disagreed, 7.9% were neutral, 14.9% agreed and 16.7% strongly agreed that the institution had a debt repayment policy and the suppliers are paid in full and on time. Respondents were asked on whether, the university will often wire finances from other accounts to cover for deficits in other departments that have shortfalls. The results shows that 11.4% strongly disagreed, 16.7% disagreed, 7.0% remained neutral, 43.0% agreed and 21.9% strongly agreed that the university will often wire finances from other accounts to cover for deficits in other departments that have shortfalls. The study aimed to determine whether the Auditor General's office has questioned expenditures during the audit process, indicating potential budgetary hardship in those expenditures. Table 6 indicates that 11.4% strongly disagreed, 13.2% disagreed, 3.5% were neutral, 39.5% agreed, and 32.5% strongly agreed that the Auditor General's office had scrutinized expenses during the audit process. The respondents were questioned whether the university fulfills all its part-time duties and settles all outstanding creditors before the conclusion of the financial year. Table 4.6 indicates that 29.8% strongly disagreed, 43.9% disagreed, 7.9% were neutral, 9.6% agreed, and 8.8% strongly agreed that the university fulfills all its part-time responsibilities and settles all outstanding creditors before the conclusion of the financial year.

Correlations analysis

As a statistical tool that was used in this study to analyze the direction, strength and relationship between the capital budgeting practices, internal governance practices and financial distress, the study adopted the pairwise Pearson product moment correlation. The correlation coefficients varies between -1 and 1. A coefficient of 1 means that the two are perfectly positively related, which means that as one variable rises, so does the other in like manner. On the other hand, if the coefficient is -1, this means that the variables are perfectly negatively correlated because as one variable increases the other variable decreases. A coefficient of 0 is indicative of the lack of a linear relationship between the variables (Obilor & Amadi, 2018). The results were shown in Table 7.

Table 7: Correlational analysis Based on Binary Regression

	CBP	IGP	Y
CBP	1		
IG	0.193	1	
	(0.211)		
Y	-0.691*	-0.731*	1
	(0.002)	(0.000)	

The correlation coefficient between capital budgeting practices and financial distress is -0.691 as depicted in the table 7 below. This implies that when the quality or efficiency of capital budgeting practices is high, then financial distress is likely to be low among Kenyan public universities. The correlation coefficient

value for this relationship is significant at 0.002 which is less than 0.05 thus making this relationship reliable. This means that, by directing sufficient amount of capital to long term investments as suggested by sound capital budgeting practices, then this can help to reduce financial distress in these institutions.

Internal governance practices and financial distress are negatively related and the correlation is estimated at -0.731. This indicates that with increased internal governance practices, degree of financial distress observed among Kenyan public universities is likely to reduce. The significance level of this correlation is also very low at 0.000 < 0.05 indicating that this relationship is quite strong. This is important to avoid situations where firms are faced with financial risks and distress due to lack of proper controls and accountability.

Diagnostic Tests

Normality Test

The normality of the data on capital budgeting practices on financial distress was tested by using histogram and Shapiro Wilk test. A histogram was used to determine the distribution of data since normal distribution is represented by a bell-shaped curve. In case the histogram looks like an 'S' shape, it may be an indication that the data was normally distributed. However, if the histogram shows some skewness or asymmetry, multiple humps or peaks, then it is clear that the distribution is not normal (Keya & Rahmatullah, 2016). The results were shown in figure 1

Figure 1: Histogram on distribution of Residuals (Source: Research Data, 2024)

As it can be observed in the figure 1, the histogram created was bell shaped, thereby indicating that the model residues were normally distributed.

To supplement the model histogram data and test the normality of the model variables the Shapiro-Wilk test was used. The results are shown below in the table form.

Table 8: Shapiro Wilk Normality Test

	Shapiro-Wilk		
	Statistic	**df**	**Sig.**
Capital budgeting practices	.982	114	.126
Internal governance	.985	114	.221
Financial distress	.980	114	.093

(Source: Research Data, 2024)

As shown in Table 8, capital budgeting procedures, internal governance and financial distress had Shapiro-Wilk test statistic of 0.126, 0.221 and 0.093 respectively. Therefore, since the p-values of all the above variables are greater than 0.05, the study failed to reject the null hypothesis and concluded that the residuals in the model were normally distributed. From the histogram, the calculated mean of 1.5335 shows that the variables are normally distributed since it is greater than the standard deviation of 0.2194.

Test of Autocorrelation

This study employs the Durbin-Watson statistic for checking for autocorrelation. This statistic measures the presence of autocorrelation in the residuals of a regression analysis, which is the correlation of errors in the time series model. The Durbin-Watson statistic ranges from 0-4, with a value of 2 indicating no auto correlation. Values closer to 0 mean that there is positive autocorrelation, that is, the residuals successively increase or decrease, while values closer to 4 imply negative autocorrelation, meaning that the residuals oscillate in sign.

Table 9: Test of Autocorrelation

Durbin-Watson Statistic
1.917

(Source: Research Data, 2024)

In the study on the financial distress in Kenyan Public Universities, the Durbin-Watson statistic value of 1.917≈2 indicates the absence of autocorrelation of the residuals of the regression model. Thus, the null hypothesis which states that there is no autocorrelation cannot be rejected. This, therefore, implies that the capital budgeting techniques cannot be largely associated to financial plight of the Kenyan Public Universities as identified in the current study.

Test of heteroscedasticity

This was done with the use of the scatter plot as shown below The scatter plot The result of the statistical analysis is shown in the figure below: A scatter plot is a type of graphical representation of data points in a Cartesian plane and each point depicted shows two variables. In cases of heteroscedasticity, a scatter plot will show a funnel shape in the sense that the variability of the residuals either increases or decreases as the values of the independent variable increase or decrease. If such a pattern is observed, it is likely that the heteroscedasticity phenomenon is present in that particular situation. With reference to the null hypothesis, the common goal is to check if the error term has a constant (homoscedasticity) or non-constant variance (heteroscedasticity). If, in any case, the null hypothesis of homoscedasticity is rejected using statistical tests or visually by observing the scatter plot, then it is an indication of heteroscedasticity. On the other hand, failure to reject the null hypothesis means that there is no evidence to show that the variances are not constant, which supports the assumption of homoscedasticity. The results are shown in Figure 2 below.

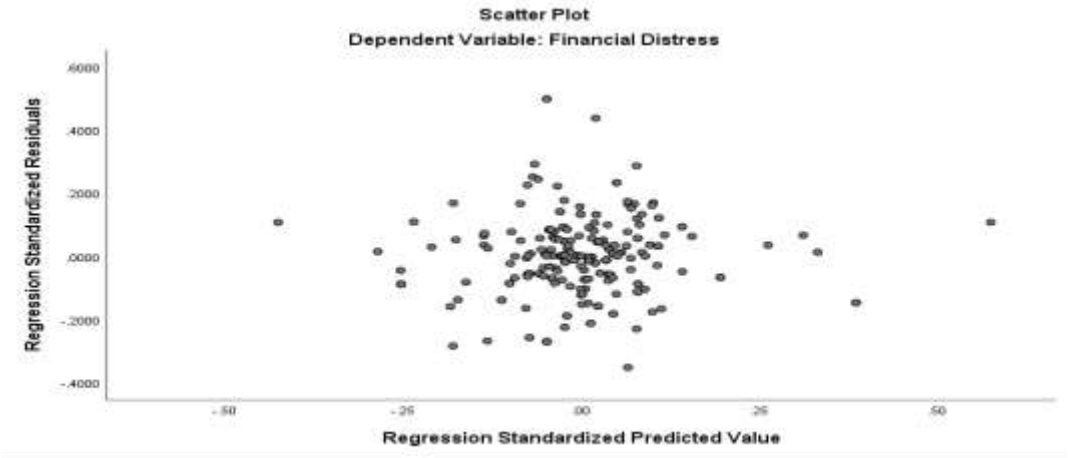

Figure 2: Scatter Plot on Financial Accountability (Source: Research Data, 2024)

It is also clear from the scatter plot data presented in Figure 4.4 that the residuals do not show any increasing or decreasing pattern over the expected values. However, in the case of homoscedasticity, the plots should be randomly distributed around the zero point.

Test of multicollinearity

In this research, the Variance Inflation Factor (VIF) was used to measure the degree of multicollinearity that existed in the model. VIF measures the degree of increase in the variance of estimated regression coefficients due to multicollinearity. If the VIF values are above 10 then it is likely that there is multicollinearity in the data.

Table 10: Collinearity Statistics

Model		Collinearity Statistics	
		Tolerance	VIF
	Capital Budgeting Practices	.942	1.062
	Capital Budgeting Practices	.936	1.068
	Internal Governance Practices	.960	1.042

(Source: Research Data, 2024)

Accordingly, the VIF values for the predictor variables are rather low in this study. For model 1, the VIF value for capital budgeting practices was 1.062. In model 2, the interaction between capital budgeting practices and internal governance practices had a VIF of 1.068 and 1.042 respectively. These values imply that there is no problem of multicollinearity since all the VIF's are below 10. Thus, the hypothesis of no multicollinearity is not rejected based on the obtained VIF values, which means that the predictor variables are rather independent of each other and can be used in the regression analysis without leading to the problems associated with multicollinearity.

Model Summary

This offers considerable information on how capital budgeting practices affect the financial distress of Kenyan public universities, with internal governance standards being the mediating factor. R is a coefficient that represent the degree of linear correlation between the predicted values of a model and the actual observed values. R2 is the coefficient of determination that shows how much of variation in the model is explained by the dependent and independent variables.

Table 11: Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.738[a]	.545	.416	.2353034	.545	4.471	4	26	.007
2	.771[b]	.594	.441	.2328530	.049	1.968	1	25	.003

(Source: Research Data, 2024)

In Model 1, which excludes the moderating variable, the value of R equals 0.738, which shows that there is a strong relationship between the independent and dependent variables. The calculated value of 0.545 indicates that 54.5% of the variation in financial distress is explained by the capital budgeting practices while 45.5% of change in financial distress is due to other factors outside the model hence a good fit for the model. Therefore, the adjusted R square value of 0.416 gives the idea that after controlling for the number of predictors in the model, 41.6% of the total variation in the financial distress is explained by the predictor's used in the model. The low standard error of the estimate of about 0.2353034 means that the model being used to predict financial distress in Kenyan Public Universities is accurate and specific while a significant F change value of 0.007 provides evidence that the model is statistically significant and that all the predictors in the model have a bearing on the dependent variable.

In the second model, where internal governance practices are the moderating variable, the values in the model summary are slightly higher in some aspects than in the first model. The overall fit of the model is slightly better than that of Model 1 as the value of the R has risen to 0.771. The R square value has also improved to 0.594, thereby implying that about 59.4% of the variation in financial distress is explained by the predictor variables in the current model, which is an improvement from the Model 1. The R square value of 0.441 increases by removing the moderating variable to show that 44.1% of the variability in financial distress is explained by the predictors in Model 2. But the standard error of the estimate has reduced to 0.2328530 which shows that now the model is more accurate in the prediction. The F change value of 1.968 is significant at 0.003, hence suggesting that the addition of the moderating variable enhances the models ability to predict financial distress in Kenyan Public Universities though not as highly as in model 1.

Comparing between Model 1 and Model 2, it can be concluded that the addition of internal governance practices as a moderating factor is useful in improving the explanatory power of the model but to a limited extent. The rise of the R square from 0.545 to 0.594 shows that the moderating variable adds to the explanation of financial distress over the capital budgeting practices. It is also significant to note that the increase in the R square and adjusted R square values are not as significant as those recorded for capital budgeting practices only. However, the F change of 0.030 being greater than the critical value of 0.019 in Model 2 shows that internal governance practices should be included as a moderating variable and enhances the predictive capability of the model for financial distress in Kenyan Public Universities.

ANOVA

It is a statistical method used to analyze means of more than two groups with the aim of identifying if there is a significant difference in the means. In the context of regression analysis, ANOVA evaluates the adequacy of the regression model by comparing the sum of squares due to the model to the remaining sum of squares referred to as the residual sum of squares. The F statistic resulting from ANOVA measures the ratio of the variability between groups (due to the model) to the variability within each group (due to error). An F value

that is significantly greater than the critical value reveals that the regression model has a good fit with the data set and it proves that the independent variables as a group have an impact on the dependent variable.

Table 12: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.221	4	.555	20.904	.000[b]
	Residual	2.895	109	.027		
	Total	5.116	113			
2	Regression	2.275	5	.455	17.298	.000[c]
	Residual	2.841	108	.026		
	Total	5.116	113			

(Source: Research Data, 2024)

From the analysis done on model one where the moderating variable was not included in the analysis, the F-statistic was 20.904 and a significance value of 0.000 shows that the regression model was statistically significant. This implies that the capital budgeting practices influence financial distress in Kenyan Public Universities in a way. Moreover, the F value of 20.904, means the model's significance level is higher than the critical level of 2.69. In the case of model two with moderating variable, the F value of 17.298 and its significance value of 0.000 also shows that the regression model is significant. This means that by adding the mediating variable of internal governance practices, the robustness of the model is improved as the link between capital budgeting practices and financial distress is more defined. the F value of 17.298>2.53) which supports the significance of the model with the moderating variable. Overall, these results show that both models are fitted the data well, and that including the moderating variable in model two results in a stronger relationship between capital budgeting practices and financial distress in Kenyan Public Universities.

Regression coefficients

In order to determine the relationship between capital budgeting practices and the financial distress of Kenyan Public Universities, multiple linear regression analysis was used. To achieve the above aim, the regression coefficients were computed as a way of establishing the level at which internal governance practice mediates the relationship between capital budgeting practices on financial distress of Kenyan Public Universities. The results of regression analysis are as follows;

Table 13: Regression coefficients

Model		Unstandardized Coefficients		t	Sig.
		B	Std. Error		
1	(Constant)	.268	.062	4.326	.000
	Capital budgeting practices	-.097	.029	-3.308	.007
2	(Constant)	.247	.059	4.169	.000
	Capital budgeting practices	-.083	.028	-2.971	.011
	Internal governance practices	-.147	.036	-4.039	.003

(Source: Research Data, 2024)

Table 4.70 regression results produced a regression model (4.1) and (4.2).

Y= 0.268 – 0.097 CBP …… (4.1)

Y=0.247–0.083CBP–0.147IGP…… (4.2)

The results of the regression coefficients utilized to determine the impact of capital budgeting practices on the financial distress of Kenyan Public Universities with internal governance as a moderator are presented in Table 13 above. Based on the result, a constant of 0.268 and 0.247 is obtained in model 1 (Where internal governance practices was not included) and model 2 (Where internal governance practices was included) respectively. All the constants were statistically significant because their t values of 4.326 and 4.169 for model 1 and 2 respectively were all less than the t critical value of 2.042. This is also supported by the model with a statistical significance of 0.00 for both model 1 and 2, which is lower than the P values of 0.05. The coefficient of capital budgeting practices was -0.097. This means that capital budgeting practices had a negative correlation with internal governance practices with a coefficient of -0.083 and internal governance practices with a coefficient of -0.147. All the coefficients show a negative relationship between the dependent and independent variable.

Capital budgeting practices and financial distress

The objective of the study was to assess the effect of capital budgeting practices on financial distress of public Universities in Kenya. The study was based on the null hypothesis that capital budgeting practices had no significant effect on financial distress in public Universities in Kenya

The findings of the regression coefficients in Table 13 revealed that in model 1, the capital budgeting practices had a regression coefficient of (-) 0.097 with a significance level of 0.007. This shows that capital budgeting has a negative impact on financial distress. This degree of significance is further supported by a t value of -3.308 which is below the t critical value of -2.042 at 0.05 level of significance. Based on the findings, null hypothesis, which postulated that capital budgeting practices have no significant impact on the level of financial distress, would be rejected.

In the same way, in Model 2, the capital budgeting practices had a beta coefficient of (-0.083) and a significance value of 0.011. This demonstrates a negative and considerable impact of capital budgeting on financial distress. This is also in agreement with the findings with a t value of -2.971 which is less than the t critical value of -2.042. Therefore, the null hypothesis that capital budgeting practices have an impact on financial distress was rejected. Nevertheless, the coefficients for internal governance practices are slightly lower than those for Model 1, indicating that internal governance practices are able to reduce the negative effect of capital budgeting on financial distress.

These findings concurred with the results that emerged from the descriptive statistics whereby most of the participants agreed that implementation of capital budgeting practices has a positive impact on the reduction of financial distress in public universities in Kenya. For instance, majority of the respondents asserted that management of fixed assets enhances the financial position of the university. Furthermore, majority of the respondents indicated that stable sources of funds enable the University to meet the operational goals and objectives hence minimizing on cases of financial strain. The various policies of the organization such as the capital budgeting and financial management policies can be effectively communicated to the faculty, staff and the students. This transparency can help develop teamwork and trust in organizations. It is beneficial to engage stakeholders in debates regarding capital investment to ensure that the financial plans are in harmony with the goals of the entire university community.

The results are also similar with those from other studies such as (Baker & English, 2011). In their study titled "Capital Budgeting Forecasts: A Survey of the State of the Art," the authors found that effective capital budgeting practices significantly improve financial performance and reduce the likelihood of financial distress. They emphasized the importance of well-planned capital investment decisions in enhancing organizational financial health (Khan & Jain, 2013).The research paper "The Role of Capital Budgeting in Corporate Financial Management" indicated that sound capital budgeting practices are crucial for maintaining financial stability and managing risks in organizations, including educational institutions. Their findings suggest that effective capital budgeting contributes to minimizing financial distress.

Internal governance practices moderating the effect of financial management practices and financial distress

The purpose of the study was to assess the moderating role played by internal governance practices on the relationship between the chosen financial management practices and financial distress of the public Universities in Kenya. This was anchored on the presumption that internal governance practices did not play any moderating role on the impact of the selected financial management practices on financial distress in the public Universities in Kenya. The finding in model two reveals internal governance practices has a negative beta coefficient of -0.147 and is significant at 0.003. The significance is also supported with a t value of -4.039 which is less than the critical value of -2.042. This increase in the moderating variable enhances the predictive capability of the model, it underlines the significance of internal governance in moderating credit crunch in Kenyan Public Universities.

This was in agreement with the results of the descriptive statistics whereby the results indicated that implantation of internal governance practices assists in reducing financial distress among the public universities in Kenya. For example, in response to the question on how high level of accountability benefits the institution, majority of the respondents concurred that mismanagement of resources can be checked with the help of high level of accountability. This was also in line with the perception of the majority of the respondents that high transparency reduce financial distress.

The results are also corroborated by other researchers such as (Bita & Muthoni, 2022). In their study titled "The Role of Internal Governance in Financial Management: Evidence from Public Universities in Kenya," the authors found that effective internal governance practices significantly mitigate financial distress by enhancing accountability and transparency. Their findings corroborate the results regarding the positive impact of governance on resource management. (Muigai & Muriithi, 2017). Their research, "Accountability

Mechanisms and Financial Performance in Public Sector Institutions," concluded that high levels of accountability within institutions are associated with better financial performance and reduced financial distress. This supports the finding that accountability helps curb resource mismanagement in universities.

V. CONCLUSION

Capital budgeting practices and financial distress

From the descriptive statistics, majority of the respondents agreed that capital budgeting practices help to lessen financial distress in public universities in Kenya through management of fixed assets, stable sources of funds, control of expenditures, budget making and control as well as adhering to the University. From the inferential statistics (regression coefficient=- 0.097 and - 0.083, p value= 0.007 and 0.011 for model 1 and 2), it is ascertained that capital budgeting practices have a negative and significant impact on financial distress in the sampled public universities in Kenya. Hence, it is agreed that the capital budgeting practices have a negative and significant impact on financial distress in public universities in Kenya. This means that an increase in the use of capital budgeting practices can assist in lessening financial distress within the public universities in Kenya.

Internal governance practices moderating the effect of financial management practices and financial distress

The results in descriptive statistics establish that the respondents have agreed that moderation variable of internal governance practices on the effect of financial management practices assists in the mitigation of financial distress in public universities in Kenya. These were achieved through high level of accountability, high level of transparency as well as high management efficiency in the university. Therefore, internal governance practices as a moderating variable has a negative regression coefficient of -0.147 at a significance level of 0.003. Hence, it can be concluded that internal governance practices had a negative and significant moderating impact on the relationship between financial management practices and financial distress in public universities in Kenya. This means that internal governance practices can be used to recommend the level of financial distress of Kenyan public universities since a higher level of internal governance practice increases the level of financial health in these universities.

Recommendations

Capital budgeting practices and financial distress

The study also emphasized that universities should consider diversification of revenue sources where they should launch fund raising activities, research income and government grants.

They opined that in order to strengthen governance structures, all expenditures in the public universities should be pre-approved by the university management board.

It was also recommended that public universities should ensure there is compliance to prepared budgets in order to secure financial viability in universities.

Internal governance practices moderating the effect of financial management practices and financial distress

The report recommended that public colleges should prioritize greater transparency throughout the creation of financial disclosures.

It was recommended that public universities should establish stringent anti-corruption measures and promote a culture of integrity and responsibility.

It was recommended that public colleges should implement tight documentation requirements for all transactions to avoid corruption risks.

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