Kenyatta University
School of Business

Conference Proceedings

International Business Research and Industrial Conference (IBRIC)

20th - 21st June 2019

Kenyatta University North Coast Beach Hotel, Mombasa, Kenya

SAVANNAH CEMENT
Building Perfection

KENYA
Tourism Board

Theme: Emerging Trends in Business Management for Global Sustainable Development

ISBN.NO

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CONFERENCE PROCEEDINGS

Public Laundromat Services: Technological Revolution and operational Performance. General Review

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Abstract

An expanded paradigm is required to explain how public Laundromat services are implemented. Technological revolution influences countries economic growth, employment levels and wage rates. Kenya as a country is enjoying faster growth when it comes to industrialization. Public Laundromat service in Kenya is one of the concepts that have not been implemented. This paper presents a review of the extant theoretical on two constructs linked to technological revolution in the phenomenon leading to operational performance. Conceptualization and examination of the knowledge gap concept and techniques for implementation of public Laundromat services by the county government are critically discussed, in order to be on the bigger picture of vision 2030 agenda in Kenya. The paper will also discuss the techniques used to operationalize this concept and make it understandable for research participants and beneficiary of the study who are the county government for the proper implementation of the idea. The relevant theories constructs are reviewed, their operational indicators identified and emergent knowledge gaps identified. The theories underpinning the study include dynamic capability theory, the relationship marketing theory, evolutionary economic theory and innovation diffusion theory. This paper proposes the implementation of mixed research method, simple random sampling technique and use of questionnaire for data collection. The paper finally proposes a multidisciplinary based to advance knowledge gap by county government on implementation of public Laundromat services in this area together with the accompanying implications for future research.

Keywords: ***Technological revolution, Operational performance, Public Laundromat services***

ISBN 978-9966-132-53-6 @ Copy Right .2019

1. Introduction

The thrust of investment in developed countries has created entities enhanced technology in form of invention and innovation that has led to increased efficiency of laundry machines in terms of turn-around timelines (laundry within an hour unlike earlier several days) quality of service, and the most environmentally beneficial being significantly less consumption of water, energy and cleansing agents.

Regardless of societal status, education level, and economic performance, food, shelter and clothing are among the most basic needs of the human person. Consequently, doing laundry is an indispensable part of everyone's lifestyle and dates back to the introduction of garments. The only variance is in how the laundry is done, as there are two major ways; namely washing manually and using washing machines.

Developing countries like Kenya, most public institutions are experiencing detritions in terms of performance due to both internal and external issues (Magutu, et al., 2010). Due to various factors including lack of time, inabilities and lifestyle choice, some people outsource the washing of their own clothes; this led to the birth of payable laundry outlets. According to the United States Environmental Protection Agency (EPA, 2002) laundry is the second highest consumer of water domestically (after toilets). This therefore means that any effort towards minimize usage of water for laundry will make a significant impact on water conservation efforts.

The purpose of carrying out this study was first to, discussed the techniques used to operationalize this concept and make it understandable for research participants and beneficiary of the study who are the scholars, policy makers, general public and government for the proper implementation of the idea. Secondly, a review of the theoretical conceptual literature and methodological gap on the constructs showing the relationship between technological revolution and operational performance critically reviewed. Lastly, the study proposes a conceptual model for implementation of the relationship that exists between technological revolution and operational performance.

2. Public Laundromat services

Laundromats are cleaning services that have been actualized mostly in the west. In the Laundromat the users who are the clients are required to pay a small token preferably using a coin for each load of the cloth. The Laundromat owners need to provide a simple payment system that can be loaded with the token once a client what to use the services.

Despite the compelling need for every household to do laundry regularly, water continues to be a limited hence scarce resource; more so for Nairobi residents who must contend with frequent rationing (Water

Services Regulatory Board (Kenya) Impact Report, 2018). While the government of Kenya strives to address the water problem by addressing the supply side e.g. Ruiru 2 and Karemenu 2 dam projects, there is need to consider a more sustainable approach by addressing the demand side of the equation. In a speech read on his behalf during the Africa Green Building pre-summit in Nairobi, Retired President Kibaki (2017) and the Unesco special envoy for water in Africa, challenged Kenyans to rethink water conservation at household level.

Recognizing that not all Kenyans can afford washing machines which would allow for economical usage of water for laundry, this study proposes that the County Government of Nairobi considers undertaking installation of laundry marts at strategic locations within Nairobi County. Residents would then pay a fair fee for using the service, which would allow for sustainability of the service; as is the case with the public toilets project in the county. The county government will then redirect all water from these laundry marts and sanitize it for recycling to flush toilets and wash cars, among other secondary uses.

3. Problem statement

In pursuit of achieving technological revolution aspect operational performance has to be considered. This study was undertaken to empirically review the relationship between technology revolution and operational performance on introduction of public Laundromat. However, the aspect of operational performance on public Laundromat is a buzzword that has not well be conceptualized by most authors (Teece, Pisano, & Shuen, 1997).

The use of different conceptualization on the operational performance of public Laundromat by different authors is an issue that needs to be addressed because of mixed up contradictions (Olepein, 2015;Eristavi, 2012;Teece, 2007). Anecdotal evidence as provided by business daily on Sunday 2017 revealed that public Laundromat concept has not been operationalized in Kenya. Consequently, the theories and models used to anchor aspect of operational performance lack commonality.

Lastly the numerous definition of operational performance that lacks meaning sometimes is a key issue to address (Kiprotich, Njuguna, & Kilika, 2018;Olepein, 2015;Eristavi, 2012). This being a contradiction there is need to seek common grounds when bringing up the concept of operational performance based on different market environment or economies. In construst therefore the study sourt to establish the knowledge gap on technological revolution and operational performance on implimentation of public laundromat services in kenya.

4. Theoretical Conceptualization of key constructs

To fulfill the fundamental question on the objective of this study, this section shows a brief summary of theoretical conceptual literature applied. This call for in-depth understanding of these concepts as pertains to this study. This section therefore reviews the constructs theoretically that anchor the study which includes, dynamic capability theory, relationship marketing theory, the evolutionary economic theory and innovation diffusion theory.

4.1 Dynamic capability theory

The dynamic capability theory was developed by(Teece & Pisano, 1994).the theory tries to configure how most firms, integrate, build and reconfigure the internal and external specific competencies into new competencies that match their turbulent environment(Olepein., 2015).The concept of dynamic capabilities arose from a key shortcoming of the resource-based view of the firm. Several authors have used different constructs toward the main theoretical contribution to dynamic capability theory. According (Teece, Pisano, & Shuen, 1997) proposes the dynamic capability theory considers process, positions and path as the key prepositions anchoring the theory. Similarly, Eristavi(2012) ascertain dynamic capabilities refer to efficient exploration and implementation of new resources and recommends efficiency as a construct on dynamic capability. Further, Teece (2007) developed the component of efficiency- based to show how firm specific capabilities could be of importance and how combinations of competencies and resources can be developed, deployed and protected. Therefore, the theory is applicable to this study because by introduction of public Laundromat services the service providers can enhance operational performance to provide efficiency and effectiveness services.

4.2 The relationship marketing theory

Berry(1983) developed the relationship marketing theory. Relationship marketing theory is a form of marketing developed from direct response marketing campaigns which emphasizes customer retention and satisfaction, rather than a dominant focus on sales transactions (Alexander, Schouten, & Koenig, 2002). The theory is relevant to the study since it ensures retention of customers in the service providers through varying means and practices to ensure repeated trade from preexisting customers by satisfying requirements above those of competing companies through a mutually beneficial relationship (Albers-Millers & Straughan , 2009).

4.3 The evolutionary economic theory

Nelson and Winter (1982) can be perhaps be credited for developing the evolutionary economic theory and their motivation was on the need to explain a wide range of phenomena associated with economic change stemming either from shifts in product demand or factor supply conditions, or from innovation in parts of the firm. The different aspects on economic change included the response of firms and the industry to changed market conditions, economic growth and competition through innovation.

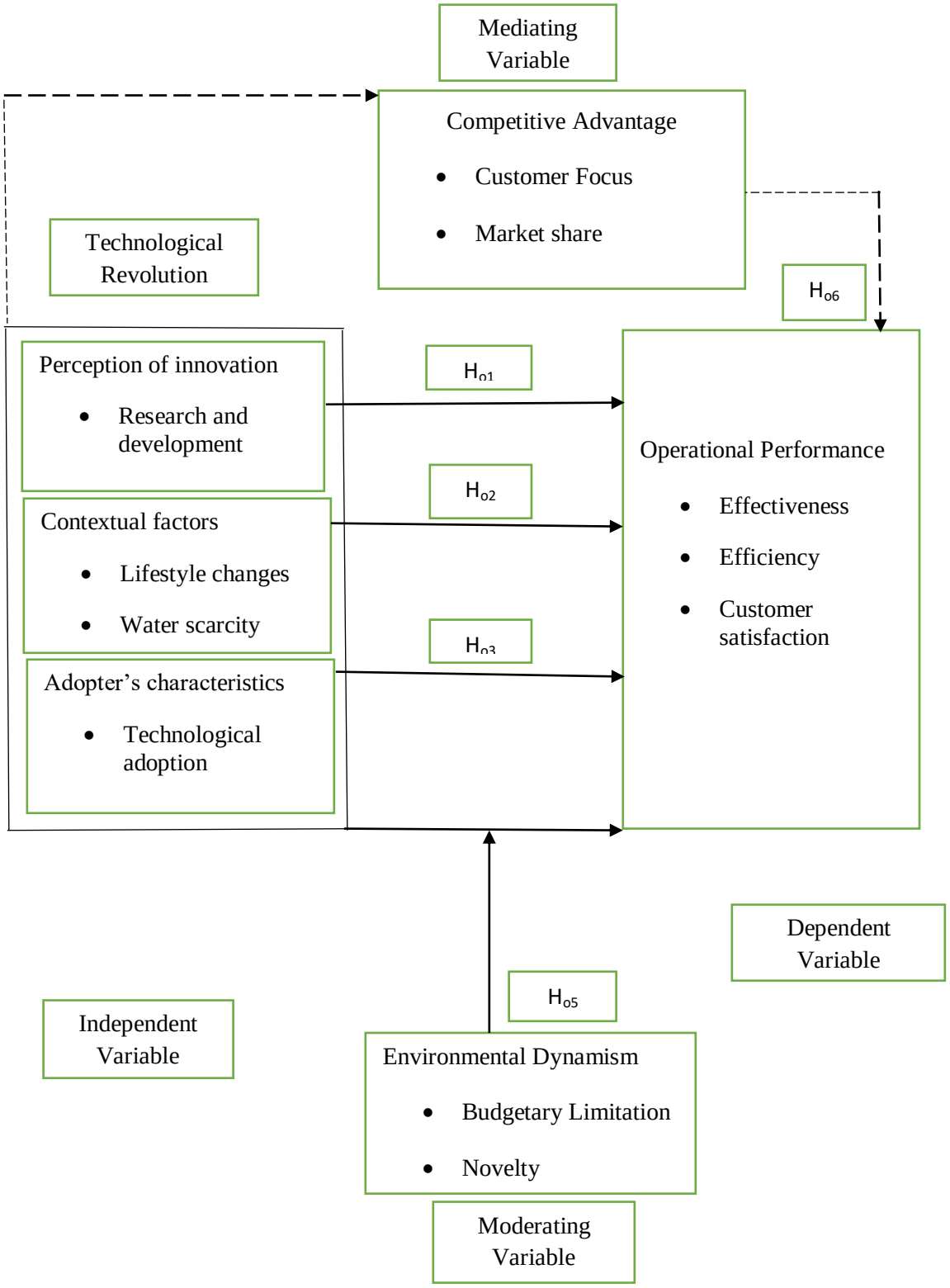
Nelson and winter (1982) proposed organizational routine for all regular and predictable behavioral patterns of firms and defined routine as "a repetitive pattern of activity in an entire organization, to an individual skill, or to smooth uneventful effectiveness of such an organizational or individual performance". They propose organizational routines to include characteristics of firms that range from technical routines for production, through hiring and firing procedures, ordering inventory, or stepping up production of items in demand, to policies regarding investment, research and development (R&D), or advertising, and business strategies about product diversification and overseas investment.

4.4 Innovation diffusion theory

The theory of innovation diffusion was implemented by(Rogers, 1995). Innovations referring to technologies, ideas, practices or products that are alien to the society and which are spread and shared through communication by members of the society (Rogers, 2009). This theory suggested the three main sources that influence the diffusion and adaption of an innovation includes perception of innovation characteristics, adopter's characteristics and contextual factors. The theory emphasizes that innovation spreads slowly over time and among people resulting in various adopter categories. This theory is applicable to study the technological revolution in such a way it could bring about significant changes to public Laundromat work practices and could also cause resistance to change.

5. Proposed conceptual framework linking technological revolution and operational performance

Competitive advantage has been proposed as a mediating variable with measures being the customer focus of Laundromats, and the anticipated capture of a huge market share given that laundry service is required by all. The projected convenience and affordable service costs will facilitate change of behavior from washing manually to using Government provided Laundromat services. The moderating variable for the proposed study would be environmental dynamism whereby the County government may be constrained financially to undertake this massive project, or the concept, like all new ideas, may encounter some resistance from opponents of change both at policymaker and consumer levels.



Source: Researchers (2019)

6. Proposed methodology

This study recommends adoption of mixed method research designs. Saunders, Lewis and Thornhill (2009) combining different designs in one study enables triangulation in addition to increasing the validity of the findings to achieve optimal results. Consequently, simple random sampling technique is recommended for selecting respondents for this study. The study will rely on primary data collection method. Semi-structured questionnaire will be used for data collection method whereby they will be administered via drop and pick. The respondents of the study will be selected based on the knowledge and information of Laundromat services in Nairobi estates. The use of multiple regresion model will be used for data analysis. However, this study will employ the use of descriptive statistics and inferential statistics with the help of Statistical Package for Social Sciences (SPSS) version 20 to achieve the objectives of the study.

7. Conclusions and Recommendations

From the reviewed literature as well as basing on the success stories where public Laundromats have been implemented, there is evidence of a strong case for the County Government to invest in public Laundromats with enhanced value of leading from the front in water conservation efforts. As clearly illustrated, doing laundry is a universal basic need; just like water conservation is for the common good of all habitats of mother earth. Therefore, not only will this become a flagship project in management of water as a scarce resource, it will attract development partners seeking to replicate the same across the country and the world at large. There is need, therefore, for further research in this area, so as to fast-track the implementation of the concept of public Laundromats given the economic and non-monetary benefits it promises.

Based on the theories discussed, the study conclude, Dynamic capability theory, relationship marketing theory, evolutionary economic theory and innovation diffusion theory are significant theories that are used for discussion of technological revolution and operational performance for future successive implementation of public Laundromat services. Further, the study proposes a knowledge gap in the area of technological revolution and operational performance in the implementation of public Laundromat in Kenya. The study was conducted on the technological revolution and operational performance but similar studies would be conducted on other variables apart from the one discussed to show their relationship to capture the public Laundromat services contextual aspect.

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Saving and Credit Cooperative (Sacco) Strategic investment expansion decisions and financial performance for a better Kitui central sub-county

Acronyms

SASRA Sacco Societies regulatory authority

Sacco Savings and credit cooperatives

ICA International Cooperative Alliance

KNBS Kenya National Bureau of Statistics

ILO International Labour Organization

1.0 Introduction

The Cooperative movement in Kenya is the most vibrant ranking first in Africa and seven in the whole world. In April 2019, the daily reported that "Against all odds, Sacco continue to make super normal profits."As a developing nation, Kenya's devolution process has propelled Sacco as avenues for achieving Vision 2030 through mobilising savings, creating jobs and alleviating poverty for her citizenry. This is in accordance with Njeru, Agnes, Florence and Ondabu (2015) who assert that, 63% of the Kenyan population are involved directly or indirectly in Sacco increasing financial assess in the country. The Sacco continues to command profits even with the vibrancy of mobile banking and existence of the contemporary banking sector.

Sacco is an important party in addressing the Kenya Big four agenda through their participation in the building sector with the SASRA report of 2018 asserting that, the largest proportion of Sacco lending

totalling 118 Billion and accounting for 36% of the total outstanding credit as at December 2016 was channelled towards land and housing sector. According to World Bank report of 2017, it is estimated that up to 90% of housing finance in Kenya is supplied by savings and credit cooperatives and housing cooperative networks. With this seemingly bright star, the Sacco business has also had its own share of challenges especially in the area of investment decisions some case in point being Egeza; Stima and Mwalimu Sacco investments. This necessitates strategic investment expansion decisions.

1.2 The Overview of Sacco business

According to International Cooperative Alliance (ICA) (2014) and Kivuvo and Olweny (2014) a cooperative is an autonomous association of persons who voluntarily unite so as to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise. The Cooperative Societies Act chapter 490, defines a cooperative society as a society registered under section four of the Act.

The Sacco Society's Act 14 of 2008 defines a Sacco society as a savings and credit cooperative society registered under the Cooperative Societies Act (no.12, of 1997). Lari (2009), on the other hand defines a saving and Credit Cooperative (SACCO) as an undertaking whose main objective involves pooling together of member savings and providing credit facilities in return; SASRA website, defines a Sacco as a financial cooperatives. Compared to other financial institutions, Sacco's are unique considering their financial performance measurement since they use declared dividends and surplus or deficits announced to measure financial performance (Momanyi, 2014).

According to Amalendu, Somnath and Gautam (2011) financial performance of a firm is its overall financial health over a given duration of time or a Sacco's ability to utilise assets to generate revenues. Sacco financial performance in this study adopted Dividends and surplus as adopted by Muriuki (2015). Sacco compete with banks in the financial sector utilising the benefits advanced to customers in form of dividends and cheap loan products vs. Lower capped interest rates and longer loan periods from banks (Kagonia (2017).

Sacco performance in 2017 according to SASRA indicated a diminishing rate of growth in total assets, gross loans and total deposits at 12.4%, 11.3% and 12% respectively, compared to growth rates of 14.8%, 15.3%, and 14.8% respectively which was registered the previous year. The non-performing loans as indicated by loan allowance showed an upward trend to reach 10.7 billion which is an increase of 23.4% from Kshs 8.6 Billion recorded in 2016.

1.3 Strategic Investment Expansion Decisions

According to James and John (2010) expansion decisions involve the addition of new products, new lines of business/production, and addition of capacity or diversification of operations. Pandey (2015) asserts that an organizations' expansion involves increase in existing capacity so as to expand existing operations. Bang (2010) asserts that, an expansion strategy involves: improving consumption & purchasing ability, improving willingness to buy, creating affordability and improving sustainability. Organizations have set short-term and long-term goals and objectives which guide their operations and hence investment expansion decisions have to align to these goals for them to be realized.

People join a Sacco with an economic motive of generating income; this implies that, members will join a Sacco when the economy is in viable state (Mpiira, et al., 2013). According to Hesse and Cihak (2007) Sacco still retain their stability even during crisis periods since their investment pattern utilises member's capital strategically to satisfy both short term and long term needs and interests. This is because, Sacco create synergies that support territory resilience to external shocks and they are typically motivated by long-term gains as compared to short term gains, making expansion investment strategies less risky (International Labour Organization-ILO, 2009).

1.4 Overview of Kitui Central sub-county

According to Kenya national bureau of statistics-KNBS report of (2013), Kitui County which is in arid and semi-arid parts of Kenya experiences one of the highest inequality levels in the country in terms of differences in lifestyles and access to services and hence presents a good diversity for Sacco membership. It

is also stated to posses the largest area coverage in kilometre (KM^2) compared to all other counties of eastern Kenya combined together. Despite the above, Sacco distribution in the county in terms of location is concentrated in Kitui central sub-county with only a few in Mwingi Town (SASRA, 2018)

1.5 Reasons for this study

Due to the unique nature for Sacco's in their concern for time when making investment expansion decisions, there's a great need for them to be strategic This will help them in meeting the diverse needs for its members and sustaining the Sacco to achieve its vision, mission and goals. Without a focus on strategic investment expansion decisions, managers can end up engaging in doubtful investments, negatively affecting members' confidence and face challenges in addressing the needs for the new members. It should be noted that, reversing a wrongly made investment decision also comes at a cost.

LITERATURE REVIEW

2.1 Theoretical Review

This research work is anchored on two theories; the product life cycle theory by Raymond Vernon (1966) and Modigliani and miller theory by Modigliani and Miller (1950). The product life cycle explains the benefits a firm obtains on expanding across borders through technology and innovation which maximises returns and optimises costs. This theory helps in addressing the effects of different Sacco expansion policies adopted. On the other hand, Modigliani and Miller theory (1950) indicates that, financing a firm which is a form of expansion on capital structure does not influence the firm's value due to market imperfections. This theory addresses Sacco welfare in case of strategic investment expansion decision given different capital combinations.

2.2 Empirical Review

Farok, Kumar and Sumit (2007) did a study on the nature of the relationship between international expansion and performance; the case of emerging market firms. They compared internationally expanding firms with their rivals from emerging economy (India). Their study results indicated a U-shaped curve

depicting internationalization-performance relationship in India with service firms gaining more positive benefits of internationalization expansion than manufacturing firms.

Richard, Jonathan, and Sharon (2004) conducted a study on business climate and international franchise expansion by examining how a country's business climate affects international expansion decision of US franchise companies. The study was testing various hypotheses on how franchise companies international plans are influenced by elements of a country's business climate. The study estimated a panel regression model using different specifications. The study results supported the hypotheses and demonstrated that a country's business climate is an important predictor of foreign firm's expansion into that country.

Roger and Paul (2010) does a study on the question, does asset allocation policy explain, 40, 90 and 100 percent of performance? The study adopted a balanced mutual fund and pension fund data to answer the question. The study found out that 40% and 90% of fund performance is explained by expansion policy while 100% of fund performance is explained by policy return level.

Vishal and Kesava (2007) did a study on the effects of firm size and sales growth rate on inventory turnover performance in the US retail sector with respect to size, the study found a strong evidence of diminishing returns to scale. With respect to sales growth rate the study found out that inventory turnover increases with sales growth level but rate of increase depends on firm size and on whether sales growth rate is positive or negative.

2.3 Study methodology

This research adopted an empirical research design and used time series data for the periods 2009 to 2019. Targeted population consisted of twelve (12) Sacco in Kitui Central Sub-County. The researcher used census to collect data from all sources from the finance officer of each Sacco. Both primary and secondary data were used in the study. Simple multivariate analysis was conducted using statistical package for social sciences (SPSS-Version 21) and data presented by the use of tables. The models adopted were as follows;

$Y_1 = \beta_0 + \beta_1 ED + \varepsilon$ and $Y_2 = \beta_0 + \beta_1 ED + \varepsilon$

Whereby; Y_1= Performance as measured by dividends

Y_2 =Performance as measured by surplus

β_0 =Constant term or the Y-intercept for both equations

β_1 = Regression coefficients or slope of the regression lines

ED = Expansion decision

ε = Represents the error term

The researcher sought to determine the effect of strategic investment expansion decisions on the financial performance of Sacco as measured by dividends and surplus

STUDY FINDINGS

3.1 Strategic Investment Expansion Decisions on Financial Performance of Sacco

Strategic investment expansion decisions were found to affect Sacco performance as measured by dividends in the following ways

3.1.1 Correlation

		ED	DIV
Expansion decision (ED)	Pearson Correlation	1	.485
	Sig. (2-tailed)		.155

The results above indicate a positive relationship between expansion decisions and Sacco performance measured by dividends though the relationship is not significant at 5% significance level.

3.1.2 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	.485[a]	.236	.140	4.42998E7	.236	2.465	1	8	.155

a. Predictors: (Constant), total strategic investment expansion decisions in Sacco

Results indicate that 23.6% of Sacco performance as measured by dividends is explained by strategic expansion decisions while 76.4% is explained by other variables.

3.1.3 ANOVA

.		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	4.837E15	1	4.837E15	2.465	.155[a]
	Residual	1.570E16	8	1.962E15		
	Total	2.054E16	9			

a. Predictors: (Constant), total strategic investment expansion decisions in Sacco

b. Dependent Variable: illustration of total dividends allocated

The model asserts that the effect of strategic investment decision on Sacco performance measured by dividends is not statistically significant at 0.05% level of significance at 0.155

3.1.4 Coefficient table

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	1.137E8	1.916E7		5.932	.000		
total STRATEGIC expansion investment in Sacco	.094	.060	.485	1.570	.155	1.000	1.000

a. Dependent Variable: illustration of total dividends allocated

Given the above results, the model can be illustrated as follows; $Y_1 = 1.137E8 + \beta_1 0.094 + \varepsilon$

This indicates that, on assumption that there are no strategic expansion decisions; Sacco performance as measured by dividends will increase by 1.137E8, while if strategic expansion decisions increase by one unit, Sacco performance measured by dividends will increase by 0.094

3.2 Strategic Investment Expansion Decisions on Financial Performance of Sacco

3.2.1 Correlation

Strategic investment expansion decisions were found to affect Sacco performance as measured by surplus in the following ways

		ED	SURPLUS
Expansion decision (ED)	Pearson Correlation	1	.738
	Sig. (2-tailed)		.015

The results of the study showed a strong positive correlation between Sacco performance measured by surplus and strategic expansion decisions. The correlation between the two variables is significant at 5% level of significance.

3.2.2 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]	.544	.487	1.76738E7	.544	9.547	1	8	.015

a. Predictors: (Constant), total expansion investment in Sacco

Results indicate that 54.4% of Sacco performance as measured by surplus is explained by strategic expansion decisions while 45.6% is explained by other variables.

3.2.3 Anova

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.982E15	1	2.982E15	9.547	.015[a]
	Residual	2.499E15	8	3.124E14		
	Total	5.481E15	9			

a. Predictors: (Constant), total expansion investment in Sacco

b. Dependent Variable: Illustration of total Surplus realized by Sacco

The model asserts that the effect of strategic investment decision on Sacco performance measured by dividends is statistically significant at 0.05% level of significance at 0.015

3.2.4 Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	2.556E7	7644001.475		3.344	.010		
total expansion investment in Sacco	.073	.024	.738	3.090	.015	1.000	1.000

a. Dependent Variable: Illustration of total surplus or deficits realized by Sacco

Given the above results, the model can be illustrated as follows; $Y_2 = 2.556E8 + \beta_1 0.073 + \varepsilon$

This indicates that, on assumption that there are no strategic expansion decisions; Sacco performance as measured by surplus will increase by 2.5567E8, while if strategic expansion decisions increase by one unit, Sacco performance measured by Surplus will increase by 0.073

The results of this study indicate that, strategic investment decisions have a weak positive correlation to Sacco performance measured by dividends. This is supported by the positive contribution strategic investment decision has on financial performance of Sacco. However the model does not have a significant effect on financial performance. This supports Modigliani and Miller Theorem of 1958 as the theory stated that increase in investment does not have significant effect to firm performance due to ever present market imperfections. This is supported by Vishal (2007) who asserts that expansion to inventory turnover increases sales growth and Roger (2010) who asserts that asset expansion policy explains the 40, 90, and 100% fund performance.

On the other hand, is also indicated in that strategic expansion decisions have a strong positive correlation to Sacco performance as measured by surplus. This is supported by the positive contribution Sacco surplus has on financial performance. In addition to this, the model has a significant effect to Sacco performance at 0.05% level of significance. This is in support with Rose (2003) who states that modern day Cooperative

decision to expand into services has made them to increase on funds to the Cooperative. Also Farouk (2007) states that service firms get more gains of international expansion as compared to manufacturing firms. The findings also support the product life cycle theory which indicates that returns to a firm increase with expansion.

3.3 Conclusion

In view of the aforementioned analysis, this study concludes that, strategic investment expansion decisions positively affect Sacco performance as measured by dividends issued and surplus. The study also confirms that strategic investment expansion decisions affect Sacco's performance more on Sacco surplus because the surplus makes up the retained earnings which the Sacco utilises for its expansion policies.

4.1 Recommendations for further study

This study focused on strategic expansion decisions alone excluding all other strategic financial functions which can be studied too. Other measures of financial performance can be studied in relation with strategic expansion decisions. The study can also applied to cooperative sector and compare the results with Sacco results.

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Tax Policy and its effect on the Economy of Ghana.

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ABSTRACT

The development of any country cannot be complete without the contributions of the SMEs. They provide significant contribution in all sectors of the economy. They serve as the hub for employment, innovation and improving the standard of the people in the country. The SMEs sector is impeded by factors beyond their control among them are tax policies that are injurious to their growth and development at all stages of

their development such as resource maturity, take-off, success, survival and existence. Twelve (12) variables such as tax laws should be simplified enough for SMEs, tax burden should be lighter to SMEs, tax rate should be rational and appropriate to SMEs, tax policies should favour SMEs to grow, double taxation and other factors are militating against the growth of SMEs and poorly executed tax are disincentives to the taxpayer among others were selected to assess its effect on the various stages of development of SMEs.

The study employed descriptive design. Primary data was collected on valuables contributing to tax influence and their effect of the growth of SMEs. A sample of 114 respondents representing 53% of target population of 215 SMEs in the New Juabeng Municipality of Ghana was selected through stratified sampling techniques. Data was collected through questionnaires, interviews and observations were analyzed through SPSS to evaluate the effect of these variables on stages of growth of SMEs. The study found that there was a significant correlation between taxation and SMEs sector growth. The study recommends that tax laws should be simplified enough in order to make compliance easier for SMEs. Again, most SMEs are liquidated at early stages as a result of multiple tax system. The Government can therefore lower the tax rate of SMEs at early stage to ensure their survival and growth.

Keywords: Tax Policy, Take-off, Survival, Resource Maturity, Growth.

1. Introduction

Economic growth in every country is defined by the performance of its production sector. In many highly developed countries, a great share of production is manufactured by small and medium enterprises (SMEs).It is acknowledged worldwide that small and medium enterprises (SMEs) are the engines of economic development and industrial growth, solving the twin problems of unemployment and poverty. They are said to account for approximately 95% of all the companies in the world. Small medium enterprise's Ghana Award (SMEGA '14).

There has not been any general definition of small and medium enterprise (SMEs). Some define it in terms of their total number of employees while others also define it in terms of the size of capital investment. The European Union defines Small and medium-sized enterprises (SMEs) as non-subsidiary, independent firms

which employ less than a given number of employees. This number varies across countries and the most frequent upper limit designating an SME is 250 employees.

SMEs are important for poverty reduction; they tend to employ poor and low income workers. These businesses are sometimes the only source of employment in poor regions and rural areas. SMEs inadvertently, are the panacea to unemployment and poverty reduction in developing countries like Ghana. SMEs have the potential to contribute substantially to the economy and can provide a strong foundation for the growth of new industries as well as strengthening existing ones.

In Ghana, SMEs contribute immensely to the industrial output and export of goods and services. They play an important role as the engine of growth of our economy registering about 90% of businesses in Ghana with about 70% contribution to GDP, accounting for 85% manufacturing employment and 75% general employment (SMEGA '14).

It has been recognized that SMEs creates the needed employment and creates a vibrant economy for any country. It has also been recognized that taxes any the only means through which the nation can mobilize the needed resources for infransture development. Taxes serve as payment imposed by the government on the citizenry. This serves as the only source of revenue for the nations at large. Without taxes Government income and expenditure would fall short. However, tax policies of every country are closely related to the type of business enterprises in that country. These policies must favour these enterprises to ensure their growth. As these businesses grow and flourish they create more opportunities for the citizenry to better their lives. It could be deduced that taxes and business growth must depend on each other for growth of the economy. If taxes are higher to the disadvantage of the various enterprises it cripples them at early stages and they cannot grow. Governments all over the world take taxes to meet the aspiration of people. The Government of Ghana, in its attempt to widen the tax base and collect more revenue has had to levy the SMEs which constitute a large part of the formal sector. These taxes charged include; corporate tax, income tax, capital gains tax, value added tax (VAT), tax on interest and many others. Although all the taxes are

important to be investigated, but for the purposes of this study, the researcher would like to investigate income tax which is levied (SMEs) in the New Juabeng Municipality of Ghana.

The lifeblood of any economy is taxation. It helps Governments to generate the needed revenue to provide social amenities and maintain law and order. SMEs and taxation are not mutually exclusive by any means. In a study conducted by (Ojeka, 2011), on "taxes have been more harmful to the survival of SMEs" produced a surprising result of high tax rates, multiple taxation, complex tax regulations and lack of proper enlightenment or education as the major challenges of SMEs. In this work, the researcher investigates the effect of taxation SMEs growth and development.

The general objective is to evaluate the variables chosen and its effect on SMEs and the effect of taxation on the stages of their growth.

Objective of the Study

1. To find out the effects of government taxation policy on SMEs in Ghana
2. To evaluate the effect of taxation on SMEs stages of growth.

Hypothesis:

H_o: There is significant relationship between tax and the SME's stages of growth.

The study would be useful to all stakeholders in the country particularly tax authorities and all SMEs that fall within the tax bracket. It would also inform policy makers to adjust tax policies to suits the requirement of small medium enterprise.

LITERATURE REVIEW

2.1 Conceptual Framework

Mungaya, et al (2012), in their work on "tax systems impact on the growth of small and medium enterprise (SMEs): with reference to shinyanga municipality, Tanzania" adopted this conceptual framework which would be used in this research work.

Conceptual Framework

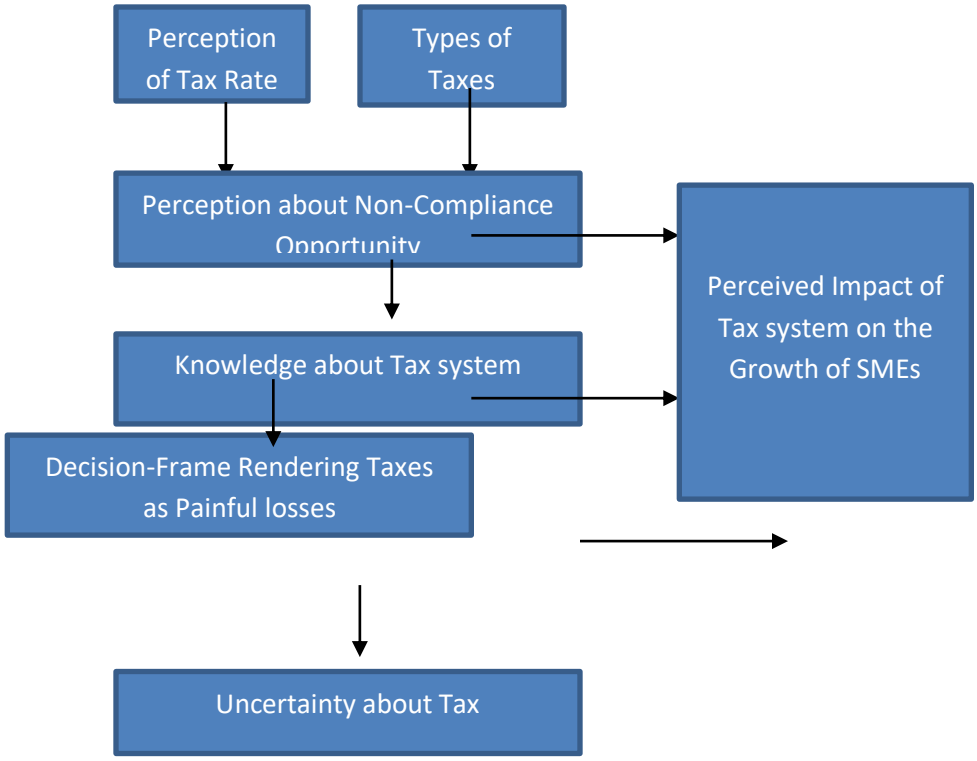

Fig. 1: Conceptual Framework of the Research

2.2 Theoretical review

Theories of Business Growth

Researchers have propounded theories on stages of business growth. One of such well known theory is the one propounded by Gibart (1931) that is the " Law of Proportionate Effect" cited by Elhiraika & Nkurunziza (2006) in their work "Facilitating firm entry, growth and survival with special attention to SMEs" stated that the rate at which businesses grow are independent to its initial size. This means that large firms are holds the key to private sector growth and development because they could employ more people compared to small businesses. Notwithstanding, Jovanovic (1982) also stated that small firms grow faster in the economy with respect to time. In his model, that is the 'Learning model' he said "because small firms

acquire experience over time and this help them to perform better". The researcher was of the view that small businesses grow faster than old firms. He concluded that there is a point of convergence for small businesses and large firms where small businesses also become as large firms. Churchill and Lewis (1983) as cited in Olawale & Garwe (2010) stated that small businesses go through growth stages as: existence, survival, success, take-off and resource maturity. In all the stages of business development different factors invariable affect its survival and success. The Churchill model helps us to identify the stages of development of SMEs. The exact time when start-ups become new business has not been theoretically ascertained. In other words, the idea of business survival could be equated with a firm that has fully completed the transition from the initial stage to the next stage in the five stages of small business growth. Churchill and Lewis (1983) stages of business development would be adopted by the researcher to assess the effect of taxes on businesses in Ghana.

2.4 Empirical framework

Researchers have conducted extensive work on tax policy and its effect on the economy of countries. In the work of Ojeka (2011), on "tax policy and the growth of SMEs: implications for the Nigerian Economy at Covenant University, Nigeria" stated that friendly tax policy is the only instrument that could survive the growth of SMEs. Notwithstanding, taxes have been more harmful to the survival of SMEs because as they increase running costs and it slows down their growth. He realized that most SMEs face problem of high tax rates, multiple taxation, complex tax regulations and lack of proper enlightenment or education about tax related issues.

Mungaya et.al., (2012), in his work on "Study of Tax System Impact on the Growth of Small and Medium Enterprises (SMEs): With Reference to Shinyanga Municipality, Tanzania" at Mzumbe University Dar Es Salaam, Tanzania also opined that changes in tax rates lead to the changes in prices of various goods and services. This normally results in higher production, distribution and selling costs which lead to higher prices which eventually leads to change in behavior of consumers.

Kamar (2015), in his work on "Effects of government taxation policy on sales revenue of SME in Uasin Gishu County, Kenya" at Kisii University Eldoret Campus (Kenyatta University)

Said that taxes have both positive and negative effect on SMEs therefore Governments should levy SMEs lower rate to ensure their survival.

PONORÎCĂ and Juhi AL-SAEDI H (2015) in their work on "the importance of taxation systems for SME tax compliance" said the tax system of SMEs should be simplified in a more comprehensive manner for their understanding.

Ocheni and Gemade (2015) in their work on "Effects of Multiple Taxation on the Performance of Small and Medium Scale Business Enterprises in Benue State" said that multiple taxations have negative affect on the survival and growth of SMEs in Benue State. Therefore, tax authorities in Africa should take a critical look at it.

3.0 RESEARCH METHODOLOGY

A survey method was used for the study since the views of corporate employers on effect of tax small and medium scale enterprises in the New Juabeng Municipality of Ghana.

3.1 POPULATION

The study was conducted among small and medium scale enterprises in the New Juaben Municipality in the eastern region of Ghana. The population of registered small and medium

scale enterprises in the municipality is broken down as following;

Table 1: Population of Employers in the Municipality

Source: NBSSI Koforidua, 2018.

Size of Firm	Population	Percentage
Small scale Enterprises	86	40
Medium Scale Enterprises	69	32
Large Scale Enterprises	60	28
Total	215	100

3. Sample size

The major participants in the informal sector that is to say the small-scale business was too wide so there was a need to choose a few manageable respondents to participate in the study. The size of the sample and the way in which it was selected would definitely have implications on the confidence one can have in the data and the extent to which the team can generalize. The study adopted the formula from (deVaus 2002), Surveys in Social Research with the following assumptions; 95% confidence level, 5% margin of error and estimated heterogeneity of the population to be 20%.

n= p%* q%* [z/e%]^2

Where n is the minimum sample size required

p% is the proportion belonging to the special category

q% is the proportion not belonging to the special category

z is the value belonging to the level of the confidence level required, and

e% is the margin of error.

n= 0.20*0.80*[1.96/0.05]^2

n= 245

Based on the sample size of 245 an adjusted sample size can be obtained as

N' = n/1 + n/N

Where; N' is the adjusted sample size, n is the minimum sample size and N is the total population.

N' =245/1+ [245/215] =114.8696

N= 114

The adjusted sample size was 114 which represented 53% of the total population of SMEs in New Juabeng Municipality.

Table 2: SMEs selected for the study.

Size of Firm	Population	Sampled
Small scale Enterprises	86	46
Medium Scale Enterprises	69	36
Large Scale Enterprises	60	32
Total	215	114

In order to gather information on the effect of taxation on SMEs growth and development, a questionnaire survey was conducted. The questionnaire instrument was developed using a 5- point likert after which it was administered to some lecturer at Koforidua technical University. After the pilot test some corrections were made and the final questionnaire came out. The test instruments were validated with a Alpha Crombach analysis of the instruments which gave 74.6% as shown in table 1 below.

Table 2. Reliability of data collection instrument.

Reliability Statistics

Cronbach's Alpha	N of Items
.746	12

The sample of 114 SMEs made up of forty six (46) Small Scale Enterprises, thirty six (36) medium Scale and thirty two (32) Large Scale Enterprises were selected from the New Juabeng Municipality of Ghana. Accordingly, respondents were provided with checklist on common variables that affect SMEs growth. The concentration was to give the respondents an opportunity to express opinion on the checklist if the chosen variables have effect on the stages of SMEs growth. A 5- point Likert scale questionnaire was designed

after which it was administered to the selected respondents using the convenient sampling method. The Kaiser-Meyer-Oklin measure of sampling adequacy was 60.20% as shown in table 3 below.

Table 3: Showing Kaiser-Meyer-Oklin measure of sampling adequacy.

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.602
Bartlett's Test of Sphericity	Approx. Chi-Square	2.258E3
	df	66
	Sig.	.000

Discussions

Table 4: Showing descriptive statistics of data collected.

Descriptive Statistics

	N	SD	D	N	A	SA	Mean	Std. Deviati
Taxlawshouldbesimplifiedenough	114	6(5.3)	4(3.5)	11(9.6)	38(33.3)	55(48.2)	4.1579	1.085
Taxburdenshouldbe ligghtertoSMEs	114	5(4.4)	7(6.1)	16(14.0)	41(36.0)	45(39.5)	4.0000	1.088
Taxrateshouldberationalandappropriate	114	6(5.3)	2(1.8)	11(9.6)	38(33.3)	57(50.0)	4.2105	1.051
TaxpolicyshouldfavourSMEsgrowth	114	5(4.4)	8(7.0)	8(7.0)	50(43.9)	43(37.7)	4.0351	1.063
Taxincentivesandrebateshouldbegiventos SMEs	114	4(3.5)	4(3.5)	2(1.8)	47(41.2)	57(50.0)	4.3070	.941
Taxpoliciesshouldencouragehumancapitaltraining	114	1(0.9)	8(7.0)	7(6.1)	36(31.6)	62(54.4)	4.3158	.934
TaxputpressureonSMEs	114	7(6.1)	5(4.4)	7(6.1)	48(42.1).	47(41.2)	4.0789	1.098
DoubleTaxationandtoherfactorsarelimitingthegrowthofSMEs	114	1(0.9)	2(1.8)	13(11.4)	40(35.1)	58(50.9)	4.3333	.816

TaxesinthesystemdoesnotfavourSMEsgrowth	114	11(9.6)	1(0.9)	16(14.0)	41(36.0)	45(39.5)	3.9474	1.203
Existingtaxlawsarenotclearandburdentothetaxpayer	114	6(5.3)	2(1.8)	11(9.6)	44(38.6)	51(44.7)	4.1579	1.035
TaxincreasesGovernmentRevenue	114	5(4.4)	8(7.0)	3(2.6)	55(48.2)	43(37.7)	4.0789	1.040
Poorlyexecutedtaxisadisincentivetothetaxpayer	114	4(3.5)	4(3.5)	10(8.8)	39(34.2)	57(50.0)	4.2368	.998
Valid N (listwise)	114							

From the table 4 above, more than 80% of the respondents agree that all the variables chosen have significant impact on Small and Medium Scale Enterprises. 81.5% of the respondents agree that tax laws should be simplified enough for SMEs for understand with 18.5% of the respondents differing to the view whilst 75.5% of the respondents also agree that tax burden should be lighter to SMEs with 24.5% of the respondents are of other opinion. Again, 83.3% of the respondents also agree that tax rate should be rational and appropriate to SMEs whilst 81.6% of the respondents also agree that tax policies should favour SMEs to grow with 18.4% of the respondents differing. 91.2% of the respondents also agree that tax incentives and rebate should be given to SMEs with 8.8% of the respondents differing. 86.0% of the respondents agree that tax policies should encourage human capital training whilst 14% of the respondents are of different opinion. Also 83.3% of the respondents agree that tax put pressure on SMEs with 16.7% having a different view on the statement. All the respondents agree that double taxation and other factors are militating against the growth of SMEs whilst 86.0% of the respondents are also of the view that existing taxes laws in the system do not favour the growth of SMEs with 14% holding a different view. Out of the total respondents, 75.5% of them agree that taxes increase Government revenue whilst 24.5% of the respondents differ. 84.2% 0f the respondents also agree that poorly executed tax are disincentives to the taxpayer.

This finding agree with the work done by Ojeka (2011) who said tax system should friendly to survive the growth of SMEs. The findings also buttress that of Mungaya et al (2012), that higher production, distribution and selling costs lead to higher prices which eventually put SMEs out of business.

Kamar (2015) whose findings indicated that taxes have both positive and negative effect on SMEs therefore Governments should levy SMEs lower rate to ensure their survival.

Table 5: Showing the summary of model.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.329[a]	.108	.067	23.75322

a. Predictors: (Constant), Resource Maturity, Take-off, Success, Survival, Existence

From table 5 above, there is a low correlation coefficient of 32.9% between resource maturity, take-off, success, survival and existence on taxation. Although the correlation is low, taxation has an effect on SMEs development at all stages and it can cause the winding-up. With an R^2 of 10.8% means other factors not considered in the model constitute 89.2% on taxation.

Table 6: Showing the correlation between the various variables.

Correlation

		1	2	3	4	5	6	7	8	9	10	11	1
1	Pearson correlation	1											
	Sig. (2-tail)												
	N	114											
2	Pearson correlation	.389	1										

	Sig. (2-tail)	.000							
	N	114	114						
3	Pearson correlation	192	.456	1					
	Sig. (2-tail)	.000	.000						
	N	114	114	114					
4	Pearson correlation	.013	.084	.426	1				
	Sig. (2-tail)	.895	.375	.000					
	N	114	114	114	114				
5	Pearson correlation	.411	.509	.166	.104	1			
	Sig. (2-tail)	.000	.000	.077	.271				
	N	114	114	114	114	114			
6	Pearson correlation	.242	.687	.661	.412	.442	1		
	Sig. (2-tail)	.008	.000	.000	.000	.000			
	N	114	114	114	114	114	114		
7	Pearson correlation	.114	.318	.405	.816	.019	.516	1	
	Sig. (2-tail)	.225	.001	.000	.000	.840	.000		
	N	114	114	114	114	114	114	114	
8	Pearson correlation	.739	.199	.093	.024	.338	.046	.030	1

	Sig. (2-tail)	.000	.034	.326	.802	.000	.624	.755				
	N	114	114	114	114	114	114	114	114			
9	Pearson correlation	.453	.986	.407	.068	.576	.692	.325	.216	1		
	Sig. (2-tail)	.000	.000	.000	.474	.000	.000	.000	.021			
	N	114	114	114	114	114	114	114	114	114		
10	Pearson correlation	.211	.463	.977	.294	.186	.634	.307	.105	.411	1	
	Sig. (2-tail)	.024	.000	.000	.001	.048	.000	.001	.268	.000		
	N	114	114	114	114	114	114	114	114	114	114	
11	Pearson correlation	.005	.047	.404	.981	.092	.390	.792	.010	.032	.266	1
	Sig. (2-tail)	.962	.620	.000	.000	.328	.000	.000	912	735	004	
	N	114	114	114	114	114	114	114	114	114	114	114
12	Pearson correlation	.357	.480	.104	.275	.967	.365	.177	.293	.541	.169	.272
	Sig. (2-tail)	.000	.000	.272	.003	.000	.000	.060	.002	.000	.072	.003
	N	114	114	114	114	114	114	114	114	114	114	114

From the table 6 above, the correlation between the first variable and the second variable was 0.389 and this was significant. Also the correlation between the third and first was 0.192 this was also significant whilst the correlation between the third and second variable was also 0.456 this was also significant at 0.000 and so on as seen from the table above.

Table 7: Showing the Anova distribution of the stages of SMEs growth.

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7388.714	5	1477.743	2.619	.028[a]
	Residual	60935.251	108	564.215		
	Total	68323.965	113			

a. Predictors: (Constant), Resource Maturity, Takeoff, Success, Survival, Existence

b. Dependent Variable: Taxation

From table 7 above, with a significance value of 0.028 means that taxation has a significance effect on SMEs stage of growth.

Table 8: Showing null hypothesis statement.

Hypothesis	Variables	Significance
H_o	There is significant relationship between tax and the SME's stages of growth.	Significant

From table 8 above, with a significance value of 0.028 means that resource maturity, take-off, success, survival and existence stage of SMEs development taxation has a significance effect on them.

Table 9: Coefficient figures showing various stages of SMEs growth.

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	67.692	7.110		9.521	.000
	Existence	.639	1.072	.149	.596	.552
	Survival	2.849	1.207	.547	2.360	.020
	Success	3.082	1.034	.697	2.980	.004
	Takeoff	-3.160	1.166	-.608	-2.711	.008
	Resource Maturity	-3.708	1.349	-.818	-2.748	.007

a. Dependent Variable: Taxation

From table 9, Taxation = 6,769.2 + $63.9X_1$ + $284.9X_2$ +$308.2X_3$ – $316.0X_4$ – $370.8X_5$, means that taxation has 63.9% on existence, 284.9% on survival, 308.2% on success whiles take off and maturity would be depreciated by 316.0% and 370.8% respectively. This finding is also in line with the findings of Kamar (2015) who Said that taxes have both positive and negative effect on SMEs therefore Governments should levy SMEs lower rate to ensure their survival.

5.0 Conclusion

It is evidently clear that no nation can develop without Small and Medium Scale Enterprises because they are the main players of the private sector which serves as the engine for growth. It can be concluded that without friendly tax system SMEs cannot grow. Notwithstanding, taxes for SMEs should be lighter and should not be harmful because it their increase running costs and slow down growth. All the SMEs studied are saddled with the challenged tax rate that does not promote their growth. In other for these SMEs to grow, tax policy should not be a burden to them.

5.1 Recommendations

On the basis of the findings done, the researcher wish to make the following recommendations:

(i) Tax rate and tax laws for SMEs should be made clear to ensure easy compliance. This includes making the laws clear and simple. SMEs should not be made to go through rigorous and undemanding tax filing process. Tax authorities should incorporate information technology into their operations by entrepreneurs to pay their taxes through mobile money and with the clique of the button.

(ii) Tax administrators can create a database of all the SMEs in the country and a simple text message sent to them when it is time for them to honour their tax obligations. Tax authorities must avoid multiple taxes system on these SMEs for their survival and growth.

(iii) Moreover, tax authorities can improve their support services to SMEs such as making available to them exemptions when they honour their tax obligations.

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Small medium enterprise's Ghana Award, SMEGA '14.

Effect Of Corporate Strategies On The Performance Of Manufacturing Firms In Nairobi City County, Kenya

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ABSTRACT
Performance is an important factor in firm strategic analysis since it helps in measurement of the competitive position of an organization within industry. Most theoretical literature in strategic management describes performance as outcome of firm's strategic objectives, which are developed and executed at the

corporate level of management. The acquisition and utilization of strategic resources has been shown in various empirical studies as determinants to maximise performance. However, extant literature on the role of corporate strategies as driver in the utilization of these firm strategic resources towards superior performance has not been adequately examined. This is so especially in the developing economies, notably sub-Saharan Africa. This paper examines the effect of corporate strategies on performance of manufacturing firms in Nairobi City County, Kenya. The corporate strategies under study were market development, product development and diversification. The authors empirically examine the relationship using survey data from 148 manufacturing firms in Nairobi City County, Kenya. The study findings indicate that corporate strategies have a positive and significant impact on a firm's performance. This study has important implications for managers and policy makers of manufacturing firms on the need of developing and executing corporate strategies within their firms to enhance performance.

Keywords: ***Corporate strategies, firm performance, manufacturing firms, Nairobi City County***

INTRODUCTION

Manufacturing firms in Africa and especially the Su-Saharan Africa have been noted to be declining in performance. The World Bank report (2015) explained that in Africa, the manufacturing firms perform below capacity. It was also indicated in the African Development Bank report (AFDB, 2013) that the manufacturing firms in Africa account for small share of GDP which range from 3.8% to 11% compared to industrialized countries which range from 30% to 40%.In Kenya, the AFDB report (2013) indicated that the manufacturing firms have been declining in performance as a source of overall GDP growth. In similar view, the Kenya Strategic Policies for the 21stCentury report (2001) explained that the performance of manufacturing started to slowdown in the middle of 1980s.

According to Porter (2008); Kutllovci, Shala and Troni (2012) corporate strategies include the firm intention to maintain its current position; achieve high growth as compared to current achievements or aim at reducing its one or more business operations. Extant theoretical arguments in strategic management posit that firm resources and capabilities are important in determining the nature of strategies to use. Wheelen and Hunger (2008) contend that among the corporate strategies, market development, product development and diversification might be more applicable in an operating environment dominated by scarcity of resources as well as uncertainty of market and consumer behaviour. The context of this study is sub-Saharan Africa that is known to experience challenges in resource availability, distribution and prudent exploitation. The Government of Kenya National Industrialization Policy (2012) explained scarcity of resources and unstable market as key determinants of performance in manufacturing and identified market development, product development and diversification as the core strategies for growing manufacturing in Kenya.

In Kenya, the manufacturing firms are categorized into sub-sectors which are defined by the Kenya Association of Manufacturers based on what they produce. Eighty percent of the country's manufacturing firms tend to be concentrated in the capital city, Nairobi which is well networked with supportive infrastructure. The World Bank report (2015) explained that Kenya's manufacturing firms have the potential to generate higher GDP growth capable of supporting development initiatives. However, Kimuyu (2001) indicated that the firms output was successful in the first two decades following independence, but the performance declined gradually. The Kenya National Bureau of Statistics (KNBS) report (2016) showed that several manufacturing firms have continued to register decline in performance. Further, the KNBS report (2016) explained that manufacturing firms' performance have been at a slower pace with a

five years (2012-2016) aggregate growth rate of 3.84%, aggregate output 5.48% and aggregate contribution to GDP growth of 5.2%.

In the 2018-2022 economic development pillars, the government of Kenya has identified manufacturing, affordable housing, food security and universal health coverage as the four pillars to support socio-economic development. To this end, manufacturing firms are important to Kenya since they projected to contribute to the country's GDP through value addition to raw materials, foreign exchange earnings and offering employment. Therefore, the government of Kenya is expanding infrastructure and agricultural production, to support the manufacturing firms. There are other interventions of policy such as the Vision 2030 blueprint that has been developed to transform the country into an industrialized economy by the year 2030. Despite various government interventions, the trend of underperformance by manufacturing firms raise the concern of possible gaps in the strategies that are used by these manufacturing firms. This trend of underperformance suggests that other than infrastructure support and enhanced agricultural production, firms might require corporate strategies to predict and explain the established behaviour within their environments to remain competitive and enhance performance.

LITERATURE REVIEW

Theoretically, various authors advance different propositions of firm performance based on the theory adopted in describing performance. The Resource Based View (RBV) theory was adopted in this study to describe performance of manufacturing firms. The RBV of the firm suggests that the firm resources and core competencies fundamentally determine its strategies (Pearce & Robinson, 2007). According to Peteraf and Bergen (2003); Hodgson (2008) for a firm to arrive at a better determined corporate strategy, it is important to conceive its resources as capacities towards superior performance. On his part, Leiblein (2003) argued that the RBV contemplates how firm resources are allocated and deployed in corporate strategy. Therefore, firm corporate strategies can be established by focusing on integration of firm strategic resources and capabilities (Furrer, Thomas & Goussevskaia (2008).

In reviewing RBV and firm performance, Eisenhardt and Martin's (2000) argue that the purpose of corporate strategy is to manipulate strategic resources and core competencies into new configurations to acquire and sustain superior firm performance among industry competitors. Thus, as far as RBV is concerned, firms have to determine the correct corporate strategies based on strategic resources and core competencies, with the assumption that the future value of firm resource is asymmetrically distributed (Newbert, 2007; Lockett, Thompson & Morgenstern, 2009). In most strategic management studies, the concept of firm performance has been addressed based on the outcome of relationship between three broad factors such as firm strategies (Mazdeh, Moradi & Mazdeh, 2011); competitive advantage (Hosseini & Sheikh, 2012); and business environment (Tan & Liu, 2014).According to Pasanen (2003) performance is often described as outcome of firm's corporate strategies that are associated with long term financial and non-financial objectives. In measuring the firm financial performance, Yurdakul (2005); Samson and Ford (2000) explained that net profit and return on assets (ROA) are important indicators that might be considered. On the other hand, Hawawini, Subramanian and Verdin (2003) indicated that non-financial indicators of sales growth and customer retention might also be used in firm performance measurement.

In explaining the effect of corporate strategies on performance, several empirical studies have been conducted and findings documented. Kittichai and Phapruke (2010) showed that market development strategy impacted positively on performance of garment manufacturing industry in Thailand. Faria and Wellington (2005) found that market development strategy determined performance of firms in USA gaming industry. Yuan, Feng and Liu (2006) showed that market development strategy significantly affected performance of manufacturing firms in China. Isidre, Gunasekaranb and Begoña (2002) found that product development strategy significantly affected performance of manufacturing firms in Spain. Amue and Adiele (2012) showed that product development strategy significantly affected performance of electronic manufacturing firms in Nigeria. Kavale, Mugambi and Namusonge (2016) found that product development strategy significantly affected performance of Microfinance Institutions (MFIs) in Kenya.

A study by Iwona and Bielawska (2010) showed that diversification strategy had positive effect on manufacturing firms in Poland. Chia, Wen and Heng, (2008) found positive relationship between diversification strategy and performance of Taiwan manufacturing firms. Lee, Hall and Rutherford (2003) showed positive effect of diversification strategy on Korea manufacturing firms. Manufacturing firms listed in the Tunisian stock exchange were found to be positively affected by diversification strategy in a study by Ezzi and Jarboui (2015).

CONCEPTUAL FRAMEWORK FOR THE STUDY

The conceptual framework for measuring the effect of corporate strategies on performance is developed from the study theoretical and empirical reviews. The framework links the study independent variable which is corporate strategies indicated by market development, product development and diversification and the dependent variable which is firm performance indicated by non-financial parameters of customer retention and sales growth; and financial parameters of net profit and return on assets. This conceptualizes a direct relationship between corporate strategies and performance of manufacturing firms, as illustrated in Figure 1.

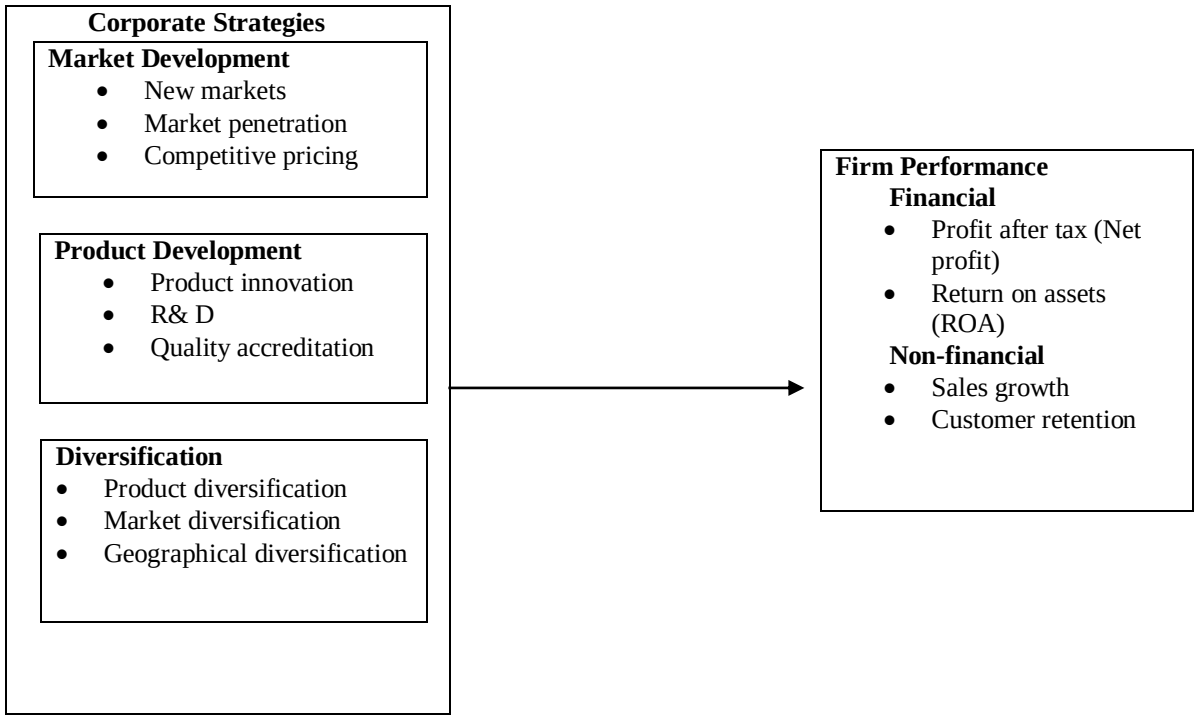

Figure 1: A Model linking Corporate Strategies and Performance of Manufacturing Firms

Whereas the corporate strategies of a firm are varied, there is a consensus among scholars of strategic management that corporate strategies are important determinants of firm performance. The corporate strategies intention is to direct the firm business towards the attainment of its long-term objectives, maintain its current position or achieve high performance as compared to current achievements (Porter, 2008; Kutllovci, Shala & Troni, 2012; Pearce & Robinson, 2013). Consequently, firms are expected to determine specific corporate strategies that are fit for purpose of enhancing superior performance. In addition, firm corporate strategies fail because they do not adequately analyse firm's strategic resources and capabilities before determining the right strategies in specific market conditions in which the firm operates. Therefore, this study proposes the following hypothesis:

H_{01} : Corporate strategies have no significant effect on performance of manufacturing firms in Nairobi City County, Kenya.

METHODOLOGY

The study adopted both descriptive and explanatory survey design as recommended by Sekaran and Bougie (2009). According to Njuguna, Munywoki and Kibera (2014) the descriptive and explanatory survey designs enable studies to test hypotheses quantitatively. Additionally, Saunders, Lewis and Thornhill (2009) explain the use of more than one design helps in the triangulation of research findings raising the validity of the findings towards optimal results. By using descriptive design, the researcher captured the characteristics of a population and tested hypotheses (Cooper & Schindler, 2003). According to Burns and Grove (2007) descriptive design is expected to help the researcher in gathering information regarding

variables in their natural situation. This design enabled the researcher to capture the study population's characteristics in their natural situation.

Kothari (2003) suggested that when a researcher intend to explain relationships between variables, then an explanatory study is more appropriate to use. According to Mugenda and Mugenda (2003) when there is an existing hypothesis on why certain situation is occurring, explanatory study is then conducted to test the hypothesis. This design helped the researcher to test study hypotheses. Zikmund (2003) explained that survey approach in research provides quick and accurate method of accessing study data, helping the researcher to establish whether there is significant relationship between variables within target population at specific point in time.

From the conceptual framework, firm performance is a function of composite variable corporate strategies whose components are market development, product development and diversification. Hence;

$$Y = \beta_0+\beta_1X_1+ \beta_2X_2+ \beta_3X_3+ \varepsilon$$

Where;
β_0= Constant (intercept)
β_1, β_2 and β_3= Beta coefficients of independent variable
X_1 = Market development strategy
X_2 =Product development strategy
X_3= Diversification strategy
ε = Error term

The population of this study was 373 manufacturing firms based in Nairobi City County, Kenya categorised as large by the Kenya Association of Manufacturers. The study determined the sample size by use of multi-stage sampling method as recommended by Shapiro, Carlson, Astin, and Freedman (2006).The steps of determining sample size was proportionate stratified sampling defined by sub- sector, and then a simple random sampling to select specific firms to participate in the study. A sample size of 189 firms was used in the current study which was arrived at using the formula suggested by Fisher, Laing and Stoeckel (1985) as follows:

$$n = \frac{Z^2\alpha/2\ pq}{d2} \qquad n = \frac{(1.96)2\ (0.50)\ (0.50)}{(0.05)2} = \mathbf{384}$$

$$n_f = \frac{N}{1+n/N} \qquad n_f = \frac{384}{1+(384/373)} = \mathbf{189}$$

Where:

n_f = is the desired sample size (when the population is less than 10,000).

N= the Population (in this case 373 firms).

n = the desired sample size (if the target population is greater than 10,000)

z = the degree of confidence (in this case 95% confidence interval, ά=1.96)

p = the proportion in the target population estimated to have characteristics being measured. 50% chosen as recommended by Fisher *et al*., (1985)

d = the level of statistical significance (set at 5%).

The study then stratified the sample size of 189 among different manufacturing sectors using proportionate sampling based on the population of each sector. The study obtained primary data from the chief executive officer/managing director or director of each selected firm by the use of a semi-structured questionnaire.

RESULTS AND DISCUSSION

The validity and reliability of the study measurements were assessed before survey data was analysed. The instrument was subjected to a panel of experts to determine the content validity. Confirmatory factor analysis (CFA) was used to investigate construct validity of the instrument as recommended by Patton (2002). The research instrument had adequate construct validity since all the items had Eigen values greater than 1.0 and loadings greater than 0.4 as recommended by Rahim and Magner (2005). A pilot study using 20 respondents who were part of the study population was done to test for reliability of research instrument. Cronbach's Alpha for all the variables were found to be above 0.7 threshhold, as recommended by Sekaran and Bougie (2009). The study targeted 189 large manufacturing firms where 41 were not responded to, while148 were properly filled and returned thus translating to a response rate of 78.30%.

Descriptive Analysis

Table 1: Firm Background Characteristics

Category	Sub-Category	Frequency	Percentage
Age of the firm(Years)	21-30	20	13.5
	41 to 50	86	57.8
	Above 50	22	28.7
	Total	**148**	**100**
Size of the firm (Assets Value)	Above Kshs. 100 Million	148	100
	Total	**148**	**100**

Source: Survey data (2018)

Based on research findings presented in Table 1, eighty six firms (57.8%) had been in existence for a period between 41 and 50 years, more than 50 years were twenty two (28.7%), twenty firms (13.5%) were found to have existed for a period between 21-30 years. The respondents indicated that all the manufacturing firms were large under classification by Kenya Association of Manufacturers (KAM). This finding was not unusual since according to KAM, large firms have been in existence for long period to achieve annual turnover of $100M, thus; more likely to sustain operations by dominating production and market shares, at the same time attracting investors for capital injection based on the perception that large firms are more profitable.

Table 2: Corporate Strategies

Variable	Mean	Standard Deviation
Market Development Strategy	3.67	1.04
Product Development Strategy	3.66	1.07
Diversification Strategy	3.59	1.08
Aggregate	**3.64**	**1.06**

Source: Survey data (2018)

The findings in Table 2 show that market development strategy was the most practised by the manufacturing firms with a mean of 3.67 and standard deviation of 1.04, followed by product development strategy with a mean of 3.66 and standard deviation of 1.07, and least used was diversification strategy at a mean of 3.59 and standard deviation of 1.08.

Diagnostic Tests

Several diagnostic tests were done before hypothesis testing. The Keiser-Meyer-Olkin (KMO) was used to measure sampling adequacy, which obtained values greater than 0.5 as recommended by Malhotra and Dash (2011). Confirmatory factor analysis which used communalities and Eigen values was used to test for variable correlations, obtaining values that exceeded 0.4 meaning that no variables were highly correlated as recommended by Rahim and Magna (2005). The study found that all variables met normality threshold of values between -0.1 and + 0.1 using Shapiro–Wilk test as recommended by Myoung (2008). The Pearson's correlation coefficients for all the independent variables were positive indicating positive linear relationship between individual independent variables and the dependent variable as recommended by Field (2009). There was no multicollinearity since tolerance values for all variables were above 0.10 and VIF values of below 10 as recommended by Field (2009). The test of homogeneity by use of Levene's test of homogeneity revealed the p-values for the three predictor variables were greater than the level of significance at .05 implying no homoscedasticity as recommended by Warner (2008).

Hypothesis Testing

The hypothesis that was tested stated that corporate strategies have no significant effect on performance of manufacturing firms in Nairobi City County, Kenya. The hypothesis was tested using regression model. Corporate strategies (predictor variable) were regressed against firm performance (dependent variable). To evaluate the effect of corporate strategies on performance, a model summary of the coefficient of determination was developed, and presented in Table 3.

Table 3 Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate
.697	0.486	0.475	0.26397
Predictors: (Constant), Diversification Strategy, Product Development Strategy, Market Development Strategy			

Source: Survey data (2018)

Findings in Table 3 shows an adjusted R-square value of 0.475, which means that 47.5% of variation in firm performance can be explained by the three predictors that formed independent variable. The predictors were market development strategy, product development strategy and diversification strategy. The findings are consistent with the argument by Porter (2008) as well as the findings of a study by Kutllovci, Shala and Troni (2012) which indicated that corporate strategies positively influences firm performance. The findings for the ANOVA (Model fitness) are presented in Table 4.

Table 4 ANOVA Results

	Sum of Squares	**df**	**Mean Square**	**F**	**Sig.**
Regression	9.492	3	3.164	45.406	.000
Residual	10.034	144	0.07		
Total	19.526	147			
Dependent Variable: Performance					
Predictors: (Constant), Diversification Strategy, Product Development Strategy, Market Development Strategy					

Source: Survey data (2018)

The results in Table 4 on the amalgamated analysis of variance reveal an F statistic value of 45.406 which is significant at 5% level of significance (Sig = 0.000). The findings imply that the model linking corporate strategies to performance of manufacturing firms was of good fit and corporate strategies contribute significantly to changes in performance of manufacturing firms. These findings are consistent with the findings of a study by Monday, Akinola, Ologbenla and Aladeraji (2015) which showed that market development; product development and diversification strategies had significant effects on performance of Nigerian manufacturing firms. The findings for model coefficients are illustrated in Table 5.

Table 5 Regression Model Coefficients

	Unstandardized Coefficients		**Standardized Coefficients**		
	B	**Std. Error**	**Beta**	**T**	**Sig**
(Constant)	0.331	0.275		1.204	0.231
Market Development Strategy	0.345	0.057	0.403	6.08	0.000
Product Development Strategy	0.346	0.063	0.348	5.467	0.000
Market Diversification Strategy	0.172	0.063	0.188	2.723	0.007
Dependent Variable: Performance					

Source: Survey data (2018)

Performance of Manufacturing Firms = 0.331 + 0.345 (Market Development Strategy) + 0.346 (Product Development Strategy) + 0.172 (Market Diversification Strategy)

Table 5 indicate the regression model coefficients of each indicator of corporate strategies that was included in the study; that is market development strategy, product development strategy and diversification strategy. The findings show that market development strategy has a beta coefficient of 0.345 and a p-value of 0.000, which implies that it positively and significantly affects performance of the manufacturing firms. The findings imply that an increase in market development strategy by one unit leads to an increase in performance of manufacturing firms by 0.345 units. The results further imply that by focusing on market development strategy, manufacturing firms can achieve high performance. Based on these results, it can be concluded that manufacturing firms may determine their market depending on the particular segment's profitability and brand royalty among other factors. The findings are consistent with the findings of a study by Kittichai and Phapruke (2010) conducted on the relationship between market development and performance among garment industry in Thailand and established that market development impacted positively on firm performance in the garment industry in Thailand.

The findings further indicate that product development strategy has a beta coefficient of 0.346 and a p-value of 0.000 which implies that it positively and significantly affects performance of manufacturing

firms. These findings imply that an increase in product development strategy by one unit leads to an increase in performance of manufacturing firms by 0.346 units. The results further imply that product development strategy contribute to firm performance. This would benefit the firms in developing broad range of products to offer market choices to address customer preferences, and manufacturing unique products to cope with industry competition. The findings agree with the findings by Isidre, Gunasekaranb and Begoña (2002) on product development and firm performance in manufacturing companies located in Spain that established a positive relationship between product development and firm performance.

On evaluation of diversification strategy, the findings revealed a beta coefficient of 0.172 and a p-value of 0.007 which implies that it positively and significantly affects performance of manufacturing firms. The findings imply that an increase in market diversification strategy by one unit leads to an increase in performance of manufacturing firms by 0.172 units. Based on these results, it can be argued that manufacturing firm focus on diversification would lead to benefits such as exploitation of emerging market opportunities and acquiring new customers from competitors through market control. The findings are consistent with the findings of a study by Ezzi and Jarboui (2015) that diversification affect performance of manufacturing firms in Tunisia.

CONCLUSION AND POLICY IMPLICATION

The study established that the three indicators of corporate strategies were significantly correlated with performance of the manufacturing firms and had high explanatory power. Overall, corporate strategies were found to positively and significantly affect firm performance.Majority of the firms were found to have been in existence for more than 40 years. Based on this it can be concluded that patience and consistence in manufacturing sector is a key attribute, thus the young entrepreneurs venturing into manufacturing sector should learn to be patient with their businesses to give them time for growth and build capacity to cope with the changing environmental variables.

Based on findings of this study, it is reasonable to conclude that corporate strategies influence performance of manufacturing firms. The positive impact of market development, product development and diversification indicators significantly impact on the measures of firm performance, namely customer retention, volume of sales, net profit and return on assets. These findings lead to a conclusion that manufacturing firms' participation in corporate strategies development and execution enables them to achieve firm objectives resulting to superior performance.

The study contributes to empirical literature on effect of corporate strategies on firm performance. Specifically, the study found out that corporate strategies significantly affect performance of manufacturing firms in Nairobi City County, Kenya. Therefore, the study findings contributes to the knowledge of strategic management by providing empirical evidence on effect of corporate strategies on performance of manufacturing firms in the context of developing and less industrialized economies.

The study contributes to the theoretical literature by supporting the proposition of the Resource Based View of the Firm that the resource value and core competencies of the firm can be used to determine the corporate grand strategy that enhances performance of the firm. The study empirically established that just like the proposition of the theory, superior firm performance results from uniqueness of the firm competencies in the industry. Therefore, the study findings provide empirical literature to scholars that will form basis for the analyses of corporate strategies in the context of RBV.

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Micro Savings For Entrepreneurial Financing

(An Empirical Review of Impediments Experienced By Women Entrepreneurs in Kenya).

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Abstract

This study examined factors that affect savings mobilization for growth of women – owned MSEs. It was based on the socio - economic cognitive entrepreneurial predisposition, aimed at discerning the complexities between the women entrepreneurship potentials and environmental constraints to savings for growth of the MSEs. Savings mobilization is an apparent phenomenon in this study having been a proven alternative to MSEs financing methodology today. Many women – owned MSEs have received financial and other assistance from various donors to start their business, but their inability to reduce reliance on external sources to grow had remained unexplained. The study hypothesized that the main constraints to savings mobilization for growth of women owned MSEs arose from internal and external factors to the firm, the utilization of derived profits, and the characteristics of the woman entrepreneurs. The target population consisted of women entrepreneurs who had received assistance from the WEDCO project (3030), in Kisumu and Kakamega districts in Kenya region. The sample size was determined through a multistage sampling process which culminated into 300. Questionnaires, interviews and observations were used to collect primary data. Data analysis was done by use of Pearson coefficient of correlation, chi-square tests of independence, analysis of variance. The major findings of the study were that the number of dependants; education level; cultural and religious attachments; endowed management skills; age and marital status had a significant relationship with the savings propensity amongst the women entrepreneurs. It was also revealed that environmental factors such as level of market competition; number and quality of employees, pricing of supplies; proximity to banking facilities; accessibility to information; economic inflation and physical infrastructures bore significant weight on the women's ability to save for the growth of their enterprises. The legal and regulatory framework significantly impeded savings ability for growth of women entrepreneurial ventures. It was concluded that the aforementioned factors should be addressed. Business development services should be enhanced and the women entrepreneurial competencies be improved to inculcate a culture of business savings for financing the operations and growth of women enterprises.

Key words: ***Micro savings, entrepreneurial ventures, entrepreneurship competencies, Women - Entrepreneurial -behavior, Savings mobilization, women entrepreneurs.***

1.1 Background to the Study

Women have been initiating and starting their own businesses in unprecedented numbers in recent years. Some of them are leaving large corporations to "go it alone", for a number of career reasons: frustration at hitting the "glass ceiling", dissatisfaction with slow career advancements and unmet career expectations; corporate downsizing or to fulfill personal dreams of entrepreneurship of being autonomous and achieving success in business (Buttner and Holly 1998). Studies on SME development in Africa have cited the gender of an entrepreneur as an important factor in determining the enterprise's take-off, growth and performance (Downing 1990; Parker, 1994, Aboagye, 1986). At the same time, women entrepreneurs have been identified as a significant and growing part of Kenyan business community (Dondo, 1998). Recent data on sole proprietorships and family holdings in Kenya provide evidence of the recent trends in women's share of the SME segment of Kenya's business sector (Analytical Report on gender dimensions Vol. XI; Kenya Population and Housing census 1999). The report shows that women dominate the Kenyan population working on their own or family business holdings, where they form about 58% while less than 50% of the Kenyan male population work on family business holdings (GOK, 1989 & GOK, 1999). The trend show that women entrepreneurship have grown substantially, however this growth is not engineered by mobilized savings, but rather from credit financing (Dondo, 1998).

In Kenya however, women entrepreneurs face unique socio-economic obstacles in running their businesses to an extent that their enterprises are likely to perform poorer compared to those run by their male counterparts (Musinga, 1994). Granted this, women-run enterprises would tend to create fewer jobs and experience higher failure rate or retardation than men-run-ones due to management constraints. However, women owned enterprises employ more women than men, a trend positive to the Kenya's gender demographic statistics at present. This implies that women-owned enterprises posit greater opportunity to salvage the unemployment situation in Kenya towards poverty eradication, especially because women numbers and responsibilities are currently major subjects for attention if faster economic development is to be realized. As such, it is expected that women-owned enterprises should increase women employment more than men-owned enterprises (Musinga, 1994), hence the potential to create viable occupation for the ever increasing women population in Kenya (GOK, 999. Studies in entrepreneurship development have shown that a key way in reducing household poverty levels is to increase access of women to income-earning activities (employment) that is, to economically empower women (Musinga, 1994). This could be achieved through prudent savings mobilization for growth of women-owned enterprises, which would cause financial sustainability and business financial independence.

The government recognition of the role and importance of the MSEs in policy documents has gone through a number of stages as outlined in studies by King (1996), Gichira (1998) and McCormick (1988). The support of the Government of Kenya for this sector is evident in development plans and sessional papers, particularly Sessional Paper No. 1 (GoK 1986), Sessional paper No. 2 (GoK 1992) and Sessional paper no. 2 (GoK 1996a).

These documents acknowledge the increasing importance of the informal sector in economic development with respect to employment creation, particularly in the face of economic crisis and structural adjustment policies. They also show the government support to providing enabling policy environment by redressing licensing, tax, security of works and other regulatory restrictions on informal sector activities; stressed the role of private sector enterprises and initiatives, with the government playing mainly a facilitative role. The government also outlined the need for adequate access to credit, provision of management and technical training and other non-financial support programmes in business counseling, consulting, marketing and extension services. The cumulative effects of these strategies are to create an entrepreneurial culture in Kenya. Comparing MSEs in Kenya with those in other African countries, it was established that the MSE sector in Kenya has more signs of dynamism and maturity than in most other African countries (GEMINI 1993). The adoption of financial liberalization policy alone has not been sufficient to generate a strong response in terms of increased savings mobilization and intermediation through the financial system; neither has it created wider access to financial services or increased investment by the private sector. Fragmentation of the financial markets has largely impeded efficient resource mobilization and restricted financial intermediation (Dondo, 1999).

Women Economic Development Corporation (WEDCO) is one of the various intermediary financial institutions in Kenya that receives support from the Department for International Development (DFID) to support small business start-up, in an attempt to alleviate poverty in Kenya. Intervention strategy of DFID for the MSE sector is being implemented by the British Assistance to Small Enterprise programme (BASE). The goal of BASE is to reduce the incidence of poverty in Kenya by assisting to generate additional off-farm employment, especially among poor people, and enhance incomes through increased productive capacity. (International Centre for Economic Growth 2000).

1.2 Problem Statement

Sessional Paper No. 1 of 2005, on the Development of MSEs for Wealth and Employment Creation for Poverty Reduction (GoK 2005), states that lack of access to credit is still a major constraint inhibiting the growth of the MSE sector. The issues and problems limiting the MSE acquisition of financial services relate to lack of tangible security and limited access to formal finance. The structured mechanisms that

facilitate the flow of financial resources from the formal financial sector through the Micro Finance Institutions (MFIs) increases the cost of credit both to the entrepreneur and the financial institution. Mead (1989) argues that, savings mobilization is the second best alternative to credit financing because it is from savings that most investments in entrepreneurial ventures spring up. This indicates that prudent savings mobilization would offer long-term benefits to the entrepreneur and enhance enterprise development, yet savings mobilization does not thrive optimally in substance for entrepreneurship development.

According to Inziani, 2006, the question of who will successfully and adequately finance women MSEs has remained unanswered for too long, he postulates that a larger MSE financing gap has been created that has affected their operations, performance and realization of their full potential. Michael Klain, 2007, argues that SME banking is considered a high-margin business with strong potential for profitability, cross-selling and risk diversification opportunities for the banking sector at the expense of the entrepreneurs. The same study portents that equity finance is more ideal for young, high growth and potentially high risk enterprises, typical of those owned by women entrepreneurs. That equity capital can be raised from internally generated funds, saved for business growth prospects. The gouging enquiry is therefore "what constraints the women entrepreneurs from mobilizing savings to grow their MSEs?" Despite its importance, saving trends in Kenya have not been steady for the last two decades. Gross domestic savings (GDS) as a percentage of Gross Domestic Product (GDP) range between 3.6% and 24.9% with Growth Domestic Investment (GDI) being between 7.7% and 25.0%. In the last two decades, as shown in Appendix 5, GDS has been below GDI. This suggests in part that resources accumulated locally are inadequate for the country's investment needs. The external debt crisis of the 1990s coupled with the already widely acknowledged limitations of external donor financing (for example, tying of aids in various forms) emphasizes the need to increase domestic savings. Mayaka (2006) argues that women make good entrepreneurs because they are keen to plough back profits to boost their business, but most of them do not reach their business potential. Many women entrepreneurs, either individually or formed into business women groups receive financial and other assistance from various donors either as grants or loans to start or grow their enterprises, however, it has been observed that they continue to demand more assistance instead of mobilizing and re-investing the savings for their business growth and development (McCormic & Pedersen, 2001). It was against this background that this study sought to investigate constraints to savings mobilization for growth of women owned MSEs which had received assistance for start – up.

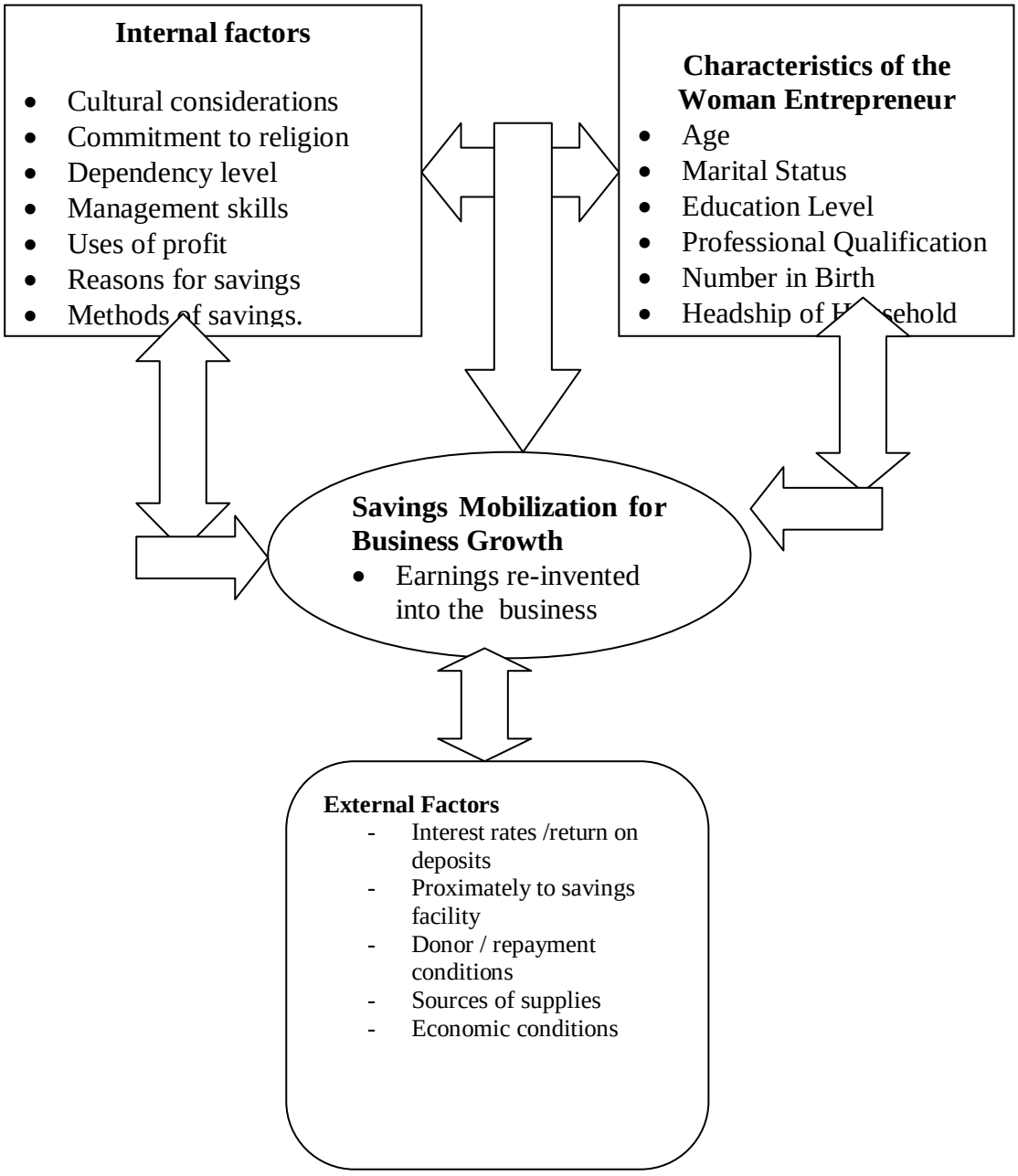
1.3 Objectives of the study

The general objective of this study was to examine the factors that affect savings mobilization for growth of women - owned enterprises, especially those that were assisted to start-up.

The study hypotheses were:

1. There is no significant relationship between Internal /external factors and savings mobilization for growth of women - owned MSEs.
2. There is no significant relationship between characteristics of women entrepreneurs and savings mobilization for growth of women - owned MSEs.

Figure 1: Conceptual Framework



1.4 Research Design

Descriptive survey of correlation design was employed in this study. The descriptive design was found to be suitable because it seeks to produce accurate profile of personal factors, events and situations, which were outlined in the conceptual framework of the study. The phenomenon is applicable to constraints to savings mobilization because the factors describe the women MSE operators' competencies and their business profiles. . Kilemi and Wamahiu (1995) postulate that descriptive survey produces data that is holistic, contextual, and rich in detail. However, in recognition of the fact that no single design exists in isolation, Saunders *et al.* (2003) postulate that combining different designs in one study enables triangulation and increases validity of the findings; for this reason, elements of exploratory design were applied. Correlational design was used to establish emerging causal relationship among the variables.

1.5 Target Population

The study population comprised 3,030 women in Kisumu and Kakamega districts in Western Kenya region who were operating MSEs after being assisted by WEDCO at start-up stage, operating either commercial/ trading business, service oriented business, light manufacturing or a combination of these categories.

Table 1 Target population / sampling frame

Sampling Frames	Target Population	Total Sample size	Sample Size	
			Kisumu	Kakamega
Commercial women MSEs	1480	109 (7.5%)	64	53
Service MSEs	1400	110 (7.9%)	63	62
Light manufacturing MSEs	110	52 (47.7%)	26	14
Combined commercial/ service	40	29 (69%)	7	11
Total	**3,030**	**300**	**160**	**140**

Source: WEDCO (2006)

1.6 Sampling

Through Multi - stage Sampling, a sample of 300 was drawn from the 3030 WEDCO project women participants with the assistance of the district project managers, women group leaders and the local administration. The sample size determination, for this study was based on the formula in Saunders *et al.,* (2003). The level of certainty of tolerance in any study is very important. This study, worked with 95 % of certainty level.

1.6.1 Sample selection

The sample selection commenced with the criteria for participation in the study, which is membership to WEDCO project. To participate, the women entrepreneur must have been assisted by WEDCO either to start or to grow the business. Secondly only those operated on own account and not being operated by the woman as an employee were considered for the study. The individual elements for this study were selected from the sampling frames using probability sampling. The use of different sampling methods was based on the different sampling frames in the study. Simple random sampling was used as the basic sampling design for selecting individual elements from a sampling frame. It consists of selecting a group of ***n*** sampling units in such a way that each sample of size ***n*** has the same chance of being selected.

Questionnaires

Self-administered semi-structured questionnaires were used to produce the required data. The instrument was chosen because of its credit for flexibility in asking probing questions not beyond the focus of the study (Hoepfl 1997).

Interviews

This was the data collection technique involving oral questioning of selected persons who were deemed to have information concerning the study. An in-depth interview was held with the WEDCO project managers and the women group leaders.

Focus group discussions

The purpose of focus group discussions was to obtain in-depth information on concepts, perceptions and ideas of the women groups on as aspects of entrepreneurship generally and savings mobilization in particular. Participants were drawn from homogenous settings and a total of 10 and 9 women participants from the two districts participated in the discussion.

Observations

This was a technique involving systematic selection, watching and recording behavior and characteristics of the women entrepreneurs at their business premises, and doing the same to stock levels and movement, visible assets, business records and the general establishment of the businesses. It was done through non-participant observations, i.e., the observer watched the situation and took note of the observed phenomena.

Observations in this survey served the following purposes:

- Offered additional, more accurate information on certain aspects of the study than the interviews and the questionnaires.
- It equally acted as a check on information collected as well as supplementing verbal statements made by respondents. Observations equally assisted in validating and strengthening quality of the data gathered. Some of the observed aspects of entrepreneurship included; time management, resource allocations, workers supervision, storage, business set up, facilities and display, record keeping, treatment of customers, stocks, participation of the owners and visits by government / local authority agents.

1.7 Data Analysis

The coded data was subjected to descriptive statistical analysis, which included deriving frequency distribution, measures of central tendency (mean, and standard deviation) to test for normality; and the Chi-square test (χ^2) of independence was utilized to check the existing association between categorical data. Inferential statistical analysis, using the ANOVA and correlation analysis ware performed to examine the relationships between the internal factors and savings mobilization pattern of the women entrepreneurs and to establish the extent to which the derived profit was used for business growth and to determine the extent to which the government policy supports saving mobilization.

2.0 FINDINGS, DISCUSSION AND INTERPRETATION

2.1 Response Rate

The study yielded a response rate of 76.7%. This high response rate was attributed to the excellent introduction done by WEDCO staff, the training and good service rendered by the research assistants and the use of structured questionnaire. It also reflected the high expectations, which the respondents harboured, that their challenges and problems could be solved through such entrepreneurship research.

2.2 Profile of Women Entrepreneurs

Internal factors were hypothesized as among the factors that affect savings amongst women owned or managed businesses. To analyze the internal factors, a profile of the women who participated in the study was generated. Information about their social-demographic variables of age, ethnicity, religion, birth order, marital status, level of education, commitment to ethnic cultures, household membership dependency level, headship of the household, number of children and dependants in school and colleges, parents' business background, husband's business background (for those who were married), commitment of husbands and parents to religion and to ethnic cultures, and professional qualifications were produced.

Table 2:1: Distribution of respondents based on bio-demographics/ Charateristics

Variable	**Category**	***Frequency*** **N=230**	**Valid Percent**
Age of respondent	Below 16yrs	2	.9
	16 -32yrs	68	30.1
	33 -55yrs	140	**61.9**
	Over 55yrs	16	7.1
Number in birth	**1st born**	94	**41.2**
	2nd born	52	22.8
	3rd born	32	14.0
	Last born	34	14.9
	Others	16	7.0
Marital status	Single	18	7.9
	Married	**162**	**71.1**
	Divorced	8	3.5
	Widow	40	17.5
Commitment to ethnic cultures and beliefs (**by self**)	Not committed	54	23.9
	Fairly committed	128	56.6
	Very committed	36	15.9
	Extremely committed	8	3.5

Source: Survey data (2006)

The results in table 2.1 are consistent with the findings of Hirsrich *et. al.*, (2002), which showed that enterprise career progression, began between the ages 22 and 45 years, and that 30 years was the prime age to initiate enterprise start-up. The Pearson correlation coefficient between age and performance variables, had significant positive relationship, with number of full-time employees at the time of the study ($r=0.007, p<0.01$, profit first quarter ($r=0.016$, $p<0.05$) profit second quarter($r=0.003$, $p<0.05$), profit third quarter ($r=0.038$, $p<0.05$) and capital at the time of study ($r=0.007$, $p<0.01$). These findings imply that as the age of the woman entrepreneur advanced, a resultant positive change in the performance and growth variables occurred. This could mean that with the advancement in age of the woman entrepreneur, the capacity to improve the business performance increased. The Pearson correlation coefficient between age and the savings mobilized ($r=0.003$, $p<0.05$), also depicted a positive significant relationship which implies that as the age of the woman entrepreneur advanced, a resultant positive change in the perception about savings mobilization for growth of the enterprise occurred.

Number in Birth and Marital status

As shown in Table 4.1, many of the respondents were either first born or second born.

First born comprised 41% (n=94), second born 22% (n=52), third born 14% (n=32) last born 14.9% (n=34) and where number of births were more than four comprised 7% (n=16). With regard to marital status, Table 4.1 shows that the majority of the women studied were married (n=162, 71.1%) followed by widows 17.5% (n=40), those who were still single comprised 7.9% (n=18), divorced or separated accounted for 3.5% (n=8).

Table 2:2: Distribution of respondents based on level of commitment to ethnic cultures and beliefs

Variable	**Category**	***Frequency*** *n=230*	**Valid Percent**
Commitment to ethnic cultures and beliefs (**By self**)	Not committed	54	23.9
	Fairly committed	**128**	**56.6**
	Very committed	36	15.9
	Extremely committed	8	3.5
Husbands commitment to ethnic cultures	Not committed	42	21.9
	Fairly committed	**100**	**52.1**
	Very committed	42	21.9
	Extremely committed	8	4.2
Parents' commitment to ethnic cultures	Not committed	42	18.6
	Fairly committed	**90**	**39.8**
	Very committed	76	33.6
	Extremely committed	18	8.0

Source: Survey data (2006)

As shown in Table 2.2, only 23.9% of the respondents indicated that they were not commitment to their ethnic cultures and beliefs. A majority (74.8%) were found to be committed to various degrees to their ethnic cultures. Among those who were married, only 21.9% revealed that their husbands were not committed to cultural values. A total majority of 75.3% indicated that their husbands were committed to their ethnic cultures while 2.6% did not indicate. On the parents' commitment to ethnic cultures, 18.6% indicated that their parents were not committed. Majority, (79.9%) said that their parents were committed while 1.7% did not indicate their parents' commitment to ethnic cultures. This implies that ethnic cultures were a very important factor that could not be ignored in women entrepreneurship development. Chi-square test of independence between tribe/ethnicity and rate of parents' commitment to ethnic cultures show a significant relation at 0.05 level between the variables (χ^2 =25.084 p=0.003).

Level of Education and Professional Qualification

The results indicated that majority of the respondents had attained secondary levels (55.4%), With regard to professional skills, 76.5% possessed no professional qualification. For the women entrepreneurs in the sample, who were married, the majority of their husbands had secondary level of education 63.1% and no higher professional skills 40.4%. This study compared very well with the national baseline survey (1999) which noted that participants in the formal sector with primary level of education were 54%, while those with secondary level were 33%. These results of this study however show that the women entrepreneurs' without any formal education had reduced while those with secondary level had increased as compared with the national baseline survey (1999). The picture was confirmed by a nonparametric correlation (Table 2.3**)** which showed Spearman's (***r = -0.184)*** indicating that there was very high significant correlation at 0.01 level between highest level of education of the women in entrepreneurs and level of commitment to ethnic cultures and beliefs. This implies that the higher the levels of education attained, the less committed the individuals to ethnic cultures and beliefs.

Table 2.3: Nonparametric correlations between level of education and commitment to ethnic cultures & beliefs

			Highest level of education by self	How committed to ethnic cultures and beliefs
Spearman's rho	Highest level of education by self	Correlation Coefficient	1.000	-.184(**)
		N	224	222
	How committed to ethnic cultures and beliefs	Correlation Coefficient	**-.184(**)**	1.000
		N	222	226

Source: Survey data (2006) ** Correlation is significant at the 0.01 level (2-tailed).

The relationship between the woman entrepreneurs' education level and the savings mobilization was analyzed by Pearson's correlation coefficient. The results show that there was no statistical significant relationship ($p>0.05$). This implies that woman entrepreneurs' education level may not have much impact on savings mobilization.

Household Headship

Of the total respondents, 64.5% (n=142) indicated that their husbands headed their households. A paltry 35% (n=78) said they were the heads of their households. This implies that the majority of the women entrepreneurs were controlled by their husbands, a situation that could influence the uses of business generated funds in general and savings mobilization in particular and delay entrepreneurial decision-making for instance, on business growth prospects. This supports the Poverty Reduction Strategy for 2000-2003 which reports that since female-headed households constitute significant proportions of the poor, any intervention must be gender sensitive, to enable women entrepreneurs to make a significant contribution to

economic development and industrialization (GoK, 1986). The findings are also in agreement with Hornaday and Aboud (1971) who reveal that support, independence and leadership in households, women groups or other forums are other personality traits that make women to be successful entrepreneurs.

Household Size and Level of Dependants

The respondents were asked to state the total number of their household members. Of the total respondents, 53% (n=116) indicated 2-6 members, 28.4% (n=62) indicated 7-10 members, 7.3% (n=12) said their households comprised themselves and their husbands; another 5.2% (n=12) provided that their household members were well above 10. The respondents were also requested to state the number of dependants they take care of and the results were: 56 % take care of 1-5 dependants, 20.0% take care of 6-10 dependants, 19.2 % take care of no dependant at all while 5.5 % had more than 10 dependants. A cross tabulation of highest level of education and number of own children revealed that all (100%) of respondents with no formal education had 6-10 children, 66.7% of those with primary level had 1-5, 87.7% of those with secondary had 1-5 while 60% of those with higher than secondary had 1-5 children. The relationship between the level of education and the number of own children was such that those with no formal education had significantly high number of children, (χ^2 = 27.817, df = 6, $p < 0.5$).

Commitment to Religion Activities

95.5% were committed to their religion personally, 91.6% had husbands who were committed while 95.0% had parents who were committed to religion.

Involvement and Participation in Religious Activities

Variable	**Category**	**Valid Percent**
Being a religious leader	**Not important**	**59.0**
	Slightly important	21.9
	Very important	17.1
	Extremely important	1.9
Attending all religious services	Not important	21.7
	Slightly important	21.7
	Very important	**40.6**
	Extremely important	**16.0**

Attending only crucial religious activities	Not important	33.0
	Slightly important	19.4
	Very important	38.8
	Extremely important	8.7
Giving donations	Not important	9.2
	Slightly important	22.9
	Very important	**52.3**
	Extremely important	**15.6**
Giving tithe as required	Not important	16.3
	Slightly important	20.2
	Very important	**41.3**
	Extremely important	**22.1**

Being a Religious Leader

The respondents were asked how they viewed or rate importance of their involvement and participation in religious activities. 59% (n=124) said being religious leader was not important to them, 21.9% (n=46) found religious leadership very important while only 1.9% (n=4) considered it extremely important.

Attending all religious activities

Attending all religious services was stated to be crucial by 78.3%, out of whom 40.6% said it is very important to them, 21.7% found it slightly important and 16% found it extremely important. On the other hand, 21.7% said it was not important to attend all religious services.

Attending only Crucial Religious Activities

Majority (67%) of the respondents said that participating in crucial religious activities was important, while 33% indicated that it was necessary for them to attend over crucial religious activities only.

Giving of Tithe as Required

The majority 83.7% of the respondents consider giving of the tithe as required necessary. Out of this, 41.3% said it was very important, 22.1% found it extremely necessary and 20.2% ranked giving of the required tithe as slightly important. This implies that a reasonable percentage of the earnings of women entrepreneurs were set aside for tithe.

McClellan and Hagen (1962) that Psychological and social factors such as personality influence entrepreneurship. It implies that entrepreneurship behavior among the women may result from attitudes, which in turn are affected by social environment including parental attachment, weight of husband's opinion, involvement in religious activities and cultural attachments.)

Household Membership and Level of Dependency

The results indicate that 53.2 %($n = 116$) had between 2 and 6 members in their households, 28.4% (n=62) had between 7-10 members, 12.8% (n=28) comprised households with the women only or the woman and her husband only.

Number of Dependants other than Own Children

56.6% of the respondents indicated that they had between 1and 5 dependants, 20.2% had 6-10 dependants, 19.2% had no dependants, while 4% had over 10 dependants to take care of.

Table 2.4: Correlation between profits and future business plans

Profits from business *independent variable)*		**Future business plans (*Dependent variable)* $n = 230$**							
		Seek more credit for expansion	Use savings for expansion	Add more employees	Split current business to other locations	Close the business	Get into partnership	Expand the market	**Increase savings**

		.021	-.012	.236(**)	.129	-.053	-.021	-.028	**-.088**
	r.	.839	.867	.004	.106	.537	.796	.708	**.240**
1st quarter	***p***	.147	-.025	.208(*)	.155	-.049	-.025	-.014	**-.060**
	r.	.188	.748	.018	.066	.588	.779	.863	**.445**
2nd quarter	***p***	.143	-.034	.227(**)	.106	-.017	-.157	-.009	**-.023**
	r.	.206	.663	.009	.251	.849	.074	.908	**.778**
3rd quarter	***p***	.005	-.083	.243(**)	.017	-.116	-.096	-.116	**-.020**
	r.	.968	.292	.006	.839	.203	.279	.159	**.810**
4th quarter	***p***								

(*) Significant at 0.05level (**) Significant at 0.01 level

Source: Survey data (2006)

Correlation between Profit and Major Items of Expenditure

Correlation analyses between profits from the business and major items of expenditure show both positive and negative associations. Very high significant positive correlation at 0.01levels was found between distribution of disposable income on school fees and profits for all the quarters of the year. Significant positive association at 0.05 level was revealed between expenditures on rent, salaries and wages and the whole year's profits. There was insignificant relationship between loan repayments and the year's profits. However interestingly, there was a significant negative correlation at 0.05 level between savings and the quarters' profits, while only a negative picture of association was revealed between expenditure on personal effects and the profits.

Table 2.5: Correlation between profits from the business and major items of expenditure

Profits from business independent variable)		Distribution of disposable income on major items of expenditure (*Dependent variable)* $n = 230$				
		Rent, salaries and wages	**Personal effects**	**School fees**	**Loan repayment**	**Savings**
First quarter	***r***.	.136(*)	-.130	.201(**)	.062	**-.166(*)**
	p	.008	.686	.017	.406	**.007**
Second quarter	***r***.	.137(*)	-.046	.044(**)	.120	**-.028(*)**
	p	.009	.572	.016	.137	**.007**
Third quarter	***r***.	.173(*)	-.029	.045(**)	.129	**-.030(*)**
	p	.040	.716	.019	.111	**.009**
Fourth quarter	***r***.	.093(*)	-.069	.195(**)	.195	**-.062(*)**
	p	.007	.399	.015	.017	**.010**

(*) Significant at 0.05level (**) Significant at 0.01 level

Source: Survey data (2006)

Chi-square Tests and Correlations between External Factors and Savings

Several external factors were tested against the savings, to determine interdependence and effect for growth prospects. The findings revealed as follows:

Accessibility to Credit and Savings Mobilization

To establish the relationship between savings mobilization and external factors, chi square tests and correlation analysis were conducted. The results revealed that 8.5 % of those who did not access credit easily saved nothing; 46.2% of this category saved between up to 25% of their income while 54.8% saved between 26 to 50%. Accessibility to credit has direct and proportionate negative impact on savings

mobilization. As shown in Table 4.21, there is a very significant association with a negative relationship between accessibility to credit and savings mobilization, with those who accessed credit easily saving less (χ^2 = 2755 and r = -0.248). This implies that as accessibility to credit increased, the propensity to saving reduced, among women entrepreneurs. Those who were able to access more credit easily saved very little.

Competition and Savings Mobilization

Findings indicated that 35.1% of those who experienced stiff completion saved nothing, 28.8% of this category saved between 1 to 25%, 16.1% saved between 26 to 50%, 15% saved between 51 to 75% while 5% saved between 75%. There is a significant negative relationship between market competition and savings mobilization, with those who experienced less completion saving more (χ^2 = 34.081 and **r = -** 0.142), as shown in Table 4.22 This implies that businesses that experienced more advanced completion for their products saved less.

Inflation Rate and Savings Mobilization

The findings revealed that 86.65% of the respondents, who indicated that they were affected by economic inflation rate, saved nothing from their income. Another 33.35% of this category saved between 1 to 25%, 23.35% saved between 26 to 50% while only 3.8% saved over 50%. There is a significant negative association between economic inflation rate and savings mobilization, with those who indicated they are affected more, saving less (χ^2 = 26.68 and r = -0.191), as shown in Table 4.22.

Prevailing Political Situation and Savings Mobilization

There was very high significant relationship between changes on prevailing political situations and savings mobilization at (χ^2 = 16.454 and *r = 0.*232) as shown in Table 4.22. This implies that changes in political situations affected the savings behaviour of the women entrepreneurs.

Table 2.5: Correlation analysis between external factors and savings mobilization.

External factors		
Independent variables		**Distribution of income to saving (Dependent variable)** $N = 230$
Accessibility to credit	**r**	- .248(**)
	P	.001
Completion	**r**	-.142
	P	.055
Economic inflation rate	**r**	-.191(*)
	P	.011
Access to market for produce	**r**	.035
	P	.645
Political situation	**r**	.232(**)
	P	.002
Government / L.A agents	**r**	.167(*)
	P	.023

(*) Significant at 0.05level (**) Significant at 0.001 level

Source: Survey data (2006)

The correlation analyses between external factors and savings mobilization are largely negative as presented in Table 22. Accessibility to credit though negatively related to savings is found to be very significant at *(r= -0.248, p=0.001).* Economic inflation rate and effect of government agents are also negatively related to savings but are significant at *(r= -0.191, p=0.011* and *-0.167, p=0.023* respectively.) while nature of completion is negatively related to savings and moderately significant at *(r= -0.142, p=0.055).* There is a very high correlation between the prevailing political situation and savings *(r= 0.232, p=0.002).* There is however no significant relationship between access to market for produce and savings. This shows that the external factors largely portrayed negative implications to the progression of entrepreneurial activities in general and to savings for growth among women entrepreneurs in particular.

Books of Accounts and Profit Determination

Of all those who responded, only 8.3% indicated that they always kept proper books of accounts, 20% said they apply this skill sometimes, 10.2% said they hardly kept books of accounts while 61.1% indicated they that they never kept proper records of accounts. Similarly, 76% of the respondents said that they did not calculate profits properly; 8.6% said that they sometimes derived their profits accurately while only 1.9% indicated that they used proper methods always.

Interest Rates on Savings

To determine the effect of interest rates on savings among women entrepreneurs, the respondents were required to indicate the interest rate in their savings facilities and to state whether the rate affected their decisions on savings. The results provided that there was no significant relationship between interest rates and the decision to save (χ^2 = 60.533, df=22 P= 00). The relationship between savings to earn interest and the profits for all four quarters of the year was found to be insignificant. (First quarter: χ^2 = 29.592, df=9 P= 001, second quarter: χ^2 = 16.827, df=9 P= 001, third quarter: χ^2 = 32.406, df=12 P= 001 fourth quarter: χ^2 = 28.197, df =12 P= 005).

Conclusions

This study dealt with socio-demographic factors, economic, household and personal characteristics, and the relationship between these internal factors with the savings mobilization among the women entrepreneurs. The study showed varied findings, on the variable relationships. Ethnicity, level of education and professional qualifications (by self or husband); marital status, age and birth order were consistent with the existing literature. However, commitments to religion and to culture (by self or husband or parents), level of dependants, childhood orientation and family business background had been scantly covered in the literature hence this study provided exploratory findings.

Women entrepreneurs were found to suffer three most common but irresistible situations:

- they govern large/ extended households and
- are committed to religious activities and
- are committed ethnic cultures.

In addition, those who were married have to submit to their husbands command in cultural and religious beliefs. Further, the findings of this study show that a number of social-cultural factors influence women entrepreneurship as a whole and business dynamics resulting in their growth or decline thus the birth, expansion, contraction, and death of women-owned SMEs are grossly affected by internal factors of firm revolving around the women entrepreneurs competencies. The main factors that contributed to the women-owned enterprises start-up were found to be; first lack of employment, lack of capital and lack of support and information.

This conclusion is supported by the results in chapter four. Other motivating factors for women owned enterprises start-up, *revealed during focus group discussions and interview*, were: trying out a skill first, the best alternative to earning a living, need to control own life and personal fulfillment in that order. Most of the women respondents were self motivated at start-up stages of their enterprise but were overwhelmed to grow or graduate their businesses owing to the large domestic chores and responsibilities arising from both economical and socio-cultural burdens and challenges.

Most of the women entrepreneurs never received any training, relied on their savings for additional sources of capital, and experienced low levels of satisfaction. Frustration and need to control own life was also indicated as reasons for mobilizing savings. The study recommends for:

(i) Strategies to enhance savings mobilization be put in place and institutions must recognize the uniqueness of the women competencies so as to offer relevant encouragement and support.

(ii) Institutional arrangements in the informal credit market such as Cooperative Societies, the Rotating Savings and Credit Associations (ROSCAS) be encouraged for the women entrepreneurs. These would continue to serve as a vehicle for pooling small savings.

(iii) Family household sizes and dependency levels must be addressed in order to put the women entrepreneurs in the category of active savers. The regulatory agencies in general and the government in particular should move in with goodwill to assist in this issue. For family household reduction initiatives to succeed, the beneficiaries must be empowered and made to contribute to the wealth of the economy through their involvement in viable businesses or trade.

(iv) Sensitization and awareness programmes should be enhanced to expose the women entrepreneurs to conducive financial environment that engenders greater competition. This will facilitate the introduction of new savings products for women in business that could enhance the mobilization of resources for development.

(v) Voluntary savings, involuntary savings and policy induced savings should be encouraged to generate increased output to deal with the situation of less than full employment which currently exists among women entrepreneurs. With the same breath, the importance of savings in Kenya as a developing economy should be addressed through attempts to bridging the resource gap to enhance savings culture amongst the women entrepreneurs.

(vi) Savings can be harnessed from the women through innovative products that meet their needs. At the same time, there should be extensive network of bank branches in the country, without a biased concentration in the urban centers, since proximity to banking facility was raised as an important factor for saving. This can be achieved through enhanced financial intermediation.

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Empirical test of shareholder monitoring hypothesis at Nairobi Securities Exchange

Anthony M. Mugambi

Abstract

This study wishes to contribute to theory of finance by examining the applicability of large shareholder monitoring hypothesis at Nairobi securities exchanges. It is widely noted that most of finance theory and literature is based on empirical studies in developed countries, but the business context in developing and developed countries is disparagingly different and this paper presents an opportune moment for examining the applicability of one of the emerging topics in the literature of finance, the theory of ownership concentration. This study begins by exploring the theoretical framework on shareholder monitoring beginning with the landmark paper by Jensen and Meckling (1976) and Shliefer and Vishny (1986), Ownership concentration and firm value relationships have been subject of ongoing research. Lopez and Rodriguez (2012) have observed that previous studies examining ownership concentration and firm value have emphasized the significance of shareholder concentration, capital structure and dividend policy as corporate control mechanisms that influence value creation in a firm. This study is supported by Agency theory (Jensen & Meckling, 1976); large shareholder monitoring hypothesis (Shleifer & Vishny, 1986; 1997; Morck, Shliefer &Vishny, 1988; Demsetz & Lehn 1985); Pecking order hypothesis (Myers, 1984); Signalling hypothesis (Ross, 1977; Linter, 1956). the underlying theoretical literature in this field contend

that value is created or destroyed through agency costs (Jensen & Meckling, 1976). This study used longitudinal research design and data for the study was for the period (2008-2017) the target population is sixty six companies trading securities at NSE for the period ended in 2017. Empirical results reveal that at NSE large shareholder at Nairobi Securities Exchange could be entrenched and may not monitor the firm for the benefit of all shareholders more, but jointly with dividend payment, debt financing and firm size the results are significantly different. The findings of this study have significant policy implication to regulators and investors to policy makers, large shareholders in listed firms may not protect the interest of minority shareholders and over 40% of listed firms have not provided shareholder information in their financial statements as required by regulation, investors at NSE should understand the identity of major shareholders before making investments.

Emerging Issues In Banks Preference To Lending Government At The Expense Of Private Sector Credit Rationalization

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Abstract

With the emerging trends in banks preferring to lend government institutions at the expense of private sector, access to credit services has become a nightmare to private led institutions not only limiting them to sustainable growth but also crowding them out of the market. Financial institutions play an integral role in bridging the gap in the provision of financial services and fostering economic growth. In Kenya, changes in the interest rate capping, hard economic conditions, high public debt and changes in the global market policies have led credit rationing and mopping out private investments. It is widely acknowledged that private sector significantly contributes to employment and economic growth that accounts to over 60%. Nevertheless, the sector faces greater financing obstacles and credit constrained despite the presence of fully developed financial sector. In addition, the nexus of domestic bank lending to the government is gaining momentum with treasury recording Ksh.625billion from banks in the financial year of 2017 – 2018 as recorded by Kenya Bankers Association. This is mainly triggered by the government debt appetite, lucrative offer and risk free pricing. Evidently, banks are the primary source of credit to private sector and domestic government debt in Kenya. The goal to have a balance in the provision of credit to private sector and government is very important in promoting sustainability and achieving vision 2030. Crowding out private sector credit by public economic activity becomes a multidimensional concept that has little been presented. The study findings study findings indicated that there is a positive correlation between lending government and growth, there is negative association between growth and loan repayment offer.

Keywords: ***Banks preference to lending government, private sector credit rationalization, government debt appetite, lucrative offer and risk free pricing***

1. Introduction

Provision of adequate and customized credit services to the private sector wing is one of the imminent building blocks for a competitive and sustainable platform of private investment growth in the developing nations (Checherita & Rother, 2010). Global sustainable development calls for the streamlining of the financial system and review of policies that will make the financial institutions be accountable when it comes to giving priority to the private sector that contributes a lot to the economic growth and development of emerging markets in developing economies (Putunoi & Mutuku, 2013). Throughout, strong saving culture, supportive government policies and amble business investment climate will lead to risk ramification and high growth level in the private sector. a concerted effort must be directed towards the financial sector liberalization that calls for review of prevailing interest rate, entry deregulations, removal of credit allocation, review of government borrowing and credit allocation.

The main role of the government is to best serve the interest of her people in matters to do with policy formulation and implementation for growth and sustainable development in social, economic, political and cultural setup (Coccia, 2017). Every nation in its regional block has its own challenges and opportunities in policy support for the private sector development with the balance to public debt. Eberhardt and Presbitero (2015) presented a study on public debt and economic growth using a meta-analysis of developing nations, their study revealed how public expenditure and more so domestic borrowing from financial institutions has been ever increasing for the last decade. This has led to the spiral effect to the private sector on how high government debt accumulation from domestic market has negatively impacted on the private investment debt. The cycles and nature of government debt accumulation from the banking sector has led to debt overhung in some states with the government unable to service back thus threatening internal and external private investments (Borensztein, 2018). The crowding out effect of the private sector investments is automated due to the banks preference to servicing credit to the government without the consideration of the role of the private sector to the economic growth.

Traditionally; commercial banks, credit unions and cooperative societies have provided the bulk of credit services to the private sector with view of very profitable returns but unrelenting macroeconomic instability of their operations in developing world.

In Kenya, the private sector and mostly the small and medium scale enterprises are very constrained when it comes to access to credit services. This is in line with the capping of the interest rate that received mixed reactions from the policy makers and the Central Bank of Kenya when it comes to effect in 2016. Mostly, interest rate capping has a positive correlation to the economic development in conformance to the classical economic theory. Money supply, Central Bank monetary policy, inflation and time period are primary determinants of interest charged in the economy and dictates on the investment level and capital infrastructure that may be underutilized (KBA, 2018). Banks are courting government in providing their credit services in an environment that is risk free returns with astronomical profits. This neglects the private sector with dwindling returns and unsupportive business environment.

There is need to have policies to strengthen the infrastructures that supports financial empowerment to independent owned investments.

Statement of the Problem

Evidently, government borrowing from the financial institutions is necessitated by the need to bridge the infrastructural need and met the budgetary allocation in its expenditure. It has a positive effect on the growth of the economy in the short run and with the mixed implications in the long run coupled with changes in the governance regime. Excessive borrowing is bad to the economy in the it leds to crowding out of the private investments and constraints arises a result of capital shortages.

In a study presented Peter (2013) on analysis of domestic debt implication for economic growth in Nigeria showed that domestic debt has a significant and direct relationship to the GDP and debt servicing has inverse relationship to the GDP. This curtails the economy in the private investments that are the main contributors to the economic growth are capital constrained. This negatively impacts on their sustainability and competitiveness.

A report published by Kenya Bankers Association in (2018) on the influence of bank lending to the government on private sector credit through a fiscal deficit specification indicated that in the financial year 2017 – 2018 the banking sector had advanced government by lending Ksh. 625 billion. Contrary there was a decrease in the credit facilities apportioned to the private sector in the same year. It is in this need that the research study intends to fill the gap by exploring on the emerging issues in banks preference to lending government at the expense of private sector credit rationalization.

1.3 Specific objectives of the study

This is mainly triggered by the government debt appetite, lucrative offer and risk free pricing.

i. To establish the effect of government debt appetite on private sector credit rationalization

ii. To determine how lucrative offer in interest by government influences on the private sector credit rationalization

iii. To analyze how risk free pricing by government impacts on the private sector credit rationalization.

Literature

There is a number of past research studies that have been presented on the aspects of increased government borrowing and economic development. Accumulation of capital plays a critical role in the economic development and in instances where capital is deficient there is likely of decline in the growth. This is linked to failure to raise investments levels as a result of deficient in savings. Increased government appetite for borrowing at the expense of private sector is making financial institutions to advance most of their loans to the government with neglect of the majority of the private investors who are key drivers in the economic growth. In a study presented by Putunoi and

Mutuku (2013) on the implications of domestic debt on economic growth in Kenya. The study examined data collected from the year 2000 to 2010 using Augmented Dickey Fuller Test (ADF). The result of the analysis indicated that debt expansion for a period of study within the ten year had a positive and significant impact to the economic growth. The study recommended that government must consider having a sustainable strategy when it comes to domestic borrowing only provided that the funds are utilized very well.

Lending advanced by commercial banks to the government inform of bonds, bills are said to be risk free with lucrative returns. This makes the financial institutions to have a free will to lend the government more as compared to the private sector. Though it seems rosy to the banks and the expense of the majority who are in the private sector are credit constrained. Similarly, a study presented by Panizza and Presbitero (2014) to examine on the impact of domestic debt repayment and economic growth in Organization for Economic Co-corporation and Development countries (OECD). The study adopted a sampling approach in the analysis which was consistent with the literature, the study findings indicated that there was a negative correlation between the domestic debt interest repayment and economic growth with no causal effect to justify on the policy in the economy.

Methodology

This outlined on the research procedures when conducting fieldwork on data to explain on the research design, study population, research instruments, data analysis and presentations. The study incorporated an empirical approach for the secondary research and collection of data. Mugenda (2012) defined research design as a planned structure of investigations on the study objectives that enables the researcher to present a summarized analysis of the data in a meaningful way. The main aim of the research is to handle a challenge by presenting a thought out plan to describe on the information needed to make a statement on a policy. The research design adopted was descriptive with a key emphasis on the longitudinal reflection of history of events with regard to domestic borrowing.

The study population is defined as the set of events, people, households or elements under investigation that are deemed to have related characteristics in occurrence (Zikmund, Babin, Carr & Graffin, 2010). The study will incorporate domestic borrowing, GDP and private investments obtained from the Kenya National Bureau of Statistics (KNBS) from 1990 – 2017. The choice of the time duration was cultivated by the need to consider many of the economic and policy occurrences ranging from the IMF sanctions, political violence, changes in government regime, banking policies, interest rate capping, credit rationalization in the private sector and diminishing agents of donors.

The study adopted a time series secondary data that was extracted from different bodies including the World Bank, Central Bank of Kenya and Kenya National Bureau of Statistics. The data was based on the yearly computation of the growth rate represented by the GDP, the government borrowing from the financial institutions termed as the domestic debt, the lucrative offer in the repayment of the domestic debt represented by the interest rate on internal debt that is risk free return in pricing. This was shown in the table below in an operational of variables framework.

Table 3.3 Operationalization of variables

Variable	**Notation**	**Type**	**Measurement**	**Expected effect**
Gross Domestic Product	GDP	Dependent variable	Real GDP per annum GDP = C+I+G+ (X-M)	positive
Domestic debt	DD	Independent variable	Government borrowing from financial institutions and individuals Short term internal debt and long term internal debt	Positive
Domestic interest	DI	Independent variable	Government payment with interest on borrowing from the domestic market that is short term and long term Annual rates on short term internal debt and annual rates on long term internal debt	negative

C = Consumptions, I = Investments, G = Government spending, M = imports, X = exports

Data analysis defines the process of creating a system with a working structure with mathematical information collected (Cooper & Schindler, 2013). The data was optained from the secondary sources on the causal effect of the variables and presented in time series.

In conclusion, the study findings recommend that the Kenyan government should strictly go for manageable domestic borrowing from the government without infringing the private sector development. Going for excessive domestic borrowing from the financial institutions is advisable for meeting the development agenda and should not be relied on as it brings inflation and crowding out of private investments. The borrowing form the financial

institutions is repaid back with an interest, there is need to have a proper mechanisms of loan repayment done within the shortest time possible and with limits to avoid debt overhung.

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Secondary data

ISBN 978-9966-132-53-6 @ Copy Right .2019

YEARID	YEAR	GDP Growth Rate	Internal Debt (USD 000)	Internal Interest (USD 000)
1	2017	4.885444	2349284	54072.45
2	2016	5.869193	1896443	53070.03
3	2015	5.718507	1615184	52033.75
4	2014	5.357117	1138505	24512.52
5	2013	5.878689	843562.2	12761.23
6	2012	4.563209	763971.9	10805.96
7	2011	6.108264	722888.3	10039.44
8	2010	8.405699	569138.3	18283.81
9	2009	3.30694	488203.3	16183.12
10	2008	0.232283	413460.3	16496.68
11	2007	6.85073	397138.8	16998.23
12	2006	6.472494	431236.7	14747.17
13	2005	5.906666	434453	18283.43
14	2004	5.1043	443157	15327.86
15	2003	2.932476	353264.1	15822.54
16	2002	0.54686	359370.5	19849.2
17	2001	3.779906	366127.4	16948.21
18	2000	0.599695	302608.7	13848.58
19	1999	2.305389	325261.2	17508.4
20	1998	3.290214	254388	18186.4
21	1997	0.474902	231038.8	17775.7
22	1996	4.146839	234708.4	18101.2
23	1995	4.406217	246027	10670.4
24	1994	2.632785	208071.2	119471
25	1993	0.353197	271568.2	10310.6
26	1992	-0.79949	122259.6	14077.4
27	1991	1.438347	889179	14777

28	1990	4.192051	168380	14632

Global warming on Capital Growth through Retained Earnings in the Manufacturing Industry

Benard Ouma Ogutu

Abstract

Corporate managers in the manufacturing industry often have capital growth as one of their goals. These leaders explore various means of attaining this motive and retained earnings being an avenue among others. Such a source of financing takes one to offer quality products to the market and convert the potential buyers to customers that eventually sustain the company's operations. Moreover, the firms have to keep the expenses at minimal levels to guarantee profits. Trained and experienced business managers have no problem handling these tasks except for the eminent challenges like seasonal sales. Notably, organizations also put focus on controlling or avoiding the factors that hinder profitability and eventually capital growth. However, most of them fail to take cognition of global warming that has in the recent past become an ecological talk by environmentalists. This phenomenon is described as the gradual increase in the earth's temperature. Today, the environmental technocrats have ventured into investigating the immediate effects of this phenomenon, but with minimal focus to capital growth through profitability. This research explores the existing literature to illustrate the impact of global warming on capital growth through retained earnings.

Key Words: ***Global warming, environment, business, capital, retained earnings, and finance***

Global warming on Capital Growth through Retained Earnings in the Manufacturing Industry

Introduction

The operations of top company managers typically aim at the maximization of shareholders' wealth as the ultimate goal (Yan, 2018). This target is synonymous to the concept of capital growth that implies the increase in value of a firm's net assets or investments over time (Becker Professional Education, 2017). Notably, the businesses require funds to initiate capital growth at any time. Financing sources for the corporate organizations towards undertaking further investment and eventually realizing capital growth might comprise long-term borrowings, issuance of

securities, and retained profits among others. Focusing on retained earnings, a firm has to ensure that it makes sufficient revenues to cater for all the operating expenses and earn profits for the initiation of capital growth. Therefore, the ability to make profits is subject to how a business attracts sales as well as minimizes the expenses (Gandhi, 2018). Nevertheless, outside forces like consumers' purchasing behaviour, competition, and government regulations among others have often presented a challenge for the corporate managers to contend with.

Today, global warming (GW) presents another impediment to profitability. Probably, various firms have encountered problems that could relate to this phenomenon, but they have unconsciously failed to correlate them. For instance, most corporations have failed to appreciate how the gradual increase in the earth's temperature has hindered the production of agricultural raw materials (U.S. Global Change Research Program, 2019). The few that have consciously associated the two might have also failed to undertake any corrective measures to averting the situation except the strategies to minimize the effects on business performance. This research aims at informing the manufacturing companies how global warming has hindered their capital growth through retained profits. Evidently, global warming is a phenomenon that has substantially hampered the ability of the manufacturing firms to make sufficient profits for capital growth.

Evidence of Global Warming

The concerned environmental authorities started to take note of global warming in the early 20th century given the continued rise in air and ocean temperature. They investigated and associated it with the emission of greenhouse gasses that include carbon dioxide, methane, and nitrous oxide among others. These emissions were majorly attributed to the industrial production, though with some human settlement activities. Currently, the global mean surface temperature is estimated to be 0.75 degrees Celsius from the -0.4 that it was in early 20th century (NASA 2019). NASA further notes that two thirds of the increase occurred after 1975 and estimates it to reach 1.5 degrees Celsius if the current rate of rising persists. The continues industrialization has caused a lot of worries and lately there has been a call to initiate ways of preventing global warming as it could reach a point where there is no solution except the earth to feel the full effect.

The existence of global warming has been noted in various regions across the globe. For instance, United Nations Environmental Programme (UNEP) has associated the currently changing weather patterns and drying of water

sources to global warming (UNEP, 2019). Some of the activities leading to this situation include deforestation like has been witnessed in the Mau Forest. The emissions of industrial gases has further caused the varying weather patterns in Kenya and even made it difficult for the Kenyan meteorological department to have clear prediction of future weather. An instance was the prediction of El Niño that failed to occur in 2014 (Care, 2016).

Another evidence of global warming is the Haiti Tsunami in 2010 that caused excessive flooding in the coastal region of the country leaving more than 200,000 dead (Luhnow & Dugan, 2010). This event was associated by the melting glacier due to the constantly rising temperature, thus, causing the rise in sea level.

Relationship between Retained Earnings and Capital Growth

Retained earnings normally present a financing source for capital growth. Various manufacturing firms are cautious about borrowing funds when they can obtain from within and this leads to devising mechanisms of retaining much of the profits (Agarwal, 2013). They claim that borrowings are expensive given that they have to repay with interests that are also subject to changes due to inflation. Therefore, such organizations would opt to limit dividends so as to create additional funds for investing. They also exercise adequate management of expenses to maximize profitability. Some of the notable cases include East African Cables and Bamburi Cement companies, both listed in the Kenyan Stock Exchange Market. These firms have consistently made profits, paid dividends, and at the same time retained much of the profits to initiate capital growth. Some like Monster Beverage Corporation, listed in New York Stock Exchange has even failed to pay dividends just to maximize retained earnings for capital growth. Nevertheless, global warming plays a role in hindering their profit potential, thereby, negatively impacting on capital growth.

Effects of Global Warming on Profitability

The unpredictable availability of raw materials due to worsening weather conditions has made some manufacturing firms to keep substantial amounts of money in the commercial banks without reinvesting to help take care of emergencies (Johnson, 2013). For instance, it is possible to run short of supply for the agricultural products from the regular suppliers, thereby, forcing the companies to spend additional funds seeking for such items from other markets (Folk, 2018). Otherwise, those that attempt to invest the surplus cash do so through short-term investments

that cannot help achieve the potential capital growth. The passive investment might include high-yield savings account, money markets, and in treasury bills that guarantee quick conversion to cash.

The ever impending flooding at the coastal regions like the one witnessed in Haiti in 2010 also has the potential of disrupting operations and causing damage to property. In such cases, the affected businesses often have to halt operations and spend surplus cash or even take loans, apart from insurance, that also hinder profitability to replace the destroyed plant (Care, 2016). Typically, such organizations end up not realizing any targeted expansion of production capacity, thus, making it hard grow capital using retained earnings.

The governments through the environmental authorities have also enforced contributing towards compensating for the pollution caused to the environment through emissions of greenhouse gases (Folk, 2018). In such cases, the businesses earn reduced profits that eventually hinder the capital growth potential through retained earnings.

The manufacturing firms that require usage of water have also been affected by the reduced availability of water. Such organizations then have to spend extra money that would otherwise be reinvested to grow capital in obtaining water from far off places (The Economist, 2019). Moreover, they might be forced to spend additional funds towards recycling of their used water.

Firms have also resorted to spending additional funds in environmental sustainability efforts to help attract customers instead of directly investing in capital growth (Schiano, 2018). Lately, there is a trend of consumers wanting to only buy from organizations that show efforts towards environmental sustainability such as production of environmental friendly products and participating on regular CSR activities towards taking care of the environment. This trend is evident from the research done by Love Energy Savings, a global consumer insight company which revealed that 55% of global consumers across 60 countries are willing to pay extra for the commodities and services that are committed to environmentally friendly policies (Love Energy Savings, 2019).

The increasing insurance costs due to increased risks associated with global warming such as destruction of property through flooding and transit of raw materials from far off places has further hindered the availability of retained earnings for capital growth (Schiano, 2018). An instance was in Kenya in 2014 when insurance companies increased their premiums to cover for the imminent damages through El Nino which even failed to occur.

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Relationship between Employee's Welfare Initiatives and Job Stability of University Catering Employees in Nairobi City County, Kenya.

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Abstract
The study sought to establish the relationship between employee's welfare initiatives and job stability of catering employees in selected universities within the Nairobi City County, Kenya. It also established the relationship between employee's welfare initiatives and job stability of university catering employees in selected universities in Nairobi City County, Kenya. The study was descriptive covering a stratified sample of 189 respondents drawn from 300 employees. Data was collected through self-administered questionnaires and an interview guide questions. The two tailed Pearson product moment correlation was used and interpreted as follows; 0.010 to 0.041 implied, insignificant relationships; 0.041 to 0.70 implied, a moderate relationship; while> 0.70 implied a significant positive relationship. Meanwhile, a negative value implied an inverse relationship. 189 questionnaires were distributed, out of which 152 questionnaires were received from the respondents. This represented a response rate of 80.42%. The findings indicated that, majority of the respondents (61.2%) were female while the minority (38.8%) were males. Majority (22.4%) aged between 40-44 years while the minority (1.3%). aged <20 years of age. The two tailed Pearson product moment correlation results revealed that, there is a strong positive relationship between welfare initiatives; sporting facilities (0.768), housing, (0.890), recreational facilities (0.651) and job stability. According to the findings of the study, there is a significant positive relationship between the welfare initiatives; paid holidays (0.701), leave policy (0.195), staff uniforms (0.142), pension policy (2.76), long service grants (0.879), meals allowance (0.771), canteen facilities, (0.178), sufficient number of toilets (0.971) with job stability of university catering employees. However, there is a moderate significant positive relationship between restrooms (0.562) and job stability.

Key Words; ***Welfare Initiatives, Job Stability, Welfare Programs, Fringe Benefits, Employee's Assistance Programs, Employees' Benefits, Social Exchange***.

Introduction

Every employee requires and wishes for a secure job (Abdullah and Ramay, 2012). The life of any organization is dependent on the proper functioning of employees (Amirnejad and Asploor, 2016). Employees feel secured when the organization, values their colleagues and their welfare. Employees are interested in and believe in an organization that provides well-being, comfort and safety (Amirnejad et al, 2016). According to the study, employee's welfare contributes to the preservation and the improvement of the workforce. Such welfare includes; credit, health and insurance, transportation, housing, cultural sports, tourism and allowances. According to (Beheshtifar and Mojtaba, 2013), in (Brunneto, 2013), when the organization treats employees well, they reciprocate with hard work. Khademi (2014) stated that, welfare initiatives ensure employees happiness and job security. According to (Ndila, 2010) University employees are not satisfied with fringe benefits offered and would prefer a revision of the same. A study by (Amirtha and Prinicatta, 2015), found out that, the second to majority of the respondents (32%)%) were not satisfied with welfare initiatives provided at the engeneering colleges in Anna university of Tirunelveli Region. According to(Njeru, Moguche and Mutea, 2017), employees welfare initiatives are not regulary revised.

Background

When the organization treats employees well, they reciprocate with hard work (Beheshtifar and Mojtaba, 2013), cited in (Brunneto, 2013). Organizational support towards employee's welfare is a strong predictor of employee's turnover intention (Hussain and Asif, 2012). Employee's welfare programs retain and improve employees conditions (Keitany, 2014). According to (Wambui, 2017), welfare initiatives includes; employee's assistance programs such as health programs, counselling, physical fitness programs and the presence of financial arrangements. Employee's welfare initiatives have not fully succeeded in their quest to tie the existing staff to their current organizations as they are often designed without enough thought being given on how to secure employees commitment and connection to work as measured by the amount of the discretionary effort they are willing to expend on behalf of the employer. Workers tend to stay in organizations where fringe benefits are higher (Omonijo, Oludayo, Eche, Uche, Ohunakin, 2015). According to the study, management policies relating to poor fringe benefits and lack of rewards may have an adverse effect on employees voluntarily turnover. This affects their job stability especially in work environments where employees feel undervalued or ignored, or where they feel helpless or unimportant. According to (Azam, 2012), non-cash facilities attract and retain high skilled employees. According to the study by (Shefali and Shikha, 2017), employees welfare activities assist the employees to develop a sense of belonging towards organization as well as the feeling of safety.

Employees Welfare Initiatives and Job Stability

Employees are interested in and believe in an organization that provides well-being, comfort and safety (Amirnejad et al, 2016). According to the study, employee's welfare contributes to the preservation and the improvement of the workforce. A study by (Hussain and Asif, 2012), found out that, organizational support towards employees welfare is a strong predictor of employees turnover intention. According to (Keitany, 2014) employee's welfare programs retain and improve employee's conditions. Omonijo, Oludayo, Eche, Uche, Ohunakin (2015) asserts that, t workers tend to stay in organizations where fringe benefits are higher. The study further demostrated that, management policies relating to poor fringe benefits and lack of rewards may have an adverse effect on employees voluntarily turnover. This affects their job stability especially in work environments where employees feel undervalued or ignored, or where they feel helpless or unimportant. This is an indication that, welfare initiatives related with job stability. The Tehran University study by (Azam, 2012) found out that, there is a statically significant relationship between workplace and employees satisfaction with non-cash facilities. This is a clear demonstration that, non-cash facilities and job stability goes hand in hand in a successful organization, which he explained as those, able to attract and retain high skilled employees.

Statement of the Problem

Most staff members were dissatisfied with the level of welfare facilities (transportation, medical, vacation) provided to them and to their families (Saji, Tarek, and Mohammad, I.T., 2013). Further, it's vital to establish their relationship with job stability. The current welfare initiatives are inadequate as demostrated by (Ngaruiya, Nyandega, Origa and Ondundo, 2015) who stated that, "one of the challenges brought by massification of universities is inadequate staff welfare and inadequate staffs". According to (Ravindra, 2013), welfare initiatives are meant for middle and top management and not the 'worker levels', he stated that, " in india, organizations offer benefits such as; holiday homes, festival bashes, birthday treats, picnics, company watches, awards, flexible hours and vacation trips to middle and top management levels with the conditions at worker levels being different". This is a clear indication that, the available initiatives do not adrees the real needs of employees as demostrated by

(Ananthi, Narmatha, Murukesh and Periasamy, 2016) study which stated that, "employee's welfare services should satisfy the real needs of employees and they should be determined with the active participation of all the workers".

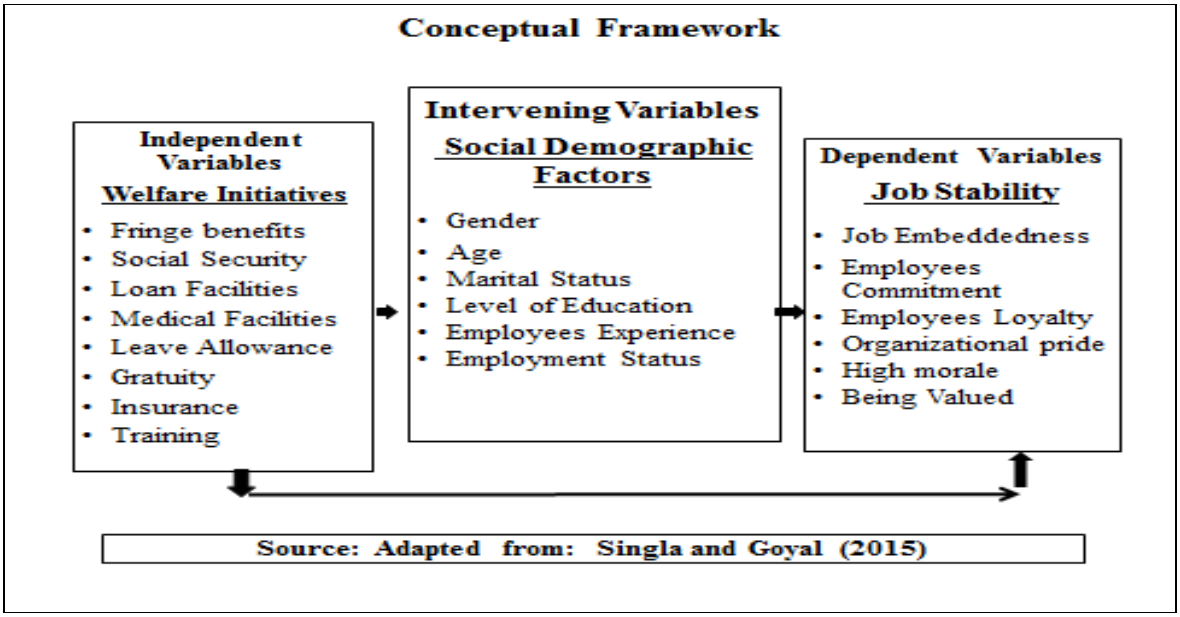
Research Hypotheses

$H0_1$: there is no significant relationship between employee's welfare initiatives and job stability of university catering employees in Nairobi City County, Kenya

$H1_1$: there is a significant relationship between employee's welfare initiatives and job stability of university catering employees in Nairobi City County, Kenya.

The Conceptual Frame Work

The conceptual frame work shows the relationship between the independent variables (welfare initiatives) and the dependant variable (Job Stability) of university catering employees.



Welfare Initiatives and Job Stability

A study by (Hussain and Asif, 2012), found out that, organizational support towards employees welfare is a strong predictor of employees turnover intention. According to (Keitany, 2014) employee's welfare programs retain and improve employee's conditions. The Tehran University study by (Azam, 2012) on the level of employee's satisfaction with the availability of welfare facilities among the staff working in the headquarters of Tehran University of medical sciences established that, there is a statically significant relationship between workplace and employees satisfaction with non-cash facilities. This is a clear demonstration that, non-cash facilities and job stability goes hand in hand in a successful organization, which he explained as those, able to attract and retain high skilled employees. Azem and Quddus (2014) studied the job satisfaction among the non-teaching employees of Central Universities in India, Hyderabad (University of Hyderabad and Maulana Azad National Urdu University). The findings ranked welfare measures as position one, out of the fourteen factors of the study in Maulana Azad National Urdu University and fourth, out of fourteen in the University of Hyderabad. This affirms the relationship between employee's welfare initiatives and job stability. The study demonstrated that, such welfare initiatives as; creches, construction of working women's hostels on the campus, incentive for working long hours and on holidays, reimbursement of medical bills and the reimbursement of tuition fees are welfare measures that leds to employees job satisfaction, and hence job stability. Omonijo, Oludayo, Eche, Uche, Ohunakin (2015) noted that, workers tend to stay in organizations where fringe benefits are higher. In their study on 'intentional turnover of administrative staff in a private faith-based higher institution in South-West Nigeria', they noted that employers deny workers these fringe benefits making them more vulnerable to voluntarily turnover. The study further demonstrated that, management policies relating to poor fringe benefits and lack of rewards may have an adverse effect on employees voluntarily turnover. This affects their job stability especially in work environments where employees feel undervalued or ignored, or where they feel helpless or unimportant. Wambui et al, (2017) studied the effects of work

life balances on employee's performance of Kabarak University in Nakuru County, Kenya. The findings laid emphasis on the importance of employee's assistance programs such as health programs, counselling, physical fitness programs and the presence of financial arrangements. The relationship between these welfare initiatives and job stability is clearly indicated by the responses of the study. For instance, when the employees were asked whether health programs helps them to contribute highly to their work, 39.7 % and 33.3% respectively strongly agreed and agreed compared to 12.7% who disagreed. It is also clear that, 68.3% either agreed or strongly agreed that health programs improved their attendance rates.

Social Exchange Theory.

Social exchange theory provides an insight on how a breach of the psychological contract may lead to a negative reaction. It explains the reciprocal relationship between the employees and the employer (Baran, Shanock and Miller, 2012). This view suggests that, when an employer provides an employee with fair treatment, they will perceive high levels of support from the organization and as a result feel obligated to reciprocate (Shoss, Eisenberger, Restubog and Zgenczyk, 2013). According to (Tran and Nazir, 2016), "employees enter in a relationship with the employer to get the maximum benefits". The exchange of emotional benefits and mutual trust is said to be initiated by the organization when they choose to implement employees benefits (Gould-Williams, 2007). Saji, Tarek and Mohammad, (2013), stated that, "employees will be more satisfied if they get what they expected". According to (Umar and Kabiru, 2015), when one party fails, frustration and anger sets in, but when all parts are fulfilled, trust prevails (Fieldman and Ng, 2008). From the social exchange theory, fair treatment of employees by the employer forces them to reciprocate positively by creating a mutual trust. When employees receive welfare initiatives, it can then be said to be a fair treatment to them. According to (Miao, Newman, Sun and Xu, 2013), the parties to a social exchange, reciprocate the action of one another, thereby creating a mutual obligation between them. According to Lavelle, Rupp and Brockener (2007) there is an exchange of social emotional benefits and mutual trust between the employer and the employees.

Summary of the Literature Review and the Research Gap

According to (Akeke, Akeke and Awolusi, 2015), "affective commitiment is the tendacy of an employee to remain in an organization due to his emotional attachment and strong identification with objectives and the mission of an organization". The study failed to demonstrate how employers can increase emotional attachment and identification with objectives and mission of an organization by deploying welfare initiatives particularly in university's catering departments. According to(Njeru, Moguche and Mutea, 2017), employees welfare initiatives are not regulary revised.the same sentiment was shared by (Ndila, 2010). However, the studies failed to demostrate how they can be revised and after a what period of time. Rawat and Chaubey (2016) demostrated that, maintaining the quality of human inputs rises from proper organization and administration of welfare facilities. The study failed to demonstrate how organizations particularly the universities can effectively organize and administrate welfare initiatives by categorizing them into different job categories. According to (Gould-Williams, 2007), the exchange of emotional benefits and mutual trust is said to be initiated by the organization when they choose to implement employee's benefits. This study paints a picture that, implementation of employees' benefits is a choice for the employer; this is absolutely not true as some welfare initiatives are obligated by the law. Moreover, it is for the benefit of both the employer and the employee. According to (Umar and Kabiru, 2015), when one party fails, frustration and anger sets in, but when all parts are fulfilled, trust prevails (Fieldman and Ng, 2008).

METHODOLOGY

The research study used the descriptive research design to find out welfare initiatives used in universities and their roles on job stability. The design has quanitative and qualitative approach methods which established welfare initiatives and their roles on job stability of catering employees working in universities in Nairobi City County, Kenya. The study was carried out in catering departments of 5 out of 46 university campuses in Nairobi City County Kenya (Commision for the University Education, July, 2016). The target population comprised of 300 university catering employees within the area of the study. The population was heterogenous, thus stratified sampling was done in selecting the respondents of the study and simple random sampling was used to select university campuses of the study.

Table 1.1 Summary of Sampling Technique

Technique	Area applied	Justification

Simple Random Sampling	University Campuses	Equal chance of being selected to represent the sample
Stratified Sampling	Respondents of the Study	Equal representation of catering employees working in university catering departments

Sample Size
A total of 189 respondents partcipated in the study as shown on summary distribution of the respondents according to three subsets of the study.

Table 1.2 Sample Size

Participants	**Population**		**Sample Size**
University Catering Employees	300	63%	189
Total	**300**		189

The sample size of university catering employees was determined using Israel's (1992) sample size calculation formulae as shown;

Figure 1.1 Sample Size Calculation Formulae

Equation 1: $\mathbf{n = \frac{N}{1+N(e)2}}$

Where :
N = population
e = precision rate at 5% (0.05)
n = sample size

Data Collection Instruments
The study used both primary and secondary data collection methods to collect data. Primary data was collected by means of self-administered questionnaires and an interview guide. Secondary data was collected from journals, annual reports, websites and publications.

Pretesting
All the instruments of data collection were pretested in one university not included in the actual study findings. The pre-test assisted the researcher to ensure clarity of items in the instrument of study. It also aided the researcher to identify the similarity of meanings, and the actual time needed to administer the actual data collection process.

Instruments Validity and Reliability
The instruments of this study were questionnaires and interview guide questions which were validated by the use of content analysis. Content analysis was done by cross-checking responses against the study objectives, hypotheses and against the conceptual framework. The content validity of questionnaires was ensured through consultation with the supervisors. Test-re test method was used to establish the reliability of the questionnaires. A cronbach alpha was used to test the consistency of variables. A cronbach alpha test results were interpreted according to (Gliem, 2003), who stated that, the closer the cronbach alpha coefficient is to 1.0, the higher the internal consistency of the study variables. The same is supported by (Brotherton, 2012) study which stated that, a reliable scale should have an alpha value of at least 0.7, or higher. The results of pretest were analyzed to identify the errors. The results of the individual welfare initiatives were between 0.800 to 0.822, meaning, the data collection instruments were reliable as they were higher than 0.7 as suggested by (Brotherton, 2012).

Data analysis technique
Quantitative and qualitative data analysis techniques were used in the study as the data collected were both numerical and narrative.

Analysis of data

For analysis and interpretation of data inferential statistics (two tailed Pearson product moment correlation coefficient) was used to establish the relationship between employee's commitment and job stability. It also established the relationship between employee's welfare initiatives and job stability of university catering employees in Nairobi City County, Kenya.

Table 1.3: Analysis of Hypotheses

Objective	Analysis Method	Justification
H02: there is no significant relationship between employee's welfare initiatives and job stability of university catering employees in Nairobi City County, Kenya.	Chi-Square	Determine the relationship between the study variables.
H12: there is a significant relationship between employee's welfare initiatives and job stability of university catering employees in Nairobi City County, Kenya		

RESULTS AND DISCUSSIONS

Introduction

This section represents the analysis, findings and discussions of the study. The main objective was to establish the relationship between welfare initiatives and job stability of university catering employees in Nairobi City County, Kenya.

Response Rate

A high response rate was obtained; this reduced the chances of getting biased statistics. As such, the findings were reliable as shown on the figure below;

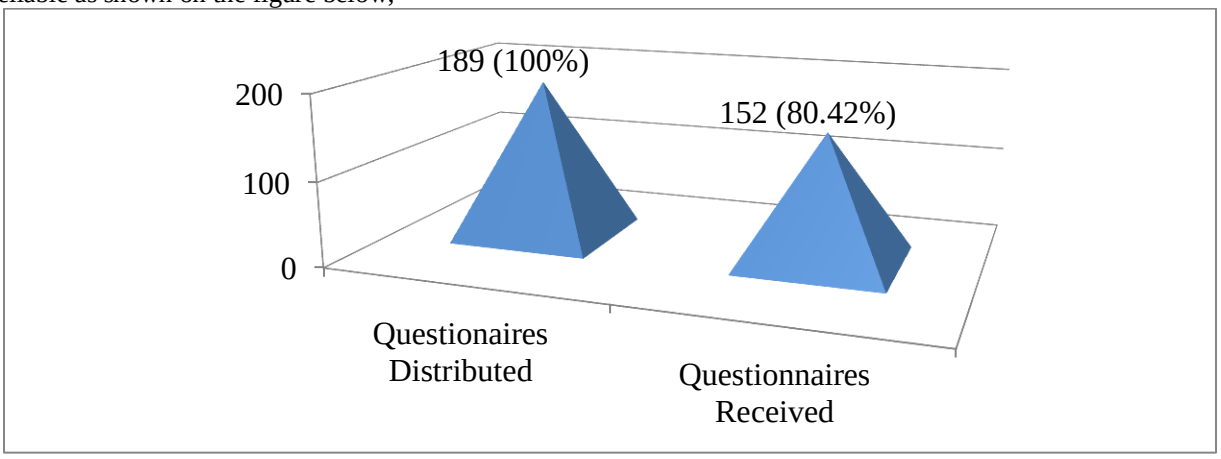


Figure 1.2: Response Rate

A response rate of 80.42% was obtained; this is adequate for analysis, as it conforms to to Mugenda and Mugenda, 1999 (as cited in Keitany, 2014, p. 30) that "a response rate of 70% and over is excellent" for analysis and conclusions. A non-response rate of 19.58% of university catering employee's questionnaires was due to time constraints especially at the meal times.

Demographic Characteristics of the respondents

The study sought employee's demographics and the findings were presented as shown

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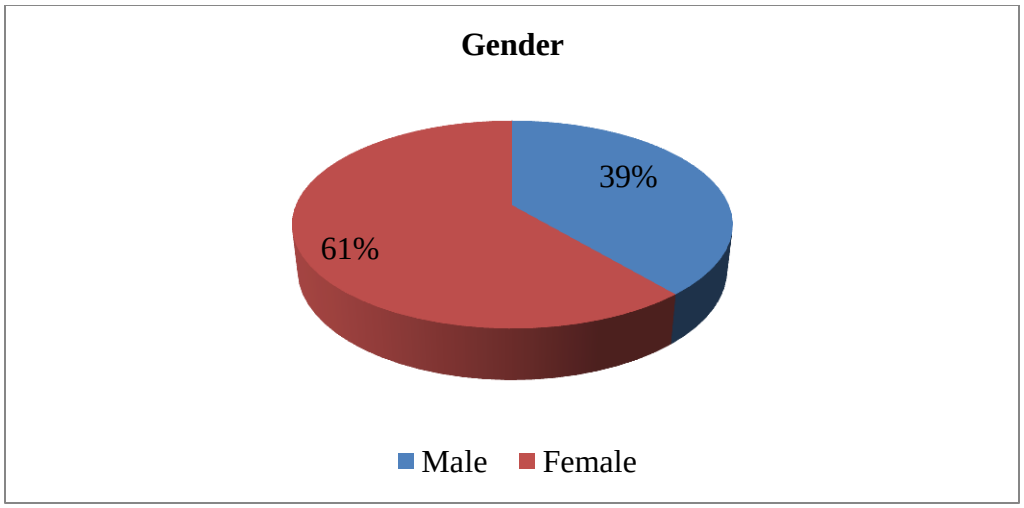

Figure 1.3: Gender of the respondents

According to the findings, 38.8% were male and 61.2% were female. This contrasts (Azeem and Quddus, 2014) study conducted in Maulna Azad National University which found out that, majority (71.4%) was males.

Age

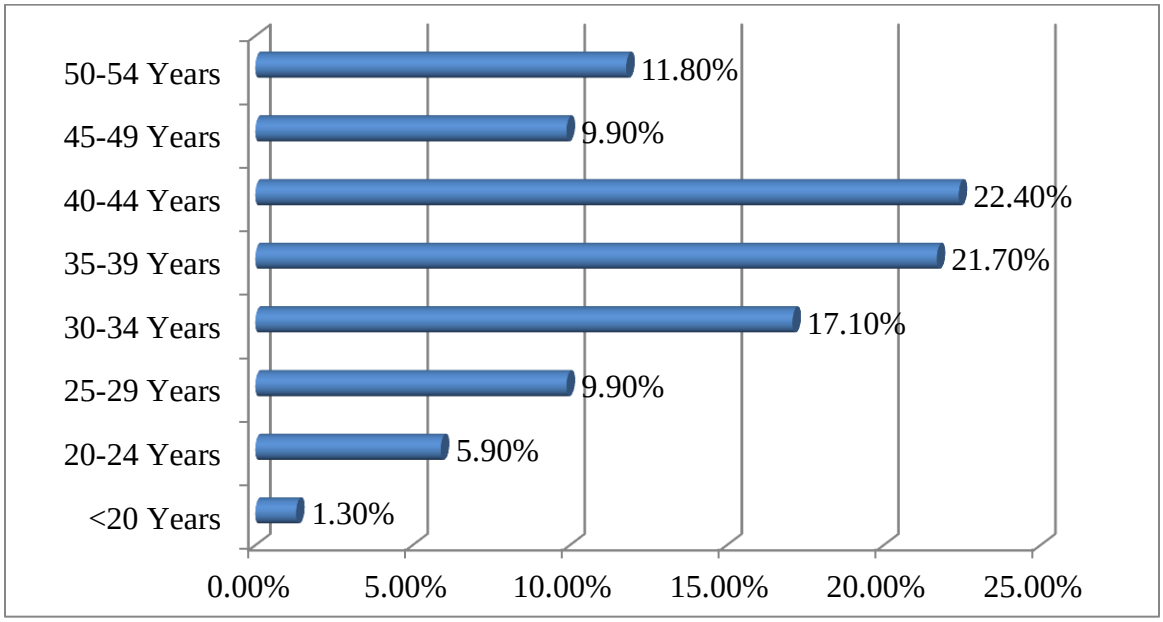

Figure 1.4: Age of the respondents

Marital Status and Education Level of the Respondents

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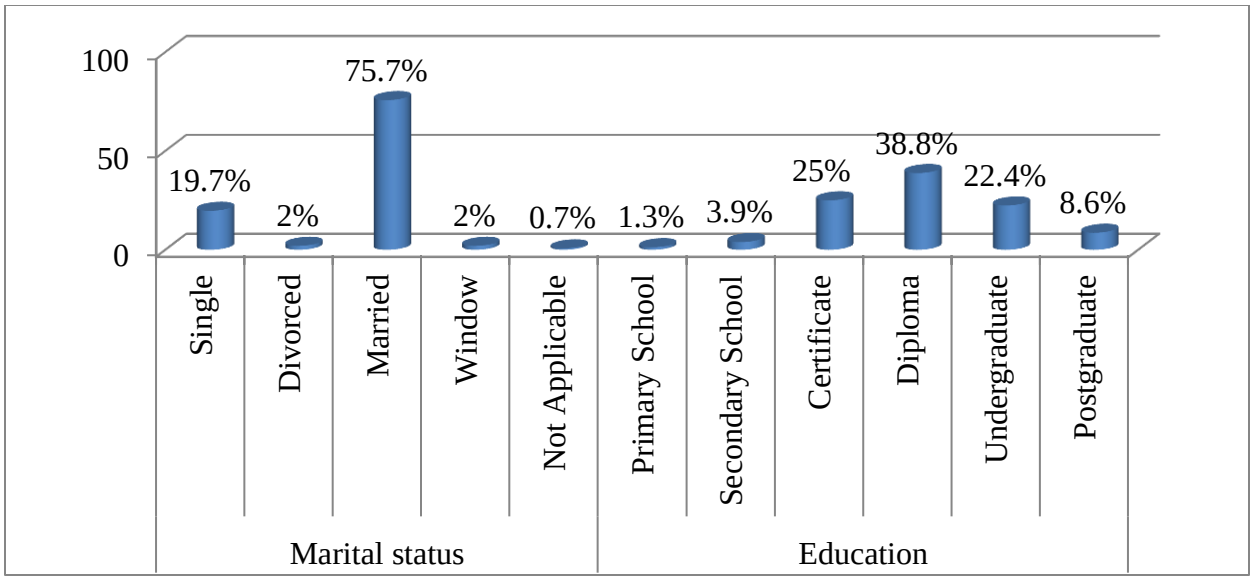

Figure 1.4: Marital Status and Education Level of the Respondents

The majority of the respondents (75.7%) were married while minority 0.7% was of the opinion that, marriage is not applicable. This concur with (Kosgey, Mutai and Lagat, 2018) where 89% of the respondents were married. Meanwhile, majority (38.8%) had a diploma as the highest level of education while the minority (1.3%) held a primary level certificate.

Experience, Terms of Service and Level in the Organizational Structure

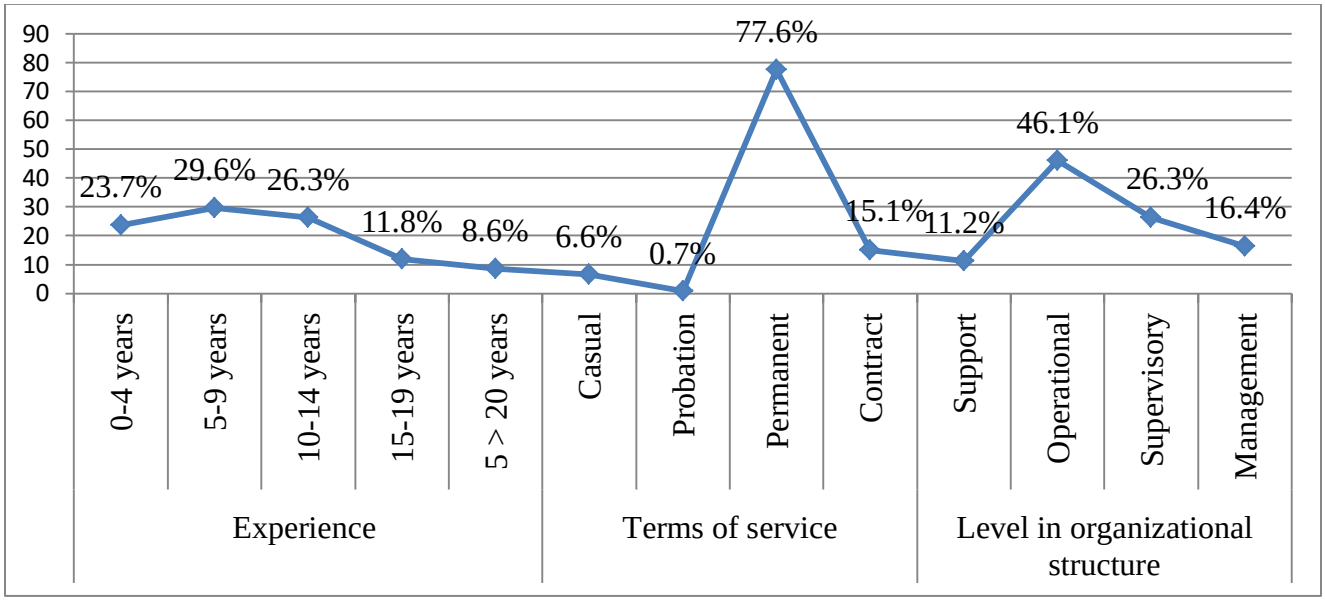

Figure 1.5: **Experience, Terms of Service and Level in the Organizational Structure**

The study revealed that, majority (29.6%) had an experience of between 5-9 years while the minority (8.6%) had an experience of >20 years of age. Majority (77.6%) were employed on permanent terms of service while the minority (0.7%) was on probation. In terms of their levels in organizational structure, majority (46.1%) described themselves as operational while minority (11.2%) described themselves as support staffs.

Table 1.4: Relationship between Employee's Welfare Initiatives and Job Stability

Correlations	Job Stability		
Welfare initiatives	Pearson Correlation	Sig. (2-tailed)	Decision
Sporting Facilities	-.024	.768	Reject $H0_1$, Accept$H1_1$
Housing facilities	-.020	.810	Reject $H0_1$, Accept$H1_1$
Medical facilities	-.040	.628	Reject $H0_1$, Accept$H1_1$
Recreation facilities	-.011	.895	Reject $H0_1$, Accept$H1_1$
Sufficient toilets	-.003	.971	Reject $H0_1$, Accept$H1_1$
Meals allowance	.024	.771	Reject $H0_1$, Accept$H1_1$
Long service grants	-.012	.879	Reject $H0_1$, Accept$H1_1$
Canteen facilities	-.110	.178	Reject $H0_1$, Accept$H1_1$
Paid holidays	.031	.701	Reject $H0_1$, Accept$H1_1$
Rest rooms	-.047	.562	Reject $H0_1$, Accept$H1_1$
Leave policy	-.106	.195	Reject $H0_1$, Accept$H1_1$
Regular salary	-.031	.705	Reject $H0_1$, Accept$H1_1$
Pension policy	-.089	.276	Reject $H0_1$, Accept$H1_1$
Counseling services	-.095	.245	Reject $H0_1$, Accept$H1_1$
Uniforms	.120	.142	Reject $H0_1$, Accept$H1_1$
Clean safe working station	.019	.814	Reject $H0_1$, Accept$H1_1$
Employees funeral assistance	-.033	.688	Reject $H0_1$, Accept$H1_1$
Employees transfer assistance	.006	.937	Reject $H0_1$, Accept$H1_1$

The above table exhbits that, there is a moderate to strong positive significant relationship between medical facilities and job stability of university catering employees. This concurs with (Omonijo, Oludayo, Eche, Uche, and Ohunakin, 2015) that, medical allowance is offered to employees in faith based institutions of higher learning in South-West Nigeria. According to table, there is a strong positive relationship between welfare initiatives; sporting facilities (0.768), housing, (0.890), recreational facilities (0.651) and job stability. This concurs with (Amirnejad and Asploor, 2016) study at Islamic Azad University, which found out that, sporting facilities should be provided to employees working in universities. Meanwhile, there is a strong positive association between housing facilities and job stability. This concurs with (Amirnejad and Asploor, 2016) that, housing provide comfort to the employees. The findings exhibits that, there is a significant strong positive relationship between recreational facilities and job stability. This concurs with (Akala, 2012) that, ''job stability is influenced by recreational facilities''. According to table, there is a significant positive relationship between the welfare initiatives; paid holidays (0.701), leave policy (0.195), staff uniforms (0.142), pension policy (2.76), long service grants (0.879), meals allowance (0.771), canteen facilities, (0.178), sufficient number of toilets (0.971) with job stability of university catering employees. However, there is a moderate significant positive relationship between restrooms (0.562) and job stability. This concurs with (Rawat and Chaubey, 2016) that, restroom facilities increase job satisfaction. The findings on the sufficient number of toilets concur with that of (Shoss, Eisenberger, Restubog and Zgenczyk, et.al., 2013). The findings demostrated a significant relationship on meals allowance, this concurs with (Mohd Joarder. H.R., 2012), study that, HRM practices have a significant impact on effective commitment.

The findings that, there is a significant relationship between long service grants and job stability contrasts the study by (Ruby, 2012) which was conducted at the Central University College of Ghana, where majority (92%) said that, long service awards is provided to a little extent. The findings revealed that, there is a significant positive relationship between paid holidays and job stability. This concurs with (Waleed, 2011) study which was conducted at Edith Cowan University of United Arab Emirates which stated that, ticket allowances enable employees to stay in an organization.The table demostrated that, there is a signifiant positive relationship between welfare initiatives; regular salary increment (.705), clean safe working enivirоment (.814), employees assistance on transfer (0.937) and job stability. The findings on clean safe working stations concurs with contrasts (Shefali and Shikha, 2017) that, employees welfare activities assist the employees to develop a sense of belonging. The findings further demostrated that, there is a significant moderate to strong positive relationship between employees funeral assistance and job stability.

Hypothesis Testing: Employee's Welfare Initiatives and Job Stability

The study determined the relationship between employee's welfare initiatives and job stability of catering employees in selected universities within the Nairobi City County, Kenya. The study tested the following hypotheses stated in null and alternative forms.

H02: there is no significant relationship between employee's welfare initiatives and job stability of university catering employees in Nairobi City County, Kenya

H12: there is a significant relationship between employee's welfare initiatives and job stability of university catering employees in Nairobi City County, Kenya.

Chi-Square test was done to establish whether there was a significant relationship between employee's welfare initiatives and job stability of university catering employees in Nairobi City County, Kenya. A p-value of <5 was considered as significant and the results were as shown;

Table 1.6: Hypothesis Testing: Employee's Welfare Initiatives and Job Stability

Welfare Initiatives	Chi-Square	df	P-Value (Asymp. Sig.)
Sporting Facilities	14.118[a]	4	.007
leave policy	8.855[a]	4	.065
Salary increment	5.039[a]	4	.283
A comprehensive pension policy	47.276[a]	4	.000
Sufficient number of toilets	68.592[a]	4	.000
Meals allowance	98.789[a]	4	.000
Long service grants	82.671[a]	4	.000
Canteen facilities	70.895[a]	4	.000
Counseling services	49.053[a]	4	.000
Housing facilities	77.408[a]	4	.000
Paid holidays	98.592[a]	4	.000
Recreation facilities	46.092[a]	4	.000
Rest rooms	71.355[a]	4	.000
Medical facilities	78.395[a]	4	.000
Uniforms	118.789[a]	4	.000
Safe and clean working station	123.921[a]	4	.000
Employees assistance on death	9.645[a]	4	.047
Employees assistance on transfer	4.908[a]	4	.297
Job Stability	150.566[a]	4	.000

The findings presented an x^2=14.118, DF*=4 and the p=0.007 which is < 0.05. With a significance level < 0.05, (0.000) < the H11 was accepted while the H01 was rejected. The results showed that, there is a significant

relationship between employee's welfare initiatives and job stability of university catering employees in Nairobi City County, Kenya. The implication of this x^2 test result is that, welfare initiatives can be attributed to job stability of university catering employees in Nairobi City County, Kenya. The same can be said of all the other welfare initiatives on the table shown with the exception of; (leave policy, salary increment, Employees assistance on death and Employees assistance on transfer). This means that, there is no significant relationship between employee's welfare initiatives (leave policy, salary increment, Employees assistance on death and Employees assistance on transfer) and job stability of university catering employees in Nairobi City County, Kenya

Table 1.7: Summary of Hypothesis Testing.

Hypothesis	Level of significance	Acceptance/Rejection
H02: there is no significant relationship between employee's welfare initiatives and job stability of university catering employees in Nairobi City County, Kenya	Pearson Chi-Square coefficient=14.118 P-value = 0.007 P-value is < 0.05.	H11 is accepted.
H12: there is a significant relationship between employee's welfare initiatives and job stability of university catering employees in Nairobi City County, Kenya.		

The findings presented a p-value of (0.000) which is less than 0.05 as shown in the table above. The findings of hypothesis testing presented a p-value of (0.007) as shown in the table above. The alternative hypothesis was accepted indicating that, there is a significant relationship between employee's welfare initiatives and job stability of university catering employees in Nairobi City County, Kenya.

SUMMARY, CONCLUSIONS AND RECOMMEDATIONS

Introduction

The study sought to establish the relationship between welfare initiatives and job stability of university catering employees in Nairobi City County, Kenya.

Relationship Employee's Welfare Initiatives and Job Stability

The objective sought to establish the relationship between welfare initiatives and job stability of catering employees in selected universities within the Nairobi City County, Kenya. The two tailed Pearson correlation results revealed that, there is a moderate to strong positive significant relationship between medical facilities and job stability of university catering employees. According to the findings, there is a strong positive relationship between welfare initiatives; sporting facilities (0.768), housing, (0.890), recreational facilities (0.651) and job stability. Meanwhile, there is a strong positive association between housing facilities and job stability. The findings exhibits that, there is a significant strong positive relationship between recreational facilities and job stability. According to table, there is a significant positive relationship between the welfare initiatives; paid holidays (0.701), leave policy (0.195), staff uniforms (0.142), pension policy (2.76), long service grants (0.879), meals allowance (0.771), canteen facilities, (0.178), sufficient number of toilets (0.971) with job stability of university catering employees. However, there is a moderate significant positive relationship between restrooms (0.562) and job stability.

Recommendations

1. Universities management should invest more on welfare initiatives of catering employees in universities. Particularly, they should concentrate on those which had strong relationship with job stability such as; sporting facilities and recreational facilities.

2. Universities management should revise welfare initiatives at least twice a year using a participative approach where members of a certain specific specialization are grouped and allowed an opportunity to give their views on the performance of existing ones and propose new ones for onward discussion with the university councils.

3. Involving employees in decision concerning their welfare initiatives should be embraced by the universities management to ensure that, their real needs are addressed.

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The effect of physical evidence strategy on performance of Alcohol Manufacturing and Distributing Firms in Kenya

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Abstract

Background: The centrality of adopting an effective physical evidence strategy has long been recognised as a strategic priority for both researchers and business practitioners.

Purpose: The purpose of this study was to establish the effect of physical evidence strategy on performance of Alcohol Manufacturing and Distributing Firms in Kenya.

Method: Primary data methodology was adopted, which involved use of structured questionnaires administered to a sample of 64 respondents selected from 32 companies that have concrete company structures with marketing and sales departments. A purposeful sampling technique was used to select participants. The unit of observation was 2 respondents per firm thus a population of 64 employees participated in the study. Data collected was coded and entered into SPSS version 21 software and analysed quantitatively to generate descriptive and inferential statistics.

Results: Findings from the study revealed a strong correlation between physical evidence strategies and performance of alcohol manufacturing and distributing firms in Kenya (r=0. .814). Additionally, physical evidence strategy have a positive and significant relationship with the performance of Alcohol Manufacturing and Distributing Firms (r=0.880; p=0.00, p<0.05).

Conclusions: The study concluded that physical evidence strategy significantly affects the performance of Alcohol Manufacturing and Distributing Firms.

Recommendation: The study recommends that alcohol manufacturing and distributing firms need to create physical evidence that makes them identifiable by the customers.

Key words: ***physical evidence, marketing, strategy, Alcohol Manufacturing and Distributing Firms in Kenya.***

1.0 Introduction

1.1 Background

The global business environment is characterized by increased competition emanating from both local and international organisations. The dynamics and complexities that define the modern-day market environment continue to threaten business success (Amondi, Senaji &Thuo, 2017). Businesses are striving to maintain their competitive advantages through implementation of relevant marketing strategies for purposes of strengthening shares and overcoming the jaws of cutthroat competition (Adewale, Adesola, & Oyewale, 2013). Owomoyela *et al*. (2013) defines a marketing strategy as a way of providing customers with quality products that satisfy their needs and also providing competitive prices that are affordable through effective promotion and distribution strategies. Marketing strategies are embedded in the 7P's of the marketing mix including product, price, promotion, placement, people, processes and physical evidence (Amondi, Senaji &Thuo, 2017). However, only physical evidence as a marketing strategy is given attention in this study.

Physical evidence strategy refers to all the tangible traces of a business or company that customers encounter prior to buying of goods/ services. These include waiters, agents, branding outlets of companies among others (Gongera, 2012).Physical evidence and personality of a firm are fused together to produce desired wishes of the firm in the market place (Betts, 1994). Physical evidence includes: the design and construction of the facility, well-groomed employees, clean and well maintained premises, well-manicured lawns, good food and beverage facilities with excellent presentation. The surrounding and visible cues greatly impact client impression concerning the product or services they receive. This physical evidence includes company image, company structure, trademark and company colour (Wawira, 2016).

Business organisations aim to improve performance through implementation of physical evidence strategy. According to Dalgic (2013), the performance of an organization is equated to how the firm is able to compete in the industry by attaining efficiency in production process which results to market sustainability. The quantification of different result activities within a firm on a given period of time is used in measurement of performance (Juma & Okibo, 2016). In the process of measuring performance there is the need to establish a link between objectives and firms results. The methods that most organisations use to measure performance include the balanced scorecard, Deming model, and the BALDRIGE model.

The beverage industry has a significant role in the economic development of the country through taxes and creation of employment. Kenya Revenue Authority reveals that as at 31st January 2018 there are 263 alcohol beverage firms in Kenya. NACADA is responsible for regulating production, marketing and consumption of alcohol in the country.

1.2 Problem

Achievement of Kenya's Vision 2030 is anchored on incorporating the manufacturing sector as a key pillar. The sector is projected to grow at 8% annually over a period of 20 years for the realization of the vision 2030. However, the inability of manufacturing firms to grow at the target rate is threatening the realization of vision Kenya's 2030, this is because the targets are achievable if the sector is making realistic profits. Furthermore, several studies done on marketing strategies and performance (Adewale, Adesola and Oyewale, 2013; Amondi, Senaji and Thuo, 2017; Arasa and Gathinji, 2014; Ardjouman and Asma, 2015). However, these studies were centred on developed and other countries other than Kenya. Additionally, most of the previous were largely were centred on the 4ps marketing strategies. Therefore, the study sough to address this gap by investigating the effect of marketing strategies by bringing in a different dimension namely physical evidence and analyse how it affects performance of Alcohol Manufacturing and Distributing Firms in Kenya.

1.3 Objective

To establish the effect of physical evidence strategy on performance of Alcohol Manufacturing and Distributing Firms in Kenya.

1.4 Research Question

What is the effect of physical evidence strategy on performance of Alcohol Manufacturing and Distributing Firms in Kenya?

1.5 Significance

Findings from the study will assist them in the management of the firms which may lead to greater performance of these firms. Similarly, the study may be beneficial to the Kenyan state policy makers in formulating policies that may enhance the performance of Alcohol industry which in turn may boost the economy. Furthermore, the research findings may be beneficial to academicians and researchers who may find gaps in the existing literature and further research on other variables that have an impact on the phenomena of performance. In addition, the research findings may be of relevance as it may create new knowledge to be added to the existing ones.

2.0 Literature Review

2.1 Theoretical Review

2.1.1 Competitive Advantage Theory

This theory was put forward by Michael Porter in 1985, and it postulates that countries and organizations should make use of policies that allow the production of good quality goods that are supposed to sell at very suitable prices within markets. Porter (1985) emphasizes that the growth of productivity growth as being highly related to national strategies. Competitive advantage describes the ability gained with the applications of attributes and resources to perform better than others that they are related with in the sector. The study of competitive advantage has ensured that huge research takes place within organizations that put it into good use. A firm has a competitive advantage when it uses strategies that are not widely used by other firms (Karaba, 2012).

This theory is good for this study as it postulate that unique feature of a firm gives a firm an edge over its competitors in the business environment and thus, leading to greater performance. This can be link to the physical evidence strategy of a firm which leads to greater performance of that firm. The presence of sales representative and other company features boost sales which in turn enhance performance. Therefore, when strategies are implemented effectively, it brings about the superior performance of an organization by providing it with competitive advantage to outshine market participants (Passemard & Calantone, 2000). In ensuring that there is competitive advantage, a business strategy of an organization should manipulate the various resources which is able to control, and these resources have are capable of bringing about advantages regarding competition *(Powell, 2001)*.

2.1.2 The Balanced Scorecard Model

This model was brought forth by Kaplan and Norton in 1992 to provide managers and executives with efficient and effective ways of assessing performance. Both financial and non-financial measures are relevant under this model. The balanced scorecard model considers a variety of perspectives including customer, financial, internal business process, and learning and growth perspectives when evaluating performance. Companies concentrate on processing, delivering and manufacturing, as well as the development of products as examples (Martins, 2015). The foundation of this view is associated with the perspective of customers, considering that to keep customers satisfied, a firm has to concentrate on its components which are important to them. If late delivery leads to dissatisfaction of target customers, a firm must then focus on the internal process of refining the current system in use or develop a more

efficient and effective delivery system. To accomplish this, managers are busy carrying out effective analysis and integrating new innovations. (Wawira, 2016).

2.2 Empirical Review

2.2.1 Physical Evidence Strategy and Performance

Amondi *et al.*, (2017) assessed the effects that come along with marketing strategies regarding the performance of the water and sewerage companies in Kenya. The study was more concerned with NCWSC. It adopted a research design that was descriptive in nature and involved descriptions and observations with regard to the behavior of a subject without including any manipulation, the target population was 300 and a sample size of 171 respondents was used. The sampling design was random sample and the data collection method was questionnaires. The findings of the study indicated that physical evidence impacts positively on performance of NCWSC. It was more concerned with NCWSC in Kenya. The current study will address this gap by focusing on Alcohol Manufacturing and Distributing Firms in Kenya.

Dzisi and Ofosu (2015) studied the effect of marketing strategies on the performance of SMEs in Ghana in terms of their profitability, brand awareness and market share. The variables considered in the study were customer service strategy, physical evidence strategy and product repositioning strategy. The study made use of correlation and regression analysis, the results of the study indicates that physical evidence has a positive and significant effect on performance of SMEs in Ghana. Notably, the study was centred on SMEs in Ghana. The current study will be based on Alcohol Manufacturing and Distributing Firms in Kenya.

A study was conducted by Ebrahim & Hussain (2010) regarding the development of products development and how commercial banks perform. Physical evidence and performance were the independent and dependent variables of the study respectively. The study was based on a multiple regression analysis. Findings derived from the study indicate that physical evidence has a positive and significant effect when it comes to how commercial banks perform. In addressing the contextual gap, the study in question will be based on Alcohol Manufacturing and Distributing Firms in Kenya.

A study by Wawira (2016) explained how marketing strategies such as physical evidence strategy affected performance of Large Hotels in Nairobi City County. The population comprised of all the large hotels in Nairobi registered and licensed by the Tourism Regulatory Authority. Only five and four star hotels based in Nairobi were studied. This made a total of 30 hotels. The findings from multiple regression analysis show that product development strategies had a positive relationship with performance of Large Hotels in Nairobi County, Kenya. The study concluded that marketing strategies positively affects performance of large hotels in Nairobi. The study recommends that top priority should be given to marketing strategies.

2.3 Conceptual Framework

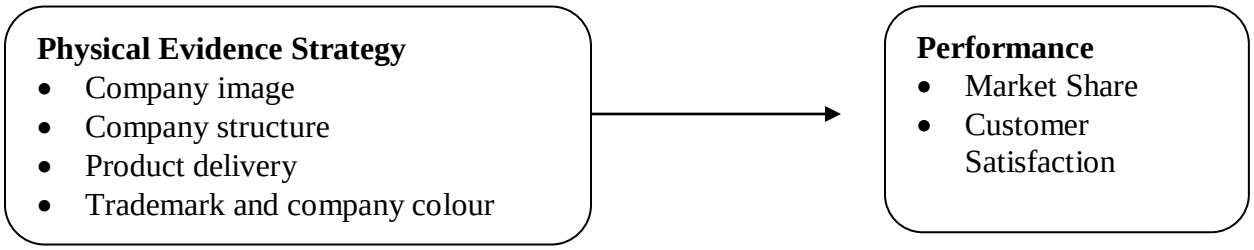

Fig 1: Conceptual Framework

Source: Researcher, 2019

3.0 Research Methodology

A descriptive research design was adopted in this study. The target population of the study will be 32 Alcohol Manufacturing and Distributing Firms in Nairobi, Kenya. For the current study, the target population of the study will be 32 Alcohol Manufacturing and Distributing Firms in Nairobi, Kenya. The study adopted a multiple regression model for the analysis of the study. The multiple regression model took the form of:

$Y = \beta o + \beta_4 X_4 + \alpha$

Where:

Y = performance;

X_4= Physical Evidence Strategy

B_0=Constant

The purposive sampling was used in selecting alcohol and distribution firms out of the 263 listed by KRA according to their establishment and structure. According to Mugenda and Mugenda (2003), a descriptive design sample size must be between 10-30% of the population. Thus, a sample of 32 alcohol and distributions firms was used which is about 12.2% of the population. The brand marketing managers and sales representative were the respondents of the study. Therefore, a sample of one brand manager and one sales representative from the 32 firms was retrieved through the questionnaire. Thus, the total was 64 respondents.

The research instrument for data collection is questionnaire. Data was collected using structured research questionnaires (closed ended questions) which were pretested in a pilot study and necessary adjustments made thereafter. The questionnaires comprised of a likert scale of 1 to 5 which aided in assigning numerical values to the responses. The researcher employed both descriptive and inferential analysis in analyzing the study data. Validity and reliability of the research instruments were confirmed before data collection and making conclusions. Prior to data collection and eventual processing of data, the researcher ensured that the current study adheres to all ethical standards governing research. A research permit was obtained from National Council of Science and Technology (NACOSTI) and the consent of respondents sought before administering the questionnaires to them.

4.0 Findings and Discussions

4.1 Reliability Tests

The study used Cronbach alpha to test for reliability of data. The acceptance value of 0.70 was used as cut-off of the reliability for the study. Results are presented in table 1.

Table 1: Reliability Statistics

Variable	Cronbach alpha	Items	Comments
Physical evidence	0.980	10	Acceptable

The study findings indicated that the data instruments were reliability with a Cronbach alpha Value of above 0.70.

4.2 Descriptive Analysis of the Indicators of Physical Evidence

The objective was to establish the effect of physical evidence strategy on performance of alcohol manufacturing and distributing firms in Kenya. The participants of the study responded on statements related to physical evidence strategy. Result findings were presented in table 2.

Table 2: Physical evidence strategy and performance

Statement	Strongly Agree	Agree	Don't Know	Disagree	Strongly Disagree	Mean	Std Dev
High company image aids in driving consumption of the company products.	44.6%	25.0%	1.8%	16.1%	12.5%	2.3	1.5
Presence of sales representative in outlets improves sales volume.	35.7%	33.9%	3.6%	14.3%	12.5%	2.3	1.4
Products are in line with company reputation	50.0%	21.4%	0.0%	10.7%	17.9%	2.3	1.6
Branding of outlets and staff at outlets with company colours helps to improve sales and market share	44.6%	25.0%	3.6%	7.1%	19.6%	2.3	1.6
Customers are more responsive to products that have the company trademark	60.7%	10.7%	0.0%	5.4%	23.2%	2.2	1.7
Average						2.3	1.6

Results in table 2 shows that the aggregate mean score for place is 2.3 and standard deviation is 1.6. The aggregate mean score round off to a score of 2 on the five point likert scale adopted by the study. This implies that on average the respondents' opinions were divided on whether high company image aids in driving consumption of the company products, presence of sales representative in outlets improves sales volume, products are in line with company reputation had respective mean score of 2.4, 2.3 and 2.3 with standard deviation of 1.5, 1.4 and 1.6 respectively.

Results also indicated divided opinions on whether branding of outlets and staff at outlets with company colours helps to improve sales and market share and customers are more responsive to products that have the company trademark had respective mean scores of 2.2 and 2.3 and with standard deviation of 1.7 and 1.6 respectively. The physical evidence strategy recognizes the importance of physical surroundings on customers. Physical evidence is important since it influences not only consumers' cognitive, emotional and physiological states but also their behaviors. Physical evidence is thus, an element of services marketing mix which enables the consumer to evaluate a firm. The results are in agreement with Amondi *et al.*, (2017) that physical evidence impacts positively on performance of Nairobi City Water and Sewerage Company (NCWSC).

4.3 Descriptive Analysis of the Indicators of Performance

The study assessed the performance of alcohol manufacturing and distributing firms in Kenya. The participants of the study responded on statements related to performance of alcohol manufacturing and distributing firms. Result findings were presented in table 3.

Table 3: Performance of alcohol manufacturing and distributing firms

Indicator	Strongly Agree	Agree	Don't Know	Disagree	Strongly Disagree	Mean	Std Dev
Market share	39.3%	26.8%	5.4%	12.5%	16.1%	2.4	1.5
Customer satisfaction	45.4%	30.5%	15.4%	8.8%	0.0%	1.5	0.7

Average	2.1	1.3

Results in Table 4.8 shows that the aggregate mean score for place is 2.1 and standard deviation is 1.3. The aggregate mean score round off to a score of 2 on the five point likert scale adopted by the study. This implies that on average the respondents' opinions were divided on the performance of alcohol manufacturing and distributing firms measured as market share and customer satisfaction had respective mean score of 2.4 and 1.5 with standard deviation of 1.5 and 0.7 respectively.

4.4 Relationship between physical Evidence and Performance of Alcohol Manufacturing and Distributing Firms in Kenya.

4.4.1 Diagnostic Tests

A test for normality was carried out using the Kolmogorov-Smirnov test using the IBM SPSS software and results presented in table 4below.

Table 4: Kolmogorov-Smirnov Test

	Kolmogorov-Smirnov		
Variable	**Statistic**	**df**	**Sig.**
Physical evidence	0.15	153	0.745

Physical evidence had a significance level of more than 0.05 hence the data was normally distributed.

A multicollinearity test was carried out using the Variance Inflation Factor (VIF) as shown in Table 5.

Table 5: Variance Inflation Factor

Variable	**VIF**	**Comment**
Physical evidence	2.708	No multicollinearity

It was also found that physical evidence had a V.I.F value of 2.708 implying no multicollinearity.

This permitted using regression analysis could to determine the effect of marketing practices on performance of Alcohol Manufacturing and Distributing Firms in Kenya.

4.4.2 Correlation Analysis

Preliminary analysis was carried out to determine whether there were significant associations between physical evidence strategy and performance of Alcohol Manufacturing and Distributing Firms in Kenya. The results of correlation analysis presented in table 5 indicates a strong association between physical evidence strategy and performance of Alcohol Manufacturing and Distributing Firms in Kenya.

Table 5: Correlation Coefficients Matrix

		Performance
Physical evidence	Pearson Correlation	.814**

	Sig.(1-tailed)	0.000

The results also showed that there was a strong significant positive association between physical evidence and performance of alcohol manufacturing and distributing firms in Kenya (r=.814, p=0.000).The results are in agreement with Amondi *et al*., (2017) that physical evidence impacts positively on performance of NCWSC.

4.4.3 Multiple Regression Analysis

The research question was answered through regression physical evidence strategy (independent variable) on performance of Alcohol Manufacturing and Distributing Firms in Kenya (dependent variable). The relevant results are presented in Tables 6(a-c).

Table 6(a): Goodness-of-fit for physical evidence strategy

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	.814	.663	.657	.23324

Table 6(a) present model fit statistics for the regression model fitted to the data. The results show that physical evidence explains 65.7% of variation in the performance of alcohol manufacturing and distributing firm. Physical evidence strategy refers to all the tangible traces of a business or company that customers encounter prior to buying of goods/ services. These include waiters, agents, branding outlets of companies among others (Gongera, 2012). Physical evidence and personality of a firm are fused together to produce desired wishes of the firm in the market place. Physical evidence includes: the design and construction of the facility, well-groomed employees, clean and well maintained premises, well-manicured lawns, good food and beverage facilities with excellent presentation.

Table 6(b): ANOVA for the Regression of physical evidence strategy

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	5.774	1	5.774	106.127	.000
	Residual	2.938	54	.054		
	Total	8.711	55			

Table 6(b) presents the Analysis of Variance (ANOVA) statistics. The results indicate that the model with one predictor variable (physical evidence) was statistically significant and predicts the dependent variable (performance of alcohol manufacturing and distributing firm). This results is supported with the F-Statistic equal to 106.127and the calculated p-value equal to 0.00<0.05. The results agree with Dzisi and Ofosu (2015) that physical evidence strategy significantly affects the performance of SMEs in Ghana in terms of their profitability, brand awareness and market share. The surrounding and visible cues greatly impact client impression concerning the product or services they receive.

Table 6(c): Significance of the Regression of physical evidence strategy

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.046	.132		.350	.728
physical evidence	.880	.085	.814	10.302	.000
Dependent Variable: performance					

The regression coefficients of the model were presented in Table 4.15 (c). From the analysis, physical evidence was found to have a positive and significant relationship with performance of alcohol manufacturing and distributing firm (r=.880, p=0.000<0.05). This means that a unitary increase in physical evidence will lead to a corresponding

.880 unit increase in performance of alcohol manufacturing and distributing firm. Physical evidence enhances firm's visibility. The physical evidence is the outward appearance of the organization and thus can be critical in forming initial impression or setting up customer expectations. Therefore, the ability of physical surroundings to facilitate achievement of organizational as well as marketing goals is apparent. The results agree with Ebrahim *et al.* (2010) that physical evidence has a positive and significant effect on firms' performance.

The specific model was:

*Performance of alcohol manufacturing and distributing firm =.046+.880*X_4

Where X_4 is physical evidence.

The results also showed that physical evidence and performance of Alcohol Manufacturing and Distributing Firms in Kenya have a positive and significant relationship (r=.465, p=.000).The results agree with Ebrahim *et al.* (2010) that physical evidence has a positive and significant effect on firms' performance.

5.0 Conclusions

The objective of the study was to establish the effect of physical evidence strategy on performance of Alcohol Manufacturing and Distributing Firms in Kenya. Correlation analysis revealed a strong significant positive association between physical evidence and performance of alcohol manufacturing and distributing firms. Regression analysis indicated that physical evidence and performance of Alcohol Manufacturing and Distributing Firms in Kenya have a positive and significant relationship. Physical evidence was found to be satisfactory in explaining performance of Alcohol Manufacturing and Distributing Firms in Kenya.

Physical evidence strategy significantly influences the performance of Alcohol Manufacturing and Distributing Firms. Physical Evidence (services cape) could be seen as the environment in which the service is assembled and in which the seller and customer interact; combined with tangible commodities that facilities performance or communication of the service. The physical evidence strategy recognizes the importance of physical surroundings on customers. Physical evidence is important since it influences not only consumers' cognitive, emotional and physiological states but also their behaviors. Physical evidence is thus, an element of services marketing mix which enables the consumer to evaluate a firm.

6.0 Implications

The study established that physical evidence is satisfactory in explaining performance of Alcohol Manufacturing and Distributing Firms in Kenya. The revelation that physical evidence significantly explains performance of Alcohol Manufacturing and Distributing supports the postulations of Competitive Advantage Theory that that unique feature of a firm gives a firm an edge over its competitors in the business environment and thus, leading to greater performance.

7.0 Recommendations

Based on the findings of the study, physical evidence enhances firm's visibility. The physical evidence is the outward appearance of the organization and thus can be critical in forming initial impression or setting up customer expectations. Therefore, the ability of physical surroundings to facilitate achievement of organizational as well as marketing goals is apparent. The study recommends that alcohol manufacturing and distributing firms need to create physical evidence that makes them identifiable by the customers.

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International Business Research and Industrial Conference (IBRIC), 20th -21st June 2019
ISBN 978-9966-132-53-6 @ Copy Right .2019

Sti In Adolescents In Kenya

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Absract

Introduction

In the past years, the government of Kenya through National AIDS and STI Control program (NASCOP) has made known of HIV prevention, treatment and care to everyone. There have been massive efforts and strategies/ innovations like introduction of PrEP and PEP which is helping in minimizing HIV transmission. Despite these efforts, it is noted that the rate of STIs in adolescent is on the rise. I therefore, sought to know what can be done urgently to help the public especially the adolescent from this alarming situation.

Methods

The researcher looked into the ongoing Prevention Options for Women Evaluation Research (POWER) study; PrEP implementation Science to AGYW 16 to 25 year's females conducted in Kisimu in JOOTRH and KMET from September 2018 to date. (By Prof. Bukusi etal; not yet published).

Results

The prevalence who go tested positive of gonorrhea between September 2018 to January 2019 was 23(6%), 33(9%). Those who got tested positive of Chlamydia were 58(16%), 77(20%) and gonorrhea and/Chlamydia were 72(19%) and 96(25%) for Kisumu JOOTRH and Kisumu medical and education Trust (KMET) respectively.

Conclusion /Recommendation

When left untreated, syphilis not only kills and gonorrhea/chlamydia causes infertility but also facilitate HIV transmission and thus impedes the Nations progress towards elimination of HIV in Kenya. These calls for urgent/rapid education on STI prevention, treatment and care even as loud as HIV. Testing of STI should be up scaled in facilities to enable early diagnosis and treatment. Parents are also called upon to make their homes friendly and where sexuality and morals are taught.

Determinants Of E-Commerce Adoption In The Tourism Sectorin Nairobi County: A Case Study Of Tours And Safaris Firms.

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Business Administration -Strategic information systems

International Business Research and Industrial Conference (IBRIC), 20th -21st June 2019
ISBN 978-9966-132-53-6 @ Copy Right .2019

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Abstract

The use of Information technology has grown tremendously in the businesses. The use of Information Technology by businesses is vital in determining their performance. Various methods of operating businesses have been used in the past year, but above all, E-commerce is the newest and rapidly evolving way of doing business .Tour firms in Kenya have adopted E-commerce but they are yet to utilize it fully. Studies have been carried out concerning the adoption of e-commerce by the Small and Medium Sized firms. The study hence tried to find out the factors affecting electronic commerce in the tourism industry with the main focus being on the Tour and Safaris firms in Nairobi town. The objectives of the study were; to find out the technological, organizational and environmental factors that affected the adoption of electronic commerce in the Tours and safaris firms. In addition, the study also tried to establish the level of electronic commerce adoption by the Tour and Safaris firms. The study population was 292 tours and Safaris firms. Descriptive research was utilized in the study where it was established that the Tour and the safaris firms had already adopted the electronic commerce. Additionally, majority of the firms had few employees and hence were termed to be Small and Medium Sized firms. It was also established the firms' managers were young and learned. The size of the firm, age and gender greatly influenced the adoption of electronic commerce .The study also found out that the firms had already adopted the e-commerce and it was mainly applied in the marketing of their products, customer care services and electronic payment systems.

Key words: ***E-commerce adoption, E-tourism, E- hospitality, E- tour operators, E -destination,E-tour agencies,tours and safaris firms.***

Introduction

Background of the Study

The information technology sector has really grown at a higher rate for the past few years. This has happened at the 21st century and has continued to grow up to this century. The introduction of the internet has solved many problems such as the dissolution of physical borders hence making people all over the word keep in touch. The information era has grown tremendously because of the internet .The internet has made available information which is useful to people especially through the web. At the beginning, the scientific, military and academic research used the internet at a higher rate, however this has changed with time and the internet has been used mostly for communication purposes. The expansion of computer networks has come along with its own benefits such has enabling communication globally. The internet is currently being used in businesses and majorities have adopted this concept in their organizations. The process of conducting businesses through the internet is known as electronic commerce or electronic business.

Many authors have defined e-commerce in different ways. For instance Turban and Chung, 2010 define e commerce as a process of buying and selling of goods as well services through the computer. Schneider,G.P (2003) defined e-commerce as the use of electronic data transmission for implementation and enhancing of business processes. He reported that e-commerce actually encompassed many more business activities other than shopping over the web. He further said that some businesses used the term e-business to mean e-commerce in a broad perspective. He argued that, for decades business organizations have been using different electronic communication tools in conducting different business transactions .For instance the banks have been using EFTs to transfer customers' money globally. They also have been using EDI to place orders and send business documents such as invoices and

the retailers have also been able to use advertisements in generating orders. Kenya has also not been left behind in these developments. There has been the upgrading of the internet system in terms of the infrastructures as well as the installation of a very fast telecommunication network. These developments have seen many businesses being technology oriented and are now shifting into using the e-commerce in conducting their businesses. Electronic commerce therefore has made firms increase their sales as well as reducing operating costs such as handling sales inquiries, provision of price quotations and determining of available goods and services (Schneider, G.P,2003)

According to world stats, Africa was home to 167 million internet users in June 2012, this number has tremendously grown (2000-2019) at a rate of 10.815% with a penetration rate of 37.3%. This penetration is low in comparison to the developed countries such a South America (89.4%). Subsequently, the tourism industry for the past 30 years has been affected by the emergence of ICT for example in the early 1970's the Computer Reservation System (CRS) and the Global Distribution System (GDS) which happened in the 1980's and the developments of internet in the 1990's have caused revolutions in the tourism sector. According to the European Union E-business Market Watch (2004) the internet has had a very great impact in the tourism industry. The tourism industry in Kenya has continued to make forays into the Kenyan retail segment. Despite the fact that companies have seen the importance of adopting the e- commerce as their alternative source of information, there are some challenges that these firms face. The study seeks to investigate these factors that determine the adoption of the e-commerce especially by the tour firms.

Statement of the problem

The preceding background of the study clearly shows a very large gap between the developing and most of the developed countries regarding the implementation of electronic commerce. This has caused a digital divide between the African countries especially Kenya and other developed country in the world. There is diminutive information that has been recognized regarding the electronic commerce adoption in Kenya. The existing data has shown that there is gradual adoption of e-commerce hence deterring the advancement and efficiency of business functions. Crespi et.al (2004) and Al-Qirim(2001) established that there is little investments in e-commerce by firms which has caused a slow uptake in changing business processes. This in turn has also affected its growth. From the above reasons, the third world countries such as Kenya have not completely acquired all the advantages a business gets by investing in e-commerce.

Studies have been carried out concerning the adoption of e-commerce by Small and Medium Sized firms such as the Tour and safaris firms. Majority of these studies have been focused on some developed countries such as Egypt(Abdel Nasser,2002), Libya(Mohamed Ibrahim et.al.,2011) ,Jordan (Sattam Alamro,2011) , Saudi Arabia (Clegg.B.et.al., 2011) , China (wang, 2009) and New Zealand (Al-Qirim, 2007).There have been handful studies done in the Less Developed countries; Iran (Afzul,2008), Nigeria (Aghaunor.L.et.al., 2006) and Indonesia (Nazir.R.et.al., 2012).A few studies have been done on the adoption of e-commerce in evolving economies(Wang.et.al,2010).

Research objectives

The main objective of the study was to examine the determinants of electronic commerce. The specific objectives of the study were;

1. To find out the organizational determinants of e commerce adoption in the tourism sector in Nairobi County
2. To examine the environmental factors of e-commerce adoption in the tourism sector in Nairobi County
3. To establish the technological factors of e-commerce adoption in the tourism sector in Nairobi County.

Scope of study

The study concentrated on the Tours and Safaris firms in Nairobi. The firms studied were those registered by the Kenya Association of Tour Operators (KATO).A population of 292 Tours and safaris firms was used as the study

sample. The main factors examined in the study were; technological, environmental and organizational determinants. The study also concentrated on establishing the main application of electronic commerce used by the firms. These applications included electronic marketing, electronic customer service and electronic procurement .

Significance of the study

The study will be useful to the academicians in that it will help them become aware of the situation on ground concerning e-commerce in the tour firms in Kenya. These will include understanding of the extent of e-commerce adoption and the advantages a firm gets when it adopts e-commerce. The study would also help them to be aware of the main determinants of e-commerce.

The research will also be of significance to the tour firms and the government of Kenya. The information from the study will help them learn how to deal with problems in e-commerce and how they can also speed up the adoption of e-commerce by the tour firms. The study will also help deepen awareness within the tourism sector on the need to conduct business online for greater efficiency and customer satisfaction.

Litereture Review

Theoretical literature

Consumer's behavior regarding their perception on adoption of e-commerce has been explained with the aid of numerous theories. These theories include; TPB(Theory of planned Behavior),TAM(Technology Acceptance Model),TRA(Theory of reasoned Action) ,Diffusion of Innovation Theory(DOI) and Technological, organizational and environmental model (TOE).

Theory of Reasoned Action (TRA)

The Theory of Reasoned Action was developed by Martin Fishbein and Icek in 1967 to enhance the understanding of how attitudes and behavior are related (Ajzen & Fishbein,1980). The theory was plainly concerned with behavior. It also recognizes that there are factors that limit the influence of attitude of behavior. It predicts behavioral intention, and uses two elements, attitudes and norms to predict behavioral target. The theory further predicts that behavioral intent is created or caused by two factors; attitudes and subjective norms.

Subject norms have been defined as the "person's perception that most people who are important to him think he should or should not perform the behavior in question". According to TRA, a person's attitude towards a behavior is determined by his beliefs on the consequences of the behavior, in addition of his evaluation of these consequences. The TRA has been criticized in that it has neglected the importance of social factors that tend to be a factor in influencing individual behavior(Grandon&Mykytyn,2004). The theory does not explain the beliefs that predict particular behavior.

This theory was used in the study to explain consumer decision processes. The consumers who use the internet tend to have different behaviors related to consumer processes such as motivation and need recognition, information search, alternatives evaluation, purchase decision and purchase outcomes. The study focused on the internet behavior that consumers have such as the use of banner ads in e-marketing, e-mail communication and information search on the website.

The theory was also significant in analyzing the effects of interventions on behavior. For instance it was used in assessing the fundamental factors that could be used in encouraging the top management towards promoting the adoption of e-commerce. It was utilized in investigating the essential factors that can be used in encouraging the top management towards promoting the adoption of e-commerce.

Technology Acceptance Model (TAM)

This theory was developed by Davis (1986) and it is based on the Theory of Reasoned Action. The model concentrates more on the perception of individuals or organizations towards the usefulness and how easy it is to use technology. The TAM focuses mainly on the prediction of the acceptability of an information system. The model has been used in predicting the acceptability of a tool and to identify the improvements which might be done to the system so as to make it acceptable.

According to the model, the degree of individuals to accept an information system is influenced by two main factors; *perceived usefulness and perceived ease of use.* Davis (1989) emphasizes more on the impact the use of a certain system would have on an individual besides his/her attitude. Thus, even if workers do not welcome a certain Information System, the likelihood of him/her using it will be high if he perceived that the system will improve his performance at work. TAM links the perceived usefulness and the perceived ease of use. For instance, if two systems offer similar features, a user will attach more usefulness to the one that he/she finds easier to use (Dillon, 1996)

This model was important in the study because it assisted in the determination of the factors that influence e-commerce adoption in terms of its perceived usefulness. According to OECD (2004), the benefits of using ICT are many. They include enhanced information in terms of speed, availability of information whenever it's needed and also enhances customer care service whereby they can be served anytime on line. This in turn improves the efficiency of a business since it is easy to get immediate feedback.

Theory of Planned Behavior (TPB)

In 1985, Ajzen introduced the Theory of Planned Behavior (TPB) useful in management science especially Management Information System. This theory is used in the prediction of individuals' intention to engage in a behavior at a specific time and place. For over 45 years, the TPB has developed from the theories of reasoned action, expectancy value and other motivational theories (Fishbein & Ajzen, 2010). This theory was used by Grandon (2004) to explain the e-commerce adoption in Chile's SMEs. In the study, this theory was utilized to enlighten more on the management such as explaining the changes in manager's behavior and their attitude. Top management support was said to be a key predictor in the acquisition and diffusion of innovations. They further declared that top management could develop a clear cut e-commerce about the importance of its adoption in businesses.

Diffusion of Innovation Theory (DOI)

The Diffusion of Innovation theory (DOI) is among the oldest social science theories. It was first developed in 1962 by E.M. Rogers. This theory has its roots in communication where it's used to explain how an idea or product over time can gain diffusion or spread through a certain population or social system .Diffusion is the process in which an innovation is communicated through certain channels over time in a society (Rogers,1995).

Adoption of new ideas, behavior or products does not happen simultaneously in a social system. It is usually a process whereby some people are more willing to adopt the new ideas than others. According to Rogers (2003),when promoting an innovation to a target population ,it is important to understand the characteristics of the target population that will help or hinder adoption of the innovation. He further established adopter categories and came up with strategies in which firms can use to deal with each category. The categories included; innovators (risk takers) ,early adopters(opinion leaders),early majority, late majority and lastly the laggards.

The stages of adopting a new idea and where diffusion is completed, include; awareness of the need to adopt, decision of adopting or rejecting, the initial use of the innovation and the continued use of the innovation. Rogers (2003) further came up with the factors that influence the adoption of innovations. These factors are; relative advantage, compatibility, complexity, triability and observability.This model mainly focuses on how innovations can influence the adoption of e-commerce. This model was crucial in explaining the attitude and behavior that accompany people in technological adoption.

Technological, Organizational and Environmental model (TOE)

This theory was developed in 1990 by Tornatzky and Fleisher. The theory was developed to explain the adoption and implementation process of IT by firms which influenced by the technological context, organizational context and the environmental context.*Technological context (*includes the internal and external technologies that are relevant to the firm. They include equipment used by the firms such as computers and the processes used), *organizational context:* (encompasses the factors within the firm; firm's resources, the firm's size, degree of centralization and formalization, management structure and human resources), *environmental context (*includes the size and structure of the industry, the competition as well as the legal environment).These elements determine the constraints and opportunities for technological adoption by firms and hence the theory was applicable in determining the factors that influence e-commerce adoption.

Empirical Literature Review

The development and progress of ICT for the past few years has really affected the operations of electronic tourism. According to Buhalis (2011) transformations in ICT over the few years have been tremendous. For instance, in the 70's there was the Computer Reservation Systems (CRS). Later in the 80's the Global Distribution Systems (GDSS) developed. The major transformation took place later in the 90's which saw the emergence of the internet. These changes have had an advance effect in the tourism operations and strategic plans. E-tourism is further subdivided into various categories. These includes; use of ICT for destination purpose, in airlines, hospitality and tour and travel agencies.

E-Hospitality

This is the use of ICT in hotels. The reason to use ICT in hotels is usually done through the various systems such as the PMSs (Property management system). These systems are used for coordination purposes such as in making customers' reservations and managing inventories in the hotels. They are used to bring together various departments in hotels. For example they connect the administration functions (sales & marketing, finance) with other departments (Buhalis, 2011).

Chan & Law (2006), suggest that hotel websites are very important since they enhance communication between the hotel and its customers and also it assists in strategic management. Hotel's strategic management will involve more emphasis on the quality of the website. Considerations for this include the interface, display of information and the navigation should be easy for the customers. These are very crucial in determining how successful the strategic plan will be. Automatic Website Evaluation System (AWES) is very important to enhance the effectiveness of the websites in terms of a better web design.

E-Tour operators

This is the use of internet by tour operators in promotion of their products. It also includes different ways of attracting new customers as well as retaining the existing ones. They also use the internet to decompose their packages and seek individual products (Buhalis,2011).The benefits of using IT in tour firms was first realized in the 80's. Benefits included marketing, supply and order delivery. Management Systems have been developed by the tour firms, for example the TOP (The Thomson's Line Program). This was used for making reservations for customers. Over time, many tour firms in the world had already adopted database in their businesses and also linked travel agents. All these led to a reduction in costs used to handle information hence leading to increase in speed when it comes to transfer of information.

E-Destination and E-Airlines

The use of internet in tourism destination is known as e-destination. Various systems can be used such as the DMSs which assist in destination planning, management and marketing.E-airlines were introduced mainly because of the complexity of airline operation. In the past years airline reservations were made manually in the boards by having a list of all the passengers. Buhali,2011 reported that the growth of air traffic and air transport de-regulation stimulated the expansion of CRS to gigantic computerized networks. Competition in the airlines was enhanced by the CRS. This was made possible by developing the "hub and spoke" systems while their pricing became very complex and flexible.

E-Tour agencies

ICT use by tour and travel agents is increasing at a higher rate especially in providing information. This in turn creates a link between customers and the firms. There are different reservation systems used by tour and travel agents which enable them to check availability and make reservation for tourism products (Buhalis,2011). Travel agents have been using the GDSs to get information on customers and in reservations. In addition they offered internal management modules integrating the "back office"(Accounts, Marketing and Human resource) and "front" office(Order and delivery, history of customers).

Determinants of E-commerce adoption

Environmental Determinants

Environmental determinants of e-commerce adoption are also referred to as e-environment. According to Chaffey.(2004), the e-environment is composed of different factors which includes; social factors, legal factors, economic and competitive factors, political factors and technological innovation and assessment. There many factors that affect internet penetration in countries. These factors include; income, infrastructure, computer ownership, telecommunication availability and pricing, social and cultural traditions, business attitudes, and wireless web access (Strauus, J., 2009).

According to Efraim (2004), e-commerce is so new that the legal, ethical and other public policy issues that are necessary for e-commerce existence are still evolving. Yet, these issues are important in e-commerce as they encompass one of the major pillars that support e-commerce. E-commerce related legal issues include privacy, intellectual property, free speech, and taxation and consumer protection. Consumers thus need to be protected because online businesses gather and use demographic information from users who are afraid that their personal data including credit card numbers or their behaviour on the Net may be sold, used or revealed in an appropriate manner. Additionally (Krishnamurthy, 2003) posits that, a copy right usually protects them with exclusive. Consequently, Lacit (2006) established that there are two main business environments that affect adoption of e-commerce by businesses. They include partners and competitive pressure. Trading partners includes the suppliers and customers. Environmental determinants include the market comprising of customer's tastes and preferences and the population structure of the market.

Afzal (2008) argues that in e-competition we have both starters and adopters. These parties in e-commerce face competition in their businesses irrespective of their levels in the market. They both operate as the compete which led to the same considerations about this factor. E-competition was found to be highly significant in non-adopters. According to McKay (2004) competitive analysis is important and it should be applied in e-business initiatives. This would include considering the industrial factors and competitors, competitive influences exerted along the supply chain, the stability of demand and the likelihood of new entrants. These factors play a major role when it comes to e-commerce adoption by tour firms.

Mamaghani (2009) postulates that there are difficulties related to e-commerce adoption some especially in the tourism sector. Customers' behaviour towards e-commerce can change and this in turn can make customers shift from one tour firm to another. This happens because of the expectations that consumers have regarding the

transaction of business online. Therefore if firms want to adopt e-commerce, there is need for them to be focused on various issues such as the availability of products and services offered, readily available updates on what is being offered online. Consequently, the main consumer activities online includes; connect, create, enjoy, learn and trade (Strauus,J.,2009) ,thus the marketers have a role to play especially in maintaining customer relationship.

Technological Determinants

The technological environment is of significant importance. New markets have changed due to technology. Significant advancements in technology have taken place in the recent years where the ultimate goal of the Global Information Infrastructure (GII) has been' any information, anywhere, anytime'. This has seen two major technological routes being developed to achieve this objective; wireless and broadband landlines (Chen.S, 2005). The internet based technologies have offered many advantages compared to the traditional EDI network such as low costs and reaching of customers globally. The internet technologies have greatly developed and some of the important technological innovations include; PC modems, Word Wide Web, Browsers and Java. These technologies are being used inside (intranets) and outside (extranets) the firms.

Turban (2010), proposed that companies would be forced to adopt a Darwinian way of struggling due to progressing transactions of business online. This includes learning and adapting to the advancements in technology. The firms will also benefit whereby they will be able to test new products in the market hence affecting their strategic plans. Advancements in technology will force the companies to use different organizational plans. Sattam (2011) analysed two major advantages of e-commerce in businesses; improvement in the accessibility of information about products offered by the firms and long term improved customer care services.

According to Chaffey (2004) there is need for e- business managers to have some knowledge on how various determinants can affect the internet usage by the customers. He suggest the following being important in determining e-commerce adoption; financial constraints, individuals not having accessibility to computers, internet connection especially on investment costs. There is need to consider how the websites content are and the navigation of such. Fear of the unknown where some people generally have fear of the technology and new media for example case of fraud and privacy infringement.

Molla & Licker (2005) established that a website is very important when transacting business online. A good website can affect the success of a business. A website should be designed in such a way that the information displayed to customers is attractive to them. There is also need to take care of issues regarding cyber-crimes and privacy of the customers. This in turn will enhance the efficiency of the firms leading to attraction of more customers. Aladwania and Palvia (2002) on analyzing different sites including a bank, bookshop, and car manufacturing concluded that the quality of a firm's website was very important. They identified the important dimensions of a website to be; specific content, how the website appears, the quality of its contents and the technological adequacy. These factors were found to determine the frequency of visits to the websites by the customers.

Organizational Determinants

These are factors that determine e-commerce adoption and are influenced by a firm itself. They are micro factors found within the firm internally. They include the size of the firm, the resources and technological advancements issues in transacting e-business. Rashid and Al-Qirim(2001) reported that the size of a firm affects its e-commerce adoption. Most of the small sized firms can affect their adoption. According to Fallon &Moran (2000) the size of a firm is defined in terms of the number of workers as well as the level of e-business adoption. This therefore plays a

major role in e-commerce adoption. Lun et.al (2012) also established that the size of a firm is indicated by the degree of the resources that it has. Internal factors include the resources of the firm which are composed of finances, IT quality and usage and also the human resources. Crespi et.al (2004) found out that there were too main factors affecting the usage of e-commerce in business. These were; cost of technological advancement and network externalities. He mentioned other factors as firm characteristics such as size, age and ownership of the organization, learning which includes learning by doing and learning from other firms.

E-business will be effective if an organization has policies to govern it and the strategies that are in line with the organizational needs. Organizations stand to benefit from improved managerial understanding of the related strategic opportunities and decision making and as such, develop more innovative ways of combining online and offline business processes to compete and improve their performance. Zhu.K.et.al (2005) says that IT readiness in an organization operates on two basic components namely technical readiness which includes technological infrastructure and personnel IT knowledge which includes human resources.

According to Wang (2009), the main determinants of e-commerce adoption is support from the managers in the organizations. For a firm to succeed in e-commerce adoption to people in the top management are expected to be supportive and use it in business activities and processes. Afzul (2008) on research about SMEs in Iran found that the CEOs innovativeness was significant in e-commerce adoption. It seemed that the SMEs perceived that the CEOs innovativeness was useful in the e-commerce usage. CEOs involvement was a main factor in the e-commerce adoption. However, there are various barriers to e-commerce adoption in e-tourism. They include lack of adequate informational fit-to- task, high financial costs, confidential problems, poor web appearance and also inadequate skilled personnel and customers being reluctant to transact business online (Kim and Stoel ,2004).

Conceptual framework

The dependent variable is adoption of e-commerce while the independent variables include; organizational, environmental and technological related determinants. Organizational determinants include factors within the firm its self. For instance individual factors like support from managers, firms' size and its IT readiness. Environmental determinants are particularly customers, government policies such as taxation, competition and suppliers .Finally technological factors include; complexity in using IT, security and confidentiality issues.

Research Methodology

Research design

The method used for the study was descriptive research. According to Orodho (2003) the method involves use of interviews and filling in of questionnaires to collect data from respondents. The main purpose of using this method is because it describes the state of affairs as they exist at the present (Kothari C.R, 2012).The study utilized the descriptive research approach.

The Target Population and Sample Size

According to Kothari C.R (2012) population refers to the total of items about which information is desired. It includes characteristics and attributes of the objects being studied. In a study where populations are small a sample size of more than 30 objects are usually required unlike where population is large which results to different methods of selecting the population. A good representative sample usually represents at least 10% of the whole population (Gay, 1981). The study therefore targeted a population of 292 tour firms and 30 companies where people at the top management were used in collection of data.

Sampling strategy

Probability sampling was used since it gives every member of the population equal chance of being selected (Kombo.D.K, 2002). Simple random sampling was also used to pick the random respondents. This ensured that selection of all respondents in the targeted population was done equally and independently.

Data Collection Tools and Techniques

Primary data was collected using both structured and unstructured questionnaires. Journals, textbooks, statistical abstracts and other written materials were used to collect secondary data. Open ended and closed ended questionnaires were given to the respondents by visiting them and others were e mailed to enable fast responses.

Data Analysis

Quantitative data was analyzed using descriptive statistics such as frequency counts and percentages. The SPSS was used in analyzing of the data. Frequency distribution tables and various graphs were also used.

SUMMARY OF THE MAIN FINDINGS

The outcome of the study showed that most of the tour firms were owned by men who represented 64% of the respondents who were considered to be youth (53.6 % aged 35 years and below). The study also revealed that most of the respondents' education level was at diploma level. The history of the firms was also established. The study revealed that most of them had worked in the firms for a larger period (between 6- 10 years). It was established that the Tour and Safaris firms were Small medium Enterprises (SMEs) with a greater part having 6-10 employees. The general perception on the use of internet has also investigated. The study established that all the firms had access to the internet.

The study was also carried out to determine the electronic applications used by the tour and safaris firms. The firms used the internet to carry out their marketing and advertisements such as providing information on their products on the web. Electronic customer care support services were also used, for instance the firms provided feedback to customers online and utilized e-mail communication and fax as main ways of communicating to their customers. Electronic payment systems were used mostly in transferring money online by use of debit and credit cards. In addition they also used the internet in order and deliver of goods.

The organizational factors were found to have influenced e-commerce adoption by the tour included; innovation by managers, lack of interest by management, high financial risk and a well-defined strategy for information technology. The study found that among the organizational determinants a well-defined strategy for IT highly influenced e-commerce adoption. Absence of innovation by managers and lack of interest in IT had a significant effect on e-commerce adoption. The study has therefore indicated that organizational factors have a role when firms want to adopt e-commerce.

The technological factors were also studied and they were found to play a major role in e-commerce adoption by firms. Financial factors was seen as the main factor that influenced e-commerce adoption such as high costs involved when developing internet connection and websites. The high cost of computers and network technologies were the main technological factors that influenced the level of adopting e-commerce by firms. Managerial factors also affected e-commerce adoption especially the level of IT and employees' skills. It is therefore clear that firms should consider these factors as they try to adopt e-commerce.

Environmental determinants were found to have influenced the adoption of e-commerce. These are the external factors that determine if a firm will transact business online or not. The factors on consumers were rated to have the greatest influence. For instance the firms reported that they used e-commerce mainly to maintain a strong link with their customers and also to have a user-friendly web interface. The quality of technical infrastructure was reported to have a limited effect on adoption of e-commerce. The government policies and laws on cyber-crimes are other important factors that influence online businesses especially in protection of consumer rights.

Factor analysis was also done on the three determinants to determine those factors whose correlation was high. The study established that from the nine environmental factors four were found out to highly influence e-commerce. These factors included; government policies on protecting consumer privacy and promoting e-commerce, friendly web interface, good technical infrastructure and lack of trust. Two factors extracted from the technological factors were ascertained to affect e-commerce adoption. These were; low level of IT knowledge by the employees and high cost of IT. The organizational factor analysis was also determined and two factors highly influenced e-commerce adoption; lack of interest by management and financial risk, management innovativeness and a well-defined strategy in technology.

CONCLUSION

The study established that the tour firms had adopted e-commerce. The environmental, organizational and technological determinants influenced the use of e-commerce by the tour firms with the environmental factors highly rated since the customers were perceived to be the main reason why the firms had adopted e-commerce .The level of e-commerce was determined by investigating on the various departments on the use of various e-applications. The main department studied included; sales and marketing department, purchases and supplies department and finance department. These departments were reported to be using different e-applications in their businesses. The firms had various reasons for using the internet and most of them reported that they saw it as an opportunity to expand and grow as well as enhancing time saving in transacting business. In addition, the customers demand to use the internet was not seen as the main reason why the firms adopted e-commerce.

RECOMMENDATIONS

The following recommendations are suggested;

1. Government support in terms of infrastructure, legislation and inclusion of e-commerce in the countries development plans such as the vision 2030.The legislation should also focus on the issues of confidentiality and trust while transacting business online. Cybercrime is a major problem nowadays and the government has to come in and try to come up with solutions
2. The firms should try to build a one-to-one relationship with their customers. E-commerce allows businesses to create this relationship which does not exist in other marketing systems. The management should therefore be focused on different approaches to boost loyalty and increase customers trust. For instance they can achieve this through product customization, personalized services and getting the customers involved in cyber space.
3. Firms can also try to use models specifically designed to assist in e-commerce. This will include them redesigning of the existing websites putting more emphasis on how to attract new customers and retain the existing ones.
4. The firms can try to invest in several techniques to protect intellectual property and not just depend on the government for security issues. The three main assets that a firm must protect are customer's computers, computer communication channels and the web services. They should provide secrecy and integrity of the services. For instance they can use encryption to provide secrecy and digital certificate to both integrity controls and user authentication.

FURTHER RESEARCH

The study's main focus was on three main determinants; technological, environmental and organizational. However, these are not all determinants of e-commerce. From the study the researcher realized that some determinants were left out that really played major role in adopting e-commerce.for instance, the environmental factors focused on the role of government and suppliers, besides this, there are other environmental factors such as social and cultural factors. The study did not focus on these factors thus more case studies can be done on these factors.

Additionally, more research can be carried out on the e-commerce adoption with focus being diverted more on consumers' behavior and attitude toward e-commerce adoption because they are the reasons why a business can succeed or fail. E-business systems are also important in a business and they do affect transaction of business online. It is therefore necessary to have further studies carried on these systems and how they influence the level of e-commerce adoption.
Finally, the study presented a cross-sectional research. There is need for further research on longitudinal studies examining e-commerce adoption and the implementation process, the impact it has on firm's performance for sustainable competitive advantage.

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Chief Executive Officer Attributes and Financial Distress in Commercial Banks in Kenya

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Abstract

The failure of commercial banks in an economy can lead to loss of confidence among depositors and stakeholders in the banking sector. This research focused on the assessment that CEO attributes have on financial distress in commercial banks in Kenya. The objectives included the tier based assessment of financial distress in Kenyan commercial banks and the assessment of the effect of CEO attributes on financial distress in Kenyan commercial. A causal research design was employed to 42 commercial banks in Kenya which also formed the population and sample. Multi-discriminant analysis technique (MDA) was employed and the findings revealed that 18% of the commercial banks in tier II and III were financially distressed. The findings also indicated that CEO tenure has a significant and negative relationship with financial distress in Kenyan commercial banks. The findings implied that close monitoring of commercial banks should be done to mitigate the risk of financial distress and that the commercial banks should consider hiring young managers to avoid the risk of financial distress.

Key words: ***Chef Executive Officer, Attributes, Commercial Banks, Financial Distress***

1.1 Background of the study

Bank failures and financial crises are economic hazards which cause economic policy derailment and damage to the growth of commercial bank and finance (Ali, 2007). The growth and expansion of commercial banks offer significant benefit to economies and enable the objectives of financial liberalization by enhancing competition in the banking industry, stimulate progresses in service to clienteles and expansion of access to loans among the domestic small and medium scale businesses.

Chan and Heang (2010) adds that the role of the banking industry is fundamentally significant in guaranteeing the smoothness of monetary policy transmission in less developed countries as it offers the core source of financing to businesses. In this context, banks act as asset transformer in transforming client deposits into loans as bank assets. However, the attainment of these benefits has been endangered because commercial banks have been susceptible to financial distress (Brownbridge, 1998). Similarly,

In Kenya, commercial banks performance has not been impressive over the last decade even with several reforms in place to improve performance, stability, productivity, financial accessibility and efficiency (Onuonga, 2014).

The Kenyan financial industry has seen 37 financial institution face financial distress, out of which 25 non-bank financial institutions have been liquidated and12 banks liquidated (Deposit Protection Fund Board Kenya, 2014). According to CBK (2016), 2 more banks have been put under receivership and 1 under statutory management. However, the extent of financial distress among the different banks tiers is unknown and this presents a knowledge gap that prompted this study.

Motivation of the Study

The banking sector is an essential portion of any economy and failure of commercial banks can lead to loss of confidence among depositors and stakeholders in the banking sector. Some of the causes of failure of commercial banks include: insider lending, non performing loans (Waweru & Kalani, 2009) although there is still inconsistency in results of causes of financial distress in financial institutions (Schaeck & Cihak, 2007).

Some scholars believe that CEOs are key in the operations of firms including commercial banks due to their individual managerial and entrepreneurship skills which are deemed to be critical in the enterprise growth and performance to a large extent (Fama and Jensen, 1983; Wu, 2014). Past research has shown that the individual attributes of age, ethnicity, level of education, gender, work experience, office tenure have mix influence on firm performance (Barno, 2017; Bhaiyat & Garrow, 2015; Croci & Jankensgard, 2014 and Dittmar & Duchin, 2012). The varied related research findings have arisen in varied geographical locations, varied industry, using varied methodology and even after employing varied sample sizes. It appears that there is no consensus on the subject and

hence justifying the current research on whether CEO attributes possess influence on the financial distress of commercial banks in Kenya.

1.3Research objectives

This study aimed at fulfilling the following objectives:

1.3.1 Main objective

The main objective of this research was to assess the effects of CEO attributes on financial distress in commercial banks in Kenya.

1.3.2 Specific objectives

(i) To determine the extent of financial distress in the different bank tiers in commercial banks in Kenya.
(ii) To assess the significance of the CEO attributes on financial distress in commercial banks in Kenya.

2.2 Theoretical framework

2.2.1 Agency Theory

In financial economics, agency theory was put forth to address the principal-agent association brought about by existence of corporations whose leadership were managers not owners (Habbash, 2010; Getahun, 2013). The segregation of corporate ownership from management in current institutions paves way for the context of application the theory(Harun, 2017). Habbash (2010) alludes to the fact that institution owners are extensively spread hence they do not partake in daily processes and leadership of their own institutions somewhat leading them to hire managers to manage the daily affairs of their corporation on their behalf led by the CEO with expectations of high returns. Similarly, Getahun (2013) asserts that majority of the owners hardly have time and skill required to manage a firm leading to ultimate return on investment and firm value.

Agency theory stipulates that, institution that employ appropriate corporate governance aim at increasing shareholders value by eradicating persistent conflict of interest that occur amongst owners and managers. In this view point, the shareholders elect and appoint board of directors whose mandate is to monitor actions of the management by providing strategic directions in place of shareholders as an avenue to reduce conflict of interest and are also tasked to hire a CEO to steer the organization (Getahun, 2013). This imply that the standard of corporate governance grounds the nature of the relationship among stakeholders.

Agency problem is not new to corporates due to differing goals between owners and hired managers (Naushad & Malik, 2015). For instance, owners are interested in gaining maximum value while CEOs may have goals such as contract renewal, bonuses, image and industry dominance (Jensen & Meckling, 1976). Jensen and Meckling (1976) defined agency relationship as an agreement under which the principal delegates decisions making authority to the agent. Even though CEOs have formal authority over the institutions they manage, agency problem emanates from information asymmetry where they are better placed with information regarding better ways to invest funds (Burgaz, 1997). CEOs may be limited on their contracts although they hold extensive rights which may lead to problem of corporate management (Fama & Jensen, 1983) .

Agency theory proposes that alignment of the agent and principal interests results in maximizing of the interest of the shareholders. Corporate rules and regulations assist in alleviating agency costs by streamlining management and shareholders' interests to avoid financial distress (Manini & Abdillahi, 2015). The theory prescribes that management led by their CEO should be answerable in their tasks, action and responsibilities (Abdullah & Valentine, 2009).The agency theory was adopted as it helps to explain why firms fail leading to financial distress.

2.2.2 The Upper Echelons Theory

The upper echelons theory explains that firm performance is wholly dependent on the efficiency and the efforts pulled together by those bestowed to provided leadership to the organization specifically the CEO (Hambrick and Mason, 1984). Hence, the growth and overall performance of an institution is usually mirrored to the CEO. The theory specifically mentions that CEOs perspective of the institution they provide leadership is shaped by the strategies they chose to put forth that underscores future wellbeing of the institution. The theory adds that the CEOs vision in that case; the perception of the environment is delimited by their understanding base and standards they hold. The theory explains that the human capacity is limited to the information it can process at any given time, as a result, decisions to act on the matters arising in the surrounding is purely dependent on the depositions exposure and individual characteristics. Individual attributes thus influence decision making process.

According to Oppong (2014), personal characteristics can greatly influence facets of the surrounding that can be viewed, suggesting that what can be viewed and processed by the mind ultimately enlightens the eventual decisions and strategies to be employed which is reflective of firm performance. As a result, Hambrick and Mason (1984) suggest the need to evaluate individual characteristics that can be seen such as education levels, professional qualifications and societal background of the top leader in the corporate context. In this regard, factors such as CEO age, CEO years of experience, CEO educational background and level, CEO tenure, CEO gender can be examined to check for their influence on decision making process and strategies that affect institution future prospects (Hood, 2008; Juravich, 2012; Herri, Johan, Handika, & Yulihasri, 2017). Therefore, the theory proposes that values and experience which are reflected from attributes of the leader influence organizational performance and must constanstly be under scrutiny to curb financial distress occurence.This theory was applicable in identifying the main CEO attributes that influence financial distress.

RESEARCH METHODOLOGY

3.1 Research Design

The study employed causal research design was used to evaluate the extent of financial distress among bank tiers and significant CEO attributes on financial distress among commercial banks in Kenya.

3.2 Population and Sampling

This research considered a census approach. Cooper and Schindler (2011) defined census as consideration of all the total count of all the element in the population. The population of this research was obtained from CBK website (Appendix II) totaling to 42.The census was necessary due to the small nature of the population (Cooper & Schindler, 2011) and to enhance accuracy of the research results.

3.4 Data collection methods

The study employed secondary method of data collection. The analyzed data was obtained from CBK annual supervisory report available in the website and financial and annual reports of commercials banks' available in their individual website. The period under study was one year (2016) which was cross-sectional. The data was utilized to answer objective one and two.

3.5 Data analysis technique

The data collected was evaluated based on the research problem. Data analysis can be described as the method of analyzing data and techniques for interpreting the results obtained. Multi discriminant analysis was employed to analyze secondary data. Discriminant function analysis was performed to determine how CEO attributes influence financial distress in commercial banks in Kenya. The discriminant analysis obtains a model to predict a single qualitative variable from one or more independent variables in research (Cramer, 2003). The discriminant analysis derives an equation as a linear combination of the independent variables that will discriminate best between groups

in the dependent variable (Ramayah, Ahmad, Halim, Zainal, & Lo, 2010). The maximum number of functions obtained is usually either the number of predictor variable or the number of groups minus one whichever is lesser. In order to establish a relationship, a test of P-value was obtained at 5% significance level to test the significance of the CEO attributes on financial distress while Eigen value was used to explain the unexplained variation in the model.

3.6.1 Operationalization of variables

The section presented the measurements used to operationalize the research variables before applying multi discriminant analysis.

3.6.1.1 Dependent Variable

In this research, the dependent variable was determined using the Altman Z-Score model. Altman (1968) pioneered MDA after Beaver's Univariate model. Hauschild (2013) alludes that Z-score as a model is used widely not only for predicting bankruptcy but also navigating model for performance measure for existing businesses. More so, it is an essential tool for emergent entrepreneurial undertakings and early stages of business development plans and those with intention to seek funding. The Z-score model:

$Z = 3.25 + 6.56x_1 + 3.26x_2 + 6.72x_3 + 1.05x_4 + \varepsilon$

Where:

x_1 = (Current Assets-Current Liabilities)/Total Assets

x_2 = Retained earnings/Total Assets

x_3 = Earnings before interest and taxes/Total assets

x_4 = Book value of equity/Total Liability

ε = error term(Altman, 2000; Altman et al., 2017)

The ratings are a means of cutoff between distressed and non-distressed institutions. The ratings used in this study were as follows:

Table 3.1: Zone of discrimination

Cut off	Zone	Description
Z>5.85	Safe Zone	There is least likelihood that the firm will be distress
4.35<Z>5.85	Grey Zone	There is less likelihood that the firm will be distress
Z<4.35	Distress Zone	There is high likelihood that the firm will be distress

Source: Aasen (2011)

3.6.1.2 Independent Variables

Independent variables included: Age, Gender, Education, Tenure and Experience. The table 3.2 shows how the independent variables were computed.

Table 3.2: Operationalization of variables

Variable	Measurement	Literature	Scale
Age of CEO	The difference between the CEOs date of birth and the year of the study	(Alqatamin, Aribi, & Thankom, 2017);	Numeric
Education of the CEO	Last degree of executive formal education members	Herri, Johan, Handika and Yulihasri (2017)	Nominal
Gender of the CEO	Value of 1 if CEO is male and 0 if female	Alqatamin et. al. (2017); Gorts (2016)	Nominal
Tenure of the CEO	Number of years in the work	Herri, Johan, Handika and Yulihasri (2017); Gorts (2016)	Numeric
Experience of CEO	Number of years worked	(Kariuki, Namusonge, & Orwa, 2015)	Numeric

Source: Author (2017)

3.6.2 Research Model

From the conceptual framework, the variables were expressed in a form of a function:

$Fd_{i\ t=} f\ (y_{1it,}\ y_{2it,}\ y_{3it,}\ y_{4it,}\ y_{5it})$

The multi discriminant analysis was used to test the relationship between variables:

$Fd_{it=} \alpha + \beta y_{1it} + \beta y_{2it} + \beta y_{3it} + \beta y_{4it} + \beta y_{5it} + \varepsilon_{it}$…… (2016)

Where: $Fd_{it=}$ financial distress in commercial banks i at time t

α= Intercept

β = discriminant Coefficients

y_1 = Age of CEO

y_2 = Education of CEO

y_3 = Gender of CEO

y_4 = Tenure of CEO

y_5 = Experience of CEO

ε_{it} = error term

3.7 Data Presentation

The quantitative data was mainly presented using tables. The multi discriminant analysis results were presented as generated by the statistical tool and the β coefficients summarized in a tabular format.

3.8 Research quality

3.8.1 Objectivity of research

Objectivity is the explanation of findings of results on the basis of the final results of data analysis as opposed to personal interpretation (Sekaran & Bougie, 2013). The findings of this research were based on the results obtained after analyzing the actual data collected and free from bias or any form of ethical and moral bias held by the researcher.

3.8.2 Validity of the research instrument

Validity is the degree in which an instrument, technique applied or process employed to measure a concept does certainly measure the concept as intended. It is a qualifying check for research (Kothari, 2004; Sekaran & Bougie, 2013). Validity of the research is dire to establish precision and truthfulness of the research. The validity of research was realized.

3.8.3 Ethical consideration

Kumar (2005) defined ethics as a way of conducting oneself in accordance to the principles of conduct that are considered correct especially those in a certain profession. This study was reviewed and designed to ensure integrity, transparency and quality. The Independence of this studywas clear and any conflict of interest was made explicit (Bless & Higson-Smith, 2000; Economic and Social Research Council, 2015). Therefore, in this research, an introduction letter from Strathmore University stating confidentiality and the purpose of research was issued (Appendix I). The information collected was regarded with high privacy and no disclosure whatsoever was made beyond using the information solely in the research.

CHAPTER FOUR – PRESENTATION OF FINDINGS

4.1 Response Rate

The initial data consisted of 42 commercial banks for one year (2016). The raw data was collected from banks websites and CBK website. The initial population was 42 observations (42 banks by 1 year). A total of 4 observations (4 banks by 1 year) had insufficient financial information and were therefore eliminated from the study. Subsequently, the results were based on (42-4) 38 observations in one year. However, CEO attributes for 34 banks were available giving a response rate of 80.95%. The data collected was deemed sufficient for analysis.

4.2 Extent of Financial Distress in Kenyan Commercial Banks

To evaluate financial distress, Altman's model (Z score) was applied to categorize whether an institution was either safe, in a grey area or distressed. The model:

$Z = 3.25 + 6.56x_1 + 3.26x_2 + 6.72x_3 + 1.05x_4 + \varepsilon$…… (2016)

Z represented financial distress, x_1 was arrived at by calculating (Current Assets-Current Liabilities) to Total Assets, x_2 was calculated from Retained earnings to Total Assets, x_3 was derived from Earnings before interest and taxes to Total assets and x_4 by Book value of equity to Total Liability (Altman, 2000; Altman et. al, 2017). The cut off zones for financial distress were: above 5.85 – safe; between 4.35 and 5.85 – grey and below 4.35 were classified as distressed (Aasen, 2011).

The research set out to determine the extent of financial distress in bank tiers in commercial banks in Kenya in 2016. The findings were meant to answer the specific objective one. The first objective was addressed by analyzing Z score components selected from banks financials and grouping them into either distressed, grey or safe as shown in table 4.1 below:

Table 4.1: Summary of level of distress

Bank Tiers	Safe	Grey	Distress	Mean	Min	Max
I	0	8	0	4.9	4.56	5.19
II	1	6	3	4.84	3.49	5.89
III	2	14	4	4.8	2.93	6.06
Totals	3	28	7			
Totals in Percentage	8%	74%	18%			

Table 4.1 shows the distress level under different bank tiers. There were 8 Tier I banks' in 2016 with a mean Z score of 4.9 implying that none of Tier I banks were distressed. The minimum Z score was 4.56 while the maximum was 5.19. Additionally, there were 10 Tier II banks in 2016 were 1 was in safe zone, 6 in grey and 3 were financial distressed. The mean Z score was 4.84 while the minimum was 3.49 and the maximum was 5.89. The mean of 4.84 implies that most of the Tier II banks were in grey area and that there is a large range between those financially distresses and those in grey and safe zone. Among the Tier III banks there were 2 banks on safe zone, 14 on grey zone and 4 financially distressed. The mean of Tier III banks was 4.8 with a minimum of 2.93 and a maximum of 6.06. The results show that there is large range between those in safe and grey and those facing financial distress. Overall, there were 3 banks in safe zone, 28 in grey zone and 7 financially distressed accounting for 8%, 74% and 18% respectively. The results implied that there was presence of financial distress in 2016 among Tier II and Tier III banks. The regulating body, CBK should monitor commercial banks and address causes of financial distress to safeguard the stakeholders (Whitaker, 1999; Ayayi & Sene, 2010; Mostafa, Rezina & Hasan, 2016). The cutoff points for the Z score are: < 3.25 is distress; $3.25<Z<5.85$ is grey while > 5.85 are considered safe (Aasen, 2011)

4.4Effects of CEO attributes on banks' financial distress

4.4.1 CEO attributes descriptive statistics

The second objective of the research was to evaluate the significance of CEO attributes such as age, gender, education level, tenure, experience on the influence of occurrence of financial distress amongst commercial banks in Kenya.

Table 4.2: CEO attributes

	Mean	Median	Mode	Std Deviation	Min	Max	Skewness	Kurtosis
CEO Age	50.09	50	51	7.24	33	66	0.306	0.709
CEO Tenure	5.65	3.25	.67[a]	6.3	0.58	26	1.79	2.64
CEO Experience	24.94	24.5	26	7.1	8	41	0.329	0.627

a. Multiple modes exist. The smallest value is shown

4.4.1.1 CEO age

Table 4.2 shows the findings of the CEO age amongst 34 commercial banks in Kenya in 2016. The age of the CEOs ranged from 33 years to 66 years with a mean of 50.09 years, median of 50 years (SD=7.24), mode of 51 years, skewness of 0.306 which is approximately symmetrical and a kurtosis of 0.709 which is less than 3 is platykurtic. The results illustrate that the average age of CEOs in commercial banks was 50 years implying that they are of mature age to manage demands of performance in commercial banks and to make strategic decisions towards direction of the financial institution (Croci & Jankensgard, 2014; Barno, 2017). Although the age difference betweeen the oldest (66 years) and the youngest (33years) a majority of the CEOs were approximately 50 years as indicated by a skweness of 0.306 which is approximately symmetrical.

4.4.1.2 CEO Tenure

The Table 4.2 shows findings of CEO office tenure to range from 0.58 years to 26 years implying that there was varied number of years held in the office leading to a skewness of 1.79 implying that CEO tenure was highly skewed positively and a kurtosis of 2.64 which is platykurtic. The mean was 5.65 years, median of 3.25 (SD=6.30), and there were several modes. The mean number of office tenure (5.65 years) can be considered long enough to contribute towards financial stability of commercial banks. Barno (2017) suggests that managers need to have a long tenure so that they can have deeper understanding of the company's business and make informed decisions. Other studies with similar stance are Bhaiyat and Garrow (2015),Herri, Johan, Handika and Yulihasri (2017),Kariuki, Namusonge and Orwa (2015) and Kyenze (2014) argue that CEO tenure significantly reduces the likelihood of financial distress.

4.4.1.3 CEO experience

CEO experience as shown in Table 4.2 was found to range from 8 years to 41 years with a mean of 24.94 years and a median of 24.5 years (SD=7.1), mode of 26 years, skewness of 0.329 which is approximately symmetric and kurtosis of 0.627 which is less than 3 implying platykurtic. On average, the CEOs were well experienced to provide leadership in the banks as illustrated by mean of 24.94 years. Additionally, the CEO experience was evenly distributed as shown by a skewness that is approximately symmetrical of 0.329. In addition, experienced CEOs have increasing effect on firm valuation comparative to less experienced CEOs**.** The outcome concurs with Kariuki, Namusonge and Orwa (2015), Kang & Mitnik (2012), Vo & Phan (2013) and Wajiru (2013), Getahun (2013) and Dauda and Hawa (2016) who concluded that firms facing financial mayhem need CEOs who are well experienced and exposed for the positive variability to protect the value of the firm. In addition, adequate skills and wealth of knowledge can be garnered by long period of experience and exposure. Larcker and Tayan (2017) found out that individual and professional characteristics have association to firm performance suggesting that previous experience garnered and work styles are good predictors of future firm performances.

4.4.1.4 CEO Gender

The table 4.3 shows the frequency of male and female CEO in commercial banks in Kenya in the year under study (2016).

Table 4.3: CEO Gender

Gender	Frequency	Percent	Cumulative Percent
Male	31	91.2	91.2
Female	3	8.8	100

Total	34	100

In the year under study (2016), it was established that 91.2% of the CEOs were male while 8.8% were female from data drawn from 34 commercial banks. The results show male CEOs were majority in 2016.

4.4.1.5 CEO education level

Table 4.4 shows educational level of banks' CEOs in 2016.

Table 4.4: CEO education

Education type	Frequency	Percent %
Tertiary	1	2.9
Bachelors	7	20.6
Master	25	73.5
Doctorate	1	2.9
Total	34	100

In the year under review 2016, 2.9% of the CEOs had attained tertiary certification, 20.6% has attained a bachelors qualification, 73.5% had attained a Masters qualification and 2.9% had attained a doctorate qualification. The results show that the CEOs were well educated and acquired training. The level of education is usually associated with open-mindedness and reflects cognitive complexity and ability to discern pattern. All CEOs had acquired training with varied level to equip them handle corporate demands.

4.4.2 Multi Discriminant Analysis of CEO attributes

Discriminant function analysis was performed in order to determine how CEO attributes influence financial distress in commercial banks. Cramer (2003) explains that discriminant analysis is used to obtain a model that can be employed to predict a single qualitative variable from one or more independent variables. Additionally, discriminant analysis helps to identify the independent variables that discriminate a nominally scaled dependent variable (Sekaran & Bougie, 2013). Further, discriminant analysis derives an equation as a linear combination factors of the independent variables that discriminate best between groups in the dependent variable component(Ramayah, Ahmad, Halim, Zainal, & Lo, 2010).The maximum number of functions is either the number of predictors or the number of groups less one whichever is smaller.

4.4.2.1 Wilks Lambda test

In discriminant analysis, the Wilks' Lambda is used to test the significance of the discriminant functions and ranges between 0 to 1. When the resultant value of the lambda of a function is small, the function is considered to be significant. The Wilks' lambda was used test the significance of the discriminant function.

Table 4.5: Wilks' Lambda

Test of Function(s)	Wilks' Lambda	Chi-square	Df	Sig.
1 through 2	.640	12.495	10	.253
2	.872	3.832	4	.429

From Table 4.5, the first discriminant function was statistically significant. The findings imply that the variables applied in testing influence of CEO attributes on financial distress have significance and explain occurrence of financial distress in commercial banks.

4.4.2.2 Eigen value

Eigen value was used to explain the unexplained variation in the model. The Eigen value can be described as a ratio between the explained and the unexplained variation in a model. Eigen values are related to canonical correlations and helps in describing the best discriminating ability of a function.

Table 4.6: Eigen value

Function	Eigen value	Variance %	Cumulative %	Canonical Correlation
1	.363	71.2	71.2	.516
2	.147	28.8	100.0	.358

As displayed in table 4.6 above, the model had a Canonical Correlation Coefficient value of 0.516 indicating an effect size of 26.6% (0.516^2). Hence the model explains 26.6% of the variability in financial distress of commercial banks in Kenya. The findings imply that age, gender, tenure, experience and education explain 26.6% of the occurrence of financial distress among commercial banks.

4.4.2.3 Canonical Discriminant Function Coefficient

In order to establish the unique contribution of each of the variables to the classification of the groups in the dependent variable, canonical discriminant function coefficient was estimated. That means that a discriminant score that belongs to a latent variable can be obtained for each case by applying the coefficients to the values in the respective independent variable. Table 4.7 shows a summary of the Canonical Discriminant Function Coefficients.

Table 4.7: Canonical Discriminant Function Coefficients

	Function	
	1	2
Tenure	.181	-.023
Education	-.226	.170
Age	.006	.287
Gender	-2.763	2.308
Experience	.034	-.203
(Constant)	1.493	-12.148

Unstandardized coefficients

Based on the first discriminant function, a bank's financial distress status can be determined using the following formula:

Distress status = 1.493 + 0.181*Tenure -0.226* Education + .006* age -2.763* Gender + 0.034*Experience + εi

Where;

1.493 = a constant value of financial distress when all independent variables are equal to zero.

0.181 = discriminant coefficient of tenure. For every increase in tenure, there is expected approximately 0.181-point increase in distress, holding all other variables constant.

-0.226 = discriminant coefficient of education. For every increase in education, there is expected approximately 0.226-point decrease in distress, holding all other variables. constant.

0.006 = discriminant coefficient of age. For every increase in age, there is expected approximately 0.006-point increase in distress, holding all other variables constant.

-2.763 = discriminant coefficient of gender. For every change in gender, there is expected approximately 2.763-point decrease in distress, holding all other variables. constant.

0.034 = discriminant coefficient of experience. For every increase in experience, there is expected approximately 0.034-point increase in distress, holding all other variables constant.

εi = Error term in commercial bank i

4.4.2.4 Group membership classification

Additionally, group membership classification was predicted. Group membership shows the level of correct classification into either safe, grey or distress. The classification assists in understanding how well the different classifications (safe, grey, distress) were correctly classified.

Table 4.8: Predicted Group Membership

Classification		Predicted Group Membership			Total
		Distress	Grey	Safe	
Actual (Count)	Distress	2	5	0	7
	Grey	1	22	0	23
	Safe	0	2	1	3
	Ungrouped cases	0	1	0	1
Actual (%)	Distress	28.6	71.4	0	100
	Grey	4.3	95.7	0	100
	Safe	0	66.7	33.3	100
	Ungrouped cases	0	100	0	100

a. 75.8% of original grouped cases correctly classified.

As illustrated by the table 4.8, the multi discriminant function had correct classification of 75.8%, signifying that a majority of the banks were correctly classified by the function (Distress 28.6%, grey 95.7% and safe 33.3%). The findings imply that MDA correctly classified commercial banks by 75.8%. Sulub (2014) found a prediction classification accuracy of 70% while Muya (2017) found a predictive power of 71.2%.

4.4.3 Analysis of the relationship between CEO attributes and financial distress

Univariate analysis was performed to determine the variable significance and contribution to the model. The table 4.9 gives a summary of univariate analysis of the CEO attributes.

Table 4.9: Univariate analysis of the CEO attributes

	Wilks' Lambda	F	df1	df2	Sig.	Test
Age	0.889	1.866	2	30	0.172	Reject
Gender	0.914	1.411	2	30	0.26	Reject
Education	0.97	0.46	2	30	0.635	Reject
Tenure	0.469	2.631	2	30	0.049	Accept
Experience	0.908	1.516	2	30	0.236	Reject

H4: there is a significant and negative relationship between CEO tenure and financial distress

This research established that there exists a positive and statistically significant relationship between CEO tenure and financial distress in commercial banks in Kenya.Therefore,**H4** was accept. The findings show that the longer the tenure the high the probability of occurrence of financial distress in commercial banks. The findings contradict Bhaiyat and Garrow (2015) who evaluated the effect of CEO and CFO attributes as TMT on the firm probability to default and concluded that as the tenure increases the probability of default decreases implying that long period of tenure contributes to stability and efficiency of the firm. The results may have been different since they were carried out in different geographical location and period.

4.5 Summary of results

To sum up the finding in objective one, there was presence of financial distress amongst commercial banks in Kenya in the year under review; 2016.The level of distress was computed using Z-score. The findings showed that 18% of commercial banks were financially distressed in 2016.The distressed commercial banks were in Tier II and Tier III. The occurrence suggested that close monitoring of commercial banks is necessary in order to minimize cases of financial distress (Whitaker, 1999; Ayayi & Sene, 2010; Mostafa, Rezina & Hasan, 2016). For objective two, the main CEO attributes that was found to influence financial distress occurrence was CEO tenure which had a significant and negative effect on financial distress in Kenyan commercial banks.

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a comprehensive summary of the findings of both objective one and objective two of the study. In addition, the implications of the study drawn from the conclusions of the study. Lastly it explores the various limitations of the study and gives suggestions for further research. The main objective of this study was to assess the effects of CEO attributes on financial distress in commercial banks in Kenya. The specific objective one was to assess the extent of financial distress in the different bank tiers in commercial banks in Kenya while the second specific objective was to examine the significance of CEO attributes on financial distress in commercial banks in Kenya

5.2 Summary of findings

This section explains the major findings of the study according to the research objectives.

5.2.1 Extent of financial distress among bank tiers in commercial banks in Kenya

The research set out to determine the extent of financial distress among bank tiers in commercial banks in Kenya. The objective was addressed by analyzing the banks financials using Z Score and grouping them into either distressed, grey or safe against bank tiers. None of tier one banks were distressed in the year of study; 2016. Three Tier II banks and four tier III banks were distressed contributing to a total of 18 %. The cutoff points for the Z score were: < 3.25 meant that the bank was in distress; 3.25<Z<5.85 meant that the bank was in grey area while > 5.85 meant that the bank was safe (Aasen, 2011). The findings imply that there is presence of financial distress among commercial banks in Kenya. The regulating body, should monitor commercial banks and detect and correct causes of financial distress to safeguard the stakeholders (Whitaker, 1999; Ayayi & Sene, 2010; Mostafa, Rezina & Hasan, 2016).

5.2.2 Significance of CEO attributes on financial distress in commercial banks in Kenya.

The second objective was to examine the significance of the CEO attributes in relation to occurrence of financial distress. The findings from this study show that CEO age was positive but statistically insignificant in explaining the occurrence of financial distress; $H_1$was reject. The hypothesis stated that there is a significant relationship between CEO age and financial distress. The results from this study agree with Gorts (2016) study on effects of CEO characteristics on corporate financial strategy who found that age did not influence financial decision. The findings however contradict those of Barno (2017)who examined the age of managers in 39 companies listed at the NSE and established that it has a negative but significant effect on capital structure. Similarly, Kyenze (2014) examined 61 companies listed at the NSE for the period spanning 2008-2013 and concludes that there exist a significant association between the ages of the CEO and organizational performance. The findings may have differed due to period covered by the study, methodology used in analysis and nature of the study.

This thesis reports that there is a positive insignificant relationship between CEO gender and financial distress. The findings imply that gender did not explain the occurrence of financial distress although it is argued that demographic diversity of leadership is positively associated with diverse practices that impact organization performance(Nishii, Gotte, & Raver , 2007).The findings concur with research by Chan and Heang (2010) who opined that there was no significance influence between gender diversity and cost signifying that gender did not have influence on overall firm output. Similarly, Manini & Addillahi (2015) posit that gender diversity did not prove any significance to banks profitability, the findings imply that gender variance did not cause financial distress. Likewise, Harun (2017) findings indicate that gender diversity had no statistically significant influence on general financial performance of selected private commercial banks in Ethiopia. Additionally, Kirimi (2015) and Wairimu (2014) point that gender diversity was not statistically significant in determining financial performance. However, Barno (2017) established a negative but significant impact on capital structure indicating that gender has effect on decision making. Additionally, Gorts (2016) points that gender influence corporate financial strategy. Similarly, Vo and Phan (2013) propose involvement of female in corporate decision making since it positively effect on performance of the firms suggesting that inclusion of female in leadership positions influence decision making. Shungu, Ngirande, & Ndlovu (2014) correspondingly concludes that there exists a positive association between gender diversity and commercial bank performance proposing that gender influences firm performance. Therefore, H_2 was reject. The hypothesis stated that there was a significant relationship between CEO gender and financial distress.

The thesis also shows that an insignificant positive relationship exists between CEO education and financial distress. This findings suggest that level of education did not explain the occurrence of financial distress; hence $H_3$was reject. The hypothesis read that there is a significant relationship between CEO education and financial distress. Education is usually associated with open-mindedness and ability to make decision.The research finding concur with Harun

(2017) who concluded that education qualification was positive but insignificant related with the firm financial performance. However, Herri, Johan, Handika, & Yulihasri (2017) established that education level has a negative impact on performance. Similarly, Ting, Azizan and Kweh (2015) found that both younger and longer serving CEOs are risk takers and aggressive regardless of their educational level pointing that education level do not influence firm performance. Further Ting, Azizan and Kweh add that the CEOs with higher levels of education are susceptible increased debt of the organization implying that highly educated CEOs prefer debt financing as opposed to internal sourcing with an aim on rapid growth. Similarly, Ramezani, Khabiri, Alvani, & Tondnevis (2011) point that role performance improves with level of education claiming that education does not influence occurrence of financial distress.

This thesis also reports that there is a positive significant relationship between CEO tenure and financial distress. The finding imply that CEO tenure positively influences the occurrence of financial distress; $H_4$was accept. The hypothesis read that there is a significant relationship between CEO tenure and financial distress. The findings contend findings by Barno (2017) who points that managers need to have a long tenure so that they can offer deeper understanding of the company's business. Similarly, Bhaiyat and Garrow (2015) propose that as the CEO office tenure increases the chances of default significantly declines implying that long tenure contributes to stability and efficiency of the firm. Equally, Herri, Johan, Handika and Yulihasri (2017)concluded that there is a direct relationship between CEOs characteristics and performance. They concluded that tenure in position favors performance. Additionally, Kariuki, Namusonge and Orwa (2015) in their research concluded that CEO tenure statistically significantly influences organizational size, growth and future opportunities. The study supports the argument that short-term tenure influences occurrence of financial distress. Kyenze (2014) adds that office tenure of the CEO affects the performance of the firm asserting that tenure is key determinant for future opportunities. The findings from this research could be different due to the fact that the studies were conducted in different settings as well as the data was different in nature and method applied.

Based on the analysis, there was an insignificant positive relationship between CEO experience and financial distress. The hypothesis that was tested was that there is a significant relationship between CEO experience and financial distress; the hypothesis H_5 was reject. The findings were not significant in explaining the occurrence of financial distress. However, Kariuki, Namusonge and Orwa (2015),found that CEOs who have extensive managerial experience in other industries significantly influence financial decisions implying that extensively exposed CEOs are more likely to remain steady, assertive in leadership even as they encounter problems. Therefore, firms that have volatile performance can benefit from well experienced and exposed leadership. Additionally, Vo & Phan (2013) and Wajiru (2013) equally add that working experience has a positive influence on performance of the firms asserting the need for experience in top management office in order to attain firm performance. Further, Getahun (2013) asserts that expertise is necessary to operate a firm so as to make informed decisions. Dauda and Hawa (2016) correspondingly reveal that skill influences performance. Dauda and Hawa emphasize that the top management office holders to possess adequate skills and wealth of knowledge of banking trend in order to provide leadership. Besides work experience, personal experience impact corporate financial decision making. According to Malmendier, Tate, & Yan (2011) the CEOs personal life experiences greatly influence decision making which ultimately is reflective of organizational performance Further, Larcker and Tayan (2017) opin that previous work experience and style are good forecast that inform future performance.

From the multi discriminant analysis, the canonical correlation was 0.516 indicating an effect size of 26.6% (0.516^2), implying that 26.6% of the variability of financial distress in commercial banks is determined by the changes in CEO age, gender, tenure, experience, and education. Additionally, the data was classified to either safe, grey or distress. The findings showed an overall classification of 75.8% by MDA, suggesting that a majority of the banks were correctly classified by the function (Distress 28.6%, grey 95.7% and safe 33.3%). The findings imply that MDA correctly classified data by 75.8%. Group centroids was also performed to establish the weight of each mean discriminant score for each group in the dependent variable for each of the discriminant function. The result

show that most of the cases were classified based on their group centroids. However, only one case was not grouped by the function. The group centroids had a high mean discriminant score of 75.8% of the classification. The findings confirm MDA classification.

5.3 Conclusions

This research provides both academics and practitioners with a different perspective of the effect of CEO attributes on financial distress in commercial banks in Kenya. The findings should help develop discussions for policy makers around governance issues, more specifically the term. Various studies have indicated a correlation between CEO attributes and firm performance. None of the studies however specifically looked at the correlation between CEO attributes and financial distress in commercial banks in Kenya. The research objectives were developed to guide the study from which research questions and hypotheses were drawn. The first objective was to assess the extent of financial distress in bank tiers in commercial banks in Kenya. To achieve the objective, secondary data was collected from commercial bank annual reports and financial statements. The data was validated and analyzed using Altman Z score model in order to classify banks into the different classification; safe, grey or distress. The model was selected due to its ability to reliably predict financial distress. The results from the model show that there is presence of financial distress at 18% among the Tier II and Tier III commercial banks.

The second objective of the study was to examine the significance of CEO attributes on financial distress in commercial banks in Kenya. Multi discriminant analysis was performed in order to obtain a model that can be employed to predict a single qualitative variable from many variables. Further, the discriminant analysis derives an equation as a linear combination factors of the independent variables that discriminate best between groups in the dependent variable component. The findings from this research show that MDA had majority of the banks correctly classified at 75.8%. Further, CEO tenure was found to influence the occurrence of financial distress. From the empirical analysis, there was evidence of correlation between CEO attributes and financial distress in Tier II and Tier III commercial banks at 26.6%.

Conclusively, the result of the study shows that there was presence of financial distress amongst commercial banks in Kenya in the year under study; 2016. The main CEO attributes that influenced financial distress was tenure supporting the upper echelons theory and agency theory. Other attributes: age, experience, education and gender were not considered as the main factors that influence financial distress.

5.4 Implication of the study

The prime of this thesis is to advance the research on effects of CEO attributes on financial distress in the context of commercial banks. Essentially, this study offers suggestions that contribute to the existing literature on financial distress. This section attempts to discuss the implications of the main findings.

5.4.1 Implication for commercial bank regulator

The CBK as commercial bank regulator should regularly monitor commercial banks in order to detect financial distress. The aim of detection is to safeguard stakeholders against loss and to avoid financial systemic failure that could cause panic to the public. Understanding the causes of financial distress allows amendment and inclusion of new regulations in monitoring of financial institutions especially those under CBK.

5.4.2 Implication for financial institution

The board of directors are advised to be cautious when setting the tenue of the CEO in order to avert financial distress. CEO tenure was found to be positive and statistically significant in determining financial distress. The findings suggest that the CEO tenure should not be too long. The result suggest that long period could encourage laxity and accountability problems which may lead to financial distress.

5.5 Limitations of the study

The secondary data covered one year (2016) during which some banks had been put into receivership, liquidated or merged. Although the study used census approach some commercial banks had to be excluded from the study due to incomplete data. Secondly, the study applied Altman Z-Score model to determine extent of financial distress, the findings were limited to this model.

5.6 Suggestions for further study

This research contributes to financial distress studies in Kenya. However, there are numerous areas that were not covered and form sources for further research. Some of the possible areas could include focus on other industry for example retail chains like supermarkets. Another study could focus on other models other than Altman Z-Score or combined in determining financial distress.

Another interesting area is having a longitudinal study rather than cross-sectional (one year). The study could help in understanding the trend of occurrence of financial distress. Additionally, financial and non-financial variables could be included in a study to determine their influence on financial distress.

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Competitive Strategies and Market Penetration of Insurance Companies in Kenya

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International Business Research and Industrial Conference (IBRIC), 20th -21st June 2019
ISBN 978-9966-132-53-6 @ Copy Right .2019

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Abstract

The Insurance industry in Kenya is very competitive, with the number of insurance companies as at December 2016 standing at 50. Despite this, the level of insurance penetration in the country is about 2.73%, which is relatively lower than the average world penetration rate of 6.28%. This study sought to investigate the influence of competitive strategies on insurance penetration in Kenya. The specific objectives included; investigating the influence of cost leadership, differentiation, focus strategy and critical success factors on insurance penetration in Kenya. The study adopted a descriptive and explanatory research design. The study was cross-sectional, with the use of both primary and secondary data. Primary data was collected by use of questionnaires with close ended questions. Data was collected from head of marketing and head of business development departments as they hold key information. Before collection of data, the questionnaire was tested for validity and reliability. Both tests confirmed that the questionnaire was valid and reliable for data collection. The data was analyzed using descriptive statistics, correlation analysis and regression analysis. The results of correlation analysis indicated that competitive strategies were positively associated with market share. The findings indicate cost leadership strategy positively and, company size had positive and significant influence on insurance penetration, implying that an increase in size had positive effects on insurance penetration. No evidence of moderation effect of critical success factors was found. The study concluded that adoption of cost leadership strategy enhances insurance penetration. Additionally, an increase in size of insurance companies enhances their ability to penetrate the market. The study recommends that insurance companies should seek strategies for cost efficiency in order to penetrate the market. Also, the insurance companies should seek growth opportunities.

Key words: ***competitive strategies, cost leadership, differentiation, focus, penetration***

1. INTRODUCTION

The insurance industry and financial sector in general play a crucial role in mobilization of funds. Insurance companies derive their income mainly from sale of insurance policies and deposit taking and subsequently investing this income. The global and local developments in the insurance industry are important in the development of policies in the sector. The global life insurance has significantly grown from 2.6% in 2012 to 5.4% in 2016, with non-life insurance stagnating between 3.0% and 2.4% in the same period (Ernest & Young, 2017). On average, the global growth in insurance has lagged behind global economic growth rate. Similarly, the global insurance penetration has decreased significantly over the last decade. Global penetration ratio in 2005 was 7.5% while in 2016 the ratio had fallen to 6.28% (Swiss Re, 2016). It has been indicated that stagnation in global economic growth has negative impact on insurance penetration (Ernst & Young, 2017). The global trend in insurance penetration is important because of the impact of globalization on the business world. The insurance penetration in Kenya is not impressive despite the importance of the insurance industry in mobilization of savings, deposits, capital markets, government securities and the real estate sector. The insurance industry in Kenya has relatively low penetration ratio, with the low income earners excluded from the services especially in the life insurance. By the end of 2016, the insurance penetration in Kenya was 2.73%, which is relatively lower than the average world penetration rate of 6.28% (IRA, 2017). There is stagnation in the insurance penetration in Kenya as is evident from the report by IRA (2017).

In light of the dynamics in the insurance sector, the relationship between competitive strategies and insurance penetration comes into question. In addition, the role of critical success factors in moderating this relationship should be investigated. Competitive strategies are techniques adopted by firms in order to sustain profits in the long-run mainly by strategically responding to competition. The main reason for formulation of competitive strategies is to link an organization with its environment (Porter, 1998). The nature and forces within the industry are most crucial aspects of an organization's environment. Therefore, competitive strategy can be viewed as the scope and direction taken by a company in the long-term that leads to competitive advantage (Yasar, 2010). Porter (1998) indicates that an organization can pursue three competitive strategies namely; cost leadership, differentiation and focus. Cost leadership strategy focuses on the efficiency by an organization. This strategy entails production and

distribution of goods and services at a relatively lower cost than competitors (Pulaj, Kume, &Cipi, 2015). Differentiation strategy entails uniqueness in products and services of an organization. The products and services of an organization pursuing this strategy should be easily distinguishable from the competing ones. On the other hand, focus strategy encompasses the practice of concentrating on a narrow market segment by organizations.

Critical success factors are the few areas in which satisfactory results would lead to success in the performance of an organization in a competitive environment (Rockart, 1979). According to Pal and Torstensson (2010), the critical success factors are effectively developed by planning and aligning of processes, products, and supply chains. It has been widely argued that measures of performance of an organization should reflect the critical success factors (Le Cornu and Luckett, 2004). Based on previous empirical and theoretical literature, this study will be confined to top management support, customer focus, technology, and employee orientation critical success factors. Top management support concerns the commitments and backing by executives in highest rank of an organization as key critical factors (Chiun, Wang, Wah & Ramayah, 2016). Customer focus is the orientation for meeting the needs of the customers by an organization. Employee orientation is the familiarization with new workplace environment. This is crucial in ensuring high performance in an organization. (De Bussy and Suprawan, 2011) found that employees were the most valuable stakeholders in an organization.

In business terms, penetration refers to the concept of aggressive actions that are aimed at expansion of total sales share in the market (Spann, Fischer & Tellis, 2009). Alternatively, market penetration measures the percentage of the market that is captured by the product or service (Wainaina and Oloko, 2015). On the other hand, insurance penetration is the ratio of direct gross insurance premiums to GDP. It represents the potential of insurance industry in a given country (Das and Shome, 2016). According to Olayungbo and Akinlo (2016), insurance penetration provides a robust measure of insurance activities. Generally, the insurance penetration measures the growth of insurance premium relative to GDP.

The insurance industry is important in an economy as it supports growth in many sectors of the economy. Despite the apparently impressive growth in the Kenyan insurance industry, insurance penetration has been relatively lower when compared to the global penetration rate. The global penetration rate stands at 6.28%. According to IRA (2016), insurance penetration rate declined to 2.73% in 2016, down from 2.88% in 2015.Basing on the data from IRA (2017), it is also evident that the penetration rate for Kenyan insurance industry has stagnated in the recent past. According to AKI (2016), insurance penetration in Kenya has declined from 3.44% in 2012 to 2.75% in 2016. In general, the relatively low insurance penetration rate in Kenya is an indication that majority of Kenyans have not taken insurance coverage. Against this background, this study intended to assess the link between competitive strategies and insurance penetration in Kenya.

A number of studies have focused on the factors influencing insurance penetration (Kamau, 2013; Njuguna and Kimani, 2016; Wairimu and Okibo, 2015; Das and Shome, 2016). Specifically, Kamau (2013) investigated the factors influencing low penetration of insurance products in Kenya while Njuguna and Kimani (2016) study focused on the financial factors affecting insurance penetration in Nakuru town. Wairimu and Okibo (2015) studied about the determinants of micro insurance penetration among Kenyan low and middle income earners while Das and Shome (2016) assessed the determinants of insurance penetration in India in a macroeconomic perspective. These studies have only focused on the determinants of insurance penetration, with lack of emphasis on the competitive strategies. In addition, the moderating role of critical success factors has not been assessed by these studies. In this perspective, this study sought to fill the existing research gap by investigating the competitive strategies influencing insurance penetration in Kenya. In addition, the moderation role of critical success factors was also investigated.

2. Literature Review

Previous theoretical and empirical literature was very important in shedding light on the business penetration, strategy and critical success factors. Porter's generic strategies, Boston consulting group matrix, and sales maximization theory were considered to be relevant theories.

2.1 Porter's Generic Strategies Theory

This theory was developed by Porter (1980) in his work about competitive strategies. Ideally, Porter (1980) describes competitive strategy as offensive taking or defensive measures to develop a position that is defendable in

an industry, and to successfully cope with the five forces of competition thereby getting superior investment returns. The five forces of competition in an industry comprise the competitors, suppliers, buyers, threats from substitutes and potential entrants. Due to the competitive forces in the industry, strategies to be adopted by organizations in order to successfully compete in the industry are proposed. These strategies include overall costs leadership, differentiation and focus. These strategies can be adopted singly or in combination. According to Porter (1998), the overall cost leadership strategy aims at achieving cost leadership in the entire organization through a set of practical policies designed to achieve this objective. Differentiation strategy involves differentiating the firm's product or service. On the other hand, the focus strategy involves focusing on a specific line of product segment, buyer groups, or geographic market.

2.2 Boston Consulting Group Matrix

The matrix was developed by Bruce Henderson in 1970s (Ionescu, 2011). The matrix analyses products into two dimensions. The first dimension assesses the general growth level of the product within the product's market. The other dimension measures the market share of the product in relation to the largest competitor in the market. An analysis of products using this approach provides an important understanding of the prospects and the product specific problems. The matrix groups products into four categories namely, stars, cash cows, problem child, and dog. The products in the star category have a high growth and a market share that is dominant. The implication for this is the requirement for significant investment in order to increase the market share, and to maintain their leadership over competitor's product (Debrecht and Levas, 2014). The cash cow category comprises products that have a high share in a low growth market. The strategy in this category is allocation of resources in order to protect market share and investment in product differentiation to track changes in consumer tastes. The products classified in the dog category have low market share in a market with low growth. The implication of this is loss/minimal profits from these products thereby draining an organization its resources and time. The best strategy for an organization is usually discontinuation in investing in the products in this category (Mohajan, 2017). Lastly, the problem child/question marks category is characterized by products with a low market share but in a high growth market. This is usually the case for the new products in the market. The new entrants have a high spending in order to increase the market share. Mohajan indicates that organizations in the question mark category have high marketing expenses, high competitive devices, high direct costs, narrow domains, high current assets levels, and big expenses in R&D. However, if an organization finds its existing products in this market category, then it should investigate the reasons behind this.

2.3 Sales Maximization Theory

Sales maximization theory is important because sales maximization is a strategy of market penetration. Sales maximization theory is based on the work by Baumol (1959). The objective of this theory was to assist decision makers in implementing business decisions that seemed to conflict with profit maximization principle. This theory is explained by use of two models, the static single-period model and a dynamic model for multiple periods. Ideally, it is not possible to concurrently pursue profit maximization and sales maximization. Profit maximization implies that a company must sell its products/services at a high profit margin. The cost of delivering the product or the service must be significantly lower than the sales price in case of profit maximization. The sales maximization principle on the other hand entails minimization of prices in order to increase sales. Baumol justifies sales maximization on a number of grounds. First, Baumol attributes the separation of ownership from management to reinforce the sales maximization desire by the managers. The discretion by the managers implies that sales maximization is the most obvious goal as long as the profits remain satisfactory. In addition, there is an argument that the earnings by the top management are more correlated with sales than profits. Baumol (1959) also explains that the theory of sales maximization is important because banks and other financial institutions keenly analyze the sales trends of organizations and they tend to lend to organizations that have sales growth. Next, this theory is justified on the basis of better employee earnings and terms of work. Generally, declining sales leads to layoffs and salary reductions. Also, the theory postulates that growth in sales reinforces the ability to adopt competitive strategies thereby strengthening the firm's competitive position.

2.4 Empirical Review

2.4.1 Differentiation Strategy and Penetration

There exists empirical evidence on the relationship between differentiation and penetration. Spencer and Joiner (2009) used a sample of 200 companies to assess the relationship between non-financial measures namely, market share, sales volume and market developments and differentiation strategy. By use of regression analysis, the authors report a positive and significant relationship between the non-financial measures and customer service differentiation. These findings are similar to the findings by Nolega, Oloko, Sakataka, and Oteki (2015) who found that customer base had increased sharply following the adoption of product differentiation by Kenya Seed Company. Dirisu, Iyiola and Ibidunni (2013) study also provides empirical backing on the relationship between penetration and differentiation study. Specifically, the authors used regression analysis in analysis of the effects of product differentiation on sales growth. The authors found a positive and significant relationship between product quality and sales growth. Kinyuira (2014) study focused on the relationship between items of performance (number of branches, employees, membership, total assets, and share capital) and differentiation strategy. By use of correlation analysis, the author found a positive correlation between the items of performance and differentiation strategy. On the other hand, Violinda, Dirgantara and Sufian (2016) study focused on the relationship between differentiation strategy and competitive advantage indicators namely; growth, financial performance, customer base, and internal business processes. Differentiation strategy was measured through six dimensions namely; product, service and support, personnel, channel and image. Using confirmatory factor analysis, the authors established a positive influence of differentiation strategy on competitive advantage.

2.4.2 Cost Leadership and Penetration

A number of studies provide empirical evidence on the influence of cost leadership on penetration. For instance, Hilman and Kaliappen (2014) found a positive and significant influence of cost leadership on organizational performance measures. The authors used regression analysis, with the items of organizational performance comprising market share, sales growth and customer base. The cost leadership indicators in this study included; lower cost of service, cost efficiency, reduction of costs required for service coordination, improvement of utilization of available equipment, facilities and services. Similarly, Gorondutse and Gawuna (2017) found that cost leadership had positive impact on competition in Nigerian hotel industry. Atikiya (2015) focused on the influence of cost leadership strategy on Kenyan manufacturing industry. By use of regression analysis, the author found a positive relationship between items of cost leadership and items of performance namely sales growth in the previous 5 years, sales in the previous 5 years, profit growth rate in the previous 5 years, growth rate in profits for the previous 5 years, profitability ratio over the past 5 years and overall organization performance.

2.4.3 Focus Strategy and Penetration

Cheptiram, Nzioki, and Njeje (2016) studied the relationship between focus strategy and the performance of seed companies in north rift region. The focus strategy in this study was proxied by market segmentation. Using correlation analysis, the authors found a positive association between market segmentation and organization performance. Asiedu (2016) linked focus strategy with bank performance. The authors Specifically, this study was based on market segmentation as a part of market focus strategy.The author used market share and profits to assess the impact of market segmentation on the performance of banks. Using deposit size, the author adopted Herfindahl Hirschman Index (HHI) in calculation of market concentration for the sampled banks and then correlation analysis between the index and the performance indicators was conducted. The correlation between the Herfindahl Hirschman Index and the performance indicators was calculated in order to establish the effects of market segmentation on the performance of the banks. The results of the correlation analysis indicated that market segmentation was positively correlated with market share. A different approach was taken by Arasa and Gathinji (2014). The authors used primary data to estimate the effect of focus strategy on organizational performance (proxied by market share and sales). By use of regression analysis, the authors found a positive and significant relationship between focus strategy and organizational performance.

2.4.4 Critical Success Factors and Penetration

There exists empirical evidence on the role of critical success factors in influencing business penetration. For instance, Cooper and Kleinschmidt (2007) used correlation analysis to assess the link between percentage of sales and critical success factors namely high quality process of new product development, organization, and firm

aggregate new product strategy, internal culture of the firm and innovation climate, and commitment by the senior managers. The authors found a positive relationship between critical success factors and sales. Another study that has attempted to link critical success factors with indicators of penetration is Aydin, Koc, and Kaya (2017). Specifically, the author studied the impact of critical success factors on business to business sales performance in Turkey. The critical success factors investigated comprised learning orientation, customer orientation, intrinsic motivation, hard-working scale and technical expertise. By use of regression analysis, the authors found that critical success factors influenced sales performance positively and significantly. Leszczynski (2016) studied critical success factors influencing customer base and general economic performance for women enterprises in Poland. The indicators of performance included change in number of customers, annual revenue from economic activity, and change in annual net profit or self-employment earnings. The author adopted regression analysis with the above measures as the dependent variables. The analysis results indicated that education, experience, above average entrepreneurial skills, and adoption of a defined competitive strategy were significantly and positively related with performance. AlQudah, Osman, and Safizal (2014) studied organizational performance critical success factors for SMEs in Jordan. Using a sample of 332 SMEs, the authors used regression analysis and correlation analysis to assess the relationship between the organizational performance and the critical success factors of quality circle and performance appraisal. The regression analysis indicated that the coefficients of quality circle and performance appraisal were positive and significant, implying that critical success factors had a positive influence on organizational performance.

2.5 Summary of Literature

From the reviewed literature, it is evident that in most cases competitive strategies influence the market penetration of organizations. A number of studies reviewed found that differentiation, cost leadership and focus strategies had positive and significant influence on penetration indicators such as market share, sales, turnover growth and customer base (Spencer and Joiner, 2009; Nolega et al.,2015; Dirisu et al., 2013; Gorondutse and Gawuna, 2017; Cheptiram et al., 2016). However, research gap exists in that no study reviewed has focused on insurance penetration. Some of the studies also have used ANOVA to investigate the differences in performance in various generic strategies and hence there is no causal relationship established.

3. Research Methodology

3.1 Research Design

This study adopted descriptive and explanatory research designs. Descriptive research was important as it formed the basis of other research designs. A good description of observations was important because it helped in discovery of special data characteristics that provoked the adoption of other methods of analysis such as correlation and regression. The descriptive research design was important in this study as it formed the basis of explanatory research. On the other hand, explanatory research design was used in order to test the influence of competitive strategies on insurance penetration.

3.2 Target Population

Target population is the entire group of individuals or objects to which the research findings are generalized. Any inferences from a sample should be based on a well-defined population. In defining target population, inclusion and exclusion criteria should be developed. The research problem and objectives guide on the exclusion and inclusion criteria (Banerjee and Chaudhury, 2010). The target population in this study comprised all the registered insurance companies in Kenya. The population was established from the Insurance Regulatory Authority published reports on insurance sector. According to IRA (2017), there are 50 registered insurance companies in Kenya. These formed the target population.

3.3 Sample Size and Sampling Technique

A sample can be defined as the subset of individuals, elements or objects that represents a given population. Due to the small number of population (50 registered insurance companies), census was used. Census allows for collection of relatively more information than sampling. This is because census allows for an intensive research about a particular problem. Also, a relatively higher degree of accuracy is achieved by a study based on census especially

when the population is small. The respondents in this study were the departmental heads of the insurance companies in Kenya. The departmental heads from marketing and business development department were the respondents in this study.

3.4 Data Sources and Collection Techniques

This study used both primary and secondary data. Secondary data was mainly insurance penetration and total asset value data (representing the company size). Penetration data was collected from financial reports and the Insurance Regulatory Authority reports on insurance industry. Primary data was collected by use of semi-structured questionnaire. The questionnaires were administered by conducting interviews to the departmental heads of business development department of the sampled companies. The departmental heads were selected as respondents because it is believed that they have substantial information about the strategic orientations of their organizations as well as vital information in insurance industry.

3.5 Validity and Reliability of Research Instruments

3.5.1 Pilot testing

Pilot testing was conducted in order to ensure that the questionnaire is valid and reliable tool for data collection. Pilot testing is also important as it offers the opportunity to improve research design in case some shortcomings are discovered during the exercise thereby saving time and resources. Following the work by Kothari (2004), a sample size of 10% of the insurance companies was used in the pilot testing. Simple random sampling was used to select the respondents. The insurance companies used in the pilot testing were left out from the final study.

3.5.2 Validity of the instruments

Validity can be termed as the extent to which a research instrument measures what it purports to measure if efficiently administered (Oladimeji, 2015). According to Karras (1997), validity is measured by association strength or correlation between established findings and a criterion measure. This is referred to as criterion-related validity. However due to the lack of standardized external criterion on which to assess criterion-related validity, this study relied on the opinion of scholars in the strategic management field.

3.5.3 Reliability of the Instruments

Reliability is the situation in which the results from a test are consistent, stable, and when repeated similar results are derived (Oladimeji, 2015). The reliability implies similar results are derived under the same situations but different settings. Reliability indicates whether there is consistency in performance of questionnaire. Two main approaches to examination of the questionnaire reliability exist. The first approach involves testing whether the same results are yielded by a questionnaire when administered to the same person on separate occasions. The second approach involves administering the same questionnaire to the same person by two different interviewers and then assessing the correlation of the results. Statistically, the reliability in this study was measured by use of Cronbach's alpha. In this test a score of more than 0.7 is considered acceptable, otherwise the questionnaire is deemed to be unreliable.

3.6 Data Collection Procedures

The researcher personally administered the questionnaires as this offered the opportunity to probe on some items of variables of interest. On the other hand, secondary data on penetration was sourced from financial reports and market surveys of the sampled insurance companies and IRA. Before data collection, authorization was sought from the sampled companies. A copy of the letter of introduction that had been signed by the university was availed to all the insurance companies under the study. In addition, consent was sought from the respondents before data collection.

3.7 Data Analysis and Presentation

The data that was collected was quantitative in nature. The responses on competitive strategies and critical success factors were tabulated and coded. The methods of data analysis comprised descriptive analysis, correlation analysis, and regression analysis. Specifically, correlation analysis was used to analyze the association between quantitative data on market share, competitive strategies, critical success factors and company size. On the other hand, descriptive analysis was used in calculating the descriptive statistics for the variables. The descriptive statistics comprised mean, skewness, and kurtosis. Lastly, a multiple regression model was used to assess the impact of competitive strategies on insurance penetration. The critical success factors were the moderating variable in this model. The model was estimated by use of OLS method and took the following form;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \mu \quad \text{.....Equation 1}$$

Where, β_0 = regression constant, $\beta_1 - \beta_5$= regression coefficients, X_1= cost leadership strategy, X_2= Differentiation strategy, X_3= Focus strategy, X_4= Critical success factors, X_5= Company size

It is hypothesized that critical success factors enhances the relationship between the competitive strategies and insurance penetration and hence a second model was used to test the moderation effect of critical success factors. Basing on Whisman and McClelland (2005) the model for testing moderation is as indicated in equation 2.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 (X_1 * X_4) + \beta_6 (X_2 * X_4) + \beta_7 (X_3 * X_4) + \beta_8 Size + \mu \quad \text{.....Equation 2}$$

Where X_4= Critical success factors (moderating variable), $(X_1 * X_4)$, $(X_2 * X_4)$, $(X_3 * X_4)$= interaction terms Size=company size

To test the moderation of critical success factors (X_4), interaction terms($X_1 * X_4$), ($X_2 * X_4$) and ($X_3 * X_4$) are added to the model as indicated by equation 2. In this case, moderation exists if the coefficients for the interaction terms ($\beta_5, \beta_6, \beta_7$) in equation 2 are statistically different from zero (Andersson, Cuervo-Cazurra, & Nielson, 2014). Therefore, if the moderation exists, the interaction terms should be significant. At 5% level of significance, the p-values of the coefficients of the interaction terms should be less than 0.05.

3.8 Diagnostic Tests

Before estimation of equations 3.1 and 3.2, tests for normality, multicollinearity, and heteroskedasticity were conducted. Heteroskedasticity test was carried out by use of Whites General test. Heteroskedasticity arises when the variance of error term is not constant across observations thus violating the OLS assumptions. On the other hand, Jarqua-Bera test was used to test the hypothesis of normal distribution in the dataset. Multicollinearity between the independent variables leads to bias in hypothesis testing and hence wrong inferences are made. This was tested by use of variance inflation factors.

4. Data Analysis, Interpretation and Discussion

4.1 Response Rate

Of the 50 companies contacted, a total of 37 agreed to participate in the study. This represented a response rate of 74%. This response rate was deemed to be adequate representation of the population that was being studied. In an analysis of 1607 articles focusing on organizational research, Baruch and Holtom (2008) found that the average response rate was 52.7 percent.

4.3 Reliability Tests

Internal consistency, a measure of reliability of the questionnaire was tested using the Cronbach's alpha for the three competitive strategy variables and critical success factors. The results indicated that the questionnaire was reliable as the Cronbach's alphas for all the competitive strategies and critical success factors were more than the critical value of 0.7.

4.4 Demographic Information

4.4.1 Age and gender of respondents

The study sought to evaluate the gender and age of respondents. The findings are presented in Table 1.

Table 1: Age and gender of respondents

Gender	Age					
	31-35	36-40	41-45	46-50	51-55	Total
Female	2 (17%)	8(67%)	1 (8%)	1(8%)	0(0%)	12 (100%)
Male	3(12%)	9(36%)	7(28%)	5(20%)	1(4%)	25(100%)
Total (male and female)	5(13%)	17(46%)	8 (22%)	6(16%)	1(3%)	37 (100%)

The results in table 1 indicates that majority of the respondents were male. This implies that male managers are majority in the insurance industry and more work needs to be done to ensure gender equity in line with the Kenyan constitution. These findings corroborate the findings by Maina and Iravo (2015) and Mwangi and Ombui (2015). These studies found that the percentage of male employees in managerial positions was higher than that of female employees.

4.4.2 Age and experience of the respondents

The study sought to investigate the age and experience of the respondents. The results are summarized in Table 2.

Table 2: Age and Work Experience of the Respondents

	Work Experience				
Age (years)	1-5	6-10	11-15	16-20	Total
31-35	1	4	0	0	5
36-40	1	14	2	0	17
41-45	1	5	2	0	8
46-50	0	4	1	1	6
51-55	0	1	0	0	1
Total	3 (8%)	28 (76%)	5 (13%)	1 (3%)	37 (100%)

The findings in Table 2 suggested that majority of the respondents had experience of 6 to 10 years in the insurance sector. This represented 77% of the sampled respondents, with respondents between 36 to 40 years being the majority (14). A study by Maina and Iravo (2015) established that majority of employees in managerial position were more experienced than employees from lower level positions. The authors concluded that managerial position requires people with work experience. Ombui (2015) found that majority of the management level employees were middle aged and had vast experience in strategy formulation and implementation.

4.5 Descriptive Statistics for the Variables

Descriptive statistics for the dependent and independent variables were calculated in order to describe the basic features of the data. The results are shown in Table 2.

Table 3: Descriptive statistics

Descriptive statistics for the dependent and independent variables were calculated in order to describe the basic features of the data thereby allowing for simpler interpretation of the data.

	Cost leadership	**Differentiation**	**Focus**	**Critical success factors**	**Market share**	**Size**
Mean	2.216216	2.604324	2.405405	2.54054	2.703784	15.14447
Std. dev	1.227806	0.8873385	0.9562502	1.104183	2.364946	0.7404216
N	50	50	50	50	50	50
Obs	37	37	37	37	37	37

According to the results in Table 3, it can be concluded that the cost leadership strategy is generally used to a little extent by the sampled insurance companies. Specifically, the mean of cost leadership strategy was 2.2, implying that the cost leadership strategy on average was being used to a little extent. Similary, the focus strategy is used to a little extent by the insurance companies as indicated by a mean of 2.4. Differentiation strategy had a mean of 2.6, implying that the insurance companies used this strategy to a moderate extent. These results concur with Kowo, Sabitu and Adegbite (2018) findings that respondents believed that differentiation had moderate influence on sales turnover. On the other hand, critical success factors had a mean of 2.5, implying that on average, the respondents believed that the four critical success factors had moderate importance in influencing the market share. These findings are consistent with AlQudah (2014) who found that critical success factors had moderate influence on organizational performance. The mean market share was 2.7, implying that the average market share for the sampled companies was 2.7 per cent.

4.6 Correlation Analysis

The study sought to evaluate the strength and direction of association between the study variables. Correlation analysis between the variables is shown in Table 4.

Table 4: Correlation Analysis

	1	**2**	**3**	**4**	**5**	**6**
1.Market share	1					
2.Cost leadership	0.8791** 0.0000	**1**				
3.Differentiation	0.8562** 0.0000	0.8367** 0.0000	**1**			
4.Focus	0.3273* 0.0480	0.3491* 0.0342	0.2382 0.1558	**1**		
5.Critical success factors	0.6475** 0.0000	0.5034* 0.0015	0.5421** 0.0005	0.3733* 0.0229	**1**	
6. Company Size	0.8745** 0.0000	0.8005** 0.0000	0.8443** 0.0000	0.2496 0.1362	0.4809* 0.0026	**1**

$* P < 0.05, \quad ** P < 0.01$

Table 4 summarizes the correlation between the strategy variables, company size and market share. The cost leadership, critical success factors and company size have a positive association with the market share, with the association between these variables and market share being significant at 1% level of significance. The focus strategy was also found to be positively correlated with market share. The correlation was however significant at 5% level of significance. In addition, the above results indicate that focus strategy is weakly correlated with market share. These results suggest that the competitive strategies and critical success factors are associated with the market share. Thus, adoption of the competitive strategies is associated with an increase in the market share and hence insurance penetration. Generally, the positive and significant correlation between the independent variables (cost leadership strategy, differentiation strategy, focus strategy, company size, and critical success factors) and dependent variable (market share) implies that there exists degree of linear relationship between the variables. These results support the findings of Buul and Omundi (2017) who found that cost leadership, focus and differentiation strategies had positive and significant association with sales growth. Similary, Atikiya (2015) found a positive association between sales growth and cost leadership strategy in manufacturing firms in Kenya.

4.7: Regression Analysis

The regression analysis was used to assess the effect of competitive strategies on insurance penetration. Two models were estimated. The first model was the base model. The second model was the model for testing whether critical success factors moderated the relationship between competitive strategies and market share. In addition to the competitive strategies, company size was used in the model as the control variable. Before regression analysis, diagnostic tests were carried out to ensure the validity of the model. Multicollinearity test was carried out by use of variance inflation factor. The test indicated that there was no multicollinearity. Normality test was carried out by use of Jarque-Bera test. The test indicated that the residuals from regression were normally distributed. On the other hand, visual inspection of scatter plot graphs indicated that the relationship between the market share and the independent variables depicted a linear trend.

4.7.1 Base Model

The base model was in the following form;

$$Y = \beta_0 + \beta_1 Costleadership + \beta_2 Differentiation + \beta_3 Focus + \beta_4 CSF + \beta_5 Size + \mu \quad \ldots\ldots\ldots\ldots\ldots\ldots 3$$

Where; CSF=critical success factors, size=company size

The regression results are summarized in Table 5.

Table 5: Regression results

Dependent variable: Market share

Number of observations=37

Variable	Coefficient	Std. Error	t-statistic	Prob.
Cost Leadership	0.7112151	0.2584499	2.75	0.010
Differentiation	0.4259137	0.3840396	1.11	0.276
Focus	0.1062465	0.1744681	0.61	0.547
CSF	0.1754972	0.1807105	0.97	0.339
Size	1.280477	0.414278	3.09	0.004
Constant	-19.98034	5.619941	-3.56	0.001
R Squared 0.8667 Adjusted R Squared 0.8452				

F Statistic 33.74
Prob.>F 0.0000

From the above regression results, the model is valid because its overall slope is significant at 1% level of significance. This is because the p-value of the F-statistic is less than 0.01. In addition, the model has high explanatory power. The R-squared of 0.8667 suggests that approximately 87% of the variation in the dependent variable (market share) is explained by the five independent variables.

The regression results in Table 5 indicated that there was a positive and significant relationship between cost leadership strategy and market share (proxy for insurance penetration). In addition the size of the company was found to have a positive and significant relationship with market share. The coefficients for both cost leadership strategy and size of the company were significant at 1% level of significance. This is because the p-values for coefficients of these variables were less than 0.01. The implication for this is that cost leadership strategy and size of the organization positively and significantly influences insurance penetration in Kenya. Similar findings were established by Atikiya (2015). Specifically, the author found that cost leadership strategy had positive and significant influence on sales growth and profit growth. The findings also corroborate those of Buul and Omundi (2017) who found positive and significant relationship between cost leadership strategy and performance of organizations. Therefore, adoption of cost leadership strategy would enhance insurance penetration. Achieving cost leadership enhances organization's profit and hence the ability to penetrate the market. This implies that adoption of the cost leadership strategy would lead to an increase in market share for the insurance companies and hence market penetration (Hilman & Kaliappen, 2014; Gorondutse & Gawuna, 2017).

Also, the larger the insurance company (as measured by the asset base) the greater will be its penetration ability in the market. This claim is supported by Fiala and Hedija (2015) who found a positive and significant relationship between firm size and firm growth. Leitner and Guldenberg (2009), also found evidence of positive effects of company size on market share. This implies that the larger the company, the greater will be its potential for market penetration. The coefficients for the differentiation strategy focus strategy and critical success factors were insignificant although their signs were positive as expected**.**

4.7.2 Testing Moderation

Regression based technique was used to test whether critical success factors moderated the relationship between competitive strategies and market share. This regression model involved inclusion of interaction between the competitive strategies and critical success factors (interaction term). The model estimated has been discussed was in the following form:

$$Y = \beta_0 + \beta_1 Cost\ leadership + \beta_2 Differentiation + \beta_3 Focus + \beta_4 CSF + \beta_5 (Cost\ leadership * CSF) + \beta_6 (Differentiation * CSF) + \beta_7 (Focus * CSF) + \beta_8 Size + \mu \ldots\ldots\ldots\ldots\ldots\ldots 4$$

Where CSF = Critical success factors (moderating variable), $(Cost\ leadership \times CSF))$, $(Differentiation \times CSF)$, $(Focus \times CSF)$= interaction terms

Table 6 summarizes the results for moderation model.

Table 6: Regression for testing moderation

Dependent Variable: Market Share

Number of Observations: 37

Variable	Coefficient	Std. Error	t-statistic	Prob.

Cost leadership	0.7669065	0.5469041	1.40	0.172
Differentiation	-0.581035	0.5500072	-1.06	0.300
Focus	0.3540307	0.3333728	1.06	0.297
CSF	-0.1581639	0.1853469	-0.85	0.401
Cost*CSF	-0.0593629	0.3166507	-0.19	0.853
Diff*CSF	0.418187	0.3468173	1.21	0.238
Focus*CSF	-0.1916276	0.1335636	-1.43	0.162
Size	1.317972	0.3671809	3.59	0.001
Cons	-19.10112	4.903314	-3.90	0.001
F Statistic 37.33 Prob.> F 0.0000 R-Squared 0.9143 Adj. R-Squared 0.8898				

The regression results in Table 6 above suggest that the model has high goodness of fit. The R-squared of 0.9143 implies that the independent variables in the model had high explanatory power. However, the coefficients for interactions terms were insignificant since the p-values were more than 0.05 (P>0.05). Therefore, no evidence of moderation by critical success factors was found. The findings from the current study do not corroborate Acquaah and Agyapong (2015) findings that managerial and marketing capabilities moderated the relationship between competitive strategies and firm performance. However, the study by Acquaah and Agyapong focused on SMEs in general. In addition, the authors focused on different critical success factors.

5. Summary, Conclusion and Recommendations

The main objective of this study was to investigate the influence of the competitive strategies on the insurance penetration in Kenya. The competitive strategies comprised cost leadership, differentiation, and focus strategies. On the other hand, market share for the sampled companies was used as a proxy for insurance penetration. The study findings suggested that the cost leadership strategy had a positive and significant effect on the market share and hence insurance penetration. This means that the more the insurance organization is able to achieve cost leadership, the greater will be its ability to penetrate the market. The study findings also indicated that the company size had a positive and significant influence on the insurance penetration. This implies that as organizations grow so does their ability to penetrate the market.

The study concludes that the costs incurred by the insurance organizations in the country influences their market penetration ability. In this case, achieving cost leadership is an essential component that would significantly enhance insurance penetration. Similar to Leitner and Guldenberg (2009), the size of an organization is an important determinant of its ability to penetrate the market.There appears to be no significant influence of focus strategy and

differentiation strategy on market penetration. This could be conceptualized to imply that the services that insurance companies offer are limited, with little differentiation in the insurance products.

The study recommends costs monitoring by the insurance companies. Achieving cost leadership enables insurance companies to expand their markets with relatively lower costs as compared to their competitors. The policy makers in the government also need to promote the growth of insurance industry by coming up with policies that lower the costs in insurance industries. Generally these policies should foster ease of doing business in the insurance industry. Owing to the significant influence of company size on market share, it is important for insurance organizations to identify growth opportunities. Identification of growth opportunities is important for organization to increase their market share. In addition, identification of growth opportunities enables organizations to increase their size and hence the ability to penetrate the markets.

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Effects Of Entrepreneurship Training On Financial Performance Of Small Scale And Medium Enterprises In Nairobi City, Kenya

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Abstract

Performance of SMEs in Kenya is currently wanting despite the national and county governments' campaign to educate their young entrepreneurs and women on entrepreneurship skills. Most SMEs still lack the crucial entrepreneurship skills on savings and borrowing, investment, financial analysis skills, and innovation. The study therefore seeks to examine effects of entrepreneurship training on financial performance of small scale and medium enterprises in Nairobi City County of Kenya. The specific objectives will be to determine effects of saving and borrowing, investment, financial analysis skills, and innovation on financial performance of SMEs in Nairobi City County. The study will use a descriptive research design. Primary data on entrepreneurship training will be collected from SMEs managers and owners while secondary data on performance will be collected from their financial statements or records. A stratified sampling technique will be used to select 70 SMEs from the CBD of Nairobi area. Statistical package for social scientist (SPSS) will be used in data analysis to establish the relationship between study variables.

Introduction

The chapter discusses the background of the study, statement of the problem, research objectives, research questions, research assumptions, justifications of the study, significance of the study, scope and delimitations of the study, and limitations of the study.

1.1 Background to the Study

Small and Medium Enterprises (SMEs) play significant role in the growth and development, both in the developed and the developing economies. The World Bank report (2017) confirms that the formal SMEs account for over 60% of employment in these economies and 40% of the Gross Domestic Product (GDP). The informal SMEs also have crucial contribution to employment and GDP of these economies. Daka (2001) emphasises that having realized the significance of entrepreneurship training on the performance of SMEs, several countries such as Brazil, Singapore, United Kingdom, India, USA, Latin America, Poland, and Malaysia among others have introduced entrepreneurship education programs since 1990.

In Africa, limited research has been done in this area, especially with reference to financial performance of SMEs. In some countries, entrepreneurship training is a new idea. Nigeria is considered the world's leader in the entrepreneurial initiative, which is attributed to the effectiveness of investment in entrepreneurial education (Global Entrepreneurial Monitor, 2012). As such, it is important for other countries across the globe and in Africa to follow suit by promoting and supporting entrepreneurial training on the financial performance of SMEs. Therefore, this proposal seeks to explore the effects that the entrepreneurship trainings will have on the ability of the firms to pay their debts when they fall due, to give competitive return to investors, the efficiency in the use of capital, the manner in which funds are invested and ability to plough back profits for expansion of the businesses.

Some of the roles of SMEs globally include employment and wealth creation, a source of tax revenue for the government, development of the private sector, meeting local and international demand among others. As a means of strengthening the country's economy, the government of Kenya, Non-Governmental institutions, investors and other key players in the economy continue developing financial and no-financial strategies and programs with a view of promoting the development of SMEs (Kithae, Magambo & Kavinda, 2012). One of the major such programs is the entrepreneurship training and education. Despite all these interventions, many SMEs do not live to see their fifth birthdays, thus raising the question on the nature of the effects of the training on the performance of SMEs (Munene, 2013). Over 60% of the SMEs shut down their operation within the first few months (Kenya

National Bureau of Statistics, 2007). Arinaitwe (2006) asserts that the rate of failure is higher in developing countries than in the developed countries.

1.1.1 Entrepreneurship Training

Entrepreneurship training is an important necessity to the development and growth of the Small and Medium Enterprises (SME) sector globally. It is an important tool for changing people's perception and to transfer skills necessary for entrepreneurs. Global Entrepreneurship Monitor (GEM) explains that the main factor that hinders entrepreneurship is lack of education on entrepreneurship and further reiterates that Africa has the least supportive entrepreneurial framework conditions (GEM, 2018). Evaluation of the influence of entrepreneurship training provides important feedback to the stakeholders as it assesses how the training has the impacted the life of the trainees (Philips & Philips, 2016).

Entrepreneurship training involves financial literacy, which is as a set of skills and knowledge, which enable individuals to make informed decision about finances. Financial literacy is deeper than knowledge because it also incorporates active management of a person's money right from accumulation to consumption. It is increasingly becoming more important than before as financial institutions, financial professionals and educators, and others from Kenya are identifying financial analysis to be a priority (Cude, 2010).
Entrepreneurship training benefits people of all categories of income and ages. For entrepreneur who is starting their own enterprises, it is a tool for providing savings, investments, borrowing skills. It also enables consumers to budget and save so that expenses are kept under control. In a study conducted by Eularia (2009) in Nyamagabe District, Rwanda, it was reported that many people often overrate their financial position, and therefore financial literacy makes sure that individuals have a realistic view regarding their own financial knowledge of and understanding of investment and financial decisions. Entrepreneurship training helps entrepreneurs get discipline to save money for businesses, their own use, and education (Behrman, Mitchell, Soo, & Bravo, 2010). It helps people ensure that they have adeequate savings and provide them with skills and information for making wise investment choices, saving plans, budgeting, and recordkeeping. It enables people with lower income levels to make the most of whatever they are able to save for investment to avoid incurring higher costs of borrowing, i.e the high interest rates charged by non-financial institutions (Swee Lian, 2008). It means that a person's level of financial literacy may impact his or her quality significantly. As a compotent of entrepreneurship training, financial education enhances one's ability to provide for oneself and that of his/her family, saving for the future goals and investments. It promotes financial analysis practices among idividuals and groups. Financial education also reiforces timely settlement of bills and preventing overidebtess to facilitate access of loans in credit markets.

1.2.1 Entrepreneurship Training and Small Scale and Medium Enterprises

Small scale and medium enterprise can excel in their enterprises by their effectual and competent engagement in entrepreneurial training activities. Entrepreneurship training indicators such as training methods, programme content, learner characteristics, and facilitator positively correlates performance of enterprises (Davis, 2012). The training provides women entrepreneurs with knowledge, skills, resources, and potential to start and manage their businesses. Trained women acquire knowledge on accessibility of credits, savings, funding agencies, certification procedures, financial management, innovation, technical skills, motivation, and support from their families,

government as well as other organisations (Hesse-Biber, 2013). Hence, formation and strengthening of SMEs need to be encouraged.

Entrepreneurship training constitutes trainings that provide lectures and produce materials imparting technical knowledge in production, processing, management, procurement as well as marketing (Dalal, 2011). The move aims to motivate entrepreneurs to participate in micro-entrepreneurship and with the right assistance, specifically youth and women entrepreneurs are able to strengthen their potentials as they add to their family income and promote national productivity.

Kithae, Magambo, and Kavinda (2012) entrepreneurship training is geared towards providing necessary knowledge, skills, and attitudes that are important for the starting up or expansion of business enterprises in the country. It is upon this background that the government made it part of the curriculum for primary, secondary and tertiary institutions of learning. As to whether the training have a played a role in the performance of SMEs in the country is still a debate. Mayuran (2016) did a study in Jaffna District in Sri Lanka to determine the impact of entrepreneurship training on performance of small enterprises using such variables as customer service training, marketing, financial management. The author found out that the entrepreneurship training had contributed to about 85% of these firms performance, with financial management knowledge having the greatest contribution. According to Aderyemi (2007), there is a positive relationship between entrepreneurship training and their performance through their transformation into larger enterprises.

1.1.2 Financial Performance of SMEs

Performance is understood in terms of output, which is the level of achievement of quantified objectives. Performance comprises measurements of results of a firm's policies as well as operations in monetary terms (Berríos, 2013). The outcomes are shown in a firm's value-addition, assets, and returns. The researcher emphasizes that accounting measures are the foundation of quantitative approaches to a firm's performance measurement. Financial performance provides measures of outcomes of a company's policies as well as operations in monetary terms. According to Ravi and Sharma (2012), financial performance is perceived as a measure of a firm's ability to generate some level of income stream over a specified duration. The author emphasizes that the recommended measures of financial analysis, which demonstrate a company's financial performance, are categorised into five broad groups, including profitability, solvency, liquidity, financial efficiency as well as repayment capacity. The predictors of financial performance comprise sales growth, net income (NI), operational efficiency, earning per share (EPS), return on sales (ROS), return on assets (ROA), return on equity (ROE), and return on investments (ROI) (Stiglitz, 2011). A profitable firm earns a positive net income.

According to Rahaman (2010) measures of financial performance vary significantly. In traditional management studies, financial ratios are grouped according to the performance aspects of liquidity, financial performance, and leverage. Information gathered from financial statements can be used in calculating the ratios. Financial performance measurements are crucial in monitoring a firm's return on capital employed (ROCE) in the business (Kiaritha, 2015)

CBK (2017) in its annual supervision report highlighted that the microfinance banks had an overall decline in their financial performance, reporting a total loss before tax of KES 622 million for the period ended 31 December 2017. The reported performance indicated a reduction from the financial performance reported in the year ended 31 December 2016, in which the microfinance sector posted a loss before tax of KES 377 million (CBK, 2017). The deterioration in profitability of the microfinance sector was majorly linked to decrease of financial income by 7% (KES 1 billion). The reduction in the financial performance made the sector report a lower return on assets (ROA) and equity ratio at negative (-) 0.9% and negative (-) 5.5%, compared to year 2016 at -0.5% and -3.2% respectively. The poor financial performance of the microfinance sector was also attributed to reduction in client deposits by 3.2% from KES 40.2 billion (in 2016) to KES 38.9 billion (in 2017) (CBK, 2017). The reduction in deposits was associated with growing demand from clients for higher interest returns, while experiencing stiff competition from commercial banks as they execute the law on interest capping (CBK, 2017). The net loan portfolio decreased by 8.9% from KES 47 billion (in 2016) to KES 42.8 billion (in 2017). The decline of the loan book was partially linked to the deliberate attempt by most financial institutions to cut lending because of the uncertainties linked to the electioneering period and partially by the interest rates-capping that led to a shift in clients to cheaper financial products from commercial banks.

1.2 Statement of the Problem

Achieving financial growth has been a difficult task for most SMEs in Kenya, resulting in poor financial performance. Studies have cited a gap in the entrepreneurship training that has led to poor performance. It is therefore necessary to investigate effects of entrepreneurship training on financial performance of SMEs in Kenya. Entrepreneurship skills are critical to modern day organizations even for SME sector. In simple terms and with reference to a business, it is the capability of an organization to deliver products or services to its customers in the most cost-effective manner possible while still ensuring the high quality of its products, service and support. It is achieved by streamlining a company's core processes so that it can effectively respond to continually changing market forces in a cost-effective manner. In order to attain financial growth an organization needs to minimize redundancy and waste while leveraging the resources that contribute most to its success and utilizing the best of its workforce, technology and business processes. The reduced internal costs that result from operational efficiency and growth enable a company to achieve higher profit margins or be more successful in highly competitive markets Attaining financial growth is a major challenge to SMEs in Kenya for even the most ambitious organizations. It is seen through entrepreneurship training, number of customers served, infrastructure, managerial quality, and geographical coverage (Olongo, 2013). A persistent problem has been how to achieve financial performance in

SMEs through entrepreneurship training (Cull, Kunt & Morduch, 2010). The problem has attracted attention of numerous researchers in recent past and as a result many strategies have been put in place to ensure operational growth (Maaka, 2013). Therefore, the need for SMEs to be operationally and financially sustainable in order to provide microfinance facilities and contribute to poverty reduction is very critical (Kimari, 2013). Only those SMEs which are operationally and financially stable stand a chance of reaching the vast millions of the poor (Nyanga, 2012).

In Kenya, limited empirical literature is available on this topic. Kisaka (2014) carried out a research on the impact of education and training on the entrepreneurial behaviour and found out that there exists a strong positive relationship. Munene (2013) also carried out a research on the impact of entrepreneurship training on the performance of SMEs in Nakuru County and found that there is a correlation between these variables. He measured the performances using pricing tactics, book keeping practices, up-to-date loan repayments, product quality, and customer satisfaction without investigating the financial performance. A similar study was carried out by Kithae, Maganjo and Kavinda (2012) in Embu municipality. The study also found a strong positive correlation between entrepreneurship and performance of SMEs. The performance of the firms investigated were measured in terms of their ability survive by coping with the hostile business environment, but did not measure the financial performance of these firms.

Empirical literature in this area provides evidences mostly outside Nairobi County, which houses over 70% of the SMEs in Kenya thereby may not be a true representation of the actual relationship (Njambi, 2016). The performance of the SMEs is also measured in non-financial terms. There are limited researches done with respect to the financial performance of the SMEs. While taking into considerations the lack of empirical data on the effects of entrepreneurship training on financial performance, the researcher will attempt to work on such untouched evidence.

1.3 Research Objectives

The overall objective of this study is to examine effects of entrepreneurship training on financial performance of small scale and medium enterprises in Nairobi City County of Kenya

1.3.1 Specific Objectives

The study will be guided by the following specific objectives:

i. To determine whether the understanding of savings and borrowings influence financial performance of small scale and medium enterprises in Nairobi City County of Kenya.

ii. To ascertain whether understanding of investment influence financial performance of small scale and medium enterprises in Nairobi City County of Kenya.

iii. To examine whether financial analysis skills influence financial performance of small scale and medium enterprises in Nairobi City County of Kenya.

iv. To ascertain determine whether innovation influence the financial performance of small scale and medium enterprises in Nairobi City County of Kenya.

1.3.2 Research Hypotheses

The study will be guided by the following research hypotheses:

i. Ho_i: knowledge in savings and borrowings has no influence on financial performance of small scale and medium enterprises in Nairobi City County of Kenya

ii. Ho_{ii}: Knowledge in investment has no influence on financial performance of small scale and medium enterprises in Nairobi City County of Kenya

iii. Ho_{iii}: Financial analysis skills has no influence on financial performance of small scale and medium enterprises in Nairobi City County of Kenya

iv. Ho_{iv}: innovation has no influence on financial performance of small scale and medium enterprises in Nairobi City County of Kenya

1.4 Significance of the Study

The study seeks to benefit the following category of people:

1.4.1 Research and Academicians

The findings in this study will make contributions to existing knowledge on SME sector and further studies in the subject of critical success factors for small and medium enterprises. Future researchers will benefit from the findings of this study because can use it as a reference for their own studies.

1.4.2 Policy Makers

The study findings will help the economic policy developers to gain insight into the operations of small and medium enterprises and offer a concrete reference for the formulation of new wide reaching policies that could enhance the financial performance of SME ventures. This will assist them to define and determine policy regulation and guidelines for small and medium enterprises in general.

1.4.3 Small scale and Medium Enterprises

The study findings will benefit small and medium enterprises on the critical success factors that need to be employed to spur their success in a highly competitive business environment. The success factors can be used by like-minded organizations to ensure success of their organizations.

1.5 Scope of the Study

The population will comprise of Small and Medium Enterprises in Nairobi City County. The respondents will be owner and managers of the SME's operating in the CBD area of Nairobi County. It is estimated that, about 21,100 SME's operate from the CBD. The data collection will be carried out in the month of December 2018.

1.6 Limitation of the Study

The study can find it difficult to generalise study findings to the broader population since primary data will be gathered from a homogenous setting. The study will only use a sample from SMEs in the CBD area of Nairobi City County. It will be ideal to incorporate data from other SMEs with similar operations across Nairobi County, but the study will concentrate only on the SMEs within the CBD area of Nairobi.

1.7 Organisation of the Proposal

The proposal is structured as follows: chapter one is the research background, research objectives, significance of the study, scope, and the limitations expected to be encountered in the course of the study. Chapter two shows literature review on effect of entrepreneurship training on financial performance of small scale and medium enterprises in Nairobi City County of Kenya and a conceptual framework. Chapter three presents the methodology to be used in the study.

Literature Review

The chapter covers the theoretical review, empirical review of the related literature on specific variables. It also presents the conceptual framework.

2.1 Theoretical Framework

The study will be guided by three theories, including financial inclusion theory, poverty alleviation theory, and financial deepening theory

2.1.1 Financial Inclusion Theory

Financial inclusion is seen as the process of availing an array of required financial services, at fair prices, right place, form and time and without discrimination to all members of the society (Aduda & Kalunda, 2012). Financial inclusion help individuals cope better with poverty especially the challenges of irregular income. Further, Aduda and Kalunda opined that the main objective of financial inclusion should be advantaging the poor majority of those who do not use formal financial services.

Proponents of financial inclusion theory opine that for micro-enterprises, financial inclusion can provide funds for setting up and expanding and for improving their income. Financial inclusion goes a long way in providing the poor individuals with opportunity to improve their standard of living and has a potential for social and economic empowerment. According to a report by Simpson & Buckland (2009), micro finance addresses the issue of financial exclusion where people do not have sufficient financial services. Financial inclusion therefore has provided a solution to the need of low income household and rural people who were left out by formal financial institution. The theory has established a positive link between financial access and economic growth and empowerments.

2.1.2 Poverty Alleviation Theory

The concept of financial literacy and micro-financing arose out of the need to provide to the low income earners and the rural people who were left out by formal financial institutions (Wahid, 1994). The theory is anchored on the idea of Grameen Bank concept in Bangladesh. Grameen Banking is the mechanism under which credit can be provided to the poorest of the poor on group liability basis instead of any collateral. Grameen Banking mostly applied in the rural areas.

The pressing need for rural economy is to create jobs for the large unemployed, underemployed labour force, to enhance productivity to the entrepreneur and growth and development for the non -youth group activities. Creation of employment requires investments in small working capital which as a result will help generate more returns and in return living standards of people is improved. Thus obtaining credit from microfinance can go a long way in helping the poor accumulate their own capital and hence improve their living standards investment through the income generated.

2.1.3 Financial Deepening Theory

Financial deepening is the increased provision of financial services and access to basic financial services such as credit, savings and insurance. FD theory was proposed by Edward S. Shaw in 1973. The theory holds that FD is a necessary pre-condition for economic growth. It is based on the premises that it enhances credit access which offers the necessary financing to firms in the economy and hence economic growth is realized (Shaw, 1973). FD enables financial intermediaries perform their functions efficiently of mobilizing, pooling and channelling domestic savings into more productive capital thereby contributing to economic growth of a country.

FD plays a vital role in increasing ability of individuals and households to access basic services such as education, health and thus having a more direct impact on poverty reduction. For a financial sector to be said to have deepened the following should be evident; increase in the range of financial services, regulations and stability of the financial sector is improved, the extent to which the capital is allocated to private sector household is increased and the amount of cash intermediated is increased (Shaw, 1973). FD brings about financial inclusion, which offers incremental and complementary solutions to deal with poverty. FD accelerates economic development since it increases the size of the financial system and its role in financing with a wider choice of services geared towards economic development. This theory has established a link between increased access to financial services and economic growth and empowerment.

2.2 Empirical Review

The following sections provide a detailed review of people's knowledge of and understanding of savings, borrowings, investments, financial analysis, and innovation. The three items for discussion form a set of independent variables that will guide this study. They are related to the themes of this study.

2.2.1 Understanding of Savings and Borrowing

Previous studies on financial literacy in Kenya consistency establish that entrepreneur lack adequate education in financial fundamentals, and they have poor knowledge and understanding ((Kisaka and Mwewa (2014), Munyori and Ngugi (2014), Mwongera (2014), Akwalu (2014), and Masese and Munene (2013)). Research study by Agarwalla, Barua, Jacob, and Varma (2015) also reveals that financial literacy for investors in India are below the required level. The finding is supported by the fact that the working entrepreneurs in India have inferior financial knowledge and understanding. Lusardi, Mitchell, and Curto (2009) recorded that financial literacy among the SMEs is wanting as many young people lack both personal and business financial skills and knowledge. According to Huston (2010), there is ardent need to step-up financial literacy in developing countries because of low rate of entrepreneur' personal and business financial knowledge. Another study conducted by Jappelli and Padula (2013), entrepreneur possesses low confidence level when it comes to skills of money management, savings, and investments and therefore the need to increase financial education.

World Bank (2012) surveyed 1,670 households countrywide on financial knowledge and ascertained an average correct score of 38 percent. The result reveals that households who are decision makers in financial matters lack a thorough grasp of financial concepts. Rogito (2010) found that, in general, entrepreneur of Marani District of Kenya had poorly healthy attitudes towards basic skills in money management as well as low knowledge in financial planning matters. The study established that most of the respondents neither manage nor plan their finances in a disciplined and structured manner.

Agarwalla, Barua, Jacob, and Varma (2015) conducted a study on financial literacy among the working entrepreneur in India. The purpose of the study was to establish the extent of understanding of financial education among the SMEs and how financial knowledge influence the way they manage their personal finances. The study involved 120 respondents selected through a random sample. The study found that majority of the Indian working young people understands what savings is and many of them save. They monitor their spending pattern and are responsible in the way the use credit. As reported by Al-Tamimi (2009), most young people in United Arab Emirates (UAE) lack adequate knowledge to balance a chequebook and do not understand fundamental principles of earning income, making spending, making savings and investments. It is quite amazing that 75% of this category of entrepreneur fall between the ages of 18 to 25 years old (Baloyi, 2010). It could be therefore concluded from the findings that entrepreneur lack basic financial skills when it comes to borrowings and savings. Behrman, J., Mitchell, Soo, and Bravo (2010) found that entrepreneur have a very low understanding of borrowings and savings.

Kisaka and Mwewa (2014) studied how access to credit, microsaving and training influence growth of small and medium Enterprises in Kiambu County in Kenya. In this study, they examined how small and medium-sized business holders make savings decions, the way they collect information for making such decisions, and whether

they have the right financial literacy skills to make informed decisons. The research concluded that only one-half of the participants could could calculate simple questions on interest compounding correctly. It was worrying that only 18% of the respondents could correctly compute questions on compound interest. Out of the businessholders who got the interest equation wrong, 43% did a simple interest calculation, and thus ignoring the interest that accrues on both principal amount and interest. Munyori and Ngugi (2014) confirm that the findings are worrying bearing in mind that majority of the respondents engaged in the sample survey are people with atleast O-level (form-four) qualification and already have gone through some basic calculations of interests and compounding interest in Mathematics class, which is a compulsory subject in Kenya, in the course of their studies. Mwongera (2014) notes that financial literacy impedes young women's ability to access credit, and thereby impacting negatively on their ability to save and borrow.

2.2.2 Understanding of Investment

Almenberg and Dreber (2011) assessed gender, financial literacy, and stock market participation. The purpose of the study was to examine personal investments among 450 students and the link between gender and investment literacy, academic area of speciality and experience. The respondents were selected through a simple random sampling technique. A statistical research design was used for the study and data were collected through structured and open-ended questionnaires and analysed by using a multiple regression. The results obtained from the study revealed that most of the college students were not literate about their personal investment, especially on stock market valuation, global investment, effect of interest rate changes as well as tax planning. The study therefore concluded that college students lack adequate knowledge on the basics of personal investments.
According to Akwalu (2014) on factors affecting performance small and medium businesses owned by entrepreneur in Maara sub-county, Tharaka-nithi county (Kenya) found that investment literacy was at its low levels. In another study of a Kenyan case study on financial inclusion and financial sector stability, 58 percent of the respondents were found to be of knowledge decicit regarding investments (Aduda and Kalunda, 2012). The entrepreneur constitute the majority of persons who undertake investment decisons (Kimanjara, 2013).

2.2.3 Financial Analysis Skills

According to Meeme (2013), the role of any business manager entails the ability to speak the language of finance, forecast expenses, manage budgets, assess risk as well as anticipate financial issues. Yet several young entrepreneurs lack trainings on these crucial aspects of their roles (Rogito, 2010). Kenya Ministry of Youth Affairs and Sports (2011) reports that majority of Kenyan entrepreneur are not well conversant with basic financial analysis skills of understanding accounting and financial information.

Masese and Munene (2013) assessed factors influencing financial performance of youth owned businesses in Kisii town of Kenya. The study adopted a descriptive survey design to examine the extent of the effect of financial planning on performance of youth owned businesses. The study targeted 150 youth owned enterprises that were situated within Kisii town of Kenya. The study findings ascertained that majority of the interviewees lacked financial analysis skills of reading and interpreting financial information, analyzing financial statements using ratios, and investment appraisal, which are necessary ingredients of any enterprise undertaking. The research also

established that respondents who regard financial planning as less important are the very people who fail to practice business financial planning.

2.2.4 Innovation

Innovation can be defined as the application of new ideas to the products, processes, or other aspects of the activities of a firm that lead to increased value. The value in this context coves broad way to incorporate higher value derived for the firm and also the benefits to consumers or other firms (Nieto and Santamaria, 2010). Several studies have attempted to make an understanding on the role of innovation within the small and medium sized enterprises around the world. Madrid-guijarro (2013) established that innovation is a critical driver of competitive advantage (Madrid, Garcia and Van, 2009). A study on SME's across Spain found that, innovation played a critical role to in changing fortunes of many businesses among them including; an increase to the market share, realization of greater production efficiency, higher productivity and higher revenues (Madrid, et. al., 2009). In a report by Tan, Fischer, Mitchell and Phan (2009), they postulated that innovation contributed to economic growth and is one of the most critical ways through which small and medium sized enterprises (SMEs) can be able to be competitive and ensure business survival. Understanding of the value innovation brings to the business scene, it can assist firms to embrace diversity in market place by introducing or improving their products which eventually results to an improvement in their financial performance (Madrid-guijarro, 2013).
Literary spectrum in business environment the concept of innovation is heterogeneous and broad. According to the European Commission (COM, 2003), innovation can be viewed as the renewal and enlargement for the "range of products and services and the associated markets" and the establishment of new methods of production, supply and distribution; the introduction in changes in management, work organization, and the working conditions and skills of workforce. The fundamental role of innovation as a driver of sustainable competitive advantage has guided managers and policymakers to strongly commit to developing and implementing initiatives that encourage innovation among SMEs (Nieto and Santamaria, 2010).

2.2.4.1 Product Innovation

Burton (2011) postulated that, innovation can be categorized in two ways; product and process innovation. In a business context, product innovation explains the form in which products or services are offered. Product innovation can be defined as the transformations pursued in an organization's production line, introduction of new products in the market or use of new and better materials in the production process (Wong, 2014).
Product innovation could be tangible manufactured goods, intangible services, or a combination of the two. Some of the examples for recent tangible product innovations that have had a very significant impact on the way people live and work are personal computers, mobile phones, and microwave ovens. Intangible products that complement these types of physical equipment include the various pieces of computer software needed to control flows of information through these devices, leading to the delivery of information, the supply of communication services, or the arrival of a correctly heated dinner. Product innovation will involve the following; technical design of the products features,

research and development and eventually marketing of the new product through commercial activities (Alegre, 2006).

Comison and Lopez (2010) in their study established that product innovation was important for an organization to be able to create a competitive edge in the changing environment. Comison et al., (2010) argued that through product innovation the organization was able to introduce new products into the market and the quality of the products was also improved and therefore in the organization gains competitive advantage over the competitors in the same industry. In conformity to this argument Hult, Hurley and Knight (2014) stated that product innovation enabled the organization to protect itself against threats from the competitors. Studies have also proved that there is positive correlation between the performance of the organization and positive product innovation (Buyus, Erickson and Jacobson, 2013).

Espallardo and Ballester (2009) in a study carried out in an organization established that product innovation had a positive impact on the organization's performance in its industry. Varis and Littunen (2010) established that the more an organization was able to introduce new products into the market the more customers associated with that organization as it is assumed the organization is performing well. SMEs have a number of drawbacks when it comes to innovation process as compared to large organizations (Rhee, Park, & Lee, 2010). Nonetheless, the SMEs have the advantage of being close to the customers and therefore have the knowledge of the customers' tastes and preferences as opposed to the larger organizations (Rhee, Park, & Lee, 2010). Besides having the knowledge of the customers changing tastes and preferences the SMESs have the advantage being able to learn and adjust accordingly faster than the larger organizations.

2.2.4.2 Process Innovation

According to Nieto and Santamaria (2010), the term process innovation can mean the idea for the development process that ultimately results to the introduction of new products and services to the market. It is believed that innovation is a key element in the development of the economy in a country and the industry in which that the innovation is carried out in (Beaver, 2012).

For process innovation to be a success, the organization has to tap on the knowledge available in the organization, which can inform kind of institutional understanding gained through the learning process and finally the need of the customers in the market (Berg, Johnson, Lorenz and Lundvall, 2007).

Calantone, Cavusgil and Zhao (2009), observed that process innovation is process that is adapted by the organization in order to adapt itself to the changes in the environment. The process of innovation will therefore involve building on the capabilities of the organization in order to create new products and services (Yang and Choi, 2009). 13 Romijin and Albaladejo (2012) argued that innovation is created in social network interactions by the different people that are involved in the formulation of the process. This interaction may involve the organization suppliers, its customers, the members of the public and the corporation. It has been argued that an organization that has a closer relationship to the potential customers than the competitors will have the advantage of being more creative than the competitors hence being more innovate (Lawson and Samson, 2008). This is because the organization will have new ideas and will be the first to introduce a new and unique product in the market.

Anderson, Wahab, Amin and Chong (2009) postulated that process innovation is one of the ways through which a business corporation can gain competitive advantage. Process innovation is the way through which the organization can improve its productivity (Bakar and Ahmad, 2010). Process innovation is about changes in technology and science with the aim of coming up with a superior product or service that will compete favourable in the market (Harmaakorpi and Melkas, 2008).

Innovation implemented through adoption of information technology (IT) has been seen to increase SMEs performance substantially (Andries and Debackere, 2007). According to Nguyen, Newby and Macaulay (2015), there have been a number of research studies on the determinants of IT adoption in small businesses such as those by Bharadwaj and Soni (2007) and Irvine and Anderson (2008), all of which had a focus on searching for factors that affect the decision and intention to adopt IT. These factors include cost benefits, management innovativeness, perception, knowledge and skills, employee attitudes, IT skills and knowledge of management and employees, and IT infrastructure. The decision to adopt is also influenced by external factors such as consultants, business partners, suppliers, and customers.

Studies suggest that for many firms, the most common objectives for IT adoption are to enhance organizational survival and/or growth and to remain competitive and/or enhance innovative capacity (Bruque and Moyano 2011; Búrca, Fynes, and Marshall 2010). These can be the result of pressure from both the internal and external environment from either an emphasis on improving efficiency and business expansion or a pressure to meet certain requirements from customers and industry standards (Andries and Debackere 2007).

According to Oduori (2016), an innovation generates long-term advantage to the firm when customers feel that the enhanced performance has value for them. Service and service delivery can be, and increasingly are, a competitive weapon. Some firms in the same industry anchor their reactions to environmental changes to the behavior of other firms that are strategically similar to themselves, while others may adopt a more independent stance by emphasizing new product or market innovations (Kamalesh, Boesso, Favotto, & Menini, 2012). Technology innovation has the power to transform consumer expectations, disrupt competitive dynamics, and reshape the travel distribution chain. The most innovative firms are those that actively deploy emerging technologies to gain competitive advantage.

The study done by Oduori (2016), found out that a higher level of innovation was found among firms that strived to improve customer service and existing organizational competency (knowledge, skills and attitude). Most firms are compelled to respond and adapt to the ever-changing business environment through innovation in order to survive the competitive pressure. It was then concluded that anticipating and satisfying customer needs as well as continuously improving employee skills was critical to small and medium enterprises in Kenya. Al-mahrouq (2010), conducted a study to determine success factors of small and medium sized enterprises in Jordan. In his findings, he ranked technical procedures and level of technology as the most important factor. Five variables that were analyzed in the study were: high technology of equipments, use of planning and engineering of the production operation, research and development systems, operating methods and new technology and automation.
According to a report conducted by Oxford Economics (2013), SMEs are facing various challenges including economic uncertainty, shifting customer demands and expectations, increased labour costs and increased global competition. SMEs are responding to these challenges with several strategic initiatives. More than half cite driving innovation, cost reduction, and efficiencies as the most important of these efforts, with emerging markets and Latin American companies placing an especially high emphasis on these areas.

2.3 Research Gap and Summary of the Literature

The literature review above presents several looming gaps. First, several studies failed to incorporate the variable of availability to learn and improve financial literacy skills in their financial literacy questions and tests. The review of literature established that only Masese and Munene (2013) mentioned financial analysis skills in their financial literacy study, but failed to incorporate the variable in their test or questions, and instead concentrated on budget and budgetary process. This study will therefore incorporate financial analysis skills because it is a key ingredient of business to interpret financial statements and analyze financial statements using key ratios. Since national and county governments of Kenya are currently putting up interventions towards improving financial literacy, it is

important to investigate entrepreneurs' knowledge in financial literacy skills to come up with interventions to improve their understanding and to stimulate their interest in using financial literacy seminars.

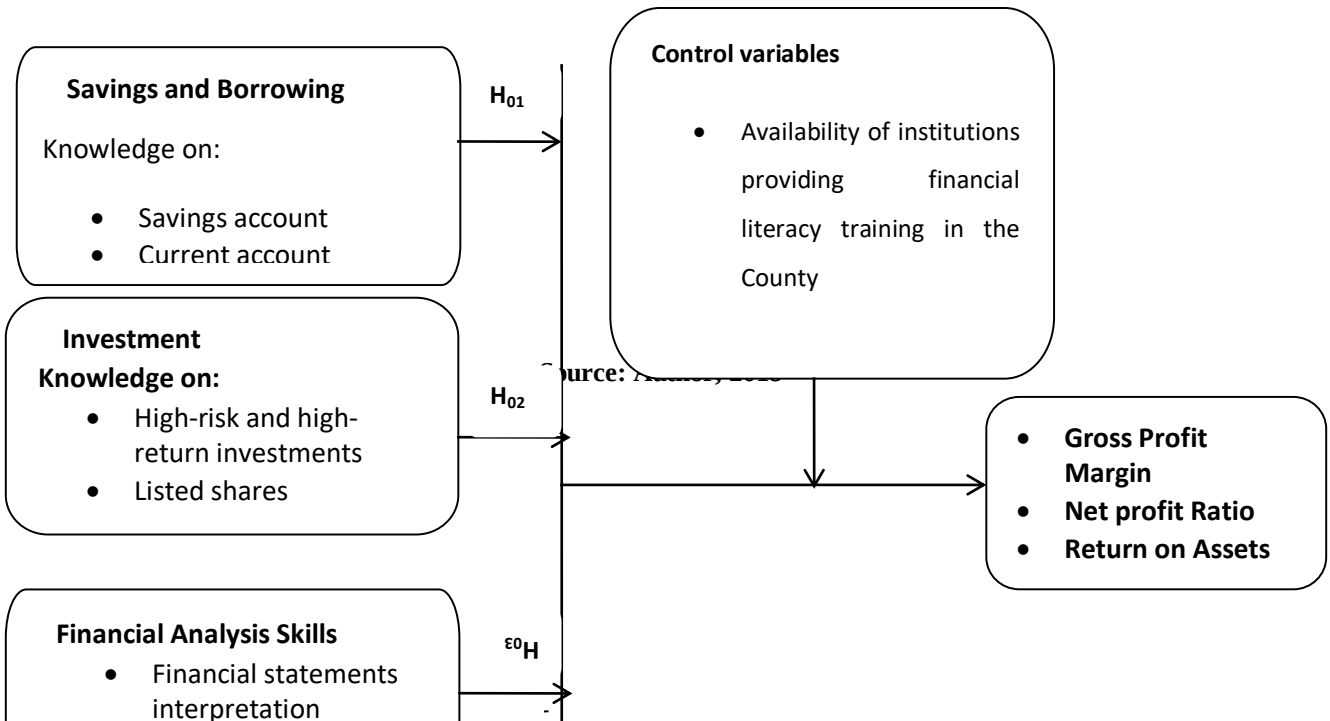
Most studies concentrated on the effect of financial literacy on personal finance with little reference to business finance. The current study will provide robust evidence by concentrating on business finance specifically incorporating questions on practices. Third, some studies assessed factors affecting the acquisition of financial knowledge, but none of them sought from their interviewees where they could access financial knowledge.

Finally, to the best of the researcher's knowledge, studies done on financial literacy in Kenya are scarce and sometimes limited in coverage. The few studies done in Kenya include Kisaka and Mwewa (2014), Munyori and Ngugi (2014), Mwongera (2014), Akwalu (2014), and Masese and Munene (2013). The last study by Masese and Munene (2013) was only limited to youth owned enterprises within Kisii town of Kenya. However, this study will extensively cover 70 SMEs in CBD area of Narobi City County of Kenya and the sample covers various genders and educational levels. The study also assesses comprehensively entrepreneurs' knowledge from four different dimensions such as savings and borrowings, investments, financial analysis skills, and innovation.

2.4 Conceptual Framework

The conceptual framework of this study examines the relationship between entrepreneurship training and financial performance. Entrepreneurship training comprises four independent variables such as saving and borrowing, investments, financial analysis skills, innovation, and availability of institutions providing financial literacy courses as the control variable. The control variable is the availability of institutions providing financial literacy training. The purpose of the study, therefore, is to examine effects of entrepreneurship training on financial performance of small and medium scale enterprises in Nairobi City County.

Figure 2.1: Conceptual Framework



CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter covers the research design, target population, sample size and sampling procedures, research instruments, data collection procedures, data analysis techniques and ethical considerations.

3.1 Research Design

The study will use a descriptive survey research design. The rationale for the choice of a descriptive research design is supported by the fact that it enables the researcher to gather information that is detailed and factual as well as permeates analysis and referring (Creswell, 2014). The design is deemed suitable for this study since it describes a phenomenon in its current form and the present scenario. It also enables the researcher to collect information, make a summary, and present relationship. The design will enable the researcher to capture opinion of small scale and medium scale traders in CBD area of Nairobi regarding effects of entrepreneurship training on financial performance of their businesses.

3.2 Study Population

The study will targets SMEs situated at the CBD area of Nairobi City County. The delimitation that will be employed is the consideration of Nairobi City County (NCC) trading licenses and only the SME's that have this certification are captured in this study. The researcher targets owners and managers of SME's in the CBD across all sectors as listed in the Nairobi city county licensing department in the year 2018. Nairobi county has about 98,600 business that have NCC trading licenses (Nairobi County, 2018).There are about 8 clusters of different sub-sectors in Nairobi CBD, which are clustered by NCC using business codes across different sectors. These main sectors targeted in this study include; Retail sector, Transport, Hospitality, catering, entertainment, pharmaceuticals & health services, technology and Real Estate. Nairobi business licensing department estimate that, from the above main sectors, there are about 21,100 in CBD area.

3.3 Sampling Frame and Sampling Techniques

Sampling frame is the actual list of elements through which the sample that forms the units of observation is drawn (Creswell, 2014). This sample frame in this study will comprise of managers and owners of the 21,100 SME

businesses operating from the CBD in Nairobi city. The SME's through which the sample is drawn from, were required to at least possess the Nairobi City County business trading license.

Sampling technique is the process through which the entities in a sample are identified and selected (OECD, 2004). This study will rely on stratified sampling through which 8 clusters of categories were used to classify the businesses. According to Kothari (2004), stratified sampling enables the participation of all components that make up a study population. From these clusters, it will be possible to get a representative sample from each individual cluster and enabled to cover all the business that operate within the city of Nairobi.

A sample size is the sub-set of the large population (Cooper and Schindler, 2006). All SME's operating in Nairobi City central business district that are licensed by the Nairobi city county government were included in this study. The size of the sample was determined using the Fisher's et al. (2007) formula

$n=Z^2\ pq/d^2$

Where n=the desired sample size

Z=standard normal deviation at required confidence level 95% or 1.96

P= Business owners and managers, 0.214 of the entire population of SME's.

Calculation = SMEs in CBD/SME′ in Nairobi County ×100%

= 21,100/98,600 ×100%

= 21.4% (0.214)

q=1-p (the proportion without characteristics)

d=level of statistical significance (degree of freedom=0.05)

$n = 1.96^2(0.214)(0.214)/(0.05)^2$

n (desired sample size) =70 respondents

Table 3.1: Category of SME, Target Population and Sample Size

Category of SME	**Number in CBD**	**Percentage (%)**	**Sample Size**
Informal-Juakali	254	1%	4
General trade, wholesale, retail stores	11,353	54%	8

Agriculture, Forestry and Natural Resources	1,025	6%	2
Accommodation, catering (hospitality)	1,750	8%	12
Professional and technical services	3,242	15%	10
Private education, health, and entertainment	934	4%	7
Transport, storage, and communications	1,200	5%	12
Industrial plants, factories, and workshops	1,342	7%	15
TOTAL	**21,100**	**100%**	**70**

3.4 Methods and Instruments of Data Collection

The study will use questionnaires and interview schedules to collect data. The selection of instrument depends on the objectives of the study as some studies may require use of only gather data, the researcher has to ensure that the instrument selected is valid and reliable as the validity and reliability of any research project depends to a large extent on the appropriateness of the instruments. In order to efficiently collect primary data, a structured questionnaire and interview schedule will be developed to assist the researcher in establishing the effects of entrepreneurship training on financial performance of small scale and medium enterprises in Nairobi City County.

3.4.1 Questionnaires

In this study, a detailed questionnaire will include both structured and unstructured questions, which will give the respondents freedom to freely express their feelings and experiences leadership safe practices with questions designed to probe the respondents to provide in-depth information to their influence on quality and patient safety performance. A questionnaire is a means of eliciting the feelings, beliefs, experiences, perceptions or attitudes of some sample of individuals (Creswell & Clark, 2011). As a data-collecting instrument, a questionnaire could be structured or unstructured.

3.4.2 Interview Schedules

The researcher will prepare the interview guide that will gather detailed information from management and owners of SMEs in the CBD area of Nairobi City County. This will involve subjecting every sampled participant to the set of predetermined questions. Sufficient opportunities will be given to the participants to ask questions related to the procedures of the research study at any time during the research process. The participants' names and any identifying characteristics will be coded to ensure confidentiality during the data collection process.

3.5 Validity and Reliability

This section covers the validity and reliability of instruments.

3.5.1 Validity of Instruments

The researcher will establish content validity by subjecting the questionnaires and interviews to a pilot study. Validity plays a significant role in a study in that it is a powerful source used to determine the accuracy of the study's findings (Gay, Mills & Airasian, 2012). The questionnaires and interview schedules will then be checked and corrected by the supervisors to ensure that the questions are valid to the topic. Questions that will not be well understood during the pilot study will be revised and amended accordingly to give research findings credibility.

3.5.2 Reliability of Instruments

The study will adopt test-retest method to determine reliability of instruments. Questions will be asked twice to the same respondents at different time to ascertain whether their responses are the same and test-retest reliability co-efficient will be calculated. Pearson correlation co-efficient will be used for measuring reliability for the two tests. On this scale, a correlation of .9 (90%) would indicate a very high correlation (good reliability) and a value of 10% a very low one (poor reliability) (Creswell, 2014).

The reliability of the instruments will be conducted during the pre-testing of the instruments. Reliability of the instrument will be ascertained by re-administering the questionnaire to the same sampled respondents in a two-week interval to determine it reproducibility. Assessment of the questionnaire items will be made and those found with errors or inadequate will be modified accordingly.

3.6 Data Analysis Procedures

The data analysis will be done through qualitative and quantitative analysis. The analysis of qualitative research aims at uncovering and or understanding the bigger picture by using the data to describe the phenomenon. Both

qualitative and quantitative analyses involve labelling and coding all of the data so that similarities and differences can be recognized. Responses can be entered into a computer for it to be coded, counted and analyzed.

3.7 Ethical Considerations of the Study

The upholding of ethical considerations will be assured by using coding and pseudonyms for the name of the health facility where the participant will be working during the time of study and the participants being interviewed. The interview data, document data and participant input will be maintained in a locked filing cabinet in a locked office and the electronic information secured on a laptop that is used by the researcher only.

The desired outcome of this study is to establish effects of entrepreneurship training on financial performance of SMEs in Nairobi City County. Approval to conduct the research will therefore be obtained from the appropriate administrative personnel and prior to conducting the research. It is also vital for the researcher to gain permission from the National Council of Science and Technology through an introduction letter from Kenyatta University graduate school of business.

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The Role Of Counselling Services On Organizational Performance: A Case Of Administration Police Service In Nairobi City County, Kenya

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ABSTRACT

The study examined the role of counselling services on the performance of Administration Police Service in Nairobi City County, Kenya. The propositions of theory of efficiency were used to provide the conceptual underpinnings of the study variables. The study adopted descriptive research design as a basis for the research strategy. Semi-structured questionnaires with closed-ended and open ended questions were utilized to collect data because they are convenient and time saving. A sample of 100 participants was selected from the target population of 2400 administration police officers working in Nairobi County through the use of stratified sampling. The results of bivariate correlation analysis indicated a statistical significant moderate positive linear correlation between counselling services and performance at ninety five percent level of confidence. Further statistical analysis seeking to reveal the actual parameters in the cause-effect relationship involved performance of simple linear regression analysis which showed that counselling services had a positive contribution to performance with an explanatory power of approximately forty two percent. This kind of empirical insight is crucial and useful to management of administration police service because it can be used to inform policy. It also contributes to the falsification of the postulates of the theory of efficiency. In essence, the findings provide a springboard for future researcher who may wish to unearth other factors that may be responsible for performance within organizations.

Key Words; ***Welfare Strategies, Counselling Services, Organizational Performance, Influence***

1.0 Introduction

Organizational performance is central to the survival of any firm. It ranges from the diverse areas like marketing, human resources, management of operations, international business as well as information systems (Singh, Darwish, & Potocnik, 2016). This means that activities within and without the organization determine the performance of the organization. There are different models of measuring performance which include the goal model, the process model the systems model, the strategic constituencies model and competing values framework (Martz, 2013).

Organizational performance can be measured through different ways. According to Martz (2013), it can be measured by evaluation of the complete or partial realization of an organization's goals. The goals are commonly accepted as part of the organization's culture, design, and structure, and the aim of the organization is it effected in the form of a particular goal or set of goals. One goal of organizational performance is customer satisfaction. In this regard, therefore, it becomes important to know what is expected by costumers in terms of quality, costs as well as distribution, and most importantly what is needed in future from the organization (Ivanov & Avasilcai, 2014). In other words, the present and future expectations of customers form the public performance of that very organization.

It can also be measured by considering the legality, morality and fidelity of the organization's activities (Martz, 2013). This means that any outcome contradicting these ideals will translate to poor or unfavourable performance. Performance, therefore, under this framework is said to be measured in relation to an organization's values or ideals. Closely related to these organizational values is goal optimization in which performance is measured by the maximizing the organization's achievement in relation to the available structures (Dess & Robinson, 2014). These values may be regarded as the internal processes that propel the external outcomes. Ivanov and Avasilcai (2014) argue that an organization that understands how internal processes work helps it achieve its objectives and at the same time know how to increase the value of its products and services to the customers. Furthermore, when internal processes are improved, the all-round performance of an organization is improved in its entirety.

Conn and Butterfield (2013) distinguish workplace stressors as operational, that is, relating to traumatic incidents, and organizational like personal shortages along with shift work. Consequently, increased stress may result to development of mental health issues like depression, anxiety and posttraumatic stress. On that note, Tsai, Nolasco and Vaughn (2017) in a study on United States Police found that sex, race, education as well as tenure do not directly influence the entire job stress of police employees. However, these same factors affect family discussions with fellow workers, counselling help and negative work environment. Continentally, Ekpang (2015) found that Nigerian employees had a notable improvement of performance of workers after receiving counselling help. Locally, studies have established that the police in some parts of the country like Nakuru perform fairly despite the high risks in their job and lack of proper support system (Jonyo, 2015) while others indicate that police employees perform poorly (Oweke, Muola & Ngumi, 2014). The studies, however, do not focus on counselling help as the current help but different coping mechanisms.

The Administration Police Service aims at providing services to all people with equity and fairness. However, several damning reports have been raised regarding the performance of police officers in Kenya. In a report released by WISPI in 2017, the police service in Kenya has been ranked third last worldwide in the provision of security services to the citizens as Kiage (2017) reports. Another report released by the IPOA (2016) following the demonstrations against the IEBC showed high levels of police brutality where 88 people sustained injuries and others detained for more than the recommended 24 hours without trial. In addition, the KEPSA report showed that each business within the Central Business District (CBD) lost Kshs.48,304 per day every moment public protests arose. Indeed, these negative reports of performance of the police in Kenya point to underlying factors, which may need to be addressed.

Different studies have been conducted on the influence of welfare practices on the performance of employees. A few studies focusing on the influence of counselling services and performance indicate a positive relationship between counselling and performance (Adegoke, 2014; Jonyo, 2015; Menard & Michael, 2014). However, the studies do not focus directly on counselling services but work stress, occupational stress and stress coping, hence the current study. The current study therefore aimed at establishing the effect of counselling services on the performance of Administration Police Service in Nairobi City County, Kenya.

2.0 Literature Review

The efficiency theory as propounded by Archer (2010) focuses on measures of effectiveness that gives minimal waste of time, effort as well as skill. Archer likened efficiency with other activities such as recycling of waste, sound utilization of space, collecting data which are impersonal. Efficiency in general describes the extent to which resources such as time, space, energy, etc. are well used for the intended task or purpose. In this case, an individual is viewed as a tool whose efficiency can be maximized within the society as a whole. According to Manju and Mishra (2007), in this theory, aspects of welfare strategy such as counselling are considered as a way of securing, preserving and developing the efficiency as well as the productivity of labour. Consequently, concerns and emphasis in the workplace are intended to protect the vulnerabilities of the workers by an employer whereby, various aspects of oppression are suppressed as argued by Rodgers (2016).

If an employer cares for their workforce, for instance, the likely end would be a resultant improvement of production of an organization. The theory helps in understanding the characteristics of labour force as reflected on the modern support for labour and it works well if the employer and employees collaborate. This is because they have a common goal of achieving higher production as long as the welfare is ameliorated. This can only work well if and only if a proper collaboration between the union and the management as long as there is mutual concern for growing the organization (Manju & Mishra, 2007).

The theory, according to Rodgers (2016), has been criticized of legal precariousness because of changes in global problems of precarious workers. This is because the theory is founded on the traditional standard employment laws of long term relationships between employees and organizations. The breakdown of the standard employment relationships to precarious workers reduces their chances of qualifying for the employment law making them to fall outside the precincts of legislation. Despite these problems associated with vulnerability, it has been noted that critics of the theory need to understand the notion of vulnerability and especially how they affect the regulation of precarious work.

This theory addresses the independent variable of welfare practices whose betterment results in employee effectiveness and consequent higher production. Higher production is thus meritorious to both the management as well as the labour. The functional aspect of welfare, therefore, is having efficiency as its goal because this improves productivity. This theory therefore advocates that parties (employer and employees) develop a like-minded relationship that aims at higher production through better welfare. The consequent for this identical relationship is to encourage the participation of employees in the welfare programs (Manju & Mishra, 2007). This theory was important because it likened employees to tools which should be maintained by the employer through proper welfare practices.

2.1 Empirical Literature Review

Menard and Arter (2014) conducted an online study among police officers drawn from different countries across the world who had been identified according to different organizations. The study utilized a survey design where a total of 1453 officers drawn from 13 countries from different continents. In the findings, there was a difference in coping mechanisms for men compared to women as indicated in the AUDIT score. Negative coping with the symptoms of Posttraumatic Stress Disorder were common for both sexes and more on women. As a recommendation from the

study findings, police departments needed to promote adaptive coping strategies to counter the behaviour. This study indicates the importance of workplace counselling and how it may improve the welfare of police officers to cope better with stress emanating from critical incidents. However, its focus is on genders and not how counselling influences performance, and at the same time it was conducted in a different context.

Police officers face the consequences of untreated stress because sometimes they may fail utilize the available interventions (Carlan & Norad, 2008). Tucker (2014) conducted a study in Pennsylvania among 673 police officers to determine the willingness of police officer in utilizing stress intervention services provided by their organization. The study utilized a descriptive survey design and random sampling method in collecting data. The findings revealed that stigma pushed police officers away from seeking counselling services especially regarding confidentiality. On the other hand, perceived organizational support was positively correlated with the willingness of police officers in using services provided by the organization. While this study shows the importance of psychological help, it does not show how the services influence performance but the willingness to utilize the services.

Adegoke (2014) conducted a study in Nigeria among 250 police employees drawn from five local government areas of Ibadan metropolis using a descriptive survey design. The data was sampled through systematic random sampling and the data analysed using one way analysis of variance. The results indicated a significant relationship between the effects of work-stress, frustration and depression on the psychological wellbeing of the police employees thus recommending the initiation of programs for helping the employees in dealing with psychological issues. The study is useful because it shows how unaddressed psychological issues of police officers can weigh down on their performance. However, it does not focus directly on how counselling help assists police officers as intended in the current study.

Adekunle (2017) conducted a study on police officers in Ibadan to determine how emotional intelligence, dispositional optimism and emotional exhaustion affect the well-being of police officers. The study utilized a descriptive survey and 276 police officers selected using systematic random sampling. The findings revealed that emotional intelligence coupled with dispositional and emotional exhaustion significantly influenced the prediction of police wellbeing. The study recommended interventions to deal with stressors such as obsolete equipment, salary delays, delayed promotions, understaffing, under-training, infighting which lead to emotional exhaustion. While the study shows the predictors of stress as well as the causes of emotional exhaustion as Adegoke (2014), it does not directly show how the performance is affected hence the need for the current study.

Jonyo (2015) conducted a study to determine the effect of occupational stress on work performance of police officers in Nakuru, Kenya. The study utilized a descriptive survey design and stratified sampling used to recruit 269 police officers to the study. The data was collected using questionnaires. The findings indicate that despite police officers being exposed to high levels of occupational stress, most of them were able to perform fairly as they adopted to the stress by adopting proper coping stress management techniques like seeking professional counselling, peer counselling, good sleeping habits and the like. The study however focused on occupational stress and coping mechanisms, but not counselling help in particular as intended in this study.

Ongoro and Oloko (2015) carried out a study on the effect of stress on job performance among 309 police officers. The study utilized both descriptive and correlation study designs in which random and simple random sampling techniques were used. Questionnaires and interview schedules were utilized to collect data from the respondents. The findings confirmed that depression, anxiety and anger are prevalent among police officers where anger was the highest thus recommending the introduction of stress management programs. These include; stress counselling and debriefing, anger management skills, inclusive decision making and briefing of police officers before pre-traumatic scenes. The study focused on effect of stress on performance and not how counselling help or stress management impacts on the performance of police officers.

3.0 Research Methodology

The study used a descriptive survey design in examining how counselling services can influence the performance of the Administration Police Service. According to Orodho (2009), a descriptive survey identifies the standards against which the existing conditions can be compared. The design was chosen as relevant because it can gather data at a given point in time and at the same time examine any given situation as it is (Mugenda & Mugenda, 2003). As stated by Creswell (2003), a descriptive research design is used when data are collected to describe settings, organizations, persons or phenomena. Descriptive survey design was preferred since the study was carried out in a limited geographical scope, and thus was logistically simpler and easier to conduct considering its limitations.

The targeted population comprised of the staff working in the Administration Police as shown in Table 1.

Table 1 Target Population

Employee category	**Frequency**
Commissioner of police	4
Senior superintendent of police	4
Superintendent of police	6
Assistant superintendent of police	8
Chief Inspector	14
Inspector	60
Senior Sergeant	40
Sergeant	60
Corporal	160
Constables	2044
Total	**2400**

Source: Administration Police Service (2018)

The researcher used proportionate stratified sampling technique in relation to the different ranks of the Administration Police Service in determining the sample size that will be drawn from each category. According to O'leary (2004), stratified random sampling includes the division of the target population into different homogenous strata from which a simple random sample is selected in each layer. Random sampling ensures that the law of statistical regularity necessary for representativeness in a population is put into consideration as offered by Kothari (2004). Stratification was preferred because it significantly ensured that the different strata in the population were sufficiently represented and thus according the researcher with a representative sample (Mugenda & Mugenda, 2003).

Since Nairobi County has 2400 administration police officers working in different posts across the County, a sample of 100 officers was selected at random. However, top officers in ranking were entirely selected due to their small number. A study sample was calculated using the Yamane (1976) formula and 100 participants selected as shown in Table 3.2. The formula for attaining the study sample is as shown in the formula below.

n=N/((1-N)e2)

N is the population

n = sample

P = percentage sample

e = margin of error

2400/(1-2400)(0.1)2

2400/23.99 =100.04168

Total sample =100 participants.

Table 2: Distribution of Sample Size

Category	Population (N)	% Sample (P)	Sample Size (n)
Commissioner of police	4	0.07	4
Senior superintendent of police	4	0.07	4
Superintendent of police	6	0.25	6
Assistant superintendent of police	8	0.33	8
Chief Inspector	14	0.58	1
Inspector	60	2.5	5
Senior Sergeant	40	0.2	5
Sergeant	60	2.5	5
Corporal	160	6.7	20
Constables	2044	85	42
Total	**2400**		**100**

Source: Author (2018)

The study made use of primary data that was collected using a semi-structured questionnaire that comprised of closed and open ended questions. The questionnaire was divided into two sections including a section for general information and specific information. The first section for specific information was divided on the basis of the variables of the study. In this case, the sub-section collected information on the influence of counselling services on the performance of Administration Police Service and comprised of 2 items Likert scale item as well as a short explanation on the same. The second subsection had four items on suggestions for improvement of performance of Administration Police Service.

Validity can be termed as the credibility of a research instrument in providing genuine outcomes (Mugenda & Mugenda, 2003). The study used external, content and construct validity. The external validity which is also known as the face validity was catered for by creating a tool that is in line with the topic of the study. Furthermore, the researcher made use of expert opinion as well as involvement of a pilot group in order to obtain suggestions for modification of the instrument as observed by Rousson, Gasser and Seifer (2002). Content validity is concerned with sample population representativeness as noted by Gillham (2008). It thus draws from inferring from test of scores from a large domain of similar items as those of the current test. To ensure content validity, the researcher drew from an expansive literature review of related items.

The study utilized factor analysis to establish construct validity for the variables utilized in this study as proposed by Kerlinger and Lee (2000). The factor analysis was conducted by referring to the prior theoretical expectations. To test validity, confirmatory factor analysis was conducted. It involved describing variability among observed variables as well as correlated variables in terms of lower number of latent variables known as factors. Hare and Neumann (2008) observe that factor analysis helps in grouping variables with the same characteristics together. By doing so, it assisted in reducing large numbers of variables for the purposes of modelling and selecting subset variables from large sets based on what original variables on the highest correlations with that factor. Furthermore,

the squared factor loading indicated the percentage of variance in the original variables as explained by a single factor as Field (2009) argues.

Reliability has been defined as the ability of an instrument to provide consistent results (Treiman, 2009). The most important index of internal consistency is the index alpha and it is considered as the mean of correlations of variables, and does not rely on their arrangement as observed by Anastasiadou (2006). Instrument reliability is ensured by using many items of measure, testing various samples of respondents and utilizing uniform procedures of testing. Accordingly, a pilot study was carried out involving 20 respondents who will be selected from the target population to determine the reliability of the data collection instrument. The index alpha was calculated for the different items that form the research variable and so the overall reliability of the questionnaire was determined. For this research, an index alpha of 0.762 was realized and was rated as good. Items that did not reach a threshold of 0.7 on Cronbach's alpha were discarded.

The data was collected by distributing the instrument to the respondents and giving time to complete. Before distributing the item, the researcher explained to the respondents the purpose of the study, the procedures involved and the benefits. At the same time, he explained the harms involved but encouraged them to participate in the study. Having given them information on the study, the researcher requested for their consent by signing the informed consent form. Those who consented were issued with the questionnaire and given a period of one week to complete the instrument. The researcher made themselves available for any clarifications concerning the items of the study in order to collect effective data. The duly filled questionnaire was collected ready for data analysis.

The research collected both quantitative and qualitative data and so it was subject to quantitative and qualitative analysis. The data was first sorted and edited to do away with errors and inconsistencies. The purpose of editing was to ensure the objectivity of coding which facilitates data entry and processing as well as interpretations of the results. The coded data was entered according to the codes and finally checked for accuracy, erroneous data, completeness as well as consistency. Quantitative data was analysed using descriptive statistics like mode, mean; standard deviation and so on, as well as inferential statistics which involved linear regression. The data was presented using frequency tables, percentages, graphs, charts and pie charts. The descriptive statistics were applied because they summarize and make data interpretation to be easier. The multiple regression model was be as shown below.

$$Y=\beta 0 +\beta 1X1 + \varepsilon \quad \text{.....3.1}$$

Where:

Y= Performance

X1= Counselling Services

β1= Beta coefficients

ε = Error term

The computations of simple linear regressions were done using the statistical package for social sciences (SPSS) version 24.0. Analysis of variance was utilized in testing whether the entire model was statistically significant by showing whether or not R2 value may came about by chance only. The F-ratio produced in the ANOVA table measured the probability of chance departing from a straight line. If the p value of the F-ratio was lesser than .05 the model was deemed statistically significant at a confidence level of 95 percent. For the specific variables, the p values of their coefficients produced in the regression analysis should be less than .05 in order for the relationship to be declared significant at 95 percent confidence level. The qualitative data on the other hand, was coded into themes and interpretive analysis applied to determine the inferred meaning and presented in narrative form.

The participants were required to give their consent during the study and those who accepted be enrolled. Those who did not consent were not be compelled to do so and any other participant who wished to drop out of the research was allowed to do so at will. The study participants were assured of confidentiality before during and after the study so as to promote their autonomy. The questionnaire did not also bear the name of the respondents so as to protect their identity. Finally, data collected was stored under lock and key to protect access by unauthorized parties. After the study, it was destroyed so as to protect the participants from any unforeseen harm. The researcher obtained a permit from the National Commission for Science Technology and Innovation (NACOSTI). The researcher also obtained permission from the relevant authorities in the Administration Police Service in order to carry out their research.

4.0 Research Findings and Discussion

The data for this study was gathered using a questionnaire which had been administered to 100 respondents out of which 73 were returned representing a response and non-response rates of 73% and 27% respectively. According to Mugenda and Mugenda (2003) a response rate of 50.5% is considered adequate, 60% good while 70% and above is deemed excellent for analysis.

4.1 Descriptive Statistics

The researcher utilized sample mean together with standard deviation in order arrive at the summary of the measures in describing the sample characteristics. Descriptive statistics were analysed on the data collected from the respondents regarding the two variables that were the focus of the investigation. In addition, the results of the analysis became the basis for making statistical analysis as well as drawing of inferences.

The computations for descriptive statistics were conducted to determine the behaviour along with the spread of responses in respect to six statements that were utilized in measuring counselling services. The findings for descriptive statistics for counselling services are as shown in table 4.1.

Table 3: Descriptive Statistics for Counselling Services

	n	Minimum	Maximum	Mean	Std. Deviation
Coping with Stress	73	3	5	4.22	.449
Reduce drug abuse	73	3	5	4.07	.561
Help in dealing with family related stress	73	3	5	4.23	.613
Help in Managing debts	73	2	5	4.14	.673
Help in Relating with others	73	3	5	4.00	.645
Help in dealing with emotions	73	3	5	4.37	.589
Aggregate Score				4.17	.588

Source: Field Data (2019)

Table 3 above indicates the descriptive statistics for counselling that majority of respondents had sample means ranging between 4.00 and 4.3 and standard deviations ranging between .449 and .673. The aggregate score for items was 4.17 and standard deviation .588 meaning most respondents agreed on the items on counselling services. This finding confirmed Adekunle (2017) who opined that emotional intelligence, dispositional and emotional exhaustion predict the wellbeing of police officers. This indicates that majority of the police officers saw counselling as a service that may help in developing skills for coping with stress, handling relations and managing possible stressors.
The researcher sought the opinion of the respondents on the importance of counselling services. There was a noted consensus that counselling services are critical to performance. The most common reasons for their agreement were that counselling helped them strike a work-life balance, dealing with stress, decision-making, handling emotions and tackling change. The responses confirmed findings by Adegoke (2014).

Furthermore, the researcher carried out sample measures with the use of responses on the statements on performance of Administration Police Officers. The analysis produced sample means and standard deviations for individual responses as shown in table 4.2.

Table 4 Descriptive Statistics for Performance

	n	Minimum	Maximum	Mean	Std. Deviation
Work attendance	73	3	5	3.95	.598
Work efficiency	73	3	5	4.37	.540
Turnaround times	73	1	3	1.73	.584
Stress coping strategies	73	3	5	4.16	.527
Work related accidents	73	1	5	2.42	1.166

Source: Field Data (2019)

Table 4.7 above shows the descriptive statistics for performance. The sample scores on the items range between 1.68 and 4.36. The scores on performance of the respondents indicate that majority indicated that work attendance remained constant (mean 3.95, sd = .598); work efficiency increased (mean 4.37, sd = .540); turnaround times highly decreased (mean 1.73, sd = .584); stress coping strategies increased (mean 4.16, sd = .527) and work related accidents decreased (mean 2.42, sd = 1.122). Performance is indicated by work attendance (Nderi & Kirai, 2017), work efficiency and concentration (Mohamed et al., 2016), work-related accidents due to proper working environment (Mwirigi *et al*., 2017); turnaround times as result of efficiency (Kumar, 2017) and relevant stress coping strategies (Jonyo, 2014). Since most of the employees were in agreement with these findings, it shows that the performance may have influenced by the selected welfare strategies.

4.2 Inferential Statistics

The researcher carried out inferential statistics to determine the correlations of the key variables as well as influence. To do so, bivariate correlational analysis and regression analysis were carried out as shown in table 4 and 5.

Table 4 Bivariate Correlational Analysis

Counselling Services		**Performance**
Counselling Services	Pearson Correlation	.523*
	Sig. (2-tailed)	.041
	N	73

Table 4 indicates that a significant positive correlation exists between counselling services and performance (r=.523*, p=.041). This implies that effective counselling services are likely to improve the performance of employees. In this case, the *r*- value of .523 indicated a moderately strong positive correlation between counselling and performance. This result is in agreement with Adegoke (2014) who found that stress impacted negatively on performance of employees. Counselling services can be a suitable intervention for performance of Administration Police officers.

Table 5: Regression Analysis

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.423[a]	.392	.354	1.788

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.118	1	.118	.037	.048[b]
	Residual	226.895	71	3.196		
	Total	227.014	72			

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	7.193	2.933		5.863	.000
	CSP	-.022	.117	.423	.192	.048

From the regression analysis, an R Square value of .423 was realized meaning that 42.3% of changes in performance may be explained by counselling services. Furthermore an F-test with 71 and 72 degrees of freedom was realized suggesting the test was significant and linear relationship existed between the variables measured in the model. The significance level (p=0.048) is less that 0.05 significance level thus the model was suitable enough to predict the influence of counselling services on performance of Administration Police Officers. From the regression model, the following regression model was derived.

Performance = 7.193 +0.423 Counselling services.

The regression gave a statistical model under which under which the influence of counselling services was established. In the current study, by holding the predictor at zero, it will translate into an increase of 7.193 on performance. A change in one unit of counselling services will result in .423 increments in performance.

This study aimed at establishing the effect of counselling services on performance of Administration Police Officers. Counselling services were operationalized in terms of stress management, drug and substance abuse, debt management and life skills. The descriptive statistics for counselling services showed a general agreement regarding the presence of activities regarding counselling and which were important to their performance. There was no wide variation amongst the responses gathered. Inferential statistics showed that there is a moderate positive linear relationship between counselling services and performance. In addition, regression analysis indicated that counselling services affect performance of Administration Police Officers.

5.0 Conclusion and Policy Implication

The study aimed at establishing the influence of counselling services on performance of Administration Police Officers. A positive linear relationship was found to exist between counselling services and performance. This implies that proper stress management, drug abuse therapy, debt management and life skills are likely to translate into improved performance of Administration Police Officers

Counselling services positively impact on the performance of Administration Police Officers. There may be need to ensure strategies on stress management, drug abuse therapy, debt management and life skills are put in place to ensure a good mental health of the police officers. Programs that seek to alleviate various stressors that police officers face may be necessary to help them in devising better coping strategies and at the same time ensuring a generally good mental health for Administration police officers.

5.1 Recommendations for Further Studies

The current study was conducted among Administration Police Officers in Nairobi County and their experiences maybe different from others outside Nairobi County which has improved forms of infrastructure. Another study may be conducted in rural counties where challenges of different nature are experienced. Furthermore, studies on other branches of police officers like the General Service Unit (GSU) and the newly established Maritime Police may need to be carried out to determine if similar experiences exist. Comparative studies may also be conducted to determine which places may need more attention in order to ensure uniform laying of strategy for welfare of police officers.

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Influence Of Ict Weather Forecasting On Agricultural Productivity In Kenya: A Literature Based Review

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Abstract

This study aims at establishing the influence of ICT weather forecasting on agricultural productivity in Kenya. The paper will use a desk study review methodology where relevant empirical literature will be reviewed to identify main themes and conclusion drawn based on the reviewed literatures. The study will be guided by the following specific objectives; to establish the ICT weather forecasting practices used on agricultural production in Kenya, to establish the extent of use of ICT on weather forecasting in Kenya and to determine the challenges hindering ICT weather forecasting on agricultural productivity in Kenya.Agriculture in Kenya is an important fundamental in economic development; it contributes 35% of the gross domestic product (GDP) and constitutes 40% of the export earnings. Thus, weather forecast helps farmers on many fronts such as helping them make informed decisions. Weather affects the entire agriculture chain, whether it is determining which seeds are most effective in certain soil conditions, helping farmers decide how much water to use for crops, or deciding how many crops to raise based on weather conditions at various level.Precision agriculture based upon weather analytics is becoming even more important.Information and communication technology in agriculture (ICT in agriculture), has been developing and applying innovative ways to use ICTs in the rural domain, with a primary focus on agriculture on weather forecasting. The study concluded thatclimate uncertainty also has a negative impact on the providers of credit and markets for productive inputs and can make it difficult for smallholder farmers to benefit from agricultural markets. Climate information reduces uncertainty and can help farmers make better use of new seeds and technologies. The study recommended that meteorologists should consider linkages with end users of forecast information to develop user-oriented products, communicate the information in the user's local languages (particularly the pastoral communities), and develop techniques for raising the awareness of the user communities on the benefits of using weather information in agricultural practices decision-making. The study recommends that weather forecasts be devolved to the counties in developing informed agricultural decisions. It further recommends that language and communication of the weather information be improved in temporal and spatial scales with the use of new and emerging technology. KMS should enhance its efforts in awareness creation and public understanding of weather services

Key words: ***ICT, Weather Forecasting, Agricultural Productivity & Kenya.***

1.1 Introduction

In Kenya, agriculture provides a livelihood for most of the 75 percent of the people who live in rural areas in Africa. At the same time, these areas have the largest concentration of poverty and food insecurity. Poverty as a result of low income is attributed to low productivity of agriculture. Agriculture in Kenya is key to the development of Kenya, contributing directly and indirectly to over 50% of the Gross Domestic Product (GDP). A significant fraction of government revenue is allocated to achieving food security in the country, thus, agriculture is given special emphasis in national development policies and strategies, including the Poverty Reduction Strategy Paper and Kenya Vision 2030. According to Kanui, Kauti and Mwobobia (2016), attempts to reduce poverty should therefore pay special attention to transforming the agricultural sector, especially sustained improvement of land and labor productivity in the sector, facilitated by remunerative markets.

Extreme weather and climate changes are a big risk factor in agriculture in Kenya. In most cases, good rains are followed by warm sunny days that get hotter and drier(Henze & Ulrichs, 2016). One of the great challenges of weather and climate science is estimating the probability of the occurrence, severity and duration of weather events, as well when and where the event will take place. This uncertainty poses major threats to small-scale farming in Kenya where about 80% of the population depend on rain-fed agriculture (Sibiko & Qaim, 2017). The harsh effects of climate change have continued to exacerbate enormous difficulties among the poor households who are risk averse, leaving them more vulnerable and food insecure in many months of the years(Krone, Dannenberg & Nduru, 2016). A sure knowledge base from systematic observation and forecasting services is therefore essential to monitor climate; detect and attribute climatic change; improve the understanding of the dynamics of the climate system and its natural variability; provide input for climate models; and thus plan adaptation options(Tata & McNamara, 2018).

In order to help meet these challenges, more investment in disaster risk reduction is needed, including building the capacity to anticipate risks and as well as provision of relevant and accurate weather and climate information services as an early warning strategy(Birch, 2018). Skillful seasonal climate forecasts can also help to not only reduce climatic uncertainty, but also reduce livelihood risk to farmers and fishers only if the uncertainty associated with the forecast is accurately communicated, understood and integrated into the decision process(Duncombe, 2018).

1.1 Background to the Study

The Kenya meteorological Department (KMD) is the primary source of weather forecasts, as well as of historical weather data records that are needed for index insurance services (KMD, 2018). In recent years, free and open data initiatives for weather and agriculture have emerged to help national meteorological agencies and commercial weather companies provide better weather forecasts in the developing countries.

According to Bendre, Thool & Thool (2015), modern-day skillful weather forecasts are based on the numerical weather prediction approach, involving computer-based modelling from a set of initial atmospheric and environmental conditions. Weather forecasting involves the application of current technology and science to predict the state of the atmosphere for a future time and a given location (Chithra, 2015). Weather forecasts are made by collecting as much data as possible about the present state of the atmosphere, which includes temperature, humidity, wind, and the understanding of atmospheric processes to determine how the atmosphere will evolve in coming weeks. Weather forecast accuracy can be very sensitive to the reality of the specified initial conditions, highlighting the importance of high quality observational data and its geographical coverage, both horizontally and vertically (Gollin, Lagakos & Waugh, 2014).

Over the centuries, as farmers have adopted more technology in their pursuit of greater agricultural productivity, the belief that 'bigger is better' has come to dominate farming, rendering small-scale operations impractical. Effective adoption of Information and Communication Technologies (ICT) has proven record in many parts of the world and a demonstrated potential to attain significant economic, social and environmental benefits at local, national and global levels (De Janvry, Macours & Sadoulet, 2017). The past four decades have witnessed numerous attempts to understand the mechanisms of the adoption of technological innovation.

ICT in agriculture has been developing and applying innovative ways to use ICTs in the rural domain, with a primary focus on agriculture. ICT in agriculture offers a wide range of solutions to some agricultural challenges. It is seen as an emerging field focusing on the enhancement of agricultural and rural development through improved information and communication processes (Gollin, Lagakos & Waugh, 2014). In this context, ICT is used as an umbrella term encompassing all information and communication technologies including devices, networks, mobiles, services and applications; these range from innovative Internet-era technologies and sensors to other pre-existing aids such as fixed telephones, televisions, radios, machinery and satellites.

ICT in agriculture continues to evolve in scope as new ICT applications continue to be harnessed in the agriculture sector. ICT in agriculture involves the conceptualization, design, development, evaluation and application of innovative ways to use ICTs in the rural domain, with a primary focus on agriculture. Provisions of standards, norms, methodologies, and tools as well as development of individual and institutional capacities, and policy support are all key components of ICT in agriculture (Palis, 2017).

Despite occurrences of drought with attendant crop failure and occasional famine, flooding with the attendant loss of human life and destruction of property and the impacts of other phenomena on socio-economic development, there has been very limited research done to quantify the benefit of weather and climate information and services. This study seeks to establish the influence of ICT weather forecasting on agricultural productivity in Kenya.

1.2 Statement of the problem

Agriculture in Kenya is an important fundamental in economic development; it contributes 35% of the gross domestic product (GDP) and constitutes 40% of the export earnings. Thus, weather forecast helps farmers on many fronts such as helping them make informed decisions (Kanui, Kauti & Mwobobia, 2016). Weather affects the entire agriculture chain, whether it is determining which seeds are most effective in certain soil conditions, helping farmers decide how much water to use for crops, or deciding how many crops to raise based on weather conditions at various level(Karanja, 2018). Precision agriculture based upon weather analytics is becoming even more important. Information and communication technology in agriculture (ICT in agriculture), has been developing and applying innovative ways to use ICTs in the rural domain, with a primary focus on agriculture on weather forecasting(Kibunja, Kihoro, Orwa & Yodan, 2014).

Almost every single activity in the modern world is becoming more dependent on the application of ICT for one use or another. Weather forecast accuracy can be very sensitive to the reality of the specified initial conditions, highlighting the importance of high quality observational data and its geographical coverage, both horizontally and vertically(Muriithi, Olago, Ouma & Oriaso, 2018). The predictability of weather conditions varies with time.Although Kenya Meteorological Services issues seasonal climate forecasts climate variability continues to affect life support systems on which small holder farmers depend, severely affecting not only households but also national food security and general social order in Kenya. However, it is complicated by the fact that the reaction of various agricultural plants to type and intensity of peculiar weather phenomena is different. This paper aimed to establish the practices in weather forecasting in Kenya and how it affects agricultural productivity where conclusions and recommendations are given.

1.3 Research Objectives

The study will be guided by the following specific objectives;

i) To establish the ICT weather forecasting practices used on agricultural productivity in Kenya.
ii) To establish the extent of use of ICT on weather forecasting inagricultural productivity Kenya
iii) To determine the challenges hindering ICT weather forecasting on agricultural productivity in Kenya

1.4 Research Questions

The study will be guided by the following research questions;

i) What are the ICT weather forecasting practices used on agricultural production in Kenya?
ii) What is the extent of use of ICT on weather forecasting on agricultural productivity in Kenya?
iii) Which are the challenges hindering ICT weather forecasting on agricultural productivity in Kenya?

2.1 Literature Review

In literature review, the study will review both the theoretical framework and the empirical review related to ICT weather forecasting and agricultural productivity.

2.2 Theoretical Framework

2.2.1 Theory of Technology Acceptance Model

Davis (1986) developed the Technology Acceptance Model that deals more specifically with the prediction of the acceptability of an information system. The purpose of this model is to predict the acceptability of a tool and to identify the modifications that must be brought to the system in order to make it acceptable to users. This model suggests that the acceptability of an information system is determined by two main factors: perceived usefulness and perceived ease of use. Perceived usefulness is defined as being the degree to which a person believes that the use of a system will improve his performance(Aubert, Schroeder& Grimaudo, 2012). Perceived ease of use refers to the degree to which a person believes that the use of a system will be effortless. Several factorial analyses demonstrated that perceived usefulness and perceived ease of use could be considered as two different dimensions.

Technology Acceptance Model postulates that the use of an information system is determined by the behavioral intention, but on the other hand, that the behavioral intention is determined by the person's attitude towards the use of the system and by his perception of its utility. According to Davis, the attitude of an individual is not the only factor that determines his use of a system, but is also based on the impact that it may have on his performance (Venkatesh, Thong & Xu, 2012). Therefore, even if an employee does not welcome an information system, the probability that he will use it is high if he perceives that the system will improve his performance at work. Besides, the Technology Acceptance Model hypothesizes a direct link between perceived usefulness and perceived ease of use. With two systems offering the same features, a user will find more useful the one that he finds easier to use.

According to Davis (1986), perceived ease of use also influences in a significant way the attitude of an individual through two main mechanisms: self-efficacy and instrumentality. Self-efficacy is a concept developed by Bandura (1982) which explains that the more a system is easy to use, the greater should be the user's sense of efficacy. Moreover, a tool that is easy to use will make the user feel that he has a control over what he is doing. Efficacy is one of the main factors underlying intrinsic motivation (Marangunić & Granić, 2015). and it is what illustrates here the direct link between perceived ease of use and attitude. Perceived ease of use can also contribute in an

instrumental way in improving a person's performance. Because the user will have to deploy less effort with a tool that is easy to use, he will be able to spare efforts to accomplish other tasks.

The technology acceptance model theory is relevant as it specifies behavioral beliefs, perceived usefulness and perceived ease of use, as determinants of attitude towards behavioral intentions and IT usage behavior. In TAM, behavioral intention to use, leads to actual ICT usage behavior. Behavioral intention is determined jointly by attitude and perceived usefulness, where perceived usefulness also affects attitude directly. The theory assists to portray how technology adoption in agriculture could be used to bring out improved productivity.

2.2.2 Bob Doppelt Theory

Doppelt theory proposed in 2008 argues that global warming is not, at its core an energy, technology or policy problem. It is the greatest failure of thought in human history. He points out that global warming and today's other environmental, social and economic problems therefore cannot be resolved merely through more-efficient technologies or cap-and trade policies. Fundamental change in thinking and perspectives will be needed (Doppelt, 2017).

This theory holds that a sustainable development model focuses on economic sustainability, which involves the development of a healthy economy that supports and sustains people and the environment over the long-term. This theory shows that in a market driven economy, cost is a deciding factor in determining whether a project moves forward(Pike, Doppelt & Herr, 2013). To be sustainable, projects must not only provide environmental and social benefits but also offer economic value. This theory relates to this study in such a way that forecast application is highly dependent on how people think about it, the action taken and therefore the outcome. Based on these ideas, farmers‟ perception of any forecast is affected by their way of thinking (Doppelt, 2017). The actions taken in terms of response strategies to the forecasts are dependent on availability of the resources. This could either enhance forecast use or impede its application. This in turn has a greater effect on the outcome of any agricultural practice, there by influencing the food security situation in the region and in the country as a whole.

This therefore means that forecast application by farmers will be increased if information about how it should be used is downscaled to the poor rural small holder farmer. This could influence how they perceive it and therefore their willingness to use it in their farm level decision making.The economic value attached to it due to improved production, income and food security could eventually encourage farmers to be more willing to use the forecast in order to improve their productivity, food security and therefore income.

2.3 Empirical Review

The empirical literature was reviewed on ICT weather forecasting practices, extent of use of ICT on weather forecasting and the challenges hindering ICT weather forecasting.

2.3.1 ICT Weather Forecasting Practices

Kenya Meteorological Department (KMD) is the institution that is mandated to collect and store climate data in Kenya. Data collection is undertaken through the climate observing stations operated by the institution and also through collaboration with other institutions and volunteer observers (KMD, 2018).

The Numerical Weather Prediction (NWP) section of the Kenya Meteorological Department is one of the sections within the Forecasting Division of the Department. The computer models used for numerical weather prediction calculate the formation, growth, movement and decay of the systems within which weather events, including severe weather, are embedded. The models are complex and integrate fluid motion, thermodynamics and radiation on a rotating globe that includes topography, land and seas differences and the diurnal cycle. In addition, mathematical schemes for representing very small-scale processes, such as cloud and turbulence are included (KMD, 2018).

According to Masinde, Bagula and Nzioka (2013), extensive weather station networks are needed for monitoring key climate parameters such as wind speed, precipitation, barometric pressure, soil moisture, wind direction, air temperature and relative humidity. These parameters may be used both for forecasting and for decadal climate modelling. The technologies needed include weather satellites and both local and remote automated weather stations. Satellite observations include: visible spectrum cameras to detect storms and deforestation; infrared cameras to detect cloud and surface temperatures and sea level rise; particle detectors of solar emissions (KMD, 2018). The accuracy of climate (general circulation) models, is being continuously improved through better understanding of the basic science (including the impacts of clouds, for example); advances in the technology, as observed by Moore's law, whereby the processing power of computers doubles every two years, and by more extensive data gathering through weather and environmental sensors connected to telecommunication networks. In order to make relevant information available to local communities these models are being extended to predict changes in regional and local weather and sea level extremes (KMD, 2018).

Ochieng, Recha and Bebe (2017) conducted to assess use of seasonal climate forecasts as strategies for securing pastoralists assets in arid and semi-arid lands (ASALs) of Baringo County. The study used five (5) study locations that were purposively picked to ensure that they fall within the ASAL agro-ecological zones, LM5 and IL6. The total sampled households from the five locations was 221. The study used data from household survey to establish barriers to use of seasonal climate forecasts, use of traditional climate information and enabling conditions. Mean comparisons and frequencies of ratings were generated to ascertain the use of traditional climate information among the respondents. Sensitivity analysis was useful in identifying the most significant barriers to uptake of seasonal climate forecasts and the best and most significant enabling conditions/institutions to the access and usage of climate forecasts. The study established that majority (72.4%) of the respondents relied on traditional climate forecast methods than scientific methods in decision-making. The factors with greater influence on uptake of seasonal climate forecast information were lack of information, access, diversified sources of income and insecurity/conflicts, illiteracy and culture. The institutions with large influence were knowledge dissemination linked to radio and extension services and local climate information.

In Kenya, many communities rely on indigenous knowledge for agriculture, food processing and storage, but indigenous forecast methodshave not been ventured in as an important resource for enhancing agricultural production in most areas (Kanui, Kauti & Mwobobia, 2016). Kenya being an agricultural country that depends on rain-fed agriculture requires maximum use of seasonal climate forecast. The regional nature of seasonal forecast may limit their relevance for planning at national and local level. Finer scale forecast and more fine-tuned early warning systems, accompanied by a rapid delivery of information is needed (Gollin, Lagakos & Waugh, 2014). Kenya Meteorological Services (KMS) is responsible for monitoring and forecasting weather and climate in Kenya, including seasonal forecast. In spite of the slight improvement in forecasting accuracy, the present forecasting accuracy, which is 75%, is still not sufficient as challenges are still numerous due to the strong spatial and temporal variability nature of weather events. These scientific forecasts are formulated at a much larger scale, diverging with local needs.

Kenyan farmers have relied on traditional weather forecasting for generations. Some fear these methods will be discarded as climate change brings more extreme and unpredictable weather(Guthiga & Newsham, 2011). Others say that indigenous knowledge and methods remain valuable especially when used together with modern science. The Kenya Meteorological Department infers that traditional practices have something to offer. The Department now blends these forecasts with science-based predictions. The result is more accurate and better-received local weather forecasts in most regions of Kenya. The Department uses satellite technology and other modern methods to produce forecasts(Luseno, McPeak, Barrett, Little & Gebru, 2013).

Kenya; for example, localized flooding, droughts, and lightning strikes are observed in parts of the country almost every year. These extreme weather events in the country are often associated with very severe socioeconomic impacts that include lack of food, water, energy, and many other basic needs including destruction of infrastructure

as well as loss of lives(Muriithi, Olago, Ouma & Oriaso, 2018). Such impacts havetended to retard socioeconomic growth of the country with the ultimate enhancement of poverty. Currently, majority of the rural communities live under dire poverty since agriculture on which they depend for their livelihood has become more and more sensitive to severe and extreme weather events(Sagero, Shisanya, Ongoma & Shilenje, 2016).

Different regions require different weather information. KMS produces various forecasts and early warning products(Gichangi, Gatheru, Njiru, Mungube, Wambua & Wamuongo, 2015). They include historical and past climate records, real-time and near-real-time weather information, now casting for airport services, short-range weather forecasts, medium- range weather, long-range weather forecasts, and climate predictions. KMS also provides climate change information and severe weather advisories. This information helps in identifying suitable activities for specific areas and period to reduce weather related risks.

2.3.2 Extent of use of ICT on Weather Forecasting

According to Daniel and Cheserek (2018), pastoral communities have used indigenous forecasting methods for a long time to predict seasonal climatic events. Some pastoral communities observe clouds, wind and lightning that likely have their origins in traditional understandings of what contemporary researchers recognize as atmospheric science. Others watch the behavior of livestock, wildlife and the local flora. Indigenous early warning signs of weather changes are not only limited to livestock-keeping communities.

According to Musembi and Cheruiyot (2016), most of the products of KMS are highly time sensitive and thus need to be disseminated to the users in the fastest modes possible. Faster communication of weather information has proved to be a major challenge to many weather organizations, although Kenya has developed a vibrant communication system. The channels used in the dissemination of the meteorological products in KMS include press releases, interaction with media personnel, radio and TV channels, email services, government line ministries, website, and social media. At the county levels where KMS has now decentralized its services, the information flow channels are offices of the county directors of meteorology, radio, and Internet communications project, Community Based Organizations, sub county development committee meetings, and chiefs' "barazas."

Shilenje and Ogwang (2015) finds that partnership between the Kenya Meteorological Department and community radio stations is bringing weather alerts to four parts of Kenya. The stations are operated by the Radio and Internet Communication System, or RANET. They broadcast to Kangema, Narok in the Rift Valley, Budalangi in western Kenya, and Kwale in the coastal region.However, many communities still rely on traditional forms of climate forecasting by mainly using environmental, meteorological and astronomical indicators. Local communities have developed intricate system of gathering, predicting, interpreting and decision making in relation to weather.

Liang (2017) finds thatchanges in weather patterns, coupled with the increased frequency and intensity of severe weather are resulting in fewer growing days rendering traditional farming methodologies increasingly less reliable. Local residents in most cases do not understand the meteorological forecast. Despite modernization and global change, indigenousmethods used to predict weather still play an important role in decision making in rural livelihoods.

2.3.3 Challenges hindering ICT Weather Forecasting

According to the Kenya Meteorological Department (2018), weather forecasting for agricultural use faces various challenges. The observation network is not well distributed throughout the country. Such distribution is necessary in order to observe smaller scale climate conditions that are influenced by small scale features such as topographical variations among others. The optimum number requirement of synoptic stations is seventy seven. The Department is faced with inadequate funds to purchase consumables whose cost is increasing. For this reason upper air observations in Garissa and Lodwar are currently not active and the Dagoretti one operates only once a day instead of twice as required. There is an inadequate technical capacity for operation and maintenance of equipment. There is lack of necessary infrastructures such as electricity, or access roads in some important observing stations. The

department is faced with insecurity in some of the areas where observation sites are located. Some of the equipment was installed a long time ago but there are inadequate funds for their rehabilitation or replacement. The Department does not have adequate personnel as required in order to efficiently carry out observation obligations. Data collected by volunteer observers is not collected on a regular basis as required perhaps because the observers have other commitments (KMD, 2018).

According to Mwaniki and Stevenson (2017), KMS lacks modern facilities for data analysis and integration of products necessary to overlay various products for realization of more accurate forecasts. There therefore is a need to improve and refine the weather models used and enhance the capacity in numerical weather prediction and dynamical modelling as well as the remote-sensing techniques. Ultimately, KMS should acquire modern facilities for data analysis and information presentation.

Karanja (2018) finds thatthere is limited clarity on what forecast formats are best suited to user needs although it is known that the optimal format may vary between applications. Use of information, once received, is not straightforward and if inappropriately used may lead to further difficulties. Production and delivery systems are somewhat fragmented and consequently it is sometimes difficult for forecasts to reach those end users who may have particular need for the information. End users often perceive a need for temporal and spatial detail (e.g., exact rainfall amounts, onset, and cession dates) in the prediction that currently cannot be achieved with much accuracy(Shilenje & Ogwang, 2015). Best method from the scientific perspective of delivering outlooks is through probabilistic approaches. Probability forecasts, however, are often viewed as being difficult to understand and act upon.

2.4 Conceptual Framework

The conceptual framework provides a diagrammatical illustration that shows the connection between the independent and dependent variables. The figure below depicts the relationship between ICT weather forecasting and Agricultural production as shown ion Figure 1.

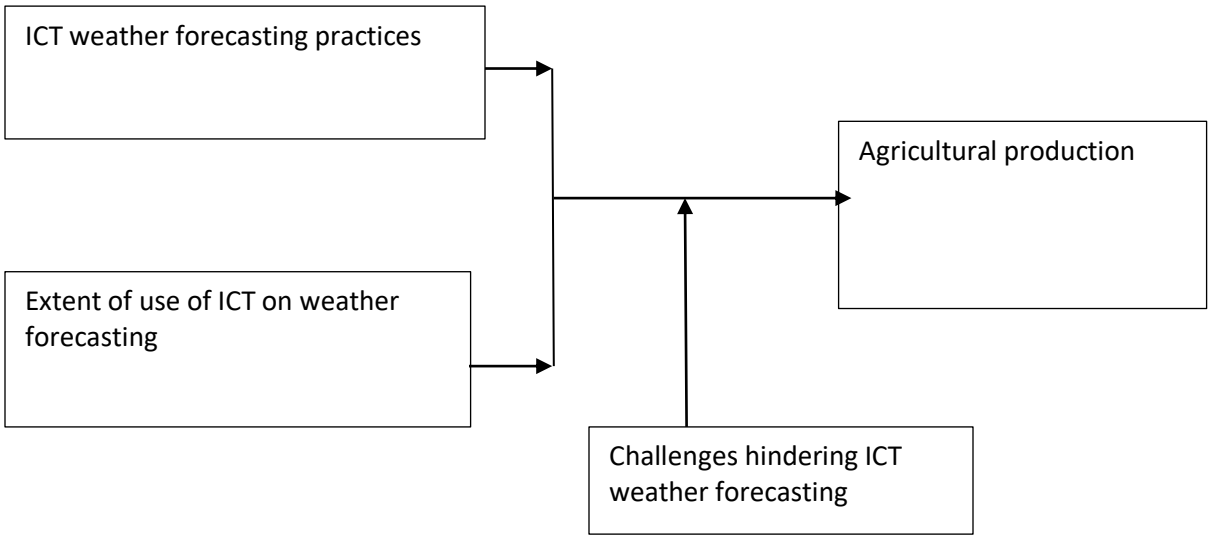

Figure 1: Conceptual Framework

3.0 Research Methodology

The study sough to establish the influence of ICT weather forecasting on agricultural productivity in Kenya. The paper used a desk study review methodology where relevant empirical literature was reviewed to identify main themes. A critical review of empirical literature was conducted to establish the influence of ICT weather forecasting on agricultural productivity in Kenya.

4.0 Results and Discussion

The socioeconomic wellbeing of the Kenyan communities is very sensitive to severe weather and extreme climate events. The country often experiences loss of life and destruction of property because of severe weather events such as floods and landslides, wind gusts, lightning, and prolonged droughts.

A large percentage of the rural communities within the country live below the poverty line since rain-fed agriculture, on which they rely for their livelihood has become more and more sensitive to severe weather that is now prevalent. Skillful and timely weather forecasts can help the government and communities mitigate the negative impacts of severe weather events through proper planning. This is the essence of an effective early warning system. The basic idea behind early warning is that the earlier and more accurately we are able to predict the likelihood of occurrence of natural and human induced hazards, the more likely we will be able to manage and mitigate a disaster's impact on society, economies, and environment. The warning lead-time should be sufficient to allow appropriate measures to be put in place.

Effective climate services rely upon locally relevant climate data tailored to farmers' needs. Under-resourced national meteorological services need support to be able to supply such information over large areas. Forecasts must reach remote rural communities in time for farmers to make use of them. Mobile phones and rural radio have been successfully used to convey weather information to a very large audience. Nevertheless, personal interactions are probably most effective for communicating complex climate messages.

Monitoring, prediction, and timely early warning of the aforementioned extreme events are favorable strategies for mitigating their negative impacts on humanity and property. This therefore calls for the existence of an effective and efficient early weather warning system. By definition, early warning provides timely weather information that allows individuals, organizations, or communities exposed to likely hazards take action that avoids or reduces their exposure to risks. An early warning system therefore involves data collection, information development, modes of dissemination, and action triggering mechanisms.

5.0 Conclusions

Climate uncertainty also has a negative impact on the providers of credit and markets for productive inputs and can make it difficult for smallholder farmers to benefit from agricultural markets. Climate information reduces uncertainty and can help farmers make better use of new seeds and technologies. Such information can be used to support complex and context-specific decisions about farm labour and resource allocation. Climate information should be accompanied by services that communicate, train and help users understand how to interpret and act on the information.

Changes in weather patterns, coupled with the increased frequency and intensity of severe weather are resulting in fewer growing days rendering traditional farming methodologies increasingly less reliable. Local residents in most cases do not understand the meteorological forecast. It was clear that despite modernization and global change, indigenousmethods used to predict weather still play an important role in decision making in rural livelihoods. The study also concluded that farmers‟ perception of the forecast has an influence on how they would use these

forecasts. Majority of the farmers rely on indigenous knowledge in weather prediction because of how they perceive it. They perceive indigenousmethods forecasting methods to be more reliable than the scientific ones. Furthermore, the study revealed that socio-economic status of a farmer may impede or enhance the use of climate forecast information.

6.0 Recommendations

To overcome the challenges, meteorologists should consider linkages with end users of forecast information to develop user-oriented products, communicate the information in the user's local languages (particularly the pastoral communities), and develop techniques for raising the awareness of the user communities on the benefits of using weather information inagricultural practices decision-making. There is need for improvement of the modes of communication, for example, short messaging service (SMS) and common alerting protocol. Through collaborating with intermediaries, KMS is able to disseminate weather information services to county and sub county levelsusing modern technology available, that is, SMS at reasonable speed and cost.

The study recommends that weather forecasts be devolvedto the counties in developing informed agricultural decisions. It furtherrecommends that language and communication of theweather information be improved in temporal and spatialscales with the use of new and emerging technology. KMSshould enhance its efforts in awareness creation and publicunderstanding of weather services. This leads to increaseduptake and confidence in applying the weather knowledgein agricultural planning and alleviating risks on societies. Partnerships between public and private sectors are enhanced by sharing lessons learnt and efforts being made to mitigate weather related hazards and protect crops.

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Technical Capacity In Project Implementation And Sustainability Of Water And Sanitation Projects In Nyeri County, Kenya

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Abstract

The perceived success in project implementation is more adequately defined as meeting the project's technical specification or mission while at the same time attaining a high level of satisfaction on the part of the community, clients, users and the project team. The end product must perform satisfactorily in service. This means that parties associated with and affected by a project should be satisfied at the same time that the good cost and schedule performances are realized. This study intended to establish effect of technical capacity in project implementation on sustainability of water and sanitation projects in Nyeri County. Water and sanitation provision coverage has remained low even with continued investment by the Government and donor agencies in the sector through various projects. Water Services Regulatory Board (WASREB) through its annual reports on water and sanitation provision status has queried the disparity between the amount of investment towards water and sanitation projects and the corresponding rate of growth in the service coverage. The study sought to determine effect of technical capacity in the implementation of water and sanitation projects in Nyeri County on the sustainability of such projects. The target population consisted of 94 members of the community made up of managers of water service providers (WSPs), administrative and community leaders. A sample size of 40% of the target population was drawn. Stratified random sampling design was adopted to select the respondents. The study used a cross sectional descriptive survey research design using quantitative approach to data collection, analysis and reporting through some elements of qualitative approach to data. Data was collected using questionnaires and analyzed quantitatively with the aid of the Statistical Package for Social Science (SPSS). Analysis of results indicated below standard levels of sustainability of water and sanitation projects as indicated by water quality and operations and maintenance cost coverage. However, the hours of water supply as a dimension of sustainability was found to be within the benchmark standards set by regulators. R squared, the Coefficient of Determination stood at 60.80, indicating that 60.80% of variation in sustainability of water and sanitation projects was explained by Technical Capacity project implementation variable in a model. One Way Analysis of Variance and Regression analysis results indicated that technical capacity have a positive and statistically significant effect on sustainability of water and sanitation projects in Nyeri County, Kenya. The study recommends that project management teams device ways to upscale the quality of water supplied and operations and costs coverage which was poor.

Key words: ***Technical Capacity, Project Management Competency, Water and Sanitation Projects***

1.1 Background of the Problem

Lack of improved water and sanitation sources remains a serious world health and environmental issue. Over 1.1 billion people use water from unimproved sources, and 2.4 billion have no access to any form of improved sanitation (United Nations, 2015). According to the World Health Organization (WHO), achieving the Millennium Development Goals (MDGs) drinking water and sanitation target poses two major challenges: a rapid pace of urbanization, which requires major effort even to keep up the current coverage levels; a huge backlog of rural people unserved with basic sanitation and safe drinking water, which calls for an intensive mobilization of resources to reduce the vast coverage gap. The lack of sanitation services is also compounding problems of environmental degradation and associated poverty levels around the world. In response to this crisis, international organizations have listed water and sanitation interventions among the top development priorities.

To achieve this, investment in water and sanitation projects especially in the developing countries need to be enhanced. According to Korir(2012), the process of project implementation involves the successful development and introduction of projects in the organization. The project implementation process is complex, usually requiring simultaneous attention to a wide variety of human, budgetary and technical variables. Sustainability of water and sanitation projects largely depends on the implementation of the specific projects which could be affected by such variables as technical capacity.

1.1.1 Technical Capacity

This is the capabilities and resources available to the organization and the project implementation team to ensure achievement of the desired or intended output or outcome of the project. These include professional qualification of members of project implementation team, availability of necessary plant and equipments, technical designs of the project and work plans. For successful implementation of a project it is paramount to have qualified engineers, surveyors, accountants, and other technical staff to ensure quality work done meet required standards and that financial aspects of the project are adequately covered. The resources may be owned by the organization or can be out-sourced depending on the underlying factors (Montegomery & Elimelech, 2009).

In particular, without properly trained human resources, even a well-financed project that is characterized by advanced technology might not be sustainable in the long term in relation to providing customers with adequate and clean water (Ademiluyi & Odugbesan, 2008).

1.2 Statement of the Problem

According to Water Services Regulatory Board (WASREB) reports, in Nyeri County, it is only 40% of the population who have access to clean drinking water with sewerage coverage within urban centres in the county at about 35%. During the last 10years the county has benefited from funding to undertake water and sanitation projects both from the Government and other organizations such as Japan International Cooperation Agency (JICA), the World Bank and Water Services Trust Fund (WSTF). Though this has translated into improved water and sanitation coverage in some parts of the county, most of the projects do not achieve the desired results hence overall poor service provision. WASREB through its annual reports on water and sanitation provision status has queried the disparity between the amount of investment towards water and sanitation projects and the corresponding rate of growth in the service coverage.

This study therefore sought to evaluate the effect of technical capacity of the project implementation team in the implementation of water and sanitation projects that may affect the economic, environmental and social sustainability of such projects.

1.3 Objectives of the Study

To examine effect of technical capacity in project implementation on sustainability of water and sanitation projects in Nyeri County.

1.4 Research Questions

How does technical capacity in project implementation affect sustainability of water and sanitation projects in Nyeri County?

2.0 Theoretical Literature
The study was guided by the following theories.

2.1McKinsey 7s Model
Water and sanitation projects must have all the seven elements of McKinsey 7s model including strategy, structure, skills, style, staff, shared values, and systems.

This theory was therefore relevant to this study as the seven elements of an organization can be seen to influence the level of technical capacity within an organization that may affect implementation of water and sanitation projects hence their sustainability of the said projects.

2.2 Porter's Value Chain Model
The value chain model can be employed in project management to make certain that a project creates value for the intended customers. In particular, Porter's value chain enables project managers to understand how much value the project teams have put into any given project

2.3 Empirical Literature

2.3.1 Sustainability of Water and Sanitation Projects
In relation to community water and sanitation projects, sustainability entails the capacity of a water and sanitation project to meet the present needs of a community as well as those of the future generations. To attain this goal, the projects outputs and services must be maintained at a continuous interval paying significant attention to the original aims and objectives. Water and sanitation projects are planned and executed with the aim of promoting access to clean water for consumption and improving the health of the intended communities. While the implementation of such projects is always successful in many parts of the world, their sustainability has always been a significant challenge (Mulwa, 2004).

With respect to sustainability of water and sanitation projects, Water Services Regulatory Authority outlines the various key performance indicators that are used to establish whether a service provider or project is sustainable. These include water quality, hours of water supply, coverage of revenue on operation and maintenance costs.

Table 2.4: Key performance indicators of water and sanitation projects

Performance Indicator	Acceptable level
Water quality	>95%
Hours of Supply	17-24Hrs
Operation and Maintenance Cost Coverage	≥150%

Source: WASREB Impact Report (2017)

2.3.2 Technical Capacity and Sustainability of Water & Sanitation Projects
There are critical links in implementation and sustainability of water and sanitation projects with technical capacity of the implementing individuals, organisations and community members (Korir, 2012).

2.3.2.1 Organizational and Community Training.
Human resource development is part of the technical capacity required to promote the sustainability of community water and sanitation projects. Under this perspective, human resource development entails the provision of specialized training of the project staff, project managers, and community members as part of the project team that will facilitate project success and sustainability (Montegomery & Elimelech, 2009). However, the study is inadequate on establishing measures of promoting functional sustainability of water and sanitation services.

Comparable thoughts are echoed by Ademiluyi and Odugbesan (2008) after conducting a study on sustainability of community water and sanitation projects. The study established that the provision of community members with training on issues relating to operation and maintenance empowers the

community to run the project effectively as a prerequisite for sustainability. From these results, the study concluded that for the sustainability of water and sanitation projects to be attained, community members must be equipped with the skills of operating, repairing, and maintaining the water supply system. However, the researcher failed in clearly demonstrating how implementer of water and sanitation projects could be well equipped technically.

2.3.2.2 Project Management Competency.

Project management competency is an integral part of the technical capacity required in project implementation to promote project success and sustainability. When dealing with rural-based or community projects, project management entails aligning the project execution with the priorities of the local community. According to the views of Weinberg (2008), community projects are very multifaceted and as such call for versatile or adaptable management skills if success and sustainability are to be attained. The study further ascertains that the project manager is expected to apply not only the skills related to project management but also the technical expertise required to address the complexity of the project. There is a feeling however that, these views do not consider implementation of water and sanitation projects in rural area.

As noted by Macharia *et al.* (2015), the project manager must meet the required technical capacity to make effective decisions that will have a positive effect on project success and sustainability. In the same vein, the project manager must have and demonstrate a high level of comprehension of the goals or objectives of the project at hand. This goes a long way in instilling confidence to the project team. However, these views do not demonstrate clearly the interrelation between technical skill of project team and the sustainability of such projects upon successful completion.

2.4 Summary of Literature Review & Gaps

Table 5.2: Literature review summary and gaps.

Author	Title	Methodology	Findings	Recommendations	Gap	Gap filled
Macharia, Mbassana& Oduor, (2015).	Assessing Sustainability of Rural Water Projects in Naivasha, Kenya, Case Study: Maraigushu Water Project.	Mixed method (qualitative & quantitative designs).	Sustainability of community water projects is dependent of several factors including community participation, technical factor, and management factor.	Management efficiency, participation of community members, and building the capacity of locals are all important determinants of sustainability in rural-based water and sanitation projects.	Lack of understanding of the factors promoting sustainability of rural water projects.	Identification of the factors promoting sustainability of rural water projects including community participation, technical factor, and management factor.
Aftab,Ismail,& Ade, (2012).	Time and Cost Performance in Construction Projects in Southern and Central Regions of Peninsular Malaysia	Structured questionnaire survey with quantitative research design.	Time and cost performance is the fundamental criteria for the success of any project.	Need for the implementation of the mitigation measure at the planning stage with the view of attaining success in project execution.	Lack of adequate studies on time and cost performance in construction projects.	Identification of time and cost performance as fundamental criteria for the success of any project.
Kahariri,(2014).	Assessment of the challenges of water supply and	Structured survey questionnaires with	Overpopulation, infrastructural developments, depleted water	Use of temporary water storage measures including tanks,	Inadequate studies dealing with the challenges	Established the challenges facing supply

	sanitation in uncontrolled residential developments of Huruma estate, Nairobi County.	quantitative research design.	towers, and inadequate dump sites affect the supply of water and sanitation adversely.	extension of water pipes to deliver water to all, and establishment of community led sanitation measures.	of supply of water and sanitation services in the slum areas.	of water and sanitation services in the slum areas and identified potential management strategies.
Keli, (2015).	Factors influencing sustainability of donor funded community water projects: A case of Kitui central constituency, Kitui County Kenya.	Survey questionnaires and quantitative analysis through descriptive and inferential statistics.	Strong positive correlation between community participation, community capacity building, community management and sustainability of donor funded community water and sanitation projects.	Need for community participation, community capacity building, and community management to promote the sustainability of donor-funded water and sanitation projects.	The sustainability of donor-funded water and sanitation projects has been understudied.	Adding to the inadequate body of research on the factors affecting the sustainability of donor funded water and sanitation projects.

Source: Researcher 2017

2.5 Conceptual Framework

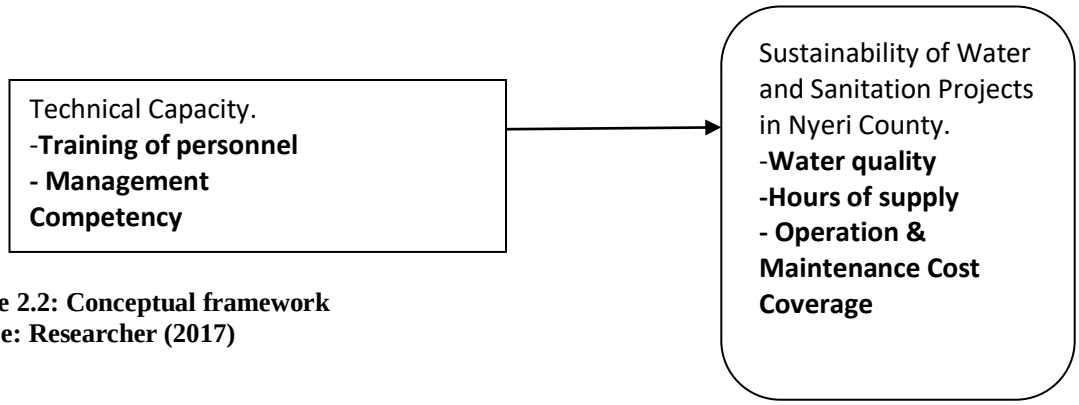

Figure 2.2: Conceptual framework
Source: Researcher (2017)

3.0 RESEARCH METHODOLOGY

3.1 Research Design

The study will adopted a cross sectional descriptive survey research design using quantitative approach to data collection, analysis and reporting through some elements of qualitative approach to data. This design is preferred as it will ensure complete description of situation making sure that there is minimum bias in data collection and that data is collected in an economical way (Mungai *et al*, 2014).

3.2 Target Population

The study target population included the stakeholders of water and sanitation projects within Nyeri County. All stakeholders including the management staff of WSPs, water project managers, community leaders and community leaders within the county. These stakeholders are identified as potential participants for this study because they have significant experience in relation to the implementation and sustainability of water

and sanitation projects within Nyeri County, Kenya. Within Nyeri County, the existing water and sanitation companies have their operations within five main regions that include Nyeri town, Mathira, Othaya-Mukurweini, Tetu-Aberdare, and Naro Moru. The research population is thereby spread across these main regions or clusters. The information on target population was obtained from Tana Water Services Board (TWSB). In total, the target population will be **94** structured as follows;

Table 6.1: Target Population

Region	Number of Departmental/Section Heads in area WSP	Number of Water Projects Managers	Number of Wards Administrators	Total
Nyeri	6	-	5	11
Mathira	6	15	6	27
Othaya-Mukurweini	6	8	10	24
Tetu	6	6	3	15
Naromoru/Kieni	4	5	8	17
Total	28	34	32	94

Source: County Government of Nyeri (2017)

3.3 Sampling Strategy

In this study, purposive stratified simple random sampling was applied. Managers from WSPs, project managers or leaders from each project within Nyeri County and community leaders from each ward in the county forms the population for the study. From the population, a 40% sample was selected randomly of each stratum.

Table 3.2: Sample size

Region	Population frequency	Sample ratio	Sample size
Nyeri Town	11	0.4	4
Mathira	27	0.4	11
Othaya - Mukurweini	24	0.4	10
Tetu	15	0.4	6
Naromoru/Kieni	17	0.4	7
Total	**94**		**38**

Source: Researcher (2017)

3.4 Data Collection Instruments

This study relied on structured questionnaires in the investigation of project implementation and sustainability of water and sanitation projects in Nyeri County. In the study, the structured questionnaires were used as they are advantageous in the sense that they facilitate the collection of data from a large number of research participants.

3.5 Data Collection Procedures

This study relied on both primary and secondary data. The primary data was obtained through the use of structured questionnaires while secondary data was sourced from reports and documents containing relevant information for the study. These were obtained from various institutions at the county and national level.

3.6 Data Analysis and Presentation

The first step in the analysis process was data cleaning. All the ambiguous elements in the questionnaires were eliminated in this step. This was followed by data coding. Data coding helped in summarizing and reducing the collected data and thereby simplifying the data analysis process. The SPSS program was then used to generate descriptive and inferential statistics. The descriptive statistics that were generated in this process included the percentages, frequencies, mean, median, mode, and the standard deviation. The inferential statistics generated included Analysis of Variance (ANOVA) and multiple regression analysis. The multiple regression model was used with the following function;

$Y= \beta_{0+} \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$

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Where β_0 - Y intercept
$\beta_1, \beta_2, \beta_3, \beta_4$ are coefficients
X_1 - Technical capacity
X_2 - Project funding
X_3 - Community participation
X_4 – Government Support
Ɛ - Error Term

4.0 RESEARCH FINDINGS AND DISCUSIONS

4.1 Response rate

The response rate gives an indication of how successful the process of data collection was. The response rate is further evaluated for adequacy against thresholds recommended in literature.

Table 4.1: Response Rate

Targeted respondents	Responses received	Response rate
94	80	85.11 %

Source: *Survey data (2018)*

Mugenda and Mugenda (2003) posit that a response rate of above 50% would consider adequate, 60% good and above 70% very good.

Table 4.2: Participants' Region

		Frequency	Percent
Valid	Nyeri Town	10	12.5
	Mathira	20	25.0
	Othaya/ Mukurweini	22	27.5
	Tetu	11	13.8
	Naromoru	17	21.3
	Total	80	100.0

Source: Survey data (2018)

Approximately half (52.5%) of the respondents were from Mathira and Othaya/ Mukurweini regions. An additional 21.30% and 13.8% of participants were from Naromoru and Tetu respectively. The least number of respondents was registered in Nyeri town region at 12.5%. The responses conformed to patterns expected as reflected in line with the target population.

4.2 Sustainability of Water and Sanitation Projects

This section presents descriptive statistics on sustainability of water projects. The factor constitutes the dependent variable of the current study. The dimensions of interest include quality of water, hours of supply and coverage of operational and maintenance costs. Table 4.3 presents statistics regarding the quality of water supplied by water projects in Nyeri County, Kenya.

Table 4.3: Quality of Water Supplied

	N	Minimum	Maximum	Mean	Std. Deviation
Water Quality (%)	5	39.00	96.00	83.2000	24.74268
Valid N (listwise)	5				

Source: *Survey data (2018)*

Analysis of data from WASREB's Impact Report (Issue no. 10 published in 2018), indicates that the quality of water supplied by regulated water projects was below standard as shown by the mean of 83.20%. As demonstrated by the minimum value, some players could be posting very low level of water quality (39.0%) which is far much below the recommended threshold. From the results, it is clear that most water projects did not meet the quality standards set by WASREB (2017) which stands at more than 95.0% (Acceptable Quality > 95%).

To incorporate the condition of quality of water provided by other providers not regulated by WASREB, the study also analysed primary data provided by respondents on the same subject. As evident from the results, most of the respondents (56.25%) opine that the quality of water supplied was below standard. This agrees with the WASREB (2018) whose report of regulated projects indicates a similar condition.

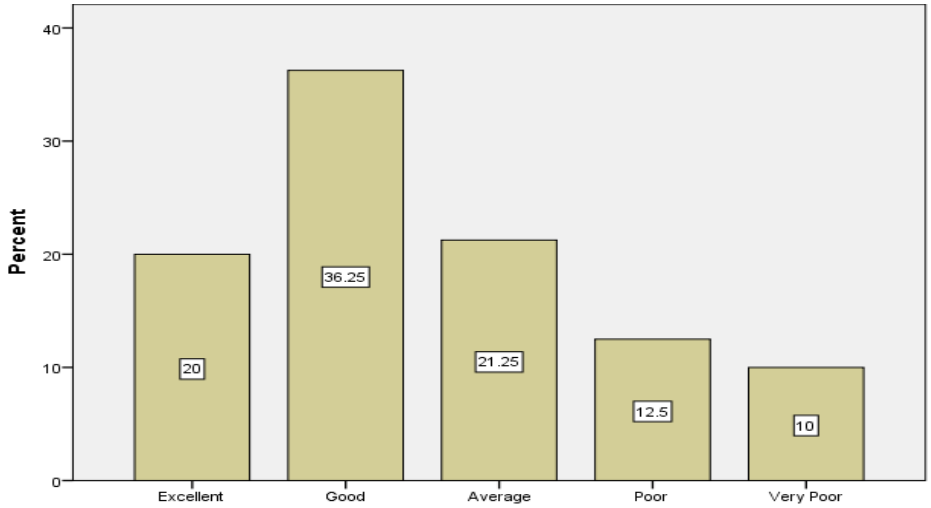

Figure 4.1: Quality of Water Supplied by Companies/ Projects

Source: *Survey data (2018)*
Secondary data was also collected regarding the hours of water supply by the water companies. Table 4.4 provides the statistics.

Table 4.4: Hours of Water Supply (Hrs per Day)

	N	Minimum	Maximum	Mean	Std. Deviation
Hours of Supply (Hours per day)	5	22.00	24.00	23.0000	1.00000
Valid N (listwise)	5				

Source: *Survey data (2018)*
Results of the analysis of secondary data by WASREB's Impact Report (Issue no. 10 published in 2018) demonstrated a good state of water provision to users by regulated water service providers. On average, water was available to users at least 23 hours per day. The least provision by any one regulated provider was 22 hours per day. As indicated by the maximum, in some case water was availed to users throughout the day. WASREB (2017) set the acceptable threshold at between 17 to 24 hours, a condition that is observed. The data does not however reflect the condition for unregulated water service providers or projects.

To reflect the condition of hours of water supply for other firms or projects not regulated by WASREB, the study involved analysis of primary data on the subject matter. More than half of the respondents (58.75%) agreed that the hours of water provision was above average standing at either between 16 hours to 20 hours or 21 hours to 24 hours. A further 12.50%, 12.50% and 16.25% indicated that water was supplied for 11-15 hours, 6-10 hours and below 6 hours respectively. The condition indicates that the acceptable standards of water supply (17-24hrs) are observed by majority of the projects. The statistics however contrasts with WASREB's Impact Report (2018) which reflects water provision almost throughout the day.

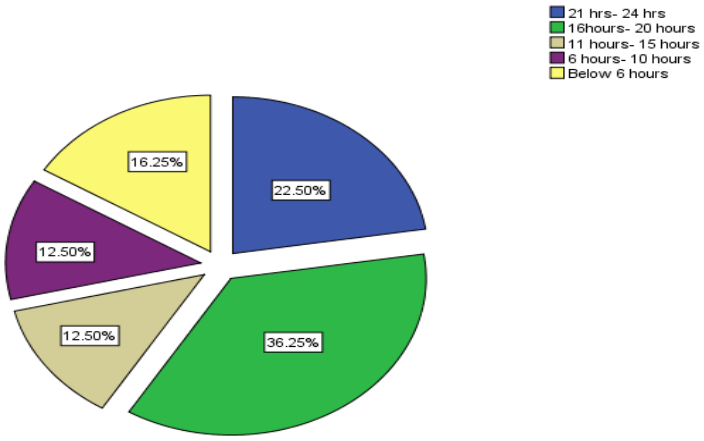

Figure 4.2: Number of Hours that Users are supplied with Water
Source: *Survey data (2018)*
Secondary data was also collected and analysed regarding the coverage of operations and maintenance costs by the water service providers and or projects.

Table 4.5: Operations and Maintenance Costs Coverage

	N	Minimum	Maximum	Mean	Std. Deviation
Operation and Maintenance Cost Coverage (%)	5	78.00	145.00	105.2000	24.41721
Valid N (listwise)	5				

Source: Survey data (2018)
Analysis of secondary data from WASREB's Impact Report (Issue no. 10 published in 2018) indicates a below standard performance regarding operations and maintenance cost coverage for water projects in Nyeri County, Kenya. The data does not however reflect the condition for unregulated water service providers or projects.

To further incorporate the condition of coverage of operations and maintenance costs by water companies and projects not necessarily regulated by WASREB, the study involved analysis of primary data on the subject matter. Figure 4.6 shows respondents opinion on whether the water companies or projects were able to meet their operations and maintenance costs. More than three quarters (78.75%) of the participants indicated that the companies or projects were able to meet their operations and maintenance costs.

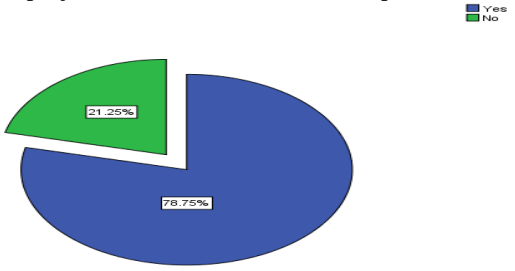

Figure 4.3: Coverage of Operation and Maintenance and Operations Costs
Source: Survey data (2018)
Figure 4.4 provides details of the extent to which the respondents opined that the revenues generated from water projects surpassed the operations and maintenance costs. As demonstrated by the mean (1.81), respondents were of the opinion that the revenues surpassed the costs only to a moderate extent. The results disagree with past indications by Mulwa (2004) who highlighted challenges in operations and maintenance cost coverage as a facet of sustainability.

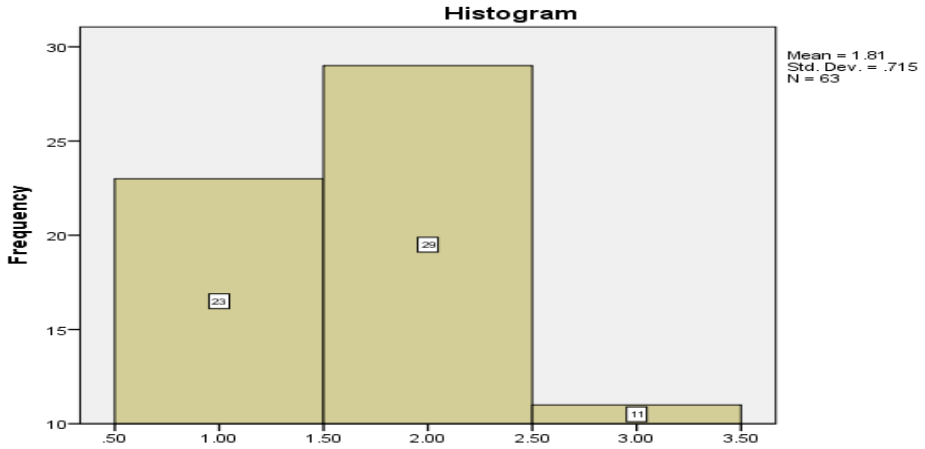

Figure 4.4: Level to which Revenues surpass Operations and Maintenance Costs
Source: Survey data (2018)

4.3 Technical Capacity

Close to three quarters (73.75%) of the respondents agreed that there were competent technical and management staff. The remaining quarter of respondents (26.25%) disagreed on the presence of such personnel. The study indicate that projects conformed to recommendations of past studies such as Ademiluyi and Odugbesan (2008) who roots for involvement of technical and management staff.

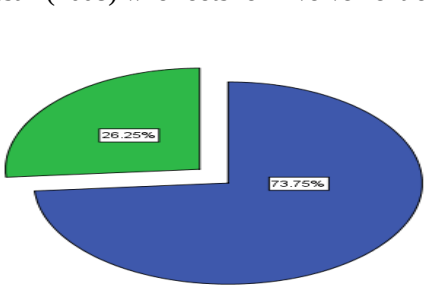

Figure 4.5: Competent Technical and Management Personnel in the Company/ Area
Source: *Survey data (2018)*

Table 4.6: Level of Personnel Skills and Competence

	N	Minimum	Maximum	Mean	Std. Deviation
Personnel has adequate skills and competency to oversee the nature of water and sanitation projects undertaken	59	1.00	3.00	1.6271	.71675
Valid N (listwise)	59				

Source: *Survey data (2018)*

The 59 respondents who agreed on existence of competent technical staff in their organizations or areas opined that the level of the personnel had skills and competence to a moderate extent (mean 1.63, Standard deviation 0.72) to oversee the nature of water and sanitation projects undertaken in the area (s). Thus, suggestions of past studies such as Mengesha *et al.* (2003) were only applied moderately.

4.4 One Way Analysis of Variance (ANOVA)

ANOVA was applied to determine the effect of each project implementation factor on sustainability of water and sanitation projects.

Table 4.7: One Way ANOVA: Technical Capacity and Sustainability of Projects

	Sum of Squares	Df	Mean Square	F	Sig. or P value	Decision
Between Groups	5.9438	4	1.48595	1.922	.001	

Within Groups	75.2753	76	0.99046			P < 0.05 Reject H_0
Total	81.2191	80				

Source: *Survey data (2018)*

The P values for the one way ANOVA between Technical Capacity and Sustainability of Water and Sanitation Projects is 0.001. The P value less than 5% or 0.05 significance thresholds. To that extent, the study concluded that technical capacity has a significant effect on suatainability of water and sanitation projects in Nyeri County, Kenya. The results agree with Ademiluyi and Odugbesan (2008), Mengesha et al. (2003) and Macharia et al. (2015) who also indicated that Technical Capacity influences Sustainability of Projects.

4.5 Multiple Regression Analysis

The multiple regression analysis was applied to determine the effect of project implementation on sustainability of water and sanitation projects.

Table 4.8: Regression Model Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.118	.076		1.639	.009
	Technical Capacity	.654	.311	.501	2.573	.001
	Project Funding	1.971	.164	.444	2.830	.021
	Community Participation	.090	.406	.516	2.363	.013
	Government Support	.329	.504	.322	3.902	.036

Source: *Survey data (2018)*

The coefficients for all project implementation variables indicate that the variables significant determinants of Sustainability of Water and Sanitation Projects. The coefficient for Technical Capacity (0.654) has a p-value of 0.001 which is within the 5% level of significance. This demonstrates that Technical Capacity is a useful predictor of Sustainability of Water and Sanitation Projects. The statistics show that a unit improvement in Technical Capacity would lead to a 0.654 unit increase in Sustainability of Water and Sanitation Projects. The results agree with Ademiluyi and Odugbesan (2008), Mengesha et al. (2003) and Macharia et al. (2015) who also indicated that Technical Capacity influences Sustainability of Projects.

The regression Model was posted as follows.

Sustainability of Water and Sanitation Projects = 3.118 + 0.654 (Technical Capacity) + 1.971 (Project Funding) + 0.090 (Community Participation) + 0.329 (Government Support).

5.0 SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of Findings of the Study

The study sought to determine the effect of Technical Capacity on Sustainability of Water and Sanitation Projects in Nyeri County, Kenya. Sustainability was indicated through quality of water, hours of supply and coverage of operational and maintenance costs. On Sustainability of Water and Sanitation Projects, analysis results indicated that quality of water supplied by both regulated and unregulated water projects was found to be way below acceptable standards.

The hours of water supply by individual projects was found to satisfactorily above average. Notably, for regulated water projects, the condition of water supply was found to be excellent with some providing water throughout the day. Analysis results further demonstrated a poor coverage of operations and maintenance cost for both regulated and unregulated projects.

Regarding technical capacity as a dimension of water and sanitation project implementation, there was high agreement that the projects had attached competent technical and management staff. However, results indicated that the personnel had only moderate level of skills and competence to oversee the nature of water

and sanitation projects undertaken in the area (s). One Way Analysis of Variance results indicated that technical capacity has a significant effect on sustainability of water and sanitation projects in Nyeri County, Kenya. Regression analysis results indicated that Technical Capacity has a significant, positive effect on Sustainability of Water and Sanitation Projects.

5.2 Conclusion of the Study

On Sustainability of Water and Sanitation Projects, the study concludes that the projects sustainability condition was below acceptable levels. Only hours of supply was seen to meet the acceptable benchmark with poor condition of quality and cost coverage indicated. Notably, regulated projects evidently performed better than those not regulated by WASREB. On Technical Capacity, the study concludes that although projects had technical and management staff attached, their skills and competency base needed enhancement. The constitution of project task teams also required to be addressed. One Way Analysis of Variance results informed a conclusion that technical capacity influences the sustainability of water and sanitation. Further, regression analysis results informed a conclusion that Technical Capacity has a significant, positive effect on Sustainability of Water and Sanitation Projects.

5.3 Recommendations of the study

The study recommends that project management teams device ways to upscale the quality of water supplied and operations and costs coverage which was poor.. On Technical Capacity, the study recommends measures to build up the skills and competence of technical and management staff attached to projects as this was found not to be satisfactory. Technical Capacity, generally, should be enhanced to improve Sustainability of Water and Sanitation Projects

5.4 Suggestions for further research

Contextually, due to a range of research constraints such as limited resources, the study was limited to water and sanitation projects in Nyeri County, Kenya. The study recommends that future studies widen the scope of the study to cover a larger area for more applicability of results. Future studies could also consider diverse projects besides water and sanitation projects. To this regard, the study recommends a study on project implementation and performance of state funded projects in Kenya. Methodologically, future studies could also consider a wide range of indicators for sustainability of projects such as balance sore card indicators, tipple constraints methodology or project diamond approach to measurement of project performance.

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The Mediating Role Of Human Resource Capabilities On The Relationship Between Training And Performance Of Parastatals In Kenya

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ABSTRACT

Worldwide, the public sector plays a central role in any country's socio-economic development. The sector has however been affected by globalization, public sector reforms, regional and international partnerships, climate change, information, communication and technology and human resource development, among other factors. In an increasingly changing global environment, the mandate, structure and operations of public sector must be reshaped and productivity enhanced to make it more focused, efficient and responsive to the needs of those it serves. This research sought to examine the extent to which human resource capabilities mediate on the relationship between training as a strategic human resource management practice and the performance of parastatals in Kenya.

Keywords: ***Human resource capabilities, training, Strategic Human Resource Management (SHRM), parastatals and organizational performance.***

1. Introduction

The knowledge and skills of an organization's workforce have become increasingly important to its performance, competitiveness, and innovation (Lawler, Mohrman, & Ledford, 1998; Martocchio & Baldwin, 1997). Workplace learning and continuous improvement are now considered essential for an

organization to remain competitive (Salas &Cannon-Bowers, 2001). Thus, it is not surprising that employee training is a multi-billion dollar industry worldwide(Haccoun & Saks, 1998).

According to Goldstein (1993), training involves systematic acquisition of skills, rules, concepts or attitudes that result in improved performance in another environment. According to Analoui (2002), for training to be effective those two conditions need to be met first: the criteria of transfer and the strategic nature of training meaning training is effective if it can be transferred to the workplace. Lack or absence of positive transfer means that the individuals are not performing to their potential. This result in them being redundant and failing to advance the objectives of the organization, leading to inefficiency and inability to secure competitiveness. Second training should aim to achieve the overall business strategy. If training is not focused, resources will be underutilized and development will only be for the sake of development rather than realizing the goals of the enterprises.

Training has the unique function in the attainment of firm's objectives by incorporating the welfare of the firm and the employees (Stone, 2002). Currently training is the most important factor in the business world because training increases the efficiency and the effectiveness of both employees and the organization. The employee performance depends on various factors. But the most important factor of employee performance is training. Training is important to enhance the capabilities of employees. The employees who have more on the job experience have better performance because there is an increase in the both skills & competencies because of more on the job experience.

Training also has impact on the return on investment. The organizational performance depends on the employee performance because human resource capital of organization plays an important role in the growth and the organizational performance. So to improve the organizational performance and the employee performance, training is given to the employee of the organization. (Fakhar & Anwar, 2008).

There exists a vital link between the performance of the public service employees and the growth of a nation's economy. This has a significant effect on the activities and growth of businesses and industries that largely support the government and absorb human labour. One of the ways that the government ensures that its employers are kept abreast with global trends, emerging issues and technological change is through capacity building. Ahmed and Hanson (2011) observe that in developing the capacity of public officers, it is crucial to lay emphasis on vital issues of leadership development, that include building the capacity for leaders to instill confidence and motivate workers into a mutual vision to realize organizational objectives.

Capacity development therefore is expected to enhance institutional leadership in Africa to compete in today's rapidly globalizing world and knowledge society, and, to contribute to social capital and social cohesion (Labonte & Laverack, 2001).

Strengthening service delivery is a key strategy for achieving the Kenya Vision 2030 (KV 2030) which is a national development blue-print whose main objective is to provide high quality life to the population in a clean and secure environment by transforming the country into a newly industrializing, middle-income country by 2030 (GoK, 2007). To this end, the Kenya government has implemented key public sector reforms initiatives to create an efficient and more productive public service, with the focus being to transform it into a more pro-active, outward looking and results oriented system (GoK, 2008). The introduction of performance contracting has enabled the government to properly align ministerial and departmental strategic plans in order to improve efficiency and accountability. Many public organizations in Kenya have now adopted employee capacity building as a means of improving the quality, efficiency and speed of public service delivery (UNDP, 2013). The recognition of the employee as the key resource in an organization has also accelerated the need for capacity building (Ahmed & Hanson, 2011).

HR capability can be defined as the routines embedded in the tacit and implicit knowledge of members of an organization functioning to acquire, develop, nurture, deploy, and redeploy human resources in a dynamic, competitive environment (Boxall, 1998). HR capability is a source of competitive advantage as it is embedded in the collective knowledge of firm members that is inimitable, is developed over time, is rare and valuable (Wright, 2004). The RBV of the firm proposes that if an organization utilizes resources that are valuable and rare it gains competitive advantage, which in turn leads to its better performance.

1.1 Value

According to Barney (2002) a capability or resource is valuable if it has the prospect to facilitate a firm to minimize costs and/or react to environmental opportunities and threats. An organization will gain competitive advantage if it is capable of effectively deploying such a resource or capability. Hence an organization's competitive advantage is determined by how valuable its resources and capabilities are. This means that, organizations with capabilities and resources that are marginally valued will at best achieve only minimal competitive advantages. However as argued by Wright (2004), firms that are endowed with great capabilities and resources are likely to attain relatively more competitive advantages. This may mean that the organization has the ability of exploiting its capabilities and resources; because only when valuable

capabilities and resources that have potential are effectively utilized can a firm achieve competitive advantages.

Penrose (1959) argues that the services resulting from resources are a function of the way in which they are utilized. To be able to effectively deploy, or take advantage of a resource, an organization should make use of the appropriate capabilities that means that a firm should have capacity to deploy resources. Hence, whereas a certain resource possibly will have the latent to give rise to a valuable service, that service will remain potential awaiting being utilized through an appropriate means (Amit & Schoemaker 2003).

Resources and capabilities are usually combined simultaneously to help attain competitive advantage. Penrose (1959) further argues that resources or capabilities cannot be of any use by themselves; for them to be efficient they must be used in possible combinations with other resources or capabilities. Makadok (2001) suggests that firms may gain a competitive edge by opting for better resources than competing firms and also by utilizing them more effectively with the right capabilities. Makadok further argues even if the firm's capabilities are great, they might not produce revenue if the firm does not obtain the resources whose productivity would be improved by its capabilities.

Hence despite the fact that a resource or capability might have remarkable latent value, that value can just be realized when it is pooled with an equivalent capability or resource. Given that resources and capabilities are not productive in seclusion the key to attaining a competitive advantage is not just the utilization of a valuable resource or a valuable capability, but rather the utilization of a valuable resource-capability mixture. Furthermore the more valuable the firm's resource-capability combinations, the greater the advantage it will derive as a result of their utilization (Makadok, 2001).

1.2 Rarity

According to Barney (2002) for firms to achieve competitive advantage, they should utilize market opportunity, achieve a cost level and/or counteract a threat that their competitors cannot. However organizations are not likely to attain these results if the resources and capabilities they use are widely held. As an alternative competitive advantage can only be derived from the use of capabilities and resources that are rare, or possessed by a significantly small number of firms in an industry.

Barney (2002) further asserts that for rareness to contribute to competitive advantage there must be a level of resource-capability combinations meaning that resources and capabilities must be utilized in combination, if exploited individually they may not yield rareness. This supports the criterion that exclusivity applies to resource bundles, signifying that if a specific bundle of resources and capabilities is widespread then a large numbers of organizations will be capable of implementing the resulting strategy, thus reducing the advantage to be earned from it by each firm.

Beardwell and Claydon (2007) however argue that organizations must not necessarily have resources and capabilities that are rare in order for them to attain competitive advantage. For instance, if an organization possesses the ability that no other firm does such as a patented chemical process, it is not necessary for it to possess equally rare resources in order to translate that capability's latent value into a competitive advantage. The mere fact that this patented process is intended to influence widely obtainable raw materials such as obviously occurring chemical compounds, the firm may still enjoy a competitive advantage more than its competitors given that its rare capability allows it to exploit common resources differently than other firms.

1.3 Inimitability

According to Beardwell and Claydon (2007) if an organization's human resources add value and are rare, they can provide competitive advantage in the short term, but if other firms can imitate these characteristics, then over time competitive advantage may be lost and replaced with competitive parity. Human Resources should therefore develop and nurture characteristics that cannot be easily imitated by the organization's competitors.

According to Barney and Wright (2008) if a resource itself, or its benefit, can be imitated across firms, then it can only be a source of competitive parity, not competitive advantage. They further recognize the significance of socially complex phenomena, such as an organization's unique history and culture, which can be used to identify unique practices and behaviors which enable organizations to leapfrog their competitors.

According to Cardeal and Antonio (2012) Resources tend to be more difficult to imitate if: they are path dependent; there is an ambiguous relationship between the resources that enhances competitive advantage; they are socially complex, for example, if they are beyond the ability of firms to manage and manipulate them in a systematic way ; there are legal property rights, such as in the case of patents and

if the process of their imitation by other companies is lengthy, for example due to the time needed to train employees or to absorb the knowledge necessary to master the resource.

1.4 Organization

Organizations need to ensure that they are organized so that they can capitalize on, adding value, rarity and inimitability. This implies a focus on horizontal integration, or integrated, coherent systems of HR practices rather than individual practices, that enable employees to reach their potential (Gratton, 1999). This requires organizations to ensure that their policies and practices in the HR functional areas are coordinated and coherent, and not contradictory.

Cardeal and Antonio (2012) argues that competitive advantage stems from the way firms operate and interrelate their strategic and non-strategic resources, exploiting organizational processes, to produce what can be regarded as intermediate products between primary resources and the firm's final products.

2. Research Problem

The empirical literature in this study also highlights that most of these research work examining the relationship between training and an organization's performance have been carried out generally in a few developed countries like United Kingdom and United States (Purcell, 2003; Guest, 2003; Marchington & Wilkinson, 2007; Grant, 2008). According to Katou and Budhwar (2007) it is not clear whether training will work evenly well no matter the background. There is need to fill this gap and to additional look at the existence of such a relationship in other contexts particularly in the African context.

While most empirical literature covered in this study looks at the direct relationship between training and organizational performance, thus gaining support from the contingency perspective, the gap is to show whether HR capabilities have mediating effects on the relation between training and organizational performance. It is against this backdrop of limited empirical research that this study seeks to provide empirical evidence on the mediating role of human resource capabilities on the relationship between training and performance in parastatals in Kenya.

3. Significance of the Study

This study contributes to the transformation of parastatals so that they can completely be involved in the process of economic growth and development. The study also provides some insights and practical

implications to HRM practitioners and line managers about training in Kenya. It helps them cope with innovation needs, for a firms sustained and enhanced growth. This enables firms to keep pace with the rapid environmental changes associated with globalization.

In spite of the assertion that training practices are universally appropriate majority of the research on the relationship training and organizational performance has been carried out in private sector firms, and little is known about this relationship in public sector firms. This study contributes in showing the extent to which values and internal environment in public-sector has considerable implications for how training is practiced in parastatals.

Finally the current study investigates both the mediating role of HR capabilities on the relationship between training and organizational performance. Most of the previous studies show a direct relationship between training and organizational performance.

4. Literature Review

4.1 *Theoretical Review*

This study was underpinned by the resource based view theory. The Resource Based View (RBV) theory is founded on the work of Penrose (1959), others who have extended the theory include, Wernerfelt's (1984), Rumelt (1984), Barney (1996), and Dierickx & Cool (1989). The RBV theory is currently predominantly used by researchers studying SHRM (Wright, Dunford, & Snell, 2001). Barney (1991) posits that an organization gains competitive advantage by not only acquiring but also developing, putting together, and effectively deploying its physical, human, and organizational resources in techniques that put in unique value and that are difficult for competitors to imitate. The resource based view states that competitive advantage comes from the internal resources that are owned by a firm (Wernerfelt, 2004).

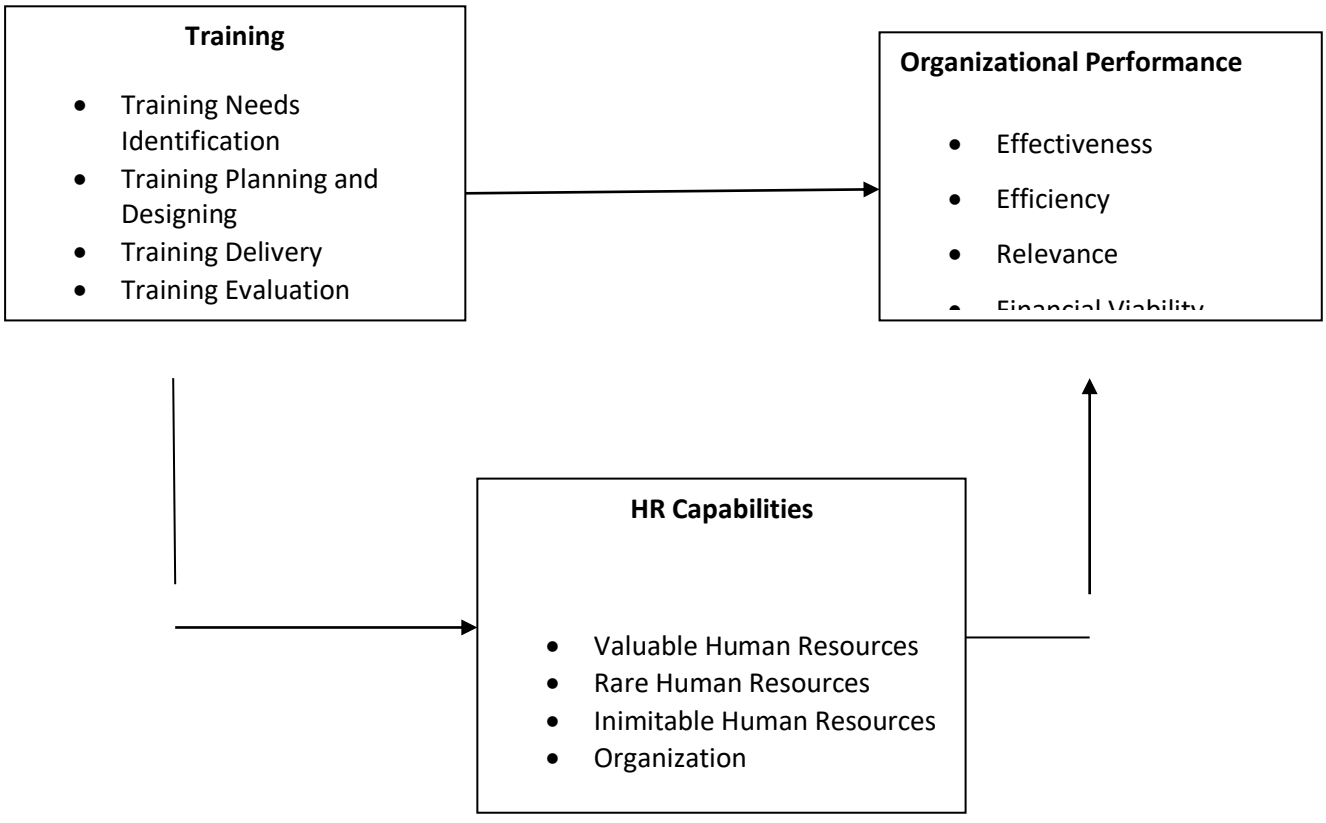
The RBV is concerned with the connection between internal resources, strategy and the performance of the organization. It focuses on the encouragement of sustained competitive advantage through the development of human capital rather than just aligning human resources to current strategic goals (Torrington, 2005). The argument that resources internal to an organization can result to competitive advantage is a shift from earlier suggestions of strategy which focuses on the external environment and such factors as customers, industry, and competitors (Miles & Snow 2004; Porter 2005). The RBV provides a theoretical

enlightenment of how the human resources of an organization can add to performance and competitive advantage.

According to Wright, McMahan, and McWilliams (2004), resources that are valuable, rare, inimitable and non-substitutable lead to competitive advantage. It is the human resources of an organization that make up the resource that leads to competitive advantage. From this outlook HR practices or HR systems possibly will without difficulty be duplicated by other organizations and only the knowledge skills and abilities possessed by individuals within a firm would meet the criterion outlined by Barney (1991).

4.2 *Conceptualization and Hypothesis*

The conceptual model presented in Figure 1 captures the relationships between and among the study variables underpinning training, HR capabilities, and organizational performance.



The conceptual framework illustrated in figure 1 was based on the integration of several organizational theories that explains the relationship between training and organizational performance.

Training which the independent variable of the study is proposed to influence organizational performance. HR capabilities (value, rarity, inimitability and organization) were treated while Organizational performance (effectiveness, efficiency, relevance and financial viability) was the dependent variable.

The following hypotheses which are stated in their null form were tested in this research work:

H_{01} There is no relationship between training and performance of parastatals in Kenya.

H_{02} HR capabilities have no mediating effect on the relationship between training performance of parastatals in Kenya.

5. Methodology

According to Saunders, Lewis and Thornhill (2007) no single design exists in isolation. They argue that combining different designs in one study enables triangulation and increases the validity of the findings. Therefore the current study used a combination of descriptive research design and explanatory research using cross-sectional survey design. Descriptive research design affords the researcher an opportunity to capture a population's characteristic and test hypothesis (Cooper & Schindler 2008). Further, the researcher has no control of the variables in the sense of being able to manipulate them hence guarding against bias. The explanatory research design looks for explanations on the nature of certain relationships and investigates the cause effect relationship between variables (Saunders, 2009). According to Zikmund (2003) surveys provide a quick and accurate means of assessing information if properly conducted. A survey also attempts to quantify social phenomena particularly on issues, conditions or problems that are prevalent in the society.

To ensure that the results of the multiple linear regression analysis were reliable several tests on the basic assumptions about the population from where the data had been derived were conducted.

One of the most important assumption underlying multivariate analyses is the normality of data. Normality refers to the extent to which the distribution of the sample data corresponds to the normal distribution (Hair, 2010). The researcher used the rule of thumb that a variable is reasonably close to normal if its skewness and kurtosis have values between -0.1 and + 0.1 as recommended by Myoung (2008). Normality test is important because regression model estimation methods are based on an assumption of normality since

normally distributed data ensures that the data is fit for further statistical analysis and does not result to inflated statistics and under- estimated standard errors Field (2009).

Linearity means that the relationship between the explanatory variables and the outcome variable is linear. In other words, each increase by one unit in an explanatory variable is associated with a fixed increase in the outcome variable. The Pearson's correlation coefficient was used to test the linearity of the relationship between the variables as recommended by (Yount, 2000; Wooldridge, 2000). Further correlation coefficient shows the strength as well as the direction of the linear relationship; a negative correlation indicates a inverse relationship where an increase in one variable caused a decrease in the other while a positive correlation indicates a direct influence, where an increase in one variable causes an increase in the other variable (Field, 2009).

Multicollinearity refers to the linear correlation among variables. To check for correlated variables, multi-collinearity was tested using variance inflation factor (VIF). A VIF value of above 5 indicates presence of multi-collinearity, and a mean VIF above 2 indicate the presence of multicolliniarity hence should be of concern (Hair *et al.*, 2010). In addition, multi-collinearity was done to enable identification of variables with a high correlation among themselves. Multi-collinearity creates a problem for multiple regression models given that as collinearity increases the standard error of coefficients also increases making them less reliable.

Homoscedasticity refers to the assumption that the dependent variable exhibits similar amounts of variance across the range of values for an independent variable (Hair *et al,*. 2010). To test for the homogeneity of variance the Breush-Pagan test was conducted as recommended by Warner (2008). Where the Breusch-Pagan null hypothesis states that there is constant of error term. Further, Warner (2008) recommends that the probability value should be greater than .05 to meet the homoscedacisticity assumption to allow the regression model for further analysis.

6. Results and discussion

The researcher distributed 370 questionnaires, out of which 268 were received from the field. This represented an overall successful response rate of 72.1%. The rest (27.8%) consisted of those questionnaires that were never returned. According to Wimmer and Dominick (2006), a response rate of 21% – 70% is acceptable for self-administered questionnaires. It guarantees accuracy and minimizes bias. Rogelberg and

Stanton (2007) assert that when cross – sectional studies of survey design are conducted at the individual level, the expected response rate is 50%.

Managers were asked to rate training on a scale of 1 to 5. Where 5 represents 'to a very great extent' and 1 'not at all'. The overall aggregate mean score for this section stands at 4.2276 and the standard deviation at 1.07275. This implies that on average the managers affirmed that training offered was relevant to employees' jobs, and this is aimed at improving organizational performance. This supported the statement suggesting that training is aimed at improving organizational performance with the highest mean score of 4.6978 and a standard deviation of 0.61965. One of the items 'training for problem – solving' scored relatively low, with a mean of 3.6791 and a standard deviation of 1.22765. This may be explained by the fact that employees in parastatals are mostly involved in solving routine problems not complex ones.

The findings are in agreement with the assertion by Katou and Budwar (2007), that there has been a growing recognition of the importance of training as a source of sustained competitive advantage as employers introduce more skills-specific forms of training to deal with skills shortages in certain areas.

4.4.5 Human Resource Capabilities

The respondents were required to rate their level of agreement or disagreement with the statements pertaining to human resource capabilities on a scale of 1 to 5. Where 5 represents 'strongly agree' and 1 'strongly disagree'. The overall aggregate mean score for this section stands at 4.0610 and the standard deviation at 1.02584. This indicates that the parastatals have human resource capabilities that are valuable, rare, inimitable and organized. The aggregated parameters for the sub-variables of human resource capabilities are value with mean score of 4.2174 and a standard deviation of 0.81799, rareness with a mean score of 3.8134 and a standard deviation of 1.00149, inimitability with a mean score of 3.7938 and standard deviation of 1.25968 and organization with a mean score of 4.4195 and a standard deviation of 1.02418. Hence the sub – variable organization and value contribute somewhat highly each to human resource capabilities according to the study measurement scale. Rareness and inimitability make average contribution to human resource capabilities, on the measurement scale.

The findings support the argument by (Wright, 1998; Rangone, 1999) which indicates that one of the key competitive advantages of the organization is its human resources capabilities, which facilitate the production of organizational effectiveness, and high performance of the organization. Thus, any venture in

increasing human resource capabilities ought to be considered crucial to the improvement of the firm's performance.

The first objective sought to investigate the relationship between training and performance of Parastatals in Kenya. A null hypothesis H_{01} was formulated with the assumption that there is no relationship between training and performance of parastatals in Kenya. Table 4.12 shows that the coefficient of training was 0.613. The beta value for training is 0.613. This indicates that a unit increase in training would result in 61.3% increase in organizational performance value in a direct relationship between training and performance of parastatals in Kenya. The t-statistic and corresponding p-value were 9.46 and 0.000 respectively. Therefore, at one percent level of significance the null hypothesis is not supported implying that training has a significant influence on performance of Parastatals in Kenya. On the basis of these statistics, the study concludes that there is significant positive relationship between training and performance of parastatals in Kenya.

The fifth objective sought to determine whether human resource capabilities mediate on the relationship between SHRM practices and performance of Parastatals. To this end, a null hypothesis H_{05} assuming that human resource capabilities had no mediating effect on the relationship between SHRM practices and performance of Parastatals in Kenya was formulated. To test the hypothesis three a composite index of the SHRM practices was computed. To establish the mediation effect Baron and Kenny's causal step approach was used. The first step involved testing the relationship between SHRM practices and organization performance which was found to be statistically significant:

Thus it is observed that the relationship between SHRM practices and organizational performance depends on the HR capabilities. The null hypothesis was therefore not supported and the study concludes that HR capabilities mediate the relationship between SHRM practices and performance of parastatals in Kenya.

7. Summary and Conclusion

Governments owned enterprises are not famous for efficiency. Though no one can be certain of this until the matter has been properly researched, casual observation suggests that most economists probably believe that government enterprises are less efficient than enterprises in the market sector of society. In Kenya the performance of parastatals has been a matter of on-going concern in an environment of scarce resources and increasing needs. Yet parastatals are expected to continue playing an important role in the development

process of the country. If Kenya is to achieve the goals set forth in Vision 2030, a transformational mindset in the way government business is conducted is required.

Training as a SHRM practice was found to be positive and significant in contributing towards organizational performance. Hence HR managers should offer different types of trainings to their staff. Training offered to employees' should also be relevant to their jobs since Kenya's global competitiveness will depend on the ability to create a human resource base that that has the prerequisite skills and knowledge. Lastly HR managers should ensure that their organizations link the training they offer with the company's business strategy.

On human resource capabilities which were found to partially mediate the relationship between SHRM practices and organizational performance, HR managers should recognize the contribution of HR capabilities to organizational success. Identifying the source of competitive advantage with the entire organization and not a single department or leader is the first step toward effective development and utilization of these capabilities. The HR managers should ensure they acquire human resource that is able to exploit environmental opportunities as well as neutralize environmental threats. They should also make sure that the resources used to make their products or services in the firm are rare and patented to make them inimitable.

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Fakhar Ul Afaq, Anwar Khan (2008), "Case of Pearl Continental hotels in Pakistan, Relationship of training with Employees' Performance in Hoteling Industry.

Impact of CBK Prudential Guidelines on MFI Operations in Kenya

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ISBN 978-9966-132-53-6 @ Copy Right .2019

Abstract

Microfinance institutions in Kenya are currently registered under eight different Acts of Parliament; The Non Governmental Organizations (NGO) Co-ordination Act, the Building ocieties Act, the Trustee Act, the Societies Act, the Co-operative Societies Act, The Companies Act , the Banking Act and the Kenya Post Office Savings Bank (KPOSB) Act. Some of these forms or registrations do not address issues regarding ownership, governance, and accountability. They have also contributed to a large extent to the poor performance and eventual demise of many MFIs because of a lack of appropriate regulatory oversight. This paper aims to identify whether the absence of a regulatory framework has had any effect on the outreach and sustainability of microfinance in Kenya. This paper concludes that that the major challenge hindering outreach and sustainability of micro finance institutions in Kenya is lack of specific legislation and set of egulation to guide the operation of microfinance subsector. Also, the paper creates a platform where further insight can be provided through empirical research .

Keywords: ***MFI, MFI Regulations, Prudential guidelines, CBK, Guidelines, Microfinance.***

I. INTRODUCTION

According to Goodhart et al. (1998) The objectives of financial regulation cited in the literature are four-fold, viz.: (1) to protect consumers or investors; (2) to ensure the solvency and financial soundness of financial institutions; (3) to promote fairness, efficiency and transparency in the securities markets; and (4) to promote a stable financial system. the important role played by the financial system dictates that financial institutions need to be regulated for three main reasons, viz: consumer protection, stability of the financial system, and maximizing efficiency

Micro finance constitutes a wide range of practitioners, practices and body of knowledge. Hospes, Musinga and Ong'ayo (2002), observed that two approaches are generally used to categorize the different providers of micro finance services in Kenya. Firstly, they are categorized on the basis of formality where providers are categorized as formal, semi-formal or informal depending of the extent to which the provider is registered and regulated under formal law and transactions are governed under the various statutes of the law of contract or rather by self-regulation or group-based rules. The second categorization is based on the customer/provider relationship in the management and ownership of the financial service-providing entity. Under this categorization, micro finance providers could be dichotomized into client-based micro finance agencies (CMFAs) and member-based microfinance agencies (MMFAs).

Kenya with a projected population of 51.3 Million by 2025 and a per capita income of US $1240 is categorized by the World Bank to be among the poorest countries in the world (WorldBank, 2009).

Muhota (2008) argues that Kenya's development challenge remains in finding sustainable poverty eradication strategies. Micro and small enterprises have been seen as one of the strategies that can bring faster development. Micro finance institutions therefore play a big role in financing the micro and small enterprises for faster development. Micro and finance enterprises are also highly rated for employment creation. They are therefore important in Kenya where unemployment and underemployment are estimated at between 25% and 35% respectively. On this basis, micro finance has played a leading role in Kenya in poverty alleviation. On the other hand, lack of operation regulations in Kenyan micro-finance has resulted to a messy environment with much uncertainty and change (Fisher and Sriram, 2002). Through such disorder, several pyramid schemes have cropped up operating under the banner of MFIs and try to offer financial services to meet the poor population

The regulation and supervision of MFIs however, is a double-edged sword. On the one hand, there are limitations in the ability of public regulatory authorities to provide adequate oversight over MFIs. Innovative players in the industry such as Equity bank that has since transformed into a bank could not have occurred by placing premature and costly regulations on MFI activity. On the other hand, the lack of a regulatory and a supervisory framework can place the microfinance sector in a vulnerable situation. Absence of such a system weakens their credibility as institutions offering deposit protection with the same standards of prudence as other formal financial intermediaries, and could also hamper their ability to raise other forms of capital such as bank borrowings and equity offerings. An appropriate regulatory and supervisory framework would not only overcome reputational challenges MFIs would generally face, it would also strengthen their institutional capacity (Sharif, I et al, 2001)

II. STATEMENT OF THE PROBLEM

Omino (2005), argues that the major challenge hindering outreach and sustainability of microfinance institutions in Kenya has been lack of specific legislation and set of regulations to guide the operations of the microfinance sub-sector (Omino, 2005). Currently, the Deposit-Taking Microfinance bill in Kenya was enacted in parliament. A task force that was established in 2003 had proposed a three-tier framework for the regulation and supervision of MFIs. The first tier would comprise formally constituted MFIs that intend to take intermediate deposits from the general public. The prudential guidelines was meant to empower the Central Bank through the Microfinance Bill to license, regulate, and supervise these institutions in the first tier. The second tier are to comprise formally constituted microfinance organizations that do not take deposits from the general public but accept collateral tied to loan contracts. It is proposed that an umbrella body such as the Association of Microfinance Institutions (AMFI) regulate them. Tier three is to comprise Rotating Savings and Credit Associations (ROSCAs), club pools, and financial service associations regulated by an external agency.

Though efforts have been made by the government, AMFI as well as other players in the industry to prepare MFI institutions for the enactment of the law, there seems to be lack of preparedness by the MFIs in the implementation of the prudential guidelines. Since limited studies have been done to assess whether lack of regulatory framework has been a major hindrance to outreach and sustainability of MFIs as well as studies on preparedness of MFIs to on deposit taking MFIs on the implementation of CBK prudential guidelines, this paper attempted to shade more light in this line. The

purpose of this research was to identify whether the absence of a regulatory framework has had any effect on the outreach and sustainability of microfinance in Kenya.

III. THEORETICAL REVIEW

There are limited theories in financial regulations. Studies of regulation, whether theoretical or empirical, normally fall into three areas: price and entry regulation in industries with competitive market structures, price and entry regulation in monopolistic industries, and (for want of a better term) "qualitative" regulation, which attempts to cope with various kinds of market-failure problems that are only indirectly linked to prices, profits, and market structure.

IV. EMPIRICAL LITERATURE

A. Outreach Challenges and Sustainability

Gaama (2006) observes that the sustainability of over two thirds of MFIs in Africa are far from reach with reason brought forth as having revenues on average as low as 30-40 percent of the actual operating expenses, with transaction costs inflated by high administrative costs and expatriate expenses draining program funds. For lending to be effective, microfinance must reach a wider coverage since majority of the Kenya's poor populace reside in the rural areas. Kathuri (2006), on the other hand noted that the CBK is expected to prudentially regulate the microfinance institutions so that sustainability can be achieved as microfinance institutions will be allowed to widen their sources of funding to include mobilization of savings from the public at a cost that is relatively lower than the prevailing lending rates in the market and be run efficiently

Since outreach is an ultimate goal for micro-finance operations, three approaches can be used to achieve this goal. The first measure for outreach can be through the expansion of the geographical coverage and range of services and/or products offered which could lead to an increase in number of clients and/or

members served though more human, physical and financial resources would be required. Secondly, advocacy and partnership with other organizations working for the same cause can be adopted which is a strategy that does not require an organization to increase its human, financial and physical resources, as it will be leveraging the resources already available in other organizations. Thirdly, microfinance operations may be restructured, such as through merger & acquisition, franchising, linkage with or downscaling of mainstream financial institutions or transformation from NGO to regulated financial institution (Gaama, 2006).

Available data suggest that outreach to micro- and small enterprises (MSEs) has been likewise very limited: the national survey of MSEs in Kenya held by the Central Bureau for Statistics estimated that only 10.4% of the total number of about 1.3 million MSE proprietors have ever received credit from any source (CBS/ICEG/K-REP 1999). Though not specifying what is meant with "important", the baseline survey qualifies NGOs as the most important source of credit for MSEs: the 130 NGOs with credit programmes, together have reached 2.8% (or about 36,000) of the MSEs with their credit services. Given the outreach scores of other types of providers, this is not bad but still very low in absolute terms. Instead of using the qualification "most important", it would be better to speak of the best of the poor performers in this connection. Having said this, the next "popular" source according to the CBS baselines survey, are ROSCAs that have reached 2.5% of the MSEs. The outreach of cooperatives is estimated at a low 1.2%, which is less than half of the outreach of the group of NGOs or ROSCAs, but might be explained by the bias in service provision of cooperatives towards cash-crop farmers. Commercial banks and family and friends take an in-between position, each having reached 1.5% of the MSEs (Hospes et. Al,2002).

The total number of clients reached by MFIs as well as NGO in 1999 was not really impressive, when considering the total population of nearly 30 million people of Kenya and the estimated total of 1.3 million micro and small enterprises. Some argued that this was to do with the limited sources for on-lending to micro finance NGOs from donors. On the other hand, distribution of these MFIs and NGOs is skewed in favor of urban areas, wealthier rural areas and busy rural markets (like Nyeri in central Kenya) connected to main roads, thus leaving a whole spectrum of poor people living in marginal areas with no access to their credit and other financial services(Hospes et. Al, 2002).

Many development NGOs have gained further power by expanding the scope of their financial transactions and taking over various profit-making economic enterprises. Bangladesh is one of the success stories in

micro finance lending, key factor being the partnership with foreign aids and donors. To begin with, large Bangladesh NGOS such as Grameen Bank, BRAC, ASA, and Proshika have received significant financial assistance from the World Bank, the Asian Development Bank, the European Commission, UN International Fund for Agricultural Development, UN Capital Development Fund, UNDP, Unicef, and Unesco (ASA, 2001). In addition, Grameen Bank and BRAC have received funds from the above mentioned bilateral agencies and various private foundations like the Ford, the Rockefeller, and the McArthur (GBSG, 2000).

Additionally, for MFI to achieve high profitability levels requires attention to four key elements: client demand, efficient operations, high portfolio quality and yield on portfolio (USAID, 1999). USAID report continues to add that, Successful microfinance institutions should keep loan losses to about 1.2 to 1.4 percent of ongoing expenses; this must be covered by interest rates. Maintaining a high portfolio quality requires a lot of effort, with immediate follow-up on delinquencies and the ability to track them instantly. An effective management information system (MIS) can be essential. Oji (2005) also found out that if MFIs acquire the necessary technologies, equipment and machinery for their operations they will enhance their productivity; increase their rate of output, competitiveness, and profitability. Consequently, they will repay their loans, expand their operations, employ more resources (including labor) and thereby request for bigger loans.

Most Successful Microfinance have changed their organization culture and gone extra mile in marketing themselves. Kamal (2000) talks of Large NGOs in Bangladesh such as Proshika and BRAC having engaged in directly advocating and lobbying for their respective objectives and policy agendas with the government. The poorer sections of society also use NGOs as an articulate lobby in pursuing their welfare interests. The direct work experience of development NGOs with the poor gives them additional leverage over the government to shape public opinion in favor of their espoused objectives and policies.

Micro finance in Bangladesh have gone an extra mile and played strategic alliances with the government in the strategic plans implementations. Evident of this is the growing recognition of NGOs in the two national development plans, including the Second Five Year Plan (1980-85) and the Third Five Year Plan (1985-90). Many NGOS were increasingly considered as collaborative partners of the government to implement programs undertaken in both the Fourth Five Year Plan (1990-95) during the BNP rule under Khaleda

(1991-96) and the Fifth Five Year Plan (1995-2000) during the Awami League government under Sheikh Hasina (Kabir, 2000).

Credits are the dominant products for most MFIs. Moussa(2007) found out that the major impediment to outreach is the legal requirement for NGOs to have all cheques for loan disbursements signed by the chairman of the board (or a delegate thereof) and the treasurer. As NGOs continue to expand, the volume of transactions will increase significantly, and unless more appropriate procedures are instituted, delays in processing loans will become inordinate. To address this issue, the MFIs asked for a revision of the Executive Regulations of the NGO law to also give an MFI's Executive Director or the Microfinance Activity Manager authority to endorse checks in order to speed the process of loan disbursement.

Many development NGOs have gained further power by expanding the scope of their financial transactions and taking over various profit-making economic enterprises. Bangladesh NGOs are now involved in such business contracts and profit making enterprises. For example, BRAC ventured into printing presses, cold storage, garment manufacturing, retail outlets, and milk products (Daily Star, 1999). Similarly, Grameen Bank and Proshika are now into businesses such as banking, garments, shopping complexes, telephone systems, transport services, cold storage, fisheries projects, fertilizers, deep-tubewells, and biotechnology (GBSG, 2000). Such extensive business ventures undertaken by these NGOs not only make them financially independent of the government, but also enable them to influence government policies in the relevant economic sectors (Islam, 1999)

B. Policies and Regulation

USAID (1999) proceedings found out that, creating an enabling environment for microfinance includes a regulatory framework that allows banks and MFIs to charge interest rates that cover costs. In Uganda, interest rates were liberalized in 1994 and as a result, the microfinance industry has bloomed in recent years. In South Africa, however, the Usury Act has established an interest rate ceiling that has hampered the indigenous microfinance industry. The Usury Act was enacted in South Africa in 1968 with the claimed objective of protecting the poor from being exploited. By capping interest rates, however, the Act had limited credit access for the poor by making it practically impossible for lenders to recover the costs of making micro loans. As a result, the poor have been forced into the informal financial market or into

commercial credit where the retailer can be compensated for real costs, and where the consumers will pay a higher price for credit.

A significant step in the development of the microfinance industry in Kenya was the enactment of the Microfinance Act in December 2006. The introduction was meant to enhance the performance of this sector by putting in place the necessary laws and regulatory framework for the establishment, licensing and supervision of deposit-taking microfinance institutions, focused on providing services and products to low income households and enterprises. The overriding rationale for microfinance regulation and supervision was to create an enabling environment that will promote the performance and sustainability of deposit taking microfinance institutions, while at the same time protecting depositor's interests. The Act envisages two tiers of microfinance institutions, i.e. nationwide microfinance institutions whose minimum core capital is prescribed at Ksh 60 million, and community microfinance institutions with a minimum core capital of Ksh 20 million (CBK, 2007).

Rhyne (2002) in a study in a number of institutions involved were overwhelmingly pleased to be regulated. All report that the benefits of being regulated outweigh the costs. None would even begin to contemplate reverting to their NGO status. This message is highly significant. It means that even when debates over specifics of regulation become heated, the underlying fundamentals are there. The process of becoming regulated has brought microfinance institutions the benefits of; greater access to sources of funds for both equity and debt, especially commercial sources, ability to achieve growth and quantitative outreach goals to serve more people, improved and more professional operations through meeting higher standards of control and reporting, greater ability to offer products beyond microcredit, especially savings and transfers as well as enhanced legitimacy in the financial sector and with clients

An institutional transformation of micro-finance NGOs into a regulated financial institutions (RFI) is embraced as one of the most effective strategies for achieving a significant scale by offering a wider range of services, accessing commercial sources of capital and improving operational efficiency through enhanced systems, controls and transparency in reporting that would result from links to regulators and other banking expertise (Campion and White 1999)

Microfinance today seems to find itself in the midst of a rush to regulate. There is no shortage of people willing to offer views on when and how to do it. But all of them, including the research authors, suffer from

the same handicap: experimentation with microfinance supervision whereas the subject is so recent that we can't rely much on its historical results to guide us. The problems of bank supervisors in poor countries may not sound like a "visionary" place to start. The most carefully conceived regulations will be useless, or worse, if they can't be enforced by effective supervision. If a bank supervisor displays resistance to adding MFIs—mostly small, mostly new, mostly weak on profitability—to her basket of responsibilities, we should recognize that her reasons may be nobler than narrow-mindedness or lack of concern for the poor (Christen and Richard Rosenberg, 1999). In Kenya, like in many other countries, approaches to the regulation of MFIs are complicated by the fact that many institutions are involved in providing microfinance services under different legal structures. This presents a challenge in identifying an appropriate regulatory approach, which is conducive to the development of the sector while providing adequate flexibility to microfinance activities (Omino, 2005).

C. Knowledge and Understanding

The Government of Kenya recognizes that greater access to, and sustainable flow of financial services, particularly credit, to the low-income households and MSEs is critical to poverty alleviation. An appropriate policy, legal and regulatory framework to promote a viable and sustainable system of microfinance in Kenya has been developed via the proposed Deposit Taking Micro Finance Bill. In drafting the Bill, the Government consulted with stakeholders to get their views on the best way to create the required enabling environment for the microfinance sub-sector. In addition, full-fledged microfinance units have been established in the Ministry of Finance (the Treasury) and the Central Bank of Kenya to formulate policies and procedures to address the challenges facing microfinance institutions, especially in the rural areas, and to build a database to facilitate better regulation and monitoring of their operations (Omino, G. 2005)

According to the MFI prudential regulations, Micro-Finance Institutions (MFIs) will always be required to maintain a liquidity ratio of 20 per cent of all their liabilities. On the other hand, MFIs with offices throughout the country will be required to have a capital base of KE60 million while those confined to a community will have KE20 million (Central Bank of Kenya, 2007). On the sale shares owned by the deposit-taking MFI, not more than 10 per cent of the shares will be allowed unless with approval of CBK. One aspect which that is also critical from in proposed regulations is the provision for external auditing of the deposit-taking MFIs. The auditors will be required to communicate any evidence of any noted irregularities or illegal acts by any officer of the institution. On share acquisition, the proposal go forward

by proposing that deposit-taking micro-finance are expected to seek the approval of the Finance minister for any acquisition of more than 25 per cent of their shares(CBK,2007)

Additionally, under the guidelines, deposit-taking MFIs from time to time will be required to make disclosures like those currently provided to banks. Loans will be classified as normal, under watch, sub-standard doubtful and loss depending on the anticipated level of default. The provisions for bad debts attached to the five categories are one per cent, five per cent, twenty five per cent, fifty percent, seventy five percent and one hundred percent. The regulations also forbid MFIs from offering certain financial services such as issuing of third party cheques, operating current accounts, foreign exchange trading, investing in enterprise capital, wholesale or retail trade, underwriting or placement of shares as well as acquisition of land and building except as is necessary for carrying out business.

It is worth noting that staff involved in MFI regulation just like in any other discipline should have professional understanding and experience in microfinance. The set of skills required of staff will change as NGOs transform into regulated financial institutions. Whether the organization chooses to hire additional bankers, re-train its existing staff, or to apply a combination of the two, MFIs need to be aware of the significant amount of time and money required (Campion and White 1999)

Wa Kimotho (2007) argues that full knowledge and understanding of operations and regulation of microfinance banks that fall under central banks, is not a core competence of the Central Bank in any country. Acquiring and gaining such knowledge and understanding is a slow process, takes much effort and it often has a step learning curve. Therefore, systematic, strategic, well co-ordinated and focused capacity building programmes must be put in place, at the earliest time, to close any skill gaps noted and the efforts continue to be maintained to ensure measurable results. Coordinated donor support, understanding and goodwill are essential and key to the success of these programmes. Such programmes would enable all the institutions engaged in microfinance activities, to achieve wide outreach within a minimum period and without sacrificing the portfolio quality. These programmes would, also, enable the CBK staff to regulate and supervise these new institutions with efficiency and confidence.

Microfinance institutions are likely to continue to have owners and managers who do not fit standard expectations. They do not, however, automatically fail the “fit and proper” test, as many bring compensating factors to the table, in terms of specialized knowledge, deep long-term commitment,

reputation risk, etc. This is an area where flexibility is appropriate, and as regulators become more familiar with the microfinance sector, they are likely to become more comfortable making judgments about the suitability of individual players (Rhyne, 2002).

V. FINDINGS

The research utilized descriptive design where a population of micro-finance institutions was asked the same questions in order to eliminate the biasness that could arise from the characteristics of the elements under study. The total sample population comprised 60 micro finance institutions distributed all over Kenya, with most of them having their head offices in Nairobi. Questionnaires were distributed to 33 institutions under the umbrella institution of Association of Micro Finance Institutions (AMFI). 25 respondents were received. The questionnaires were analyzed using descriptive tools and presented using tables and charts.

The study revealed that majority of respondents accounting to 60% of the respondent institutions had been in existence for more 15 years thus should have a higher outreach by now, the research found out that; only 12% of the respondents had a branch distribution in all the 8 provinces, majority accounting to 52% of the respondent institutions had a low clientele level of between 20,001-50,000 clients. While majority of the respondents institutions accounting to 32% had a main goal to alleviate poverty they we still charging higher interest rates and thus were raising funds through transaction fees and interest on loans Limited financial support plays a role in making most MFI unable to meet their objectives.

The study indicates that most respondent institutions accounting to 56% are registered limited companies by guarantee. This finding indicates that most microfinance institutions have no enough funding to enable sustainability and have a wider outreach as expected. It is worth noting that the registration outlined above has played a substantial role in the MFI operation. In terms of ownership, 48% of the respondents believed that the registration had a moderate impact on the operation of MFI. When asked about the role of AMFI and government in regard to the institutions supporting MFI on policy and regulation, most correspondents indicated that the two institutions had done a fair work. On the respondents that indicated that the government and AMFI had done a “good” support, 48% indicated AMFI and 12% indicated government.

Global bodies have done a magnificent role in helping MFI institutions acquire knowledge and skills on current prudential guidelines. This accounted to 48% of the respondents. It is unfortunate to note that

universities, seminars and research bodies have played a minimal or no role in supporting MFI institutions to acquire knowledge and skills in the prudential guidelines. There is need therefore for the research institutions and universities to work hand in hand to support MFIs understand the prudential guidelines. MFI have also done constructive efforts to ensure the knowledge and skills acquired are utilized to produce quality results. 64% of respondents indicated that continuous assessment was an effective tool to impart and asses the acquired knowledge and skills in prudential guidelines. It is inopportune to note that professional exam, internal examination and external audit which could play a bigger role in assessing the quality of knowledge and skills had actually nil respondents.

When asked about the areas the prudential guidelines address the current challenges faced by MFI, all the areas had a high response of "NO" by the respondents. Most respondents believed that the areas outlined on licensing, corporate governance, internal audits, prohibited business, capital adequacy, liquidity management etc were not satisfactorily addressing their challenges. It is also unfortunate to note that some respondents actually indicated " I don't know" on various aspects such as; licensing, capital adequacy, liquidity management and appointment of directors. With such a background, it clearly indicates that some MFI have not taken the guidelines as a critical tool for their sustainability and outreach.

VI. CONCLUSION

The purpose of this research was to identify whether the absence of a regulatory framework has had any effect on the outreach and sustainability of microfinance in Kenya. The following are the major conclusions based on the findings and discussions.

From the study, it can be concluded that, lack of a regulatory framework has been a major hindrance to outreach and sustainability of MFIs in Kenya. Other factors that have played a bigger role in making MFIs not able to attain sustainability are lack of product diversification, poor customer service and organizational culture. Another factor that was found critical is absence of donor funds and soft loans. Such challenges have made MFIs only be able to concentrate on major cities rather than concentrate in rural areas where a majority of the local communities live. Additionally, Microfinance institutions in Kenya are currently registered under different Acts of Parliament, it worth noting that this diverse legislation has had minimal impact on the operation of MFIs. Issues of governance, ownership, MFI image and accountability are still a

challenge to many MFIs. It therefore calls for a standardized regulatory that will apply across all the micro finance institutions in order to streamline the already messy environment.

Most MFIs aren't conversant with the contents of the CBK prudential guidelines. The current tools that are in place to disseminate information on prudential guidelines are not effective. Research bodies and universities which are key in knowledge exploration and imparting have played rear stand on contributing and supporting this crucial sector of the economy. There should be collaboration between MFI management, Universities, Research institutions, AMFI and the government to ensure that the MFIs are taught the need as well as the various aspects of the prudential guidelines.

Through capacity building, MFI should develop collaborations through AMFI which they can relook at their current policy and regulatory environment. They should understand that since the current regulatory environment has played an insignificant role in enhancing their operations, there is need to look at the loopholes in the current regulations and try to harmonize with the prudential on deposit-taking MFI prudential CBK guidelines. There is need also to develop and implement an integrated regulatory environment that will encompass both deposit-taking and non-deposit taking MFI. This was noted especially on non-deposit taking MFI and only a few of the ones interviewed have made progress by accepting deposits. Clear policies should be put in place to carter for both deposit and non-deposit taking MFIs to enable them acquire a competitive edge as well as curb against collapse of such institutions. MFI should increase their client base to ensure outreach and sustainability. Such measures should include use of innovative measures through application of technology to be able to reach the rural areas, improve customer services and aggressively put in place measures that ensure customer retention

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The influence of marketing strategies on performance of Kenya Airways.

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Abstract

The aim of this study was to investigate the influence of marketing strategies on the performance of Kenya Airways. A primary research methodology was adopted using questionnaires as instruments of data collection. The case structured questionnaires were distributed to employees, managers and directors of Kenya Airways in Nairobi Headquarters. Using a simple random sampling technique, a sample of 100

respondents were selected to participate in the study. Data collected was coded and entered into Statistical Package for Social Sciences (SPSS). Quantitative results were generated in form of descriptive statistics (frequencies, proportions, and standard deviations) and inferential statistics (regressions). A multiple regression model was used to test the relationship between independent and dependent variables. Further, the regression results included ANOVA and coefficient of variables respectively at 95% confidence level. Results obtained showed that marketing strategies have a positive and significant influence on performance in an organization. It was recommended that that the Kenya Airways management should implement suitable marketing strategies that can attract and maintain customers in order to improve company performance. Future studies should focus on a wider scope and in order to validate the findings from this study.

Key words: ***marketing strategies, performance, Kenya Airways, management.***

Introduction

Background

The ever-increasing competition in modern markets inspire companies to implement various performance improvement strategies. The frequency of poor performance in organizations has increased in the recent past, and unless steps are taken to address it, the severity of decline worsens to the point of financial distress where the firm is unable to satisfy its monetary obligations. One approach of addressing organizational non-performance is implementation of strong turnaround strategies particularly those oriented to marketing activities (Brooks, Weatherson and Wilknson, 2010). To determine if performance is improving or not improving, Brooks *et al.* (2010) recommend that business organizations ought to execute performance measurement. A number of metrics can be used by organizations to measure their performance. Such approaches include but they are not limited to the following; using balanced score cards, using financial forecasts and budgets for financial indicators and variance analysis, and employing strategic metrics as well as operational metrics especially for non-financial indicators among others (Inyange, 2014).

Performance management is a crucial aspect in modern businesses. Its centrality is founded on the observation that it determines the overall growth of an organization. Mutegi (2017a) strongly believes that performance management is usually perceived as the metrics under which an organization's overall growth can be assessed. Companies have a wide array of strategies of improving performance that they can select implement. One of the categories of these strategies is turnaround strategies. Turnaround strategies refer to those efforts and options organizations can explore to improve their performance and ensure that the results obtain depict their anticipations and goals respectively. Managers at various departmental levels such as marketing, human resource management, financial departments, production, and public relations among others are on the run to ensure that the strategic decisions made by entities more importantly at departmental levels are not only supporting the overall goal of an organization, but also improving performance in order to keep up with the pace of competition as well as market trends (Brooks *et al*., 2010). Types of turnaround strategies frequently used in the contemporary business world include competitive strategies, marketing strategies, human resource strategies, and financial strategies. However, most scholars and practitioners give attention to marketing strategies in the endeavours of performance improvement (Dann & Dann, 2011; Dicke, 2016; Charles & Anderson, 2016; Fraser & Hite, 2010).

Marketing strategies include aspects such as diversity marketing, relationship marketing, search engines use, and celebrity endorsement and increasingly becoming common in the modern business environment. Diversity marketing encompasses the adoption of various strategies which are used collectively to build on each other (Rogers, 2011; Hassan, Ullah, Sharif & Mukhtar, 2013). Moreover, relationship marketing was first defined as a form of marketing developed from direct response marketing campaigns which emphasizes customer retention and satisfaction, rather than a focus on sales transactions. Relationship marketing differs from other forms of marketing in that it recognizes the long term value of customer relationships and extends communication beyond intrusive advertising and sales promotional messages. With the growth of the internet and mobile platforms, relationship marketing has continued to evolve as technology opens more collaborative and social communication channels. This includes tools for managing relationships with customers that go beyond demographic and customer service data. Relationship marketing extends to include inbound marketing efforts, (a combination of search optimization and strategic content), PR, social media and application development. A part from relationship marketing, other forms of

marketing strategies that are important in airline industry include search engine optimisation and celebrity endorsement respectively (Inyange, 2014; Hill, 2013).

Problem

The airline industry has been under immense pressure over the past few years with regards to performance. Kenya Airways for instance has recorded losses for the last two consecutive years something which has not gone down well with a number of stakeholders in the industry (Kimotho, 2016). KQ's financial results for the financial year 2015/16 were one of the worst for its historical performances (Aglionby, 2016). The publication cited that the airline reported a net loss of Kshs. 26.2bn ($258m) for 2015-16, up from Kshs. 25.7bn in the previous financial year, as its results were hit by a series of one-off items including charges linked to a poor fuel hedging policy. Empirical studies have indicated that a company's future can be improved by adopting turnaround strategies (Rogers, 2011; Nderu, 2014; Mutegi, 2017b). However, research on how marketing strategies can improve performance of Kenya Airways is still inadequate. Due to existing gaps from previous studies on the impact of marketing strategies on performance, the current study will seek to explore how these strategies have benefited or not benefited Kenya Airways owing to its continued loss making as complained by shareholders and other stakeholders.

Aim

The general objective for this study is to investigate the turnaround strategies and performance in Kenya Airways.

Objectives

To investigate the influence of marketing strategies on performance of Kenya Airways.

Significance

The study will be of great importance to various stakeholders such as the management of Kenya Airways, the employees in Kenya Airways, the Government of Kenya and other shareholders, and the academicians respectively. The management of Kenya Airways will be able to benefit from this research because they will be able to understand the specific marketing strategies that they can implement to improve performance of the organization.

Literature Review

Theoretical Review

This study was anchored on the marketing theory. Marketing is a broad field with a number of models or theories that can be grouped together to explain the basic concepts behind marketing. The theory of marketing is founded on the premises of the philosophies that firms or companies utilize in turning around their performance strategies (Hunt, 2015). The philosophies are commonly referred to as the P's of marketing and they include product, price, promotion and price among others (Palmer, 2012). These philosophies are collectively referred to as marketing mix. A part from the marketing mix, marketing theory involves other strategies such as; channel marketing and viral marketing respectively (Dann and Dann, 2011). All these strategies are important because they collectively shape marketing theory and firms can utilize them in enhancing performance irrespective of the industry in which they belong, as opposed to those theories such as mass marketing that are industry specific depending on the nature of products and services being offered.

Firstly, the marketing mix strategy encourages organizations to consider factors that can directly or indirectly influence their business (Charles and Anderson, 2016). For example, it is important for a company to consider price in reference to their competitors as to whether it is reasonable, affordable and competitive. Secondly, place in which services and marketing efforts are carried out should be strategic in the sense that sales can be closed (Palmer, 2012). Using promotion serves to attract customers both existing and potential ones in order to achieve revenues targets. Additionally, the nature of product or service

offered to the market should be of high-quality in order to be able to satisfy customer needs (Charles and Anderson, 2016).

Secondly, "a basic marketing theory states that to maximize sales, a company must position its products or services in the marketplace in such a way that consumers believe they need a particular product for service or that a product or service they need has a particular benefit" (Dicke, 2016). This concept can be explained adequately using the channel marketing concept in the sense that where an organization such as KQ markets its services should be strategic with potential customer leads. Thirdly, the concept of viral marketing is based on a recent development in marketing theory and centers around the effects of technology on marketing products (Charles and Anderson, 2016). It involves the use of social marketing as a way of communicating in marketing using platforms such as emails, Twitter accounts, Facebook pages, and any other electronic or internet enabled platforms to reach customers.

Generally, the theory of marketing is important to this study since the main focus is to identify turnaround strategies that Kenya Airways can use to ensure that they improve performance that has been for a long time of a greater concern and worry to different stakeholders. For example, they can position their marketing strategies, charge reasonable prices as opposed to charging expensive tickets as already revealed in background of study, identify the specific areas they can target (place) in order to realize profits, and promote their services to target market respectively (Dicke, 2016). Further, the company can adopt both viral marketing and channel marketing concepts to improve their marketing activities. In this regard, the theories or philosophies in marketing are relevant to objectives such as marketing and competitive strategies. Therefore, the theory supports the variable of marketing strategies and it is relevant to the current study as it offers a foundation for investigating the approaches currently used by KQ.

Empirical Review

Financial strategies in organizational performance are considered as one of the key strategic approaches that can be utilized to help an organization turnaround its performance (Rhyne, 2013). It is important however, to appreciate the fact that they cannot be pursued in isolation if effective results must be achieved. Strategy implementation involves organization of the firm's resources and motivation of the staff to achieve objectives (Muchira, 2013). Primarily, these assertions complicate management and implementation of financial strategies owing to the nature in which there is an overall intertwining of the organizational approaches. In a more simplistic manner, Rhyne (2013) states that financial strategies cannot be relied upon in isolation. On the other hand, Muchira (2013) also states that implementation of any strategy involves both personnel and financial resources. In this case, it is evident that the main assumption from this statements is that implementation of any strategy in an organization must have an element of financial resources.

Similarly, a study was carried out by Namada, Aosa, Awino and Wainaina (2014) on "management participation and firm performance". Although the study was founded on the premise of management as an overall area of concern, it came out clear from the study's findings that organizational participation is very critical in ensuring that results are achieve. Namada and his colleagues clearly demonstrate that while considering different strategies for performance improvement, there is an integration of all departments in an organization from a management perspective. However, the most critical of all the departments is the financial department. It is important to acknowledge the fact that as all other strategies are pursued by incorporating financial section, the overall assumption is that they are all considered financial strategy in nature in one way or the other although not in a direct manner.

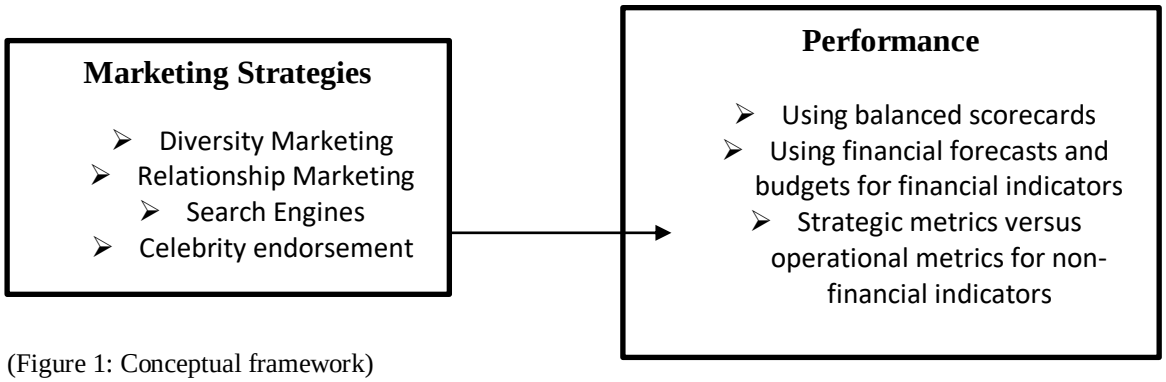
Firm performance is basically a strategic planning function, while financial planning is one of the main strategic decisions in an organization. Arasa and Obonyo (2012) explored a qualitative research in identifying the "relationship between strategic planning and firm performance". They observed that strategic planning encompasses a number of decisions key of which is financial resources allocation and distribution, as well as fundraising. Critically, this relationship demonstrates that for all other strategic decisions to be implemented there is an inevitable element of budgeting, in which case an organization must satisfy the measures to be taken to raise sufficient funds and how these funds should be allocated among competing needs in an organization.

Although not trying to present financial strategies as superior to other strategies, it is important to impact and role financial decisions have in the overall organizational performance. Isaksson and Lantz (2015) too

share the same sentiments in their publication on "outsourcing strategies and their impact on financial performance". The authors, who had initially targeted to investigate outsourcing effectiveness in small organizations, ended up drawing an important line of literature that can be used in this study. Precisely, they noted that outsourcing in any manner is a move towards helping an organization utilizes its resources from a financial perspective. For instance, by outsourcing, a firm is able to minimize costs as opposed to having full time commitment. This can be linked to leasing from out assets and aircrafts in the case of airline industry. However, organizations must be strategic in identifying areas that can be outsourced and those that should not while focusing on maximization of returns from a financial perspective.

Waweru and Ngugi (2014) investigated the influence of "financial management practices on the performance of small and micro enterprises in Kenya". In their study, they observed that knowledge on financial management is one of the strategies to help entities improve performance hence promoting economic growth in an economy. An exploratory study by Capon and Farley (2014) also contributed that strategic planning helps firms to ensure that financial decisions are made in a manner that help firm maximize their returns. In overall, the two studies have shown that financial strategies cannot be overlooked as they are as important as any other strategies, but more importantly very critical in determining general performance.

Conceptual Framework



(Figure 1: Conceptual framework)

Methodology

Descriptive design is suitable is it enables the researcher to answer questions such as how, what, when, which, where, who among others (Creswell, 2014).

For this research, the target population comprised directors, senior management, head of departments and staff/employees of Kenya Airways in Nairobi headquarters distributed across various groups as presented in table 3.1 below.

Table: 1 Target Population

Level	*Number*	*Percentage of target population*
Directors	10	2.50
Senior Management	20	5.00
Head of Departments	30	7.50
Employees	340	85.00
Total	400	100.00

The researcher employed a sampling formula as proposed by Kothari (2014) to select a sample size which is represented in the sampling frame table 2 below.

$n=N/1+N(e)^2$……(i)

Where;

N = Population Size, n = sample size, and e = is the level of precision which is 0.05 in this case for a 95% confidence level. Because of time and financial constraints, the above formulae will be adjusted by dividing it by 2 based on the researcher's judgement, provided the overall sample size will be above 20% as recommended by Kothari (2014).

Hence; the sample size will be given by; N = 400, e = 0.05

Calculated as; $\{400 / [1+400(0.05)^2]\}/ 2$

$= 100$

Sample size of 100 respondents is 25% of the target population distributed in different groups as in the sampling frame table 3.2 below.

Table 2: Sampling Frame

Level	Initial population size	Calculated Sample Size using 25%
Directors	10	2
Senior Management	20	5
Head of Departments	30	8
Supervisors	340	85
Total	400	100

Structured questionnaire containing both closed ended and open ended questions were used to collect data. Majority of the questions were closed-ended so as to encourage the respondents to give feedback as because it required them to tick from among the provided options. The researcher then administered the questionnaires with the interview questions face to face and allow the respondents to fill in their responses after seeking permission from the entity's management. The questions were classified into sections with regard to background information and the four objectives envisaged in this research.

Reliability was determined based on internal reliability which is basically on the internal consistency of the constructs or items used and this will be measured by the use of Cronbach's Alpha test (alpha value should be at least 0.7). The researcher ensured the questionnaires met the requirements of content validity. This involved basically examining the content of data collection instruments to establish if they are valid.

Data collected using questionnaires was cleaned, organized, sorted and analyzed using Statistical Package for Social Sciences (SPSS) and the results will subsequently be presented using tables and figures respectively. The to be obtained will be used to present the entire interpretation in a regression model that will show the relationship of the dependent variable with independent variables in an equation as presented below;

$$Y = B_O + B_2X_2 + e$$

Where:

Y = Dependent Variable; B_0 = a constant coefficient (if any); B_2 = Coefficient of marketing strategies; X_2 = Marketing strategies; e = is an error time respectively.

The researcher ensured confidentiality of personal information of the respondents that may take part in the study. The researcher also ensured informed consent and data safety during the whole process of data collection, analysis and interpretation.

Findings

Response rate and Reliability

This section presents findings from the study that achieved a 92% response rate. The questionnaire items regarding marketing strategies was 0.747 as shown in table 3 below.

Table 3: Cronbach's Alpha Test for Independent Variables

Independent Variables	Number of items	Cronbach's Alpha
Marketing Strategies	17	0.747

The table above shows the Cronbach's Alpha value for the variable marketing strategies is 0.747, which are sufficient to conclude that there is data reliability since are above the recommended value of 0.7.

Demographic Characteristics

The study analysed demographic characteristics of the respondents and presented findings using table 4 below.

Table 4: Demographic characteristics

	Variable	**Characteristic**	**Frequency**	**Proportion**
1	Age	Below 20 years	20	21.7%
		21 - 30 years	21	22.8%
		31 - 40 years	14	15.2%
		41 - 50 years	22	23.9%
		Above 51 years	15	16.3%
		Total	92	100.0%
2	Gender	Male	49	53.3%
		Female	43	46.7%
		Total	92	100.0%
3	Level of education	Diploma	21	22.8%
		Bachelors	29	31.5%
		Masters	21	22.8%
		PhD	21	22.8%
		Total	92	100.0%
4	Department	Director	4	4.3%
		Senior manager	15	16.3%
		Head of department	20	21.7%
		Junior employee	53	57.6%
		Total	92	100.0%
		Below 1 year	6	6.6%
		Between 1 - 2 years	17	18.7%
		Between 3 - 4 years	15	16.5%
		Between 5 - 6 years	12	13.2%
		Between 7 - 8 years	13	14.3%
		Between 9 - 10 years	11	12.1%
		Above 11 years	17	18.7%
		Total	91	100.0%

Majority of the respondents were males (53.3%) aged 41-50 years (23.9%) with an undergraduate degree (31.5%), working as junior employees (57.6%) and having worked with Kenya Airways for a period of 1-3 years.

Marketing strategies influence on Performance of Kenya Airways

The objective of this study was to investigate the influence of marketing strategies on performance of Kenya Airways. The respondents were subjected to a series of questions that were meant to determine their opinions on marketing strategies. The responses obtained have been analysed and presented in the sections that follow.

The respondents were asked to indicate the extent to which they agree with the given set of statements related to marketing strategies. They were required to indicate if they strongly disagree, disagree, neutral, agree or strongly agree.

Table 5: Extent to Agreement of Statements on Marketing Strategies

Statements	Strongly Disagree (%)	Disagree (%)	Neutral (%)	Agree (%)	Strongly Agree (%)	Mean
KQ focuses on customer satisfaction in all its services	5.4	5.4	4.3	42.4	42.4	4.11
No need to advertise since KQ is a big firm	1.1	1.1	7.6	44.6	45.7	4.33
Marketing can help KQ to turnaround poor performance	5.4	5.4	4.3	44.6	40.2	4.09
Marketing employed not strategic in the market	2.2	4.3	4.3	60.9	28.3	4.09

Source: (Survey Data, 2018)

Hassan et al. (2013), in their study reputed that marketing strategies are paramount turnaround strategies that any organization should embrace. The study findings revealed the respondents applauded the focus on customer satisfaction, n need to advertise since KQ was a big firm, marketing can help KQ to turnaround poor performance and marketing employed not strategic in the market since they had an average of above 4 as shown in the table 4.12 above. The findings contradict a study by Jaakkola (2011) who established that there was need for advertisement and strategic marketing despite the size of the firm. Moreover, the percentages of the four statements imply that the respondents were satisfied with marketing strategies embraced by the Kenya Airways.

The respondents were asked to express their opinions on whether the marketing strategy was an effective strategy to help an organization turnaround its performance.

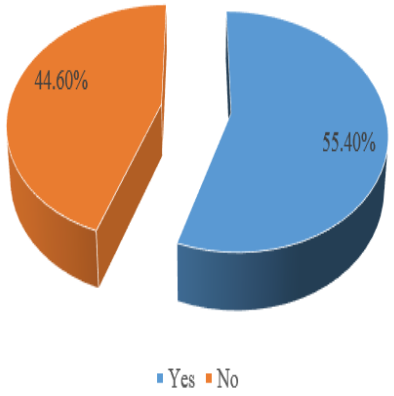


Figure 2: Marketing is an Effective Turnaround Strategy

The responses indicated that 55.4% of the respondents said yes while 44.6% said no as shown in the figure 4.5 above. The findings implied that marketing dimension of any company influenced its turnover. According to Ogbu (2016), effective marketing strategies resulted to a huge market share, increased number of customers and boosted reputation of the firm thus boosting sales revenue and improved performance of the firm. Additionally, the findings were echoed by Lucio and Noci (2010) who found out that marketing had great impact on the turnaround strategies and the performance of the firm.

The findings of the study on the extent to which marketing as an effective strategy to help an organization turnaround its performance indicated that 38% of the respondents said it was small extent, 37% said it was a large extent and finally 25% of the respondents said it was moderate extent as shown in the figure 4.6 below.

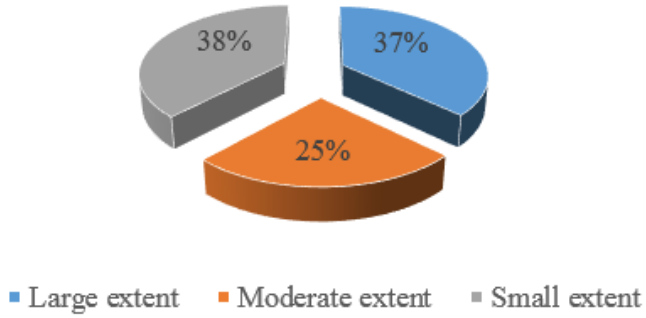


Figure 3: Extent of Marketing as a Turnaround Strategy

The respondents were asked their opinions on which marketing strategies they thought were important to Kenya Airways.

Table 6: Marketing Strategy Important To Kenya Airways

Important	Frequency	Percentage
Diversity marketing	19	20.7%
Transactional marketing	17	18.5%
Social media marketing	16	17.4%

Celebrity endorsement	12	13.0%
Relationship marketing	14	15.2%
Others	14	15.2%
Total	92	100.0%

Source: (Survey Data, 2018)

The responses obtained revealed that 20.7% of the respondents believed diversity marketing was the most important, 18.5% agitated for transactional marketing, 17.4% proposed the social media marketing, the respondents who chose relationship marketing and other marketing strategies were represented by 15.2% each. Also, the respondents who were for celebrity endorsement were represented by 13% as displayed in the table 4.183 above. The findings agree with the study by Russow and Okoroafo (2013) who enumerated transactional marketing, social media marketing, celebrity endorsement and relationship marketing as the most important marketing strategies to boost performance of a firm. They further argued that the strategies were essential turnaround strategies to transform poor performance of any firm.

Relationship between marketing strategies and performance of Kenya Airways

The regression analysis found an R-square of 0.696 (R^2=0.696) as shown in table 7 below.

Table 7: Model summary

R	R Square	Adjusted R Square	Std. Error of the Estimate
.392[a]	.696	.657	.57249

This implies that the independent variable (marketing strategies) explain about 69.6% of the changes in the dependent variable (performance) when all other factors are held constant. Further, a value of 0.657 implies 65.7% of the changes in the dependent variable are explained by the independent variables ceteris paribus when adjusted for the degrees of freedom.

Analysis of variance revealed that the model was significant in predicting the relationship between the independent and dependent variables due to its p-value of 0.005 ($p<0.05$).

Table 8: The ANOVA Table

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	5.171	4	1.293	3.945	.005
Residual	28.514	87	.328		
Total	33.685	91			

The coefficient of marketing strategies was found to be 0.454 with a significant level of 0.00 as shown in table 9 below.

Table 9: A Table for Regression Coefficients

Model	B	Std. Error	Beta	t	Sig.
(Constant)	3.755	.428		8.772	.000
Marketing strategies	.454	.120	.534	3.778	.000

The complete regression model is given by the equation below;

$Y = 3.755 + 0.454\ X_3 + 0.57249$…….(ii)

At 95% significance level, the marketing strategies are found to have a significant positive relationship with the performance of a firm (Fraser and Hite, 2010). The sig. value 0.000 which is less than alpha value of 0.05. This indicates that a unit increase in marketing strategies leads to 0.454 increase in the level of performance of Kenya Airways.

Conclusions

This study aimed at investigating the effect of marketing strategies on the performance of Kenya Airways, owing to its failed expansion strategy. Findings from the study revealed that Kenya Airways did not focus on customer satisfaction in all its services. Failure to focus on customer satisfaction is against the basic marketing theory that states to maximize sales, a company must position its products or services in the market place in such a way that consumers believe they need a particular product for service or that a product or service they need has a particular benefit. It was also noted that the management saw the need to advertise despite Kenya Airways being a big firm hence boosting the public image and reputation. The design of the marketing strategy highly influenced the performance as turnaround strategy. In addition, marketing strategy was regarded as an effective strategy to help an organization turnaround its performance. The respondents enumerated diversity marketing, transactional marketing, social media marketing, relationship marketing and celebrity endorsement as the main elements of marketing most important to Kenya Airways in its turnaround strategies and improvement of performance. Further, the findings of the study established that there is a positive and significant relationship between the marketing strategies and the performance of a firm.

The study results were used to conclude that marketing strategies are key in improving the performance of Kenya Airways. Marketing should entail creativity while designing the strategies and be implemented fully to enhance performance. Also, it was concluded that customer satisfaction on all its services were key to improvement of its performance. Proper marketing strategies would boost the public image and the reputation of the Kenya Airways. This would in turn through multiplier effects draw more customers to Kenya Airways boosting its revenue base. Further, it was concluded that the marketing strategies are effective turnaround strategy for any organization. The study concluded that diversity marketing, transactional marketing, social media marketing, relationship marketing and the celebrity endorsement were the key elements associated with marketing strategies applicable to Kenya Airways. In addition, it was concluded that there exists a positive linear relationship between marketing strategies and the performance of Kenya Airways. This implied that transformed and efficient marketing strategies translated to better turnaround strategies and improved performance for Kenya Airways.

The study recommends that customer satisfaction in all services of Kenya Airways be implemented. Satisfied customers will be help in marketing Kenya Airways to potential customers hence boosting its reputation and image. Meeting customer needs is recommended as the first goal of Kenya Airways in its turnaround strategy. Based on the findings of the study, it is recommended that diversity marketing, transactional marketing, social media marketing, relationship marketing and celebrity endorsement to be implemented by Kenya Airways as part of marketing strategies. Moreover, the research recommended proper designing and package of the marketing strategies and ensure they are implemented fully. Marketing strategies were recommended to be enhanced in all operations of Kenya Airways to improve its performance.

One of the limitations of this study is that it focused only on turnaround strategies in relation to performance. Future research may consider to investigate the management of funds and extent of corruption

in Kenya Airways. This is due to the fact the government of Kenya has been bailing out the airline regularly yet it continues to report huge losses and deteriorated performance. Moreover, from the findings of the research, it has been established that the respondents cannot tell whether the emerging airlines for local transport are threats to the performance of Kenya Airways. Therefore, studies should be carried out to investigate the effect of emerging airlines for local transport on the performance of Kenya Airways.

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International Business Research and Industrial Conference (IBRIC), 20th -21st June 2019
ISBN 978-9966-132-53-6 @ Copy Right .2019

Strategic Human Resource Management Practices On Performance In Selected Public Universities In Kenya

Doris Naitore

Abstract

Strategic Human Resource Management (SHRM) is one of the aspects that is attributed to organizational competitiveness both from developed to developing countries. Despite the fact that SHRM influences organizational performance, it is revealed from human resource literature that public organizations and more specifically Public Universities in Kenya are experiencing deteriorating performance due issues associated to failure to adopt SHRM policies. High turnovers, periodical strikes and boycotts, service inconsistencies among Public Universities are issues associated to poor human resource management strategies. Based on this premise, this study sought to investigate the effect of Strategic Human Resource Management on performance of selected Public Universities in Kenya. The objectives of the study were: to establish that influence of human resource planning, staffing and retention, training and development on performance of selected Public Universities in Kenya. The study adopted descriptive research design. The target population of the study comprised of 13 Public Universities in Kenya where 914 employees were selected from teaching and non-teaching staff members. Simple random sampling technique was used to select the respondents of the. To determine the sample size, the scientific formula proposed by Israel was used to arrive at a sample size of 278 employees. Pilot study was conducted on 5 respondents to determine validity of the instrument by using views of scholars, university lecturers and industry experts while reliability of the instrument was determined by using Cronbach Alpha coefficients of 0.7. Primary data was collected using a structured questionnaire consisting of close-ended and open-ended questions. In addition, secondary data was collected from published sources such as Labour Acts, reports by Commission for University Education (CUE) and performance appraisal reports. Qualitative data was analyzed using content analysis method where key themes of public and spoken word was critically analyzed and conclusions were made. Quantitative data was analyzed using descriptively and inferential statistics such as regression with the help of Statistical Packages for Social Sciences (Version 24) software. Regression analysis was conducted at 95% confidence level and 5% significance level. Descriptive data was presented in form of tables and figures. The study revealed that there exists a positive significant relationship between human resource planning ($r = 774$, $p < 0.000$), staffing and retention ($r = 376$, $p < 0.000$), training and development ($r = 576$, $p < 0.000$) on performance of selected Public Universities in Kenya. The study concludes that despite the fact that strategic human resource practices had a significant positive relationship on performance of selected Public Universities in Kenya, issues of understaffing, motivation and capacity development were of great concern. Therefore, this study recommends that for effective performance of Public Universities in Kenya, the government should increase financial budgets to facilitate adoption of appropriate technology, employment of staff and investment in infrastructural facilities.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Organizations operating in the 21st century are gradually shifting from traditional approaches of Human Resource Managemement (HRM) to Strategic Human Resource Management (SHRM) approaches (Lamba & Choudhary, 2013). With the changing business environment, competition, influence of technology, employee diversity, change of consumer demands and costs of operation, organizations in developed and developing countries have to adopt human resource management in order to be competitive (Thite & Russell, 2010). The development of SHRM concept since 1980s has resulted to transformation in many organizations internationally and locally and internationally (Abdus, 2011). The concept of SHRM is widely recognized around the world and particularly in developed countries like Australia, United States, Japan and Korea.

Organizational performance is thought to be a function of Strategic Human Resource Management practices even though there is no clear link between SHRM practices and organizational performance (Yamamoto, 2011). However, organizational performance is defined as the ability of the organization to get its best out of the efforts employees if effectively managed. Enhancing organizational performance in terms of customer service quality, improved image, repeat purchase, change implementation, increased employee morale, new product development and adoption of new technologies is conceptualized to be an uphill task if employees are not considered to be valuable asset (Wright, Kroll & Lado, 2010).

A survey Adnan and Izzat (2012) in Israel demonstrates that SHRM management is one of the fundamental practices that has contributed to significant improvement of organizational productivity. Swapna and Raja (2012) in India observed that companies operating in developing countries are gradually recognizing the SHRM concept as the competitive practice of organizational performance despite the internal and external challenges that are experienced. Ali and Nur (2016) observed that oil companies in Iraq were in a position to survive in highly competitive environment because of strategic human resource planning and talent management.

Masaiti (2011) in Zambia observed that many organizations operating in developed and developing countries are striving to adopt human resource strategies in order to address issues related with consumer demands, production costs, employee job satisfaction and workplace technology. Gopal (2012) in India noted that Strategic Human Resource Management is one of the fundamental practices of competitive firms. Organizations that fail to develop

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human resource strategies are likely to perform poorly and vice versa. Hassan (2014) in Pakistan observed that for organizations to achieve their objective more efficiently and effectively, Strategic Human Resource Management policies should be developed. For organizations to achieve their long term and short term goals in the changing business environment, shaping employee behaviours through human resource policies or strategies is key.

Extensive studies conducted in Kenya by Kiiru (2013); Kilika et al. (2016); Gitonga, Kilika, & Obere (2016); Thiriku & Were (2016) indicate that Strategic Human Resource Management can result to a number of benefits to modern organizations that range from: the ability of the organization to achieve its goals with minimal resistance, employee support of business strategies, it enhances organizational competitiveness, it promotes creativity and innovation among workers, it promotes top management support of plans formulated and enhances cooperation among workers and departmental synergies. They further revealed. Ligare, (2010) and Ngatia (2011) contend that for any organization to be competitive, issues of human resource planning, talent development, job design, knowledge and management, learning and development, employee staffing and retention and training and development should be addressed.

1.1.1 Strategic Human Resources Management Practices

Strategic Human Resource Management concept has continued to evolve as scholars seek a common consensus on its operationalization in the organizational context (Masaiti & Naluyele, 2011). Despite a common consensus on the universality of SHRM, a number of scholars have tried to it from different perspectives. Wright et al. (2010) define a strategy as the direction and scope of an enterprise in the long term period. Williams (2003) defines strategy as the means which firms use meet their objectives in the changing business environment. On the other hand, strategy it regarded as overall plan which define the purpose and direction of an enterprise. Wangai (2014) asserts that strategies formulated by an organization can range from marketing, procurement, finance and human resource.

Samson et al. (2016) attest that SHRM practices are decisions that have a long term impact on functional areas of a business enterprise. In the dynamic business environment, organizations are embracing strategic moves that seek to maximize productivity using human capital. In any competitive organizations, strategic human resources management is a function that is unseparatable from other core-functions of the firm. Without effect human resource strategies such as recruitment, training, compensation and performance appraisal, organizational competitiveness cannot be achieved (Dimba, 2010).

Kiiru (2013) contends that Strategic Human Resource Management is a practice that involves the use of integrated methods aimed at development human resource plans. By extension, these strategies describe intents and plans

associated to the overall organizational considerations, employee resourcing, knowledge and development, reward and employee relations are some of the Strategic HRM that can enhance organizational competitiveness. Strategic Human Resource Management is observed to be a continuous activity that requires constant adjustment of top management, the business environment and organization resources (Yamamoto, 2011). Kilika et al. (2016) assert that SHRM as policies that are developed and implemented by employees of the organization. It is an approach that emphasizes on equipping employees with necessary skills and knowledge to enable them adjust to internal and external challenges.

Armstrong (2010) regards SHRM to be a process that enables the development of a human capital in the organization. He further argues that, human resource strategies have remained the integral part of any competitive business enterprise. Thiriku and Were (2016) assert that SHRM entails establishing policies and techniques that enable skillful strategy implementation using dedicated teams to influence cross-functional knowledge and competences, increasing knowledge management abilities that support the leveraging of best practices and efficient use of opportunities (Loderer & Martin, 2007).

Kasmi (2011) argues that traditional HR emphasize on manual skills that concentrate on training employees on exact duties and responsibilities. Further, it focuses on individuals' capacity to perform a specific task without positive consideration of changing trends in the corporate world. The traditional HR approach is viewed to mechanical and rigid to changes but SHRM is considered to be organic that is adaptable to changing trends in the business environment (Greenidge et al., 2012).

1.1.2 Organization Performance

Strategic Human Resource Management is considered to be a function of organizational performance of any competitive enterprise from context to context if effectively managed. With increased competition, change of technology and consumer need for quality goods and services, organizations are embarking on SHRM as a driver of organizational competitiveness (Voorde, Van De, Paauwe& Van Veldhoven, 2010).

The concept of organizational performance has continued to receive a number of interpretations from different scholars. For instance, Shikha and Karishma (2012) regard organization performance to be employee satisfaction, customer satisfaction, minimal employee absenteeism and high level of employee commitment. On the other hand, Ghazala and Habib (2012) define organization performance as the extent to which a firm can achieve its objectives using limited resources. Thiriku and Were (2016) also suggest that organization performance can be evaluated using profits, volume of sales and employee satisfaction.

Lusch and Laczniak (2009) ascertain that organizational performance is the extent to which an organization can achieve the intended objectives within a given period of time. Organizational performance can be measured using employee commitment, exceeding customer expectations, maximizing revenue and minimizing general costs of operation. Abdullah (2014) asserts that HRM performance outcomes can be categorized into: HR-related outcomes which is characterized with employee turnover, absenteeism, job satisfaction and commitment; Organizational outcomes which are characterized with aspects of productivity, quality, customer service, costs of production and customer satisfaction.

Organizational performance is thought to be a function of Strategic Human Resource Management in competitive organizations (Ligare, 2010). Even though human resource management practice is thought to influence organizational performance, Strategic Human Resource Management is also thought to be one of the practices that enhances organizational performance in a more efficient and effective way (Lanyon &Abdalla, 2008). Even though there are conflicting views on the extent to which strategic management practices chosen by organizations influences performance of organization, to a larger extent, SHRM is seen to be considered to be the most appropriate practice of surviving in the changing business environment that is characterized by stiff competition, employee diversity, influence of technology and globalization (Masaiti & Naluyele, 2011).

Measurement of organizational performance is viewed to be a complex issue that is attributed to financial and non-financial metrics. Financial metrics may include profits, costs, and investments, volume of sales while non-financial metrics may include employee satisfaction, customer satisfaction, repeat purchase and corporate image. Further, Mutia (2011) ascertains that organization performance can be measured using indicators such as effectiveness, efficiency, change implementation, product development, expansion and financial viability (Mutia, 2011).

Similarly, Kasmi (2011); Katua, Mukulu and Gachunga (2014) acknowledge that organizational performance can be measured using the firm's ability to develop new products and services, maintain close links with key stakeholders, incur minimal social and economic costs, integrate technology in the system, manage employee resistance to change and re-engineer business processes for efficiency and effectiveness. Further, Hassan (2014) attests that despite organizational performance may be measured in different ways from context to context, to a larger extent, parameters such as customer satisfaction, profits, process automation and learning and innovation are used to evaluate competitiveness of any organization.

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1.1.3 Public Universities in Kenya

UNESCO (2016) suggests that growth of University education in Kenya can be traced back to 1922 when Makerere college was established a Technical college to admit students from Kenya, Uganda and Tanzania. As a result, in 1949 and 1954, Makerere College was necessitated to enter into special relations with Universities from London to enable Africans to study for degree programs. Later in 1954, Makerere College was converted to be the University College of East Africa. In 1970, it was decided by the African Authority to split University of East Africa into three major Universities which included: Makerere University (Uganda,) University of Dar es Salaam (Tanzania), and the University of Nairobi (Kenya). Since 1970, to date, the University Education has experienced rapid growth.

The number of universities offering degree programs have increased significantly thus resulting to increased number of student enrollment. According to the Ministry of Education Report (2016), Chartered Public Universities have continued to record increased number of student enrollment in various certificate, diploma, degree and postgraduate programs due to Governments initiatives to promote quality education to all Kenyans as spelt out in vision 2030. With increased competition from international and local private Universities, Chartered Public Universities have continued to experience a number of challenges to accommodate the increased number of students. Some of these challenges are: accreditation of academic programs, lecturer verses student ratio, inadequate infrastructural facilities and capacity of the teaching staff.

As a result of the integrity questions raised from key stakeholders in the education sector with regard to quality of education in higher institutions of learning in Kenya, the Commission for University Education (CUE) was established under the Universities Act, No. 42 of 2012 to replace Commission for Higher Education to oversee and regulate university education in Kenya (Ministry of Education, 2016). However, despite the establishment of Commission for University Education in Kenya, Public Universities in Kenya are experiencing several challenges such as employee strikes and inequitable workloads, poor remuneration and career stagnation among others.

1.2 Statement of the Problem

According to the survey conducted by the Salaries and Remuneration Commission (2016) it was revealed that majority (96%) of public organizations and more specifically Public Universities in Kenya are experiencing deteriorating. The real issues which are attributed to deteriorating performance among Public Universities include; inability of employees to develop their careers, non-existence of policies that promote staff development, poor remuneration policies, poor working conditions (Magutu, Mbeche, Bitange, Onserio Nyaanga & Ogoro, 2010). Despite the fact the SHRM practices are attributed to improved organization performance, it is noted that little has

been done by previous studies conducted globally and locally to address issues of SHRM that influence performance of Public Universities in Kenya.

Extensive studies conducted globally by and locally Abdus (2011); Adnan &Izzat (2012); Ali et al. (2016); Kilika et al. (2015) &Thiriku & Were (2016) demonstrate that Strategic Human Resource Management practices are correlated to organizational performance. Another study conducted by KIPPRA (2016) also revealed that there was a mismatch between employees' qualifications, salaries paid and duties performed. Consequently, extensive studies conducted in Kenya by Ligare (2010); Maina (2011); Odunga (2011); Mutia, (2011); Mbondo (2011) & Manguru (2011) have failed to examine variables of this study in the university context.

A study by Adnan and Izzat (2012) was confined to human resource management practices in commercial banks in Israel. A study by Ali et al. (2016) was limited to oil and gas companies in Iraq. A study by Masaiti and Naluyele (2011) examined strategies to retain and motivate employees among employees of the ministry of education in Zambia. A study by Kiiru (2013) was limited to SHRM practices in State Parastatals in Kenya. Further, a study by Kilika, K' Obonyo, Ogutu and Munyoki (2016) examined the relationship between human resource development infrastructure and university performance. Moreover, a study by Ligare (2010) was limited to State corporations in Kenya. A study by Maina (2011) was confined to secondary schools in Kenya and a study by Mbondo (2011) was limited to Kenya Police Staff SACCO Ltd.

However, from the findings of empirical studies, it is noted that there exist deficiencies in evidence on the link between SHRM and performance of organizations. First, it is noted that each study examined different variables partially and in isolation and failed to examine the combined variables of this study on performance of selected Public Universities in Kenya. Second, the studies conducted were confined to different geographical and cultural backgrounds thus difficult to generalize. Third, each study adopted different data analysis methods which resulted to inconsistencies in research findings. Therefore, it is on this premise this study sought to investigate the effect of Strategic Human Resource Management practices on the performance selected Public Universities in Kenya.

1.3 Purpose of the Study

To assess the effect of Strategic Human Resource Management practices on performance of selected Public Universities in Kenya.

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1.4 Objectives of the Study

1.4.1 General Objective

The general objective of the study was to assess the effect of Strategic Human Resource Management practices on the performance of selected Public Universities in Kenya.

1.4.2 Specific Objectives

The specific research objectives that guided this study were:

(i) To establish the effect of human resource planning on performance of selected Public Universities in Kenya.

(ii) To determine the effect of staffing and retention on performance of selected Public Universities in Kenya.

(iii) To assess the effect of training and development on performance of selected Public Universities in Kenya.

1.5 Research Hypotheses

The research hypotheses that guided this study were:

H_{01}: There was no relationship between human resource planning and performance of selected Public Universities in Kenya.

H_{02}: There was no relationship between staffing and retention and performance of selected Public Universities in Kenya.

H_{03}: There was no relationship between training and development and performance of selected Public Universities in Kenya.

1.6 Significance of the Study

This study may add new insights to the world of knowledge thus the need for Public Universities to embrace SHRM in order to enhance performance. Management of Public Universities may find this information essential in formulating human resource plans that promotes employee welfare thus enhanced productivity. The information may help management of Public Universities improve employee working conditions and review policies of engaging workers to enhance performance. Policy makers such as the, Salaries and Remuneration Commission, Trade unions, Ministry of Education, Commission for University Education and other International Stakeholders such as UNESCO may use the information to formulate policies that would contribute to improved performance of Public Universities in Kenya. The information may help scholars, academicians and researchers to enhance their literature and propose new models of solving the problem under investigation.

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1.7 Scope of the Study

This study sought to establish the effect of Strategic Human Resource Management practices on the performance of selected Public Universities in Kenya. The study was limited to Public Universities as shown in appendix (3). Universities were chosen based on the number of years of operation, number of academic programs offered, infrastructural facilities in place and ISO certifications. The independent variables of the study were: strategic human resource planning, staffing and retention and training and development while the dependent variable was performance of selected Public Universities in Kenya.

1.8 Limitations of the Study

It was anticipated that some respondents were to be reluctant in giving the intended information once questionnaires are administered. This limitation was overcome by the researcher clearly stating the objective of the study and providing assurance of confidentiality of the information given. It was anticipated that some of the empirical studied that were reviewed in this study were carried out in different geographical and cultural contexts. However, this limitation was overcome by this study focusing on higher education sector in Kenya which is different from developed countries. Some of the information used in this study may have been obtained from sources which were biased during data analysis due to the number respondents involved, sampling design, instruments and data analysis methods. However, this limitation was overcome by this study using simple random sampling, questionnaires and multiple regression method in analyzing data.

1.9 Organization of the Study

Chapter one the study provides background of the study, statement of the problem, objectives of the study, hypotheses, significance, scope and limitations of the study. Chapter two outlines theoretical review, empirical review, summary of literature review and knowledge gaps using a table and finally conceptual framework illustrating the association between variables. Chapter three provides. Chapter there discusses the research design, the target population, sample size and sampling procedure, data collection, collection procedure, validity and reliability, data analysis and ethical considerations. Chapter four presents data analysis, findings and discussions in relations to objectives of the study and chapter five discusses the summary of findings, conclusions and recommendations.

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CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents the literature review on strategies human resource management and organizational performance. It presents the theoretical review, empirical review, summary of literature and knowledge gaps and finally conceptual framework.

2.2 Theoretical Literature

This study was anchored on empowerment theory and supported by other two theories which includes Herzberg's two factor theory and human capital theory.

2.2.1 Empowerment Theory

The theory was pioneered by Zimmerman (1992). The theory argues that empowerment is process equipping employees with relevant skills and knowledge to performance various tasks more competently. Achieving organizational goals in any context is thought to be a function of employee empowerment (Viljoen, 2004).Continuous development of employee skills and providing the necessary support not only improves overall productivity of the organization, but also enhanced employee motivation to perform and exceed organizational goals.

Thiriku and Were (2016) attest that even though empowerment is viewed differently from context to context, to some extent is interpreted as the ability of the organization to provide the necessary support, information and opportunities to employees. Futuristic thinking organizations are always dedicated in empowering their workers to achieve their goals in a more efficient and effective manner. It is argued by Kavoo and Kiruri (2013) that empowering employees psychologically can result to improved organizational productivity. Feeling of competence, freedom in decision making and value of the job can significantly lead to organizational growth in terms of positive behaviours, profits, creativity and innovation and minimal resistance to change

Spanos and Lioukas (2011) opine that employee empowerment is the extent to which managers of an enterprise can promote employee talents in order to achieve the best results. Delegating responsibilities, training workers, job rotation, promotions, job enrichment and financial support are some of the factors that enhances employee empowerment. Empowerment of employees is viewed to be a direct function of organizational competitiveness from context to context (Gopal, 2012).This theory was applicable in this study on the premise that Public Universities are

likely to enhance their performance by adopting strategic human resources plans such as recruitment, succession, compensation and retirement plans to enhance their performance.

2.2.2 Herzberg's Two Factor Theory

The theory was founded by Herzberg in 1969. Motivation-Hygiene Theory argues that employees are likely to work effectively if motivated by intrinsic and extrinsic factors. Hygiene factors are regarded to be those job factors which must be existent at the workplace for employee to be motivated to work (Kasmi, 2011). Non-existence of these factors in an organization can lead to dissatisfaction even though they do not guarantee positive satisfaction. Hygiene factors when adequate in an organization can make employee to be motivated to perform and vice versa. Hygiene factors are also called as dissatisfies or maintenance factors as they intervene to minimize levels of employee dissatisfaction (Heggested & Mingo, 2011). The hygiene factors that can make employees perform may include reasonable pay and wages, flexibility of administration policies, fringe benefits attached to employee positions, conducive working environment, good interpersonal relations among workers and job security (Greenidge, Alleyne, Parris & Grant, 2012).

Aguenza and Som (2012) argue that hygiene factors only cannot be considered to be the only motivators but also other factors termed as satisfiers can enhance employee motivation to perform such as recognizing the effort of hard working employees by top level managers, employee capacity to have a sense of achievement from the job, ability of the employee to develop his or her career in the system through promotions, ability to perform delegated duties effectively and meaningfulness of the work. Employee s in an organization are likely to behave positively towards organizational goals if they find their jobs to be interesting or exciting and vice versa (Bal et al., 2012)

Despite extensive application of Motivation-Hygiene Theory in human resource management literature by Farman, Kashif., Syed, Muhammad and Muhammad (2013); Greenidge, Alleyne, Parris and Grant (2012) and Kimani (2010), it is observed that the theory has some limitations which make operationalization and contextualization of its constructs to be uncertain. Theory assumes the correlation between satisfaction and productivity (Ligare, 2010). Further, it is observed that satisfaction is multidimensional facet which is influenced and determined by multiple aspects thus complex to be measured from context to context.

Additionally, it is observed that despite adequacy of satisfiers in an organization, to some extent, organizations may fail to accomplish their goals in the long term period (Ghansah, 2011). The level of excitement and satisfaction among workers is not correlated to productivity and vice versa. However, this theory is applicable in this study based on the premise that Public Universities are likely to perform effectively if they refocus on human resource planning, staffing and retention, training and development. (Adnan &Izzat, 2012)

2.2.3 Human Capital Theory

The theory was propounded by Becker in 1993.The theory argues that investment in employee is thought to be a function of organizational performance. Employees who are equipped with the right mix of knowledge, skills and experience are likely to performance effectively. According to Abdullah (2014) recruitment and retaining workers with unique skills and knowledge is one of the factors that promote organizational growth in the changing business context. Employee capabilities and skills are drivers of creativity and innovation any competitive organization.

Afzal et al. (2013) assert that creating an enabling environment that promotes employees' talents or career growth can stimulate organizational performance. Organizations that invest in training employees are more likely to perform effectively as compared to those that consider employee training as a cost. Creating a share mental model of solving problems using scientific knowledge is one of the fundamental factors that triggers employee motivation. Introduction of advanced systems in any organization is purely dependent on employee knowledge and capacity to operate them (Markos & Sridevi, 2010). Inefficiency of any organization is attributed by inability of employees to learn new skills, lack of management support, structural rigidity, poor leadership and lack of self-initiative among workers.

Mutahi and Busienei (2015) suggests that firms are likely to be competitive if they recognize the need for talent development. Similarly, Ghazala and Habib (2012) demonstrate that to survive in a highly competitive business environment, companies not only need to equip workers with knowledge and skills but also provide supportive environment that natures new and existing talents. Introduction of technology and equipment can give employees new insights on how to perform different tasks using the new platforms thus enhanced service delivery.

The theory was applicable in this study on the premise that Public Universities in Kenya are likely to boost their performance by investing in employees. Improving working conditions, providing job security, sponsoring workers for further studies would result to enhanced performance of Public Universities in Kenya. Training and development initiatives such as departmental research and periodical trainings among non-teaching staff would result to improved performance of Public Universities in Kenya.

2.4 Empirical Literature

2.4.1 Human Resource Planning and Organization Performance

Afsal et al. (2013) suggest that human resource planning is one of the HR competitive practices that enhance organizational productivity. Organizations should always seek to identify people with the right mix of knowledge and skills to perform. Organization that do not have clear HR plans are likely to fail. Further, it was observed that their

research work was limited to human resource planning in telecommunication sector in Pakistan and found out that there exists a significant effect between human resource planning and organizational performance. Moreover, the study sought to examine determinants of HRP such as selection, training and incentives on organizational performance.

In contrast, this study will seek to establish the effect of Strategic Human Resource Management practices on the performance of selected Public Universities in Kenya. The independent variables of the study will be strategic human resource planning, staffing and retention and training and development while the dependent variable was performance. In this study it will look at the real issues which are attributed to deteriorating performance among Public Universities which include; inability of employees to develop their careers, non-existence of policies that promote staff development, poor remuneration policies, poor working conditions (Magutu et al., 2010).

Chebet (2015) also established that effective HR planning was the only way organizations are using to meet customer demands in the changing business environment. Organizations should engage HR professionals to conduct employee needs assessment. However, the study focused on examining the influence of compensation, leadership, training, working conditions on performance of the employees at the County government of Bungoma. The target population comprised of 5,900 employees of Bungoma County government. The study adopted a descriptive survey research design and a sample size of 375 was chosen using stratified random sampling whereby the strata was represented by the levels of management which were top, middle and lower management levels. Data was analysed using descriptive statistics that failed to establish the statistical effect between variables of the study. In contrast, this study focused on selected Public Universities in Kenya to examine the relationship between Strategic Human Resource Management on performance.

Dauda et al. (2010) assert that human resource planning is directly correlated organizational growth. Inability of organization to achieve the set standards is attributed by system rigidity to accept new changes such as technology. Further the study observed that inability to have succession and talent development plans can hinder successful organizational growth from context to context. Even though organizations experience various challenges when implementation strategic planning policies, understanding the past, present and future needs of the organization is one of the fundamental factors that enhance organizational competitiveness (Ondieki et al. 2017).

Spanos and Lioukas (2011) attest that organizations operating in the changing business environment should consistently embrace strategic human resource planning in order to meet future needs of customer. Companies that fail to articulate the right number of employees and a mix of knowledge and skills required to perform more

effectively may cease to exist in the competitive business environment. Identification of appropriate techniques of determining the required number of employee in the organization can create a significant effect on organizational growth. However, it was noted that the study was confined to Strategic Human Resource Management practice and corporate performance of Small Business Enterprises in Lagos Metropolis but failed to focus on issues in higher education sector in Kenya.

Hassan et al. (2013) established that there exists a difference between number of workers and organizational output. The study revealed that to some extent, the larger number of workers in an organization may not reflect the real output if effective mechanisms are not put in place to determine input and output. Continuous development of employee skills and knowledge is seen to be one of the drivers of organizational performance. Despite the positive correlation between Strategic Human Resource Management and performance of organization, it was observed that the study was limited to training and development impact among Oil and Gas Sector of Pakistan but failed to examine the integrated approach of SHRM variables of this study on performance of Public Universities in Kenya.

2.4.2 Employee Staffing and Retention and Organization Performance

Namusonge, Kabare and Kagwiria (2014) revealed that employee staffing and retention were aspects that were determined by managing employee talents. It was pointed out by the study that if appropriate strategies are not embraced by organizations, retaining employees may be a challenging task in the changing business context. Moreover, the concern about the scarcity of talent is almost universal.However, it is observed that the study examined variables of this study in isolation but not in a combined manner. Odunga (2011) contend that organizations around the world are competing for the similar pool of capacities. However, organizations are finding it hard to attract and retain competent workers. Issues of compensation, working conditions and opportunity for career growth are top priorities of aggressive workers. Nevertheless, it was noted that the study was confined to construction companies in Kenya but failed to focus on issues in higher education sector in Kenya.

Ibullah et al. (2016) found out that most of the organizations are experiencing high employee turnover due to inability retain workers. Organizations operating in the changing business environment may find it difficult to compete due to inability to provide an environment that promote employee welfare such as flexible schedules, promotions, training, job design, job enrichment, performance appraisal and salary review. However, it was noted that their study was limited to retention and organizational performance and competitiveness of firms in the banking sector in positioning in Nigerian but failed to focus on higher education sector in Kenya.

Mutua, Karanja and Namusonge (2012) ascertained that when organizations losses workers it automatically losses its competitiveness in terms of skill, experience and corporate memory. To enhance productivity of any organization,

retaining employees who are highly qualified is one of the determinants that triggers employee internal insights to find alternative means of achieving organizational objectives. Further, the study noted that organizations may turn to be trainings grounds for well established companies. Companies that fail to identify unique skills of workers and develop them are likely to be the losers in the long term However, it was noted that the study was confined to the role of human management practices on performance of financial cooperatives based in Nairobi County, Kenya but failed to address SHRM practices on performance of Public Universities in Kenya.

Mbondo (2011) posits that employers are experiencing challenges of employee retention due to changing labour laws and employee drive to develop their career potential within the shortest time possible. Management styles, inflation rates and skills of workers can influence employee retention directly or indirectly in any context. Dissatisfied workers not only taint the image of the company but also contribute to organizational stagnation and rigidity to changes. Nevertheless, it was observed that the study was restricted to Strategic Human Resource Management practices at the Kenya Police Staff SACCO Ltd and studied variables of this study in isolation.

Maina (2011) postulate most of the organizations that are ranked top in service delivery are directly attributed to effective compensation policies, career growth, flexible working environment and employee recognition. Good relations among workers, delegation, consultation and autonomy in decision making are some of the factors that promote organizational performance if effectively embraced in any competitive system. However, it was noted that the study was limited to Strategic Human Resource Management practices applied in performance of the top five secondary schools North District of Kajiado County, Kenya but failed to examine the integrated approach of the variables of this study on performance of Public Universities in Kenya.

2.4.3 Employee Training and Development and Organization Performance

Ligare (2010) established that there is a relationship between employee training and development and performance among organizations. Employee training entails a combination of essential abilities that involve the development of a knowledge base, expertise level and mindset that is increasingly necessary for success in the modern workplace. Employability skills are typically considered essential qualifications for many job positions and hence have become necessary for an individual's employment success at just about any level within a business environment. In contrast, this study used questionnaires to collect data and multiple regression method to establish the relationship between variables.

Kilika et al. (2012) contend that the ability of employees to share information and learn new skills that will facilitate effective implementation of strategy. Well trained employees are likely to have a wide understanding of the business environment and adjust quickly to changes with minimal resistance to change. However, it was pointed out that their

study was limited to understanding the design of human resource development infrastructures for knowledge intensive organizations: an empirical evidence from Public Universities in Kenya.

Katua, Mukulu and Gachunga (2014) argue that achievement in the workplace deals with the pride and sense of accomplishment employees feel about their jobs and employers. Managers who notice a decline in achievement must take proactive steps to implement strategies to increase motivation and employee morale. Training is one of non-financial rewards that drive and empower workers to work towards organizational strategic intent. Human resource management is primarily concerned with the management of people within organizations, focusing on policies and on systems. The study revealed that the responsibilities of a human resource manager can fall into three roles which include; staffing, employee compensation and benefits, and defining/designing work. However, their studies were limited to the effect of employee resourcing strategies on the performance of commercial banks in Kenya but failed to address the combined SHRM variables of this study on performance of Public Universities in Kenya.

Kavoo and Kiruri (2013) on the other hand noted that the purpose of human resource management is to maximize the productivity of an organization by optimizing the effectiveness of its employees. In addition, it entails, conducting job analyses, planning personnel needs, recruiting the right people for the job, orienting and training, managing wages and salaries, providing benefits and incentives, evaluating performance, resolving disputes, and communicating with all employees at all levels. However, it was revealed that the study was confined to the effect of placement practices on employee performance in small service firms in the information technology sector in Kenya but failed to examine variables of this study on performance of higher education sector in Kenya.

Kiiru (2013) assert that employees should have skills to enable them solve problems, being flexible with project changes and taking feedback from other workers. Employees often work together on projects, so some employees must take on the leadership role to ensure deadlines are met, problems are addressed and all ideas are being considered. Employers often seek employees who have natural leadership skills. In addition, these employees must also have creativity skills so they can find and use solutions for potential problems on tasks, projects or assignments. However, it was pointed out that the study was limited to State parastatals in Kenya and studied variables of this study in isolation such as training and compensation.

Hafiza (2015) pointed out that talent management can be the best way to create a long term competitive advantage. A sustainable competitive advantage stems from the valuable company specific resources that cannot be imitated or substituted by competitors. Human capital, rational capital and structural capital can all be sources of long term competitive advantage but the most significant evidence favours human capital. Nevertheless, it was observed that the

study was limited to the impact of training and development on organization performance with mediating role of intention to quit as human resource quality cost.

Gopal (2012) revealed that skills development as an organizational development intervention with the purpose of strategically focusing the individual towards future organizational demands. Furthermore, developing talent is an important managerial function, since the continuous improvement of all organizational systems and products is dependent on it. However, the study was confined to talent management and performance of firms in India but failed to address issues in the higher education sector in Kenya. Regarding the factors necessitating skills development, the balance should be created between developing individual talent and adding value to the organization (Gitonga, Kilika & Obere, 2016).

Ali and Nur (2016) contend that measuring of talent is based on confidence, skills expression, virtue expression, physical wellness, mental wellness, relationship wellness, spiritual wellness and personal leverage. High performance organisations are characterised as living their vision, implementing strategic and business plans, writing and evaluating scorecards, setting benchmarks and enforce ranking. A culture of achievement stems from strong values and beliefs. A culture of achievement supports tools of motivation and measurement of individual, group and organisational performance. However, it was revealed that the study was confined to the role of recruitment and selection practices in the organizational performance of Iraqi oil and gas sector but failed to examine SHRM practices on performance of Public Universities in Kenya.

Thiriku and Were (2016) assert that organizations cannot compete if employees' talents are not developed through clear policies of career development. They argue that organizations should adopt scientific approaches of determining the present and future demand of products and accurately determine the number of workers who can handle the demand. However, their study was to examine the effects of talent management strategies and employee retention among the private firms in Kenya with a case of Data Centre Ltd. In contrast, this study sought to investigate the effect of Strategic Human Resource Management on performance of selected Public Universities in Kenya.

Further it is noted that the study was confined only to one variable of this study; talent management which was treated as an antecedent of this study and discussed under training and development variable. The research design used in this study was descriptive research design. The target population for this study comprised of 76 employees of Data Centre Limited (DCL). Further, this study will adopt descriptive research design approach to investigate the effect of Strategic Human Resource Management on performance of selected Public Universities in Kenya. The target

population of the study will comprise of 53 human resource managers and officers of selected Public Universities in Kenya. Purposive sampling technique was used to select the representative sample size of the population.

Table 2.1: Summary of Research Gaps

Author	**Focus of the Study**	**Methodology and Findings**	**Knowledge Gaps**	**Focus of the Current Study**
Ondieki ,Nyang'au & Mbura(2017).	Influence of strategic management practices on productivity of state corporations in Kenya: A case of Kenya Civil Aviation Authority.	Adopted descriptive research design and a case study to select 155 employees of Kenya Civil Aviation Authority The study established that there exists a significant effect between SHRM on productivity of State Corporations.	Independent variables of the study were organizational policies, organizational strategies and leadership style. A case study of Kenya Civil Aviation Authority.	Dependent variables of the Study will be human resource planning, staffing and retention and training and development. The study will focus 10 selected Public Universities in Kenya
Ali et al. (2016)	The Role of Recruitment and Selection Practices in the Organizational Performance of Iraqi Oil and Gas Sector	Descriptive and convenient sampling technique was used to select 113 employees of oil and gas companies in Iraq It was established that there was a correlations between recruitment, selections and performance	Variables of the study were selection, training and incentives Phenomenological paradigm was adopted and exploratory research design Data was analyzed descriptively	The study will seek to examine the effect of human resource planning, staffing and retention and training and development and performance of selected Public Universities in Kenya Positivist paradigm will be adopted and cross-sectional research design to discover new knowledge and test hypotheses based on the laws of cause and effect. Multiple regression will be adopted to test the statistical effect between variables
Kilika, K' Obonyo, Ogutu, &Munyoki (2016)	The Mediating Role of University Industry Collaboration on the Relationship between Human Resource	Single case design and random sampling technique was used to select 76 employees of	The study examined the mediating role of university industry collaboration on the relationship between	The study will test the direct relationship between strategic human resource

	Development Infrastructure and Performance of Universities in Kenya	Data Centre Limited. It was established that human resource develops influence performance Data was analyzed descriptively.	human resource development infrastructure and performance of universities in Kenya. A single case design.	planning, staffing and retention and training and development and performance of selected Public Universities in Kenya. 10 Universities will be the unit used to select the sample size Data will be analyzed using multiple regression method.
Mutahi&Busienei (2015).	Effect of human resource management practices on performance of Public Universities in Kenya	Descriptive research design was adopted. A census approach was used The study revealed that there exists a difference between HRM and performance of Public Universities in Kenya.	The dependent variables of the study were resourcing practices, reward management, training and development The study was took a census approach	The study will seek to investigate the relationship between SHRM on performance of selected Public Universities in Kenya. The study will adopt stratified sampling technique to select 10Public Universities in Kenya.
Farman et al. (2013)	Effect of Human Resource Planning on Performance of the Telecom Sector in Pakistan	Purposive sampling was used to select 160 employees of telecommunication companies in Pakistan Data was collected using interview guides and questions. Factor analysis method was used to analyze data. The study established that there exist a significant relationship between HRP and Performance	Independent variables were training, selection and incentives. Interview guides were used to collect data Factor analysis method was adopted	The study will examine the relationship between Strategic Human Resource Management and Performance of selected Public Universities in Kenya. Stratified Sampling Will be used to select respondents Questionnaires will be used to collect data Multiple regression will be

				used.
Kiiru (2013)	Strategic Human Resource Management practices and performance of parastatals in Kenya	Adopted positivist research design Used both descriptive and exploratory research design To select respondents from 185 parastatals in Kenya Established that compensation, training, recruitment and performance management influenced organization performance.	The study focused on SHRM practices among State Parastatals in Kenya The study tested the moderating effect of between SHRM and performance of State parastatals Exploratory research was used Respondents were employee of parastatals in Kenya	The study will test the direct relationship between strategic human resource planning, staffing and retention and training and development and performance of selected Public Universities in Kenya. Cross-sectional research design will be adopted Respondents will be employee of HRM department of selected Public Universities in Kenya.
Maina (2011)	Strategic Human Resource Management practices applied in performance of the top five secondary schools North District of Kajiado County, Kenya	Longitudinal research design was adopted Quota random sampling technique was used to select 111 teachers of secondary schools Revealed that employee training and motivation was directly correlated to organization performance	The variables of the study were human resource policies, talent development and compensation. Non-probability sampling technique was used. Respondents were teachers of day and boarding secondary schools	The study will be confined to Public Universities in Kenya. Probability sampling technique; stratified sampling technique will be used. The respondents will be employees of Public Universities who will constitute human resource managers and officers
Kimani (2010).	Relationship between Strategic Human Resource Management Practices and Firm Performance of the Multinational Manufacturing Companies in Kenya: the Mediating role of Technology	Descriptive design was adopted and purposive sampling technique were used to select 36 manufacturing firms in Kenya. Data was analyzed using multiple regression analysis.	The study tested the mediating effect of technology on the relationship between SHRM and performance of manufacturing firms in Kenya. Metrics of measuring performance of manufacturing firms	The study will adopt cross-sectional research design and focus universities which offer education services. Metrics of measuring university performance will

		The study established there exist a significant relationship between SHRM and firm performance.	were costs, profits, innovation and customer satisfaction	be efficiency, effectiveness, employee satisfaction, customer satisfaction and corporate image.

Source: Literature Review (2019

2.5 Conceptual Framework

Figure 2.1 depicts the relationships between human resource planning, staffing and retention and training and development on performance of selected Public Universities in Kenya.

Independent variables **Dependent Variable**

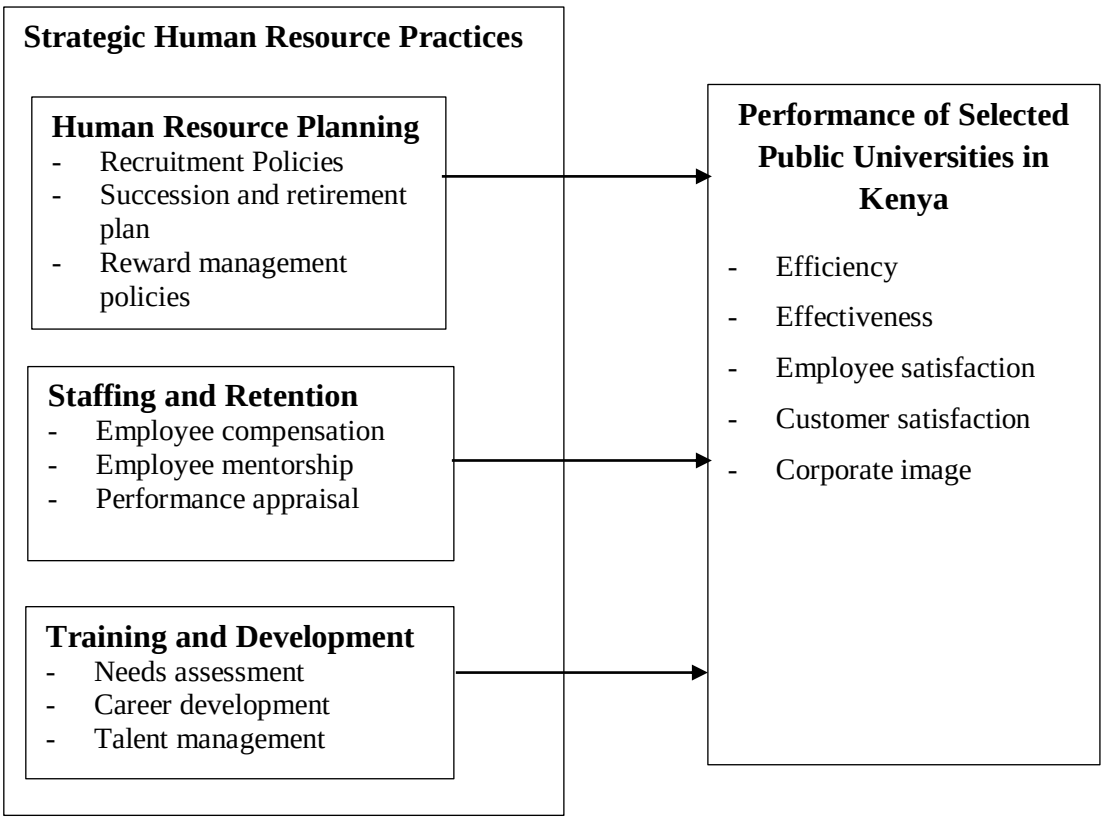

Figure 2.1: Conceptual Framework

Source: (Author, 2019)

Figure 2.1 illustrates that human resource antecedents such as recruitment Policies, succession and retirement plan and reward management policies had a significant positive effect on performance of Public Universities in Kenya. Performance of Public Universities was measured in form of efficiency, effectiveness, employee satisfaction,

customer satisfaction and corporate image. Staffing and retention antecedents such as employee compensation, employee mentorship and performance appraisal had a significant positive effect on performance and finally training and development antecedents such as needs assessment, career development and talent management had a significant positive effect on performance of Public Universities in Kenya.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The chapter presents the research design, target population, sampling design, data collection procedure, validity and reliability, data analysis method and ethical considerations.

3.2 Research Design

The study adopted a descriptive research design to establish the effect of Strategic Human Resource Management and performance of selected Public Universities in Kenya. Novikov and Novikov (2013) describe a research design as an overall plan of collecting analyzing and interpreting data to control a problem under investigation. The descriptive research design was considered appropriate in research because it facilitates discovery of new knowledge and helps to establish whether there exists a relationship between variables of the study. Further, it provides that opportunity to collect data from a sizeable sample with homogenous features. Moreover, it helped to analyze data using both quantitative approach and qualitative approach. In addition, it helped to verify findings using principles of existing theories and empirical findings.

3.3 Target Population

A population is described as the total number of elements with common observable features where researchers obtain information from (Collis & Hussey, 2014). The study targeted53employees from human resource department of the 10 selected Public Universities in Kenya. The years of operation and number of students were the criteria of selecting the 11 Public Universities operating in Kenya.

Out of the 13 selected Public Universities, a total population of 914 employees from teaching and non-teaching staff members were participants of this study. The unit of analysis were employees of selected Public Universities while unit of observation were selected Public Universities. The selected Public Universities from which the target population was obtained are shown in Appendix (3).

3.4 Sampling Technique and Sample Size

Mertler and Vannatta (2010) defines a sample size as the representative of the whole. A sample size selected in any study should be ideal of to represent the entire population using a scientific criterion. Similarly, Guest (2010) define a sampling technique as a process of selecting respondents of a study which may take a probability or non-probability approach. In this regard, the study adopted simple random sampling technique to obtain information concerning the problem under investigation.

Since the population of the study was finite and working in the university context, the respondents of the study included: lecturers and members of non-teaching staff. The study adopted Israel Formula (2009) of the form n = N/1+N (e) ^{2}to determine the sample size. Where; n denotes the sample size, N denotes the total population and e denotes the error term (0.05). Therefore, Using N=914 in the formula, the calculated sample size (n) was 278 respondents as summarized in Table 3.1.

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Table 3. 1: Summary of Sample Size

S/N	Name of University	Total Number of Middle and Lower Level Management Employees Selected	Sampled Size	Percentage (%)
1.	University of Nairobi	76	23	30%
2.	Moi University	89	27	30%
3.	Kenyatta University	63	16	30%
4.	Egerton University	57	14	30%
5.	Jomo Kenyatta University of Agriculture and Technology	91	28	30%
6.	Maseno University	56	17	30%
7.	Chuka University	87	26	30%
8.	Dedan Kimathi University of Technology	77	23	30%
9.	Kisii University	68	21	30%
10.	Masinde Muliro University of Science and Technology	55	17	30%
11.	Pwani University	63	19	30%
12.	Technical University of Kenya	73	22	30%
13.	Technical University of Mombasa	59	18	30%
	Total	**914**	**278**	**100**

3.5 Data Collection and Procedure

This study used primary and secondary data. Primary data was collected with the help of a structured questionnaire with open-and closed ended questions. Questionnaires were considered appropriate in collecting information because they provided an opportunity for the researchers to collect information from the intended respondents without disclosing identity of respondents. Further, it helped to collect information in a structured way for systematic analysis and presentation (Fisher, 2010).

On the other hand, secondary data was obtained from published records such as employee records and commission for university education reports were reviewed and deductive conclusions were made based on the problem under investigation. The questionnaire sought to collect data using a Likert scale with five-point measurement. The questionnaires were self-administered using drop and pick later method. To ensure high response rates, follow-up were made using phone calls in order to facilitate timely analysis and presentation of data.

3.6Validity and Reliabi1ity of the Research Instrument

3.6.1 Validity of the Research Instrument

Validity is regarded as the extent to which an instrument measured what is purported to measure (Mertler & Vannatta, 2010). To ensure the research instrument collects the intended information, face, and content and construct validity

was conducted. Face validity is the degree to which the research instrument is assumed to be appropriate to collect the intended information. Content validity is the degree to which the material facts of the research instruments reflects or relates with tenets of existing theories by operationalizing the constructs. In this regard, scholars at Kenyatta University and industry human resource experts were used to evaluate face and content validity. Four respondents were used to test validity of the instrument and were not included in the final sampled population.

3.6.2 Reliability of the Research Instrument

Novikov and Novikov (2013) describe reliability as the degree to which a research instrument can generate consistent results after repeated trials using respondents with homogenous features. For any research instrument to collect consistent results in any context, internal consistency of the research instrument should be determined using scientific approach. In this case, internal consistency of the instrument was determined using Cronbach's alpha formula. To determine estimates of internal consistency, Cronbach's alpha values of 0.7were considered appropriate as proposed by Mertler and Vannatta (2010).

3.6.3 Diagnostic Tests

To ensure data was consistent with statistical assumptions, diagnostic tests such as normality, linearity, homogeneity, Multicollinearity and homoscedasticity were conducted. Normality was confirmed using Shapiro-Wilk test where data was assumed to be normally distributed if significance or p-values of the variables of the study were less that the critical value of 0.05 as recommended by (Crowther & Lancaster, 2012).Linearity of data was confirmed using Pearson's moment correlation coefficient. The study assumed linearity of data if p-values between variables were more than the critical value of 0.05. Correlation of the study variables was confirmed if there is co-movement of variables in the same direction (Guest, 2012).

Homogeneity of data was confirmed using Levene test. Homogeneity of data was assumed if variances across the range of predictor variables display equal variations as recommended by Guest (2012). Further, Multicollinearity was tested using regression method to test whether there exists a problem. If Variance Inflation Factors (VIFs) of variables was less than 10 and tolerance greater than 0.1, then there exists Multicollinearity and vice versaas proposed by Collis and Hussey (2014). In addition, hhomoscedasticity was confirmed using Levene's test where it was assumed that there is homoscedasticity if variance across predictor variables reflects equal variations as recommended by Guest (2012).

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3.7 Data Analysis

Data collected was edited, sorted and coded in the computer systems to facilitate analysis of the items. Statistical Package for Social Sciences (SPSS version 24) was used to analyze data quantitatively using descriptive and inferential statistics such as correlation and regression. Multiple regression was conducted at 95% confidence level and 5% significance level to determine the statistical relationship between variables of this study. The specific regression model was of the form: $\mathbf{Y= \beta o+\beta_1 X_1 +\beta_2 X_2 +\beta_3 X_3 +\varepsilon}$, Where; Yis performance of selected Public Universities in Kenya, β_0 is Y intercept, β_1 to β_3 are regression coefficients, X_1 is Strategic Human Resource Planning, $X_2$is Staffing and Retention, X_3 is Training and Development and ε are other factors not included in the model.

3.8 Ethical Consideration

The researcher sought permission from the management of selected Public Universities, Kenyatta University and National Commission for Science, Technology and Innovation (NACOSTI) before data collect process. Informed consent of respondents was sought before collecting data. Respondents was assured non-disclosure of identity for any information given. Confidentiality of the information given was guaranteed. The objective of the study was clearly spelt out to respondents of the study. Any information used in this study was acknowledge by citing the sources in the document. Collected data was analyzed objectively without fabricating and manipulating data. Respondents of the study were assured of publication of the final findings to facilitate decision making process.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION

4.1 Introduction

This chapter presents the research findings of the study carried out to determine the effect of Strategic Human Resource Management practices on the performance of selected Public Universities in Kenya. This sought to examine the effect of human resource planning, staffing and retention, training and development on performance of selected Public Universities in Kenya. Further, discussions on the findings are made in relation to findings of existing empirical studies conducted locally and internationally.

4.2 Response Rate

The unit of analysis for this study were teaching and non-teaching staff of selected Public Universities in Kenya. A sample size of 278 respondents was selected from 13 selected Public Universities in Kenya. A total number of 278 questionnaires were self-administered to respondents but only 211 questionnaires were received from the field, 33 were inappropriately filled while 34 were not returned after administration. A total of 211questionnaires were used in the analysis and this represented 76 % response rate which was above 50% as recommended by Fisher (2010).

4.3 Population Demographics

4.3.1 Age of Respondents

Respondents of the study were asked to indicate their age and the findings were summarized as shown in Figure 4.1:

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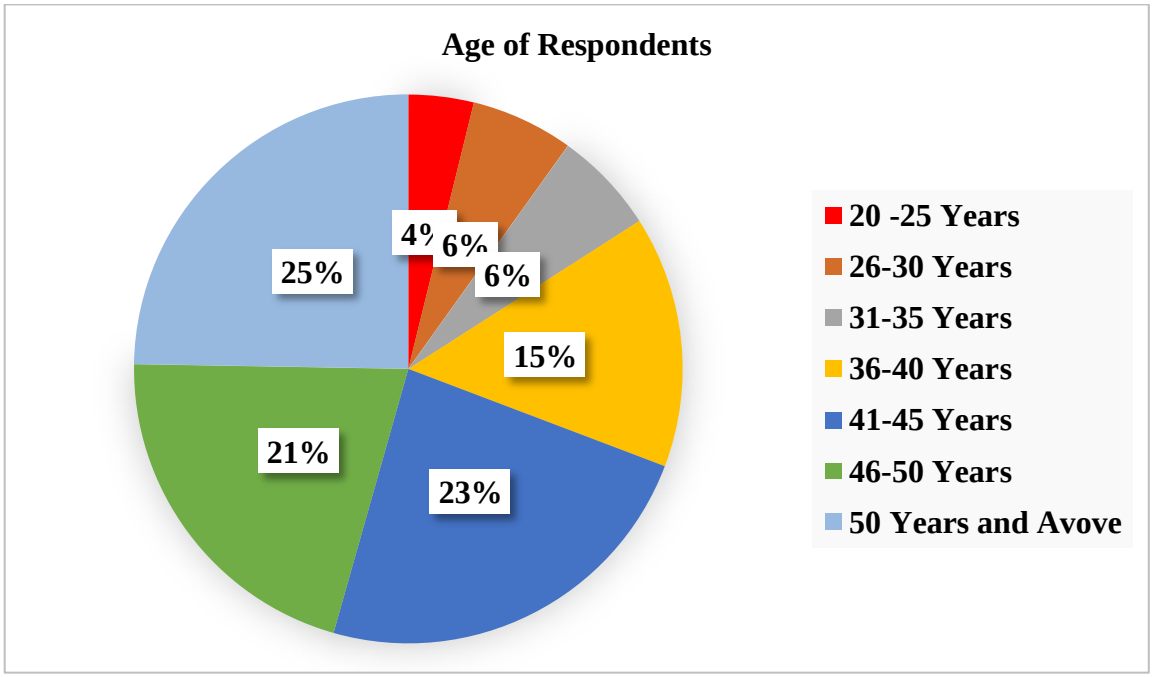

Figure 4.1: Age of Respondents

Source: Research data (2019)

As illustrated in Figure 4.1, the results indicated that the majority (25%) were aged above 50 years who comprised of senior teaching and non-teaching staff. Some (23%) of the them were aged between 41-45 years who composed on middle management and teaching staff, 21% of them were aged between 46-50 years who comprised of senior administrators and senior lecturers, 15% of them were aged between 36-40. Some (06%) of them were aged between 26-35 years who comprised of administrators while 4% of them were aged between 20-25 years who comprised on newly recruited assistant administrators. This finding imply that majority of the respondents of this study had adequate experience concerning the problem under investigation.

4.3.2 Gender of Respondents

Respondents of the study were asked to indicate their gender and the findings were summarized as shown in Figure 4.2:

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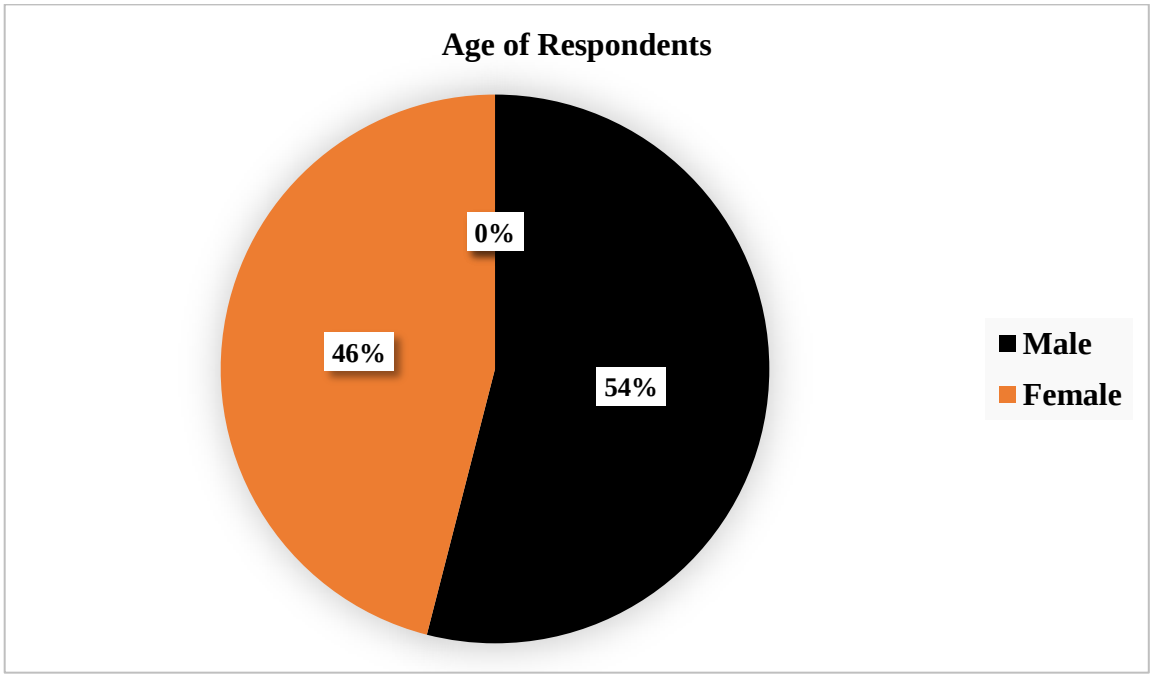

Figure 4.2: Gender of Respondents

Source: Research data (2019)

As depicted in Figure 4.2, the results indicated that majority (54%) of respondents were male while 46% of them were female respondents. These findings imply that most of the public university staff were men as compared to female employees who were less by 8%. This finding imply that most of the vacant positions in Public Universities were occupied by male employees based on the fact that female candidates who applied for the positions did not have adequate experience to occupy the positions which fall vacant.

4.3.3 Respondents Level of Education

Respondents of the study were asked to indicate their level of education and the findings were summarized as shown in Figure 4.3:

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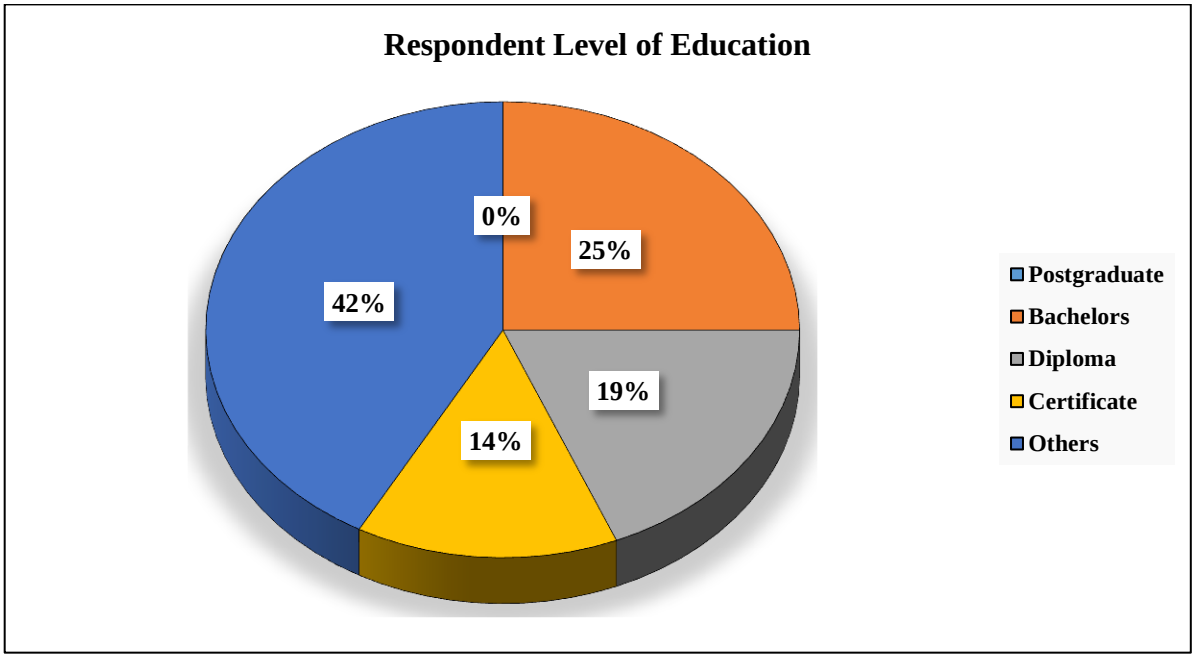

Figure 4.3: Respondent Level of Education

Source: Research data (2019)

As shown in Figure 4.3, majority of the respondents (42%) were postgraduate holders who served as lecturers and senior administrative posts. Some (25%) were first degree holders who comprised of administrators in different schools while 19% and 14% were secretaries and who served in different departments. This finding imply that most of the respondents of the study were highly qualified as it was a requirement of the commission for university education.

4.4 Strategic Human Resource Planning

Respondents of the study were asked to indicate the effect of strategic human resource planning on performance of Public Universities in Kenya and the findings were summarized as shown in Figure 4.1:

Table 4.1: Strategic Human Resource Planning

Statements	Mean	S.D
My university has the capacity to forecast future number of workers to accomplish particular tasks	4.26	.884
My university has clear policies that demonstrates how employees are engaged and rewarded after retirement	4.21	.664
My university has a clear policy that stipulates how employees in each cadre are rewarded	4.23	.587
My university recruits employees on a competitive criteria	2.11	.673
My university recruits employees with diverse knowledge and experience	4.04	.596
My university has a clear policy of employee succession	4.59	.498

My university conducts needs assessment before recruiting workers	2.98	.781
Average Mean Score	**4.45**	

Source: Research Data (2019)

Respondents of the study were requested to indicate the extent to which they agreed or disagreed with the influence of human resource planning practices on performance of performance of selected Public Universities in Kenya. As depicted in Table 1, the study revealed that the mean score for the for 5 of the 7 statements was more than the 4.00 which means that most of the respondents had agreed with the statement while the rest either disagreed or were neutral. It was indicated that strategic human planning practices such as ability to forecast for future employee influence performance with a mean of 4.26, implementation of policies of compensation after employee retirement with a mean of 4.21, policies that endorse how workers are rewarded with a mean of 4.23, recruitment of employees with diverse skills with a mean of 4.04, clarity of employee succession policies with a mean of 4.59, recruitment of employees on a competitive criteria with a mean of 2.11 and conduction of needs assessment with a mean of 2.98.

This finding imply that despite the fact that human resource planning influenced performance of selected Public Universities, to some extent some practices such as competitive recruitment and periodical employee needs assessment were not embraced effectively. It was pointed out that some universities were understaffed while others overstaffed. Further, it was noted that to some extent some State corporation were challenged to recruit employees competitively due to public service policies that advocated for a general degree for entry in public entities. Further, the results suggest that early retirement of employees from the Public Universities was unlikely due to unsatisfactory salaries. Employees were working for quite some time before being promoted.

This finding corresponds with that of Ogolla (2007), Ibullah et al. (2016), Shikha and Karishma (2012), Thiriku and Were (2016) who ascertained that strategic human resource planning did not only influence organizational to increase productivity in terms of the quantity of goods produced but also facilitated ability of the organization to identify the necessary skills and knowledge required by workers to performance effectively in a changing business environment.

4.5 Strategic Staffing and Retention

Respondents of the study were asked to indicate the extent to which they agreed or disagreed with the influence of staffing and retention on performance of selected Public Universities and the findings were summarized as shown in Table 4.2.

Table 4.2: Strategic Staffing and Retention

Statements	Mean	SD
My university engages workers on permanent basis	4.78	.884
My university provides conducive working environment for all workers	2.61	.664
My university management incorporates views of employees when making key decision making	1.58	.587
My university promotes workers based on their performance	3.47	.673
My university has a mentorship program that aims to improve skills of workers	2.33	.596
Employees of my university are always motivated to perform their duties with passion	2.10	.498
My university has adequate number of staff to perform various tasks	2.10	.4.91
My university allocates responsibilities to employees based on their specialization skills	1.03	.411
My university competitively reward employees based on their qualification and experience	2.01	.374
Average Mean Score	**3.33**	

Source: Research Data (2019)

As depicted in Table 4.2, the study found out that the mean score for 1 of the 9 statements was more than 4 which meant that a few respondents agreed with the statement while the rest either disagreed or were neutral. The study indicated that engagement of workers on a permanent basis influenced performance with a mean of 4.78, promotions based on performance with a mean of 3.47, conduciveness of the working environment with a mean of 2.61, employee mentorship with a mean of 2.33, employee motivation and adequacy of staff to perform various duties with a mean of 2.10, reward of employees based on qualifications and experience with a mean of 2.01 and allocation of responsibilities based on areas of specialization with a mean of 2.01.

The findings imply even though staffing and retention was viewed to be a practice that influence performance of selected Public Universities in Kenya, to a larger extent it was revealed that Public Universities did not provide conducive working environment to worker, involve workers in decision making, motivate workers, increase number of staff, assign duties based on individuals' skills and specialization and reward workers based on qualifications and experience. Further, the results suggest that Public Universities experienced high turnover rates based on the fact that most of the workers were engaged on contractual terms and more specifically non-teaching staff. Further, it was noted that taking early retirement among teaching and non-teaching staff was a rare practice in most of the Public Universities.

This finding concurs with that of Kasmi (2011), Kiiru (2013), Kwamboka (2016) Ligare (2010) and Manguru (2011) who elucidated that employee motivation spirit was influenced in any competitive organization through rewarding employees based on their knowledge, experience and skills. The studies pointed out that even though matching knowledge and duties allocated to employees was perceived to be a practice of private entities, to a larger extent it was attributed to organizational performance if effectively embraced. Further, it was noted that improving working environment and recognizing workers' effort were directly correlated to organizational performance. It emerged that

despite the specialization of individual workers, most of the employees were assigned general duties which did not stimulate creativity and innovation or adoption of new changes.

4.6 Training and Development

Respondents of the study were asked to indicate the extent to which they agreed or disagreed with the influence of training and development on performance of selected Public Universities and the findings were summarized as shown in Table 4.3.

Table 4.3: Training and Development

Statements	**Mean**	**S.D**
My university has a mechanism of measuring the impact of employee training	2.91	.544
My university trains workers with a long term view of customer satisfaction	2.88	.487
My university provides timely feedback after performance appraisals	2.34	.346
My university conducts career counselling to employees	2.33	.421
Top management of the university encourages lower level workers to advance their studies	2.26	.374
My university sponsors internal employees to further their studies	2.22	.343
My university conducts training needs assessment to determine the kind of trainings each employee needs to perform effectively	1.33	.268
Aggregate Mean	**4.7**	.198

Source: Research Data (2019)

As illustrated in Table 4.3, the study found out that the mean score for 6statements was less than 2 which meant that most of the respondents disagreed with the statement while the rest either agreed or were neutral. Results indicated that mechanisms of measuring the impact of employee training influenced performance with a mean of 2.91, training workers with a long term view with a mean of 2.88, feedback of performance appraisal with a mean of 2.34, counselling of workers with a mean of 2.33, management encouragement of lower level employees to advance studies with a mean of 2.26, university employee sponsorship with a mean of 2.22 and frequency of conducting training needs assessment with a mean of 1.33.

This finding are consistent with that of Gitonga, Kilika and Obere (2016), Thiriku and Were (2016), Ali and Nur (2016) who acknowledge that there exists a significant positive relationship between employee training and organizational performance in terms of service delivery. The studies attested even though in some cases there existed difference between employee training and performance, to a larger extent formal trainings among workers were considered to be catalysts of organizational performance if were effectively implemented.

4.7 Inferential Statistics

4.7.1 Diagnostic Tests

Prior to subjecting the data to regression analysis, diagnostic tests which were conducted to establish conformity with statistical assumptions such as normality, linearity, homogeneity and Multicollinearity tests were conducted as discussed:

4.7.2 Normality Test

Normality was tested using Shapiro-Wilk test, which has the ability to detect departure from normality. Its statistic

ranges from zero to one and figures $p > 0.05$ indicates the data is normal (Fisher, 2010). Shapiro-Wilk test assessed whether data was normally distributed against null hypothesis (H_0) that the sample did not follow a normal distribution.

As illustrated in Table 4.4, the four research variables had figures ranging from -0.1 to +1.0 and most of them were skewed towards +1.0. Human resource planning had the highest value of calculated probability (=0.872), whereas training and development had the lowest value of calculated probability (0.746). In this case, the resulting calculated probability values for all the research variables are greater than 0.05; therefore, at 5% level of significance the sample followed a normal distribution as recommended by Crowther& Lancaster (2012). Normality was also met since there was a large number of participants (211) involved in the study.

Table 4.4: Normality Test

Variables	**Statistics**	Df	Sig
Human Resource Planning	0.872	178	0.003
Staffing and Retention	0.811	178	0.002
Training and Development	0.746	178	0.000

4.7.3 Linearity Test

Linearity test was done using Pearson's moment correlation coefficient between Strategic Human Resource Management practices and performance of selected Public Universities in Kenya. Table 4.5, indicates that there was a positive and significant linear relationship between performance of selected Public Universities in Kenya and human resource planning, staffing and retention, training and development at 5% level of significance. The results indicate that human resource planning($r=0.556$, $p<0.05$), staffing and retention($r=0.417$, $p<0.05$) and training and development($r=0.456$, $p<0.05$). This results indicate that a unit increase in human resource planning, staffing and retention, training and development would result to an increase in performance of selected Public Universities in Kenya. The general implication of the results was that there was co-movement of variables, and in the same direction. However, it is critical to note that correlation does not necessarily mean that there is a causal relationship (Collis & Hussey, 2014).

Table 4.5: Linearity Test

Independent Variables		**Public Universities in Kenya Performance**
Human Resource Planning	Pearson Correlation	0.556**
	Sig(2-tailed)	0.001
	N	211

Staffing and Retention	Pearson Correlation	0.417**
	Sig(2-tailed)	0.000
	N	211
Training and Development	Pearson Correlation	0.456**
	Sig(2-tailed)	0.002
	N	178
	N	211

****p< 0.05**

4.7.4 Homogeneity Test

Homoscedasticity was tested by the use of Levene's Test (1960) of Homogeneity of Variances. Homogeneity of variances assumes that the dependent variable exhibits equal variance across the range of predictor variables (Novikov. & Novikov, 2013). If the variances in the two groups are different from each other, then adding the two together is not appropriate and will not yield an estimate of the common within-group variances. Therefore, the Levene Test for Homogeneity of the Variance was used to measure the equality of variances for the variables. If the test is significant (calculated probability > 0.05), the two variances are not significantly different and are thus approximately equal (Guest, 2012).

As illustrated in Table 4.6, it is indicated that the calculated probability is p >0.05 for all the three variables of the study. The calculated probability values generated from this test ranged between 0.0742 for performance of Public Universities in Kenya and 0.789 for career development. The result shows that the significance level of Levene Test is greater than 0.05, indicating variance homogeneity as proposed by (Fisher, 2010).

Table 4.6: Homogeneity Test

Variables	Lavene Statistics	df	Sig
Human Resource Planning	8.456	1	0.789
Staffing and Retention	7.432	1	0.579
Training and Development	6.334	1	0.234
Performance of selected Public Universities in Kenya.	7.324	1	0.742

4.7.5 Multicollinearity Test

To establish whether Multicollinearity would pose a problem, regression analysis was conducted. Table 4.7 indicates

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that all the VIFs of the five variables of the study were less than 10 and Tolerance greater than 0.1 respectively. VIF of greater than 10 and Tolerance less than 0.1 suggests Multicollinearity (Collis & Hussey, 2014) work-life balance yielded the least VIF at 0.682 career development generated the highest VIF at 0.846. This implies that there was no Multicollinearity and thus all the predictor variables were maintained in the regression model, as this is within the threshold recommended by Crowther & Lancaster (2012) & Fisher (2010).

Table 4.7: Multicollinearity Test

Model	**Collinearity Statistics**	
	Tolerance	Mean VIF
Human Resource Planning	0.846	1.568
Staffing and Retention	0.682	1.467
Training and Development	0.712	1.245
Performance of selected Public Universities in Kenya.	0.712	1.249

4.8 Correlation Analysis

Pearson's product moment Correlation Analysis was conducted at 95% confidence interval and 5% confidence level 2-tailed to assess the statistical relationship between the variables while multiple regressions was used to determine the predictive power of each independent variable on performance of Public Universities in Kenya.

Table 4.8 indicates that there existed statistical correlation between the human resources planning (0.710), staffing and retention (0.693) and training and development (0.579).

Table 4.8: Correlations Results Analysis

	Career Development	**Work-Life Balance**	**Working Environment**
	1		
Human Resource Planning	.710		
	.0012	1	
Staffing and Retention	.693	.027	
	.0017	.799	1
Training and Development	.579	.560	.762
	.0023	.000	.560

****p< 0.05**

As shown in Table 4.8, the positive relationship indicates that there existed correlation between the three variables of the study on performance of selected Public Universities in Kenya. The Significance values of the three independent variables were less than 5% (0.0012, 0.0017 and 0.0023) which indicated that a unit increase of human resource planning, staffing and retention, training and development resulted to a unit increase in performance of selected Public Universities in Kenya.

4.9 Regression Analyses and Hypotheses Testing

To establish the statistical significance of the respective hypotheses, simple and multiple linear regressions analysis were conducted at 95% confidence level.

4.9.1 Testing of Hypotheses One

H_{01}: There was no relationship between human resource planning and performance of selected Public Universities in Kenya.

Table 4.9: Regression Results of Strategic Human Resource planning and Performance of Selected Public Universities

(a)The Goodness of Fit Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.774	.555	.439	.04395

(b) The Overall Significance

Model		Sum of Squares	df	Mean Square	F-test	Sig.(p-value)
1	Regression	.055	1	.055	28.372	.000
	Residual	.066	34	.002		
	Total	.120	35			

(c) The Composite Score Test

Model		Unstandardized Coefficients		Standardized Coefficients	t-test	Sig.(p-value)
		B	Std. Error	Beta		
1	(Constant)	.353	.069		5.147	.000
	Human Resource Planning	.512	.096	.674	4.327	.000

Predictor: (Constant), Strategic Human Resource Planning
Dependent Variable: Performance of Selected Public Universities

The results in Table 4.9, indicate that human resource planning had a statistically significant influence on performance of selected Public Universities. It explained 55.5 % of variation (R^2=.555). The standardized regression coefficient (β) value of the computed scores of human resource planning was .774 with a t-test of 4.327 and a significance level of p-value=. 000. The results indicate a linear dependence of performance of selected Public Universities on strategic human resource planning.

The standardized regression coefficient was used as it is free from original units of the predictor and outcome variables. This finding are consistent with that of Ogolla (2007), Ibullah et al. (2016), Shikha and Karishma (2012) who found out that strategic human resource planning was directly correlated with organizational performance. The

null hypothesis was rejected at 95% confidence level and the study concluded that human resource planning had a statistical significant effect on performance of selected Public Universities in Kenya.

4.9.2 Testing of Hypotheses Two

H_{02}: There was no relationship between strategic staffing and retention and performance of selected Public Universities in Kenya.

Table 4.10: Regression Results of Strategic Staffing and Retention and Performance of Performance of Selected Public Universities

(a)The Goodness of Fit Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
2	.376	.131	.116	.05795

(b) The Overall Significance

Model		Sum of Squares	df	Mean Square	F-value	Sig.(p-value)
2	Regression	.019	1	.019	5.591	.024
	Residual	.114	34	.003		
	Total	.133	35			

(c) The Composite Score Test

Model		Unstandardized Coefficients		Standardized Coefficients	t-value	Sig (p-value)
		B	Std. Error	Beta		
2	(Constant)	.554	.071		7.864	.000
	Staffing and Retention	.221	.093	.276	2.382	.014

Predictor: (Constant). Strategic Staffing and Retention
Dependent Variable: Performance of Selected Public Universities in Kenya

The results in Table 4.10 depict that the relationship between Strategic Staffing and Retention and performance of selected Public Universities is statistically significant. It explained 13.1 % of variation (R^2=.131). The standardized regression coefficient (β) value of the computed score of staffing and retention was .276 with a t-test of 2.382 and significance level of p-value= 014.The results indicate a linear dependence of performance of selected Public Universities on strategic staffing and retention. Previous studies by Kasmi (2011), Kiiru (2013) and Kwamboka (2016) concur that staffing and retention is a function of organizational performance from context to context. The null hypothesis was rejected at 95% confidence level and the study concluded that staffing and retention had a statistical significant effect on performance of selected Public Universities in Kenya.

4.9.2 Testing of Hypotheses Three

H_{02}: There was no relationship between training and development and retention and performance of performance of selected Public Universities in Kenya.

Table 4.11: Regression Results of Training and Development and Retention and Performance of Performance of Selected Public Universities

(a)The Goodness of Fit Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
2	.576	.231	.134	.05555

(b) The Overall Significance

Model		Sum of Squares	df	Mean Square	F-value	Sig.(p-value)
2	Regression	.011	1	.019	3.11	.014
	Residual	.126	24	.003		
	Total	.157	25			

(c) The Composite Score Test

Model		Unstandardized Coefficients		Standardized Coefficients	t-value	Sig (p-value)
		B	Std. Error	Beta		
2	(Constant)	.354	.071		6.334	.000
	Staffing and Retention	.241	.093	.176	1.282	.000

Predictor: (Constant). Training and Development

Dependent Variable: Performance of Selected Public Universities in Kenya

The results in Table 4.11 depicts that the relationship between training and development and performance of selected Public Universities is statistically significant. It explained 23.1 % of variation (R^2=.231). The standardized regression coefficient (β) value of the computed score of staffing and retention was .176 with a t-test of 1.282 and significance level of p-value= 000.The results indicate a linear dependence of performance of selected Public Universities on strategic staffing and retention. Previous studies by Kasmi (2011), Kiiru (2013) and Kwamboka (2016) concur that training and development is a function of organizational performance from context to context. The null hypothesis was rejected at 95% confidence level and the study concluded that training and development had a statistical significant effect on performance of selected Public Universities in Kenya

Table 4.12: Summary of Hypotheses Testing

	Hypotheses	Results	Decision	Conclusion
$H0_{1a}$	Strategic Human Resource planning	(r = 774 , p < 0.000).	Reject null hypothesis and adopt alternative	There was significant positive relationship between human resource planning and performance of selected Public Universities in Kenya.

			hypothesis	
$H0_{1b}$	Staffing and Retention	($r = 376$, $p < 0.000$).	Reject null hypothesis and adopt alternative hypothesis	There was significant positive relationship between staffing and retention and performance of selected Public Universities in Kenya.
$H0_{1c}$	Training and Development	($r = 576$, $p < 0.000$).	Reject null hypothesis and adopt alternative hypothesis	There was significant positive relationship between training and development and performance of selected Public Universities in Kenya.

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CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introductions

This chapter presents findings of the study based on objectives which the study sought to address. Conclusion and recommendations are made and finally suggestions for further studies is made.

5.2 Summary of Findings

The study sought to examine the effect of Strategic Human Resource Management practices on the performance of selected Public Universities in Kenya, with main focus being testing the relationship between human resource planning, staffing and retention, training and development on performance of selected Public Universities in Kenya.

5.2.1 Human Resource Planning

The study revealed that there exists a positive significant relationship between human resource planning and performance of performance of selected Public Universities in Kenya. However, it was pointed out that most of the universities did not embrace human resource plans effectively. It was noted that non-teaching employees recruited in some schools did not have the required skills, knowledge and experience to perform effectively. Succession criteria was unclear and criteria of rewarding employees was also unclear. Further, it was noted that determining the right number of employees to accomplish particular tasks was attributed by internal politics.

5.2.2 Staffing and Retention

The study found out that there exists a positive significant relationship between staffing and retention and performance of selected Public Universities in Kenya. However, it was noted that some departments were understaffed and the existing workers were overworked. It was noted that some teaching staff were unsatisfied with the number of students they taught per class as it exceeded the recommended number by commission for university education. Further, some non-teaching staff were of the opinion that they were not paid for extra time worked. Lack of motivation and job security had resulted to high turnover rates among the non-teaching staff. It was also observed that universities did not replace retirees or those employees who resigned easily.

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5.2.3 Training and Development

The study found out that there exists a positive significant relationship between training and development and performance of selected Public Universities in Kenya. However, it was noted that Public Universities did not review employee salaries after appraisals. The universities did not sponsor non-teaching as compared to teaching staff. Further, it was observed that career counselling among workers were unlikely and it was difficult to measure the impact of any training conducted.

5.3 Conclusion

This study concludes that to some extent State owned corporations were experiencing problems such as inadequate number of staff to provide services to customers, insufficient knowledge and skills among workers to perform particular technical tasks, inability to anticipate number of workers to replace retiring, dying and resigning employees.

This study concludes that to some extent issues of staffing and retention were of great concern. Inability to involve workers' decision making, poor working conditions, unclear duties, inability to nature talents and motivate workers using promotions, trainings and recognition were among of the factors that contributed to deteriorating performance of Public Universities in terms of employee turnover, low morale and lack of creativity and innovation among workers.

This study concludes that despite the fact that Public Universities were striving to improve service delivery, to a larger extent the teaching and not teaching staff were of the opinion that sponsorships awarded were not adequate and performance appraisals had little impact on career growth and development. Junior workers were of the view that scholarships were awarded to teaching staff but not non-teaching staff.

5.4 Recommendations

The study found out that most of the Public Universities did not have non-teaching employees with specialized skills and knowledge to performance effectively. Therefore, this study recommends that top leadership of Public Universities should review recruitment policies in order to promote the spirit of specialization in Public Universities thus enhanced customer service delivery.

Further, the government should increase financial budgets to all Public Universities in order to facilitate capacity development and employee motivation for enhanced service delivery. Top leadership of Public Universities should ensure that non-teaching employees are given job security after serving for a particular period of time in order to promote quality of service delivery.

The study noted that inability to forecast of the number of workers to accomplish particular tasks was a challenge. This study recommends that human resource managers of Public Universities should engage external human resource consultants or experts to enable them predict the kind of knowledge, skills and number of staff who may be required to address service demand issues from time to time due to increased number of student enrolment in Public Universities. Moreover, top leadership of Public Universities should develop frameworks that encourage early retirement among teaching and non-teaching staff. To minimize staff turnover among non-teaching staff, human resource managers should review employee engagement policies in order to encourage staff retention and development.

Further, this study recommends that for Public Universities to excel in service delivery, the government should increase financial budgets in order to facilitate employment of teaching and non-teaching in Public Universities to address the increasing demand of academic services. The government should partner with well-wishers in order to promote capacity and infrastructural development.

5.5 Recommendations for Further Studies

This study was limited to selected Strategic Human Resource Management practices which included human resource planning, staffing and retention, training and development which may not be the only Strategic Human Resource Management practices to influence performance of Public Universities in Kenya. This study recommends that other researchers should explore on other sustainable Strategic Human Resource Management practices that can influence performance of organizations in the public service sector.

Researchers can also introduce moderating and intervening variable in the relationship to measure their direct or indirect effect on performance of organizations. Other researchers should seek to replicate a similar study in other countries and sectors to examine similarity of the results. Furthermore, researchers should go ahead and conduct comparative studies among countries in East Africa such Uganda, Tanzania and Rwanda to compare the findings in terms of performance of Public Universities.

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The Intervening Influence of Selected Macroeconomic Factors on Fiscal Policy Stance and Public Expenditure in Kenya

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ISBN 978-9966-132-53-6 @ Copy Right .2019

Abstract
This paper investigates the intervening influence of selected macroeconomic factors on the relationship between fiscal policy stance and public expenditure in Kenya using VAR and VECM models. This paper is underpinned by the theory of fiscal policy, Wagner's Law of increasing state activities and Peacock-Wiseman hypothesis. The population period was 1964 to 2015. Secondary data was used and it was collected from KNBS reports. The findings indicate that foreign aid and grants have an intervening influence on the relationship between fiscal policy stance and public expenditure in Kenya. Nevertheless, fiscal stance has a statistically insignificant effect on public expenditure. The results show that fiscal stance, foreign aid and grants and public expenditure are cointegrated using the Johansen cointegration test but there is no short run causality between the variables as indicated by the Wald test statistics. The conclusion is that foreign aid and grants explain the extent to which fiscal policy stance affects the level of public expenditure in Kenya even though fiscal policy stance has a negative relationship with public expenditure.

Key words: ***Fiscal policy stance, public expenditure, macroeconomic factors, inflation, unemployment, foreign aid and grants.***

1. Introduction

Worldwide there is increased attention on fiscal consolidation especially in developing economies where there are numerous challenges in raising public revenues optimally in order to balance out with public expenditure. There is a growing trend of enacting fiscal rules across nations in order to have a balanced budget (Tsai, 2014) and also to avoid possible cases of unsustainable public expenditure levels or high public debt amounts which can lead to a crisis. There is a significant body of knowledge in the empirical literature on macroeconomic factors, fiscal policy and even on public expenditure. However, there is insufficient evidence on the nexus between fiscal policy stance and public expenditure while considering the mediating influence of macroeconomic factors.

Fiscal policy refers to a toll or measures that governments utilise in controlling the level of public expenditure with an objective of redistributing and reallocating resources and economic stabilization (Tanzi, 2006; Perotti, 2007). Therefore, fiscal stance can be described as the fiscal position taken up by a government – contractionary or expansionary fiscal stance.
Public expenditure generally refers to the expenses incurred by a government in its own maintenance, the society at large or assisting other nations. Public expenditure can be classified into recurrent expenditure and development expenditure (Barro & Grilli, 1994).

In this paper, three macroeconomic factors have been selected from amongst other factors which include inflation rate, unemployment rate and foreign aid and grants. The key reason for studying the three variables is that they have been observed in previous studies (Tanzi, 2006) as having a significant relationship with fiscal policy. Furthermore, there is insufficient evidence on how these macroeconomic factors mediate on the relationship between fiscal stance and public expenditure. Dornbusch et al. (2004) describe macroeconomic factors as indicators of the economic behaviour and policies that affect an economy. Unemployment rate is the fraction of the labour force that is out of work and looking for a job or expecting a recall from a layoff while inflation is the rate of change in the general price level (Dornbusch et al., 2004). Foreign aid and grants constitute the amount of aid and grants sourced from other countries. Generally, studies on macroeconomic factors and public expenditure done by Fan and Rao (2003) and Tayeh and Mustafa (2011) argue that macroeconomic factors in a nation can determine public expenditure levels. This implies that macroeconomic stability would ignite changes in public expenditure.

There is inconclusive evidence on the mediating influence of inflation, unemployment rate and foreign aid and grants on the relationship between fiscal stance and public expenditure in Kenya in the existing finance literature. Hence, this paper seeks to answer the following research questions; what is the effect of fiscal stance on public expenditure in Kenya? Do inflation rate, unemployment rate and foreign aid and grants have a mediating effect on the relationship between fiscal stance and public expenditure in Kenya? This paper is arranged in the following sections; introduction, literature review, research methodology, data analysis and conclusions.

2. Literature Review

2.1 Theoretical Review

This paper is anchored on the following theories; Theory of fiscal policy, Wagner's Law of increasing state activities and Peacock-Wiseman hypothesis. The Theory of fiscal policy states that fiscal policy aims at redistributing income and reallocating resources in addition to achieving stabilization in an economy (Musgrave, 1959; Johansen, 1965). This theory contends that fiscal policy can influence the increase or decrease in public expenditure considering the fiscal priorities present. Tanzi (2006) argues that fiscal policy makers have a key agenda of promoting the social and economic welfare of citizens dependent upon the government in power. Therefore, the theory of fiscal policy underpins the relationship between fiscal policy stance and public expenditure since fiscal policy intends to redistribute and reallocate resources in a nation.

Wagner's Law of increasing state activities is a theory arguing that there is a long run tendency for public expenditure to grow in relation to national income. Wagner (1863) based the theory in Germany, where he noted that all types of governments showed an increasing trend in public expenditure regardless of their size or plans. However, Wagner was not clear on the composition of public expenditure but Musgrave (1959) argued that Wagner's focus could have been on the size of the public sector in the economy as a whole. Wagner's contributions to public expenditure theories is significant considering that before his study the popular notion was that public expenditure had an inverse relationship with economic growth. Therefore, Wagner's Law implicitly underpins the relationship between the selected macroeconomic factors and public expenditure taking into consideration that macroeconomic factors explain the economic behaviour of a nation.

The Peacock-Wiseman hypothesis is a theory stating that public expenditure increases in relation to economic growth in a step-like manner unlike the smooth and continuous pattern as argued by Wagner's Law. Peacock and Wiseman (1961) argued that public expenditure in the UK from 1890 to 1955 had a smooth pattern but seemed to have steep increases especially during war or civil instability but public spending stabilized afterwards. The public expenditure trends are related to tax revenues and it is notable that the tolerable tax burden by the public is stable unless there are cases of economic or political instability. Therefore, this theory underpins the relationship between fiscal policy stance and public expenditure considering that fiscal stance is operationalized by tax and budget deficits.

2.2 Empirical Review

In the finance literature, several studies have been undertaken where they relate macroeconomic factors to economic growth but there is still insufficient evidence on how these macroeconomic factors relate to fiscal policy and public expenditure. For instance, UNCTAD report (2010) using a descriptive research approach examines macroeconomic policy and development during the 2008 global financial crisis (GFC). The paper argues that the popular notion before the GFC was that countries undergoing economic distress should implement prudent measures in the form of tight fiscal policies to achieve macroeconomic stability. Canuto (2009) and Svante (2010) using a descriptive research approach, support the view that in a crisis period and recession, which is characterized by rising unemployment, rising interest rates and a fall in commodity prices, countries should implement contractionary economic policies. However, Brixiova (2010) and UNCTAD (2010) argue that non-restrictive policies are beneficial to all economies inclusive of Africa in order to stimulate aggregate demand in an economy as part of post-crisis recovery.

The fiscal policy adopted by a country would influence the macroeconomic factors and essentially the levels of public expenditure. Perotti (2007) argues that a rise in the interest rate regulated by the monetary authorities would lead to some fall in the output gap and a slowdown in inflation. Fan and Rao (2003) using regression analysis from 1980 to 1998 across 43 developing nations in Asia, Africa and Latin America contend that the macroeconomic reforms of a nation can determine the level of public expenditure in a country. This implies that changes in macroeconomic factors would affect the level of public expenditure as influenced by the fiscal policy adopted by a government.

Studies on the relationship between macroeconomic factors and public expenditure exhibit varied findings. For instance, Njeru (2003) using cointegration approach for the period 1970 to 1999 in Kenya contends that the level of foreign aid would affect the amounts of public expenditure. This means that economies which mainly finance their budgets using a significant amount of debt, the public expenditures in those economies would be affected. Remmer (2004) using time series cross sectional regression analysis from 1970 to 1999 in 120 middle and lower income countries, sought to examine whether foreign aid generates incentives and opportunities for public expenditure growth. The study findings indicate that foreign aid generates incentives for the growth of public expenditure. Similarly, Fan and Rao (2003) investigated the trends and impact of public expenditure in developing countries and found that public debt levels can determine the level of public expenditure.

On the interrelation between unemployment rate and inflation rate on public expenditure, Tayeh and Mustafa (2011) using correlation analysis from 1979 to 2000 in Jordan found that unemployment rates and inflation rates have a significant relationship with public expenditure. The study further argues that a government uses fiscal policy to fight inflation since it would respond by reducing public spending when inflation increases and when the share of unemployment rises, it is inclined to increase public spending. However the study did not extend the modelling to advanced methodologies such as using the error correction model to test the interrelationships among the variables.

Magazzino (2011) using time series data from 1970 to 2009 in the Mediterranean countries found that public expenditure growth and inflation have a long run relation in Portugal. Granger causality tests were also undertaken and the findings indicate that there is bi-directional flow for public expenditure growth and inflation in Italy in the short run, unidirectional flow from inflation to public expenditure in Portugal in the long run, in France a unidirectional flow in the short run but in the opposite direction (from public expenditure to inflation) in Cyprus, Malta and Spain.

Similarly, Ezirim et al. (2008) undertook a study on public expenditure and inflation from 1970 to 2002 using cointegration analysis and Granger causality testing. The study found that public expenditure and inflation are

cointegrated thus implying that they have a long run interrelation. Ayo et al. (2012) indicate that from public expenditure to inflation rate, there exists unidirectional causality. However, there are studies that report a weak relationship between inflation and public expenditure. For instance, Han and Mulligan (2008) using time series data from 1973 to 1990 based on eighty countries indicate that permanently high non-defence public expenditure across countries is weakly related to inflation. Generally the studies on inflation and public expenditure present mixed findings yet they use Granger causality tests to explore these interrelationships. The differences in economic environment such as whether a developed or developing region, whether the data used is time series or cross-sectional or the theoretical underpinning of the study could be some of the reasons that could explain the divergence of results.

There has been extensive literature on budget deficits and their effects on economies. Nevertheless there was a study done by Alesina and Perotti (1994) that sought to examine the institutional determinants of budget deficits. The study contends that budget deficits should only be observed during wars and recessions since those are times when public expenditure is temporarily high. Interestingly the study findings indicate that fiscal illusion by voters due to their ignorance on government budget constraints and asymmetric stabilization policies that entail politicians always willing to run deficits during recessions contribute to the rising levels of budget deficits.

3. Research Methodology

The causal analytical research design was adopted since it enabled the determination of the cause and effect in examining the influence of selected macroeconomic factors on the relationship between fiscal policy stance and public expenditure in Kenya. The study population period was 1964 to 2015 since it captured the universe of these variables in Kenya. Secondary data on fiscal policy, macroeconomic factors (inflation rates, unemployment rates & foreign aid and grants) and public expenditure was collected from Kenya National Bureau of Statistics (KNBS) economic surveys, statistical abstracts and annual budget estimates books.

The data collected was analysed using descriptive and inferential statistics where it involved a description of the data, undertaking of diagnostic tests and finally time series modelling. In establishing the influence of macroeconomic factors on the relationship between fiscal policy stance and public expenditure, three steps were involved in testing the intervening influence according to the Baron and Kenny (1986) approach. The first step involved regressing fiscal policy stance against public expenditure using a VECM model as follows;

$$PExp_t = \propto_{10} + \propto_{11} PExp_{t-1} + \propto_{12} FP_{t-1} + \varepsilon_{1t} \quad \textbf{(1)}$$

Where:
$PExp_t$ = Public Expenditure
$PExp_{t-1}$ = Lagged Public Expenditure
FP_{t-1} = Fiscal Policy Stance
α_{10} = The Constant or Intercept
α_{11} = Model Coefficient of the Lagged Public Expenditure
α_{12} = Model Coefficient of Fiscal Policy Stance
ε_{1t} = Error Term or Structural Shock

The second step involved regressing fiscal policy stance against inflation rate and unemployment rate using VAR models while a VECM model was used in regressing fiscal policy stance against foreign aid & grants as follows;

$$Unemp_t = \propto_{10} + \propto_{11} FP_t + \varepsilon_t \quad \textbf{(2)}$$
$$Infl_t = \propto_{20} + \propto_{21} FP_t + \varepsilon_t \quad \textbf{(3)}$$
$$FGrnt_t = \propto_{30} + \propto_{31} FP_t + \varepsilon_t \quad \textbf{(4)}$$

Where:
$Unemp_t$ = Unemployment Rate
$Infl_t$ = Inflation Rate
$FGrnt_t$ = Foreign Aid and Grants
FP_t = Fiscal Policy Stance
$\alpha_{10}, \alpha_{20}, \alpha_{30}$ = Constant or Intercept
$\alpha_{11}, \alpha_{21}, \alpha_{31}$ = Model Coefficient of Fiscal Stance
ε_t = Error Term or Structural Shock

The final step involved regressing fiscal policy stance and economic growth on public expenditure using a VECM model as follows;

$$Y_t = \beta_0 + \beta_1 Y_{t-1} + \sum_{i=1}^{m} \gamma_i X_{it} + \varepsilon_t \quad \textbf{(5)}$$

Where:
Y_t = Public Expenditure
Y_{t-1} = Lagged Public Expenditure

X_{it} = Independent Variables
β_0 = Constant or Intercept
β_1 = Model Coefficient of the Lagged Public Expenditure
γ_i = Model Coefficients of the Independent Variables
ε_t = Error Term or Structural Shock

4. Data Analysis

4.1 Data Description

Time series annual data was collected from KNBS reports and World Bank Development indicators reports. The data description involves highlighting the annual trends on fiscal policy stance (budget deficit, tax) and public expenditure as indicated in Figures 1 to 3 in the appendix. The annual budget deficits in Kenya as indicated in Figure 1 in the appendix seem to be constant from 1964 to 1990. However, in the 1990s the deficit was volatile implying that there were years with budget surpluses. However, after the year 2000 budget deficit has been on an increasing trend implying the existence of an expansionary fiscal stance. The annual tax revenue as depicted by Figure 2 in the appendix indicates an increasing trend over time but with slumps in the years 1995 and 2005. However, the rate of increase in the tax revenue is lower than that of public expenditure over the years as seen in Figures 2 and 3 in the appendix, which concurs with the finding that the Kenya government has been using an expansionary fiscal stance to spur economic growth. Finally, public expenditure has an increasing smooth trend over the years as indicated in Figure 3 in the appendix thus concurring with Wagner's Law of increasing state activities that public expenditure growth follows a smooth pattern as opposed to the step-like pattern as argued by Peacock-Wiseman hypothesis.

4.2 Summary Statistics

Fiscal policy stance (budget deficit) has a mean of Ksh. 42507.66 million with a standard deviation of Ksh. 100432.6 million as indicated in Table 1. Fiscal policy stance (tax) has a mean of Ksh. 123379.8 million with a standard deviation of Ksh. 196962.8 million. Unemployment, inflation and foreign aid and grants have a mean of 9.51%, 9.95% and Ksh. 6537.43 million respectively. Public expenditure has a mean of Ksh. 192760.3 million with a standard deviation of Ksh. 294372.1 million. Fiscal policy stance, inflation rate, foreign aid and public expenditure have a positive distribution as indicated by the skewness. On kurtosis, the variables are highly peaked relative to the peakedness of a normal distribution with values above three (3) implying that the distribution is leptokurtic.

Table 1: Summary Statistics of the Study Variables

	Budget Deficit (Ksh. M)	**Tax (Ksh. M)**	**Unemployment Rate (%)**	**Inflation Rate (%)**	**Foreign Aid & Grants (Ksh. M)**	**Public Expenditure (Ksh. M)**
Mean	42507.66	123379.8	9.51	9.95	6537.43	192760.3
Median	395.50	30486.6	9.55	9.60	3875.64	53007.75
Maximum	692000.0	1021597.0	12.20	28.80	57082.00	1953509.0
Minimum	-44986.00	735.32	6.90	-0.50	3.42	1362.40
Std. Dev.	100432.6	196962.8	1.08	6.13	10793.38	294372.1
Skewness	2.14	1.95	0.15	1.01	2.82	1.96
Kurtosis	6.24	5.84	3.83	4.35	12.18	6.13
Jarque-Bera	59.90	48.39	1.61	12.31	241.87	52.44

Source: Researcher's Computations

4.3 Diagnostic Test Results

This paper used the Augmented Dickey-Fuller (ADF) test for stationarity and Johansen test for cointegration in undertaking diagnostic tests. The stationarity tests were undertaken on fiscal policy stance (tax, budget deficit), unemployment rate, inflation rate, foreign aid and grants and public expenditure in order to determine if they are stationary or non-stationary.

Table 2: Results of Stationarity Tests

Variable	**ADF Statistic at Level**	**ADF Statistic at First**	**ADF Statistic at Second**

		Differencing	Differencing
Tax	-0.5459 (0.8728)	-6.9760 (0.0000)	
Budget Deficit	-0.2621 (0.9223)	-0.7274 (0.8293)	-10.7528 (0.0000)
Unemployment Rate	-3.8872 (0.0042)		
Inflation Rate	-5.5615 (0.0000)		
Foreign Aid & Grants	1.1795 (0.9975)	-3.6062 (0.0099)	
Public Expenditure	9.5844 (1.0000)	4.5209 (1.0000)	-16.1278 (0.0000)

Source: Researcher's Computations

In Table 2, the stationarity results indicate that tax and development expenditure are stationary at first differencing which means that they are integrated at order one I(1). On the other hand, budget deficit, recurrent expenditure and public expenditure are stationary at second differencing meaning that they are integrated at order two I(2). Cointegration tests were undertaken in order to test if the variables have a long run relationship between them. The Johansen test for cointegration was conducted using the trace statistic and maximum Eigen values. For cointegration to exist, the trace statistic should be greater than the critical values at 5% level of significance.

Table 3: Results of Johansen Cointegration Test

	Hypothesized No. of CE(s)	Eigen value	Trace Statistic	0.05 Critical Value	Prob.
Budget Deficit & Public Expenditure	None*	0.7121	67.3906	20.2618	0.0000
	At most 1	0.1469	7.6267	9.1645	0.0971
Tax & Public Expenditure	None*	0.4578	50.7290	20.2618	0.0000
	At most 1*	0.3733	21.9590	9.1645	0.0001
Budget Deficit & Unemployment Rate	None	0.1507	13.9976	20.2618	0.2896
	At most 1	0.1204	6.1599	9.1645	0.1787
Budget Deficit & Inflation Rate	None	0.1834	17.8665	20.2618	0.1034
	At most 1	0.1560	8.1415	9.1645	0.0779
Budget Deficit & Foreign Aid and Grants	None*	0.3664	23.8262	20.2618	0.0155
	At most 1	0.0393	1.9244	9.1645	0.7927
Tax & Unemployment Rate	None*	0.3115	24.5437	20.2618	0.0121
	At most 1	0.1289	6.6260	9.1645	0.1476
Tax & Inflation Rate	None*	0.3396	28.3674	20.2618	0.0031
	At most 1	0.1614	8.4514	9.1645	0.0682
Tax & Foreign Aid and Grants	None*	0.3047	27.7818	20.2618	0.0038
	At most 1*	0.1938	10.3415	9.1645	0.0298

* denotes rejection of the null hypothesis at the 0.05 level of significance

Source: Researcher's Computations

The results in Table 3 indicate that budget deficit and public expenditure are cointegrated since the trace statistics of 67.3906 is greater than the critical value of 20.2618 at 5% level of significance. Similarly, there is cointegration between tax and public expenditure since the trace statistics is greater than the critical value at 5% level of significance. However, tax seems to have a stronger level of cointegration which is essentially a stronger long-run relationship with public expenditure as compared to budget deficit with public expenditure as evidenced by the number of co-integrating equation results in Table 3. Granger causality tests were undertaken so as to determine if one variable causes another or simply testing the level of prediction of one variable against another. The null hypothesis in the Granger causality test states that a variable x does not Granger cause variable y in the first regression while variable y does not Granger cause variable x in the second regression at 5% level of significance.

Table 4: Results of Granger Causality Tests

Null Hypothesis	f-Statistic	P-values
Tax revenue does not Granger cause public expenditure	0.2904	0.7494
Public expenditure does not Granger cause tax revenue	2.4340	0.0997
Budget deficit does not Granger cause tax revenue	0.4930	0.6142
Tax revenue does not Granger cause budget deficit	1.6651	0.2011
Tax revenue does not Granger cause inflation rate	0.0103	0.9898
Inflation rate does not Granger cause tax revenue	1.5524	0.2234

Budget deficit does not Granger cause inflation rate	0.7747	0.4672
Inflation rate does not Granger cause budget deficit	0.6156	0.5450
Tax revenue does not Granger cause unemployment rate	0.0311	0.9694
Unemployment rate does not Granger cause tax revenue	0.0905	0.9137
Budget deficit does not Granger cause unemployment rate	0.0366	0.9641
Unemployment rate does not Granger cause budget deficit	0.0233	0.9770
Foreign aid & grants does not Granger cause budget deficit	1.5967	0.2143
Budget deficit does not Granger cause foreign aid & grants	0.2880	0.7512

Source: Researcher's Computations

The findings in Table 4 indicate that tax revenue does not Granger-cause public expenditure and vice versa at 5% level of significance as indicated by the *p*-values of 0.7494 and 0.0997. Budget deficit does not Granger-cause tax revenue and vice versa at 5% level of significance as indicated by the p-values of 0.6142 and 0.2011. Foreign aid and grants do not Granger-cause budget deficit and vice versa at 5% level of significance as indicated by the p-values of 0.2143 and 0.7512.

4.4 Model Specification

4.4.1 Fiscal Policy Stance, Selected Macroeconomic Factors and Public Expenditure

The key objective of this paper was to establish the influence of inflation rate, unemployment rate and foreign aid & grants on the relationship between fiscal policy stance and public expenditure in Kenya. Stepwise regression was undertaken where it involved three main steps. The first step entailed regressing fiscal policy stance on public expenditure, the second step involved regressing fiscal policy stance on selected macroeconomic factors while the third step involved regressing fiscal policy stance and selected macroeconomic factors on public expenditure. The three steps were used based on mediation analysis done by Baron and Kenny (1986) and further supported by MacKinnon et al. (2002) on the key steps in establishing if a variable has a mediating or intervening influence on a dependent to independent variable relationship. Furthermore, there can be various forms of intervening effects ranging from full mediation, partial mediation or no mediation. According to Baron and Kenny (1986) full mediation is when the independent to dependent relationship is insignificant but the effect on the dependent variable is significant when the intervening variable is introduced. Partial mediation exists when the independent to dependent relationship is less significant compared to the relationship among the independent variable, intervening variable and the dependent variable. Lastly, no mediation is when the independent to dependent relationship is insignificant and also insignificant effect on the dependent variable when the intervening variable is introduced.

The first step of testing intervening or mediating influence involved fiscal policy stance and public expenditure whereby a VECM model was used. The results are indicated in Table 1A in the appendix, where they indicate that the effect of fiscal policy stance on public expenditure is statistically insignificant. The second step of testing intervening or mediating influence which entailed fiscal policy stance and each of the selected macroeconomic factors (inflation rate, unemployment rate and foreign aid & grants) was established using VAR models and a VECM model as determined by the existence of cointegration between the variables in a model. Pre-diagnostic checking and post diagnostic checking was undertaken.

4.4.2 Fiscal Policy Stance and Inflation Rate

The effect of fiscal policy stance on inflation rate was established using a VAR model. Pre-diagnostic checking and post diagnostic checking was undertaken. Table 5 indicates the lag length criteria/selection method used in testing the effect of fiscal policy stance on inflation rate.

Table 5: Lag Length Selection

Lag	LogL	LR	FPE	AIC	SC	HQ
0	-825.3494	NA	8.79e+11	36.01519	36.13445	36.05987
1	-649.8255	320.5220	6.31e+08	28.77502	29.25206*	28.95372*
2	-642.0468	13.18992	6.69e+08	28.82812	29.66294	29.14085
3	-628.9424	20.51129*	5.68e+08*	28.64967*	29.84226	29.09642
4	-620.4125	12.23850	5.95e+08	28.67011	30.22048	29.25089

* indicates lag order selected by the criterion
Significance level at 5%
Source: Researcher's Computations

From Table 5, three (3) lags were selected since under the LR, FPE and AIC the lag value was the lowest. After the lag selection was done, the effect of fiscal policy stance on inflation rate was undertaken. Before running the VAR

model, diagnostic tests were done such as Johansen cointegration test and Stationarity test so as to ensure that the model would generate robust results. The data was tested for Stationarity at level and if it was not stationary then it was made stationary at first differencing or second differencing. For the cointegration tests, there was no cointegration between fiscal policy stance and inflation rate hence a VAR model being the most appropriate model to be used. The VAR model is as shown next in Table 6.

Table 6: VAR Model for Fiscal Policy Stance and Inflation Rate

Equation: INFL = C(1)*INFL(-1) + C(2)*INFL(-2) + C(3)*INFL(-3) + C(4) *TAX(-1) + C(5)*TAX(-2) + C(6)*TAX(-3) + C(7)*BDEFIC(-1) + C(8)*BDEFIC(-2) + C(9)*BDEFIC(-3) + C(10)

	Coefficient	Std. Error	t-Statistic	Prob.
C(1)	0.120961	0.174718	0.692323	0.4931
C(2)	0.336349	0.162970	2.063868	0.0461
C(3)	0.110923	0.179778	0.616998	0.5410
C(4)	-1.510121	6.557149	-0.230301	0.8191
C(5)	-2.374565	9.267427	-0.256227	0.7992
C(6)	3.906250	6.039229	0.646813	0.5217
C(7)	4.25E-05	4.66E-05	0.912172	0.3676
C(8)	-8.49E-05	6.55E-05	-1.297048	0.2026
C(9)	3.92E-05	6.00E-05	0.652339	0.5182
C(10)	5.026319	6.155116	0.816608	0.4194

R-squared	0.207301	Mean dependent var	10.12128
Adjusted R-squared	0.014482	S.D. dependent var	6.285108
S.E. of regression	6.239432	Akaike info criterion	6.685958
Sum squared resid	1440.429	Schwarz criterion	7.079606
Log likelihood	-147.1200	Hannan-Quinn criter.	6.834090
F-statistic	1.075106	Durbin-Watson stat	1.981043
Prob(F-statistic)	0.403453		

Source: Researcher's Computations

From Table 6, the effect of fiscal policy stance on inflation rate is statistically insignificant as indicated in the p-values except the two lagged variable of inflation with a *p*-value of 0.0461 at 5% level of significance. The R^2 is 20.73% meaning that 20.73% of the variations in inflation can be explained by fiscal policy stance. The joint significance between budget deficit and inflation rate was tested using the Wald test as indicated next.

Table 7: Joint Significance between Budget Deficit and Inflation Rate

Test Statistic	Value	df	Probability
Chi-square	1.824088	3	0.6097

Null Hypothesis: C(7)=C(8)=C(9)=0
Null Hypothesis Summary:

Normalized Restriction (= 0)	Value	Std. Err.
C(7)	4.25E-05	4.66E-05
C(8)	-8.49E-05	6.55E-05
C(9)	3.92E-05	6.00E-05

Source: Researcher's Computations

From the Table 7, we accept the null hypothesis that budget deficit and its lagged variables cannot jointly influence inflation rate as indicated by the *p*-value of 0.6097.

Table 8: Joint Significance between Budget Deficit and Tax

Test Statistic	Value	df	Probability
Chi-square	3.872157	3	0.2756

Null Hypothesis: C(17)=C(18)=C(19)=0
Null Hypothesis Summary:

Normalized Restriction (= 0)	Value	Std. Err.
C(17)	-1.41E-06	1.15E-06
C(18)	-2.06E-07	1.62E-06
C(19)	2.33E-06	1.49E-06

Source: Researcher's Computations

As indicated in Table 8, we accept the null hypothesis that budget deficit and its lagged variables cannot jointly influence tax as indicated by the *p*-value of 0.2756.

Table 9: Joint Significance between Tax and Budget Deficit

Test Statistic	Value	Df	Probability
Chi-square	8.684858	3	0.0338

Null Hypothesis: C(24)=C(25)=C(26)=0
Null Hypothesis Summary:

Normalized Restriction (= 0)	Value	Std. Err.
C(24)	14754.16	20391.02
C(25)	19467.77	28819.27
C(26)	-28788.12	18780.42

Source: Researcher's Computations

From the Table 9, we reject the null hypothesis that tax and its lagged variables cannot jointly influence budget deficit as indicated by the *p*-value of 0.0338. Therefore there is joint significance between tax and budget deficit. Table 10 indicates the serial correlation test undertaken so as to determine if there was any autocorrelation between the variables after running the model.

Table 10: Serial Correlation Test
Breusch-Godfrey Serial Correlation LM Test:

F-statistic	2.623811	Prob. F(3,34)	0.0663
Obs*R-squared	8.835556	Prob. Chi-Square(3)	0.0316

Source: Researcher's Computations

There is serial correlation in the model as indicated by the *p*-value of 0.0316 while the corresponding R^2 is 8.835556. Table 11 shows the results of the heteroscedasticity test done in order to determine if there was heteroscedasticity between the variables after running the model.

Table 11: Heteroscedasticity Test

Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	1.652829	Prob. F(9,37)	0.1363
Obs*R-squared	13.47741	Prob. Chi-Square(9)	0.1422
Scaled explained SS	8.002532	Prob. Chi-Square(9)	0.5339

Source: Researcher's Computations

We accept the null hypothesis that states that there is no heteroscedasticity as indicated by the *p*-value of 0.1422 at 5% level of significance while the corresponding R^2 is 13.47741.

4.4.3 Fiscal Policy Stance and Unemployment Rate

The effect of fiscal policy stance on unemployment rate was established using a VAR model. Pre-diagnostic checking and post diagnostic checking was undertaken. Table 12 shows the lag length criteria/selection method used in testing the effect of fiscal policy stance on unemployment rate.

Table 12: Lag Length Selection

Lag	LogL	LR	FPE	AIC	SC	HQ
0	-746.1435	NA	2.81e+10	32.57146	32.69072	32.61613
1	-566.5815	327.8959	16909874*	25.15572*	25.63276*	25.33442*
2	-564.2337	3.981151	22713229	25.44494	26.27976	25.75767
3	-552.9257	17.69950*	20834333	25.34459	26.53719	25.79135
4	-550.2837	3.790674	28200078	25.62103	27.17140	26.20181

* indicates lag order selected by the criterion
Significance level at 5%

Source: Researcher's Computations

From the Table 12, one (1) lag was selected since under the FPE, AIC, SC and HQ the lag value was the lowest. After the lag selection was done, the effect of fiscal policy stance on unemployment rate was undertaken. Before running the VAR model, diagnostic tests were done such as the Johansen cointegration test and Stationarity tests so as to ensure that the model would generate robust results. The data was tested for Stationarity at level and if it was not stationary then it was made stationary at first differencing or second differencing. For the cointegration tests, there was no cointegration between fiscal policy stance and unemployment rate hence a VAR model being the most appropriate model to be used. The VAR model is as shown in Table 13.

Table 13: VAR Model for Fiscal Policy Stance and Unemployment Rate

Equation: UNEMP = C(1)*UNEMP(-1) + C(2)*LNTAX(-1) + C(3)*BDEFIC(-1) + C(4)

	Coefficient	Std. Error	t-Statistic	Prob.
C(1)	0.515862	0.126849	4.066725	0.0002
C(2)	0.005419	0.085496	0.063386	0.9497
C(3)	-5.45E-07	1.92E-06	-0.283869	0.7778
C(4)	4.548747	1.489158	3.054576	0.0038

R-squared	0.272725	Mean dependent var	9.491837
Adjusted R-squared	0.224240	S.D. dependent var	1.088354
S.E. of regression	0.958593	Akaike info criterion	2.831407
Sum squared resid	41.35050	Schwarz criterion	2.985841
Log likelihood	-65.36946	Hannan-Quinn criter.	2.889999
F-statistic	5.624927	Durbin-Watson stat	2.250381
Prob(F-statistic)	0.002315		

Source: Researcher's Computations

From Table 13, the effect of fiscal policy stance on unemployment rate is statistically insignificant as indicated in the *p*-values except the lagged variable of unemployment with a *p*-value of 0.0002 at 5% level of significance. The R^2 is 27.27% meaning that 27.27% of the variations in unemployment can be explained by fiscal policy stance. The joint significance between budget deficit and unemployment rate was tested using the Wald test as indicated next.

Table 14: Joint Significance between Budget Deficit and Unemployment Rate

Test Statistic	Value	Df	Probability

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t-statistic	-0.283869	45	0.7778
F-statistic	0.080582	(1, 45)	0.7778
Chi-square	0.080582	1	0.7765

Null Hypothesis: C(3)=0
Null Hypothesis Summary:

Normalized Restriction (= 0)	Value	Std. Err.
C(3)	-5.45E-07	1.92E-06

Source: Researcher's Computations

As shown in Table 14, we accept the null hypothesis that budget deficit and its lagged variables cannot jointly influence unemployment rate as indicated by the *p*-value of 0.7765.

Table 15: Joint Significance between Tax and Unemployment Rate

Test Statistic	Value	Df	Probability
t-statistic	0.063386	45	0.9497
F-statistic	0.004018	(1, 45)	0.9497
Chi-square	0.004018	1	0.9495

Null Hypothesis: C(2)=0
Null Hypothesis Summary:

Normalized Restriction (= 0)	Value	Std. Err.
C(2)	0.005419	0.085496

Source: Researcher's Computations

From the Table 15, we accept the null hypothesis that tax and its lagged variables cannot jointly influence unemployment rate as indicated by the *p*-value of 0.9495.

Table 16: Joint Significance between Budget Deficit and Tax

Test Statistic	Value	Df	Probability
t-statistic	0.002497	45	0.9980
F-statistic	6.24E-06	(1, 45)	0.9980
Chi-square	6.24E-06	1	0.9980

Null Hypothesis: C(7)=0
Null Hypothesis Summary:

Normalized Restriction (= 0)	Value	Std. Err.
C(7)	8.28E-10	3.31E-07

Source: Researcher's Computations

According to Table 16, we accept the null hypothesis that budget deficit and its lagged variables cannot jointly influence tax as indicated by the *p*-value of 0.9980.

Table 17: Joint Significance between Tax and Budget Deficit

Test Statistic	Value	Df	Probability
t-statistic	1.828546	45	0.0741
F-statistic	3.343580	(1, 45)	0.0741
Chi-square	3.343580	1	0.0675

Null Hypothesis: C(10)=0
Null Hypothesis Summary:

Normalized Restriction (= 0)	Value	Std. Err.
C(10)	3561.533	1947.741

Source: Researcher's Computations

From the Table 17, we accept the null hypothesis that tax and its lagged variables cannot jointly influence budget deficit as indicated by the *p*-value of 0.0675. Serial correlation test was done in order to determine if there was any autocorrelation between the variables after running the model as indicated in Table 18.

Table 18: Serial Correlation Test
Breusch-Godfrey Serial Correlation LM Test:

F-statistic	2.699867	Prob. F(1,44)	0.1075
Obs*R-squared	2.832845	Prob. Chi-Square(1)	0.0924

Source: Researcher's Computations

As indicated in Table 18 above, we accept the null hypothesis that there is no serial correlation in the series residual as indicated by the *p*-value of 0.0924. Heteroscedasticity test was done in order to determine if there was heteroscedasticity between the variables after running the model as indicated in Table 19.

Table 19: Heteroscedasticity Test
Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	5.935836	Prob. F(3,45)	0.0017
Obs*R-squared	13.89273	Prob. Chi-Square(3)	0.0031
Scaled explained SS	29.35110	Prob. Chi-Square(3)	0.0000

Source: Researcher's Computations

As indicated in Table 19, we reject the null hypothesis that states that there is no heteroscedasticity as indicated by the *p*-value of 0.0031 at 5% level of significance while the corresponding R^2 is 13.89273.

4.4.4 Fiscal Policy Stance and Foreign Aid & Grants
The effect of fiscal policy stance on foreign aid & grants was also established using a VECM model and pre-diagnostic checking and post diagnostic checking was undertaken. Table 20 shows the lag length criteria/selection method used.

Table 20: Lag Length Selection

Lag	LogL	LR	FPE	AIC	SC	HQ
0	-726.7147	NA	1.21e+10	31.72673	31.84599	31.77140
1	-548.7075	325.0566	7773853.*	24.37859*	24.85562*	24.55729*
2	-547.8435	1.465054	11137648	24.73233	25.56714	25.04505
3	-533.4792	22.48327*	8945075.	24.49909	25.69169	24.94585
4	-529.1570	6.201374	11254568	24.70248	26.25285	25.28326

* indicates lag order selected by the criterion
Significance level at 5%

Source: Researcher's Computations

From the Table 20, one (1) lag was selected since under the FPE, AIC, SC and HQ the lag value was the lowest. After the lag selection was done, the effect of fiscal policy stance on foreign aid & grants was undertaken. A VECM model was used to test the hypothesis. Before running the VECM model, diagnostic tests were done such as Johansen cointegration test and Stationarity test so as to ensure that the model would generate robust results. The data was tested for Stationarity at level and if it was not stationary then it was made stationary at first differencing or second differencing. For the cointegration tests, there was cointegration between fiscal policy stance and foreign aid & grants hence a VECM model being the most appropriate model to be used. The VECM model is as shown next;

Table 21: VECM Model for Fiscal Policy Stance and Foreign Aid & Grants

D(FAID) = C(1)*(FAID(-1) - 1.57215141671*TAX(-1) + 6.50736179382E-06*BDEFIC(-1) + 8.97000160415) + C(2) *D(FAID(-1))
+ C(3)*D(TAX(-1)) + C(4)*D(BDEFIC(-1)) + C(5)

	Coefficient	Std. Error	t-Statistic	Prob.
C(1)	-0.515110	0.118614	-4.342744	0.0001
C(2)	0.002664	0.132603	0.020088	0.9841
C(3)	-0.071623	0.645929	-0.110883	0.9122
C(4)	-2.08E-06	4.36E-06	-0.475706	0.6367
C(5)	0.132701	0.135081	0.982388	0.3314

R-squared	0.333789	Mean dependent var	0.107992
Adjusted R-squared	0.271816	S.D. dependent var	0.810732
S.E. of regression	0.691827	Akaike info criterion	2.199372
Sum squared resid	20.58088	Schwarz criterion	2.394289
Log likelihood	-47.78493	Hannan-Quinn criter.	2.273031
F-statistic	5.386027	Durbin-Watson stat	2.085435
Prob(F-statistic)	0.001319		

Source: Researcher's Computations

From Table 21, the effect of fiscal policy stance on foreign aid & grants is statistically insignificant as indicated in the *p*-values while the R^2 is 33.38% meaning that 33.38% of the variations in foreign aid & grants can be explained by fiscal policy stance. The p-value of C(1) or the constant is 0.0001 meaning that there is a long run causality running from fiscal policy stance to foreign aid & grants. Short run causality was also tested using the Wald test as indicated in Tables 22 and 23.

Table 22: Wald Test for Tax on Foreign Aid & Grants

Test Statistic	Value	df	Probability
t-statistic	-0.110883	43	0.9122
F-statistic	0.012295	(1, 43)	0.9122
Chi-square	0.012295	1	0.9117

Null Hypothesis: C(3)=0
Null Hypothesis Summary:

Normalized Restriction (= 0)	Value	Std. Err.
C(3)	-0.071623	0.645929

Source: Researcher's Computations

The results in Table 22 show that there was no short run causality running from tax to foreign aid & grants as indicated by the *p*-value of 0.9117.

Table 23: Wald Test for Budget Deficit on Foreign Aid & Grants

Test Statistic	Value	df	Probability
t-statistic	-0.475706	43	0.6367
F-statistic	0.226297	(1, 43)	0.6367

Chi-square	0.226297	1	0.6343

Null Hypothesis: C(4)=0
Null Hypothesis Summary:

Normalized Restriction (= 0)	Value	Std. Err.
C(4)	-2.08E-06	4.36E-06

Source: Researcher's Computations

As indicated in Table 23, there was no short run causality running from budget deficit to foreign aid & grants as indicated by the *p*-value of 0.6343. Serial correlation test was done in order to determine if there was any autocorrelation between the variables after running the model as indicated in Table 24.

Table 24: Serial Correlation Test
Breusch-Godfrey Serial Correlation LM Test:

F-statistic	1.776253	Prob. F(1,42)	0.1898
Obs*R-squared	1.947635	Prob. Chi-Square(1)	0.1628

Source: Researcher's Computations

From the Table 24, we accept the null hypothesis that there is no serial correlation in the series residual as indicated by the *p*-value of 0.1628. Table 25 shows the results of the heteroscedasticity test done in order to determine if there was heteroscedasticity between the variables after running the model.

Table 25: Heteroscedasticity Test
Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	3.126331	Prob. F(6,41)	0.0129
Obs*R-squared	15.06716	Prob. Chi-Square(6)	0.0197
Scaled explained SS	17.75203	Prob. Chi-Square(6)	0.0069

Source: Researcher's Computations
As indicated in Table 25, we reject the null hypothesis that states that there is no heteroscedasticity as indicated by the *p*-value of 0.0197 at 5% level of significance while the corresponding R^2 is 15.06716.

The final step of testing intervening influence involves regressing fiscal policy stance and macroeconomic factors on public expenditure using a VECM model as determined by the existence of cointegration between the variables. Pre-diagnostic checking and post diagnostic checking was undertaken. Table 26 shows the lag length criteria/selection method used in testing the effect of fiscal policy stance and macroeconomic factors on public expenditure.

Table 26: Lag Length Selection

Lag	LogL	LR	FPE	AIC	SC	HQ
0	-1505.305	NA	1.39e+21	65.70892	65.94744	65.79827
1	-1263.439	410.1202	1.82e+17*	56.75824	58.42787*	57.38369*
2	-1228.389	50.29027	2.06e+17	56.79951	59.90025	57.96106
3	-1194.576	39.69305	2.82e+17	56.89461	61.42646	58.59227
4	-1138.364	51.32436*	1.88e+17	56.01581*	61.97877	58.24957

* indicates lag order selected by the criterion
Significance level at 5%

Source: Researcher's Computations

From the Table 26, one (1) lag was selected since under the FPE, SC and HQ the lag value was the lowest. After the lag selection was done, the effect of fiscal policy stance and macroeconomic factors on public expenditure was undertaken. A VECM model was used to test the hypothesis. Before running the VECM model, diagnostic tests were done such as Johansen cointegration test and Stationarity test so as to ensure that the model would generate robust results. The data was tested for Stationarity at level and if it was not stationary then it was made stationary at first

differencing or second differencing. For the cointegration tests, there was cointegration between fiscal policy stance, macroeconomic factors and public expenditure hence a VECM model being the most appropriate model to be used. The VECM model is as shown next in Table 27.

Table 27: VECM Model for Fiscal Stance, Macroeconomic Factors & Public Expenditure

D(PEXP) = C(1)*(PEXP(-1) - 15736.2245224*LNTAX(-1) - 0.24453168855*BDEFIC(-1) + 2431.8744158 *INFL(-1) - 13380.6980862*UNEMP(-1) + 1.26755271764*FAID(-1) + 88692.7003921) + C(2)*D(PEXP(-1)) + C(3)*D(TAX(-1)) + C(4)*D(BDEFIC(-1)) + C(5)*D(INFL(-1)) + C(6) *D(UNEMP(-1)) + C(7)*D(FAID(-1)) + C(8)

	Coefficient	Std. Error	t-Statistic	Prob.
C(1)	0.342478	0.038840	8.817671	0.0000
C(2)	-0.912425	0.205434	-4.441446	0.0001
C(3)	27691.44	25462.30	1.087547	0.2833
C(4)	-0.478694	0.215678	-2.219485	0.0322
C(5)	-633.4364	497.5667	-1.273068	0.2103
C(6)	3182.388	3428.008	0.928349	0.3588
C(7)	1.774987	0.671363	2.643857	0.0117
C(8)	44128.90	5763.727	7.656313	0.0000

R-squared	0.783399	Mean dependent var	25833.03
Adjusted R-squared	0.745494	S.D. dependent var	49717.29
S.E. of regression	25081.69	Akaike info criterion	23.24868
Sum squared resid	2.52E+10	Schwarz criterion	23.56054
Log likelihood	-549.9682	Hannan-Quinn criter.	23.36653
F-statistic	20.66730	Durbin-Watson stat	1.849100
Prob(F-statistic)	0.000000		

Source: Researcher's Computations

From Table 27, the effect of fiscal policy stance and macroeconomic factors on public expenditure is statistically significant as indicated in the *p*-values while the R^2 is 78.34% meaning that 78.34% of the variations in public expenditure can be explained by fiscal policy stance and the macroeconomic factors. As indicated in Table 27 fiscal policy stance (budget deficit), foreign aid & grants and the lagged variable of public expenditure have a significant effect on public expenditure. The *p*-value of C(1) or the constant is 0.0000 meaning that there is a long run causality running from fiscal policy stance and macroeconomic factors to public expenditure. The f-statistic is 0.000000 meaning that the model fits the data well. Short run causality was also tested using the Wald test as indicated in Tables 28, 29, 30, 31 and 32.

Table 28: Wald Test for Tax on Public Expenditure

Test Statistic	Value	Df	Probability
t-statistic	1.087547	40	0.2833
F-statistic	1.182758	(1, 40)	0.2833
Chi-square	1.182758	1	0.2768

Null Hypothesis: C(3)=0
Null Hypothesis Summary:

Normalized Restriction (= 0)	Value	Std. Err.
C(3)	27691.44	25462.30

Source: Researcher's Computations

As indicated in Table 28, there was no short run causality running from tax to public expenditure as indicated by the *p*-value of 0.2768.

Table 29: Wald Test for Budget Deficit on Public Expenditure

Test Statistic	Value	Df	Probability
t-statistic	-2.219485	40	0.0322
F-statistic	4.926113	(1, 40)	0.0322
Chi-square	4.926113	1	0.0265

Null Hypothesis: C(4)=0
Null Hypothesis Summary:

Normalized Restriction (= 0)	Value	Std. Err.
C(4)	-0.478694	0.215678

Source: Researcher's Computations

The results in Table 29 indicate that there was short run causality running from budget deficit to public expenditure as indicated by the *p*-value of 0.0265.

Table 30: Wald Test for Inflation Rate on Public Expenditure

Test Statistic	Value	df	Probability
t-statistic	-1.273068	40	0.2103
F-statistic	1.620703	(1, 40)	0.2103
Chi-square	1.620703	1	0.2030

Null Hypothesis: C(5)=0
Null Hypothesis Summary:

Normalized Restriction (= 0)	Value	Std. Err.
C(5)	-633.4364	497.5667

Source: Researcher's Computations

As indicated in Table 30, there was no short run causality running from inflation rate to public expenditure as indicated by the *p*-value of 0.2030.

Table 31: Wald Test for Unemployment Rate on Public Expenditure

Test Statistic	Value	Df	Probability
t-statistic	0.928349	40	0.3588
F-statistic	0.861832	(1, 40)	0.3588
Chi-square	0.861832	1	0.3532

Null Hypothesis: C(6)=0
Null Hypothesis Summary:

Normalized Restriction (= 0)	Value	Std. Err.
C(6)	3182.388	3428.008

Source: Researcher's Computations

According to the results in Table 31, there was no short run causality running from unemployment rate to public expenditure as indicated by the *p*-value of 0.3532.

Table 32: Wald Test for Foreign Aid and Grants on Public Expenditure

Test Statistic	Value	Df	Probability
t-statistic	2.643857	40	0.0117
F-statistic	6.989978	(1, 40)	0.0117
Chi-square	6.989978	1	0.0082

Null Hypothesis: C(7)=0
Null Hypothesis Summary:

Normalized Restriction (= 0)	Value	Std. Err.
C(7)	1.774987	0.671363

Source: Researcher's Computations

As indicated in Table 32, there was short run causality running from foreign aid & grants to public expenditure as indicated by the *p*-value of 0.0082. Table 33 shows the results of the serial correlation test undertaken in order to determine if there was any autocorrelation between the variables after running the model.

Table 33: Serial Correlation Test
Breusch-Godfrey Serial Correlation LM Test:

F-statistic	0.699733	Prob. F(1,39)	0.4080
Obs*R-squared	0.846030	Prob. Chi-Square(1)	0.3577

Source: Researcher's Computations

From the Table 33, we accept the null hypothesis that there is no serial correlation in the series residual as indicated by the *p*-value of 0.3577. Heteroscedasticity test was done in order to determine if there was heteroscedasticity between the variables after running the model as indicated in Table 34.

Table 34: Heteroscedasticity Test
Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	1.290103	Prob. F(12,35)	0.2675
Obs*R-squared	14.72031	Prob. Chi-Square(12)	0.2571
Scaled explained SS	46.13026	Prob. Chi-Square(12)	0.0000

Source: Researcher's Computations

Table 34 results indicate that we accept the null hypothesis that states there is no heteroscedasticity as indicated by the *p*-value of 0.2571 at 5% level of significance while the corresponding R^2 is 14.72031.

The final step of testing the intervening influence which involves regressing fiscal policy stance and macroeconomic factors on public expenditure using a VECM model is indicated in Table 27. The results show that fiscal policy stance and foreign aid & grants have a significant influence on public expenditure. Therefore, foreign aid & grants as one of the macroeconomic factors has a mediating/intervening influence on the relationship between fiscal policy stance and public expenditure.

Table 35 shown next gives a summary of the model coefficients before and after the intervening variable is introduced as also indicated in Table 1A (in the appendix) and Table 27 respectively. Also the percentage change as a result of the intervening variable which is macroeconomic factors is also indicated.

Table 35: Intervening Influence of Macroeconomic Factors on Fiscal Stance and Public Expenditure

Variables		**Coefficients without intervening variable**	**Coefficients with intervening variable**	**% Change in the coefficients**
Fiscal Policy Stance	Tax(-1)	-0.0038	27691.44	100%
	Tax(-2)	-0.1580		
	Budget Deficit (-1)	-0.00000141	-0.4787	99.99%
	Budget Deficit (-2)	0.0000000587		
Macroeconomic	Inflation (-1)		-633.44	

Factors	Unemployment (-1)		3182.39	
	Foreign Aid & Grants (-1)		1.775	

Source: Researcher's Computations

As indicated in Table 35, there is a significant change in the model coefficients after the intervening variable (macroeconomic factors) is introduced in the relationship between fiscal policy stance and public expenditure. The percentage changes are approximately 100%.

In the final step of testing intervening influence which involves regressing fiscal policy stance and macroeconomic factors on public expenditure using a VECM model, the results indicate that the lagged variable of public expenditure, fiscal policy stance (budget deficit) and foreign aid & grants have a significant influence on public expenditure. However, the model results in step one and two are statistically insignificant. This means that foreign aid and grants as a macroeconomic factor has a mediating influence on the relationship between fiscal policy stance and public expenditure.

5. Conclusion

First, fiscal policy stance has a weak effect on each individual macroeconomic variable. This implies that there could be several other variables that could explain a more significant effect on each of the macroeconomic variables other than fiscal policy stance. Secondly, the direct effect of fiscal policy stance on macroeconomic factors has not been widely examined. For instance, Canuto (2009) and Svante (2010) argued that during a worsening macroeconomic environment such as increased level of unemployment, then countries should adopt restrictive fiscal policies yet these studies do not clearly show how fiscal policy would influence a particular set of macroeconomic factors. Thirdly, this study contributes to the finance literature by examining the relationship between fiscal policy stance and macroeconomic factors which is a relationship insufficiently explored in empirical literature. Finally, from the study findings foreign aid and grants have an intervening influence on the relationship between fiscal policy stance and public expenditure in Kenya.

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Individual Factors And E-Learning Implementation In Higher Education Institutions: A Case Of Kenyan Universities

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Abstract
Individual factors have been known to influence e-learning implementation in institutions of Higher Education. Although studies have been done on factors which influence e-learning implementation in High Education, little has been done in our Kenyan universities to investigate how individual factors could influence e-learning implementation. This study was done to determine how individual factors influence e-learning implementation in Kenyan universities. The research study adopted the cross-sectional descriptive survey design approach. Purposive sampling was used to select 31 universities in Kenya. A self-completion questionnaire was prepared and administered to 165 respondents. These staff included the e-learning administrators and Technicians. Ninety-five (95) filled responses were received from the respondents. The data was analyzed using descriptive and inferential statistics while a multiple regression model was used to predict the effects of the influence of the individual factors. Unified Theory of Acceptance and Use of Technology was utilized in this study to determine the influence under study. The results of the analysis showed that individual adoption factors was an important determinant (p= 0.014) of e-learning implementation. The study revealed that individual factors, namely (basic training on e-learning, motivation of the staff and hiring of competent and trained staff) are key components in the e-learning implementation. The findings of this study, apart from being a source of literature for future studies can be used to guide university managers and other stakeholders on what and where to lay the necessary emphasis to make e-learning a success in their institutions.

Key words: ***Individual factors, e-learning, implementation, adoption***

ISBN 978-9966-132-53-6 @ Copy Right .2019

Introduction

Individual factors in the context of this study referred to the issues and characteristics that would influence the students and instructors thereby making them adapt and use technology in the learning and teaching. The studied factors included educational level, gender, educational experience and training in the e-learning systems, motivation and IT competence. The purpose of e-learning programs in any higher education institutions is to meet the objectives of learning. These objectives touch on the environment in which the learning happens, technology used to do the teaching and learning, student's ability to learn using the e-learning systems and the faculty involved. If the implementation was to succeed, then several factors as identified by (Buabeng-Andoh Charles 2012) play a big role in determining if the individual would adopt and integrate ICT in the teaching and learning. The individual factors reflects on the individual characteristics of motivation, commitments towards the adoption and integration of the technology. Also the instructor plays a role in the effectiveness and success of e-learning based on the courses they prepare for the students (Selim, 2007). The instructor's attitude, competence in technology, teaching style and mind-set were some key characteristics of the instructor identified in a study by (Webster and Hackley, 1997). Similarly, the individual's attitude and prior interaction with a computer could contribute to the success of e-learning adoption.

However, the many pedagogical and socio-economics issues existing in the universities were responsible for users adopting the e-learning technologies. These issues included; the need to access information, the need to communicate via electronic facilities, synchronous learning, increased cooperation and collaboration, cost-effectiveness and pedagogical improvement through simulations, virtual experiences, and graphic representations (**Sife *et al.*, 2007)**. In a study by Afshari *et al.*, (2013), which reviewed literature as pertains to the factors that affect effective implementation of e-learning for instructors and students in educational institutions in Malaysia. The study found out that individual factors affect e-learning practices in schools. Further, e-learning practice needed a good ICT infrastructure and active and collaborative involvement of a number of other people. The study further established that access to the technologies and pedagogical issues and institutional (organizational) support services are important in a successful e-learning practice. The study further concurred that, both the students and faculty were normally willing to use e-learning technology as long as it facilitated their teaching and learning anywhere and anytime on their own. Also the technology was constantly available and accessible for their use.

Buabeng-Andoh Charles (2012) in yet another study identified the factors that encourage teachers to use computer technology in the teaching and learning, in Ghana and concluded that individual or what the study called personal factors played a significant role in determining the influence of the adoption of the technology by the individual. In yet another study, Hew and Brush, (2007); Keengwe and Onchwari, (2008) identified these key factors as; the faculty

attitude and beliefs towards technology. Current study supports the fact that if the faculty attitude is positive towards the e-learning technology, then the faculty will support and use the teaching and learning technology comfortably and willingly. Also, the faculty will advocate for the adoption and integration of the technology in the teaching and learning processes and for use by their students. Also the benefits of the integration of the technology will be realized in the form of improved performance comparable to the traditional mode of teaching and learning (Al-kaabi & Al-muftah, 2011).

Further, for the individual users to be motivated to use e-learning effectively, training and workshops are needed not only to improve the skills of the instructors, but also as a means of getting them involved in the process of implementing and integrating ICTs in teaching and learning. For example, faculty staff requires training not just in the choice and use of appropriate technologies, but more fundamentally in how people learn and design instruction. A previous study by Afshari *et al*., (2013) rooted for training and agreed with the fact that teachers and students' competency in using new technologies, their attitudes towards e-learning systems and their personality traits played an important role in the successful implementation of e-learning program.

Studies done in other parts of the globe acknowledged that faculty that was trained and technically competent had the skill and experience needed in the e-learning and normally encouraged their students to use e-learning (Holden, 2011). Nchunge *et al*., (2012) in their study of the user's perception on the ICT adoption supported faculty training. The authors proposed the organization of computer training sessions, workshops and conferences for the faculty.
This study was interested in establishing the individual factors influences on adoption of e-learning in the Kenyan HEI's. To do this, the study looked at the characteristics of the individual participants, that is, the students and instructors in the HEI's. This involved studying their characteristics that make them adopt and use technology in the teaching and learning. Characteristics of interest in the study included educational level, gender, educational experience, and experience with the computer for educational purpose and attitude towards computers (Buabeng-Andoh Charles, 2012, among others. Further, e-learning training, motivation and IT competence were some of the key factors included in this study of influence of individual factors in the adoption of e-learning.

For e-learning to effectively happen, investment in internet technology must be present. Globally internet users are in the ranges of approximately 4.3 billion users (Internetworldstats, 2017). Of these users, approximately 433 Million are in Africa. Kenya in terms of internet users is ranked number three after Nigeria and Egypt respectively with an approximate population of 43 million internet users as of December 2017. These availability of the internet coupled with acquisition of computers aids in the need for adoption of e-learning for those willing to learn. This can also be a

solution to the problem of overcrowding in the lecture halls, housing the students and transportation (Abdel-Wahab, A., (2008).

Methodology

The research study adopted a cross-sectional descriptive survey design that provided the basis for examining the influence of adoption factors on the implementation of e-learning in the Kenyan universities as perceived by those manning the e-learning section or department. The choice of the research design was driven by the fact that, the approach involved the collection of data through multiple sources such as verbal reports, distribution of questionnaires and personal interviews. In addition, descriptive survey design incorporates the use of both qualitative and quantitative approaches to data collection, analyses and reporting. An advantage of the descriptive survey design method is that it allowed collection of quantitative data from any sizeable population in an economical way. The data collected using this approach, helped to suggest the relationship between variables. The descriptive survey design gave the researcher more control over the research process and the samplings generated findings that were representative of the whole population.

The target population of the current study was chosen from both public and private universities in Kenya, provided the university that they worked for met the criteria of offering e-learning mode. Specifically it comprised the Directors, Deans, Coordinators, Technicians and Administrators in the e-learning section or department in that particular university. As of June 2015, Kenya had 71 universities categorized as both private and public universities recognized and authorized by the Commission for University Education (CUE). Therefore, in the current study the targeted populations were 355 respondents working in the e-learning units in the universities. The universities chosen for this study are connected to the outside world through Kenya Data Network (KENET) fiber optical cable which runs across most institutions of higher learning in Kenya (KENET, 2009). Further, this connection enabled most of the higher learning institutions to share available resources.

The sample size of the study was 165 respondents sampled from thirty three universities. This group was identified because they played a key role in the implementation of the e-learning mode and its success in the university. They were also expected to be competent and well informed on all issues relating to e-learning in their universities. For this study, the number of universities that advertised themselves as having/offering e-learning are 16 public and 17 private. These universities also indicated they offered some of their programs through e-learning or distance education. This information was obtained from their respective websites. The main consideration was a confirmation from the university that they had e-learning programs or well-established Open Distance and E-learning directorates or departments (centers), (Nyerere, *et al*., 2012).

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RESULTS AND DISCUSSIONS

E-learning System Training

From responses received back, fifty nine per cent (59%) respondents agreed that basic e-learning training was offered in their institutions while forty one per cent (41%) disagreed that there was any training offered. These findings were in line with those of (Fathema & Sutton, 2013) who reported in their findings that training faculty members was important. The respondents proposed faculty members be offered extensive training, workshops and awareness programs on LMS features, usage and benefits to help increase the faculty use of LMSs. Also a well-trained faculty was confident and motivated to use technology in their teaching and learning and impart the same to their students.

In regard to the e-learning training offered, twenty six per cent (26%) of the respondents indicated that basic training was offered for a period of less than a week. Fourteen per cent (14%) of the respondents indicated that training offered was for one week. About ten per cent (10%) of the respondents indicated that the training was offered for a period of two weeks. Another eight per cent (8%) of the respondents indicated that training was offered for duration of more than two weeks. Finally about forty two per cent (42%) of the respondents indicated that there was no basic e-learning training offered in their institution. These finding were in support of those of previous studies on e-learning technology adoption in the universities which indicated that training of the individual learners and faculty is a requirement for the adoption of the technology to succeed (Soydal, 2012). Further, training period can vary depending on the caliber of users intended to be trained.

Sixty eight per cent (68%) of the respondents agreed that there existed support staff, while thirty two per cent (32%) answered in the negative. Support staffs were required since the failure of the technology could cause interruptions in the studies of the individual students (Ali, Haolader & Muhammad, 2013). Also regular repairs were necessary if ICT was to make a mark in the teaching and learning, hence qualified and trained technical staffs and faculty required (Oye *et al*., 2011) to support e-learning. The top management was also expected to give the moral, financial and material support necessary for the success of the teaching and learning technology that was much needed by the universities for purpose of addressing the high demand for higher education.

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Regarding the motivation of users arising from being trained in the use of the e-learning LMS, sixty per cent (60 %) of the respondents agreed that the system motivated the users. About forty per cent (40%) disagreed that users got motivated. The findings in the current study were in line with those of Shimada, (2017) in which the Japanese EFL learners' attitude towards textbooks and web based materials in a blended learning context was studied. The findings indicated, that a simpler e-learning interface designs can motivate users. However despite the interface having such characteristics the satisfaction with material and course content was paramount for overall motivation of the LMS user. Additionally, motivation of the user depends on how the e-learning content meets the needs of the particular user.

Accessibility and Policy of the E-Learning System

When the respondents were asked about the accessibility of the system, sixty per cent (60%) indicated that the access time was less than thirty seconds. Another nine percent indicated that the access time is less than sixty seconds but greater than thirty seconds. Another sixteen per cent (16%) of the respondents indicated that it takes between sixty and ninety second to access and finally the last fifteen per cent (15%) of the respondents indicated it takes more than ninety seconds to access the e-learning systems. This indicated that the e-learning system was easily accessible and reliable for use by the students whenever needed.

According to Gamdi & Samarji, (2016), policies on internet accessibility were needed and should be formulated if e-learning in the HEIs is to be successful. These policies were to ensure that high speed internet access and reliable network were constantly available in the HEIs. However, internet speeds were determined by several factors which included; amount of bandwidth available, number of users within the network, type of connectivity, equipment being used and technical support available among others. This meant that accessibility of the internet needed a well-coordinated approach.

Faculty's E-Learning Capacity

From the findings obtained, sixty six per cent (66%) of the respondents agreed that there existed a well-trained faculty in the universities, while thirty four per cent (34%) disagreed. These findings were in line with those of Imonikhe (2012), which pointed out that if faculty is highly proficient in ICT and embraced online teaching then the students would effectively learn conveniently online. This would ensure teaching and learning is not restricted to classroom walls hence it would lead to a greater access to higher education and admission would no longer be limited to availability of physical facilities such as lecture halls, hall of residence and laboratories within the university.

Multiple Regression Estimates Associated With Individual Factors

Table 1 shows the results of the multiple regression estimates of the coefficients associated with the first objective and which was to determine the extent to which individual factors influenced e-learning implementation in the Kenyan universities.

Table 1: Multiple Regression Estimates Associated with the Individual Factors

	B	Std. Error	Beta	t	Sig.
(Constant)	4.296**	0.578		7.43	0.00
Basic E-learning training	0.556**	0.211	0.267	2.635	0.01
Motivation due to training	0.271	0.223	0.13	1.216	0.227
Existence of well-trained faculty	0.191	0.234	0.088	0.817	0.416
N = 95	Durbin Watson statistic = 2.437	F= 3.050; 0.032		R^2 = 0.62	

** Significant at 0.01

Source: (Author, 2017)

The results from the multiple regression model associated with individual factors show that motivation due to training and existence of well-trained faculty were not significant at 10% level (p=0.227 & 0.416 respectively). This implied that E-learning implementation did not depend on these variables when all were simultaneously included together with others. Hence they ceased to be important in presence of other significant variables like basic E-learning training. This suggested that E-learning implementation depended on this significant variable. The overall multiple regression was statistically significant (P=0.032) and the model explained up to 62% (R-squared) of the variability in the response. This characteristic implied that when users had been offered relevant basic training on e-learning, they were able to use e-learning in their teaching and learning. This was in agreement with the findings by Chokri (2012) that students' positive opinion on use of e-learning technology could be influenced by the expertise of the learners in ICT and the ease of use of the e-learning platform. Both of which could be as a result of training on e-learning. The Durbin-Watson statistic (2.437) showed no autocorrelation in the residuals.

In terms of the significance of the individual factors influencing the implementation of e-learning in Kenyan universities, the study revealed that basic training, duration of the training, availability of trained e-learning support staff, accessibility of the e-learning system and the faculty's e-learning system did significantly influence the implementation of e-learning. These factors were noted to have a significantly high response rate of approximately sixty per cent (60%) or above except for the training duration. The response rate for the training duration was based

on a range. About fifty eight per cent (58%) of the respondents on training duration indicated that it was necessary to be offered, though duration of the training varied. These factors revealed that individual factors significantly influenced e-learning implementation.

Conclusions

As regards the individual factors, basic computer training, availability of trained support staff, accessibility of the e-learning system and the faculty's capacity on e-learning were necessary. However, motivation arising from e-learning training and availability of well-trained faculty were not a must for students enrolled in the e-learning programs. This was because learning was not teacher centered but learner centered, whereby the learner was expected to do most of the learning away from the institution and independently.

Existing literature on e-learning showed a strong adoption and prolific use of e-learning with improved academic performance in higher institutions especially in the developed countries, the same cannot be said for the Kenyan universities. This study was significant in new insight into what and how the mentioned factors could influence the e-learning implementation in the universities. Other researchers, scholars and stakeholders interested in the implementation of e-learning can refer to it. Secondly, the findings in this study can be used to guide university managers and other stakeholders on what and where to lay the necessary emphasis to make e-learning a success in their institutions.

The study recommended that basic computer and LMS training be offered to all new students who register for the e-learning program. The duration for the training can then be varied depending on the basic knowledge these students possess on ICT. Also the training curriculum can include basic computer literacy and LMS training for all faculty and students and should be made compulsory. This will lead to an improved computer literacy and enhance computer self-efficacy hence reducing computer anxiety among the new students at the beginning. It will also enhance ease of use. In return, this will all lead to increased e-learning adoption by both the learners and faculty.

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Influence Of The Kenya Constitution On Revenue Allocation Formula In Kenya

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Abstract

Federations distribute expenditure responsibility and public service delivery to sub-national levels of government, but each country's approach is influenced by historical, cultural, institutional factors, and legal-judicial interpretations. These are usually anchored in the country's Constitution. The new Constitution of Kenya adopted in August 2010, although does not mention the word federal, established two orders of government; a national government and 47 counties which are guaranteed by the constitution. This paper intends to establish the constitutional guide in the revenue allocation formula in Kenya. The study adopted a cross sectional survey research design. A survey was considered most appropriate in establishing characteristics and relationships between key variables and in facilitating collection of relevant information whose results can be generalised to a defined larger population. The population of this study consisted of the 47 counties established by the Kenya constitution 2010. A sample size of nine (9) counties representing 19.15% of the total population was used. The study used cluster random sampling technique to provide a fair representation of the county governments. The data was analysed using Descriptive statistics, Principle

Component Analysis, Analysis of variance and Communality Analysis. This study established the adequacy of each of the parameters used by the CRA in their formula.

Key Words: ***Federations, Constitution, Revenue Allocation, Devolution, Fiscal Responsibility, Regimes.***

INTRODUCTION

Revenue allocation in the post independent Kenya can be traced from 1963 when Kenya attained independence. During President Kenyatta era (1963–1978), the country's broad development environment was governed by a development blueprint contained in the *Sessional Paper No. 10 of 1965.* This provided a strategy that involved concentrating the small national investment capacity in the areas with the greatest absorptive capacity, with mere surpluses being directed to marginalized areas (ROK, 1965).

Another significant moment in the Kenyatta years was the release of the Public Service Structure and Remuneration Commission report in 1971 – popularly known as the Ndegwa Report (ROK, 1971) – which sanctioned public officers' participation in private business, potentially undermining integrity over their management of state resources. The report implicitly permitted – or at least facilitated – the award of government contracts under serving officers' stewardship to their own companies. Halfway through his tenure in 1971, Kenyatta introduced the Special Rural Development Programme (SRDP), which was launched in only 5 of the 15 arid and semi-arid districts originally targeted (Ergas, 1982). Weak government support was evident in the poor implementation of an initiative characterized by excessive donor dependence, which in turn undermined grassroots participation. Nonetheless valuable lessons were learnt (although not necessarily optimized) about integrating agriculture strategies with rural development strategies (such as in the rural works programmes).

The dynamics of inequalities during the Moi years (1978–2002) were different from those of the Kenyatta years in significant ways, even though the second president fundamentally followed his predecessor's footsteps. During his years in office, poverty in Kenya reached its highest levels since independence. While his mid-1980s District Focus for Rural Development (DFRD) planning strategy could have focused the spotlight on grassroots development bottlenecks, its full implementation would have taken attention away from a highly narcissistic individual whose exploits typically accounted for more than half the news broadcasts on the monopoly national broadcaster.

Kibaki's tenure (2003-2013) saw extensive economic revival, based on growth in tourism, construction, roads and telecommunications sectors. But this revival has barely diminished poverty and regional inequalities, both of which have traditionally driven demands for devolution. GDP growth rose from 2.9 per cent (2003) to 7 per cent (2007), and per capita income declined to Ksh31,900 in the years to 2003, then rose to Ksh36,000 by 2007 (KIPPRA, 2009). However, this did not end well with the 2008post election violence which watered down the gains made in NARC's first term in office.

Kenya's 1963 Constitution did not provide for revenue sharing between national and subnational governments, a situation that led to under-provisioning at these lower levels of government, affecting their service delivery. This position has been reversed in the new Constitution, which entrenches fiscal devolution that provides for sharing of both the revenue base and the nationally collected revenues.

RESEARCH METHODOLOGY

The study used cross sectional survey study. The design enabled the researcher to collect data using questionnaires. Interview was also conducted face to face with county government officers to collect data. The study adopted the

causal survey research because the data gathered was quantitative and qualitative in nature as well as pre-planned and structured. This helped in attempting to explain the cause and effect relationship between the constitutional influence and the revenue allocation formula. In the end this design helped to understand which variables were the cause and which variables were the effects. It also helped to determine the nature of relationship between the causal variables and the effect predicted. In their studies Sergio (2001), GAO (2001), Moore (2011), Spencer (2012), Rossi and Dafflon (2012) used the causal survey research method to determine the effects of parameters in revenue allocation and also calculate the indices used in determining parameter weights.

LITERATURE REVIEW

Kenya's counties enjoy a constitutional guarantee that at least 15 percent of national revenue will be handed over unconditionally, but the definition of the base has not always been clearly agreed upon (ROK, 2010). First, the definition of the universe of national revenues was initially the subject of some debate. Second, although the Constitution is clear that the formula will be applied to the last audited set of accounts, the implied lag in base years does not appear to be always well understood in policy circles (and much less the media or the public who understand the 15 percent as applying to the current year's budget). The ultimate definition of the base may not matter so much, although some choices appear more rational. To the extent that the CRA has the ability to recommend any percentage for the unconditional equitable share above the ceiling of 15 percent, it has the flexibility to determine what combination of base and rate corresponds to the targeted level of unconditional transfer. The CRA Act, currently the only legal definition of the base, appears sensible to the extent that it includes the main sources of revenue (tax and non-tax revenues), but excludes donor funding, appropriations in aid, domestic borrowing and 'revenues' linked to dedicated funding schemes (such as RLMF and LATF). Because the equitable share is guaranteed in terms of a percentage (and not an amount), including highly volatile elements in the base (such as domestic borrowing or donor funding) that would be detrimental to the predictability of transfers to counties. Moreover, it would make little sense to re-channel to counties on an unconditional basis, funds that are collected (internally or externally) with specific purposes in mind, such as donor funds or earmarked funds such as RMLF or LATF (ROK, 2012).

The Constitutional provisions on how to calculate the revenue base for the equitable share, referred to as 'national revenue', have caused some confusion because it is not entirely clear which revenues should be included. In particular: Article 202(1) refers to *"revenue raised nationally"* (the phrasing here implies a consideration for revenues raised in the whole nation rather than by one level of government). Article 203 refers to *"all revenue collected by the national government"* (this might be interpreted to include donor funds, funds from domestic borrowing and AIAs). Article 206 describes the money that should go into the consolidated fund as *"all money raised or received by or on behalf of the national government"* (again this might be interpreted to include donor funds, funds from domestic borrowing and AIAs) (ROK, 2010).

During 2011 this ambiguity was exacerbated when two alternative definitions of national revenue were put forward in the Commission on Revenue Allocation (CRA) Act and the Intergovernmental Fiscal Relations Bill. The latter has now been dropped and the definition included in the CRA Act (Section 2(1)) is now accepted, namely that: *"'revenue' means all taxes imposed by the national government under Article 209 of the Constitution and any other revenue (including investment income) that may be authorized by an Act of Parliament, but excludes revenues referred to under Articles 209(4) and 206(1)(a)(b) of the Constitution."*(ROK, 2011)

The revenues excluded from the CRA Act definition referred to in Article 209(4) relate to fees and charges of national and county governments for services and those in Article 206(1) relate to money excluded from the Consolidated Fund by an Act of Parliament and payable into another public fund.

Article 201 of the Constitution sets the following principles to guide all aspects of public finance in the Republic (a) there shall be openness and accountability, including public participation in financial matters; (b) the public finance system shall promote an equitable society, and in particular, (i) the burden of taxation shall be shared fairly, (ii) revenue raised nationally shall be shared equitably among national and county governments; and (iii) expenditure shall promote the equitable development of the country, including by making special provision for marginalized groups and areas; (c) the burdens and benefits of the use of resources and public borrowing shall be shared equitably between present and future generations; (d) public money shall be used in a prudent and responsible way; and (e) financial management shall be responsible, and fiscal reporting shall be clear (ROK, 2010).

RESULTS AND INTERPRETATIONS

The study sought to establish the influence of the constitution on revenue allocation in Kenya, most of the respondents agreed that minimum revenue allocation to county governments of 15% of all revenue collected nationally is sufficient as provided for by the Kenya Constitution 2010 (58.33%), the mandate/powers conferred on the Commission for Revenue Allocation in revenue allocation are sufficient (39.04%), The County revenue taxes are adequate in running county governments (22.37%), Marginalized areas are adequately catered for by the current constitution (38.59%), The role of the senate in revenue allocation is sufficiently provided for in the constitution (38.16%), Equalization fund is sufficiently addressed by the constitution (42.98%). The results of the respondents are presented in Table 4.29.

Table 4.31: Constitutional Influence Statistics

	Agree Percent (%)	Neutral Percent (%)	Disagree Percent (%)
The minimum Revenue allocation to county governments of 15% of the GDP is sufficient.	58.33	12.72	28.95
The mandate/powers conferred on the Commission for Revenue Allocation in revenue allocation are sufficient	39.04	28.07	32.89
County revenue taxes are adequate in running county governments	22.37	21.93	55.70
Marginalized areas are adequately catered for by the current constitution	38.59	28.95	32.46
The role of the senate in revenue allocation is sufficiently provided for in the constitution	38.16	26.75	35.09
Equalization fund is sufficiently addressed by the constitution	42.98	30.70	26.32

Weighted Mean Statistics for Constitutional Influence on Revenue Allocation

The mean and standard deviations for constitutional influence on revenue allocation are indicated in table 4.31. As discussed in chapter three the mean range used in the study is 0 to 5 inclusive. The mean obtained for the findings are between 2 and 3. The scale 2 is valid extent and 3 moderate. We can conclude the findings are valid since the means of the data obtained are within acceptable range.

The standard deviation is used to measure how concentrated the data are around the mean. The more concentrated the data, the smaller the standard deviation. A small standard deviation means that the values in a statistical data set are close to the mean of the data set. The findings as shown in table 4.31 indicate that all the standard deviations are close to 1 for all the data findings. This implies all the data sets are concentrated around the mean scores hence valid for interpretations.

Table 4.32: Weighted Means Constitution

	N	**Mean**		**Std. Deviation**
		Statistic	**Std. Error**	
The minimum Revenue allocation to county governments of 15% of the GDP is adequate.	228	2.09	.083	1.245
The mandate/powers conferred on the Commission for Revenue Allocation in revenue allocation are sufficient	228	3.19	.093	1.147
County revenue taxes are adequate in running county governments	228	3.63	.062	1.135
Marginalized areas are adequately catered for by the current constitution	228	2.58	.087	.967
The role of the senate in revenue allocation is sufficiently provided for in the constitution	228	2.48	.091	1.081
Equalization fund is sufficiently addressed by the constitution	228	2.10	.088	1.113

Standardized Coefficients on Constitutional Influence on Revenue Allocation

Standardized coefficients beta was used to interpret the relative ranking of the factors in the model. It refers to how many standard deviations a dependent variable will change, per standard deviation increase in the predictor variable. Standardization of the coefficient is usually done to answer the question of which of the independent variables have a greater effect on the dependent variable in a multiple regression analysis, when the variables are measured in different units of measurement. As shown in table 4.32 the standardized coefficient indicates that the constitutional influence on revenue allocation is significant with a positive beta coefficient of 30.8%, which further confirms that constitutional influence on revenue allocation, has a positive influence on the revenue allocation model for the devolved government of Kenya.

Table 4.33: Coefficients of Constitutional Influence

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	17.130	2.214		7.381	.000

Constitutional influence on revenue Allocation	.435	.073	.308	4.898	.000

Using the summary presented in Table 4.32, a linear regression model of the form, $Y = \alpha + \beta X_i$ can be fitted as follows:

$Y = 17.130 + 0.435X_1 + \mu$ .....**Equation 4**

Pearson Correlation Coefficient for Constitutional influence on Revenue Allocation

Pearson's Correlation indicates the extent of interdependence between two variables. As already noted from Table 4.31, there is a 30.8% positive correlation between constitutional influence on revenue allocation and the revenue share per county in Kenya. The Pearson correlation coefficient is shown in table 4.33

Table 4.34: Pearson Coefficients for Constitutional influence on Revenue Allocation

		Revenue Allocation Per County	**Constitutional influence on Revenue Allocation**
Revenue Allocation per County	Pearson Correlation	1	.308
	Sig. (2-tailed)		.000
	N	228	228
Constitutional influence on Revenue Allocation	Pearson Correlation	.308	1
	Sig. (2-tailed)	.000	
	N	228	228

Table 4.33 indicates that constitutional influence on revenue allocation is statistically significant since its p-value is less than .05 (*p*-value =.000).

Regression analysis for Constitutional influence on Revenue Allocation

In order to rank the various factors in the order of their ability to influence revenue allocation, the study utilized regression. R is a measure of the correlation between the observed value and the predicted value of the criterion variable. R Square (R^2) is the square of this measure of correlation and indicates the proportion of the variance in the criterion variable which is accounted for by our model. In essence, this is a measure of how good a prediction of the criterion variable we can make by knowing the predictor variables. However, R square tends to somewhat over-estimate the success of the model when applied to the real world, so an adjusted R square value is calculated which takes into account the number of variables in the model and the number of observations (participants) our model is based on. This Adjusted R Square value gives the most useful measure of the success of our model. The results show

an Adjusted R Square value of 0.074; this means that the model has accounted for 7.40% of the variance in the criterion variable. The findings are shown in table 4.34.

Table 4.35: Model Fitness

Table 2. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.308[a]	.095	.074	1.118

Analysis of Variance on Constitutional influence on Revenue Allocation

The study used ANOVA to determine the Model Significance. ANOVA assesses the overall significance of the model, determining if the test data fit to the model. A significance value of P<0.05 is allowed. The model has significance value of .000, the model is significant. Table 4.35 presents the result of these findings.

Table 4.36: ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	29.011	5	5.802	4.639	.000[a]
	Residual	277.668	222	1.251		
	Total	306.680	227			

Based on the empirical results presented in Table 4.35, the Null Hypothesis (H_{05}) is rejected and a conclusion reached that, at 5% level of significance, The Kenya Constitution plays a significant role in revenue allocation model for the devolved governments in Kenya. These results are in agreement with the findings the study done by Borck (2005) in Germany where he revealed that a notable characteristic of the German federation is the extensive constitutional and political interlocking of the federal and state governments as discussed in section 2.4.1 of this study. Similar findings were observed in South Africa where the Constitution did not leave the important matter of budget resource allocations to be subjected to the vagaries of day-to-day political machination (Morobe, 2001). In Nigeria the assignments of fiscal instruments are guided by constitutional provision. The federal constitution gave the federal government exclusive power to collect levies like customs and excise, company tax, education tax and mining rents, VAT etc. All these revenues (with the exception of education tax) are paid into the federation account for distribution among the three tiers of government in line with national constitution (Anderson, 2007). Theoretically this supports the legal theory of finance which states that the financial status of a country and its economic development is related to the legal system of that specific country. The legal system of any country is anchored on its constitution. Constitutional influence in revenue allocation is therefore a Key factor in determining the revenue share to the devolved governments in Kenya.

CONCLUSIONS AND RECOMMENDATIONS

The study sought to establish whether the Kenya Constitution 2010 influences revenue allocation in Kenya. The findings reveal that indeed there is a positive correlation between the constitutional guide and the revenue allocation Formula for the devolved governments in Kenya. This confirms that the constitution plays a critical role in determining the revenue allocation formula. Based on the empirical results from this study, the Null Hypothesis (H_0) is rejected and a conclusion reached that, at 5% level of significance, the Kenyan Constitution has an influence on revenue allocation in Kenya.

It was established that the Kenya Constitution plays a major role in determining the parameters to be used in revenue allocation formula in Kenya. Further, a linear regression model combining all the independent variable and the moderating variable were fitted. The results indicate that the beta coefficients of all the independent variables, were positive, demonstrating that they all have a positive contribution to the dependent variable, revenue allocation formula in Kenya.

Based on the study findings and conclusions, the study recommends that the CRA Parameters be enhanced so that their impact on the revenue allocation formula meets the basic principles of equity.

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Factors Influencing The Adoption Of Information Communication Technology In Projects Managed By Community Based Organizations In Kenya: A Case Of Thika District

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INTRODUCTION:

In the era we live in today, it is virtually impossible to find an individual who does not have access to a cell phone, an email account or interacts with the internet in one way or another. Some of the internet usage includes communication, information search on goods and services, access to news online and e-commerce such as internet banking. The International Telecommunication Union (ITU) -an International Telecommunication regulatory body – states that in 2010, a quarter of the world's population or 1.9 billion people had access to computers in their home. Intuitively, this suggests that in order for organizations to effectively reach and serve their customers in this day and age, they must also adopt and use the same medium that their customers are using. Information Communication Technology (ICT) is the term given for this medium; it includes information and communications technologies such as computers, land-line telecommunications, mobile phones, other wireless communications devices, internet, other networks, broadband and various specialized devices ranging from barcode scanners to global positioning systems (Ministry of Economic Development, 2004). According to Sorsa and Underwood (2004) from a study they conducted on ICT adoption amongst Small to Medium Enterprises (SMEs) in Indonesia, pressure to adopt often came from the customer.

Adoption:

According to Pedersen (2003), ICT adoption generally takes three possible approaches namely: adoption, domestication and diffusion approach. The adoption approach is based on users applying different individual and social decision making theories to adopt ICT. In this approach, the three widely used models include the Technology Acceptance Model (TAM), the Theory of Reasoned Action (TRA), and the extension of TRA into a Theory of Planned Behavior (TPB). The domestication approach focuses on the process in which technology becomes an integral part of everyday habits. The diffusion approach or Roger's Diffusion of Innovation theory argues that media and interpersonal contacts provide information that influences a person's opinion and judgment. According to his theory, information filters through the networks and depending on the nature of the networks and the roles of its opinion leaders, new innovations are either adopted or rejected. Opinion leaders influence an audience through personal contact while intermediaries such as change agents and gatekeepers contribute to the process of diffusion. Empirical review revealed that some of factors influencing the adoption of ICT include; training, associated cost, perceptions & attitude and ICT policy.

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Training:

Most end-users from a non-technical background and particularly those from developing countries to a large extent do not fully comprehend what technology can do for them. This is due to the lack of exposure while in school. A review of project management curriculum for public universities in Kenya reveals a lack of ICT courses. Students who did not get hands on training in technology while in school usually come out with a different orientation on how they accomplish tasks and often tend to shy away from using technology in favor of manual methods even once they enter the workforce. Training can play an important role in increasing the awareness of the huge potentialities of ICT for concrete situations, in this way employees, managers and entrepreneurs can acquire a learning culture, integrating the training in their work activities and understanding in depth the potentialities of communication and information tools (Brady et al.,2002

Associated Cost:

According to Corder (2000) as quoted on PBWorks.com, funding is an essential condition (and major limitation) in many studies of CBO's technology adoption. However, it is not as simple as "getting more money means getting more technology". Funding donors are often moved by the social issues at the heart of a CBO's vision and mission statement; they therefore target funding to very specific programs or strategies, not for general ICT support or maintenance. It is therefore evident that funding somehow needs to be flexible to allow for spending across mission objectives, administration and ICT needs. Otherwise it will for a long time hold true what Allen Gunn mentioned in his address at the Craiglist Foundation 2007 Boot Camp "unless your mission is technology, technology is a moving target".

Perception and Attitude

According to Coleman and Young (2004), there are deep perception and attitudinal issues that need to be dealt with before ICT adoption can take root. It is not enough to build a better mouse trap: widespread adoption will only take place once cultural issues have been addressed. This was figuratively referring to the new attractive ICT features that vendors wanted to introduce to the market. It did not matter how good the new features were, how easy to use or how compelling the rate of their success; there were still deeper expectations and preferences from customers. Such issues are not on the surface and are usually hidden and difficult to bring out. In all organizations there exist organizational cultural norms which can not be ignored and thus need to be understood and addressed before any change can take place. People recognize with a familiar organizational cultural norm like wanting to physically attend meetings and be in the same physical location. There is also a general perception that web conferencing is for special events only. Another general perception that dominates the workplace is that if something has worked in the past, there is no reason to change, (don't fix what's not broke). Thus it is very difficult to get people to stop using or switch to something new. Creating lasting change therefore boils down to creating changes in individual perceptions and organizational cultures. Rhee and Kim's (2004) contention that a positive attitude towards technology is important in influencing ICT adoption.

ICT Policy:

Policies are guiding principles designed to influence decisions and actions (Kandiri, 2006). They offer important guidelines clearly demarcating the boundaries that must be adhered to while making decisions. Because of their objective nature, policies tend to be effective in eliminating biased perceptions and cultures. Without a

comprehensive ICT policy, an organization would lack a charted course of action when it comes to ICT issues. ICT policies within organizations usually ensure that their systems receive routinely and planned upgrades to keep up with evolving technology. ICT policies also dictate what software brand the organization is to adopt. ICT policies are a proactive approach that ensures an organization's system remains compatible therefore avoiding costly downtime and all out system outages. As noted by Stehr (2000) policy-making and regulation for ICT in developing counties is complex and a difficult challenge, the reality of poverty causes organizations to accept pirated software which might not be compatible with their systems. This behavior throws caution to the wind usually disregarding any policy or repercussions of using such software.

OBJECTIVES:

Empirical study was readily found extensively focusing on ICT adoption among Small to Medium Enterprises (SMEs) and industries such as construction, pharmaceutical, manufacturing, computer hardware/software, telecommunications and engineering. These studies were also mostly concentrated on developed countries. As a result, some organizations such as nonprofits, non-governmental organizations (NGOs) and CBOs have not gotten their fair share of attention despite their importance to the community. According to Opare (2007), CBOs are increasingly recognized as important actors in the development of rural communities. Improving their mode of operation and building their capacities would also positively impact the development of rural communities. It is however noted through empirical review that CBO ICT adoption and especially in developing countries has seldom been researched. This study therefore aimed to fill this gap by focusing on the factors influencing the adoption of ICT by CBOs in Kenya using a case of Thika District.

General Objective

The study was to analyze the factors influencing the adoption of ICT by CBOs in Kenya.

Specific Objectives

That guided the study were:

- To determine the effect of training on the adoption of ICT by CBOs in Thika District.
- To find out how cost associated with ICT influences the adoption of ICT by CBOs in Thika District.
- To find out how perceptions and attitudes influences the adoption of ICT by CBOs in Thika District.
- To examine how the organizational ICT Policy influence the adoption of ICT by CBOs in Thika District.

METHOD:

The research method used was descriptive in nature. This was most appropriate since the researcher aimed to only gather information about the variables as they occur within the sample population without manipulating them. A census was attempted since the sample was of manageable size.

The researcher obtained from the Social and Gender Services Thika, a list of all CBOs registered in Thika District which totaled 2,124 but out of this number only 34 were identified to have been active and in operation for the last two years. The CBOs are located primarily within the community both in rural and urban settings. And their activities are directed at improving the lives of the community in which they serve.

Self administered questionnaires which contained both open and close ended questions were dropped to each of the 34 CBOs and picked later. Each CBO received three questionnaires. There was purposeful sampling of respondents one from each of the varying ranks namely; manager/director, assistant manager and one employee/volunteer. The one respondent from employee/volunteer ranking was conducted by convenience sampling where researcher selected available employee/volunteer. The response rate was 82.4% where 28 out of the 34 CBOs filled out the questionnaires as agreed. This brought the population to 84 instead of the expected 102.

The research instrument was pre-tested on two CBOs outside Thika District. Three respondents from each CBO belonging to differing rankings were sampled giving a total of twelve instruments. According to Mugenda and Mugenda (1999) normally the pretest sample is between 1% and 10% depending on the sample size. The pre-tested instruments was analyzed to determine their validity and reliability and revised accordingly.

The data was organized and analyzed using descriptive and relational statistics. Quantitative data was analyzed using mean, mode, median and analysis of variance. Qualitative data was analyzed based on content analysis. Quantitative data was presented by use of statistical techniques which include frequency distribution tables and graphs. Qualitative data was presented using content analysis.

RESULTS:

Background Information:

To gain a general understanding of the respondents, the questionnaire asked questions to establish their gender, age, education level, role in the organization, length of service and educational background. The results are as follows:

Gender:

Distribution of respondents in terms of gender was not a significant factor as there were only twelve more male respondents than females. Male respondents were 57% (48) while females were 43% (36). The CBOs seemed to be gender balanced and therefore findings were presumed to be free from gender bias.

Age:

The age distribution amongst CBO respondents was also relatively evenly distributed indicating that all age groups were included in their staff portfolio. Fewer respondents however fell in the age brackets 26 - 35 and above 46. Majority of the respondents (38.1%) were between 36 – 45 years.

Education level:

A majority (43%) of respondents had college diplomas, followed by those who had undergraduate degrees (25%). A minority (6%) had only a primary education level. None of the respondents indicated to have tertiary education. In general the results indicated a high level of education by respondents.

Role in Organization:

When questionnaires were distributed to the CBOs they were requested to have one person from each of the different ranks fill out a questionnaire. However some managers and assistant managers delegated the task of filling out the questionnaire to employees/volunteers thus instead of receiving 28 respondents from each rank, the numbers varied by ranking. There were 42 employee/volunteer; which made up 50% of the respondents. This was followed by 25 assistant mangers (29.8%) and then 17 directors (20.2%).

Length of Service:

A majority of the respondents (46%) had worked in their particular CBO between 1 - 3 years; out of this number, 96% had worked for more than 1 year. This suggests that the respondents had served in their CBO long enough to know the status of ICT adoption within their organization, and the factors that influenced adoption.

Education/training Background:

A majority of respondents (43%) had an education background in community service. Project management (30%) and business related (24%) backgrounds were relatively close both having only a 6% variance between them. ICT related background was the least common with only 2% of respondents. These results suggested that the CBOs were prone to problems in adoption of ICT since very few of their employees had an ICT background. According to Coleman and Young (2004), when an organization has an individual with ICT background that person usually serve the role of mentor and helps other employees who might not be very ICT savvy. This person becomes the ambassador or ICT champion for promoting adoption of ICT within the organization.

Adoption

Adoption can be measured by how much ICT has been simulated in the organization in terms of; hardware, software and tasks performed.

Hardware:

It was noted that a majority (21 out of the 28) CBOs had between 1 – 3 desktop computers. The remaining 7 CBOs had more than 4 computers. Very few, only 2 CBOs indicated that they did not have computers at all. When it came to laptop computers; only four (4) out of the 28 CBOs owned laptop and none of them had more then 4 laptop computers. Since desktop computers are generally cheaper then laptops, this suggested a general reluctance of CBOs in Thika District to commit their resources to big ticket ICT items. Unfortunately this also limited them from taking full advantage of the conveniences offered by laptops like employees being able to take work home and flexible work hours.

Every CBO indicated to have some kind of peripheral device with most CBOs 65.5% owning printers. Web cams were the least common peripheral device with only 11.9% indicating to owning one.

A majority (73%) of respondents indicated to having basic cell phones (with no internet). In addition, 21.4% of the CBOs had more advanced 3G cell phones (internet ready). Only 10% had landline telephones. None of the CBOs

indicated having fax machines suggesting that most of their communication was being done via phone or internet (e-mail).

Software:

The types of operating systems the CBOs were running on their computers included; Windows 2000, 2003, XP, Vista and 2007. None of the respondents indicated to be running older operating system versions such as Windows 1995 or Windows 1998. This suggests that CBOs had updated computers able to run more advanced versions of Windows which require computers to have higher memory and other specifications.

Only (3 out of the 28) CBOs indicated to have project management software on their computers. MS Project was indicated to be the project management software used by the three CBOs. This indicates that although CBOs had to a large extent adopted hardware devices, they still had a long way in adopting project management software. This suggests that a knowledge gap exists in project management software which could probably be filled by academic institutions producing project management professionals.

Tasks performed:

The most common task performed by percentage use on CBO computers were; applying to donors for funding which (51.2%), report writing (14.3%), managing project tasks (13.1%), social networking (10.7%), e-mail communication (6%) and net browsing (4.8%). This indicates that a majority of the tasks performed on CBO computers were work related.

Factors Influencing ICT Adoption:

According to the research objectives the study set out to establish how training, associated costs, perception & attitudes and ICT policy influenced ICT adoption. The questionnaire asked specific questions towards this end and the results are as follows:

Training

The respondents were presented with seven items to measure the emphasis put by their organizations on training in ICT. They were to indicate the extent to which they agreed or disagreed with each statement on a 5-point Likert scale, with scores ranging from strongly agree to strongly disagree. The following figure shows the results of this analysis.

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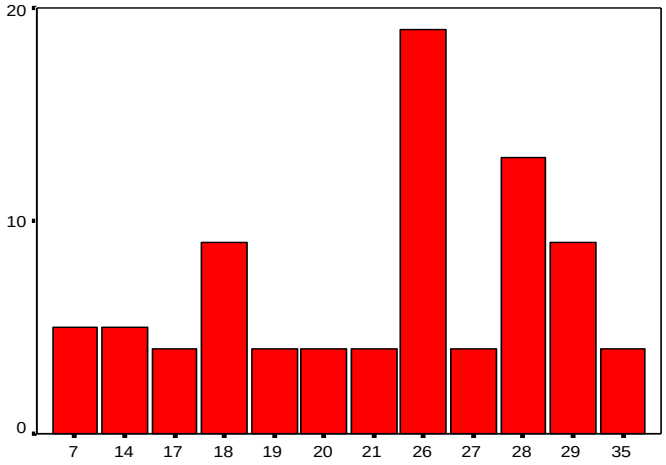
Figure 1: Emphasis Put on ICT Training



Source: Research Data

Figure 1 shows that the scores obtained on the ICT training scale ranged from 7 to 35, with most of the respondents obtaining a score of 26. There were 37.3% (38) respondents who obtained scores below 21, meaning their CBOs put little emphasis on ICT training. 4.9% (5) respondents obtained a score of 21, denoting average emphasis on ICT training, while 57.8% (59) obtained scores above 21, indicating that their CBOs put high emphasis on ICT training. Thus, majority of the respondents indicated that their CBOs put high emphasis on ICT training.

The following table shows how the scores obtained by CBO members on the ICT training scale were distributed across the number of computers owned by the CBOs.

Table 1: ICT Training Scores Across Number of Computers Owned

No. of computers	**No. of respondents**	**Training mean scores**	**Std. Deviation**	
None	6	10.50	5.857	
1 – 3	60	22.82	5.655	
4 – 6	12	28.25	2.301	
7 – 10	6	28.50	3.507	
Total	**84**	**23.12**	**6.612**	

Source: Research Data

The table above shows that the CBOs with no computers had the lowest training mean scores, followed by those with 1 – 3 computers. On the other hand, CBOs with 7 – 10 computers had the highest training mean scores, closely

followed by those with 4 – 6 computers. This implies that CBOs which put emphasis on ICT training had adopted ICT more than those that did not invest in training.

An Analysis of Variance (ANOVA) test was conducted to determine whether the scores obtained on ICT training scale differed significantly among the members across the number of computers owned by their CBOs. The results of the analysis is presented in the following table.

Table 2: ANOVA Statistics for ICT Training Across Number of Computers

Source of Variation	Sum of Squares	df	Mean Square	F	Sig.*	
Between Groups	1450.576	3	483.525	17.758	.000	
Within Groups	2178.233	80	27.228			
Total	3628.810	83				

*significant at $p<0.05$

Source: Research Data

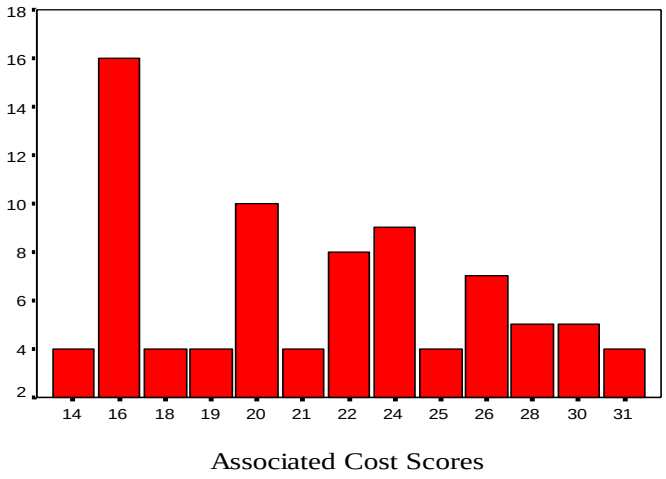
The table above shows that, based on the results of the ANOVA test, there were significant differences, at $p<0.05$, in scores obtained on the ICT training scale among CBO members across the number of computers owned by CBOs. Specifically, CBOs which put emphasis on ICT training had adopted ICT more than those that did not invest in training.

This means that CBOs investing more on ICT resources also invest on ICT training for their members. It could also show that training CBO members in ICT could promote adoption of ICT by the organizations. Previous studies have shown that lack of training significantly affects adoption of ICT. For instance, van Dijk and Hacker (2003) established that lack of skills is a major hindrance to ICT adoption among Dutch organizations. Similarly, a study by Kabbar and Crump (2006) on the factors that influence adoption of ICTs by refugee immigrants to New Zealand identified lack of training as a major factor.

Associated Costs

The respondents were presented with eight items to determine how associated costs impacted the adoption of ICT in their organizations. They were to indicate the extent to which they agreed or disagreed with each statement on a 5-point Likert scale, with scores ranging from strongly agree to strongly disagree. The following figure shows the results of the analysis.

Figure 2: Effects of Associated Costs on Adoption of ICT by CBOs



Source: Research Data

As shown in the Figure 2, the scores obtained on the associated costs scale ranged from 14 to 31, with most of the respondents obtaining a score of 16. It was established that 58.8% (60) of the members obtained scores below 24, meaning that they did not prioritize purchase of ICT resources in their financial planning. There were 11.8% (12) members with a score of 24, meaning they viewed associated costs to have average impact on ICT adoption. On the other hand, 29.4% (30) of the members obtained scores above 24, meaning they highly prioritized purchase of ICT resources in their financial planning.

Table 3 shows how the scores obtained by CBO members on the associated costs scale were distributed across the number of computers owned by the CBOs.

Table 3: Associated Costs Scores Across Number of Computers Owned

No. of computers	**No. of respondents**	**Costs mean scores**	**Std. Deviation**	
None	6	21.00	1.673	
1 – 3	60	21.08	4.670	
4 – 6	12	25.58	5.071	
7 – 10	6	22.33	6.154	
Total	**84**	**21.81**	**4.885**	

Source: Research Data

The table above shows that the members from CBOs without computers had the lowest mean scores, followed by those with 1 – 3 computers. On the other hand, CBOs that had 4 – 6 computers obtained the highest associated costs mean scores, followed closely by those with 7 – 10 computers. This is an indication that organizations that highly prioritized financing of ICT resources in their financial planning had adopted more than those who did not consider financing ICT resources a priority.

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An Analysis of Variance (ANOVA) test was conducted to determine whether prioritizing the financing of ICT resources differed significantly among the members across the number of computers owned by their CBOs. The results of the analysis are presented in Table 4.

Table 4: ANOVA Statistics for Associated Costs Across Number of Computers

Source of Variation	Sum of Squares	df	Mean Square	F	Sig.*	
Between Groups	208.119	3	69.373	3.130	.030	
Within Groups	1772.833	80	22.160			
Total	1980.952	83				

*significant at $p<0.05$

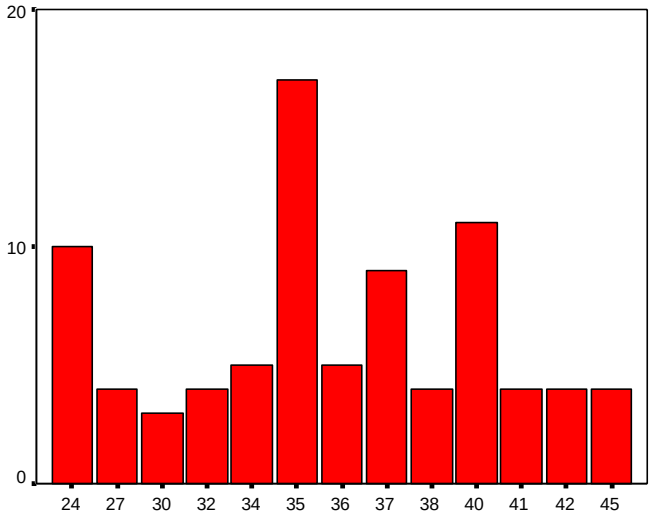
Source: Research Data

In the above table, ANOVA test results revealed that there were significant differences, at $p<0.05$, in scores obtained on the associated costs scale among CBO members across the number of computers owned by CBOs. Specifically, CBOs which highly prioritized financing of ICT resources in their financial planning had adopted more than those who did not consider financing ICT resources a priority. This is an indication that, regardless of the cost of acquiring ICT resources, financial planning can promote ICT adoption in CBOs. The findings are in line with previous studies, which have shown that lack of finances is a limiting factor for ICT adoption (Corder, 2000). However, even when organizations have finances at their disposal, financial planning and seeing ICT resources as a priority is needed for adoption to occur. For CBOs to invest finances on ICT resources, they have to appreciate the benefits of ICT adoption.

Perceptions and Attitudes

The CBO members were presented with nine items to determine how perceptions and attitudes impacted in adoption of ICT in their organizations. They were to indicate the extent to which they agreed or disagreed with each statement on a 5-point Likert scale, with scores ranging from strongly agree to strongly disagree. The following figure shows the results of this analysis.

Figure 3: Attitudes Towards Adoption of ICT in CBOs



Attitudes towards the adoption of ICT

Source: Research Data

As shown the figure above, the scores obtained by CBO members ranged from 24 to 45, with the majority obtaining a score of 35. Only 11.8% (12) obtained scores below 27, meaning they had negative attitudes toward adoption, while 4.9% (5) members obtained a score of 27, meaning they had neutral attitudes. This shows that majority (83.3%) of the CBO members had positive attitudes toward adoption of ICT. Table 5 shows how the attitudes of CBO members were distributed across the number of computers owned by the CBOs

Table 5: ICT Adoption Attitudes Across Number of Computers Owned

No. of computers	No. of respondents	Attitudes mean score	Std. deviation	
None	6	24.50	1.225	
1 – 3	60	35.47	5.199	
4 – 6	12	36.67	4.250	
7 - 10	6	38.83	3.920	
Total	**84**	**35.10**	**5.675**	

Source: Research Data

The table above shows that members of CBOs with 7 – 10 computers had the highest attitude mean scores (38.83) followed by those from CBOs with 4 – 6 computers, while those without computers had the lowest attitude mean scores. This suggests that CBOs with positive attitudes towards adoption of ICT had invested more on ICT than those with negative attitudes. To confirm these results, an Analysis of Variance (ANOVA) test was conducted to determine whether attitudes toward adoption of ICT differed significantly among the members across the number of computers owned by their CBOs. The results of the analysis are presented in Table 4.20.

Table 6: ANOVA Statistics for Attitudes Across Number of Computers

Source of Variation	Sum of Squares	df	Mean Square	F	Sig.	
Between Groups	795.305	3	265.102	11.293	.000	
Within Groups	1877.933	80	23.474			
Total	2673.238	83				

*significant at p<0.05

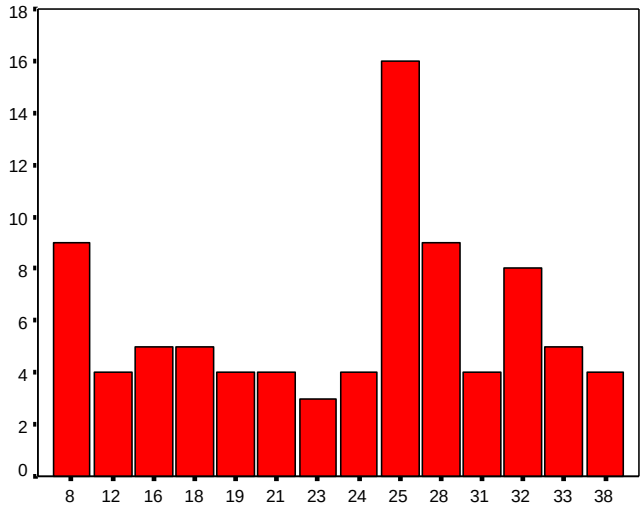
Source: Research Data

The results of ANOVA test as shown in the above table revealed that there were significant differences at p<0.05, in attitudes toward ICT adoption among CBO members across the number of computers owned by CBOs. Specifically, CBOs whose members had positive attitudes towards ICT adoption had invested more in ICT resources than those whose members had negative attitudes. This implies that perception and attitudes affect ICT adoption among CBOs. Rogers (1995), in his Diffusion of Innovation Theory, argues that one of the major factors affecting people's attitudes toward a new technology is the attributes of the technology itself. Rogers (1995) identified five main attributes of technology that affect its acceptance and subsequent adoption: relative advantage, compatibility, complexity, observability, and trialibility. Thus, a new technology will be increasingly adopted if potential adopters perceive that the innovation; has an advantage over previous innovations; is compatible with existing practices; is not complex to understand and use; shows observable results, and can be experimented with on a limited basis before adoption.

ICT Policy

The CBO members were presented with eight items to determine how ICT policy affected adoption of ICT in their organizations. They were to indicate the extent to which they agreed or disagreed with each statement on a 5-point Likert scale, with scores ranging from strongly agree to strongly disagree. The following figure shows the results of the analysis.

Figure 4: ICT Policy Scores



Source: Research Data

The figure above shows that CBO members obtained scores ranging from 8 to 38, with most of them (16) obtaining a score of 25. It was indicated that 40.2% (41) of the members obtained scores below 24, meaning that they perceived ICT policy to have no effect on adoption of ICT in their organizations. There were 4.9% (5) CBO members who obtained 24 denoting average effect of ICT policy on adoption, while 54.9% (56) obtained scores above 24, meaning that they perceived ICT policy to have an effect on adoption of ICT in their organizations.

Table 7 shows how the scores obtained by CBO members on the ICT policy scale were distributed across the number of computers owned by the CBOs

Table 7: ICT Policy Scores Across Number of Computers Owned

No. of computers	**No. of respondents**	**ICT policy mean scores**	**Std. Deviation**	
None	6	12.00	6.693	
1 – 3	60	23.65	7.350	
4 – 6	12	26.83	7.849	
7 – 10	6	25.17	10.108	
Total	**84**	**23.38**	**8.173**	

Source: Research Data

The table above shows that the CBOs whose members did not have computers had the lowest mean scores, followed by those with 1 – 3 computers. On the other hand, CBOs whose members had 4 – 6 computers obtained the highest

ICT policy mean scores, followed closely by those with 7 – 10 computers. This suggests that organizations with ICT policies had invested more on computers, which is an indicator of ICT adoption.

An Analysis of Variance (ANOVA) test was conducted to determine whether scores obtained by CBO members on ICT policy scale differed significantly across the number of computers owned by their CBOs. The results of the analysis are presented in Table 8.

Table 8: ANOVA Statistics for ICT Policy Scores Across Number of Computers

Source of Variation	Sum of Squares	df	Mean Square	F	Sig.*
Between Groups	943.660	3	314.553	5.470	.002
Within Groups	4600.150	80	57.502		
Total	5543.810	83			

*Significant at p<0.05

Source: Research Data

As shown in the table above, ANOVA test results indicated that the scores obtained by CBO members differed significantly at p<0.05 across number of computers owned. The results further indicate that organizations with ICT policies had invested more on ICT, suggesting that ICT policy in organizations affect adoption of ICT. Having a clear ICT policy in an organization is important as it forms the foundation for decision making; it offers important guidelines clearly demarcating the boundaries that must be adhered to while making decisions. Tusubira and Mulira (2004) argue that integration of ICT in an organization's functions is a complex process, and it therefore needs to be fully conceptualized and defined before implementation to avoid dissipation of resources through implementation of unrelated or uncoordinated projects. The organizational ICT policy needs to be defined and agreed. This sets the direction, functions, and boundaries as well as targets of ICT in the organization. ICT policy provides a framework for the development and implementation of specific projects aimed at increasing efficiency and cost-effectiveness.

Ranking

The CBO members were asked to rate training, associated costs, perception and attitude and ICT policy on a scale of 1 – 4, in relation to how they perceived these factors influenced ICT adoption in their organization. According to the scale, 1 denotes the most influential factors while 4 denotes the least influential factor. Their responses are shown in Table 9.

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Table 9: Ratings of Factors Influencing ICT Adoption

		<---------- Ranking ---------->									
		1		**2**		**3**		**4**			
Over All Ranking	**Factor**	**Freq**	**%**	**Freq**	**%**	**Freq**	**%**	**Freq**	**%**	**Freq Total**	**Mean**
1	Perception & Attitude	48	57.1	4	4.8	15	17.9	17	20.2	**84**	**2.01**
2	Training	15	17.9	28	33.3	26	31	15	17.9	**84**	**2.49**
3	Associated Costs	12	14.3	33	39.3	13	15.5	26	31	**84**	**2.63**
4	ICT Policy	5	6	15	17.9	62	73.8	2	2.4	**84**	**2.73**

Source: Research Data

CONCLUSION

Based on the findings of this study, it can be concluded that most CBOs in Thika district had adopted ICT to some extent. It was found that most of the CBOs had computers and mobile phones, together with other peripheral computing devices such as printers, copiers and scanners. The following are additional conclusions based on the specific objectives of the study:

The first objective was to determine the effect of training on the adoption of ICT by CBOs in Thika District. According to Garnam (2000), a major roadblock to technology adoption is lack of continuous training. He argues that even if technology was to become available, it would sit dormant, underutilized or misused if employees are not trained on how to use it. If organizations are not willing to train employees how to use technology it has purchased it is better that they do not spend the money on such technology; rather channel the money to other needs. It was found that most of the CBOs put high emphasis on training of their members in ICT, and this positively influenced adoption of ICT by the organizations. The second objective was to find out how cost associated with ICT influences the adoption of ICT by CBOs in Thika District. It has been found that the initial cost of technology combined with the need for regular upgrades is a major limiting factor for technology adoption (Kabbar, 2006). Most organizations overcome this hurdle by prior planning for ICT needs. According to Liberatore (2003), once ICT related expenses become a line item on the company budget, ICT starts to become a reality. This takes on a proactive approach to acquiring and maintaining a robust ICT infrastructure. It is the conclusion of the study that majority of CBOs in Thika district did not prioritize purchase of ICT resources in their financial planning. CBOs which highly prioritized financing of ICT resources in their financial planning had adopted ICT more than those who did not consider financing ICT resources a priority. The third objective was to find out how perceptions and attitudes influence the adoption of ICT by CBOs in Thika District. Majority of the CBO members indicated to having positive attitudes toward adoption of ICT, and CBOs whose members had positive attitudes towards ICT adoption had invested more in ICT resources than those whose members had negative attitudes. This implies that perception and attitudes affected ICT adoption among CBOs in Thika district. According to Warschauer (2004), Integration of ICT in any

organizations only happens after ICT is first integrated into the minds and attitudes employees. Also according to Warschauer (2004), change of mindset about ICT will go far in reducing the digital divide as well foster technology and social inclusion in developing countries. It can be concluded therefore that perception and attitudes were indeed found to have an effect on ICT adoption. The fourth objective was to examine how the organizational ICT Policy influences the adoption of ICT by CBOs in Thika District. The study established that majority of the CBO members in Thika district strongly perceived ICT policy in their organizations to have an effect on adoption of ICT. The study found that organizations who indicated having ICT policies in place in their organizations also had invested more on ICT; suggesting that ICT policy in organizations affect adoption of ICT. This is in line with Tusubira and Mulira (2004) who state that ICT policy is key to the development and implementation of efficient and cost-effective ICT infrastructure that is sustainable because it provides a direction and boundaries as well as targets of ICT in the organization. Without an ICT policy the organization will not have a reference point to guide it towards adoption. In conclusion ICT Policy was indeed found to have an effect on ICT adoption.

In summary, it can be concluded that adoption of ICT by CBOs is affected by training, associated costs, perception and attitudes, and organizational ICT policy.

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Digital Business and Global Trends for Industrialization: African Vs Asian Economies

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Abstract

Industrialization is crucial in the development of many economies around the world. The Asian economies had a share in global Manufacturing Value Added (MVA) of 35.06% while African economies had 22.26%. Due to the industrial potential in African and Asian economies, this paper is motivated to examine digital business and global

trends for industrialization. Specifically, this paper examines digital technologies in business and industrial output by comparing African and Asian economies. Documentary research approach which is supplemented by literature review analysis is the methodology adopted in this paper. The analysis shows that the main sectors for industrialization which are agriculture, industry, manufacturing and services indicate differences in output between the African and Asian economies. In addition, the paper reveals that the Asian economies have comparative advantages in technological spill-over and ability to sustain the growth of manufacturing production compared to African economies in terms of industrialization. On the other hand, the African economies had a comparative advantage on total output for agriculture in 2015 compared to the Asian economies. Therefore, the implication is that although digital technologies in business exist in both African and Asian economies, the trend to success in industrialization in relation to digital business is mainly through technological spill-over and sustaining manufacturing production.

Keywords: ***digital business, global trends, industrialization, Africa, Asia, economies***

INTRODUCTION

Industrialization is crucial in the development of many economies around the world. However, according to the United Nations Industrial Development Organization (UNIDO) in 2017, the importance of manufacturing industries show that there is a declining trend in industrialized economies while there is an increasing trend for developing and emerging industrial economies. For instance, Asia and Pacific region covered almost half of global manufacturing production in 2016 (UNIDO, 2017). The Industrial Development Report 2018 by UNIDO (2017) noted that in 1990 to 2016, the average annual rate of growth of global Manufacturing Value Added (MVA) rose from 2.9% to 3.1 % and at the same time slowed in industrialized economies from 2.3% to 1.3% while for developing and emerging industrial economies, there was an increase from 5% to 5.6%. The Asian economies had a share in global MVA of 35.06% while African economies had 22.26% (Chang & Zach, 2018).

The global trends for industrialization in terms of MVA show that developing and emerging industrial economies are performing better than industrialized economies. In Africa, the increase in MVA is attributed to various factors. These factors include, business to business spending in manufacturing which is projected to be USD 666.3 billion by 2030, leadership like the African Union (AU) has put the sector at the front and center of its Agenda 2063, and many Africa countries such as Ethiopia, Kenya, Tanzania and Uganda have recently adopted policies to enable manufacturing and industrial development (Signe, 2018). The economy of Asia shows that East Asia's total MVA is higher than that of Europe and Americas who are the old industrial centres of the word and thus making East Asia the largest industrial core region in the world (Chang & Zack, 2018). A number of reasons have lead to the increase of MVA in Asian economies. For example, in India, 6000 quality products were contributed by the Micro, Small and Medium Enterprises (MSME), and that MSMEs are considered as the backbone of India's economy (Gade, 2018). However, studies such as UNIDO (2017) and Gade (2018) have noted the lagging behind of technology for both Africa and Asia.

The aspect of technology implies the need to examine technology further and in particular digital business in the Africa and Asia economies in relation to industrialization. Businesses that embrace new technologies capture more data, improve processes and empower workers to be more effective at their jobs (Brown, 2015). With the shift of manufacturing production from industrialized economies to developing and emerging industrial economies as indicated by UNIDO (2017), and also due to the industrial potential in African and Asian economies, this paper is motivated to examine digital business and global trends for industrialization. The comparative advantage theory guides this paper's specific objective of examining digital technologies in business and industrial output by comparing African and Asian economies so as to highlight their comparative advantage and sources of comparative advantage and how each economy can learn from each other.

LITERATURE REVIEW

Theoretical Framework

In 1817, the comparative advantage theory was originated by Ricardo with the assumption that there are trade benefits even in the absence of absolute advantage (Watson, 2017). A number of studies have adopted the comparative advantage theory to examine production differences between countries (Jabara & Thompson, 1980; Sejkora & Sankot, 2017; Mkwizu & Dominic, 2018; Cinquetti, 2018). Sejkora and Sankot (2017) applied comparative advantage theory and argued that there were relative productive manufacturing industries in chemicals and various materials for Senegal compared to other countries and that footwear was an example of unexploited potential. Skejkora and Sankot (2017) concluded that Senegal should focus on footwear and apparel production in order to promote industrialization and accelerate GDP growth rate. This study also adopts the comparative advantage theory to guide the comparative analysis on the relative comparative advantage for Africa economy Vs Asia economy by examining digital business and global trends for industrialization. In applying the comparative advantage theory, this

study specifically examines digital technologies in business and industrial output by comparing African and Asian economies

Global Trends in Industrialization: African Vs Asian Economies

Manufacturing Value Added (MVA) is an industrial trend worldwide (UNIDO, 2017). Globally, MVA is the major driver of economic growth and creation of new goods (UNIDO, 2017). The growth of global MVA was USD 12,316 billion in 2016 (UNIDO, 2017).

The African economy has witnessed a rise in MVA. According to Signe (2018), Africa's manufacturing growth annually was 3.5% from 2005 to 2014 and this was faster than the rest of the world. In the industrial development report of 2018 by UNIDO (2017), Africa's annual MVA growth rose from 1.4% in 1990-2000 to 4% in 2000-2016. Signe (2018) noted that the industrial production in Africa is resource-based manufacturing which accounts for half of the total MVA and that the total MVA is driven by high level of industrial development in North and South Africa while other countries such as Nigeria and Angola had increase in output of 10% annually. However, the MVA record for Sub-Saharan Africa was USD 145 billion in 2017 which is far behind that of East Asia (Signe, 2018). UNIDO (2017) sighted that developing and emerging industrial economies produced largely basic consumer goods. In contributing to the trend of largely basic consumer goods in industrialization for Africa, Mkwizu, Wilbard, Mbilinyi and Maliva (2018) carried a study in Tanzania by examining industrial products from the perspective of consumer's convenience shopping and found that location is one of the factors that influence consumers' convenience shopping of industrial products. Another study by Mwang'onda, Mwaseba and Juma (2018) recommended that Tanzania should put emphasis on innovation and agro-allied resourced-based industries in order to sustain manufacturing growth.

Furthermore, Chang and Zack's study showed that trends for the main industrial sectors such as agriculture indicated that in 2005, African economies performed better than Asian economies. The Alliance for a Green Revolution in Africa (AGRA) stated that Africa's agricultural growth rate improved after 2005 by an average of 7% annually and this is because of commodity price boom and expansion of cropped area (AGRA, 2017). Nepad (2013) noted that compared to other continents, Africa is dominated by family farming which relies solely on family labour. The report in 2015 also showed that African economies particularly Sub-Saharan Africa had agricultural value added of 15% to GDP compared to less than 10% for East Asia & Pacific (African Development Report, 2015). This further implies that the African economy in terms of agricultural value added was performing better than the Asian economy. Moon and Lee (2010) pointed out that some sub-regions in Asia have intrinsic comparative disadvantages in agricultural production with low food self-sufficiency rates.

From the MVA perspective, the Asia economy as an Asia and Pacific region has overtaken Europe which was once the world's largest manufacturing region (UNIDO, 2017; Chang & Zack, 2018). China as one of the Asian countries has the world's largest share of MVA at 24.4% in 2016 from 12.6% in 2006 (UNIDO, 2017). One of the reasons for the successful growth of MVA for the Asian economy is because of the major shift by industrialized economies to relocate manufacturing production to the developing world (UNIDO, 2017). Other reasons that have led the growth of MVA for the Asia economy is production through cheap labour as well as transferring labour from sectors with low and slowly growing productivity to the industrial sector (Chang & Zack, 2018); capital investment (Wu et al., 2016); and ability to sustain manufacturing output (Chang & Zack, 2018). However, the working-age population in China is expected to slow and capital investment has also slowed down (United Nations, 2015; Wu et al., 2016). Current initiatives in China are "Made in China 2025" and "Internet Plus" which are programs to digitalize China's manufacturing sector as well as enhance efficiency and raise manufacturing value by using digital technologies (Wu et al., 2016).

Digital Business for African Vs Asian Economies

Digital business is the use of technology to create new value in business models, customer experiences and internal capabilities that support its core operations (Liferay, 2019). According to Liferay, digital business also refers to both digital-only brands and traditional players that are transforming their business with digital technologies. Prior study by D'Cruz, Timbrell and Watson (2015) mentioned that organizations are investing heavily in digital technologies. Digital business centers on how technology allows companies to create new value and experiences which enables companies to have a competitive edge over their peers (Liferay, 2019). For purposes of this paper, digital business is considered as businesses that use digital technologies in adding value to products and services.

The African economy made up of several countries are adapting to the digital future (Banga & te Velde, 2018). African countries include Angola, Egypt, Cameroon, Botswana, Kenya, Mozambique, Rwanda, Tanzania, Uganda and Zambia. According to the report by Banga and te Velde (2018), Kenya is the leading African country in digitalization with increased internet penetration of 25% from 2001 to 2006. In 2007, Finger noted that the mobile wireless networks have contributed to the phenomenal growth of mobile telephony in Africa. In addition, the

literature on Africa's mobile economy mentioned that the 2016 Smartphone penetration for Africa is 30% compared to 51% global average (GSMA Intelligence, 2016; Dall'Omo, 2017). Africa is also using digital technologies such as mobile internet to add value to products and services. The best example of digital technology in mobile internet that has transformed the way businesses are transacted in Africa is the digital service innovation from Kenya which is called M-Pesa. Mohamed (2015) pointed out that M-Pesa was introduced by Safaricom in Kenya as a mobile money transfer service and thereafter many other Mobile Network Operators (MNOs) have launched various versions of mobile money services.

However, African countries benefit less from increasing levels of digitalization (Banga & te Velde, 2018). For example, for African countries to digitalize, manufacturing should consider issues such as developing complementary skills, increase access to internet and other Information and Communication Technologies (ICT) by implementing policies that are country-specific and also contribute towards firm capabilities, ICT infrastructure and national innovation (Banga & te Velde, 2018). There are various digital businesses in the African economy. The study by Ndung'u (2018) on digital potential for Africa indicated examples of digital businesses which include M-Akiba, M-Kopa and One Acre Fund. For instance, M-Akiba is a micro-investment in government securities using mobile phone payments platform which enables Kenyans to save money and earn interest every six months while M-KOPA is an innovative solar power solution program that enables low-income consumers to acquire high-quality and affordable energy (Ndung'u, 2018). On the other hand, One Acre Fund makes it possible for small-holder farmers in Kenya to repay loans digitally using M-Pesa rather than using cash (Ndung'u, 2018). From the literature, it is evident that Africa embraces digital business.

Asian economy has also embraced digital business. Gartner (2014) predicted a rise in technology spending of 7.4% in the Asia Pacific region. Examples of digital businesses in the Asian economy are Alibaba and eBay in China (Deloitte, 2017). The Asian economy is made up of countries such as Bangladesh, China, India, Indonesia, Malaysia, Pakistan, Philippines, South Korea, Sri lanka, Taiwan, Thailand and Turkey (Chang & Zack, 2018). Furthermore, in embracing digital, China's new vision is "Digital China" which aims to make Chinese enterprises embrace digitalization by investing in digital technologies in order to generate fresh revenue streams through delivery of new forms of value to customers (Wu, Narsalay, Qiu, Yu & An, 2016). Wu and others pointed out that in Internet plus program for China, there is emphasis not only for business to use technologies such as mobile internet, big data and cloud computing but also develop new sources of revenue. Subsequently, OCED (2018) noted that:

> *Underdeveloped infrastructure also significantly constrains the development of the digital economy in much of emerging Asia. Less than 30% of the population is online in India, Indonesia and the CLM countries, which have the fewest number of secure Internet servers for their population, less high-speed broadband Internet (minus Indonesia) and relatively high Internet prices (along with the Philippines). The number of secure Internet servers relative to the total population is significantly higher in Singapore than in the rest of the region, with 932.1 servers per million people, though Brunei Darussalam and Malaysia also have more than 100 secure servers for every million people. (OCED, 2018)*

Other related obstacles in digital business for the Asian economies exist. For instance, the report by Kearney (2015) indicated that there are roadblocks to a full digital economy and these are; weak business case for building out broadband; regulation inhibiting innovation in mobile financial services and e-commerce; low consumer awareness and trust hindering the uptake of digital services; lack of single digital market; and limited supply of local content.

The existing literature on digital business through the use of digital technologies for both African and Asian economies can be summarized using Table 1.

Table 1: Digital Business for African Vs Asian Economies

Economies	**Digital Technology**	**Digital Business**	**Source**
Africa	Mobile Internet	M-Pesa, M-Akiba, M-Kopa, One Acre Fund	Ndung'u (2018)
Asia	Internet	Alibaba, eBay	Deloitte (2017)

Source: Compiled from literature

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METHODOLOGY

This study uses a documentary research approach and review of literature to examine digital business and global trends for industrialization by comparing African and Asian economies. Table 2 shows the production trends in main sectors of the African and Asian economies which are agriculture, industry, manufacturing and services from 1950 to 2005 for gross value added in the economy as percentage of GDP.

Table 2: Production in main sectors for African Vs Asian Economies

Economies	1950				1980				2005			
	Agr	Ind	Mf	Sv	Agr	Ind	Mf	Sv	Agr	Ind	Mf	Sv
Africa	44	19	9	36	25	32	14	43	26	30	12	45
Asia	49	14	10	36	25	33	22	42	13	35	24	52

Note: agr (agriculture), ind (industrial), mf (manufacturing), sv (services)

Source: Chang & Zach (2018)

DISCUSSION

The analysis on trends in industrialization based on Table 2 shows that the main sectors for industrialization which are agriculture, industry, manufacturing and services indicate differences in output between the African and Asian economies. The Asian economy had a steady growth in share of manufacturing in GDP from 10% in 1950, 22% in 1980 and 24% in 2005 compared to the African economy. The steady growth in manufacturing output combined with the largest share of MVA in the world in 2016 are attributed to cheap labour, capital investment and ability to sustain manufacturing growth as noted by Wu et al (2016) and Chang and Zack (2018). This suggests that cheap labour, capital investment and ability to sustain manufacturing growth are sources of comparative advantage of the Asian economy over African economy. In addition, the Asian economies have comparative advantages in technological spill-over compared to African economies in terms of industrialization. On the other hand, although the Asian economy performed better in agricultural sector during 1950, the African economies achieved agricultural output of 26 compared to only 13 for the Asian economy in 2005 and this suggests that for 2005, the African economy had a relative comparative advantage over the Asian economy in the share of agricultural in GDP.

In connecting digital technologies and industrial output, the Asian economy through digital business like Alibaba and eBay use internet technology to help buyers and sellers to sell and buy products and thus assist to provide markets for industrial products. However, Kearney (2015) pointed out that there is lack of single digital market which is one of the obstacles for the digital business in the Asian economy, and OCED (2018) also cited other barriers to digitalization include underdeveloped infrastructure. In comparison to the African economy, the digital business in Africa like One Acre Fund use the M-Pesa which is a digital technology based on digital service innovation to assist small-holder farmers to repay loans digitally instead of using cash. Although Africa has digital potential, Banga and te Velde (2018) emphasized that manufacturing should consider issues such as developing complementary skills, increase access to internet and national innovation.

CONCLUSION AND IMPLICATIONS

The focus of this paper was to study digital business and global trends for industrialization with the specific objective of examining digital technologies in business and industrial output by comparing African and Asian economies. This paper reveals that both African and Asian economies embrace digital business through the use of digital technologies in relation to industrialization. Although both economies use digital technologies in businesses for industrialization, the Asian economy is performing better and thus achieved a relative comparative advantage on the trends for Manufacturing Value Added (MVA) in the manufacturing industry compared to African economy and the sources of comparative advantage are from availability of cheap labour, capital investment and the ability to sustain growth manufacturing output. The African economy notably performed better than Asian economy from the industrial sector related to agricultural and this was due to the trends such as in resource-based capacity and family farming.

Furthermore, the difference between African and Asian economies is that the African economy has a comparative advantage compared to the Asian economy in terms of the digital technology through mobile internet from the perspective of one of the best digital service innovation on mobile money services in the world called M-Pesa. On the other hand, the Asian economy has a comparative advantage over the African economy due to embracing digital technology of internet resulting in services such as Alibaba and eBay. Hence, from the comparative advantage theory, this paper shows that the African economy has a relative comparative advantage on mobile internet as a trend digital technology used in businesses compared to the Asian economy while the Asian economy has a relative comparative advantage on MVA compared to the African economy.

Therefore, the implication is that although digital technologies exists in both African and Asian economies, the trends to success in industrialization in relation to digital business is mainly through technological spill-over and sustaining the manufacturing production. The African and Asian economies can learn from each other. Both economies can learn from each other's strength. Other studies can explore 3D printing and cloud computing as trend technologies in relation to industrialization.

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ISBN 978-9966-132-53-6 @ Copy Right .2019

ICT Usage in Panelist Sessions to Enhance Completion of PhD Studies in Public Universities: Study of Uganda and Tanzania

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Abstract

In PhD Studies, majority of PhD programs in Universities are for a period of 3 to 4 years for a PhD student to graduate. However, attaining a Doctor of Philosophy (PhD) has challenges which hamper the normal progress. For example, only 41% of students during their PhD studies are able to overcome the challenges they encounter. Academic institutions have rules governing them in all academic aspects which should be followed by staff and students. At PhD level, students present their work to the panelist comprising of a group of professors, doctors and a secretary whose role is to record comments raised by the panelist. Unfortunately, this traditional means of notes taking by the secretary using pen and paper and the panicking student anguished by examination fever, renders some vital information to be omitted and causes delays in receiving the official comments. This not only minimizes the quality of the PhD work presented, but also delays the PhD student(s) from completing the program on time thus increasing financial costs among others. Past scholars have averred that for a PhD student to finish her or his PhD program in time depends on factors like inadequate money to meet the tuition fees, travel expenses, social issues, health issues and lack of commitment. However, there is scant literature on trends addressing the issue of ICT usage during the panelist sessions hence the need for research on the use of ICT like video cameras during presentations to curb mismatches of comments and other related snags. Therefore, this paper examines ICT usage in panelist sessions to enhance completion of PhD studies in public Universities in Uganda and Tanzania. Quantitative data was analyzed using descriptive statistics and PLS-SEM with results showing a significant relationship between ICT usage in panelist sessions and success in completion of PhD studies in Tanzania and Uganda. The outcome of this study can assist Universities to improve panelist sessions during PhD presentations.

Key words: ***ICT Usage, Panelist sessions, PhD Students, Public Universities***

INTRODUCTION

In the course of pursuing Doctor of Philosophy (PhD) Studies in Universities, PhD students are faced with financial and economical challenges during their academic journey (Manyika & Szanton, 2001). Other challenges noted in recent studies include ergonomics and ICT (Hamilton-Ekeke & Mbachu, 2015; Global Digital Report, 2018; Masele & Kagoya, 2018). The article by Masele and Kagoya (2018) concluded that policy makers and legislators should consider ergonomics in policies related to higher education. Other scholars in adding literature on higher institutions of learning indicated that for higher institutions of learning, the ranking of high performing research quality of any university is based on excellent usage of ICT facilities based on its quality of ICT infrastructure and use of ICT in teaching and research (Mutula, 2009, World University Ranking, 2018).

Although past literature highlighted challenges in PhD studies including drop out and through-put rates (Manyika & Szanton, 2001; Badat, 2008; Mutula, 2009; Hamilton-Ekeke & Mbachu, 2015; Global Digital Report, 2018; Masele & Kagoya, 2018), very few have mentioned about panelist sessions. For instance, Mkwizu (2018) examined PhD programs with the conclusion that mismanagement by panelists during the panelist sessions contribute to delay in completing PhD programs and that in combating the situation, PhD students need to be shifted to other departments within the University which are competent in handling panelist sessions hence building as well as enhancing a culture of competency in managing panel sessions by panelists. Limited literature on ICT in relation to PhD studies and the continued challenges related to PhD studies motivates this paper to examine ICT usage in panelist sessions to enhance completion of PhD studies in public Universities.

LITERATURE REVIEW

Definition of key terms

ICT Usage

ICT Usage in this study refers to panelist members' ability to use recorders, videos cameras, excellent projectors, comments tracking and records information management systems during PhD students' presentations for systematically controlling the creation, distribution, use, maintenance, and disposition of recorded comments maintained as evidence of university activities in the digital era to enable students complete their PhD studies in time.

Panelist sessions

For purposes of this paper, panelist sessions are termed as sessions where PhD students present their work to panelists comprising professors, doctors and a secretary.

PhD Students

This paper defines PhD Students as those students pursuing PhD programs in public universities for a period of 3 to 4 years in order to graduate with a PhD.

Public Universities

In this paper, public universities are referred to as Makerere University Business School and University of Dar es Salaam Business School.

Theoretical Literature Review

The theory of Unified Theory of Acceptance and Use of Technology (UTAUT) was developed in 2003 by Venkatesh, Morris, Davis and Davis. It basically assumes that individual's behavioral intention to use technology is influenced by performance expectancy, effort expectancy, social influence, and facilitating conditions. The application of UTAUT theory is evident in subsequent studies such as; AlAwadhi and Morris (2008), Abdelghaffar and Magdy (2012), Venkatesh, Thong and Xu (2012, 2016). For example, Abdelghaffar and Magdy (2012) applied UTAUT to examine the adoption of mobile government services in developing countries and found that for the case of Egypt, factors of perceived usefulness, compatibility, awareness, social influence and face-to-face interactions significantly contributed in predicting intentions to use mobile government. This paper selected UTAUT due to its emphasis on individual's use of technology. Hence UTAUT application in this paper guides in the analysis of the relationship of information technology and enhancing completion of PhD studies. This paper hypothesizes that there is a positive relationship between ICT usage in panelist sessions and completion of PhD studies.

Empirical Literature Review

ICT usage in education has received the attention of several scholars recently such as Bello and Aderbigbe (2014), Obahiagbon and Osahon (2014), Hamilton-Ekeke and Mbachu (2015), Nkoyo and Nsata (2016), Jumare, Tahir and Hamid (2017), Thomas and Oladejo (2017), Tella, Orim, Ibrahim and Memudu (2017), Falode, Shittu, Gambari and Falode (2018), Iroaganachi and Izuagbe (2018), and Agboola et al (2018). The study by Hamilton-Ekeke and Mbachu (2015) conducted in Nigeria examined the place of ICT in teaching and learning using regression analysis and found that there were inadequate ICT facilities in Universities. Nkoyo and Nsata (2016) added to the literature of ICT in education by exploring availability and utilization of electronic resources by postgraduate student. By applying descriptive survey design, Nkoyo and Nsata (2016) found that there was inadequate availability and utilization of electronic resources by postgraduates and this is attributed by lack of training and inadequate supply of electricity.

In Nigeria, Tella et al. (2017) investigated electronic resources by academics staff by applying one way ANOVA and regression analysis with findings showing that there was perception (3.5%) on electronic resources which received less attention among academic staff. Similarly Thomas and Olegajo (2017) conducted a study in Nigeria on perception of ICT using regression analysis and found that among the teacher-trainees, there was less attention to ICT attributed to attitude (3.5%), perception (3.5%), self-efficacy (2.4%) and satisfaction (1.2%). Masele and Kagoya (2018) examined higher education in Tanzania and Uganda. For instance, Masele and Kagoya (2018) carried out a quantitative study both in Uganda and Tanzania with a focus on the relationship between ICT usage and health related snags by PhD students and grandaunts. Their findings indicated that ICT usage by PhD students during for long hours resulted into a number of health related hazards like eye defects, backache, headache, and others and needed attention

to be paid to ergonomic factors by University top managers, policy makers and students themselves. In adding literature to ICT and education, this study focuses on ICT usage in panellist sessions in relation to completion of PhD studies.

The reviewed literature on ICTs in education (Bello & Aderbigbe, 2014; Hamilton-Ekeke & Mbachu, 2015; Nkoyo & Nsata, 2016; Jumare et al., 2017; Tella et al., 2017; Falode et al., 2018; Agboola et al., 2018) show that most studies in Africa were conducted in Nigeria and focused on ICTs in education among undergraduates as opposed to PhD students. There are even fewer studies in Tanzania and Uganda (Masele & Kagoya, 2018; Mkwizu, 2018). In bridging the knowledge gap, this study compares Uganda and Tanzania by examining ICT usage in panelist sessions to enhance completion of PhD studies in public Universities.

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METHODOLGY

The study locations for this paper are in Uganda and Tanzania. The public Universities selected for this study are Makerere University Business School in Kampala, Uganda and University of Dar es salaam Business School in Dar es Salaam, Tanzania. Cross-sectional design was adopted in order to collect quantitative data from the respondents. Convenience sampling was used and semi-structured questionnaires were handed to respondents. Data was collected during the month of March in 2019. The measurement for 7 items on information technology was adapted from a study by Mwai (2013) while the 6 items measuring successful completion of PhD studies were adapted from Akbulut, Kesim and Odabasi (2007) and UNESCO Institute for Statistics (2006). Collected data from 73 PhD students and panelists from Makerere University Business School in Kampala, Uganda and 49 PhD students and panelists from University of Dar es salaam Business School in Dar es Salaam, Tanzania were subjected to descriptive statistics assisted by SPSS version 20 while Partial Least Square Structural Equation Modelling (PLS- SEM) assisted by SmartPLS 3 was used to predict the influence of the tested variables. PLS-SEM can be used for predictions as per Hair, Hult, Ringle and Sarstedt (2014) and Ringle, Wende and Becker (2015). Composite Reliability for the variable of ICT usage in panelist sessions is 0.80 while completion of PhD studies is 0.78 for the Uganda collected data. On the other hand, composite reliability for the variable of ICT usage in panelist sessions is 0.74 while completion of PhD studies is 0.79 for the Tanzania collected data.

FINDINGS AND DISCUSSION

Findings from the sampled respondents revealed that majority of the respondents from Uganda were males (61.6%), between 26 to 35 years old (69.3%), and have university education (100%) while those respondents from Tanzania were mostly females (53.1%), between 36 to 45 years old (51%) and have university education (100%). This suggests that the majority of respondents in Tanzania were educated females between 36 to 45 years old compared to Uganda where the majority were educated males of middle age group.

The findings for the variable of ICT usage in panelist sessions showed that majority of respondents in Uganda as well as in Tanzania agreed with the statements that; the panelist should use recorders to capture comments during student presentation (Uganda – 65.8%; Tanzania- 93.7%); ICT encompasses wide variety of devices and applications that serve to ease and enhance efficiency during the panelist session (Uganda – 94.5%; Tanzania- 95.9%); ICT encompasses wide variety of devices and applications that serve to ease and enhance effectiveness during the panelist session (Uganda – 90.4%; Tanzania- 95.9%); It is important to use videos and recorders during student presentation (Uganda – 93.1%; Tanzania- 100%); ICT usage enables capturing, gathering, processing, storing, access and communication of information in different forms among the panelist and other stakeholders (Uganda – 99.6%; Tanzania- 100%); and ICT usage builds trust and fairness during presentations (Uganda – 86.3%; Tanzania- 93.8%). Further findings show that the opinions of majority of the respondents in Tanzania and Uganda indicated that the panel members do not use video cameras during student presentation (Uganda – 87.9%; Tanzania- 95.9%). The findings of this study suggest that video cameras during PhD presentations are not used by panel members in the panelist sessions for both universities in Tanzania and Uganda. The findings also imply that respondents from Uganda and Tanzania support that panelists should use recorders and other ICT devices to enhance efficiency and effectiveness during the panelist sessions hence the ability to capture, gather, process, store, access and communicate information in different forms among the panelist and other stakeholders. These results vary from Iroaganachi and Izuagbe (2018). The variation is due to the methodological approach whereby Iroaganachi and Izuagbe (2018) sampled only staff views and not PhD students.

Most of the respondents from Tanzania and Uganda who were asked about success in completion of PhD studies agreed that they will complete PhD studies in time if the panelists use ICTs (Uganda – 86.7%; Tanzania- 81.7%); lack of video cameras and ICT recorder in presentations affects PhD progress and the quality of PhD work (Uganda –

87.7%; Tanzania- 90.4%); Not using ICT recorder in presentations affects the quality of my PhD work (Uganda – 96.7%; Tanzania- 97.9%). Presence of videos and ICT recorders in the presentation room eases the work of secretary in recording comments from panelists and improves student time management (Uganda – 100%; Tanzania- 100%); and Presence and usage of ICTs reduces PhD student financial costs (Uganda – 97.3%; Tanzania- 95.9%). The results imply that most of the respondents agreed that the presence of videos and ICT recorders can ease and improve both the quality of PhD work and students time management. These results are not in line with Nkoyo and Nsata (2016) because this study reveals results which focused on ICT usage during panelist sessions as opposed to general usage of electronic resources by postgraduates.

Bootstrapping in PLS-SEM was the technique used for the analysis of predicting the relationship between ICT usage in panelist sessions and completion of PhD studies is shown in Figure 1 and Figure 2 for Uganda. The results for Uganda in Figure 1, show that the T-value (7.46) is above 1.96 and therefore, ICT usage in panelist sessions is a significant indicator as a predictor of success in completion of PhD studies and that in Figure 2, the p value (p=0.00) further shows that the relationship between ICT usage in panelist session and completion of PhD studies is significant. This suggests that ICT7 and ICT8 are the indicators of ICT usage in panelist sessions that predict success in completion of PhD studies in terms of CPS 13 and CP16. Other items were dropped due to low loadings.

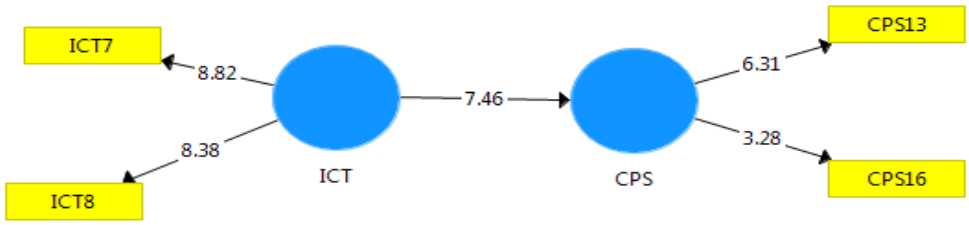

Figure 1: T values- ICT usage in panelist sessions and Success in Completion of PhD Studies (CPS) for Uganda

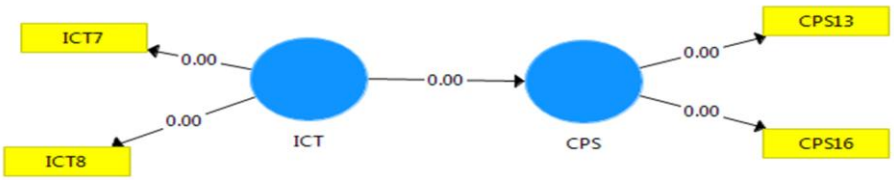

Fig **'s**

Bootstrapping in PLS-SEM was the technique used to analyze the prediction the relationship between ICT usage in panelist sessions and completion of PhD studies and the findings for Tanzania in Figure 3 show that the T-value (8.01) is above 1.96 and therefore, ICT usage in panelist sessions is a significant indicator as a predictor of success in completion of PhD studies. In Figure 4, the p value (p=0.00) further shows that the relationship between ICT usage in panelist session and completion of PhD studies is significant. This suggests that ICT7, ICT8 and ICT11 are the indicators in ICT usage in panelist sessions that predict success in completion of PhD studies in terms of CPS 13 and CP16. Other items were dropped due to low outer loadings.

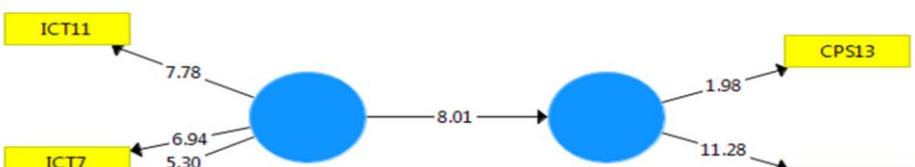

Figure 3: T values- ICT usage in panelist sessions on success in Completion of PhD Studies (CPS) for Tanzania.

The significant results of ICT usage in panelist sessions on success in completion of PhD studies for both Tanzania and Uganda support the UTAUT theory and therefore, ICT usage in panelist sessions predicts success in completion of PhD studies. These results are contrary to the study by Thomas and Olegajo (2017) in that the sampled respondents had low opinions on ICT whereas this study reveals that the respondents view on ICT usage in panelist sessions had high percentages and there is a significant relationship between ICT usage in panelist sessions and success in completion of PhD studies.

CONCLUSION

This paper examined ICT usage in panelist sessions to enhance completion of PhD studies. This paper can conclude that there is a significant relationship between ICT usage in panelist sessions and success in completion of PhD studies for both Tanzania and Uganda. The results showed that in Tanzania, the predictors of ICT usage in panelist sessions that influence success in completion of PhD studies are ICT encompasses wide variety of devices and applications that serve to ease and enhance efficiency during the panelist session; ICT encompasses wide variety of devices and applications that serve to ease and enhance effectiveness during the panelist session; and ICT usage builds trust and fairness during presentations in relation to lack of video cameras in presentations affects PhD progress and presence of videos in the presentation room improves on student time management. And for Uganda, the predictors of ICT usage in panelist sessions that influence success in completion of PhD studies are ICT encompasses wide variety of devices and applications that serve to ease and enhance efficiency during the panelist session; ICT encompasses wide variety of devices and applications that serve to ease and enhance effectiveness during the panelist session in relation to lack of video cameras in presentations affects PhD progress and presence of videos in the presentation room improves on student time management.

The significant results of this study support UTAUT theory and this implies that UTAUT theory can be used to examine the relationship between ICT usage in panelist sessions and success in completion of PhD studies in the context of comparing Tanzania and Uganda public Universities. Policy makers in the education sector can consider the predictors of ICT usage in panelist sessions for purposes of enhancing completion of PhD studies successfully in public Universities. Other researchers can apply a qualitative approach or mixed method to conduct a similar study in other Universities. They can also look at the moderating effects panelist mood in this similar study.

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Selected Macro-Economic Variables And Residential House Prices In Nairobi County, Kenya

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ISBN 978-9966-132-53-6 @ Copy Right .2019

Abstract

House prices are not only a major point of economic and social debate in Kenya, but also in the whole world. They have been increasing in the country over the past decade and this is likely to continue in future. There are different factors that affect house prices, and their effect change over time. This study sought to determine the effect of selected macroeconomic variables on residential house prices in Nairobi City County, Kenya. The study was anchored on economic theory of demand and supply of houses. The study adopted an explanatory research design and covered the period 2004Q1 to 2016Q4. The House Price Index was obtained from the Hass Property Consult limited while those of the other variables were obtained from the Kenya National Bureau of Statistics. The results revealed that the short run effect of exchange rate and inflation rate on house prices were negative and significant. However, the previous quarter mortgage rates and housing prices had a positive and significant effect on house prices in the current quarter in Kenya in the short run. The speed of adjustment from short to long-run equilibrium is quick with 11.96 per cent of the disequilibrium corrected each quarter. The long run results showed that, mortgage rate and new houses had a negative and highly significant effect on house prices while exchange rate had a positive and significant effect on the house prices in Kenya. The study recommends that the government should put in place measures to curb inflation, maintain a stable exchange rate policy and increase budgetary allocation to housing to increase supply of houses hence check price of new houses.

Key words: ***House Price Index, House Prices, New Houses***

INTRODUCTION

Since the 2007/2008 global financial crisis, it is now widely acknowledged by empiricists and practioner's that the prices of houses play an important role in generation of business cycles and financial dynamics (Valadez, 2012; Shi & Jou, 2013). Davis and Heathcode (2003) asserts that house prices play a key role by leading the business cycle an assertion supported by Beltratti and Morana (2009) and Ghent and Owyang (2010). It also follows that house price fluctuations strengthen business cycles and that investment in houses leads the business cycle (IMF, 2009). The effect of house prices on business cycles is via aggregate expenditure and financial system (Tsatsaronis and Zhu 2004). Large cyclical variations in house prices have been witnessed in many industrialized nations, often having a price rise before a crash whereby investors lose out on their investments hence affecting their returns adversely (Nneji *et al.*, 2013).

According to Beltratti & Morana (2009), house price fluctuations affect economic growth strongly since housing is a major component of household wealth. House price changes affect the real side of the economy through affecting the financial system, a phenomenon associated with the US financial crisis of 2007-2008 (Kozicki, 2012). The volatility of house prices has similarly been documented in Africa. South Africa for instance, has witnessed a rapid appreciation in home values (Das *et al.*, 2011). Kenya in particular has registered significant house price changes within a short time. According to Hass consult report (2015), the average price for an apartment in Nairobi, the Kenya's capital city, increased from Ksh5.2M in December 2000 to Ksh11.58M in 2015. The report further asserts that no house in the formal market was below KSH 2M. However, exact statistics show that these houses traded at about KHS 14M in the first quarter of 2016.

The Kenyan housing market has attracted many investors, both individuals and institutional among them private developers who are seeking to diversify their portfolios (Hass consult, 2011). The revision of Kenya's National Housing Policy of 2004 led to increased attention to Nairobi County on addressing house supply shortfalls and slum upgrading initiatives. The real estate in Kenya has been experiencing a steady growth in the last decade and this is likely to continue in future (Knight Frank, 2014). Nevertheless, house demand outstrips supply by far. Although the country's Vision 2030 targets a supply of 200,000 housing units per year, only 35,000 are produced (CAHF, 2016)
Several factors have been documented as major determinants of housing prices, among them housing permits, number of households and total population being significant in Cyprus (Sivitanides, 2014). Others include the number of housing loans approved, (Pillaiyan, 2015); new construction of housing (Berglund, 2007); private consumption (Beltratti & Morana, 2009) and household consumption (Gustafson *et al.*, 2016). The long-run demographic changes in developed countries have been known to affect house price developments. Major housing stock contributors are; self-contracted houses, government agencies, public private partnership and private developers (CAHF, 2016). A positive relationship is expected between house prices and the quantity of houses supplied. (Miregi & Obere, 2014). Housing needs on the other side to include; construction of new houses to supply new households, replacement of units already in stock through demolition and construction of additional units required to relieve current overcrowding (Schiller, 2007).

Given this background, the current study sought to find out the effect of selected macroeconomic variables on housing prices in Nairobi. Specifically, the effect of the following variables was examined: mortgage rate, exchange rate, the number of new houses and inflation.

STATEMENT OF THE PROBLEM

Demand for housing, which has possibly led to increase in house prices, has been on the rise at a faster rate than the number of houses available or under construction (National Housing Corporation, 2009). National Housing Corporation (2009)noted that housing demand which is the likely force behind the house price hike witnessed has been increasing at a rate higher than the quantity of housing units available or those under construction. Expectations of capital gains from housing investments would affect house prices by increasing demand for housing which would cause high volatility in house prices (Selim, 2009). Annual housing units constructed is estimated at 30,000 against the annual demand of 200,000 units (National Housing Survey, 2013). According to Hass consult (2016), the average price of an apartment in Nairobi was KSH 11.58 in December 2016 from KSH 5.2 exactly 6 years earlier (December 2000) and no single home was valued at less than KSH 2M in the formal market. In particular the upward cycle has recorded a 14.6 per cent increase over the year, the first double digit annual growth rate since 2011 and a 2.26 times

since 2007.The 2011 report by World Bank acknowledges that Kenya has experienced a rapid growth in her housing finance system especially in recent past. This growth is majorly in the mortgage market and involves expansion on loans both in number and in their value. In the entire of Sub-Saharan Africa, Kenya's market for mortgages is ranked as third most developed with her mortgage asset estimated at around 2.5 percent of her GDP (World Bank, 2011a). In spite of the fact that the mortgage market is seen to be the most developed in Sub- Sahara Africa, access to mortgage finance for a majority of the population is still a major challenge.

Low supply of houses can be attributed to high construction costs, rural-urban migration, population growth, lack of resources and borrowing constraints (Tipple, 1994 & Matteo, 2005). Statistics show that 22 percent of Kenyans live in cities and that the urban population is growing at an annual rate of 4.2 percent. With this level of growth, 200,000 new houses are required every year to meet the demand (National Housing Survey, 2013; KNBS, 2016; CAHF, 2016). The appreciation of house prices in future as determined by expectations formed by households is fundamental as it tremendously drives the demand of houses (Coleman, 2008). It is for this reason that a speculative builder only construct houses based on demand (Tipple, 1994) which could be attributed to supply not matching demand. Empirical studies (Nneji *et al.*, 2013a; Valadez, 2012; Zhang *et al.*, 2012; Beltratti & Morana., 2010; Wadud *et al.*, 2012), have shown the impact of various determinants on the house prices.

The Kenyan market is unique and the drivers of house prices might not necessarily be replicated in another market. Changing house prices have been of concern to both individuals, investors and government since they influence affordability of houses. For instance Nneji and Ward (2013) found house prices to be responsive to changes in short term interest rate and GDP only which contradicts Zhang *et al.*, (2012) who found GDP not to be significant. The housing market in Kenya has been given relatively low research focus and those empirical studies on this sector have given much focus to factors that determine cost of house construction (Moko & Olima, 2014). Land, building materials and infrastructure were found to influence construction costs and that initiatives to reduce costs like Private-Public-Partnership, Government intervention and alternative building technology could be explored. Sila and Olweny (2014), found cost of land and interest rates being the main determinants of the cost of houses and no influence of building materials on cost of houses contradicting the study by Moko and Olima (2014). Expected income from real estate was found to influence prices in Meru Municipality (Messah & Kigige, 2011). Miregi and Obere (2014), in their study of fundamental variables and property prices using the unrestricted Vector Autoregressive (VAR) model, found that interest rates and inflation rates affect prices whereas building cost and stock prices had no significant effect.

Most buyers have little understanding of what really drives house prices, instead of using supply and demand information, they use the recent house price trends and project them forward (Shiller, 1989). The reviewed empirical literature have shown mixed results in different markets. Most of the studies have focused on one or two explanations by regressing a few variables and hence may suffer from 'missing variables' or 'variable selection biases'. This study filled this gap and complimented literature by evaluating the effect of selected macroeconomic variables in Nairobi City County, Kenya by running various estimation tests. The study also extended the model used by Miregi and Obere (2014). Adopting the unrestricted Vector Autoregressive (VAR) model, the researchers failed to conduct test for both long-run and short-run dynamics. This study used Vector Error Correction Model (VECM) to establish the short-run dynamic as well as long-run dynamics. In addition, the study also established the speed at which short-run equilibrium adjusts to the long-run equilibrium. This is a very timely study conducted at the time when the Kenyan government is committed to the big four agenda, one of them being Affordable Housing for all.

THEORITICAL REVIEW

The Economic Theory of Demand and Supply of Houses

The theory of demand and supply is of paramount importance in the analysis of the housing market. The theory suggests that in an uncontrolled economy, the interaction of market forces of demand and supply determines the price at which properties should be exchanged (Tsatsaronis & Zhu, 2004). The supply and demand is a cornerstone in pricing, it is therefore expected that supply will affect demand. House price movements are based on supply and demand curve and as more houses become available, prices will decrease (Shiller, 2007). The theory indicates that the quantity of houses supplied is a function of several factors among them the house prices. House prices is a function of demand factors among them; exchange rate, inflation, mortgage rate, population growth, household income, interest rates and household formations (Brueggerman & Fisher, 2005). Availability of credit could increase mortgage lending and stimulate housing demand (Goodhart & Hofmann, 2008). On the other hand, unexpected rise in interest rates that raises house costs would lower house demand, slow growth of house prices and possibly lead to a house price decline. (Himmelberg *et al.*, 2005b). Generally, as the housing market increase, the demand for a fixed good tends to increase yielding higher prices (Flem, 2014).

Supply factors in the housing market include construction costs, cost of land, labour, materials, improvement of the existing housing stocks and changes in housing stock (Tsatsaronis & Zhu, 2004). It is therefore expected that as the returns from houses increase, the suppliers of houses will seek to supply more whereas consumers seek satisfaction at minimal costs. Price and demand correlation concludes that with larger available quantities, prices tend to go down.

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An increase in the number of houses is regarded as an increase in quantity and is therefore regarded as having a negative effect on house prices (Schiller, 2007). The housing market is expected to have a continuous growth in supply due to a positive population growth. Constant price equilibrium is achieved when supply increases fulfil the demand increases. The Kenyan housing market is not regulated and players in the market among them real estate companies try to fulfil the demand for housing. Factors of demand in the housing market used in this study include; population, interest rate, inflation, exchange rate, gross domestic product and mortgage rate and supply factor being the number of houses. The interplay between these factors of demand and supply settle at an equilibrium price.

RESEARCH METHODOLOGY

The study adopted an explanatory research design. This is because it aimed at explaining the relationship between the explanatory variables and the housing prices. The study used secondary data which is appropriate for an explanatory research design. Various statistical tests were done on the data and the results to ensure robust results. These included unit root test and post estimation diagnostic tests.

Source of Data

Secondary data was collected for the entire period since January 2004 to December 2016. House price index data was obtained from the Hass Consult Limited while the other data were obtained from Kenya National Bureau of Statistics. This period was chosen on the basis of house price index data availability.

Data Analysis

The study adopted the vector autoregressive (VAR) model Sims (1980). In this model, all the variables are assumed to be simultaneous and are regressed on a given lags of themselves and all the other variables in the model. This specification is important in studying the joint behaviour of the variables. This is through giving empirical evidence of how various house price determinants respond to a shock in other variables.

Sims (1980); Kim and Lee (2000) and Ochieng & Obere (2014) used a similar methodology. The model is specified as follows:

$$HPIt = \beta 0 + HPIt - i + \beta 1\, EXCRt - i + \beta 2\, INFLRt - i + \beta 3\, MGRt - i + \beta 4\, NEWHSEt - i + \varepsilon_t$$

$$HPIt = \beta 0 + HPIt - 1 + \beta 1\, EXCRt - 1 + \beta 2\, INFLRt - 1 + \beta 3\, MGRt - 1 + \beta 4\, NEWHSEt - 1 + \varepsilon_t$$

……..... (1.1)

Where HPI_t is the house price index at time t while HPI_{t-i}, $EXCR_{t-i}$, $INFLR_{t-i}$, MGR_{t-i} and $NEWHSE_{t-i}$ represents the respective lagged house prices, exchange rate, inflation rate, mortgage rate and number of houses, i is the number of lags and the β's represents the coefficients whereas ε_t is a random error term.

The long and short-run relationship between the house prices and the explanatory variables was then modelled using VECM (Vector Error Correction Model). This model has two major advantages. First, it provides the explanation for short and long run house price behaviour (Wang *et al.,* 2008). Second, it treats all the variables in the model as simultaneous while linking every variable to its own and other variables lagged values (Tuluca *et al.,* 2000). VECM have been used by several other studies, including: Malpezzi (1999); Sing *et al.*, (2006); Gallin (2006) and Oikarinen (2009).

The model is specified as follows:

$$\Delta HPI_t = \beta_o + \varphi ECT_{t-1} + \sum_{i=1}^{p} \beta_1 \Delta HPI_{t-1} + \sum_{i=1}^{p} \beta_2 \Delta \mathrm{EXCR}_{t-1} + \sum_{i=1}^{p} \beta_3 \Delta \mathrm{INFLR}_{t-1} + \sum_{i=1}^{p} \beta_4 \Delta MGR_{t-1} + \sum_{i=1}^{p} \beta_5 \Delta NEWHSE_{t-1} + \varepsilon_t$$

……..... (1.2

ECT_{t-1} is the error correction term and it captures deviation from the long-run equilibrium path, φ is the correction coefficient and it shows how variables adjust towards their equilibrium.

DATA, ESTIMATION AND EMPIRICAL RESULT

Descriptive statistics

The summary of the statistical characteristics of all the variables are shown in Table 4.1

Table 4.1: Descriptive Statistics results for the variables

	HPI	**EXCR**	**INFLR**	**MGR**	**NEWHSE**
Mean	268.5872	82.07542	10.40818	15.04825	4401.615
Median	271.0754	80.65367	7.466667	14.67334	4696.875
Maximum	439.3879	102.9673	29.13333	20.14041	10825.53
Minimum	139.9944	62.64600	3.333333	9.089416	1597.469
Std. Dev.	92.30754	10.45918	6.317467	2.492063	2398.545
Skewness	0.076222	0.386904	1.369709	0.023712	0.746476
Kurtosis	1.771411	2.491350	4.458412	2.829427	2.861341
Jarque-Bera	3.320784	1.857923	20.86798	0.067912	4.870949
Probability	0.190064	0.394964	0.000029	0.966614	0.087556

Sum	13966.53	4267.922	541.2252	782.5087	228884.0
Sum Sq. Dev.	434554.8	5579.121	2035.430	316.7292	2.93E+08
Observations	52	52	52	52	52

Source: Researcher 2019

The data for all the variables is normally distributed because the mean and median are almost equal, skewness is close to zero and the *p* value of the Jarque-Bera test statistic is less than 0.05. However, inflation has a mean higher than median while new houses have a mean that is lower than the median.

Unit root tests

The study employed the Augmented Dickey- Fuller (ADF) as the standard test for unit root. This test is performed so as to avoid meaningless or nonsensical results (Gujarati, 2011). The unit root properties of the five variables was analysed at level and first difference using the ADF unit root test at both the intercept only and for intercept and trend and the results are as shown on the appendix, tables A.1 and A.2.

All the variables were non-stationary at level but stationary at first difference I (I) at five per cent significance level. As a result, this study used cointegration analysis. Since there was no cointegration, the study went ahead to use the VAR and VECM models for non-stationary data which analyse the data at first differences making them stationary and thus giving meaningful results.

Determination of Lag Length

Before a VAR model is estimated, appropriate lag intervals for the endogenous variables must first be determined. This is necessary so as to avoid the problem of over or under parameterization occasioned by inappropriate lag selection (Mahalik & Mallick, 2010 and Shahbaz, 2015). The lag length can be determined using Schwarz Information Criterion (SIC), Likelihood Ratio Test (LRT), Final Prediction Error (FPE), Akaike Information Criterion (AIC) and Hannan-Quinn Information Criterion (HQ). The lag length was selected based on the minimum of their values. The results of the lag length selection criteria are presented in table A.3.

From the findings on table A.3, LR, FPE, AIC and HQ selection criterion selects lag 2 while SC selects lag 1. The optimal lag length selected for this study was 2 based on the consensus between the LR, FPE, AIC and HQ lag length criterion. Besides, two lags were appropriate because they reduced the loss of degrees of freedom and minimised information criterion.

To confirm the stability of the VAR model with two lags a stability test using the AR roots table was carried out. The results are presented in figure A.1. From the results, the VAR is stable as all the roots lie inside the unit circle: The characteristic roots are less than one in absolute terms. A conclusion is made that VAR satisfies the stability condition.

Cointegration Test Results

Since all the variables were stationary at first difference but non-stationary at level, this study adopted Johansen's cointegration test as opposed to Engel- Granger's test to test whether the variables were cointegrated. Johansen's test has two major advantages as compared to Granger's test. One is the ability to test for a number of co integration vectors when the number of variable is greater than two and the joint procedure of testing the maximum likelihood estimation of the vector error correction model and long run equilibrium relationship. We accept the null hypothesis if $p<0.05$. The results of trace test are indicated in table A.3 below. From the findings in table A.3, the null hypothesis that there was no cointegrating equation was rejected since the p value was less than 0.05. The results indicate that the study had one cointegrating equation. The study therefore concluded that we have a stable long-run cointegration relationship between independent variables and house prices in Nairobi County, Kenya.

Vector Error Correction Model (VECM)

When co- integration among the variables exists, the error correction model (ECM) is used to model the short run dynamics. VECM requires that the variables be integrated of order one (I (1)) and cointegrated. Since the variables in this study met this condition then the coefficients were estimated using VECM approach. This approach was used to model both the short and long run relationship in this study. The short run VECM results are presented in tables A.4 and A.5, respectively.

Before the interpretations were done, various diagnostic tests were carried out. This includes tests of autocorrelation, heteroscedasticity and normality. The results are presented in the appendix, Tables A.6 and A.7, and figure A.2, respectively. The results show that the residuals were normally distributed, were homoscedastic and had no serial correlation.

The VECM short run estimates are presented in table A.5 and can be summarized in the following equation:

$$\begin{aligned}(\Delta\, LNHPI_t) = {} & 0.0107 + 0.8262\ (\Delta\mathrm{LN}HPI_{t-1}) \\ & - 0.3877\ (\Delta\mathrm{LN}HPI_{t-2}) + 0.1770(\Delta\mathrm{LN}EXCR_{t-1}) + 0.0858(\Delta\mathrm{LN}EXCR_{t-2}) \\ & + 0.0117(\Delta\mathrm{LN}INFR_{t-1}) + 0.0030(\Delta\mathrm{LN}INFR_{t-2}) - 0.0378(\Delta LNMGR_{t-1}) \\ & + 0.1096(\Delta LNMGR_{t-2}) - 0.0180(\Delta LNNEWHSE_{t-1}) + 0.0140(\Delta LNNEWHSE_{t-2}) \\ & - 0.1196 ECM_{t-1}\end{aligned}$$

The findings in table A.5 indicate that the R^2 is 0.545 suggesting that the error correction model fits the data

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reasonably well with about 55% of the variations of the dependent variable (HPI) taken into account by explanatory variables (EXCR, INFR, MGR and NEWHSE). The error correction term (ECM), which indicates the speed of adjustment has a value of -0.1196. It is correctly signed and statistically significant at 5 percent. This implies that 11.96 per cent of the disequilibrium is corrected each quarter. The negative sign is a confirmation of existence of equilibrium in long term. In addition, it is noted that the absolute value is less than unity; hence a confirmation of error correction mechanism to correct departures of short run equilibrium as it follows the long-term path to attain an equilibrium.

The short run coefficients in the VECM model showed the effects of the previous quarter values on the current quarter house prices. The results showed that the first and second lags of first difference of house prices, first lag of first difference of exchange rate and second lag of first difference of mortgage rate significantly affect the current house prices. The results however showed that in the short run, no significant relationship existed between mortgage rate and new houses with house prices at five percent significance level since all their *p* values were above 0.05. The results further showed that the previous quarter house prices had a positive and significant effect on current house prices in Kenya in the short run.

The results in the long run model in table A.4 and can be expressed in a summarized equation as:

$$LNHPI = -0.3440 + 0.0093LNINFRT - 0.6330LNMGR - 0.5640LNNEWHSE + 0.2627LNEXCHR$$

……..... (1.4)

These results show that in the long-run mortgage rate and new houses had a negative and significant effect on the house prices in at one percent level of significance. Further, the findings of the study showed that the effect of Exchange rate on house prices was positive and significant in the long run at five per cent significance level however, inflation rate showed no significant effect on house prices.

Discussion of Findings

Effect of previous House Prices on current House prices

The Vector Error Correction Model short run coefficient for house prices was significant for both the previous two periods at five percent level of significant with coefficients of 0.8262 and -0.3877. This indicates that in the short run a one percent increase in house prices in the previous quarter would lead to a 0.826 percent increase in current quarter house prices and a one percent increase in the house prices two periods behind would lead to a 0.3877 percent decrease in the current house prices. The interpretation of these results is traceable to the rational expectation hypothesis which portends that expectation of future house prices and other variables affect house prices in the short run (Muth, 1961).

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Effect of Mortgage Rate on House Prices

Long run coefficient for mortgage rate was -0.633 with a *p* value of 0.004 which indicated a negative and highly significant relationship existed between mortgage rate and house prices. This indicates that in the long run a one percent increase in mortgage rate would lead to decrease in house prices by approximately 0.6330 percent. The short run coefficients of the first and second lag of first difference of mortgage rate was -0.0378 and 0.1096 respectively and not statistically significant in influencing house prices in the short-run however in the long-run there was a negative and highly significant relationship. The study findings are consistent with those of (Brissimis and Vlassopoulous, 2007; Gimeno & Carrascal, 2010; Tsatsaronis & Zhu, 2004; Shi &Jou, 2013) who found a negative relationship between mortgage rate house prices in the long run.

Effect of Exchange Rate on House prices

The long run coefficient for exchange rate is 0.2627 which was significant at five per cent level of significance. This implied that a one percent increase in exchange rate in the long run would lead to 0.2627 percent increase in house prices. Short run dynamics indicate a coefficient of 0.1769 with a p value of 0.0640 for exchange rate variable in the previous quarter, which indicated a statistical significant effect at 10 percent level. This implied that in the short run a one percent increase in exchange rate in the previous quarter would lead to a 0.17 percent increase in the current quarter house prices. This therefore implied that in the short run exchange rate had a statistically positive relationship with house prices in the short run. These results are consistent with past studies that found a similar relationship, Liu & Hu, 2012 and Zhang *et al.,* 2012)

Effect of Number of New Houses on House Prices

The coefficient of new houses in the long run model was -0.563 with a p value of 0.0007 which was statistically significant at five percent level. This indicates that in the long run a one percent increase in new houses would lead to a 0.563 percent decrease in house price in the long run. This led to the rejection of the null hypothesis and the study concluded that there is a negative and significant relationship between new houses and house prices. The coefficient of new houses in the short run, was insignificant in explaining house prices in the first and second lagged periods. This meant that in the long run the number of new houses had a negative and significant effect on house prices with no effect in the short run. These results are consistent with those of Marsden, 2015; Leonhard, 2013 and Halket *et al.,* (2015) who found a negative relationship between number of houses and house prices. Marsden (2015) found a negative coefficient which was statistically significant and concluded that in the long-run, the inelastic supply of housing contributes to house price volatility.

Effect of Inflation on House Prices

The long run results for inflation indicate a coefficient of 0.0093 and is not statistically significant in influencing house prices. This study therefore concluded that there was no significant relationship between inflation and house

prices in the long-run. This led to the acceptance of null hypothesis and concluded that inflation had no significant effect on house prices. In the short run, the coefficients of first and second lag of inflation were 0.0117 and 0.0030 which were not statistically significant. These findings therefore indicated that there was no significant relationship between inflation and house prices in the short run.

CONCLUSION AND THE RECOMMENDATIONS OF THE STUDY

The study empirically examined determinants of house prices in Nairobi County, Kenya over the period 2004Q1-2016Q4 using a VAR and VECM models. The specific determinants examined were exchange rate, inflation, mortgage rate and new houses. This approach was chosen because of its ability to simultaneously study the effects of several variables affecting the housing prices.

The results revealed that the short run effects of exchange rate and inflation rate on house prices were negative and significant. However, the previous quarter mortgage rate and housing prices had a positive and significant effect on house prices in the current quarter in Kenya in the short run. The speed of adjustment coefficient was 0.1196, which means 11.96% is corrected in each quarter to eliminate disequilibrium. The long run results showed that inflation rate, mortgage rate, new houses, and exchange rate had a positive and significant effect the house prices in Kenya.

In a nutshell, mortgage rate, exchange rate, number of new houses and inflation play a key role in determining house prices in Nairobi County. The coefficient of mortgage rate was expected to be negative and highly significant in determining house prices in the short run, contrary to our expectations. This can be associated with the less developed mortgage market in Kenya. The findings of this study are consistent with rational expectations hypothesis which argues expected future prices and other demographic and macroeconomic variables affect current house prices.

RECOMMENDATIONS

The findings of this study will help the Kenyan government, through its selective credit control policy by the Central Bank of Kenya, to stimulate the growth of the housing market by channelling funds to the market. Based on expectation hypothesis, this growth in funds towards the housing market will increase mortgage uptake, increase supply of houses and in the end check the growth of house prices. The government can also provide appropriate housing finance products. It therefore follows that the mortgage finance markets should be restructured to capture the desire and expectations of house buyers of having affordable houses.

Kenya has had a steady currency depreciation making imported goods expensive which in turn is pushed forward to the final consumer in form of house prices via the building materials. In effect, higher housing material costs leads to reduced housing supply. To solve this problem, the Kenya government should come up with and enact a remittance policy that targets specific groups and give them incentives to use the monies received build affordable houses. This

can be achieved by creating policies that increase remittances inflows and directing them into national financial institutions that are geared towards promoting the housing market.

The Kenya government should develop policies that endeavour to increase supply of houses. For instance, the government should partner with key organizations like Shelter Afrique under the framework of public private partnership so as to ensure provision of houses in a bid to increase supply. The government has adopted the provider-based approach through the National Housing Corporation often acting as a social welfare agency to build houses for those sections of urban population who need or deserve special treatment like the civil servants and low-income groups as well the slum upgrading projects. This makes supply responses to be based on the fact that people need housing instead on the ability of housing investment to improve the economy. The government should also focus on housing as an investment and partner with international organization like World Bank and International Monetary Fund to provide housing as an investment channel. This can be coupled with tax incentives for those who construct the highest number of house units to increase supply.

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Adoption Of Strategic Investment Drivers To The Growth Of Listed Firms At The Nairobi Securities Exchange, Kenya

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Abstract

Over the past 7 years the number of companies listed on the NSE has stagnated at 64 companies as others lacks motivation to be listed. Currently, investors have a limited number of investments drivers in NSE to invest in. The current investments traded at the NSE are shares and bonds. The products limitation is forcing think tanks to look for unique products for NSE vibrancy and provision of the opportunity to diversify their portfolio. The study centered around four main strategic investment drivers that will be seen to be the most suitable in growth the NSE and these are:Real Estate Investment Trusts, Exchange Traded Funds, Shariah Compliant Products and Agro-Commodity Exchange. The theories anchored in the research included; Capital market theory, arbitrage pricing theory and modern portfolio theory. The research design was a descriptive study. The population comprised of listed companies who held securities in the NSE as at 31st December 2014. A census of the 64 listed firms in the NSE was conducted. The study used both primary and secondary data. The primary data was collected by use of a questionnaire. The secondary data was collected from finance journals, textbooks, and NSE sources. Data collected was analysed using descriptive statistics and inferential statistics. The study used chi square test because it was easy to compute and made no assumptions about the distribution of the population. The statistical package for the social sciences was used in the analysis as it is more user friendly. The study established that real estate investment trusts and sharia compliant

products were highly preferred as strategic investment drivers to the growth of listed firms at the Nairobi securities exchange. Exchange traded funds and agro commodities came third and fourth respectively as preferred strategic investment drivers to the growth of the Nairobi securities exchange. The study concluded that adoption of strategic investment vehicles such as real estate investment trusts, sharia compliant products, exchange traded funds and agro commodities will increase the number of listed firms at the Nairobi securities exchange. The study recommends;establishment of an agro-commodity exchange at the Nairobi securities exchange to provide a platform where agricultural products can be traded, introduction of a Real estate investment trusts to enable small investors to participate in the lucrative real estate sector and to encourage participation of various investors Sharia compliant products should be introduced to cater for the Muslim faithful's. Further research should be done on suitability of strategic investment drivers to institutional investors and how regional integration of exchanges would deepen the securities market activities.

1.0 Background And Research Gap

Over the past 7 years the number of companies listed on the NSE has stagnated at 64 companies mainly due to lack of sufficient government incentives to private owned SMEs companies to list on the exchange. Low growth in the exchange can also be attributed to lack of financial innovation by the NSE as the markets mainly concentrates on two products that is stocks and bonds. This limits the liquidity of the NSE and investors ability to diversify their exposures. For example the equity market turnover fell from Ksh.195.8 billion in 2008 to Ksh.76 billion in 2013 as the economy grappled with the double hit of political violence in the previous year and global economic recession. The drop in turnover was exacerbated further by foreign investors flight from frontier markets due to lack of safe haven investments at the NSE (Kantai, 2013).

There is need to develop more trading instruments other than stocks and bonds that will provide investors with the opportunity to diversify their portfolio while at the same time safeguard against volatility. High volatility has led most investors to invest their money in hard assets like real estate which is not offered by the NSE (Kagagi, 2009).This has led to the current property bubble in Kenya .This means that the NSE is not diversified enough and thus does not give investors strategies on where to invest their money. Thus the introduction of REITs (Real Estate Investment Trusts) will safeguard against this volatility.

Most potential investors are not catered for by the NSE. For example the 2009 census results revealed that Kenya has 4.3 million Muslims whose growth in their numbers coincides with a need for new investment products that target the faithful. But since the NSE does not offer Shariah Compliant products a lot of Muslims cannot participate in the NSE since the available products fail the structuring test of Islamic faith (Adam, 2010).

Reduction of interest rates in short-term investments have reduced capital market instruments demand. In the contrast, there has been substantial domestic savings in the government securities as a result of relatively better returns. This was particularly evident in 2010 when the treasury bill (t-bill) rate was at 9% compared to an inflation rate of 5%. This almost led to the government becoming monopoly of the securities market. To avert such a situation strategic investment vehicles need to be introduced at the NSE to deepen it. (CBK,2010).

The loss of Ksh.8 billion by 20,000 Kenyans to collapsed pyramid schemes can be attributed to lack of strategic investment options in Kenya. The NSE has been in existence since 1954, meaning that it has been in existence for over 60yrs and investors can put their trust in it.Investor education should then be initiated to make them aware of the benefits of investing with the NSE rather than with pyramid schemes. Once the NSE is diversified, investors will find it attractive to invest with the NSE(Abdullahi, 2007) .

1.1 Growth of the Nairobi Security Exchange

The NSE experienced phenomenal growth particularly in the period between 2009 and 2013. During this time the NSE index increased significantly from 2000 basis points in 2009 to over 6000 basis points in 2013.This growth explosion reflected the parallel growth of the economy, as it grew from a -0.3% in 2010 to over 7% in 2013, also due to renewed business confidence by both domestic and regional investors. Additionally, global investors following Standard and Poor's report, were attracted to Kenya. Being an internationally acclaimed rating agency, Standard and Poor's rated Kenya's foreign debt as investment grade B+ and Domestic debt as BB-. This attracted foreign pension funds to confidently invest in Kenyan equities and bonds (Mbaru, 2008).

NSE is by far the biggest and most liquid in the East African region with 64 listed companies which exceeds the combined number of listed firms as the Dar es Salaam Stock Exchange has 15 and Uganda stock exchange 12 companies.NSE 20 share index will be the best performing exchange in Africa with a gain of 24%, Nigeria index 20.6%, Egypt 10.41%, South Africa 3.2% and Ghana 5.55%. This can be accredited to high profits posted by a majority of the listed companies and high number of foreign investor participation (compared to other African countries) which increases NSE liquidity. Additionally, presence of many local investors in the market both institutional and retail adds to the size of NSE (Mwangi, 2010).

The NSE underwent demutualization (separation of ownership from management) in 2014. It is limited by shares with stock brokers and investment banks owning 40%, public shareholders 40% and Investor Compensation Fund 20%. Demutualization is aimed at improving the stock exchange corporate governance, boosting investors' confidence, deepening the capital market, eliminating government interference in the operation of the exchange and positioning Kenya as the financial hub for East and Central Africa (Agina, 2014).

Change in approach by the NSE players is necessary for its enhancement as a vehicle for mobilizing capital for development. The stock market must play an increasingly educational role to all the other actors at NSE including investors and government. On the other hand, Capital Market Authority (CMA) as the regulator needs to be more proactive and supportive for creation of enabling environment moving away from its heavy-handed type of control. This will assist in catalyzing development and not hindering the same through bureaucracy. (Kabuthu, 2010).

1.2 Strategic Investment Options

The NSE though, the most liquid market in East Africa is considered illiquid by international standards mainly due to lack of strategic investment options that can be used to deepen the market. Lack of strategic investment options is due to the bureaucratic processes by the CMA, which tend to slow down approval of new investment vehicles. In 2008 the NSE adopted the use of Central Depository System (CDS) to eliminate risks associated with the loss, mutilation and theft of certificates and paper based securities. This helped in boosting investors' confidence, speeding up operation and activities on the markets, and cutting down the cost of trading (NSE, 2009). International investment agencies such as Goldmans Sachs who have been analysing the growth of the NSE in the last decade have described the NSE's growth as being phenomenal.NSE can now be described as frontier market. This refers to a stock market with a huge growth potential, such that it is developing into an emerging market (Jones, 2014).

1.2.1 Real Estate Investment Trusts (REITs)

REITs is a strategy of investment adopted by fund managers who decides the kind of real estate investment to do. This is dictated by the amount raised by subscribers. The real estate investment vary from purchase of shopping centers, office buildings, hotel and mortgages secured by real estate.They are collective investment vehicles that buy and manage income property and mortgage loans and their shares at a stock exchange. REITS act as new investment vehicle for returns seekers and an innovative avenue for raising cash for housing projects(Rajan, 2013).

Kenya mortgage market faired poorly compared to other markets as its mortgage to GDP ratio stood at 2.5% compared to India's 6% and South Africa's 33%.This is mainly due to lack of innovative mortgage products to encourage penetration in low cost housing units in urban areas. REITs is the best way to open up the capital tied up in property to spur real estate development. (Gunseskera, 2013).

According to *Bansel et al* (2013) there are three types of REITs; Equity REITs whereby investors buy shares of the investment vehicle (investing firm) and get an annual income from the profit. Profit comes to the scheme in terms of escalation in real estate prices and lease rentals. Secondly Mortgage REITs: whereby investors lend money to owners and developers of real estate project or in financial instruments purchase which are in exchange secured by mortgage or real estate. Investors earn income inform of interest amount. Lastly Hybrid REITs which combine both the features of mortgage and equity REITs. They enable diversification of portfolio against the downturn in each category.

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1.2.2 **Exchange Traded Funds (ETFs)**

Shares are the EFTs listed and traded on stock exchange in an open-ended mutual fund structure. They offer low cost exposure therefore allowing investors gain a broad exposure to entire stock markets of different countries and specific sectors with relative ease. They are cheap to invest into and offers a real-time basis opportunity to trade. Additionally, they are traded throughout the trading day therefore different from other types of funds like mutual funds. (Ndegwa, 2012).

ETFs were established in 1993 by the state street Global Advisors at the American Stock Exchange. They named the product SPIDRERS (SPDR) after benchmarking against the NYSE $500 index. SPDR is an EFT which continues to be one of the most successful and liquid products in USA. American stock exchange in the US trades more in ETFs than it does in underlying stocks as approximately 60% of its volume comes from ETFs(Gaspirino, 2013).

ETFs can be used to tap into Kenya's mineral potential through trading at the NSE if it is well harnessed. For instance, Migori County's gold capacity stands at 34 tones that could earn the country close to Ksh.67 billion per annum (Mines and Geology Department, 2007). This in addition to other minerals like titanium could make minerals one of the country's top forex earners. If Migori belt alone has capacity to produce 1.2 million ounces, this can make Kenya a middle –level gold producer which can be traded as ETFs. (Goldpalt, 2013).

1.2.3 **Sharia Compliant Products**

Sharia compliant financial products are interest free products like loans, bills, bonds and bank deposits or any other transactions between a borrower and a lender. They must be consistent with the principle of the Sharia which prohibits payment or acceptance of interest (Riba). The principle advocates for Halal sources which are free from haram activities like alcohol, tobacco and gambling. These include businesses that can provide return on investment as long as their seed capital is not associated with bank borrowing or haram activities. Provision of goods and services such as manufacturing, trading, farming, professional services, foreign exchange, and information technology are considered to be clean businesses (Adam, 2010).

In Kenya, Muslim population have more than doubled in the past two decades. Following Sharia principle, the multitude have been sidelined by NSE since investment options offered are not Sharia complaint. They are therefore locked out from participation in the securities trading. Shariah-Compliant products have emerged as an strategic vehicle for mobilization and supply of finance to the Muslim faithful. Nathan (2010) argues that Islamic finance is the fastest growing segment in the global financial industry. This is reinforced by its ability to withstand international shocks such as the global financial crisis and therefore giving it an edge over other segments.

A Sukuk bond is an example of Sharia compliant commercial paper that generates a predetermined return that called a profit and not interest. With its maturity time determined in advance, it is tied to a specific asset for example a building, hospital or bridge and conveys ownership of it. It could be issued by a government or a company carrying out the project and the profits derived from the proceeds after completion of the asset is shared to the investors. This is Sharia compliant as no loan or interest is involved (Aden, 2013).

According to Satchu (2010), there is a potential market for Halal equities at the stock market where companies dealing with non-interest investments as their main source of income can trade their shares using a separate index for instance the agriculture stocks. Halal products are stirring to the mainstream and are also appealing to non-Muslim consumers looking for high quality ethical products, especially food and banking products. Halal economy is dominated by the food market in Kenya. However, financial services that comply with Islamic law and the teachings of the Koran are also gaining prominence.

The government plans to tap into Sharia compliant products by venturing in Sharia compliant bonds for the infrastructure building projects with an eye on increasing portfolio capital from the Gulf region. The gulf cash could open a window for Kenya to revamp its battered infrastructure including water, roads and power as investors keen on instruments that comply with Islamic law favor such investments. (CBK, 2010).

Since Sharia compliant product do not engage in imprudent risk taking and speculative activities investor's returns are shielded from volatility associated with most conventional investment products. Islamic finance does not allow excessive leveraging, imprudent risk taking and speculative activities.This ensures safety of investors' capital (Najmal, 2010).

1.2.4 **Agro-Commodity Futures Exchange**

Agro-commodity exchange is a market organised to allow for the selling and buying of agricultural commodities like maize, tea, coffee, wheat and cocoa. The goal of the agro-commodity exchange strategy would be to promote efficient markets and boost price discovery while enhancing risk management hence protecting local farmers. Kenya being an agricultural country, it could benefit from such arrangement for its products like maize, wheat, beans, barley, sugar and cotton. There could also be contract based farming on the same products sold at the exchange giving guarantee on market to farmers (Mbaru, 2009). According to KIPPRA (2010), agriculture contributes 60% of Kenya's economy employing 80% of its workforce hence the need for the government to establish an exchange to revamp agricultural production and development.

Mbaru (2009), insist on government need to develop institutional and legal framework for such arrangement to succeed. This could allow farmers to trade their produce through warehouse receipts and futures contracts making farming beneficial and attractive to many. Additionally, the framework will promote growth in the financial markets and provide a better opportunity to hedge against volatility of commodity prices**.** This concept is however not a novelty in Kenya as it dates back to the 1940s where the Nairobi Coffee Exchange (NCE) used the model. Additionally, Mombasa tea Auction which serves East Africa and parts of Southern Africa has also gained prominence as a major tea auctioneer and is already the second largest in the world after Colombo in Sri Lanka. The centralization and organization of the two exchange export platform has ensured effective competition among buyers and sellers making it worthy to imitate for other agricultural products at NSEs where regulation will be carried out to oversee trading practices while gathering and disseminating market place information. (Satchu, 2010).

1.3 Research Objective

The main objective of this study was to identify strategic investment drivers that can be adopted to promote growth of listed firms at the Nairobi securities exchange, Kenya. In specific, it sought to identify the effect of introduction of agro commodities, find out the role of real estate investment trusts (REITs), assess the effect of sharia compliant products, and discover the role of the introduction of exchange traded funds (ETFs) in the growth of listed firms at the Nairobi securities exchange.

2 Methodology

The research design used in this study was descriptive survey. The target population comprised of all 64 companies listed at the NSE as at 31st December 2014. A census was conducted on all the 64 companies because the population was small and would increase the accuracy of the research. Primary data was collected through the use of questionnaires with both closed and open-ended questions. Data collected was analyzed using descriptive statistics and inferential statistics. The study used chi square test because it was easy to compute and makes no assumptions about the distribution of the population.

3 Results And Discussion

3.1 Response Rate

Out of 64 questionnaires sent, 55 were returned making the response rate 86% which was deemed to be very good as per Mugenda and Mugenda (2003). Amongest the respondents, 56% were female while 44% were male. In addition, 36% of the respondents said they were in the range of 21 years to 30 years, 47% was 31to 40 years, 10% were 41 to 50 years, 7% were 51 to 60 years of age.

3.1.1 Key Descriptive Findings

3.1.1.1 Adoption of agro commodities as a strategic driver

The study sought to identify the effect of introduction of agro commodities in promoting growth of listed firms the Nairobi securities exchange. From the findings, 71% and 70% of the respondents strongly agreed they would invest in tea and coffee as agro commodities respectively. 84% strongly agreed that they had heard of agro commodities as a

strategic investment driver. From analysis on table 1, it shows that 89% of the respondents strongly agree that the adoption of agro commodities as a strategic investment driver will increase their return.

Table 1: **Analysis of agro commodities as strategic investment drivers**

	Strongly Agree	**Some what Agree**	**Neutral**	**Some what disagree**	**Strongly Disagree**	**Mean**	**Std. Dev.**
Would you invest in tea if it was introduced as an agro commodity?	39 71%	4 7%	5 9%	0	7 13%	4.19	1.45
Would you invest in coffee if it was introduced as an agro commodity?	38 70%	3 5%	3 5%	3 5%	8 15%	4.19	1.46
Have you heard about agro commodities as a strategic investment driver?	46 84%	4 7%	2 4%	1 2%	2 3%	1.31	0.88
Will establishment of an agro-commodity future exchange increase return of investors as well as revitalize agriculture in Kenya?	49 89%	4 7%	1 2%	0 0%	1 2%	1.16	0.61

3.1.1.2: Use of Real Estate Investment Trusts (REITs) as a Vehicle for Investment

The study sought to find out the role of real estate investment trusts (REITs) in the growth of listed firms the Nairobi securities exchange. On use of real estate investment trusts (REITs) as a vehicle for investment, 55% of the respondents indicated they had heard of real estate investment trusts as a strategic investment driver. Additionally, 58 % strongly agreed that liquidity and tax incentives would encourage more investors to invest in the capital markets and would also invest in real estate investment trusts. In addition, 53% strongly agreed they would invest in equity REITs while 54% agreed they would invest in hybrid REITs. The responses on specifics are as shown on table 2.

Table 2: **Real estate investment trusts as strategic investment drivers**

	Strongly Agree	**Some what Agree**	**Neutral**	**Some what disagree**	**Strongly Disagree**	**Mean**	**Std. Dev.**
Have you heard about REITs as a strategic investment driver?	30 55%	11 20%	5 9%	6 11%	3 5%	1.82	1.22
Will liquidity and tax incentive of a REIT, encourage more investors to participate in capital markets?	32 58%	14 25%	6 11%	2 4%	1 2%	1.58	0.92

Would you invest in REITs if they were to be introduced in the NSE?	32 58%	16 30%	3 5%	3 5%	1 2%	1.56	0.92
Would you invest in Equity REITs if they were to be introduced at the NSE?	29 53%	15 27%	4 7%	2 3%	5 10%	1.79	1.22
Would you invest in Mortgage REITs if they were to be introduced at the NSE?	27 49%	16 29%	5 9%	3 5%	4 8%	1.82	1.18
Would you invest in Hybrid REITs if they were to be introduced at the NSE?	30 54%	15 27%	6 11%	2 4%	2 4%	1.66	1.01

3.1.1.3 Adoption of Sharia complaint product as strategic investment drivers

The study sought to assess the effect of sharia compliant products in the growth of listed firms the Nairobi securities exchange. From the findings, 53% of the respondents strongly agreed that they had heard of Sharia compliant products. Additionally, 57% strongly agreed that the introduction of Sharia compliant products would encourage Muslims to invest in the Nairobi Securities Exchange. Moreover, 65% of the respondents somewhat agree that they would invest on Sharia compliant products if they were introduced as a strategic investment drivers while 65% of the respondents were neutral that they would invest in the sukuk bond if it was introduced in the Nairobi securities exchange. The specifics of these findings are shown on table 3.

Table 3: **Analysis of Sharia compliant products as strategic investment drivers**

	Strongly Agree	**Some what Agree**	**Neutral**	**Some what disagree**	**Strongly Disagree**	**Mean**	**Std. Dev.**
Have you heard about sharia compliant products?	29 53%	12 22%	2 4%	2 4%	10 17%	3.68	1.67
Will the introduction of shariah compliant product encourage Muslims to participate at the NSE?	31 57%	11 20%	4 7%	4 7%	5 9%	3.85	1.62
Would you invest in sharia compiant products if they were to be introduced in the	11	36	4	3	1	1.52	0.94

NSE?	21%	65%	7%	5%	2%		
Would you invest in sukuk bond if was to be introduced in the NSE?	3 5%	11 20%	35 65%	3 5%	3 5%	1.61	1.11

3.1.1.4 Adoption of exchange traded funds as strategic investment drivers

The study sought to discover the role of the introduction of exchange traded funds (ETFs) in the growth of listed firms the Nairobi securities exchange. On adoption of exchange traded funds as strategic investment drivers, 55% of the respondents somewhat agreed that they had heard about exchange traded funds as a strategic investment driver. Furthermore, 58% of respondents somewhat agreed that the introduction of exchange traded funds would increase investors returns at the Nairobi securities exchange. In addition, 58% were neutral that they would invest in exchange traded funds if they were introduced as a strategic investment drivers. Finally, 53% and 49% of the respondents strongly agreed that they would invest in the gold and other minerals respectively if they were introduced as exchange traded funds in the Nairobi securities exchange. The specifics are shown on table 4.

Table 4: **Analysis of exchange traded funds as strategic investment drivers**

	Strongly Agree	**Some what Agree**	**Neutral**	**Some what disagree**	**Strongly Disagree**	**Mean**	**Std. Dev.**
Have you heard about exchange traded funds as a strategic investment driver?	11 20%	30 55%	5 9%	6 11%	3 5%	1.82	1.22
Will establishment of exchange traded funds increase return of investors?	14 25%	32 58%	6 11%	2 4%	1 2%	1.58	0.92
Would you invest in exchange traded funds if they were to be introduced in the NSE?	3 5%	16 30%	32 58%	3 5%	1 2%	1.56	0.92
Would you invest in gold if it was introduced as an exchange traded funds?	29 53%	15 27%	4 7%	2 3%	5 10%	1.79	1.22
Would you invest in other minerals if they were introduced as exchange traded funds?	27 49%	16 29%	5 9%	3 5%	4 8%	1.82	1.18

3.1.2 Inferential Statistics

Chi-square tests were carried out to test the relationship between the independent variables and the dependent variable. These included agro-commodities, real estate investment trusts, sharia compliant products, and exchange traded funds. The findings of the same are elaborated below:

Ho_1: There is no relationship between agro commodities and the growth of listed firms at the Nairobi securities exchange, Kenya

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	7.800	1	.044

The Pearson Chi-square Value was 7.800, the larger the value the more likely the sample does not confirm to the expected frequencies and therefore we will reject the null hypothesis. The associated P- value (Asymptote Significant Value) was 0.044,this value is less than 0.05(5% level of significance) indicating that there is evidence against the null hypotheses and therefore we reject it(0.044<0.05). A conclusion can therefore be drawn that there is relationship between agro commodities and the growth of listed firms at the Nairobi securities exchange,Kenya.

Ho_2: There is no relationship between real estate investment trusts and the growth of listed firms at the Nairobi securities exchange, Kenya

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	3.705	1	.023

The Pearson Chi-square Value was 3.705, the larger the value the more likely the sample does not confirm to the expected frequencies and therefore we will reject the null hypothesis. The associated P- value (Asymptote Significant Value) was 0.023. This value is less than 0.05(5% level of significance) indicating that there is evidence against the null hypotheses and therefore we reject it(0.023<0.05). A conclusion can therefore be drawn that there is relationship between real estate investment trusts and the growth of listed firms at the Nairobi securities exchange, Kenya.

Ho_3: There is no relationship between sharia compliant products and the growth of listed firms at the Nairobi securities exchange, Kenya

	Value	df	P-Value
Pearson Chi-Square	4.730	1	0.027

The calculated Pearson Chi-Square value is 4.73, the larger the value the more likely the sample does not confirm to the expected frequencies and therefore we will reject the null hypothesis. The associated P-Value (Asymptotic significance) is 0.027. This value is less than 0.05 (5% level of significance) indicating that there is evidence against the null hypotheses and therefore we reject it(0.027<0.05). A conclusion can be drawn from the study that there is relationship between sharia compliant products and the growth of listed firms at the Nairobi securities exchange, Kenya.

Ho_4: There is no relationship between exchange traded funds and the growth of listed firms at the Nairobi securities exchange, Kenya

Value	df	P-Value
6.501	1	0.0373

The Pearson Chi-square Value was 6.501, the larger the value the more likely the sample does not confirm to the expected frequencies and therefore we will reject the null hypothesis. The associated P- value (Asymptote Significant Value) was 0.0373. This value is less than 0.05 indicating that there is evidence against the null hypotheses and

therefore we reject it(0.0373<0.05). A conclusion can therefore be drawn that there is relationship between exchange traded funds and the growth of listed firms at the Nairobi securities exchange, Kenya.

4.0 Summary and Conclusions

The study established that real estate investment trusts(REITs) are the most favored strategic investment driver that should be adopted at the Nairobi Securities Exchange (NSE).This is mainly due to liquidity and robust growth that has been witnessed in the real estate market in Kenya. In conclusion, real estate investment trusts are strategic investment drivers that can adopt to promote growth of listed firms at the Nairobi securities exchange.

The study established that sharia compliant products were the second favored strategic investment driver that should be adopted at the Nairobi Securities Exchange (NSE). Sharia Complaint products will increase the number of Muslim listed firms in the Nairobi securities exchange .In addition ,the sukuk bond if well marketed will also increase the number of listed firms at the Nairobi securities exchange. In conclusion, sharia compliant products are strategic investment drivers that can adopted to promote growth of listed firms at the Nairobi securities exchange.

The study established that exchange traded funds were the third favored strategic investment driver that should be adopted at the Nairobi Securities Exchange (NSE). The exchange traded funds if adopted to the Nairobi securities exchange will increase the number of listed firms in the Nairobi securities exchange . In conclusion, exchange traded funds are strategic investment drivers that can adopted to promote growth of listed firms at the Nairobi securities exchange.

The study established that agro commodities were the fourth favored strategic investment driver that should be adopted at the Nairobi Securities Exchange (NSE). The introduction of an agro-commodity exchange is a good way for investors to gain from high food inflation being experienced across the globe hence offering a possibility of getting superior returns. In conclusion, agro commodities are strategic investment drivers that can adopted to promote growth of listed firms at the Nairobi securities exchange.

Specifically, the following conclusions were made based on the findings: Agro commodities and real estate investment trusts were the most favoured strategic investment drivers that can be adopted to promote growth of listed firms at the Nairobi securities exchange, Kenya. Most of the respondents were comfortable investing in them. Sharia complaint products were mainly favored by Muslim respondents and if adopted they would also increase the number of listed firms at the Nairobi securities exchange.Lastly,exchange traded funds were preferred by some respondents and they would also promote the growth of listed firms at the Nairobi securities exchange.Overall results indicate that if the solutions to the above research questions were implemented, it would lead to the growth of listed firms at the Nairobi Securities Exchange (NSE).

Based on the findings of this study the following recommendations are made to promote growth of listed firms at the Nairobi securities exchange, Kenya; Establishment of an agro-commodity exchange at the Nairobi securities exchange to provide a platform where agricultural products can be traded. Example cotton, wheat and maize. Introduction of a Real Estate Investment Trusts to enable small investors to participate in the lucrative real estate sector. To encourage participation of various investors Sharia compliant products should be introduced to cater for the faithful. For example Sukuk bonds and Sharia compliant mutual funds. Integration of the Nairobi securities exchange with the Dar es salaam securities exchange and Uganda securities exchange so as to promote exchange traded funds hence tap in the huge demand for financial securities.

While the findings of this research point out to various strategic investment drivers that can be adopted it cannot be said to be conclusive. Further research should be done on suitability of strategic investment drivers to institutional investors and how regional integration of exchanges would deepen the securities market activities.

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ISBN 978-9966-132-53-6 @ Copy Right .2019

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Abstract

This study set to determine the extent to which demographic and business variables could determine entrepreneurial success in entrepreneurial ventures in Kenya. Many small businesses seek financial assistance to start and grow their business but most of these businesses fail within the first few years of start-up. This study used archival data from the records of two venture capital firms operating in Nairobi, Kenya. The target population consisted of 435 small and medium sized businesses in Nairobi's light manufacturing sector. The total sample consisted of 569 small business owner- managers who met the criteria of business ownership and, venture capitalist funding. Data were collected by use a questionnaire that captured fourteen biographical and sixteen business variables (Independent variables), and measures of success levels as the dependent variable. One-way Analyses of variance and Chi square tests were used to test for success differences in groups of participants (successful Vs. unsuccessful businesses). Bonferroni's ranges test was used to determine whether a relationship existed between success level and the relevant demographic and business variables. Stepwise Discriminant Analyses were carried out to determine how accurately subjects could be classified into the different levels of success categories. The results of the analyses show that personal and business factors such as amounts and number of loans taken, ethnicity/culture, economic sectors, entrepreneurial contribution, and education levels were more likely to determine success of the business. The study concludes that biographical and business variables hold some degree of success in predicting success or failure of a small business. Funding of small and medium-sized businesses should put into consideration variables that relate to the infrastructure of the entrepreneur's environment, specifically, system variables such as education and national economic factors, culture and policy.

Key words: ***Personal variables, business variables, Small businesses success varaibles***

Introduction

Small business development and entrepreneurship is a strategic theme for economic growth for the whole world (Wiklund & Delmar, 2013.The Small business sector has been identified and prioritized as a key growth driver for realization of the strategic development plans by the Government of Kenya, (GoK, 2018). Small and Medium Enterprises (SMEs) play a critical role in development and achievement of Kenya's visionary aims of transforming Kenya into an industrialized country, providing a high quality life to citizens by the year 2030. The Kenya government has encouraged financers to kick-start its bartered economy, by making entrepreneurship an important cornerstone in the country's economic revival (GoK, 2016). This strong interest in entrepreneurship is probably partly due to findings by Mong'are, (2017; Hunjira et.al (2018) that prove that new business enterprises are the primary source of new employment opportunities. With unemployment at high levels in Kenya, the interest in entrepreneurship as a way of creating jobs is understandable. Kiveu, Namusonge& Muathe (2018) and Harper (1991) argue that entrepreneurship has a critical role to play in economic development and that this role is even more important in the poorer nations of the world. Under these circumstances Carland (2012) argue strongly that understanding of entrepreneurship will be enhanced by studying the characteristics of entrepreneurs and the business environment.

Studies on the personality characteristics of entrepreneurs have not yet yielded a clear results (Umukoro, & Okurame,.(2017) A startling number of traits and characteristics have been attributed to the entrepreneur's psychological profile (Mokaya, Namusonge & Sikalieh,2012) Traits of the entrepreneur assembled from these studies portray the entrepreneur as someone larger than life, full of contradictions and conversely, someone so full of traits that he would have to be a sort of generic individual. Studying biographical variables as predictors of success of entrepreneurs has been criticized, it deems necessary that a combination of factors be used in the study of entrepreneurial success. It is generally agreed that entrepreneurship is a multiphase process consisting of entrepreneurial intent and opportunity search, discovery/recognition, evaluation, and exploitation (Eckhardt & Shane, 2003). In modeling the entrepreneurship success process, it is useful to distinguish between supply side factors, emphasized by psychologists, and demand side factors, emphasized by economists (Eckhardt & Shane, 2003).This is why this study combined the biographical variables and business variables in trying to predict the successes of the small business ventures.

Studying business variables as predictors of entrepreneurial success seems to be in line with Grooves,Vance & Choi [2011] view that the entrepreneurial process should be studied in more depth, such studies can assist governments andother development practitioners to avoid expensive interventions that produce minimal or no positive results.

Trying to predict business success therefore, seems to be a relevant research objective in the light of the high failure rate of entrepreneurial small businesses in the modern times. [GoK, 2018; 2016; Hunjira et.al (2018) Timmons, 1994].

The Research Problem

Small businesses are recognized as important drivers of economic growth, productivity, innovation and employment, and are widely accepted as key aspect of economic growth (Hisrich, 2014). However, many studies (world bank (2016b, Hunjira et,al 2018, Mongare,2017, Nafula, Namusonge & Muathe,2018) show that many small businesses fail to achieve growth and business success that is beneficial to the economic growth of nations. In Kenya there are several small business funding schemes that aim at stimulating business success but most small businesses seem not to benefit from such financial interventions. It was therefore necessary to determine whether biographical and business variables could be used as predictors of entrepreneurial success among the small business that had received outside funding.

The objective of this study was to determine whether biographical and business variables could predict success of small manufacturing businesses in Nairobi.

Methodology

The Population and sample

The sample consisted of 569 entrepreneurs active within 435 business enterprises in Nairobi's light manufacturing industries. These businesses had received funding from venture capital firm. Of the 569 respondents, 433 were male and 136 female. More than two thirds, i.e. 392, preferred to communicate in English, while 177 preferred Kiswahili. The majority of the respondents, i.e. 489, were Kenyan African citizens. The average age of subjects was 39.5 years with a standard deviation of 9.9 years and a range of 18-69 years.

Data collection Procedure

The data was obtained from the archives of a venture capitalist, operating with funding from government guarantee scheme and private sector sources. The firm was active in the Nairobi and its environs. The study was therefore described as one done on 'existing data'. The data was extracted directly from the archives of the venture capitalist firms by a research assistant who is familiar with small business financing.

The venture capitalist has six different financing schemes in operation in the whole of Kenya. Data from only three of these schemes was incorporated into this study. Data from the other three schemes had been omitted due to the absence of information on biographical characteristics of the individual to whom loans had been granted.

All loans granted between 1st June, 2012-31st May 2013 were included in the study. For analytical purposes this period was subdivided into loans granted during 12 month period. viz. 1 June, 2012-31 May, 2013 and 1 June 2013-31May 2014. The variables included into the study can be seen as a typical biographical variables as well as financial and other characteristics of the business venture for which loans had been granted. A list of the variables extracted from the archives is shown in table 1.

Archival data was captured for two cohorts representing the individuals to whom financial assistance was made available in a given financial year. Criterion data consisted of the standing of the entrepreneurs accounts respectively three and four years after loans had been granted. A statistical analysis strategy to limit capitalization on chance was implemented. In the case of variables measured at the ordinal and interval scale levels one-way analyses of variance with, where applicable, Bonferroni's ranges test specified were used to determine whether a relationship existed between success level and the relevant predictor variables. Chi-squared was used to test for such relationships when the predictor variables were measured on nominal scales. Stepwise Discriminant Analyses and Discriminant analyses were carried out to determine how accurately subjects could be classified into the different levels of success categories.

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Table 1

Variables extracted from the files of the venture capitalist and scale categories

Biographical variables	**categories**
Ethnicity	Kenyan/ Non Kenyan
Language and preference	Kiswahili / English
Residential area	City/ Town / Rural
Education	Years
Number of dependents	Number
Sex	Male / Female
Nationality	Kenyan/ Others
Residential status	Citizen/ Non- citizen
Age	Years
Entrepreneurial history	Related to present venture/ Not related to venture/ Organization already exists
Apprenticeship experience	Completed/ Not completed/ None
Marital status	Single/ Married/ Divorced/ Widower
Criminal record	Yes/ No
Sequestration record	Yes/ No

Table 1 continued,

Business Variables	**Categories**
Economic Sector	Manufacturing/ Retail/ Wholesale/ Services/ construction /Foods
Purpose of Obtaining financing	Take-over / New business/ Expand existing business/ unknown
Number of loans	Number
Total amount borrowed	Numerical amount
Percentage own contribution	Ratio of own capital : Total capital of venture
Security over ratio	Ratio of amount of security: amount borrowed
Interest paid on loan	Rate of interest charged by venture capitalist
Legal form of venture	Sole proprietor/ Partnership/ / Company
Development state of venture	New/Existing/ New
Employment [Existing]	Number of employees
Employment [Additional]	Increase in number of employees since started
Classification of risks	Low/ Medium/ High/ Very high
Status of entrepreneur in Venture	Sole proprietor/ partner/ Member/ Shareholder
Entrepreneurs stake in the venture	Percentage of ownership
Class Variables	**Categories**
Year group	01/06/2012-31/05/2013 01/06/2013 -31/05/2014
Account status	Bad debt/Legal control/current account/paid up loan
Account number	As indicated by venture capitalist

The status of the accounts of the entrepreneurs in the venture capitalist's financial records approximately three and four years after the loans had been granted, served as criterion of success of the subjects' businesses (respectively for the two year groups). This was the measure of the dependent variable.

Measurement of Variables

The dependent variable which was success of the small business was measured by the following indicators of account status (a) Bad debts [BD], (b) Legal control [LC], (c) Current accounts [CA] and (d) Paid-up loans [PL]. For the

purpose of this study the first two [bad debts and legal control] were considered to indicate two levels of failure while levels three and four [current accounts and paid-up loans] were seen to depict two levels of business success.

The independent variables, the predictor variables-were biographical and business variables, they were measured by the following indicators; Education, ethnicity, nationality, entrepreneurs contribution, number of dependants, number and amounts of loans borrowed, economic sector, interest paid, security risks,

Data Analysis

One-way Analyses of Variance with Bonferonni's ranges test (specified where necessary) and Chi-squared (in the case of nominal variables) were carried out on all the biographical and business variables included in the study, with account status as indicator of dependent variable. These analyses were repeated with success/ failure (the dependent variable) of the businesses.

These analyses were followed by Stepwise Discriminant Analyses using STEPDISC of SAS [1985]. Only variables on which, according to the Analyses of variance and Chi-square Analyses differed on successful and unsuccessful criteria were included in Stepwise Discriminant Analyses. For the purposes of these analyses the variables measured on essentially nominal scales were treated as ordinal in character. More information on how this was done can be found in Schuttle (1992). Justification for including variables measured on scales which were not at the interval or ratio levels in Discriminant Analyses is found in Ker linger (1986).

Finally, using the DISCRIM procedure of SAS (1985), Discriminant Analyses were performed to predict success/ failure and account status, using only the predictor variables that had not been rejected by the analyses described up to now.

The Results

The aim of the data analysis was to determine whether the predictor variables by means of the available biographical and business variables could determine success or failure of a business (in terms of the two criteria employed in the study). This process was carried out in three phases; the first phase consisted of Analyses of Variance and Chi-squared calculations separately on the data of the two year groups and the total sample. The results of these [only for variables on which significant differences were found] as shown in table 2.

Table 2:

Results of one-way analyses of variance and Chi-squared analyses for account status success/ failure.

Predictor variable	Accounts Status						
	df	1985-1986		1986-1987		Total	
Nominal variables		Chi^2	p	Chi^2	p	Chi^2	p
Ethnicity	3	4.65	0.031	ns	ns	9.317	0.002
Language preference	3	ns	ns	14.22	0.003	16.56	0.001
Sector in economy	13	66.82	0.001	31.60	0.007	37.25	0.001
Residential area	6	19.52	0.003	ns	ns	14.75	0.022
Nationality	3	ns	ns	8.22	0.042	13.69	0.003
Ordinal/interval variable df=3	F		P	F	P	F	P
Number of loans		2.84	0.0385	6.24	0.004	7.65	0.0001
Amount		6.77	0.0002	ns	ns	4.03	0.0075
Security cover		ns	ns	3.41	0.018	3.39	0.0179
Own contribution		3.62	0.0139	ns	ns	4.13	0.0066
Education		3.34	0.0201	ns	ns	4.12	0.0067
Number of dependents		2.91	0.0357	ns	ns	4.31	0.0051

Success/Failure

	Accounts Status			
	df	1985-1986	1986-1987	Total

Nominal variables		Chi^2	p	Chi^2	p	Chi^2	p
Ethnicity	1	ns	ns	ns	ns	10.774	0.013
Sector in economy	5	17.76	0.003	15.12	0.010	15.37	0.009
Nationality	1	4.91	0.027	3.90	0.048	8.690	0.003
Ordinal/Interval variables: df=1	F		P	F	P	F	P
Education		9.48	0.0023	ns	ns	11.07	0.0009
Interest rate		ns	ns	5.13	0.0242	4.30	0.0386
Risk classification		4.21	0.0414	ns	ns	ns	ns

The second phase of the data analysis consisted of using the STEPDISC procedure of SAS (1985) to determine, by means of Stepwise Discrimination Analysis, which of the variables identified as potential predictors in the first phase of the analysis could be retained as predictors in the two models, i.e., discriminating subjects into (1) account status and (2) success or failure of the subjects businesses. Significance levels for entry and removal of variables were set at 15- the default value of the programmer. The results of this analysis for the total group of subjects are shown in table 3.

Table 3

Results of stepwise discriminant analysis for classifying subjects into account status grouping for total group (n =569)

Predictor variable entered	**Partial R**	**F**	**p>F**	**Wilk's Lambda**	**Average canonical correlation**
Number of loans	,0379	741	,0001	,96	,0126
Language preference	,0295	570	,0008	,93	,0225
Economic sector	,0256	4918	,0022	,91	,0307
Own contribution	,0257	4937	,0022	,89	,0389
Number of dependent	,0203	3873	,0093	,87	,0454
Nationality	,0191	3635	,0128	,85	,0516
Security cover	,0179	3396	,0177	,84	,0573
Education level	,0144	2703	,0449	,82	,0662

:p<,0001

The results shown in table 3 indicated that a relatively weak but statistically significant model could be developed for predicting the account status of the subjects. Eight predictor variables entered into the prediction at significant levels. Of these four were classified as biographical and four as business variables.The Stepwise Discrimination Analysis was repeated with the criterion being dichotomous, i.e. Success/ failure. Subjects businesses were regarded as successful when their account status was found to be either "paid up" of 'current". Failure was seen as all cases where the account status was either "under legal control" or "bad debt". The results of the Stepwise Discriminant Analysis on the data group are as shown in table 4.

Table 4

Results of Stepwise Discriminant analysis predicting success/failure total for total group (n=569).

Predictor variable entered	**Partial R**	F	***p>F***	**Wilks Lambda**	**Average canonical correlation**
Educational level	,0190	1101	,0010	,98	,0190
Nationality	,0136	780	,0054	,97	,0324
Race	,0077	436	,0372	,96	,0398

P<, 001

As could be expected in the case of a dichotomous criterion the prediction model was less strong with only three predictor variables entering the model, and the values of Wilks Lambda and the canonical correlation indicating less strong predictions.

The Stepwise Discriminant analyses were repeated, separately for the data of the two chronological subsets, .i.e. subjects in year group one and for those subjects in the year group two.The results of this analysis for the 2012-2013 year group with account status as the dependent variable are seen in table 5.

Table 5

Results of Stepwise discriminant analysis predicting account status for 2012-2013 year group (n=240)

Predictor Variable entered	**Partial R**	**F**	**p>F**	**Wilks Lambda**	**Average canonical correlation**
Amount borrowed	,0793	677	,0002	,92	,0264
Economic sector	,0719	6,07	,0005	,85	,0499
Number of loans	,0521	4,29	,0057	,81	,0667
Race	,0531	4,36	,0052	,77	,0831
Number of dependents	,0408	3,29	,0215	,74	,0960
Educational level	,0364	2,91	,0356	,71	,1073

P<, 0002

Six variables entered into the model at the, 05 probability level, yielding a relatively weak but statistically significant prediction.

When the same analysis was done on the data of the year group one with the dependent variable being success/ failure the results shown in the table 6 were obtained. The variables that were more likely to predict business success were: the economic sector of operation, education level of the owner manager and the nationality of the owner manager.

Table 6

Results of Stepwise Discriminant analysis predicting success/failure for 2012-2013 year group (n=240)

Predictor variable entered	**Partial R**	**F**	**p>F**	**Wilks Lambda**	**Average canonical correlation**
Economic sector	,0395	9,796	,0020	,96	,0395
Educational level	,0417	10,322	,0015	,92	,0796
Nationality	,0171	4,105	,0439	,90	,0954

P<, 01

Again only three variables could, at a significant level, be entered into the prediction model yielding a relatively poor but statistically significant prediction. That is economic sector of operation, education level and nationality of the owner managers could predict business success. Other predictor variables are the number and amount of money borrowed, security risks, number of dependants were possible predictors of business success among loan borrowers.

Results of the same kind of analysis on the data of subjects in year group two with account status as the dependent variable are shown in table 7

Table 7

Results of Stepwise discriminant analysis predicting account status for 2013-2014 year group (n=329)

Predictor variable entered	**Partial R**	**F**	**p>F**	**Wilks Lambda**	**Average canonical correlation**
Number of loans	,0523	5,97	,0006	,95	,0174
Language preference	,0403	4,54	,0039	,91	,0308
Security cover	,0362	4,05	,0076	,88	,0426

P<, 0006

Three variables, some seen in other models too, entered the model at a significant level in this case. The level of prediction is again relatively weak but significant.

A final analysis in this series was to carry out a Stepwise Discriminant Analysis on the data of the subjects in the year group two trying to predict success/failure. The results of this analysis are shown in table 8.

Table 8

Results of Stepwise Discriminant analysis predicting success/failure for 2012-2013 year group (n=329)

Predictor variable entered	**Partial R**	**F**	**p>F**	**Wilks Lambda**	**Average canonical correlation**
Interest rate	,0158	5,233	,0228	,98	,0156
Nationality	,0126	4,169	,0420	,97	,0282

P<, 02

The results of the Stepwise Discriminant Analyses described up to this point are summarized in table 9.

Table 9

Summary of predictor variables with significant discrimination power for different groups and two criteria of success.

Criteria of success						
variables	Account status			Success/Failure		
	12-13	13-14	Total	12-13	13-14	Total
Number of Loans	*	*	*			
Nationality			*	*	*	*
Education Level	*		*	*		*
Economic sector	*		*	*		
Language preference		*	*			
Security cover		*	*			
Number of dependents	*		*			
Race	*					*
Amount borrowed	*					
Own contribution			*			
Interest rate					*	

*Significant prediction

To determine the strength of the prediction which could be obtained by means of the variables identified in the previous analyses, Discriminant Analyses using the DISCRIM procedure of SAS (1985) were carried out. In the Discriminant Analyses an attempt was made to predict the class (Group) into which subjects would be classified using their "scores" on the predictor variables identified by means of the previously described analyses.

The percentage of the subjects placed in the correct groups in terms of the two criteria by the Discriminant Analyses are shown in table 10

Table 10

Percentage of subjects on each of the four levels of account status and the two levels of success correctly categorized by discriminant analyses.

Groups	2012-2013	2013-2014	Total
Account status			
Bad debts	36.99%	00.00%	30.86%
Legal control	*	55.56%	54.55%
Current account	48.15%	33.13%	36.53%
Paid-up loans	38.10%	78.00%	46.74%
Success level			
Unsuccessful	63.33%	68.10%	62.14%
successful	62.00%	47.42%	46.83%

*: N< 25

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Conclusions

The results presented in the previous section seem to indicate that the use of biographical and business variables hold promise for improvement of the selection process used to decide on which small business owners should be funded by a venture capitalist

Variables which appeared as results of the three sets of analysis (the two year groups and the total group) as predictors of success or failure appear to be different with remarkably little overlap. Only number of loans granted and nationality of the entrepreneurs appeared as predictors in both year groups while these variables and security cover, education level, economic sector in which the business operated, number of dependents, language preference and race appeared as predictors in the total group and in at least one of the year groups.

The instability of the predictors over year groups can be due to inherit instability of biographical predictors, something which is in selection studies accepted as an established fact. A second reason could be differentiation in factors causing failure of entrepreneurial business over time. Timmons (1990) indicates that of new businesses started in the USA 40 per cent would have failed by the end of the first year of existence, with 60 per cent having failed after two years. This is a very high failure rate with many different causes and from a prediction point of view, probably a large number of different predictors. Greater stability of predictions can possibly be achieved by stretching the study over a longer time period.

The predictors which did appear seem to be quite different to what has been found in previous studies. Most of the 'traditional' biographical variables like age, gender, marital status failed to survive the elimination process used in the study (analyses of variance and Chi-square, stepwise Discriminant Analyses and Discriminant Analyses). In this sense the present study is seen to represent a contribution to the understanding of entrepreneurial personality.

Ethnicity is usually seen as the major characteristic of the Kenyan society. This variable did, however, not feature prominently as a predictor of success in the present study. This probably has important socio-economic and political implications for the development of the Kenyan society with its great problems e.g. unemployment among all population sectors. Culture may affect the supply of entrepreneurs by influencing preferences for entrepreneurship.

Implications of the study Results

The study results seem to indicate that use of the prediction models would decrease the percentage of individuals who are given loans but fail as small business owners. This would happen at the cost of eliminating [by not giving loans] a sizeable larger percentage of application than is the case when using the procedure currently employed by the venture capitalist.

The results shown in these tables seem, to indicate that the selection (prediction) models created by the analyses in this study would, if implemented, improve the selection of small business owners to be granted loans in the sense that fewer false acceptances [loans granted out but the business failed] would be found. The prediction model therefore seems to be more capable of eliminating failures than the selection model used by the venture capitalist. This obviously happens at the cost of, at the same time, eliminating some borrowers who would have been successful- the usual situation when a validated selection procedure is used.

Although the prediction models would decrease the percentage of individuals who are given loans but fail as small business owners at the cost of eliminating a larger percentage of applications it can be justified by the increase in ratio of the percentage valid versus false acceptances. The ratios are shown in table 14.

Table 14

Ratios obtained in the comparison of valid acceptances with false acceptances

	2012-2013	**2013-2014**	**Total**
Current procedure	1.67	1.83	1.76
Prediction model[account status]	2.39	2.06	2.25
Prediction model[success/failure]	2.81	2.72	2.18

From table 14 it can be seen that by using the prediction models a better" selection ratio" would be obtained than by implementing the current selection procedure

Study Limitations

The study has clear shortcomings. The criteria of success used are in many ways naïve and simplistic, due to the non-availability of information on, for instance, financial ratios. The study was essentially a concurrent validity study where an attempt was made to predict success of a small business owner on a selected group without taking into account that a number of applications had been rejected by the venture capitalist. Data from only three loan programs, albeit the largest three, operated by the venture capitalist was used, making the sample less representative of small business owners in the country. The problems regarding the short time period over which the study was done have already been indicated.

Recommendations for further Studies

Future studies should probably concentrate on creating an integrated picture of the characteristics {both personality and biographical} of the successful entrepreneur. Possible interrelationships between the predictive biographical variables should be included in such studies. Longitudinal studies stretching over longer periods are clearly called for.

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Stakeholder Management And Performance Of Construction Projects In Informal Settlement In Kenya

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Abstract

Recurrent observations on increased number of underperforming construction projects in informal settlements as evidenced by frequent collapsing of the buildings which has claimed the lives of people and destroyed their properties worth millions of money has attracted a lot of the studies on performance of construction projects. This paper examines the contribution of stakeholders' management on performance of the construction projects in informal settlement in Kenya. Specifically the paper focuses on effects of project clients, consultants and contractors management on performance of the construction projects. The study used a cross sectional design and targeted 412 completed and ongoing projects which had a workforce of 870 from which 30% was selected to form a sample size of

261 respondents. Stratified random sampling was used. Through drop and pick method, structured questionnaire was used to collect the data. Statistical Package for Social Science was used to analyse the data. The descriptive statistics indicated that the study variables were very important as indicated by high values of the mean and the low variations on the respondents opinion was shown a by low values of the standard deviation. There was a positive and significant correlation between clients, consultants, contractors management and the performance of the construction projects (r=0.872, p=0.005; r = 0.570, p=0.001; r=0.921, p=0.000 respectively). The study also found that project contractors have biggest role in determining project performance and client least influence with his/ her involvement being at planning stage only and little involvement during project implementation. The paper concludes that the importance of stakeholder management on the performance of projects cannot be underestimated. Construction projects need to consider various stakeholders interest while planning and implementing the projects and ensure they are engaged at all project stages. The relevant policies need to consider the stakeholders involvement as key in ensuring improved construction project performance.

Key Words: ***Stakeholder management, construction projects, project performance, informal settlement, client, consultant, contractors, Informal settlement.***

INTRODUCTION

Construction industry is a highly dynamic sector, and its operating environment, industry structures and product characteristics are changing at an ever-increasing pace (Dansoh, 2015). With the changing economic environment, managers of construction companies and projects look for emerging new construction management philosophies. Many organizations in various industries have turned to quality as a reliable management tool in the competitive market environment that leads to higher project performance. Performance measurement for big projects such as construction projects has been given different dimensions by different scholars. Toor and Ogunlana (2010) the tradition measure of project performance using iron triangle (on-time, under-budget and according to specifications) are no more applicable to measuring performance on large public sector development projects. This means there is a need to include other indicators of performance. In their study done in USA Seyed and Mehrdad (2012) on top of the iron triangle they also considered organizational objectives, stakeholders' satisfaction, customer benefits and future organizational potential as a measure of performance for construction projects. This study will consider the performance measures of construction projects according to Seyed and Mehrdad since they are comprehensive and look at wider views of the same.

A stakeholder is an individual or a group who can affect or is affected by the implementation of a change project (Mane & Patil, 2015). Laplume (2013) has categorized stakeholders as internal and external stakeholders. Internal stakeholders include owners, customers, employees and suppliers whereas external stakeholders include governments, competitors, consumer advocates, environmentalists, special interest groups, and the media. In the construction industry and within the communities surrounding each construction site, stakeholders are seen to include a variety of entities such as government and other non-profit organizations that directly or indirectly can provide support or resistance to the accomplishment of project objectives (Seyed and Mehrdad, 2012). Shiv (2015) indicated that for constructions projects, key stakeholders include client, contractors, project team, project managers, sponsor, consultant and government.

Stakeholder management is the process of managing the expectation of anyone that has an interest in a project or will be effected by its deliverables or outputs (Shiv, 2015). Scholars studying the construction sector (e.g. Cole, 2005; Olander and Landin, 2005; El-Gohary et al., 2006; Bosher et. al., 2007; Jing et. Al., 2010; Newcombe, 2013; Shiv, 2015) general common message is that stakeholder management is important to project outcomes and recognition of the concept of stakeholder management. According to Shiv (2015), the interactions and interrelationships between stakeholders largely determine the overall performance of a construction project, and have the crucial responsibility for delivering a project to successful completion. He added that for effective stakeholder management the key parameters include: proper identification of stakeholders through mapping and proper analysis to identify their needs, concerns, wants, common relationships and interfaces. This assist to position the stakeholders according to their level of influence, impact and enhancement they provide to the project.

Oliver and Rowlinson (2010) indicated that different project stakeholders perceive its success in different ways and proper management of them would increase the chances of project performance. Xiaojin and Huang (2006) reported that the engineers use "relation" among the key stakeholders as the most important criterion of project success. Jing et.al., (2016) indicated that the reasons why there is a big challenge in achieving the quality of construction project is due to poor record of stakeholder management owing to complexity and uncertainty in construction industry. A study related to the current study done by Newcombe (2013) looked at only contractor and client management and how they influence performance of the projects. In addition this study looked at theoretical approach ignore the empirical data,

one of the gaps to be filled by the current study. Many construction projects have been accused of having inadequate involvement of the key stakeholders at all level of the projects, having unclear milestone with timelines, lack of adherence to the set standards of specifications, time and budget as well as engagement of the project team who do not have minimum qualification in construction industry hence overreliance on the directive given by client and contractor (Loosemore 2012; Boulle, 2011; Oliver and Rowlinson, 2010). However, studies done by Jing et al. (2016) and Jergeas et. al., (2000) indicated that engineers in the construction projects are conversant with the projects outcomes and communicate with key stakeholders and set common goals to define the project success. From the news most construction projects have been accused to operate without the necessary approvals and documentations, an indicator of lack of adequate engagement of consultant and tendency to go for short cut. This study will shade some light on most of the areas where authors have differing findings hence filling the knowledge gap. The researcher assumes that by studying the influence of client, consultant and contractor management define performance of the construction project in the informal settlement in Kenya.

JUSTIFICATION

Despite of the government efforts towards ensuring quality standards in construction projects in terms of putting up construction policies, standards codes and formation of the government bodies like National Construction Authority (who have put a lot of effort travelling around the country to inspect building projects), a lot of cases have been reported regarding increased number of the substandard construction projects specifically in informal settlements which have claimed the lives of the inhabitants and destroying people's properties worth millions of money. Recently on various dates since the year 2006, reports of buildings collapsing have been reported in various counties highest number being in Nairobi and Kisii County. A very recent case is where a building in Huruma estate (one of the areas classified as informal) collapsed on 29th April, 2016, which affected over 150 people either by claiming their lives, or injuring them or living them without homes (Dansoh, 2015). The sub-standards buildings leading to collapsing of buildings have been reportedly attributed to among others; poor materials and workmanship, poor design and supervision, column failure due to bending, concrete not meeting the minimum strength for structural elements, lack of regular maintenance , non-approval of works, lacks of professional inputs during supervision among others. From the list, it is apparent that there is negligence from various project stakeholders which lead to attention on their management. Thus the researcher found a need to carry out a study on the influence of stakeholders management on the performance of construction project in informal settlement in Kenya.

Research Objective

1. To find out the effect of client management on the performance of construction projects in informal settlements in Kenya.
2. To find out the effect of project consultant management on the performance of construction projects in informal settlements in Kenya.
3. To find out the effect of project contractor management on the performance of construction projects in informal settlements in Kenya.

LITERATURE REVIEW

Theoretical Review

This study was anchored on shareholder value maximizing Theory as a tool for explaining construction firms' performance. The principle behind this theory states that managers of the firm or any organization should put the interest of the shareholders in fore front when making business decisions (Lazonick & O'Sullivan, 2010). In the context of the construction industry, the theory implies that serving the interest of all the stakeholders and meeting their expectations define the performance of the construction project.

Value drivers are used to define the various components parts which define the shareholder value in terms of minimizing the cost and time variance as well as optimizing the quality control (Lazonick & O'Sullivan, 2010). This means maximizing firm value is determined by how well the managers are able to manage the concerned variables putting the shareholders interest into consideration thus assurance of the better performance. This theory also recognizes the need to minimize controversial informational coming firm the principle (project client or financial) and the agents (contractor and consultant) so as to curb opportunistic behavior that may lead to losses or the results which may increase the construction risk (McSweeney, 2008).

Shareholder value theory was useful in this study since aspects of construction project performance are aimed at optimizing project performance so as to maximize the value delivered to the various stakeholders. Through cost and time minimization as well as meeting project specifications, a construction agent are able to complete the construction projects within the stated standards hence maximizing shareholder value of all stakeholders.

Empirical Review

Contribution of Client Management to Performance of Construction Projects

Clients are the projects owner who is the investor of the project and is responsible for all financial affairs. To the client, quality may be defined as one of the components that contributes to "value for money" (Bowen et. al., 2013). A study done by Seyed and Mehrdad (2012) indicated that the performance of the projects which indicates its success is heavily influenced by consultant performance. They added that this would be attributed by the fact that the owners are not, as expected, provided with the experts comparing to consultant companies in various fields, because consultants perform similar projects in other places and having experienced personnel's which is mandatory. Seyed and Mehrdad (2012) reported that, as the owner decide to implement his project, he hire a consultant company or companies to study, design and supervise the project. Mutua, Waiganjo and Oteyo (2014), argues that time, cost and quality are the principal feasible objectives of the client in any construction project. Bowen et al. (2013) argued that the clients of the construction industry are primarily concerned with quality, time and cost and yet the majority of construction projects are procured on the basis of only two of these parameters, namely time and cost.

In their study, Mutua, Waiganjo and Oteyo (2014), reported that the owner make the consultant company the single point of responsibility. So, the owner role in performing the project cannot be as manifest as the consultant. The clients of the construction industry are primarily concerned with quality, time and cost and yet the majority of construction projects are procured on the basis of only two of these parameters, namely time and cost (Bowen et al., 2013). This is understandable since the majority of project management control systems highlight time and cost, and overlook the relative importance of quality. On the other hand, clients have been increasingly concerned with the overall profitability of projects and the accountability of projects generally (Raceca, 2013). Cost overruns, in association with project delays, are frequently identified as one of the principal factors leading to the high cost of construction (Mane and Patil, 2015). Research to date has tended to focus on the technical aspects of managing costs on construction projects in the attainment of client objectives. There is little evidence in the published literature of a concern for the organizational, social and political problems that are inherent in the management of construction costs and the ability of the project team to meet the client's needs in terms of cost. Clients have been increasingly concerned with the overall profitability of projects and the accountability of projects generally. Bowen et al (2013) stated that to the client, quality may be defined as one of the components that contributes to "value for money"

Contribution of Project Management Consultants to Performance of Construction Projects

Project management consultant is an individual who take the responsibility of controlling the project from time, cost and quality and safety point of view (Seyed and Mehrdad, 2012). Ying et al (2009) state that project managers need to clearly understand the range of stakeholder reactions and behaviours. The attributes of stakeholders need to be assessed by project teams properly (Stephanie and Duffy, 2014; Boulle, 2011). Stephanie and Duffy (2014) as cited by Ying et al (2009) proposed three attributes in their study, namely, power, urgency, and legitimacy. Power means the ability to "control resources, create dependencies, and support the interests of some organization members or groups over others" .Boulle (2011) believe that successful project managers should have the ability to understand the "invisible power" among stakeholders. Legitimacy is "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (Laplume, 2013). Boulle (2011) considers the proximity as an important attribute of stakeholders, which can be rated from "directly working in the project" to "remote from the project". Analyzing and estimating these 3 attributes enhance the understanding of project managers on stakeholders. Project Management Institute (2013) has stated that the project manager is responsible and accountable for setting realistic and achievable boundaries for the project and to accomplish the project within the approved baselines.

As cited by Ying et al (2009), communication is essential for maintaining the support and commitment of all stakeholders especially for project managers (Nyandika & Ngugi, 2014). Effective, regular, and planned communication with all members of the project community is necessary for project success (Ying et al., 2009). In addition, Weiss, Hoegl and Gibbert (2014)believes project managers should be highly skilled negotiators and communicators capable of managing individual stakeholder's expectations and creating a positive culture change within the overall organization. Thus, pproject managers need to be attuned to the cultural, organisational and social environments surrounding projects. It is the role of the project managers to ensure project team work together to drive the performance of the project (Ying et al., 2009).

According to Vittal (2010), people-related project performance factors include: Create clarity in communication (defining project goals and likely project outcomes clearly and early in the project is critical, and failure to do so would lead identifying some of the project requirements as a later stage. This would cause changes to the project plan resulting in time and cost overruns); define roles and responsibilities(at the outset, defining roles and responsibilities

of project team members without ambiguity is imperative for improving performance and managing conflicts. This practice will lead to effective use of the project team members and help functional departments extend their support); communicate expectations (defining project outcomes and establishing what is expected from all the stakeholders will eventually eliminate perceived and actual incidences of not delivering expected results. This is specifically true with stakeholders within and outside the project who are not routinely involved with projects); employ consist process (developing and deploying consistent and formal project management process assist in improving ambiguity. Ultimately, these processes would lead to project management maturity); establish trust (an environment of trust is influenced by the organisational culture which promotes transparency and openness in their communications. Trust among the project team members to work cohesively would lead to knowledge sharing and collaboration); facilitate support (top management support translates into willingness of everyone in the organisation to support the project. Obtaining support is a challenge in traditional organisations where functional managers control resources); and manage outcomes (clearly defined project mission and objectives would help us develop a formal evaluation of project outcomes to determine project success. It promotes performance, motivation, recognition and synergy in teams).

Mutua, Waiganjo and Oteyo (2014) found that alternative dispute resolution mechanism is a very important device for project contracts towards ensuring better performance of the projects. This finding is supported by Pryke (2006) who treated projects as a network of relationships that need managing to achieve project success. In the construction sector, a number of studies have identified the importance of managing the interrelationships between parties within a project.

Contribution of Contractors' Management to Performance of Construction Projects

Project contractor is an individual (s) who performs and manages the project according to the bilateral signed contract (Shiv, 2015).According to Seyed and Mehrdad (2012), contractor perception of project success depends upon his achievement and therefore it is almost impossible to provide a list of success factors which can be influential to the projects, because they could be different from project to project. This indicates that for a given project clear definition and consensus on what define project performance for a particular one need to be provided. The main concerns of the contractual parties involved in the construction phase are main project management goals such as time, cost, quality, safety (Seyed and Mehrdad, 2012). They added that contractors have professional expertise which makes them more involved in determining project performance as compared to the project owners. While, contractors may be indicated by this study as being very influential in determining performance of the projects due to their expertise, they are also human beings who may be involved in unethical issues such as non-compliance to the set standards. For a given study to be more credited in relation to stakeholder management and its influence on the performance of the project, it would be prudence to not only look at their expertise part of contractors but also their ability to comply with the construction standards. Cleland and Ireland (2009) have stated that in a highly connected and competitive world, most projects must function in an environment that interacts with joint ventures, alliances, multinational sourcing, sub-contractors, and intricate vendor relations. Relationships with external organizations are managed through contracts. In general, companies provide services or products based on the results of direct contract negotiations with the client. One of the most important factors in preparing a proposal and estimating the cost and profit of a project is the type of contract expected. The confidence by which a bid is prepared is usually dependent on how much risk the contractor will incur through the contract. Certain types of contracts provide relief for the contractor since onerous risks exist (Nyandika & Ngugi, 2014). He further states that the size and experience of staff, urgency of completion, availability of qualified contractors, and other factors must be evaluated carefully during contract negotiations. The advantages and disadvantages of all basic contractual arrangements towards project performance must be recognized to select the optimum arrangement for a particular project.

According to Project Management Institute (2013), all legal contractual relationships generally fall into one of two broad families: either fixed-price or cost reimbursable. There is a third hybrid type commonly in use called time and materials contract. The fixed-price contract type is recommended, although some projects also prepare team contracts to define ground rules for the project. However, in practice it is not unusual to combine one or more types into a single contract document. Once the contract has been signed, both parties must meet their obligations under the contract. The contract administrator is responsible for compliance by the contractor to the buyer's contractual terms and conditions and to make sure that the final product of the project meets requirements. Project Management Institute (2013) further states that under fixed-price arrangement, buyers need to precisely specify the product or service being procured since changes in scope may only be accepted with an increase in contract price. Nyandika and Ngugi, (2014) argues that although a contract administrator is a member of the project team for reporting purposes, the contractor administrator could report to a line function such as legal department and may even be an attorney. In later stages of the project, a contract administrator is responsible for verification that all the work performed and deliverables produced are acceptable to the buyer. Contractual closure is then followed up with administrative project closure of the project or phase. The construction industry is moving towards higher quality, and contractors are forced to upgrade the quality of their services (Handfield, Primo and Valadares, 2015). Handfield, Primo and Valadares

(2015), emphasizes that a combination of sound formal systems and strong relationships is essential to achieve high quality in the project environment of construction, both within companies and across the supply network.

Conceptual Framework

The Conceptual Framework shows the relationships among the study variables. The independent variables are the client management, consultant management and the contractors' management while the dependent variable is the performance of the construction project in informal settlement in Kenya. These are shown diagrammatically in figure 2.1.

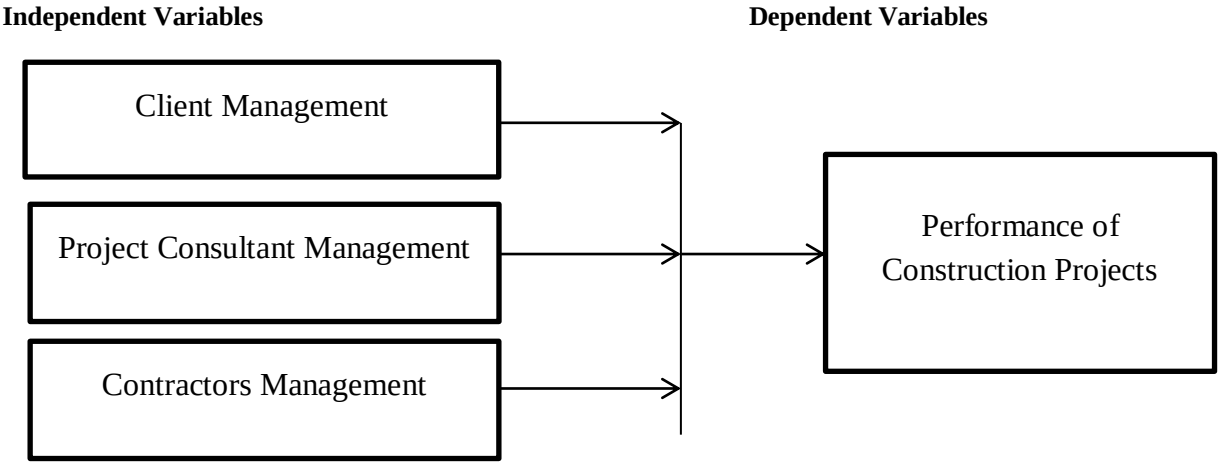

Figure 2.1: Conceptual Framework

METHODOLOGY OF THE STUDY

This study adopted ex post facto design to identify how various stakeholders' management affect performance of construction project in such a way that the researcher cannot manipulate the data (Kothari, 2008). The design involves use of the data which is available so as to explain the past events by identifying the extent to which the data relate to the events. The study was quantitative in nature so as to allow formal, objective and systematic inquiry about the events (Saunder, Lewis & Thornhill, 2007). The study target 412 building construction projects in located in various informal structure as follows:

Table 3.1 Target Population

Informal Settlement in Nairobi County	Number of Buildings under construction	Percentages (%)
Lang'ata	53	12.8
Makandara	78	18.6
Pumwani	36	8.6
Kasarani	45	10.7
Kibera	32	7.6
Embakasi	60	14.5
Central	62	11.1
Dagoretti	46	15.0
Total	412	100

Source: Ministry of Works Report (2018)

Building clients, contractors, community representatives, technical and inspectorial employees from building construction departments formed the key informants for the study which were five main groups. Each of the building construction project had one key client and one contractor hence a total of 412 clients and 412 contractors. There were 12 building inspectors and 18 technical employees. One chief and one sub chief were present in each area thus giving a total of 16 community representatives. This gave accessible population of 870 from which a 30% of the target population (Patton, 2002) was selected to form a sample size of 261.

Primary data was collected using the questionnaire method which was distributed through a drop and pick method. Ten participants who were not involved in the final study were used for pilot study. The results obtained were used to test validity and reliability. By use of experts ambiguous and incomplete questions were amended hence the validity.

Cronbach's alpha method used to test the reliability gave the values greater than 0.7 as shown in table 3.2 which indicated the instrument was reliable according to (Field, 2009).

Table 3.2: Reliability Test Results

Variable	No. of Items	α = Alpha	Comment
Client management	10	0.765	Acceptable
Project consultant management	10	0.782	Acceptable
Contractor management	10	0.821	Acceptable
Project Performance	10	0.809	Acceptable

Using the data from the pilot study Kolmogorov-Smirnov test gave a p-value of 0.52 was obtained indicating that the present of normal distribution. Multicollinearity was tested using the Variance Inflation Factors (VIF) and tolerance. All the tolerance values were greater than 0.1 while the values for VIF were less than 10. This indicated that explanatory variables lacked multicollinearity.
The data was analyzed using descriptive statistics including mean and standard deviation. To establish the strength of the relationship between study variables, Pearson's correlation coefficient was used. Multiple linear regression models was used to indicate the nature of the relationship between the study dependent and independent variables (Kothari, 2008). The study employed a 5% level of significant.
The empirical model used in the study was:

$$PP = \beta 0 + \beta 1CM + \beta 2PCM + \beta 3CoM + e$$

Where:

PP = dependent variable (Project Performance)
CM = independent variable (Client Management)
PCM = Independent Variable (Project Consultant Management)
CoM = Independent Variable (Contractor Management)
Bi (i=1,2,3) = Coefficient used to measure the sensitivity of the dependent variable (project performance) to a unit change in the corresponding independent variable)
e = Composite error term (the residual error of the regression)
β0 = The constant tem for each projects

Informed consent was sought prior to data collection. Confidentiality of the information was assured to the potential respondents. In addition, participant were not coerced to participate rather it was on voluntary basis.

RESULTS OF THE STUDY

From the 261 questionnaire distributed, 227 were returned forming a response rate of 87% which were taken as adequate for analysis. Demographic analysis indicated that 78% of the respondents were male and 22% were female an indicator of male dominated sector. In terms of age bracket majority 42% were aged between 25-35 years followed by 32% aged between 35-45 years. This finding shows a middle aged generation work in the construction industry. Analysis on education level, majority 38% had Diploma as their highest level of education, followed by 33% with first degree and 12% had master's degrees. The results indicate a work force which lack technical know-how of the construction project and highly depended on the directive given by the foreman or a contractor.

Descriptive Statistics

Descriptive statistics for the study variables including mean and standard deviations were obtained after running the data into SPSS Version 22. From the Likert scale questions asked the following means and standard deviations were obtained:

Table 4.1 Descriptive Statistics

Variable	**Mean**	**Std. Dev**
Client Management	3.7	1.2
Project consultant management	3.2	1.4
Contractors management	3.6	1.2
Project Performance	3.3	1.1

Table 4.1 shows that the mean for client management was 3.7; the mean for project consultant management was 3.2, that of contractor management was 3.6 and that for project performance was 3.3. Since the likert scale was of 5 this shows high values of the means showing that the study respondents perceived these variables as very important in the determination of the performance of the construction projects in the informal settlement in Kenya. Moreover, low values of standard deviation as shown in the table indicate respondents' low variation in their opinion of the study variables.

Correlation Analysis

To establish how the study variables are related, Pearson's correlation analysis was used. The test was at 0.05 significant level, one tailed test. The correlation matrix was obtained as shown in Table 4.2:

Table 4.2 Correlation Analysis

	Client Management	Project consultant management	Contractor management	Project performance
Client Management	1			
Project Consultant Management	0.207	1		
Contractor Management	0.302	0.212	1	
Project Performance	0.872	0.570	0.921	1

The matrix shows a weak positive correlation between client management and project consultant management of (0.207); weak positive correlation between contractor management and client management (0.302) and a weak positive correlation between project consultant management and contractor management. However the performance of construction project in the study area were found to be strongly positive correlated with client management (0.872), project consultant management (0.570) and contractor management (0.921). This correlation reaffirms the findings in the descriptive analysis that the study independent variables are critical in determining the performance of the construction projects.

Model Testing

In order to assess whether performance of the construction projects in informal settlement in Kenya is a function of the client, contractor and consultant management, multiple linear regression models was used. After running in the SPSS version 22 and at 5% significant level, the following results were obtained:

Table 4.3 Regression Model Summary

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.8965	0.8037	0.7632	0.8261

Predictors: (Constant), Client management, consultant management, contractor management

The goodness of fit value, indicted by the adjusted R squared, obtained was 0.8037. This value indicates that client management, consultant management and contractor management explain 80.37% of the variations in the performance of the construction projects in the informal settlement. The other 19.63% of the variations in the project performance can be explained by other variables not considered in this study.

Further to obtain the information in regard to the level of the variance within the regression model, ANOVA was conducted and the results are as in table 4.4.

Table 4.4 Summary of ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig. (p-value)
1	Regression	1.543	4	0.386	14.8	.000[b]
	Residual	6.769	257	0.026		
	Total	8.312	261			

a. Dependent Variable
b. Predictors: (Constant), Client Management, Consultant management, contractor management.

Table 4.4 shows Analysis of Variance (ANOVA) results indicate that the overall model was statistically significant with ($p < 0.000$) and very strong F statistics of 14.8.

The regression coefficients for the individual variables are shown in table 4.5.

Table 4.5 Regression Coefficients

	Un Standardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	1.342	0.345		3.889	0.001
Client Management	0.213	0.043	0.142	4.953	0.005
Consultant management	0.115	0.045	0.121	2.556	0.001
Contractor management	0.089	0.031	0.139	2.871	0.000

The optimal model obtained may be given by:
PP = 1.342 + 0.213 CM + 0.115 PCM + 0.089 CoM
The results indicate that taking the study variables (clients' management, project consultant management and contractor management) constant, then the project performance of the construction projects in informal settlement will be 1.342 at 95% level of confidence. In addition, the regression analysis shows that a unit change in the client management, project consultant management and contractor management would increase project performance by 0.213, 0.115 and 0.089 units respectively. The Beta values indicate the extent to which the study predictor variables contribute to the model. The larger the value, the more the effect the independent variable has on the project performance. This means client management would have more effects on the construction project performance.
The t values shown in table 4.5 are all greater than the critical values for this study (1.708) thus the null hypotheses are rejected. Thus the predictor variables are statistically significant in explaining the performance of the construction projects. The results are affirmed by the p-values obtained which were all less than 0.05, which was study level of significant.

CONCLUSIONS

Project clients are very important in defining the parameters of the project performance. Clients can influence the direction of the projects at all the stages of the project. The study concludes that in most construction projects, clients are actively involved during the planning stage and least involved during the implementation stage of the construction project. However, it is apparent that involving client throughout the project would increase the chances of success of the project. This agrees with Mane and Patil (2015) stated that stakeholder management process would require development of the stakeholder map of the project, preparing a chart of specific stakeholders, identification of the stakes of stakeholders, preparation of the power versus stake grid, systematically conducting a process level stakeholders analysis, conducting a transactional level stakeholder analysis, determining the stakeholder manager capability of the research and development projects and finally analysing the dynamics of the stakeholder interactions.

The study indicated that project successful can be achieved by using consultant while defining human resources, planning and organizing the project as well as defining the integral part to the construction project. It was concluded that involvement of the consultant throughout the life cycle of the project lead to improved performance. Consultants in project represent views of the clients and ensure that quality standards have been adhered to by the contractor (Shiv, 2015). It can be concluded that most of the building construction drawings and specifications do not specify clearly the intentions of the designers. Discrepancies are found between different consultant's drawings, which have resulted in poor co-ordination during construction. In addition, most of the projects are constructed without all the necessary documentation and approvals and the consultants do not inspect the design, implementation and the construction work at large.

Contractor management is a key determinant of the project performance. This study conclude that poor performance in the construction projects has been associated with the misunderstanding between the clients and the contractors as well as poor workmanship by the contractors in completing the works results from low tender prices. Most building contractors employ the project team who lack the minimum qualification for construction work thus bringing about poor workmanship which can lead to collapsing of the construction projects. The results concur with Newcombe (2013) who said that contractors pay more attention to complete the works on schedule and control the costs to within budget than to achieving quality in construction.

RECOMMENDATIONS

The Government of Kenya should take bold steps to ensure that infrastructural construction projects are within the laid down policies and standards. The National Construction Authority should inspect all the buildings constructed especially in informal settlement and make sure all stakeholders in charge of buildings being constructed including clients, consultant, and contractors have all the required approvals and permits.

Government should ensure that they are in control of the type of building constructions taking place in various sections of the country. This would help to avoid in putting up buildings in prohibited areas such as swampy areas.

All the contractors should be vetted to make sure they meet the requirement before they are awarded the contract.

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Administration Of Legal Issues In African Development For Global Sustainability

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Abstract

Despite the evolution of legal systems in Africa, its development cannot be realized without the adaptation of global practices relevant to the 21st century complexities. Using data from Kenya, the objective of this paper is to determine people's awareness on legal issues, innovative tools in harnessing research and innovations for sustainability development. This paper also gives a brief history of government systems in various African countries which existed before as traditional carry progressive research and recommend ways of promoting legal rights. The paper highlights the administration of legal rights in Kenya citing new innovative tools for development. It submits ways that could be embraced for development; the technology system, the rule of law, constitutionalism, democracy and different stakeholders support for development. The conclusion shows that the most of the Kenyan citizens need legal awareness, the possible outcome of the process remains uncertain and open to estimation of stakeholders' inputs. It recommended the role of every stakeholder as there are hopes and expectations for Africa's development in global sustainability.

Keywords: ***Innovation, legal systems, Africa, participation, Development, Sustainability***

Introduction

Sustainable development is the process of meeting society's current needs without compromising future generations' ability to do the same; this means promoting economic development that does not deplete natural resources. As part of this effort, public administrators oversee the stewardship of lands through administration of legal rights, the notion that universities can contribute to regional innovation has been built upon two key ideas first universities increase knowledge production through the provision of new scholars and scientific results that can be turned into rights, products and services (Malmberg, 2008). Second the existence of universities in regions can lead to knowledge transfer and exchange. In various ways it is supposed that universities will contribute to building innovative regional economies. Governments generally can only manage the system indirectly by facilitating the generation of the necessary variety, influencing strategic directions, filling gaps in the system and encouraging citizen involvement. Societal or cultural innovations, such as new forms of citizen participation in decision-making, may well improve the viability of an innovation system. However, these innovations and public service reform should not pursue for societal rather than economic purposes (Fombad, 2013).

History and Government Systems in Africa

Angola changed from a one-party Marxist-Leninist system ruled by the Popular Movement for the Liberation of Angola (MPLA), in place since independence in 1975, to a multiparty democracy based on a new constitution adopted in 1992. Legislative power is vested in the President, the government and parliament. Angola provides a good example of public service reform in difficult circumstances. Political rights were widened as part of the 1991-92 reforms that instituted a multi-party system, and guaranteed freedom of association, assembly, speech, and of the press (Browning, R. 2011).

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Politics of Mozambique takes place in a framework of a semi-presidential representative democratic republic, whereby the President of Mozambique is head of state and head of government of a multi-party system. Legislative power is vested in both the government and the Assembly of the Republic. Mozambique has increased its poverty reduction efforts over the years. Its GDP has grown from $2,463 million in 1990 to $3,607 million in 2001, with annual growth rate reaching 13.9 per cent in 2001. The fast-growing sectors are services industry and agriculture.

In Cameroon, the African Charter for the Public Service serves as an inspiration for the adoption of innovative practices. To redeem the image of the Government has taken steps to introduce a National Anti-Corruption Plan which it set up an Ad-hoc anti-corruption Committee under the Office of the President. The Committee aggressively pursue the investigation of cases of corruption and impose sanctions and penalties for proven cases of corruption.

Tanzania has taken concrete measures to promote innovation by strengthening public service ethics and accountability. In fact, against the backdrop of the challenges associated with the transition from one-party rule to a multi-party competitive system, the issues of ethics and professionalism had engaged the attention of the Government prior to the adoption of the African(Tillier, 2013).

Public Service Charter, the adoption of the Charter in 2001, however, provided greater incentive towards the construction of an ethical infrastructure that meets the contemporary standards of good governance. Tanzania's response to on-going challenges began with the establishment of a legal framework within which to combat corruption and promote the cause of public service professionalism. Specifically, the Government enacted the Prevention of Corruption Act, the Public Service Act of 2002 and the Joint Negotiated Machinery Act that serves as a forum for ironing out labor-management differences. The inauguration of a Performance Management System further reinforced the actions taken in recent years to promote ethics and professionalism in the Tanzanian public service.

Other measures instituted in support of professionalism in the Tanzania public service are the
implementation of a major public sector reform programme, the establishment of appointments committees to screen the qualifications of candidates for vacancies and promote the cause of merit in the selection process, introduction of mechanisms for performance monitoring, implementation of performance-related remuneration as well as contributory health and pension schemes, and the involvement of external stakeholders in evaluating the impact and effectiveness of public services.

The Namibian public service's commitment to quality service began in earnest on the attainment of independence. In 1990, the Government enacted the Public Service commission Act which empowered the Commission to advise the President on issues of public service recruitment, remuneration, discipline, performance, and conduct, among others. This measure was further consolidated with the enactment of the Public Service Act of 1995. The Act bars public servants from engaging in other remunerative pursuits outside their public service employment without due authorization, that is the authorization of the Prime Minister (Sean, 2005).

South Africa has recorded one of the most impressive achievements in public service innovation in Africa. Guided by the slogan "Batho Pele" (meaning People First), the public service has implemented a variety of initiatives aimed at

responding to the needs of citizens and non-citizens alike. The Directory of Public Services published by the Department of Public Service and Administration is a testimony to the Government's concern for the welfare of South Africans and as well as of foreigners who come in daily contact with the public service(Mashood, 2010).

After gaining independence in 1964, Kenya had its first constitution in 1963 as a single party state. After, the Kenyan constitution had undergone successive reforms between 1963 to 1991. The most significant amendment being Act No 12 of 1991, repealing of Section 2A of the constitution ending the de jure one-party rule in Kenya, multiparty democracy and other electoral reforms. At that period there was a push for a new Constitution by civil societies, political parties and reforms aimed towards decentralizing power around the presidency.

Eventually, a new constitution was enacted in 2010. The August 2010 constitution, which came into force in 2013, made Kenya a two-wheeled devolved state. This is a devolved system of governance which seeks to enhance efficiency, effectiveness, accountability and transparency in the public sector. The new constitution was pivoted around the people and the impacts of the same on the common citizen epitomized by "*Wanjiku*". The type of government present is a Parliamentary dictatorship with a checked presidency and an ever flourishing judiciary with the government being accountable to the electorate through fellow arms of government. Overtime, legislative frameworks, systems, structures and measures have also been put in place in support of the espousal of the values and principles of the public service in line with the country's vision 2030. Establishment of Articles 10 National values and Principles of Governance, Article 73 Responsibility of Leadership, Chapter 13 The Public Service and Article 232 Values and Principles Public Service of the Constitution which emphases on the 10 thematic areas of High standards of professional ethics, devolution and power sharing, good governance, diversity management, economic resource use and sustainable development, equitable allocation of opportunities, accountability for improvements to service delivery, performance, management and public participation for policy making. Public institutions have put in place various policies and statutes to improve good governance in Kenya. *Mwongozo*, "code of governance for State Corporation" addresses matters ranging from effectiveness of boards, transparency and disclosure, accountability, risk management, Internal controls, ethical leadership and good corporate citizenship. One stop shops called Huduma service centers provide customer services to citizens from single location to facilitate ease of payment for government services (Heikki Ruismäki *et al* 2015).

Administration of Legal Rights in African Development today

Most African Governments have established high-powered anti-corruption bodies, and have strengthened the enforcement and monitoring mechanisms. Accountability is increasingly becoming a fact of public life. Among the measures specifically adopted to revitalize governance institutions in most African countries are the abolition of one-party rule and the legalization of multi-party competition, the organization and conduct of presidential and legislative elections, the enhancement of the policy analytic, budget review, and general oversight capacities of legislatures, the consolidation of the independence of the judiciary, and the empowerment of civic bodies to participate in the political process and to perform various policy promotion and watch-dog roles.

Public service reform is part of the efforts satisfying the growing demand for African Governments, to shift attention to the reform of the public service issues of competence, performance, and integrity of the public servants. The career service is gradually being reconfigured into a de-politicized and professional institution. This is due to Reform

Strategy to improve service delivery through decentralization, institutional restructuring by strengthening the policy formulation and monitoring process for capacity to enhance professionalism in the public sector. By improving financial management and accountability through promotion of good governance and combating corruption and change management (Barros, 2014)

New innovative tools in harnessing research and innovations for development

Post conflict and -crisis contexts must be carefully managed, starting as early as possible to avoid contemporary conflict in Africa and to ensure stability. The implementation of political agreements should be closely monitored, including clear benchmarks, because failures in this regard is a major reason for violent conflict re-igniting. It must be borne in mind that extremist ideologies, including ethnic exclusion, are fostered during violent conflict and remain a threat to peace even after agreements have been signed. Transitional justice processes usually do not investigate a whole range of unstated or unspeakable truths, such as economic crimes; external collaborators; and shady financiers of merchants of terror. The Western and eastern foreign capital interests that have fueled conflicts in Africa are never subject to international justice proceedings. Constructing good governance in Africa's development will be determined by some factors that could to be more realizable within the context of full adoption of technology, constitutionalism, rule of law and democracy as well as respect for human right.

Technology systems

Technology system has brought about Innovative Learning Environments, and has produced a sampling of the rich array of new visions for education around the world. Interactivity & Collaboration also demonstrate the increased interaction with technology while integration has long been a key area of concern in education. The intersection of technology with our rapidly transforming educational landscape is framing the nature of technology in education in profound, new ways while serving as catalysts for transformation and innovation for global awareness, creativity and collaborative problem-solving. Technology is an integral part to accessing the higher order competencies often referred to as 21st Century skills, which are also necessary to be productive in today's society. It can perform several key functions in the change process, including opening up new opportunities that improve teaching and learning particularly with the affordance of customization of learning to individual learner needs, which is highly supported by the learning institutions. This curbs the digital divide, and impact capacity to effectively operate and thrive in the new knowledge economy (Nardi, 2019)

Constitutionalism

Constitutionalism is very important as all power rests on the understanding that it will be exercised according to commonly accepted principles. Kameri, & Akech,(2011) asserted that natural law and any moralistic theory of constitutionalism must be a commitment to the law and rule of law. The evolution of democracy and good governance in Africa will require a re-adjustment of economic policies and priorities in Africa away from the present religious reliability to the fundamentalist ideology of the development.

Rule of law

Rule of law as a system of self-government in which the independent judiciary is respected, all persons, including the government, are accountable under the law and based on fair, publicized, broadly understood stable laws. The rule of law under the economic growth ensures that agreements between the private sector and the state are equitably

enforced minimizing instances of coercion and predatory behavior, and that institutional capacity, equity as well as predictability, transparency that is access to information on government processes and legality required for sustainable economic growth. There has to be a fair, robust, and accessible legal process in which rights and responsibilities based in law are evenly enforced. Contribute towards a just social order, through strengthening the rule of law. Transitional justice mechanisms have an important role to play in establishing or strengthening the rule of law and in transforming institutions and the social fabric. Because accountability and non-recurrence are objectives, effective transitional justice mechanisms need to go beyond the legal-judicial aspects to ensure a comprehensive approach that satisfies the people. Transitional justice mechanisms need to meet the basic minimum needs of accountability, including measures of non-recurrence, recognition of massacres committed and trustworthy compensation (Shivute, 2014).

Democracy

The ideology of democracy and equality had taken over center stage in the discussions of academicians. Democratic states should have a mechanism through which leaders consult and account to the citizenry. Participation by all members of the society is a key cornerstone of good governance. Participation could be either direct or through legitimate intermediate institutions or representatives-including public institutions and other elected public officers. It involves participation of both public and private sectors. Participation needs to be informed and organized. This means freedom of association and expression on the one hand and an organized civil society on the other hand (Kameri, & Akech, 2011).

Respect of human rights

Human capacity is critical to the success of reform as it needs to be commitment to reform to be shared by all stakeholders and should remain consistent over time though priorities vary from one stakeholder to another. Leadership in political and managerial is essential to the attainment of reform objectives. Effective management of the change process hinges on effective communication and equally effective management of expectations. The involvement of donors adds to the challenge of reform focus, and of change management and coordination. Differences in capacities and willingness to participate in the reform across ministries most frequently translate into uneven performance. It is therefore advisable to embark on a strategy that identifies and encourages likely ‘winners’ while not losing sight of those in need of special attention. Managers of public sector reform projects face the risk of concentrating too much on processes, and ignoring the more important issue of service delivery impact and outcome (Browning, 2011).

Methodology

The study employed descriptive analysis to test public awareness on knowledge of the law and their sources that guide legal frame work in their counties for development of projects.

Results

To improve the environment, every citizen should have access to participate in their country’s law formulation; thus, the government should take steps to ensure citizens are given every possibility of access and understand the

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constitutional provisions. (Figure 1) shows the public awareness of the legal frameworks that exist in Kenya. Lesson learnt from the study shows that most Kenyan citizens (89%) were not aware of any other legal framework apart from the constitution. While (56%) were aware of constitutional provisions. This implies that there is need to be empowered on the legal frame work. There will be no development in Africa if citizens will continue in ignorance. Capacity bridging and building and empowerment are an important factor in the legal systems. Knowledge and skills in the following, among other areas, are pertinent: development, peace building, nation and state building, consistency and coordination. Equipping actors across the range of key governmental and non-governmental partners, and not just among traditional legal partners and institutions, is beneficial. This also provides an opportunity to ensure that systems and structures are transformed for inclusiveness and equity, as well as ensuring citizen representation. Transitional legal framework should form part of an integrated peacebuilding framework that includes the engagement of all relevant actors locally and internationally for development.

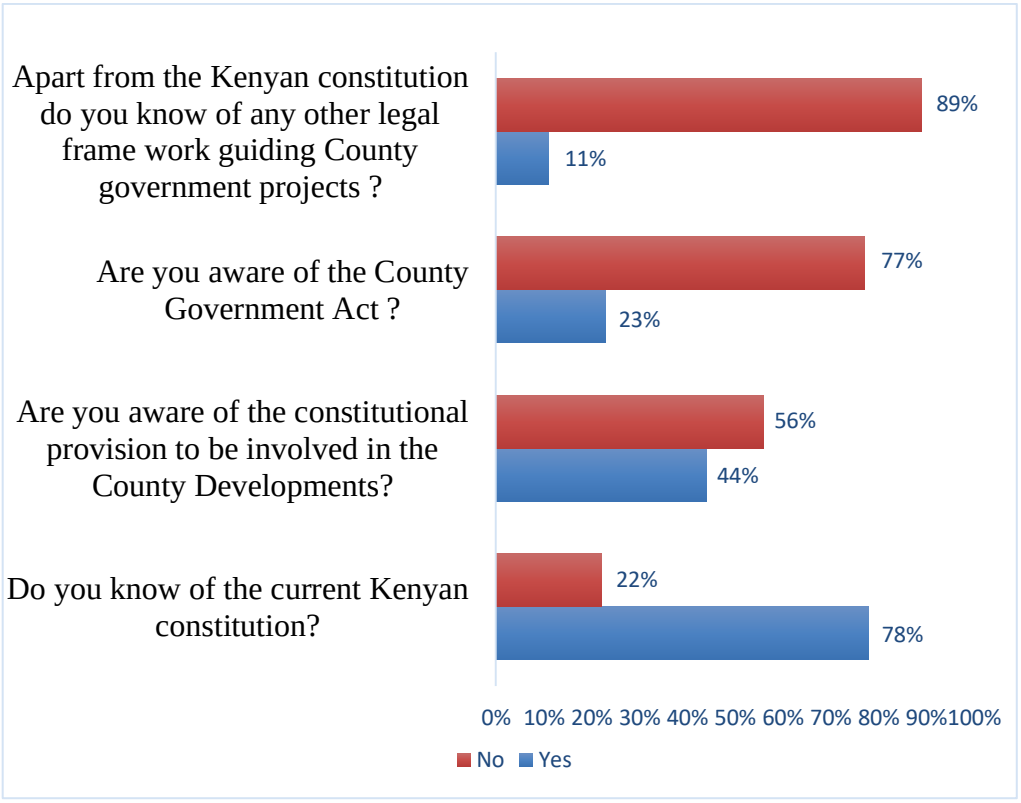

Figure 1: Legal framework in Elgeiyo Marakwet and Nandi County Kenya

Conclusion and recommendation

Although a lot of hopes and expectations are invested in the current process of capacity to promote good governance, the possible outcome of the process remains uncertain and open to estimation of stakeholders' inputs. Most of the Kenyan citizens were not aware of other legal frameworks hence calls for legal empowerment. The access to service of how soon and at what cost can the citizen expect to get speed/promptness of service, or simplicity of service procedure on number of decision layers and signatures required to obtain the service need to be well known.

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For development partners

Without the requisite resources it is difficult to overcome the challenges to manage the crisis, facilitate early recovery, and thereafter for stabilization, peacebuilding and development. They opt to ensure that support builds local capacities and utilizes local resources. They also need to support transitional justice that is comprehensive, transformative and meets multiple needs and objectives. Investing resources in the conceptual and practical development of transitional justice and nation and state building as frameworks for prevention. These partners need to determine, prioritize and safeguard quotas within transitional justice funding and bear in mind that transitional justice, the transformation of relationships, systems and structures, and building social cohesion will take time and a heavy financial investment for the development and utilization of innovative ways to measuring progress.

For African governments

Sovereignty of African countries needs to be reasserted as a responsibility, not as a cover for tyranny or a leftover of the world order past. Transformation would be most effective when it starts with the individual, community and then state. Social cohesion and healing cannot be institutionalized or legislated. To achieve for instance goals by 2030, new modalities for development is required, including bringing innovation to the foreground of development projects. It is important to ensure that whatever method is adopted, it has local support, and is neither an external imposition nor a top-down national government initiative. The latter in particular may have the unwanted result of communities and existing in negative peace rather than transformed relationships.

The role of government is to create an enabling environment to facilitate these processes that must be driven by those affected, and to allow its members to get involved in their personal capacities as part of their personal journey towards healing. They have to reject amnesties for crimes of genocide, war crimes against humanity and gross violations of human rights. Support favorable national jurisdiction that comprises effective judicial mechanisms, laws and policies, which incorporate the national ownership of rule of law principles based on international norms. They should allow for measures of nation and state building to be incorporated into transformation and development efforts, so that states become more viable, thus reducing or eliminating risks associated with violent conflict. Create opportunities for more peer learning among the leaders of the continent; develop means of holding each other accountable and supporting each other; and establish a leadership mentoring system to identify and equip the next generation of leaders for smooth political transitions. Build and strengthen sub-regional, regional and continental capacities and universities that can provide external assistance that is context specific.

African governments must shoulder the primary responsibility of providing a business friendly environment and enacting reforms that are conducive for vibrant private sector growth. Thus it is imperative that these governments step up domestic resource mobilization efforts and make the right investments in education, skills training, infrastructure which are fundamentals for any competitiveness agenda.

For non-governmental organizations

They need to play an active and constructively critical role to ensure a transitional justice process is comprehensive, transformative, and meets multiple needs and objectives. To provide human resources and expertise to contribute to its objectives, for instance, knowledge and expertise in conflict prevention and transformation, peacebuilding, nation and state building, and trauma healing, in addition to traditional legal and rule of law expertise. They should play a dynamic accountability role to ensure that said mechanisms have local support, meet the needs. They actively engage

in coordinated, regular, systematic and structured conflict and context analysis as part of democracy and rule of law assessments, using tools that are context specific. Such as political exclusion and repression, state fragility and viability, conflict early warning signs, and disaster risk preparedness and reduction. As part of nation and state building efforts work towards the parallel transformation of civil society along similar principles and to contribute to more viable states.

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ISBN 978-9966-132-53-6 @ Copy Right .2019

Employee Retention Strategies and Organizational Performance of the Judiciary in Nairobi County, Kenya.

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Abstract

The purpose of this study is to determine the effect of employee retention strategies and organizational performance of the Judiciary of Kenya, a case of employees based in Nairobi County. Specifically, the study sought: to determine how employee compensation, job security, employee training and development and employee motivation affects performance of the Judiciary of Kenya. The study employed a descriptive survey research design through which primary data was collected from 286 employees of the Judiciary of Kenya based in Nairobi. Quantitative data was analyzed using both descriptive and inferential statistics. The R^2 for the overall model was 0.844 an indication that the four variables of the study explained up to 84.4%of performance of Judiciary in Nairobi. There should be a study to therefore unveil the other factors contributing to performance of state corporations that make the 15.6% remainder.

Key words: ***Employee Retention, Strategies, Organizational Performance, Judiciary, employee training and development***

Introduction

The successful performance of any organization depends on its human resources, its technology and the type of materials it has. Technology and materials need the human touch and hands to make an organization perform effectively and efficiently (Bula, 2012). Different strategies have been adopted by various firms to attract and retain competitive employees. Some studies mention six strategies which include; compensation, training, work life balance, good work environment, career advancement and communication. We have various forms of compensation such as profit sharing, stock ownership or gain sharing that firms can give to their employees as a show of recognition of their work and performance (Smith & Rupp, 2004). Armstrong, (2006), observes that employee retention can be termed as how organizations retain their employees from leaving the organization.

Therefore, organizations should come up with retention strategies to ensure that employees remain in the company. Kalliath and Beck, (2001), have attempted to answer the question of what really drives people's intention to quit or stay. Unfortunately, up to-date, the findings are somehow different. Also, having an extensive training and development program offered to employees in organizations is beneficial to both parties. This is because when employees undergo extensive training they build up on their skills and increase their knowledge which makes them committed to the organization as they get the opportunity to advance and grow. The organization in return, benefits from having skilled employees which creates a competitive advantage for them in the market as well as increasing their performance (Smith & Rupp, 2004).

Having a work life balance has been seen to have an impact on retaining staff as it helps employees to have a balance between work and family life. This has helped employees to reduce pressure on them and end up increasing their performance at work.Organizations that practice career advancement of their employees and give them promotions due to their performances end up retaining their employees as their career growths are reached and are satisfied with their jobs. Firms should take precautions from having their employees leaving in search for better employment elsewhere. To have effective retention strategies in the organization, the rate of employee turnover should be ascertained, causes of the turnover to be identified and then retention strategies are to be developed and practiced (Ghosh, Satywadi, & Joshi, 2013).

Public Organizations in Kenya have been affected by a mass movement of employees in search of better terms and working conditions. Omolo (2008) noted that many doctors and nurses were leaving public corporations for the private sector because of better terms of employment. They further acknowledged that more trained doctors and nurses were leaving the country for better remuneration and working conditions in other countries like South Africa and Ghana. In the transport sector, Kenya Airways has lost its well-trained pilots and cabin crew to competitors both internationally and locally based on pay and working conditions (Mumero, 2012). The need for employee retention was also recognized by the Judiciary of Kenya. The current organizational structure is highly centralized and concentrated.

The Judiciary's organizational structure is convoluted in form and outlook thus impairing quality decision making and location of authority and responsibility (Judiciary, 2017).The Judiciary thus went ahead to form various reforms to include; The Judiciary Transformation Framework, 2012 – 2016 that has a representative from the Tribunals; one representative from the Kenya Magistrates and Judges Association (KMJA), Kenya Judicial Staff Association (KJSA), and one representative each from the Directorates and Registrars, and states that these members was the principal management organ of the entire Judiciary. The Judicial Service Commission (JSC) will play its constitutionally and statutorily defined oversight role (Judiciary, 2012).

In so far as competent employees are necessary for organizational performance, there is the need therefore to identify and examine how best to retain these competent employees for the achievement of the goals and objectives of organizations. The objective of this study therefore is to empirically examine the relationship between employee retention strategies and organizational performance of the Judiciary of Kenya.

1.2 Statement of the Problem

Employee Retention is one of the imperative issues within competitive organizations today as employees are the most valuable assets in any organization. Beheshtifar and Nazarian (2013) noted employees who do not feel connected exhibited dissatisfaction through withdrawal behaviors such as a reduction in productivity, absenteeism, low employee morale, and high turnover rates. Sometimes, employees in organizations do not always feel their organization tackles poor performance appropriately – a hard nut to crack. Dealing with poor performance is an emotive issue and it is perhaps not surprising, therefore, that many organizations fail to address it. An organization's culture and overall financial performance have the potential to influence employees to stay or leave an organization (Beheshtifar & Nazarian, 2013). People learn by focusing attention on role models to determine appropriate behaviors and attitudes. Individuals want to affiliate with members of similar cultures (Kaplan, Wiley, & Maertz, 2011). Noble (2009) states that more attention should be paid in identifying and dealing with working environment because when employees have a negative perception of their environment, they sometimes suffer from chronic stress. Working environment means the processes, systems, structures, tools or conditions in the workplace that impact favorably or unfavorably to individual performance. The working environment also includes policies, rules, culture, resources, working relationships, work location, internal and external environmental factors, all of which influence the ways that an employee performs their job functions. The turnover of employees has been increasing in various organizations in Kenya and this occurrence has undermined effective and efficient service delivery; a pointer to employee commitment and retention policies at these firms (Njiru, 2008). Employees are now more knowledgeable and demanding. Avery, Volpone, McKay, King, & Wilson (2012), noted that tardiness and absenteeism of full-time employees resulted in productivity losses costing organizations around $200 to $700 per employee missed workday. Organizations lose an average of $47,000 when replacing each employee with 2 years' tenure or more, and approximately $9,000 per year replacing each first-year employee (Avery et al., 2012). This study will seek to establish factors influencing employee retention in the Judiciary of Kenya in Nairobi.

1.3 Objectives of the study

The main objective of this study was to examine the effects of employee retention strategies in the Judiciary of Kenya in Nairobi.

1.3.1 Specific objectives

The study was guided by the following specific objectives:

i. To determine the effect of employee compensation on the performance of the Judiciary of Kenya.
ii. To examine the effect of employee job security on performance of the Judiciary of Kenya.
iii. To assess the effect of employee training and development on performance of the Judiciary of Kenya.
iv. To evaluate the effect of employee motivation on performance of the Judiciary of Kenya.

Scope of the Study

For this study, the target population scope was 1000 employees based in Nairobi region and not the entire 5,800 due to limited resources and time factor. A sample size of 286 was selected from the 1000. The specific sample size adopted for this study included include 19 judges,17 magistrates and 250 other employees (Latham, 2007). The study was conducted in the month of November 2018.

The study focuses on the Judiciary of Kenya employees based in Nairobi, Kenya. As per the Judiciary's Human Resource Report of 2015, the Judiciary had approximately 5,800 employees with 1000 employees based in Nairobi region. The variables to guide this study will include employee compensation; employee job security; training and development; employee motivation to guide the independent variable while performance was the guide for the dependence variable.

The study was anchored on two theories: Hierarchy of needs and goal setting theories

Hierarchy of Needs

Hierarchy of needs theory theorizes human motivation as arranged in steps or levels(Maslow 1934).Maslow posits that there are five (5) levels and these are physiological security,
belonging, esteem and the need for self-actualization.

Goal Setting Theory
This study was anchored on: job embeddedness theory and Herzberg's two factortheory.According toMitchell, Lee & Kay (2001) job embeddedness posits that employees remain in the organization if the incentives to stay match their expectations or exceed them.
Job embedding influences the decision of the employee to stay or leave the company.
Organizations should ensure their employees are embedded in the workplace as this will prevent the individual from leaving the company resulting in retention of employees.

2.1 Literature Review

It is the employees who keep the organization running and ensure that the organizational objectives and goals are achieved (Slocum & Hellriegel, 2009). To this end, workers attitude and feelings towards their job should be of utmost concern to any management. A lot of empirical studies agree that employee job satisfaction is a function of employees' work motivation element such as compensation, training, working conditions, and training. Studies have been done in relation to employee retention. Agwu (2014) studied organizational culture and employee's performance in the National agency for food and drugs administration and control in Nigeria.

2.2 Study Variables

For this study the dependent variable was performance while the independent variable is employee retention strategies. Thus, factors influencing employees' retention strategies are dependent on performances of employees in organizations. On the other hand, other parameters that influence employees' retention strategies include; Job Security related factors, employees' compensation related factors, and other factors.

3.0 Research Methodology
The research used descriptive survey as the research design. The study was concerned with finding out employee retention strategies and their performance in the Judiciary of Kenya.The survey design generally entails the collection of data from members of a population with respect to one or more variables (Mugenda & Mugenda, 2003). For the purposes of the study, the design enabled the researcher to study employee retention strategies in the Judiciary of Kenya. Through the survey, the researcher was able to describe and explain collected data from first hand information rather than predict.

Target population refers to a complete set of individuals, cases or objects with some common observable characteristics (Mugenda & Mugenda, 2003.The target population for the study consisted of 1000 employees of the Judiciary of Kenya based in Nairobi (as identified from the Human Resource Department at the Milimani Courts in Upper Hill, 2015).

A questionnaire was used as an instrument to collect data from the respondents in the study site with the aid of a questionnaire which was pre-tested prior to its use in the field. The selection of these tools was guided by the nature of data being collected, the time available as well as the objectives of the study. The overall aim of the study was to explore the role of employee retention strategies and organizational performance of the Judiciary in Nairobi, Kenya. The researcher was mainly concerned with views, observations, perceptions, and attitudes of respondents. Such information could be best collected using the questionnaire technique. The sample size of the study was 286 employees of the Judiciary of Kenya based in Nairobi region.

Validity refers to the extent to which an instrument measures what is supposed to be measured. Data need not only be reliable but also true and accurate. If a measurement is valid, it is also reliable (Joppe, 2000). A pilot study was conducted to test the reliability and validity of the research.

The pilot test consisted of 3 Judges. The validity content of the data collection tools was determined by discussing the questions stated in the pilot interview guide with the managers. Validity was determined by the use of Content Validity Index (C.V.I). C.V.I of between 0.6 and 1 shows the instruments to be valid for the study (Orodho, 2003). Reliability refers to the consistency, stability, or dependability of the data. Whenever an investigator measures a variable, he or she wants to be sure that the measurement provides dependable and consistent results (Cooper & Schindler, 2003). To measure the reliability of the data collection instruments, an internal consistency technique using Cronbach's alpha was applied to the gathered data (Mugenda&Mugenda, 2003).

The sample size consisted of 286 respondents. A stratified sampling technique produces estimates of overall population parameters with greater precision and ensures a more representative sample is derived from a relatively homogeneous population (Latham, 2007). The study sample size was 286 which was guided by Yamane (1973).

Yamane (1973) provides a classical simplified formula for calculating sample size. A 95% confidence level and p = 0.05 are assumed for the formula.

$$n = \frac{N}{\{1 + N(e^2)\}}$$

Where:

n = sample size

N = population size

4.0 Effect of Employee compensation on the Organizational Performance of judiciary in Kenya

The first objective of the study was to establish the effect of employee compensation on the organizational performance of the Judiciary in Nairobi. The respondents were presented with Likert-type statements aimed at responding to this objective. The findings obtained are presented in Table 4.1.

Table 4.1: Effect of employee compensation on the Organizational Performance

Statement	**Mean**	**Std. Deviation**
I feel that what I offer the judiciary is consume rate to what I am paid.	4.4706	.81697
The judiciary offers a wide range of rewards to employees.	4.6176	.58095
The judiciary hires Competent/skilled employees.	4.3333	.80016
Qualified applicants are offered equal chances of being employed at the judiciary of Kenya.	3.9902	.58859
There is clear communication of duties and responsibilities to recruited employees of the judiciary	4.2451	.83768
Employees are left to work in the manner they want	4.0490	.81298
Employees are empowered to make decisions pertaining the organizations success	4.4510	.73965

According to the study findings respondents strongly agreed that what they offer the Judiciary is consume rate to what they are paid as shown by a mean value of 4.4706 and standard deviation of 0.81697. Majority of the respondents agreed that the Judiciary offers a wide range of rewards to employees as shown by a mean value of 4.6176 and standard deviation value of 0.58095. The respondents were in agreement that the Judiciary hires competent/skilled employees as shown by a mean value of 4.3333 and standard deviation value of 0.80016. Results indicated that majority of the respondents agreed that Qualified applicants are offered equal chances of being employed at the Judiciary of Kenya as shown by a mean of 3.9902 and standard deviation of 0.58859. The results established that majority of the respondents agreed that there is clear communication of duties and responsibilities to recruited employees of the Judiciary as shown by mean value of 4.2451 and standard deviation value of .83768. Further, the respondents agreed that employees are left to work in the manner they want as shown by a mean value of 4.0490 and standard deviation value of .81298. Concisely, the study results revealed that employees are empowered to make decisions pertaining the organizations success as indicated by a mean value of 4.4510 and standard deviation value of .73965.

The findings compare with those by Mello (2007) who found that compensation was mainly an aspect of get committed through specific traits and capabilities to be responsible and progressively making decisions that are coherent to organizational goals and objectives. According to Ozsahin, et al. (2011), an employee who understands their roles and performing his or her duties appropriately needs to be compensated accordingly to improve the

organizational performance by passing skills and competencies to the entire team thus translating to increased productivity and performance.

4.1 Effect of Job security on organizational performance of the Judiciary in Nairobi.
The study also sought to determine the effect of job security on organizational performance of the Judiciary in Nairobi. The respondents were presented with Likert-type statements aimed at meeting this objective. The findings obtained are presented in Table 4.2.

Table 4.2: Effect of Job security on the Organizational Performance

Statement	Mean	Std. Deviation
I have an up to date contract of employment.	4.5784	.72353
The Judiciary has favorable terms of employment stipulated in the contract.	3.7843	1.13126
All employees undergo a rigorous probation period	4.2549	.90855
Employees undergo a fair performance evaluation.	3.0294	1.22236

From the results of the study majority of the respondents agreed strongly that they have an up to date contract of employment as indicated by mean value of 4.5784 and standard deviation value of .72353. The respondents also agreed that the Judiciary has favorable terms of employment stipulated in the contract as shown by a mean value of 3.7843 and standard deviation of 1.13126. The results showed that majority of the respondents strongly agreed that all employees undergo a rigorous probation period as shown by a mean value of 4.2549 and standard deviation value of .90855. Concisely, majority of the respondents agreed that employees undergo a fair performance evaluation as shown by a mean of 3.0294 and standard deviation of 1.22236.

These results collaborate previous findings by (Saleem, 2014) who conclude that employee job security helps in enhancing employees' workplace confidence and relaxed mind set.The findings are also in agreement with (Fan, 2012; Haslam et al., 2010; Julizaerma and Sori, 2012) whom confirm there is an existing literature indicates that there is a significant relationship between employee performance and the job security in the organization.

4.3 Effect of Employee training and development on organizational performance of the Judiciary in Nairobi.
The study sought to evaluate the effect of employee training and development on the organizational performance of the judiciary in Nairobi. To this various Likert-type statements were presented to the respondents. The responses obtained were presented in Table 4.3.

Table 4.3: Effect of Employee training and development on the Organizational Performance

Statement	Mean	Std. Deviation
Employees are familiar with the work systems	4.5980	.70724
Judiciary has reliable work systems	3.9412	.86544
Employees undergo proper orientation.	4.4020	.70724
Every employee has an equal chance to undergo training	4.3137	.77050

Research results indicates that majority of the respondents strongly agreed that employees are familiar with the work systemsas shown by a mean of 4.5980 and standard deviation of .70724. The respondents also agreed that Judiciary has reliable work systems as shown by a mean value of 3.9412 and standard deviation of .86544. the respondents also agreed that employees undergo proper orientation as shown by a mean of 4.4020 and standard deviation of .70724. In addition, the study results found that majority of the respondents agreed that every employee has an equal chance to undergo training as shown by mean of 4.3137 and standard deviation value of .77050. The study findings are in

tandem to that of Peterson, Smith, & Martorana (2003) who found that there is a positive relationship between employee training and development and performance of an organization. (Barney, 2014) also concludes that indicators of employee training and development such as reliable system, employee orientations and frequent team building, and seminars are key determinants of employee productivity.

4.4 Effect of Employee motivation on organizational performance of Judiciary in Nairobi.

The study sought to examine the effect of employee motivation on the Organizational performance of the Judiciary in Nairobi. To this various Likert-type statements were presented to the respondents. The responses obtained were presented in Table 4.4.

Table 4.4: Effect of Employee Motivation on the Organizational Performance

Statement	**Mean**	**Std. Deviation**
I am satisfied with how am assigned duties	4.4118	.82478
I am accountable for my works	3.4216	1.03824
I am rewarded for my hard work through incentives	4.0588	.93238
Whenever we implemented a project, we normally use the least possible input	3.7941	1.02614

From the study, majority of the respondents strongly agreed that they were satisfied with how they were assigned duties as shown by a mean value of 4.4118 and standard deviation of .82478. The respondents neither agreed nor disagreed that they were accountable for their works as shown by a mean value of 3.4216 and standard deviation of 1.03824. The study findings also revealed that the majority of the respondents agreed that they were rewarded for their hard work through incentives as shown by mean value of 4.0588 and standard deviation value of .93238. In conclusion, the respondents agreed that whenever they implemented a project, they usually used the least possible input as indicated by a mean of 3.7941 and standard deviation of 1.02614. The findings agreed with (Nyamari,2017) as the results showed that motivational values indicators such as attractive non-monetary rewards, adequate reward schemes and job security, as independent variables had a significant relationship with the operational performance of the organization.

4.5 Organizational Performance of the Judiciary in Nairobi

The study sought to determine the Organizational performance of the Judiciary in Nairobi. To this various Likert-type statements were presented to the respondents to establish their opinion on the study subject. The responses obtained were presented in Table 4.5

Table 4.5: Organizational Performance

Statements	**Mean**	**Std. Dev.**
Delivery of organizational mandates is always delivered.	4.2647	.97419
Delivery of work is a responsibility of each employee.	3.9902	.76424
Delivery of service by the organization incurs least costs.	4.6863	.61307
Delivery of project implementation by the Judiciary is done through the least possible input.	2.6613	1.9925
Delivery of performance by the Judiciary is done though offering improvement programs for its employees.	4.6765	.69170

The study sought to find out the respondent'sagreement level with the statements on a measure of organizational performance. The findings as shown in Table 4.7 indicated that on the first statement that delivery of organizational mandates was always delivered, majority of the respondents agreed with the statement as shown by a mean of 4.2647 and a standard deviation of .97419. The second statement was that delivery of work was a responsibility of each

employee and the majority agreed as shown by a mean of 3.9902 and a standard deviation of .76424. The other statement was that delivery of service by the organization incurred least costs. Majority of the respondents agreed with the statement as shown by a mean of 4.6863 and standard deviation of .61307 while on the Fourth statement that delivery of project implementation by the Judiciary was done through the least possible input. Majority of the respondents disagreed as shown by a mean of 2.6613 and a standard deviation of 1.9925. In the last statement, majority of the respondents agreed that delivery of performance by the Judiciary was done though offering improvement programs for its employees. Thomas (2010) stated that a well performing organization was more likely to embrace effective and high level of employee retention strategies unlike a poorly performing organization that may not uphold employee retention strategies.

4.6 Diagnostic Tests

A regression model was adopted in the study to establish the statistical relationship between the independent and the dependent variables. The model however, has several assumptions such that if they are not met, the results may be biased. These assumptions include the assumption that the data is normally distributed (normality), the assumption that the data is not auto-correlated, no multicollinearity and that there is no heteroscedasticity in the sample data. This study therefore carried out the diagnostic tests to ensure that the assumptions of regression model are met.

4.7 Regression Analysis

The purpose of the study was to determine the effect of employee retention strategies on organizational performance of the Judiciary in Nairobi. In this regard, multiple regression analysis was carried to further test the relationship between the variables. The findings obtained are presented in Tables 4.6 to 4.8.

Table 4.6: Model Summary

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.919[a]	.844	.838	.52097
a. Predictors: (Constant), Employee compensation, employee job security, employee training and development and employee motivation.				

The regression model adopted by this study can explain 84.4% of the variability in the data. This is indicated by the R Square value of 0.844 which shows that the data closely lies around the fitted regression line. The Adjusted R Squared Value of 0.838, which is less than the R-Squared Value, shows how well the model generalizes the relationship between the variables. In this study it can be deduced that only 83.8% of *variation in the data is explained by the independent variables that actually affect the dependent variable.*

Table 4.7: Analysis of Variance

ANOVA[b]						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	165.670	4	41.417	136.419	.000[a]
	Residual	30.669	242	.303		
a. Predictors: (Constant), Employee compensation, employee job security, employee training and development and employee motivation						
b. Dependent Variable: Organizational Performance						

As shown in Table 4.7 on Analysis of Variance (ANOVA), an F-test Value of 136.419, P<0.05 was obtained. The P value of less than 0.05, shows that there was overall significant relationship between all the independent variables and the dependent variable of the study.

Table 4.8: Regression Coefficients

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.787	.845		2.116	.037
	Employee compensation	1.418	.062	1.036	22.803	.000
	Employee Job security	1.041	.448	.261	2.325	.022
	Employee training and development	.197	.481	.046	.409	.027
	Employee motivation	.098	.440	.027	.224	.002
a. Dependent Variable: Organizational Performance						

Based on the study findings, the hypothesis equation model becomes:
Organizational Performance= $1.787 + 1.418\ X_1 + 1.041\ X_2 + 0.197\ X_3 + 0.098\ X_4$
From the findings in Table 4.8, the study found that holding Employee compensation, employee job security, employee training and development and employee motivation, at zero organizational performance was 1.787. It was established that a unit increase in employee compensation, while holding other factors (employee Job security, employee training and development, employee motivation) constant, will lead to an increase in organizational performance by 1.418 ($p = 0.000$). Further, a unit increase in employee job security, while holding other factors (employee training and development, employee motivation, employee compensation) constant, will lead to an increase in organizational performanceby 1.041 ($p = 0.022$). A unit increase in employee training and development, while holding other factors (employee motivation, employee compensation, job security) constant, will lead to an increase in organizational performance by 0.197($p = 0.027$). Moreover, a unit increase in employee motivation, while holding other factors (employee Job security, employee training and development, employee compensation) constant, will lead to an increase in organizational performance by 0.098 ($p = 0.002$). This infers that employee retention strategies contribute most to organizational performance. At 5% level of significance and 95% level of confidence, employee compensation, employee job security, employee training and development and employee motivation significant in organizational performance.

The regression coefficients obtained show significant t-test values ($P<0.05$) for each of the independent variables (employee compensation $t=22.803$, $P<0.05$ thus this being the most significant variable ($t=22.803$); Employee Job security $t=2.325$, $P<0.05$; Employee training and development, $t=0.409$, $P<0.05$ and; Employee motivation, $t=0.224$, $P<0.05$). This shows that all the variables have significantly relationship with the dependent variable (Organizational Performance).

The significant positive relation between employee retention strategies and Organizational Performancerefute Schmidt's (2010) whose meta-analysis conducted on 88 individual studies representing a sample size of 32,472 observations done between 1956 and 2003 showed the relationship between employee retention techniques and organizational performance as dubious if not non-existence and does not have a positive effect on performance of the organization.

5.0 Employee Compensation and Organizational Performance

The first objective of the study was to establish the effect of employee compensation on organizational performance. The study established that qualified applicants were offered equal chances of being employed at the Judiciary of Kenya. The findings further revealed that there was clear communication of duties and responsibilities to recruited employees of the Judiciary. The findings portrayed that the employees were empowered to make decisions pertaining to the organizations success. The inferential analysis of the study model revealed that indeed employee compensation had a positive and significant influence on the performance of Judiciary in Nairobi.

5.1 Employee Job Security and Organizational Performance

The second objective of the study was to establish the effect of employee job security on organizational performance. The study found that the Judiciary has favorable terms of employment stipulated in the contract. The respondents

indicated that all employees undergo a rigorous probation period. The study further established that employees undergo a fair performance evaluation. The results of the model also revealed that employee job security positively and significantly influenced the performance of Judiciary in Nairobi.

5.2. Employee Training and Development and Organizational Performance

The third objective of the study was to assess the effect of employee training and development on organizational performance. The study established that employees were familiar with the work systems. The findings further portrayed that Judiciary has reliable work systems. The study also established that every employee had an equal chance to undergo training. The study further established that employees undergo proper orientation. The model output revealed that employee training and development positively and significantly influences the performance of Judiciary in Nairobi.

5.3 Employee Motivation and Organizational performance

The fourth objective of the study was to establish effect of employee motivation on organizational performance. The study established that the employees were satisfied with how they were assigned duties. The findings further revealed that majority of the respondents disagreed that whenever we implemented a project; they normally use the least possible input. Moreover, the study established that the employees were rewarded for the hard work through incentives. The results on both the univariate and overall model revealed that employee motivation had a positive and significant influence on performance of Judiciary in Nairobi.

6.0 Discussion, Conclusion and Recommendations

The study concluded that employee retention strategies were a critical driver to organizational performance in the Judiciary in Kenya. The findings outlined the prospects of employee retention strategies such as compensation, job security, training and development and motivation. The study concluded that the Judiciary in Nairobi had put in place effective employee retention strategies. This came after the realization that an organization needs to invest in employee retention strategies in order to be successful. This has been achieved through a good compensation package which involved, offering an attractive, competitive; benefits package with components such as life insurance, disability insurance and flexible hours motivates employees to commit themselves to an organization.It was concluded that employee retention strategies had a positive and significant effect on organization performance.

Based on the findings of the study, the following recommendations are herein drawn; That the Judiciary through the management should ensure effective employee retention strategies through example setting and involving employees in decision making and other organizational matters so as to put them on board towards enhancing firm performance The management of Judiciary should ensure effective rewarding and promotion of employees as a way of making them comfortable and economically empowered so as to perform better. Employees should be steered towards aligning their goals to those of the organization to not only contribute to firm growth but also to their personal growth and development.

Organizational management should embrace a supportive training and development to the employs and provide them with skills and expertise of performing duties in effective and efficient manner. Employees should be allowed to air their views and be involved in decision making and allowed to join any trade union that they find addressing their issues. This way, they were motivated to contribute more to firm performance.

The study focused on the employee retention strategies and organizational performance. There should be a study to establish other prospects of influencing performance of Judiciary which were exceedingly facing performance challenges. The study focused on Judiciary in Nairobi while there were other industries and organizations even in the private sector facing the same problems as far as employee retention strategies and performance was concerned. There should be a study to therefore unveil influence of these prospects while focusing on other sectors.

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Oil Retail Pricing and Price Controls: A Case of Oil Marketing Sector in Kenya

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Abstract
The study sought to determine the effect of international crude oil prices and the US dollar-Kenya shilling exchange rate on the average monthly retail prices of four oil products (Super, Diesel, Kerosene and Regular) in Kenya from year 2009 to 2012; the relationship between average monthly oil retail prices for the four products in the period before (2009-2010) and the period after introduction of price controls (year 2011-2012). Using multiple regression analysis and Pearson's correlation analysis, the study found that monthly international crude oil prices and monthly exchange rates had a significant effect on average monthly retail prices for all the four products. The two predictor variables had a lesser explanatory power on average monthly oil retail prices in the period after introduction of price controls compared to the period before such controls suggesting that price controls had caused some effect on average monthly retail oil prices of all the four oil products. In the period before introduction of price controls, monthly international crude oil prices and exchange rates explained much of Super prices and very little of Kerosene prices whereas after the introduction of price controls, the two predictor variables explained more of Diesel prices but very little of Regular prices. A positive correlation between average monthly retail prices of Super and Diesel products in the period before and after introduction of the controls was documented unlike Kerosene and Regular average monthly retail prices which exhibited a negative correlation. The study recommends the need for ERC to closely monitor international crude oil prices and the manage dynamics of the US dollar-Kenya shilling exchange rate with a view of stabilizing the latter. **Keywords:** price controls, price ceiling, price floor and price asymmetry.

JEL Classification: E640 (Pricing Policy), H42 (Publicly provide private goods), E3 (prices, business fluctuations and cycles), F31 (Foreign Exchange), L1 (Market Structure, firm strategy and market performance).

Background

The oil marketing sector plays a significant role in the economic growth of Kenya considering that oil is an essential commodity in industrial production, transportation and generation of water, electricity amongst other products. Hardwick, Langmead and Khan (1999) indicate that oil marketing is characterized by oligopoly with only a few firms controlling the market, besides the sector being associated with barriers to entry and exit and the high volume of threshold that the firms are required to maintain. The oil marketing sector received increased attention in Kenya following the rise of international crude oil prices in the period 2007-2008 which prompted the oil marketing firms to pass on the cost to consumers. When the oil retail prices declined towards the end of year 2008, the firms did not reciprocate to reduce the retail prices for their oil products. This prompted the Kenyan government (through the Energy Regulatory Commission) to introduce price controls to regulate retail prices of selected oil products. Kilian (2009) attributes the sharp price increase in 2007–2008 to the combination of increased demand and stagnant supply, linking the increase in oil demand to the fast growth of emerging economies such as China and India.

The pricing of oil products is often a complex process which is controlled by the relevant government department. When the price controls were introduced in Kenya, kerosene became expensive and the government had to reduce taxes on kerosene. According to Petroleum Insight (2012), in year 2011, sales for diesel were 1,769,029m^3, petrol 781,032m^3 and sales for kerosene were 340,603m^3. Grant, Ownby, and Peterson (2006) indicate that the price of crude oil is the most significant factor in determining retail prices for petroleum products besides the interaction of forces of demand and supply. Despite the ERC setting the maximum pump prices for selected products, the retailing firms have a leeway in determining the actual oil retail prices bearing in mind their unique conditions, international crude oil prices, exchange rate changes among other factors. This has often led to a fluctuation in average monthly retail prices for several oil products.

Governments often introduce price controls to protect the general public against exorbitant prices by retailers and other oil marketers. Taylor and Weerapana (2011) define price controls as a government regulation that sets or limits the price to be charged for a particular good which can either be a price ceiling, price floor, or a minimum price at which a good can be bought or sold. Price ceiling controls set a maximum price that may be charged but do not prevent goods to be sold at lower prices below the ceiling price (Tucker, 2010). Price floor is defined as a government price control that sets the minimum allowable price for a good according to Taylor and Weerapana (2011). Taylor (2006) contends that price controls are only effective for a short term basis and when they take place over a long term, they can lead to shortages, rationing, quality deterioration, long queues and black markets. Such controls are instituted by governments to protect consumers against oligopolistic price practices (Mostert & Mathews, 2000). In most jurisdictions, price controls include: setting price ceilings/caps and floors, setting a pricing formulae, creating a price stabilization fund, government interventions in the form of calculating and publishing new prices to protect consumers against exploitation, extending subsidies and favourable tax treatment to oil marketing firms among others (Kojima et al., 2010; Taylor et al., 2011; Mankiw, 2008; www.erc.go.ke).

In Kenya, petroleum retail prices are controlled through price capping by ERC which is reviewed monthly. The ERC sets maximum retail pump prices for selected products on a monthly basis and become effective and remain in force from the 15th of the calendar month until the 14th of the following calendar month (www.erc.go.ke). The situation may vary across different jurisdiction. Kojima et al. (2010) found that Malawi's system of price controls was some price stabilization fund while in Botswana, Senegal and South Africa, oil prices were controlled in such a way that the price adjustment was automatic based on some pre-established administrative procedures. Johnson and Johnson (2006) indicate that the oil industry is characterized by unstable prices hence the need for price controls.

Literature has attempted to document the effect of changes in crude oil prices and exchange rates on oil retail prices (Manning, 1991; Really et al., 1998). A rise in crude oil prices to a high of US $ 147 per barrel (in the second half of year 2008) led to a sharp rise in the retail price of premium petrol in Kenya to over Ksh. 100 per litre (Petroleum Insight, 2009). Kilian (2008) contends that most economies in the world are largely affected by global increase in petroleum product prices which influence retail prices. International crude oil prices rose sharply in the second half of year 2008 to a high of US $ 147 per barrel causing a sharp rise of oil products in Kenya; in the last quarter of year 2008, crude oil prices plummeted a great deal to an average of about US $45 per barrel (Petroleum Insight, 2009). The volatility of the Kenyan shilling further complicates the situation for the oil marketing firms who have to do their settlement in foreign currency. The Borenstein, Cameroon and Gilbert (1997) study found some evidence of price asymmetry between gasoline prices and changes in crude oil prices. The US dollar- Kenya shilling exchange rate is similarly key in explaining retail pricing of petroleum products in Kenya since imported petroleum products

are settled in US dollars and the same appreciated over the Kenya shilling in the better part of year 2008 and 2011 (National Energy Policy, 2012).

Most of the East African countries depend on imported crude oil and refined petroleum products from the Middle East region (Knight, 2003) with Kenya being no exception. In Kenya, the ERC instituted a pricing formula to be used by oil marketing firms and the same was published in the Kenya Gazette Legal Notice 196 in year 2010. In determining the maximum retail pump prices for super petrol, regular petrol, kerosene and diesel products, the formula takes into account transportation cost from Mombasa to the nearest wholesale depot, allowed loses in the pipeline and in the depot, allowed gross wholesale and retail margins among other considerations. In view of the formulae, actual oil retail prices for various oil products will vary from one oil marketing firm to the other bearing in mind the unique aspects of each of the firms. The 1974 oil crisis in Kenya prompted the government to undertake some structural adjustment programmes in the late 1980s (KIPPRA, 2010) which saw the introduction of some price controls but the same was to be abandoned shortly thereafter after the 1989 Restrictive Trade Practices, Monopolies and Price Control Act was introduced. The ERC was to be established as an energy sector regulator in Kenya through the Energy Act of 2006 which came into effect in July 2007 (ERC, 2008). The regulator sets retail prices for oil products using a pricing formula and corrects price irregularities as stipulated in the Energy Act of 2006.

Kenol-Kobil and Total Kenya are among the major oil firms in the country which consistently performed better in the period before and after the implementation of price controls. The two are the only listed oil marketing firms at the Nairobi Securities Exchange. Total Kenya is one of the major oil marketing companies in Kenya with over one hundred and seventy service stations country wide and a large market share. The company has often experienced an increase in net turnover by up to 10% despite the rise in international oil prices and the impact of the depreciating Kenya shilling against the US dollar (www.total.co.ke). The key players in the Kenyan oil industry include: Kenol-Kobil, Total Kenya, Shell, Oil Libya, National Oil and GAPCO (Petroleum Insight, 2011). Three major oil marketing firms (KenolKobil, Total and Shell) have large market share of over 50% of the market share in the oil industry in Kenya; by September 2012, the multinational oil marketers were controlling 51.4% of the market share that is Kenolkobil 19.4%, Total 17.9% and Shell 14.1% (Petroleum Insight, 2012).

For purposes of this study, the predictor variables were the monthly international crude oil prices and the monthly US dollar-Kenya shilling exchange rate over the period 2009-2012. The average monthly pump prices for Super, Diesel, Kerosene and Regular oil products were the dependent variable of the study. The predictor effects and relationship between the predictors and the dependent variables were evaluated using multiple regression analysis and simple correlation analysis respectively.

Objectives of the Study

The study sought to achieve two objectives:

i. To determine the effect of international crude oil prices and US Dollar-Kenya shilling exchange rate on average monthly oil retail prices in the period before and after introduction of price controls in the oil marketing sector in Kenya. ii. To determine the relationship between average monthly oil retail prices in the period before and the period after the introduction of price controls in the oil marketing sector in Kenya.

Methodology

Average actual monthly retail oil prices (for Super, Diesel, Kerosene and Regular products), average monthly international crude oil prices and the US dollar-Kenya Shilling monthly average exchange rates (all for the period 2009-2012) were obtained from the Petroleum Institute of East Africa, Ministry of Energy and the Kenya National Bureau of Statistics. Monthly data was considered appropriate considering the erratic nature of fuel prices and fluctuations in international crude oil prices and exchange rates.

Data analysis methods were Multiple Regression Analysis (standard) and Simple Correlation analyses which were aided by Statistical Package for Social Sciences (SPSS) version 21. R square and p-values were used to determine the effect of the predictors on the outcome variable at a significance level of 0.05. Pearson's Simple Correlation was used to determine the nature and strength of relationship between maximum oil retail prices for the four products in the period before and after the introduction of price controls in the Kenyan oil marketing sector. Preceding the

regression analysis were preliminary diagnostic tests of: normality, multicollinearity and homoscedasticity which were all within acceptable thresholds. The regression model is captured hereunder.

$Y_i = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \varepsilon$

Where: Y = average monthly retail price for the i^{th} product (Super, Diesel, Kerosene and Regular); X_1 = average monthly international crude oil prices; X_2 = average monthly US dollar- Kenya Shilling exchange rate; β_0 = constant; ε = error term

Results and Discussion

To establish the effect of international oil prices and the exchange rate (US dollar-Kenya shilling) on maximum retail oil prices 4 oil products, a standard multiple regression analysis was adopted. Average monthly International oil prices and the US dollar- Kenya Shilling exchange rates were taken to be the independent variables whereas average maximum monthly retail prices for Super, Diesel, Kerosene and Regular products were the dependent variable of the study.

Table 1: Regression results for period before price controls (2009-2010)

Retail price (Y)	Constant(β_0)	International oil price	Exchange Rate	R^2	F-statistic	P-value
Super	-92.93146	0.6315395	1.730869	0.9116	103.125	0.0000
Diesel	-84.93465	0.5648996	1.581599	0.8972	87.28925	0.0000
Kerosene	-26.06242	0.02588	1.108873	0.5380	11.64574	0.0004
Regular	-128.0425	0.4213999	2.344514	0.8471	55.40708	0.0000

Significance level = 0.05

From the output in Table 1 above, regression functions are extracted as follows:

Super - $Y_s = -92.93 + 0.63X_1 + 1.73X_2$; Diesel- $Y_d = -84.93 + 0.56X_1 + 1.58X_2$

Kerosene $Y_k = -26.06 + 0.03X_1 + 1.11X_2$ Regular $Y_r = -128.04 + 0.42X_1 + 2.34X_2$

In view of the results in Table 1 above for the period before introduction of price controls in Kenya, international crude oil prices and average exchange rates explained much of retail prices of *Super petrol* than any other petroleum product (91.16%) whereas the two variables had the least contribution in explaining retail prices for *kerosene* (53.8%). Katisya (2010) indicates that depending on the product mix, oil marketing companies would subsidize some products like kerosene and subsequently maximize their margins on their products. International crude oil prices and exchange rates explain much of retail price changes for *Diesel and Regular products*. In general, international crude oil prices and exchange rate changes have a significant effect on retail prices for all the four oil products (Super, Diesel, Kerosene and Regular) at a significance level of 0.05. The Asplund et al. (2000) study in the Swedish gasoline market found that gasoline prices responded more rapidly to exchange rate movements than to spot market prices.

However, evidence from other markets shows that there are other factors and different forms of price controls which affect pricing of oil products: Bacon (2009) found that taxation was a key factor in explaining retail fuel prices in Cambodia. Bloomberg and Harris (1995) attribute changes in retail prices to exchange rate movements based on the law of one price. Drollas (2012) indicates that sort term prices of oil are mainly explained by stock disequilibrium that is the difference between stocks that the companies want to hold and the stock they are actually holding. Hence, the retail prices in the current study could similarly be explained by these factors over and above international crude oil prices and exchange rate changes.

Table 2: Regression analysis of period after introduction of price controls (2011-2012)

Retail price (Y)	Constant(β_0)	International oil price	Exchange Rate	R^2	F-statistic	P-value
Super	12.44403	0.2680342	0.808742	0.3733	6.551178	0.0059
Diesel	3.842277	0.3875789	0.6602314	0.4536	9.131447	0.0013
Kerosene	16.68555	0.2224884	0.5032951	0.3181	5.13057	0.0148
Regular	21.48292	0.2983062	0.6539614	0.2674	4.015519	0.0326

Significance Level= 0.05
The output in Table 2 is summarized into the following regression functions:

Super : $Y_s = 12.44 + 0.27X_1 + 0.81X_2$; Diesel : $Y_d = 3.84 + 0.39X_1 + 0.66X_2$

Kerosene $Y_k = 16.69 + 0.22X_1 + 0.5X_2$; Regular $Y_r = 21.48 + 0.3X_1 + 0.65X_2$

Results in Table 2 above are in view of the period after introduction of price controls (years 2011-2012). In comparison to the period before the introduction of price controls (see Table 1), international crude oil prices and exchange rates explained much less of monthly retail prices for each of the four petroleum products (Super, Diesel, Kerosene and Regular). In particular, the two predictor variables explained much of the changes in retail prices for Diesel compared to the to the other three petroleum products. Considering that Diesel is highly consumed worldwide especially in the manufacturing sector (and Kenya is no exception), the forces of demand and supply in the global market could be an explanation for Diesel prices being more sensitive to changes in international crude oil prices and exchange rates in comparison to the other three products. Similarly, Bashmakov (2003) and Cropper (2004) suggest a higher price ceiling for Diesel.

Results further indicate that the two predictor variables had the least effect in explaining monthly retail prices for Regular. However, international crude oil prices and exchange rates had a joint significant effect on retail prices for all the four products (in the period 2011-2012) similar to the period before introduction of oil price controls in Kenya (2009-2010).

In view of the regression coefficients of international crude oil prices and exchange rates over the period before and after introduction of price controls, a unit change in the two predictor variables caused *a smaller change* in monthly retail prices for each of the four products in the period after introduction of controls compared to the period before introduction of price controls (see Table 3 below).

Table 3: Summary of regression coefficients before and after price controls

Product	Regression coefficient of International price (before price control)	Regression coefficient of International price (After price control)	Regression coefficient of Exchange (before price control)	Regression coefficient of Exchange (After price control)
Super	0.6315395	0.2680342	1.730869	0.808742
Diesel	0.5648996	0.3875789	1.581599	0.6602314
Kerosene	0.02588	0.2224884	1.108873	0.5032951
Regular	0.4213999	0.2983062	2.344514	0.6539614

Source: research data, 2015 Correlation of maximum retail oil prices in the period before and after price controls
The essence of the correlation analysis of maximum retail prices for the four products over the 2 periods was to determine the consistency in price changes. In view of the results in Table 4 below, Super1, diesel1, kerosene1 and

regular1 *represents retail prices* in the period *before introduction of price controls* whereas super2, diesel2, kerosene2 and regular2 *represents retail prices* in the period *after introduction of price controls.*

Table 4: Correlation of maximum oil retail prices for periods before and after price control

Product	Super1	Super2	Diesel1	Diesel2	kerosene 1	kerosene 2	Regular 1	regular 2
Super1	1.0000							
Super2	**0.3665**	1.0000						
Diesel1	0.9780	0.3399	1.0000					
Diesel2	0.2337	0.9493	**0.2232**	1.0000				
Kerosene 1	0.4186	-0.5231	0.4339	-0.6366	1.0000			
Kerosene 2	-0.2827	0.7041	-0.2642	0.8235	**-0.7254**	1.0000		
Regular1	0.8988	0.0178	0.8910	-0.1247	0.7365	-0.5217	1.0000	
Regular2	0.3231	0.9108	0.2785	0.8843	-0.5173	0.6272	**-0.0306**	1.0000

Correlation results in Table 4 above indicate the nature and strength of relationship between the maximum retail oil prices for the four products in the period before and period after introduction of oil price controls in Kenya. The results indicate that Super and Diesel products had a *positive relationship* that is the retail prices moved in the same direction over the two periods indicating some consistency over the two periods. In addition, Super retail prices exhibited a *moderately positive correlation* (0.3665) in the period before and period after introduction of price controls whereas Diesel exhibited a *fairly weak positive correlation* over the two periods (0.2232). The retail prices for Kerosene and Regular exhibited a negative correlation over the two periods showing some inconsistency. In particular, Kerosene exhibited a *fairly strong negative correlation* (0.7254) unlike Regular whose correlation of prices over the two periods was *fairly weak* (-0.0306). These results are similar to Borenstein et al. (1997) who found price asymmetries in retail prices and changes in crude oil prices in the US gasoline market. Similarly, Contin (2000) found inconsistencies between gasoline prices and changes in crude oil prices in the Spanish gasoline market. Manning (1991) indicates that such inconsistencies in petrol prices are an indication of market imperfections.

Findings

The study documents several findings in view of the results. Firstly, international crude oil prices and exchange rates explain much of Super retail prices and very little of Kerosene prices in the period before introduction of price controls; secondly, international crude oil prices and exchange rates had a significant effect on monthly retail prices in both periods (before and after introduction of price controls); thirdly, upon introduction of price controls, international crude oil prices and exchange rates had a lesser joint explanatory power on monthly retail prices for all the four products compared with the period before introduction of the price controls; fourthly, after introduction of price controls, international crude oil prices and exchange rates explained more of Diesel retail prices than any other product but the two predictors explained less of Regular retail prices; fifthly, a unit change in international crude oil prices and exchange rates brought about a smaller change in all the four retail prices after the introduction of price controls compared to the period before introduction of price controls; Lastly, when comparing the correlation between retail prices for the four products before and after introduction of price controls, the study found a positive correlation for retail prices for Super and Diesel unlike Kerosene and Regular whose correlated prices were negative over the two periods respectively with the former uncharacteristically exhibiting a strong negative correlation.

Conclusions

In view of the documented findings, the study makes several conclusions. Firstly, international crude oil prices and the US dollar-Kenya shilling exchange rates have a significant effect on monthly retail prices for Super, Diesel, Kerosene and Regular products in Kenya; secondly, the introduction of oil price controls in Kenya in the latter part of year 2010 brought about some effects on retail pricing of the four products considering the reduced predictive power of international crude oil prices and exchange rates in the period after introduction of the controls; international crude oil prices and exchange rates have an individual and joint effect on the retail pricing of the four oil products; lastly, there is some consistency (for Super and Diesel) as well as inconsistency (for Kerosene and

Regular) in oil retail prices in Kenya considering the positive and negative correlations of the individual product prices over the period before and after introduction of price controls in Kenya.

Recommendations

The study makes the following recommendations from the findings and conclusions. Firstly, the ERC should still consider changes in international crude oil prices and the changes in the US dollar-Kenya shilling exchange rate in setting maximum oil retail prices for the four products; secondly, ERC should similarly consider the effect of other factors on oil retail prices considering the low coefficient of determination (R square) after the introduction of oil price controls; thirdly, the Government of Kenya ,through the central bank, should regularly manage the US dollar-Kenya shilling exchange rate to avoid an adverse effect of the same on oil retail prices considering the strategic nature of the oil sector in industrial production and transportation; lastly, ERC should consider introducing more price controls in the pricing of oil products since the controls currently in place leave much of the oil retail prices unexplained.

Limitations and Areas for further Study

The study encountered several limitations which are noteworthy. Firstly, though international crude oil prices and exchange rates are widely documented as the key determinants of oil retail prices, other factors such as competition, government policy and transportation cost do have an effect on retail pricing but the same were outside the scope of the study- and this could be an area for further study; secondly, discussions of findings were limited to the extent of lack of adequate empirical literature from the Kenyan oil market; thirdly, the use of secondary data is often associated with undetected errors which could have been in the data and the same could affect the final outcome of the study; fourthly, the study was carried out over a four year period- a longer period could have provided more explanatory power but the same could not be adopted since price controls were introduced in Kenya towards the end of year 2010- in future, similar studies covering at least 6 years could be carried out.

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ISBN 978-9966-132-53-6 @ Copy Right .2019

Securitization and the Subprime Mortgage Crisis of 2007-2008

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Abstract
The paper reviews literature on securitization process in real estate markets and an analysis of the subprime mortgage market crisis of 2007-2008. In particular, it presents a highlight of the various market participants in the securitization process and an overview of securitized transactions in the US secondary mortgage market. The paper further presents a highlight of financial malpractices precipitating the subprime mortgage crisis and the associated financial implications of the same. In addition, the paper identifies the institutions and participants in the subprime mortgage crisis securitized transactions leading to the housing market debacle. The paper further explores the creation of ABS and CDOs as an outcome of securitization and a review of empirical literature on financial implications associated with the abuse of securitized transactions in the US mortgage market.

Key Words: ***Securitization, Asset-Backed Securities, Special-Purpose Vehicles/Entities, Credit enhancement and Conduit Lending.***

1. Introduction

The paper presents a review of general, theoretical and empirical literature on the securitization process in the real estate market, a financial analysis of securitization process and an overview of the institutions that participate in the process. In particular, the paper reviews both general and empirical literature on securitized transactions in the events leading to the subprime mortgage market crisis of 2007-2008. First, the paper documents the securitization process in terms of the key participants/institutions involved in the process and their role. In addition, it reviews literature on ABS and CDOs as the main forms of securitization in real estate markets.

2. Operational definition of terms

Securitization- this is a process (in structured finance) that creates complex debt instruments by pooling assets (especially receivables) into low risk entities in order to limit risk exposure.

Subprime Mortgage- these are low quality loans that were sold by loan originators during the period preceding the mortgage market fiasco of 2007-2008. Such loans were issued to home buyers who did not have the repayment ability with most of them subsequently defaulting soon after.

Credit Rating Agencies- these are firms that give an outside perspective or unconditional view of the risk exposure and rating of securities that investors are about to invest.

Conduit Lending- the loan originators generated poor quality loans from high credit risk mortgage borrowers without property 'screening' them since the originators knew that they would quickly sell off such loans in the secondary mortgage markets to unsuspecting secondary mortgage market investors.

2. Review of Literature

2.1 Securitized Transactions and Institutions involved in Securitization

Securitization is the selling of debt instruments backed by a pool of mortgages; the process is associated with several frictions which involve moral hazards, adverse selection and principal-agent problems (Ashcraft & Schuermann, 2008). Securitization is a financial transaction (under structured finance) in which a corporate entity moves assets/ pools assets or loans to an ostensibly bankruptcy–remote/ low risk vehicle to obtain lower interest rates from potential lenders since the standardized securities are collateralized/secured. The process involves packaging of designated pools of loans or receivables with an appropriate credit enhancement and redistribution of these packages to investors. Transformation of these pools into standardized securities enables issuers to deal in a volume large enough that they can bypass intermediaries (Giddy, 2004; Bodie *et al.*, 1992). Structured finance is a financing technique tailored to special needs or constraints of issuers or investors (Giddy, 2008).

The issues created out of securitization are low risk ventures since the asset cannot be seized in a bankruptcy proceeding courtesy of SPVs. An SPV is a legal entity created by a sponsor or originator to carry out some specific purpose or a series of transactions (Gorton & Soules, 2005). The SPVs exist essentially to reduce bankruptcy costs since they cannot in practice go bankrupt. The risk is therefore low for lenders and they are willing to ask for a lower interest rate. This financial process (securitization) leads to an emission of ABS and CDOs. *Structured finance* is a process that involves the creation of complex debt instruments by securitization or the addition of derivatives to existing instruments by pooling assets, tranching of liabilities and creation of special purpose vehicles to limit risk. Structured finance involves pooling of economic assets and subsequent issue of prioritized capital structure claims against these collateral pools (Coval et al, 2008). The securitization process involves packaging of designated pools of loans or receivables with an appropriate *credit enhancement* and redistribution of these packages to investors. Transformation of these pools into standardized securities enables issuers to deal in a volume large enough that they can bypass intermediaries (Giddy, 2004). Credit enhancement is meant to reduce the risk to the investors and subsequently increasing the rating of the securities. The process of securitization is *complex* and *involves several parties*. Assets (like Mortgage receivables, student loans and car loan receivables) are pooled together and shares (backed by these pools of assets) are sold. In this process, a suitably large portfolio of assets is 'pooled' and sold to an SPV; there is normally no recourse to the originator. The issuer (SPV) is bankruptcy remote since the likelihood of default is minimal; their activities are restricted to issuance of securities. A servicer collects payments and monitors the assets; the servicer can often be the originator. They ensure that the loan repayments are paid to the SPV. The investor benefits by investing in a specific pool of high quality credit-enhanced assets; all investors receive a pro rata interest in the incoming revenues from the asset pool (Lumpkin, 2002). Securitization deals may at times be faced with foreclosure. This is the legal right of a lender of money if the borrower fails to repay the money or part of it on the due date. The lender would apply to the court to be permitted to sell the property that has been held as a security for the debt; in case of mortgage loans, the mortgage lender would sell the house where the mortgagor lives (Bodie *et al.*, 1992).

The process of securitization involves many investors with receivables of high quality; the seller usually continues to service the receivable. In the management of an ABS, a *trustee* ensures the orderly payment of interest & final payment of interest. The *issuer is often a trust or SPV* whose only business activity is to acquire and hold the assets, and issue securities backed by the assets. Costs associated with establishing a trust or SPV include underwriting fees, servicing fees and other costs. *Originator* initially owns the assets engaged in the deal. The transfer of assets from sponsor (originator) to SPV should constitute a 'true sale' to avoid bankruptcy challenges. Securitization separates the assets from the originator. The largest sectors of the ABS market in the US are securities backed by Credit Card receivables, Auto Loans, Home Equity Loans, Manufactures Housing Loans, Student Loans, Small Business Administration Loans, and Bond Obligations (Sharpe *et al.*, 2004).

Special Purpose Vehicles (SPVs) play a key role in enhancing the cash flow payments to the investors when a securitization contract is created. They simply ensure that the investor gets the most out of the deal. They would modify the loan terms or even recommend foreclosure as part of administration of the deal. In most cases, investors would control the appointment of the special server. They simply maximize the position of the investors. To minimize agency conflicts, the special servicer usually holds a portion of the first-loss piece in order to align the incentives of the investors and the special server. The first-loss investors are the ones who stand to lose a lot if the mortgage borrowers default (Ambrose *et al.*, 2006).

Rating Agencies are active players in securitized transactions. These agencies provide an outside perspective (which is also unconditional) on the risks involved in the securitized issue. They publicly disclosed their rating criteria for the subprime mortgages though the investors lacked the ability to evaluate the efficacy of the models used. Most of the products offered to subprime borrowers were very complex and subject to misunderstanding and/or misrepresentation (Ashcraft & Schuermann, 2008). The Rating Agencies assist in structuring the transaction by offering credit enhancement. Rating agencies are important since they provide an outside perspective of the risk exposure of the prospective investors. Such agencies mandate changes in the loan servicing procedures. The nature and amount of credit enhancement depends on the risk of the securitization as determined by the Rating agencies. These agencies give an outside perspective on the liabilities being created and allow the investors make a more informed decision. The rating agencies grade the issues into different tranches: the Seniour tranche (which is paid off first incase anything happens) is followed by the mezzanine tranche then the junior tranche which is most likely to be impacted by default- this is usually held by the originator (Zywicki & Adamson, 2009).

Citing Standard & Poor (2008), Mandel, Morgan and Wei (2012) define *Credit enhancement* as a protection, in the form of financial support, to cover losses on securitized assets in adverse conditions. If estimated losses are high, then more enhancements are called for to achieve a given rating, all else constant. Credit enhancement is meant to reduce the risk to the investors and thereby increasing the rating of the securities. A company that does not want to issue bonds directly (this requires a lot of disclosure) can engage an insurance company to put its credit behind the corporation for a fee. The firm can then float a bond of "enhanced" credit rating directly to the public. Credit Rating Agencies rate the securities in order to provide an external perspective of liabilities being created and help the

investor make a more informed decision. The fact that a securitization has an AAA rating does not mean it is risk free –it only means that the chance of a bondholder incurring a loss attributable to default on the underlying assets is remote (Riley & Brown, 2006).

Bodie *et al.* (1992) indicates that credit enhancement could take several forms which include: overcollateralization (whereby the amount of over–collateralization, which is usually 5% to 10%, is often determined by the rating agencies and underwriters depending on the receivables), seniour/ subordinate structure (Subordinate or secondary classes of securities are lower rated and bear higher interest rates and if a problem arises, higher rated (seniour) securities receive payments prior to the lower rated subordinate securities), liquidity provider (this requires a guarantee by the originator that is the entity that either generates receivables or assembles portfolios of receivables or another entity of all or a portion of payments due on the securities) and cash collateral account (whereby the originator deposit funds in an account with trustee to be used if proceeds from receivables are not sufficient).

2.2 Regulatory Failures leading to the Subprime Mortgage Crisis

Regulatory intervention may often be justified on the premise of financial markets being inefficient. Market systems are not always informationally efficient since information asymmetries are a common feature of most markets and information is a public good whose supply is often insufficient (Stigliz, 1993; Lofgren *et al.*, 2002). Liberalization of financial markets is intended to facilitate efficient allocation of resources. The existence of market failure does not necessarily justify government intervention since such failures are not directly attributed to market problems; instead, they are often seen to be associated with regulatory failure (Stigliz, 1993).

Dowd (2009) indicates that US policy failures contributed much to the subprime mortgage crisis. Dowd notes that *misguided intervention by the federal government* in the US housing market was largely to blame for the crisis. With an ambitious desire to increase home ownership (especially to the low income households who to a great extent did not have a repayment ability), the US government introduced some key interventions including: the mortgage interest deductions in the tax code, affordable lending requirements (contributing to laxity in screening of mortgage borrowers) and the enactment of the Community Reinvestment Act of 1977 which put a lot of pressure to bankers to advance mortgages to individuals with poor credit. Consequently, the US interest rates declined from about 6% to 1% in the pre-crisis and crisis period).

The abuse of securitization in the US mortgage market led to huge investor losses and bankruptcies. The mortgage lenders were accused of lending without proper credit risk appraisal leading to subprime loans (Purnanandam, 2009). During this period, most of the beneficiaries were advanced huge amounts of loans than their repayment ability could justify. The loan originators were equally to blame for lending with an intention of selling the loans off their balance sheet in the short run. They therefore lacked the incentive to obtain the necessary information from the prospective borrowers before lending. When the originators found that they could sell off the loan receivables, their lending practices became rather mechanical hence the proliferation of subprime loans. The SPVs (which bought most of these loans), became the victims of asymmetric information since they could not tell that the loan originators had actually generated mortgage loans with an intention of selling them off their balance sheets in the short run (An *et al.*, 2010).

To achieve the objective of promoting home ownership to most of the American citizens, the federal government established massive government mortgage enterprises sponsored by the government (especially Fannie Mae and Freddie Mac). *Fannie Mae* was set up in 1938 to expand the ability of residential mortgage finance. Its primary role was to buy mortgages from the loan originators and hold them- the institution was later privatized in 1968. *Freddie Mac* was set up in 1970 with the objective of expanding the availability of residential mortgage finance primarily through securitization of S & L mortgages. With huge government support, lower capital requirements and several legal privileges, the two institutions were able to gain significant control of the US mortgage market and consequently contributing much to the growth of mortgage securitization (Dowd, 2009). In year 2002, the Department of Housing and Urban Development imposed “affordable housing quotas” which encouraged Fannie

Mae and Freddie Mac to further increase their huge holdings of subprime portfolios (Mitchell, 2008). *The Greenspan Doctrine of 2002 was also to blame* since it held that the Fed could do nothing to stop asset bubbles from occurring but would stand by to cushion the fall if they did occur (Dowd, 2009). Bubbles are price increases which are far beyond the asset’s true fundamentals.

2.3 Theoretical Review

This section presents an overview of theories that inform the securitization process in mortgage markets. In view of the subprime mortgage crisis of 2007-2008, the *Securitizer-First and Lender-First theories* apply. Bubb and Kaufman (2009) extensively explore the role of credit score cut off rules in screening borrowers. They subsequently develop Securitizer-First theory to incorporate the concept in the screening process. In a securitization deal, the lenders may lack the incentive to properly screen borrowers and obtain relevant information if they intend to sell off the loans in an active secondary mortgage market. The use of *borrower credit scores* facilitates measuring their default risk with higher credit scores indicating a lower chance of default.

The *Securitzer-First theory* was first put forth by Keys, Mukherjee, Suru and Vig (2008). The theory posits that secondary-market mortgage purchasers employ rules of thumb whereby they are exogenously most likely to purchase loans advanced to borrowers with credit scores just above some cut off. By extension, lenders will similarly adopt a screening cut off rule in response. In view of this theory, securitizers exogenously use credit score cutoff rules in their purchase decisions and such rules compel mortgage lenders to utilize screening cutoff rules to enhance the value of loans sold off (Boston Fed, 2009). This is due to the Securitizers' demand for loans with credit scores above some certain thresholds despite their use of rules of thumb in the market. Since the mortgage originators know that they are unlikely to keep the loans above these credit score thresholds (due to their sale in the securitization markets), they will adopt weaker screening standards for such loans. Conversely, they will apply more stringent rules in screening borrowers whose scores are below the threshold point since such loans would remain unsold and into their portfolio (Bubb & Kaufman, 2009; Boston Fed, 2009). A moral hazard arises since lenders have knowledge of their malpractices in obtaining borrower information and their loan screening incentives unlike the securitizers.

An alternative theory is the *Lender-First theory*. In view of this theory, private mortgage securitizers adjust their loan purchases around the lender screening threshold in order to maintain lender incentives to screen (Boston Fed, 2009). When lenders are encountered with a fixed per-applicant cost of obtaining additional information about each prospective borrower, the cutoff rules in screenings will increase endogenously. Since lenders will get a higher pay off in collecting more relevant information for high credit risk borrowers, they will be more inclined to collect more additional information for those borrowers whose cutoff scores are below the thresholds. Heuson, Passmore and Sparks (2000) indicate that credit scoring improves the quality of information and that their empirical investigation found a negative correlation between mortgage rates and volume of securitization implying causation in that greater securitization reduces mortgage rates. The Lender-First theory thus predicts that the volume of loans advanced and their rate of default will be significantly lower for borrowers with cutoff scores below the threshold since much of the lenders information search efforts are directed to this category (Bubb & Kaufman, 2009). The theory is therefore a more likely explanation for the cut off rules.

The use of *FICO scores* is a popular measure of credit risk in order to inform lenders on which loans need increased credit screening. Straka (2000) indicates that the use of FICO scores became more popular (in practice) in the mid-1990s. A FICO score is a summary measure of an individual borrower's creditworthiness based on their credit history with higher credit scores indicating higher creditworthiness. In most cases, a FICO score of 620 is considered as the threshold. Interestingly, a research conducted by *Fannie Mae* (to ascertain the relationship between FICO scores and mortgage performance) showed that despite the borrowers with FICO scores of less than 620 representing only a small percentage of the total, they actually contributed to about 50% of the total defaults. In 1997, *Fannie Mae* provided further guidance to lenders by proposing 3 tiers of FICO scores: borrowers with FICO scores of above 720 had a 'very low' default risk, those with FICO scores between 660 and 719 had a 'low' default risk, those with FICO scores between 620 and 659 "represent a high degree of default risk" while borrowers with a credit score of 620 represent a "very high" risk of default (Fannie Mae, 1995).

3. Empirical Literature

3.1 Commercial Mortgage-Backed Securities and Special Servicers

Ambrose, Sanders and Yavas (2006) empirical study was intended to investigate the impact of conflict of interest on servicing non-performing loans. Their sample was made up of 46,082 loans in 363 CMBS deals obtained from the Intex CMBS database- most of the loans were originated between 1997 and 1999. In total, 27,275 loans had different master and special servers, 25,673 had a master server who also performed and carried out other special servicing roles for other loans, 1,602 loans had a master server that did not also perform special servicing functions for other loans while 17,044 loans had a special server that only performed special servicing functions for loans in the database (Ambrose *et al.*, 2006). First, the authors note that the servicing of loans in a CMBS transaction could further involve a sub-servicer (who is assigned special functions) besides the main servicer. The *Special Servicer* would take the administration of the loan by either recommending the modification of its terms of a foreclosure. They hypothesize that the default risk is highly correlated to whether or not the master servicer and special servicer of the pool are the same firm. Ambrose et al (2006) indicate further that there are moral hazards and adverse selection problems when the two roles of master and special server are held by the same firm- their findings prove their hypothesis to be true.

In a CMBS deal, the master server is meant to oversee the overall administration and monitoring of the underlying loan and the dispatch of cash flows to the investors in the tranche. However, in the event of a loan in the deal failing to perform to expectation, the master server forwards the same to the special server who has the rights to restructure the repayment terms, force it to foreclosure or ensure maximum cash flows to the deal investors. The moral hazard factor becomes an issue where the master and special server will treat the loan differently depending on whether or not they are the same. Adverse selection arises where the willingness of the special server to bid for a risky pool may be determined by whether the master server has a high chance of also being the special server in the deal. Ambrose *et al.* (2006) contend that if the two servers were the same, then the special server will have more information about

underperforming loans and subsequently put in place more effective recovery measures. There are conflicts of interests between the two servicers when handling troubled loans- there are inefficiencies created when the two functions are held by the same firm leading to faster handling of defaulted loans. Consequently, this enables the master servicer to become more aggressive in bidding for a risky pool of loans if the same firm expects to be the special servicer. The master server in a CMBS deal supervises the regular cash flows from the loan and manages information and any interaction with the performing borrower.

The Ambrose *et al.* (2006) study was based on more than 46,000 securitized Commercial real estate loans and it eventually supports their hypothesis. They predict a positive correlation by utilizing 46,082 securitized commercial real estate loans in 363 CMBS deals to test their conjecture. The study found that the time a loan remains in default is much shorter when servicing rights are held by one firm comparative to when they are held by two firms. The empirical study analyzes the correlation between default probability of a pool of loans and whether the two servicing rights are held by the same firm. They operate with the premise that servicing firms prioritize maximize their profits in their activities.

3.2 Asymmetric Information, Adverse Selection and Pricing of CMBS
An *et al.* (2010) document the 'lemons problem' in the real estate market. Their empirical investigation narrows down to the *CMBS* and the role played by *conduit lenders* in the abuse of the securitization process in the US mortgage subprime crisis of 2007-2008. Akerlof (1970) documents *quality uncertainty problems* in the automobile markets due to asymmetric information problems that is the 'lemons problem'. Akerlof uses the market for used cars as an example of the problem of quality uncertainty; owners of good cars will not sell their cars in the used car market for fear of not getting value for their good cars. This concept is often thought of as

"the bad driving out the good" in a market.

The An *et al.* (2010) empirical work sought to investigate originate-to distribute and originate-to-hold loans, the design of securitization in terms of excess leverage, opaqueness of securitized transactions and lax ratings. The empirical investigation was based on 142 CMBS deals and 16,760 CMBS loans in the 1994-2000 sample period. In particular, the sample included 13,655 conduit loans and 3,105 portfolio loans sold into securitization markets during the period 1994-2000. They found that CMBS investors paid a higher price for CMBS backed by such conduit loans comparative to portfolio CMBS deals. The study further found that the loan originators lacked the incentive to properly screen loans; most of the loans that were created were expressly for pass-through to securitization markets. There was no motivation to generate relevant private information on the quality of the loans. Theoretically, the An *et al.* (2010) study confirms that only low quality portfolio loans will be sold in the secondary market and their sales price incorporates a "lemons discount". Conduits gain from loan origination fees and do not mind so much about long-term returns that come with portfolio holding of loans. The empirical investigation found that in the period 1994-2000, CMBS investors paid higher prices for CMBS backed by conduit loans as compared to portfolio CMBS deals. By 1992, conduit lending constituted less than 5% of all CMBS. By 1998, conduit lending had grown to 75% and reached almost 100% by 2001. Downing *et al.* (2009) study similarly found that residential mortgage-backed securities sold by Freddie Mac to SPVs were generally of poor credit quality compared to those they retained in their portfolio. Freddie Mac simply used private information to sell "lemons" to securitization markets.

The An *et al.* (2010) empirical work found that portfolio lenders used private information to sell off lower quality loans to unsuspecting buyers. The study documents that conduit lenders originated loans with an express intention of selling them directly into the securitization markets. Since the buyers of the mortgage loans could not perfectly ascertain their quality (they could not also ascertain the credit risk of each loan), the sellers (originators) became more aggressive in selling off low quality loans while retaining the high quality loans for their own loan portfolio. Eventually, the securitization market was flooded with low quality loans which were to become uncollectible.

The sellers of these bad loans are expressly referred to as conduit lenders since they did not have an incentive to collect appropriate borrower private borrower information for loan appraisal since they knew that they were to sell off the loans soon after creating them (Stein, 2002). Their profits were mainly from the loan origination fees rather than the long-term returns associated with holding onto a portfolio of the loans. The An et al (2010) study confirms that their findings were consistent with those of Downing, Jaffe and Wallace (2009) who showed that residential mortgage backed securities sold by Freddie Mac to the SPVs were generally of low credit quality than those that Freddie Mac retained in its loan portfolio. Using an information-economics model, the study shows why conduit CMBS deals were priced higher than those CMBS deals kept for portfolio purposes and why conduit lending became the most popular source of loans in the CMBS secondary market. An *et al.* (2010) compare conduit lending to the Akerlof (1970) 'lemons problem' whereby the mortgage originators can separate poor quality loans from high quality loans and subsequently assign higher valuations for higher quality loans. Eventually, the market for lemons prescribes that lower quality loans will drive higher quality loans out of the market place.

4. Summary

The paper reviews literature on securitization process, the participation of several parties/institutions in the process and financial analysis of empirical work on creation of CMBS and ABS. The paper further provides an overview of the credit enhancement process and the role of SPVs, Special and Master servers in a securitized transaction. Regulatory failure, intentional malpractices on the part of loan originators and liberalization of the US financial market are cited as some of the key issues leading to the subprime mortgage crisis of 2007-2008. The paper documents reforms in the US housing market that precipitated the crisis such as the creation of Fannie Mae and Freddie Mac institutions. Securitizer-First and Lender-First theories form the theoretical anchorage of the paper. SPVs, Originators, Rating agencies and Trustees are identified as the key parties in the securitization process. The paper further captures the various moral hazards and asymmetric information conditions leading to creation of subprime loans. Relevant empirical literature on securitization and the crisis is reviewed in a nut shell.

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ISBN 978-9966-132-53-6 @ Copy Right .2019

Information And Communication Technology Capabilities And Performance Of The Parliamentary Service Commission Of Kenya

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ABSTRACT

Parliaments operate in an environment that has transformed significantly with the arrival of technological innovations. It is on the basis of lack of understanding the impact of ICT capabilities on performance at the Parliamentary Service Commission of Kenya that the researcher intends to carry out this study. The purpose of this study is to evaluate the effect of information and communication technology capabilities on performance at the Parliamentary Service Commission of Kenya. The specific objectives will be communication services, digital capturing, and automation of processes. This study will adopt a descriptive research design. The target population of this study is 1018 employees of the Parliamentary Service Commission of Kenya. A sample size of 305 employees which is a representation of 30 percent of the population will be used. Stratified random sampling will be employed in selecting the sample of the study. Primary data for the study will be collected by use of a semi-structured questionnaire whereas secondary data will be collected through reviews of empirical books, journals, magazines and the internet. The study will use Cronbach's alpha methodology to check for reliability based on internal consistency of the research instrument. The data will be analyzed using descriptive and inferential statistics. The key beneficiaries of the outcome will be the PSC, Academia and policy makers.

Keywords: ***Communication services, digital capturing, automation of processes, performance***

1.0 INTRODUCTION

1.1 Background of the Study

Performance is defined as the continuous monitoring and reporting of program activities, mainly developments towards target goals conducted by a program (Alam & Noor, 2009). Alavi and Carlson (2012) refer to performance as a set of tools developed by organizations for better decision making. Organization performance on the other hand refers to how well a company attains its financial and market-oriented goals. Worth noting is that it is quite possible to distinguish between past and future performance in an organization. Past performance does not necessarily guarantee that it will remain superior in the future.

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Bloom et al. (2014) highlight that an organizations performance is mainly measured by the following indicators: market share, sales growth, profit margins, average selling price, return on investment, return on sales, product quality, and competitive position in market. An organizations performance can be measured in two categories namely financial and non-financial measures. In most practices an organizations performance can be measured through financial measures and strategic measures. Some of the non-financial measures used include measures such as: customer satisfaction, employee satisfaction, environmental performance, efficiency, effectiveness and social performance (Bloom et al., 2014).

1.1.1 ICT Capabilities

Brynjolfsson and Hitt (2013) define information and communication technology (ICT) as a family of technologies used to process, store and disseminate information, facilitate the performance of information related to human activities serving the general public and business sectors. ICT plays a very critical role in tackling economic challenges faced by both government and private sector of any country. ICT benefits are also related with viable and competitive businesses. The same applies to parliamentary service commission, Information communication technology is highly fundamental to the competitiveness and overall success of the commission entity. The effective use of ICT provides the commission with competitive advantage. Implementation of information technology offers the PSC the ability to increase communication and coordinate of value adding activities with their partners using their own operations (Buhalis, 2013).

Introduction of new technologies in ICT has transformed the ways organizations conduct their businesses by introducing ICT. Castellacci (2016) posit that information and communication technology has a huge influence on present-day businesses. Application of ICT have resulted in new business models being put under the umbrella of new economy further leading to new tools that support the management of the businesses. Fundamentally, no large business exists without the use of an enterprise resource program system (ERP), or email and internet. As a result, it is worth noting that ICT has inspired new businesses and has also become an enabler for fast flow of information to support operations especially in the parliamentary service commission.

Advancement of ICT offers important opportunities for cost reduction, increased flexibility, increased response time, and improved customer services (Cordella, 2016). In his empirical study, Cordella (2016) found that ICT significantly influences organizations performance and it competitive advantage more so when it is well linked with the firm's objectives. Buhalis (2013) study revealed that ICT impact is based on existing relationship between partners. ICT is

known to advance coordination between members where trust and long-term commitment in between partners exist. Therefore, information communication technologies have an enabling effect on the day to day operates of a commission entity. It leads to a high degree of collaboration, communication and coordination which are crucial to the performance of an entity.

Brynjolfsson and Hitt (2013) contend that ICT is crucial in improving information sharing and decision making in organizations. The use of high levels of technology results in high levels of information sharing in organizations. Nonetheless, technological aspects of information sharing systems do not always enable coordination and sharing of disaster related information because information sharing is not only a technological issue but an organizational concern. City agencies like most government institutions have neglected technological aspects to create an environment whereby data flows across functional boundaries.

ICT offers organizations flexibility to redesign processes while creating a high performing organizational design. The organization's flexibility results from ICT enabled information processing capabilities that have been unavailable when designing business processes. Information and communication technology facilities provide a common data sharing and exchange across the organization, offering work cells with the ability to access all functional data significant when completing their tasks (Castellacci, 2016). Having broadband networks for instance, allows free flow of information enabling timely sharing of critical data with employees in different location. Having a decision support system in place improves organizational decision making through effective analysis of vertical data sharing.

According to Buhalis (2013), performance of an information technology based coordination system is measured from many different perspectives and at different levels. Coordination between business partners involves at least two perspectives and three levels. The three levels include: individual, firm, and supply chain, while the two perspectives are economic and social perspectives. Economic perspective defines performance in regard to time and costs related measures. Defining performance from a social perspective includes aspects such as user satisfaction, non-economic organizational goals, and partnership quality.

1.1.2 Performance

Alam and Noor (2009) argue that operational performance involves all non-financial firm outcomes while organizational performance encompasses all economic outcomes of a firm. Operational performance greatly impacts on customer satisfaction and market share of an organization. As a result, operational performance can be measured by inventory turnover, production cycle time and other non-financial components of business processes. Some

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commonly used methods of measuring operational performance include quality circles, balanced scorecard, and best practices. The activities aid in monitoring the progress of a firm against the set goals and objectives.

It is critical to note that performance measurement should be evidence-based and specifically focus on well-established organizational goals and objectives. Alavi and Carlson (2012) grouped performance measures into six types: productivity, effectiveness, safety, timeliness, quality and safety. They also insist that performance measurement should be aimed at implementing and communicating performance standards through effective actions. Over the years, operational performance measures have been adopted in various organizations in the public sector. However, few studies have been conducted on their effectiveness in achieving organizational goals. Today's citizens are enlightened and constantly demand evidence of program effectiveness as a form of performance measurement from government institutions.

Parliaments" main role apart from making laws is imposing taxes and allocating money for public benefit. When taxes are paid and money is spent but the desired results are not attained, it is then the responsibility of Parliament to find out why since if no taxes were imposed then there wouldn't be resources to divert (Sigei, 2013). It is therefore Parliaments responsibility to ensure proper collection of taxes and spending of public funds. Therefore, it is mandatory for Parliament to ensure that budget execution is monitored and performance audits conducted so as to assess results achieved.

1.1.3 Parliamentary Service Commission

Parliamentary service commission as presently constituted was established under sections 45A and 45B of the former Constitution of Kenya. It consists of the Speaker of the National Assembly (SNA) as the chairman, a vice-chairman elected by the Commission from amongst its members, the leader of Government business in the Kenya National Assembly (KNA), the leader of the opposition party with the highest number of seats in the National Assembly or a Member of the Assembly deputized by him and seven members appointed by the National Assembly from amongst its members (S. 45B (1)). The Clerk of the National Assembly (CNA) is the Secretary to the Commission (Sigei, 2013).

In developing countries particularly in Kenya, parliamentary service commission (PSC) time and again lack the human capacity needed for effective ICT implementation. Researchers have discovered that lack of awareness; uncertainty of ICT benefits, set-up costs and pricing issues and security concerns are the most visible issues to ICT performance. Moreover, research studies on ICT performance by parliamentary service commission in Kenya reason

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that economic, political uncertainty and cultural factors are issues for ICT performance (Ajzen, 2011). From technological perspective, a PSC should have at least someone within the commission who has reasonable amount of knowledge for technology in general. Therefore, without internal technological capabilities, utilization of ICT applications might be difficult and sometimes dangerous in terms of system maintenance failures. The opposite is to seek advice and support from IT professionals but most PSC do not simply afford to do that because of the relatively high cost.

From managerial perspective, PSC further lacks managerial understanding and skills. Bagozzi (2015) posit that PSC ought to wholly reshape its current systems since ICT performance projects are naturally complex. The successful performance of e-business needs restructuring of business processes and redefinition of core competence of the entire commission. Undertaking changes in ICT cannot be successfully implemented without relevant skills and visionary mindset. More often managers at the PSC set their decisions on current needs and situation. The decision making process of the managers is spontaneous based on instinctive decisions and less dependent on formal models of decision making. Managers tend not to pass information and to delegate decision making authorities to their inferiors rather they are the only individuals with authority, responsibility and access to the information necessary for identifying business opportunities and utilizing ICT for performance.

Empirical studies indicate that ICT could have a positive impact on parliamentary service commission owing to the many benefits it offers its users and providers. Among the benefits derived from using ICT is the enhancement of operations and activities of the commission pegged on the reduction in overhead expenses. However, the benefits from ICT application in enhancement of the commission services is not only cost reduction but also the innovation found to have significant contribution to giving access to customers living outside the network and create opportunities for effectiveness (Chau and Hu, 2012).

ICT creates possibilities in regard to communication between citizens and parliamentarians and also with various government bodies. ICT provides means for more efficient and thorough work in which can make scrutiny more detailed (Davis, 2016). Therefore, ICT can support members of parliament (MPs) can easily and effectively scrutinize the government. Email overload is among the challenges facing MPs, email overload becomes a problem where the link between MP and constituency and high level of ICT usage and ability to deal with high levels of information.

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1.2 Statement of the Problem

The main mandate of the Parliamentary Service Commission (PSC) is to facilitate the work of Parliament by ensuring provision of support services to the House and its committees so that Parliament can exercise its powers in full. The PSC further works to enhance dignity of Parliament while informing the public of the Parliamentary activities. When discharging its functions, PSC safeguards transparency, non-partisanship, and a high sense of professionalism. However, Sigei (2013) indicated that the challenges that have undermined the effectiveness of the Commission include lack of adequate qualified staff, and the lack of capacity of Parliamentarians to effectively conduct their oversight responsibilities, lack of mobility and the need to upgrade the House's Information Technology (IT).

In contrast, in any organization, ICT need to be viewed as a key strategy to staying competitive. Meville et al. (2004) affirmed that the use of ICT results in high performance thus presenting new opportunities for organizations. Apulu and Latham (2010), claim that ICT adoption enhances firm's performance. Therefore, ICT brings changes in an organization making it more competitive, innovative and assist to increase organizational performance. Onyango (2013) did a survey on challenges of implementing strategic plan at salaries and revenue commission and revealed that staff need to be trained in order to motivate their contributions in implementing strategic plan. Mwangi (2015) conducted a survey on organizational culture on performance at lands commission. The study found that that organization believes, values and norms affect the performance of the commission. It is against this background that this inquiry sought to establish the impact of ICT capabilities on performance of parliamentary service commission of Kenya.

1.3 General Objective of the Study

To determine the impact of ICT capabilities on performance of the parliamentary service commission of Kenya.

1.4 Specific Objectives of the Study

i) To establish the influence of communication services on performance of parliamentary service commission of Kenya.
ii) To determine whether digital capturing has an effect on performance of parliamentary service commission of Kenya
iii) To find out the effect of automation of processes on performance of parliamentary service commission of Kenya

1.5 Significance of the Study

This study will help the commission understand better how ICT capabilities impact performance. The study will update the commission on the current issues that contribute to the existing gap. The findings of the study will be used by the commission to serve as a benchmark in setting standards for performance.

This study will enlighten other government institutions and commissions on the influence ICT capabilities have on their overall performance. If followed, the study findings as well as the recommendations will assist the institutions improve their performance.

The study will also be beneficial to academicians, future researchers and scholars by offering reference to the area of ICT and organization performance.

1.6 Scope of the Study

The study will focus on the impact of ICT capabilities on performance of parliamentary service commission of Kenya. The study will be limited to parliamentary service commission. This will involve undertaking an in-depth study based on quality service, service delivery and cost reduction between ICT capabilities and performance. This study will be based at parliamentary service commission in Nairobi. Further, the study will be carried out in Nairobi City County Assembly, the capital and largest city of Kenya. Nairobi County differs in several ways from other Kenyan counties since it is entirely urban. The study will target lower, middle and top management staff of the commission who will be sampled using stratified random sampling technique. A semi structured questionnaire will be used to collect primary data. A questionnaire is preferred as the research instrument since it is convenient for collecting data in a short time.

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2.0 LITERATURE REVIEW

2.1 Introduction

This chapter highlights the relevant literature, information and other studies carried out in the field of ICT capabilities by various institutions, scholars, and researchers and provide detailed discussion on theoretical review, empirical review, research gaps and conceptual framework.

2.2 Theoretical Review

ICT capability is usually influenced by various theories which were developed by different scholars and authors. Although all the theories are necessary, they may or may not apply jointly during ICT process. Outlined below are key theories considered in this study which are seen to greatly affect ICT capabilities by various organizations.

2.2.1 Technology Adoption Model (TAM)

Technology adoption is one of the mature area of research in information systems. Davis and Venkatesh, (2016) has defined technology adoption as the 'stage of selecting a technology for use by an individual or an organization'. With rapid strides being made in technology innovations in every conceivable domain, the issues related to technology adoption have gained increasing prominence in recent times. Huge investments are made by organizations and governments for introducing new technologies that have the potential of bringing a paradigm shift in the life style of the users. However, these investments may not yield results if the innovations are not adopted by the intended users. More recent examples are that of cloud computing and e-Government (Venkatesh *et al*., 2016) that were promising in respect of the advantages they offered to the users but still have not been adopted by the users to the extent expected.

Several studies have revealed that technology adoption is not related to the aspects of technology alone but has evolved as a much more complex process involving dimensions of user attitude and personality (Venkatesh *et al*., 2016), social influence (Ajzen, 2011), trust and numerous facilitating conditions. It is necessary to understand the evolution of this research area in Information Systems and look at future research opportunities. Technology Adoption Model (TAM) has been widely used in technology adoption studies. The strength of the model lies in its simplicity as it has only two constructs, for instance perceived usefulness and perceived ease of use for predicting extent of adoption of new technologies at individual level. These constructs are derived from Dewan and Chen.(2015) which defines perceived ease of use as the judgments of how well one can execute courses of action required to deal with prospective situation and from Goodhue and Thompson (2015) paper which defines complexity as the degree to which an innovation is perceived as relatively difficult to understand and use.

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TAM became well established as a robust, powerful, and parsimonious model for predicting user acceptance (Han (2003). Presented a meta-analysis of TAM and found that it is a valid and robust model with applications in a wide range of areas. Henderson and Divett (2013) carried out a comparison of TAM and UTAUT (Venkatesh *et al*., 2016) and found that focus is now shifting away from TAM to UTAUT while citing in the research articles.

2.2.2. Unified Theory of Acceptance and Use of Technology (UTAUT)

Information technology pervades the international community from programmable home appliances to organization applications. Increase in technological innovation and application with awesome advantages brought changes to human life and work endeavours. As people, organizations and governments moved towards the use of Information Technology. Such move of change has increased the human computer interaction, which is the sole aim of performing a task (Lai, 2016). Interaction between humans and computers is affected by quite a number of human factors and its characteristics, to which studies have come up with theories and models to investigate factors that influence humans to use computers and its applications.

The design, development and acceptance of information technologies have received substantial attention in the past few decades. Many theoretical models have been proposed to give explanations to end user's acceptance behaviour. The newest amongst them is the Unified theory of adoption and use of technology (UTAUT) by Venkatesh *et al.* (2016), which has been applied and empirically tested in different domains. Since its inception many empirical studies have been conducted using UTAUT. The model is believed to be more robust than other Technology acceptance model in evaluating and predicting technology acceptance (Venkatesh *et al*., 2016). Although, the model has been widely used, tested and validated, the outcome of empirical studies has been inconclusive in respect to the magnitude, direction and significance of the relationships amongst the model. In social sciences the issue of variety in statistical significance is common because of complexity in human behaviour. Therefore, mixed outcomes in different studies are not uncommon, but it does undermine the accuracy of the models, UTAUT inclusive. Consequently, identifying users" history towards technology acceptance is difficult and complicated for the academic and information technologist.

In addition, an empirical study by Al-Hakim (2015) suggests that performance expectancy, effort expectancy and social influence significantly predicts manager's intention to engage in knowledge sharing using website. In the same study, Heeks (2013) found behavioural intention to significantly predict use behaviour. Jaeger and Matteson (2010) examined the acceptance of mobile telephone and found that performance expectancy, effort expectancy and social influence are predictors of behavioural intention. Interestingly, the authors also found performance expectancy, effort

expectation, social influence and facilitating conditions as predictors of use behaviour. Mayer-Schönberger and Lazer (2013) further suggest that performance expectancy and social influence are predictors of behavioural intention towards consumer's acceptances of mobile advertising.

As much as some studies have supported that the four predictive factors of UTAUT predicts intention and use behavior, results from some other studies suggest otherwise. Prins (2011) studied the Use of Online Community Weblog Systems, the results indicated that scales for the four constructs in UTAUT including performance expectancy, effort expectancy, social influence, and facilitating conditions have invariant true scores across most but not all subgroups. The authors expressed need for caution when interpreting UTAUT.

2.3 Empirical Review

This section presents a review of other studies and researches pertinent to the current study. The section looks at communication services, digital capturing, and automation processes presented in section 2.3.1, 2.3.2, and 2.3.3 respectively.

2.3.1 Communication Services

Communication has been widely accepted by scholars and academics as the life hood of an organization, because communication is needed for exchanging information, exchanging opinions, making plans and proposals, reaching agreement, executing decisions, sending and fulfilling orders and conducting sales (Mathieson, 2011). When communication stops, organized activity ceases to exist, and individual uncoordinated activities return in an organization. So communication in an organization is as vital as the blood of life.

The rules, regulations, and policies of a company have to be communicated to the people within and outside the organization. Business communication is regulated by certain rules and norms. In early times, business communication was limited to paper work, telephone calls, etc., but now, with the advent of technology, we have cell phones, video conferencing, emails, satellite communications, etc. to support business communication. Effective business communication helps in building the goodwill of an organization (Legris, Ingham, & Collerettei, 2013). Hence, it is necessary that you think before you communicate, be an active listener, be focused on your audience; and in your response, and be brief.

2.3.2 Digital Capturing

According to Rogers (2015), a digital camera is similar to a traditional film-based camera, but it captures images digitally. When you take a picture with a digital camera, the image is recorded by a sensor, called a charged coupled device. Digital cameras have several advantages over their analog counterparts. While film rolls typically hold about 24 pictures, memory cards have the capacity to store several hundred or even several thousand pictures on a single card. Therefore, photographers can be much more liberal in the shots they take. Since the images are captured digitally, unwanted images can be deleted directly on the camera. Most digital cameras also include a small LCD screen that shows a live preview of the image, which makes it easier to capture the perfect picture. These cameras usually include an option to record video as well.

In the past, people would need to drop off their film at a photo processing location in order to get their pictures developed. Legris *et al*. (2013) suggested that with digital cameras, you can simply import the pictures to your computer through USB cable. Once the digital photos have been imported, you can publish them online or e-mail them to friends. You can also edit them using photo editing software. If you want to print hard copies of your photos, you can use a home printer or an online printing service.

A video capture is a digitized version of an external video feed. Capturing video usually requires encoding or post-production software in addition to whatever hardware is being used to transmit the original feed into its digital file format. a capture is essentially a quantized and/or compressed version of some external source (Alam *et al.*, 2009). Within the scope of that description, a video capture can include a camera recording as well as that recording's transformation into an encoded, playable file. Typically, however, in the realm of video production and post production, the capture process describes when an external video feed is digitized. Within the context of digital video production and encoding, video captures can involve tape-to-file capturing as well as capturing from a variety of other media sources (Alam *et al.*, 2009).

2.3.3 Automation of Processes

Office automation is generally considered to refer to the use of integrated computer and communications systems to support administrative procedures in an office environment. Automated office systems represent structured methods of handling business text processing and communications through an integrated network that may include word processing for generating correspondence, electronic message systems for person to person communication, teleconferencing services, facsimile transmission, electronic filing systems, on-line calendar systems, and links to corporate files and outside services (Alavi *et al.*, 2012). In the automated office, not only will office work be

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performed more efficiently, but the concept of office work itself will be altered. The greatest potential of office automation is not expected to be from the improvement of clerical and administrative tasks, but from the ability of managers to gain increased control over their operations.

Apulu *et al*., (2010) argued that there is critical need to improve the productivity of both clerical and managerial office employees. While office costs have doubled in the last years, office productivity has risen only four percent. The interest in office automation is the increasing complexity of organizational decision making and information needs. The more traditional forms of communication such as telephone, mail, and person-to-person meetings may be ineffective for processing large volumes of information rapidly. In the future, this technology may be the only feasible way to deal with information processing in increasingly complex and rapidly changing organizational environments. In the restricted definition, automated office systems are generally based on interactive workstations connected to a communications network. The workstations have intelligence and storage capabilities managed either through a central computer or distributed to the workstation themselves. Workstation functions may be tailored to different roles, for instance, managerial, professional, secretarial, or even to individuals. Each workstation would have some degree of functionality of communications, text processing, and personal applications. Text processing capabilities of automated office systems are in common use today (Arvanitis *et al*., 2009). The features that prepare, edit, and store text will in the future be augmented by the ability to file documents electronically with cross reference indexes and keyword searching. Equipment for automatic facsimile transmission and automatic phototypesetting is also available.

However, personal applications include the capability for streamlining individual administrative tasks and are used by individuals at their own discretion. For instance, on-line calendar and scheduling programs which can be used to keep a record of an individual's schedule and, if feasible, compare schedules of multiple individuals in order to select meeting times. Reminder systems can be used for follow up on previous messages, for reminders of appointments based on the automatic calendar, and for tracking project schedules (Bagozzi, 2015). Personal contacts may be electronically fried with multiple reference indexes for retrieval in order to generate personal correspondence or obtain such information as telephone numbers. While the potential for office automation to improve office productivity appears compelling, such improvements will not accrue automatically. Designers emphasize clear objectives, proper planning, choosing an appropriate site for a prototype, eliciting the support and involvement of affected parties. Although there have been a number of major evaluations of the effects of automated office systems on office activities and communication patterns, little attention has been paid to its long- term effects on organizational functioning.

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2.4 Research Gap

On the organizational level, as aggregate corporate performance, ICT capabilities have been researched extensively. The results have become known as productivity paradox because the studies have not confirmed the expectations of a positive correlation between ICT capabilities and performance. There is increased use of ICT in most organizations ranging from formal, government and informal sectors of economy. Many organizations both national and international organizations are transacting online with improved technological development and innovation.

The available literature does not give enough evidence concerning the impact of ICT capabilities on performance rather most of them are dwelling on single business unit performance with most of them giving a general descriptive few of ICT without in-depth analysis of their impact. The literature shows that there is a little research, which has been done on the impact of ICT capabilities on the performance of parliamentary service commission in Kenya. Literature reviewed has not captured the influence ICT has had on parliamentary service commissions. The numerous studies done have dwelled on the impact of IT on organization performance and service delivery. This study intends to bridge the gap that exists and look at the impact of ICT capabilities on performance of the parliamentary service commission of Kenya.

2.5 Conceptual Framework

This section presents a summary of the variables in a framework revealing the relationships that exist. The independent variables of the study are and are not limited to: communication services, digital capturing, and automation processes. The main variables of the study will be communication services, digital capturing and automation processes. The variables will be considered in the study as independent variables which influence performance of the parliamentary service commission of Kenya.

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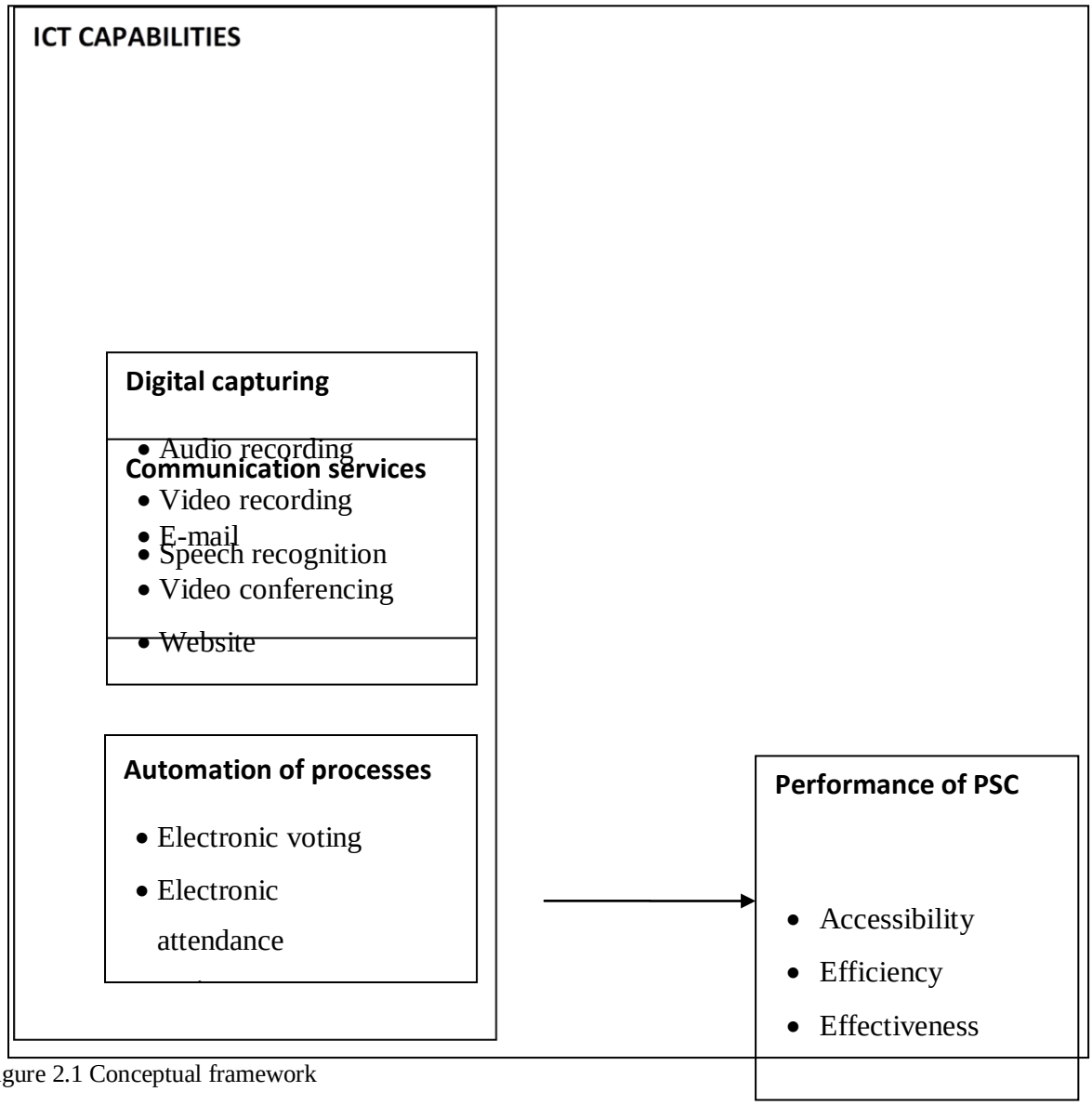

Figure 2.1 Conceptual framework

Source: Parliamentary Service Commission (2018)

3.0 RESEARCH METHODOLOGY

3.1 Research Design

A research design is a plan outlining how information is to be gathered (Kisilu *et al.*, 2005). This study will employ the descriptive research design. A descriptive research design observes and describes the behavior of a subject without influencing it (Bryman, 2011; Burns and Grove, 2007; and Saunders *et al.*, 2009). The descriptive research design will be adopted as the study seeks to describe the characteristics of the PSC staff. The design will also establish the relationship between ICT capabilities and performance of the organization.

3.2 Target Population

The target population of this study will comprise of the parliamentary service commission staff (PSC). According to the PSC Human Resource Data (2018), the PSC has 1018 staff who will be sampled to get the number to participate in the study.

3.3 Sample and sampling Procedure

This study will use stratified random sampling to derive the number of respondents to use in the study. Kothari (2004) defines stratified random sampling as a process of selecting respondents by use of well-defined strata. In this study the organizations departments form the strata. Simple random sampling will then be used to select the individual from the strata. Simple random sampling is the process of selecting respondents to participate in a study without any particular sequence (Mugenda and Mugenda, 2003; Kombo and Tromp, 2010). According to Mugenda and Mugenda (2003), when the sample is huge, a sample of 30 percent of the accessible population is a good enough representation of the entire population. Therefore, a sample of 305 staff of the PSC will be used for the study and will be drawn from the strata presented in Table 3.1:

Table 3.1 Target Population

Department	**Population**	**Sample size**	**Percentage**
Hansard	132	40	13
Library	204	61	20
Research	102	30	10
Public communication	173	52	17
ICT	234	70	23
Media relations	173	52	17
Total	**1018**	**305**	**100**

Source: Parliamentary Service Commission (2018)

3.4 Research Instrument

This study will use a semi structured questionnaire to collect primary data from the respondents as recommended by Kothari (2004). Kothari (2004) terms the questionnaire as a research instrument that can be used to collect data from a large population in a short period of time. The questionnaire will contain both open ended and closed questions. The questionnaires will assure the respondents of anonymity while helping the researcher collect data in the shortest time.

3.5 Pilot Study

A pilot study is a small scale preliminary study conducted before the main research in order to measure the validity and reliability of the data collection instrument (Burns & Grove, 2007). It will be conducted to measure the validity and reliability. According Kombo and Tromp (2010), validity is the ability of an instrument to measure what it is expected to measure while reliability is the ability of the instrument to give consisted results. This pilot study will include multiple Likert's measurement scales. A sample size of five will be chosen, using triangulation, to form the pilot study.

3.6 Reliability and Validity of the Study

The study will carry out validity of the research instrument to ensure that it covers the topic under study. Validity refers to a measure of the degree to which a research instrument measures what its purports to measures (Kothari, 2009). So as to establish content validity, consultations with the supervisors will be done. Questionnaires as data collection technique will be piloted for such research to test for validity and reliability of data. According to Kothari (2004) pre-testing refers to the testing of the questionnaire on a small sample of respondents to identify and redefine potential questions and the employees used in the pilot test to be avoided in the final study. In order to check reliability of the results, study will use Cronbach's alpha methodology, which will be based on internal consistency. Cronbach's alpha will measure the average ofmeasurable items and its correlation. The current and desirable situation will be tested for the effects of ICT capabilities on performance with specific interest on parliamentary service commission. SPSS software will be used to verify the reliability of collected data. Cronbach's alpha reliability coefficient normally ranges between 0 and 1. However, there is actually no lower limit to the coefficient. The closer Cronbach's alpha coefficient is to1.0 the greater the internal consistency of the items in the scale. While increasing the value of alpha is partially dependent upon the number of items in the scale, it should be noted that this has diminishing returns. It should also be noted that an alpha of 8 is probably a reasonable goal. It should also be noted that while a high value for Cronbach's alpha indicates good internal consistency of the items in the scale, it does not mean that the scale is unidimensional (Kombo and Tromp, 2010).

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3.7 Data Collection Procedure

Data collection is the process of acquiring subjects and gathering information needed for a study; methods of collection varied depending on the study design, (Kothari, 2004). Primary data will be collected for this study. Primary data will be collected by administering a semi structured questionnaire (Mugenda & Mugenda, 2003). Secondary data on the other hand will be collected through review of both empirical and theoretical data from books, journals, dissertations, magazines and the internet.

3.8 Data Analysis

Data analysis will be executed using descriptive and inferential statistics. Data will be verified, coded and checked for any errors and omissions. The collected data will be analyzed using Statistical Packages of Social Sciences (SPSS) version 21.0. Responses from the questionnaires will be analyzed for descriptive statistics. Descriptive statistics shall adopt mean, standard deviation, percentages, and frequency of responses. Frequency tables, bar graphs and pie charts will be used to present the findings frequency distribution. Inferential statistics will be done so as to determine the relationships between the variables.

The functional relationship will be shown by using the multiple regression equation which takes the form:

$Y = ß_0 + ß_1 X_1 + ß_2 X_2 + ß_3 X_{3+} E$

Where:

Y	=	Performance
X_1	=	Communication services
X_2	=	Digital capturing
X_3	=	Automation of processes

Correlation models specifically Pearson correlation will be used to measure the degree of association between different variables under consideration and multiple regression analysis will be used to estimate the causal relationships between the chosen variables. Correlation will be used to measure the degree of association between different variables under consideration.

3.9 Ethical Considerations

All procedures and conduct in the study will be scrutinized and approved by the school of business, Kenyatta University. Consent for inclusion of subjects in this study will be sought through a consent form which will be read and/or presented to the informants for their approval or disapproval. Informants will be furnished with the purpose of

the study, confidentiality of the information will be provided, any foreseen and unforeseen risks, voluntary participation and withdrawal from the study at any stage without victimization. Anonymity of the subjects will be assured where the identity of the individuals is protected by using numbers. The study results will be made available to the world of academia in the university libraries.

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Human Resource Management Practices and Performance in Public Secondary Schools in the Thika West Sub-County of Kenya

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Abstract
This research project aimed at investigating the effects of Human Resource Management practices on student performance in public secondary schools in Kenya. The objectives of the study are to: establish the effect of training and development on student performance in public secondary schools in Thika West Sub-County Kenya; Determine the effect of management style on student performance in public secondary schools in Thika West Sub-County Kenya; Assess the effect of performance management on student performance in public secondary schools in Thika West Sub-County Kenya and; determine the effect of compensation and reward on performance in public secondary schools in Thika West Sub-County Kenya. This study is based on three theoretical foundations: Expectancy Theory, Human Capital Theory and; McGregor's Theory X and Theory Y. The study adopts the descriptive survey design. The study sampled 100 teachers and 5 principles from the 13 public schools in the sub-county. The study collected both primary and secondary data using a structured questionnaires and interviews. Data from key informants is analysed thematically. Descriptive statistics, inferential statistics and Pearson correlation are used to analyse the data. On the first objective of the study, findings from Pearson correlation shows that training and development significantly affect student performance of public secondary schools and ($r=0.870$, $p<0.05$). On the second objective of the study, the findings show that principals' leadership styles contribute to student achievement indirectly through teacher commitment and beliefs about their collective capacity. In this regard, the findings from Pearson correlation shows that there was significant effect on performance of public secondary schools and management style ($r=0.648$, $p<0.05$). On the third objective of the study, the findings show that performance management systems positive and significant affect student performance (Pearson correlation, $r=0.844$, $p<0.05$). On the last objective of the study, the findings obtained show that rewards positively contributed to the performance of teachers (Pearson correlation, $r=0.885$, $p<0.05$). In view of the findings of the study it is recommended that the government should put in place mechanisms for enhancing progressive training and development for teachers. Effort should be made to ensure consultative, democratic and transformational leadership styles are promoted in schools. Performance management should also be strengthened in schools so as to enhance assessment and feedback among teachers. Lastly, teachers' salary increment proposals should be promptly implemented.

Key Words*: Performance; Training & Development; Management Style; Performance Management; Reward and compensation*

1.0 Introduction

There is decline in performance in KCSE examinations over nine years (2009 to 2017) in Thika West Sub-County

public secondary schools. According to Mwangi, 2015, trend analyses show that most of the schools scored far below the possible 12 optimal points in Kenya. Actually all the schools studied had a below average mean grade, (Mwangi 2015). According to Thika West Sub- County public and private schools performance Report (2016 - 2017) the performance went down from a mean grade of 5.519 in 2016 to a mean grade of 4.67 in 2017. It is thus imperative to empirically test the relationship between human resource management practices and performance of public secondary schools in Thika west subs county Kenya.

Shaun (2006) in his study based on desk review of available literature in the United States of America argues that there is an undeniable link between HRM practices that ensure that teachers are well equipped to become effective in their jobs and good performance in examinations. In the same accord, Kremer (2003) in a study on "Randomized Evaluations of Educational Programs in Developing Countries" shows that the efficiency of human resource management could affect the performance of such schools since it directly affects the quality of teaching. However, the studies by Shaun and Kremer do no focus on Kenya or on Thika West for that matter. As such, they may not expressly relate to this current study.

In the Kenya context, Gituathi (2012) studied human resource factors influencing pupils' performance in Kenya Certificate of Primary Education in Thika West District, Kiambu County, Kenya. The study shows that the performance of students in all aspects such as performance in examinations and other activities in the school can only be assured through the good HRM practices.

Conversely, Gituathi (2012) recommends that the government should invest in HRM practices that motivate teachers so as to enhance academic performance of such teachers in national examinations. Though focused on the same study area, Thika West, as this current study and also on human management practices, the study of Gituathi strongly differs with this current study. To begin with, her variables namely: teacher-pupil ratio; staff development (training); teachers' experience and teachers' classroom management slightly differs with those of this current study which focuses on management styles, training and development (though one of her variables), performance management and, reward and compensation. In addition, the study focused on primary school pupils unlike this current study that focuses on secondary schools. The study of Gitonga (2012) on "influence of teachers' motivation on students' performance in Kenya certificate of secondary education in public secondary schools in Imenti South District" was also outside the scope of this study since it focused on schools in a different area.

The fact that none of the studies reviewed focus on the HRM practices under investigation in this current study, it may be untenable to understand the effects of these variables on the performance of schools in Thika West Sub-County. This ought not to be so in the wake of poor performance among most public schools in the area. This current study sets to apply different variables to investigating the influence of HRM practices on the performance of secondary schools in the area."

2.0 Relationship between Human Resource Management Practices and Performance

Performance is an important aspiration for all schools globally. This owes to the fact that education utilizes huge portions of a country's budget. According to Orodho (2004), the importance of the gains anticipated from education cannot be gainsaid. This emanates from the fact that education is pivotal to economic development in a country. It is aimed at adding value to other resources through the development of the requisite human capital. In this regard, human resource management (HRM) practices play critical roles in education processes by enhancing the capacity of teachers to deliver.

According to Alarm and Farid (2011), HRM practices a central to the motivation of teachers. When teachers are intrinsically and extrinsically motivated, students are affected directly. This goes on to enhance the performance of these students. Furthermore, when teachers are motivated, their efficacy is enhanced. This is usually essential for enhancing the achievement of goals of education since teacher efficacy and students performance are strongly correlated as posited by Gituathi (2012).

Gillespie (2003) is of the opinion that meaningful performance cannot be achieved without clear performance indicators. Most HRM practices are aimed at facilitating the achievement of the goals of the organization such as schools in the case of this current study. A combination of efforts aimed at making teachers more equipped to deliver pedagogical targets would lead to goal-oriented teaching in schools. This occurs in the backdrop of teachers' reciprocal efforts in response to the motivation achieved through HRM practices (Grindle, 2009).

Human resource management practices and performance in the public sector have been proven to be intertwined in African countries such as Botswana, Ghana, South Africa and Uganda. When employees find themselves in

favourable working environments, they tend to deliver more on the set government performance targets (Salemi, 2007). This current study sets to investigate the level to which HRM practices would influence performance in public schools in Kenya. This is particularly important since billions of tax payers' money is committed to education in these schools. If HRM practices, which also utilize huge chunks of the national budget, do not translate to academic performance in public schools, then this would be waste of hard-earned public resources.

In Kenya, Gitonga (2012) argues that one of the ways of enhancing performance of teachers, and by extension that of students, is putting in place teacher-sensitive human resource management practices. It can thus be concluded that HRM practices contribute to an environment in which teachers can perform better hence students' good performance in the examinations. Conversely, Gituathi (2012) in a study undertaken in the country recommends that the government should invest in HRM practices that motivate teachers so as to enhance academic performance of such teachers in national examinations.

3.0 Human Resource Management PracticesEmployed in Public Schools

According to Schuler and Jackson (2007), *management* of *human resources affects the performance of schools. These resources are usually the employees of an organization, such as schools in the case of this current study. The two scholars however see it a* cosmetic measure since the HR Department, "more often than not, cannot guarantee a change in the management of their people as an asset which the concept prescribes. This issue, which is worth assessing in totality through the exploration and description of the HRM concept in practice and their influence on performance, forms the bases for this study." Despite the fact that there is plenty of literature in the field of human resource management, most focuses upon developed economies and tend to the neglect of developing economies.

This current study conceptualizes that numerous HRM practices are employed in public schools. These include training and development, management style, performance management and reward and compensation, as presenting in the following discourse. The joint effects of these practices are expected to contribute to the performance of teachers in such schools.

Training and development is an important HRM practice employment in most organizations. Ombui, Kagiri and Omoke (2014) studied the influence of training and development on the performance of employees in research institutes in Kenya. The findings obtained show that HRM practices are vital in enhancing the quality of workforce. In this regard, their study shows that training and development are positively correlated with the level of employee performance in the organization. The former study focuses on research institutes and may not show the state of affairs in secondary schools.

Management styles have also been proven to affect the performance of organizations. Various management styles influence the performance of organizations in various ways. Nave (2006) and, Thompson and Strickland (2007) and McNamara (2005), are of the view that effective leaders often improve the performance of organizations through meticulous implementation of the strategies of the organization. Among Kenyan Small and Medium Enterprises (SMEs), it is evident that the leadership style of the manager influences the performance of core business activities.

Performance management has also been shown to affect organizational performance. Caldwell (2004) points out that performance management enables organizations to put in place mechanisms for enhancing assessment and feedback among employees so as to enhance the performance of the organization. In this regard, effect performance management goes beyond just evaluation and feedback to inculcating a culture of feedback among workers. When this is done the performance of the organization is enhanced and vice versa.

Furthermore, the reward system, as advanced by the expectancy theory argues that employees expect certain rewards for their input. In this regard, human resource managers put in place a befitting reward system so as to motivate employees to expeditiously execute their duties. This is based on the assumption that the reward management practices have direct relationship with employee performance (Ali & Ahmad, 2009).

Armstrong and Murlis (2007) are of the view that as a result of the rewards accrued within the process of service delivery, employee performance can be enhanced. In this light, organizations put in place robust reward systems so as to tap from its associated gains in the current competitive environment. This is based on the fact that the centrality of employees in gaining competitive advantage in firms is indubitable. Conversely, Armstrong and Taylor (2014) argue that the rewards promised to employees (usually salaries or wages) increased the performance of the employee when their expectations have been met.

From the preceding discourse, it is evident that various HRM practices affect performance in organizations. Most of the studies reviewed do not attempt to link such practices and performance in public schools in Thika west Sub-

County which was the focus of this current study. As such, the findings and premises of these studies may not relate to this current study. This underlined the importance of this current study that investigates the influence of Human Resource Management Practices on the performance in public secondary schools in the area."

4.0 Objectives of the Study

In this light the study sought to respond to five objectives namely:

(i) To establish the effect of training and development on student performance in public secondary schools in Thika West Sub-County Kenya.
(ii) To determine the effect of management style on student performance in public secondary schools in Thika West Sub-County Kenya.
(iii) To examine the effect of performance management on student performance in public secondary schools in Thika West Sub-County Kenya.
(iv) To assess the effect of compensation and reward on student performance in public secondary schools in Thika West Sub-County Kenya.

5.0 Theoretical Underpinning

This study is based on three theoretical foundations: Expectancy Theory, Human Capital Theory and; McGregor's Theory X and Theory Y.*The expectancy theory* casts light on the effect of compensation and rewards on the performance of secondary schools in Kenya. The Expectancy Theory as pushed forward by Richard Oliver in 1974 posits that expectancy is "the probability that the individual assigns to work effort being followed by a given level of achieved task performance." The theory shows that there is a link between rewards and behaviour. In this case, it shows that compensation has the propensity to enhance job satisfaction.The expectancy theory relates to this current study since it shows that employees are likely to perform better when they are well motivated. As such, there should be efforts to come up with ways of ensuring that teachers are motivated through various methods such as rewards and compensations, which could go on to enhance their individual performance as conceptualized in this current study.

The human capital theory relates to the training and development as well as performance management variables of this study. Gary Becker advanced the human capital theory in 1962. According to this theory, the knowledge and skills that are offered to employees in training institutions are a form of as capital (Becker, 1994). The theory has also been expounded by Scott Sweetland in his book titled "Human Capital Theory: Foundations of a Field of Inquiry." In this regard, Sweetland (1996) opines that individuals and the whole society gain economic benefits from investments in people. In educational circles, human capital has been applied in the book, "human capital theory: implications for educational development" by Olaniyan and Okemakinde (2008).This theory relates to this current study since training and ensuring that performance management is undertaken so as to appraise and enhance the capacity of teachers to meet teaching requirements could contribute to better performance among such teachers as well as that of the students they teach.

McGregor's Theory X and Theory Y relates to the management style variable of this study. The theory, as postulated by McGregor (1960) consists of two alternative set of assumptions. Theory X is an authoritarian style of leadership where Theory X assumes that employees find working unpleasant and usually avoid working if possible. In this regard, it is assumed that under theory X, employees are directed and coerced to deliver their services within the process of achieving organizational goals such as learning objectives as in the case of this current study. As such, such employees lack motivation to perform.On its part, theory Y is a participative style of leadership. In this theory, employees are given liberty to work in their own pace and are constantly motivated to perform well. This emanates from the fact that it is assumed that threatening and external controls are not the only ways to make people work better to achieve organizational (Hofstede, 2005). This theory however relates to this study since it can be argued that the participatory forms of leadership could make teachers more motivated to perform their duties, hence enhancing their performance.

6.0 Research Methodology

The study adopts the descriptive survey design. The study sampled 120 teachers and 5 principles from the 16 public schools in the sub-county out of a target population of13 principals and 335 using sampled using the simple random sampling technique. The study collected both primary and secondary data using a structured questionnaires and interviews. A pilot study was conducted to pre-test data collection tools. In this study, a sample of 15 teachers was used. The 15 teachers were not included in the final study. The sample of 15 is informed by the work of Kothari (2004) which mentions that 10% to 30% of a target sample wassufficient for piloting a questionnaire.Data from key informants will be analysed thematically. Descriptive statistics, inferential statistics and Pearson correlation will be used to analyse the data.

7.0 Summary of the Findings

On the *first objective of the study* which was to establish the effects of training and development on student performance, it is evident that training and development affected teachers positively. The findings from Pearson correlation shows that there was significant relationship between performance of public secondary schools (the dependent variable) and training and development ($r=0.870$, $p<0.05$). This was due to the fact that training made teachers able to cope with emergent learning demands. It also made it possible for teachers to cope with emergent curricular requirements. This made such teachers able to offer quality learning to students, which went on to enhance the performance of the schools in national examinations and other learning activities.

On the *second objective of the study* which was to determine the effect of management style on student performance in public secondary schools in Thika West Sub-County Kenya, the findings show that principals' leadership styles contribute to student achievement indirectly through teacher commitment and beliefs about their collective capacity. In this regard, the findings from Pearson correlation shows that there was significant relationship between performance of public secondary schools (the dependent variable) and management style ($r=0.648$, $p<0.05$).

On the *third objective of the study* namely: to examine the effect of performance management on student performance in public secondary schools in Thika West Sub-County Kenya, the findings show that there was positive and significant relationship between performance management systems and employee performance (Pearson correlation, $r=0.844$, $p<0.05$).

On the *last objective of the study* which was to assess the effect of compensation and reward on student performance in public secondary schools in Thika West Sub-County Kenya, the findings obtained show that rewards contribute to the performance of teachers. Indeed, there is a direct relation between reward system and teachers' performance, which translates to the overall performance of the school (Pearson correlation, $r =0.885$, $p<0.05$).

8.0 Conclusion

On the *first objective of the study*, it can be concluded that training and development enabled teachers to use their acquired skills and talents better. This went on to enhance the performance of students. On the *second objective of the study*, it can be concluded that the management style practiced by the head-teacher affected the performance of their schools. If teachers were involved in making key learning decisions, such teachers go motivated to put in their best to the learning processes. This went on to improve the performance of the students. Furthermore, if students were treated well and their views taken into account when they had grievances, indiscipline cases were reduced. Students tended to work harder and this went on to positively enhance their performance. Lastly, if good school-community relationships were fostered by the school management, a good learning environment was created, they was tendency to check negative influences on students from the community such as selling drugs and alcohol to students. This went on to boost the performance of the students.

On the *third objective of the study*, positive ways of ensuring that the performance of teachers was assessed and improvements suggested encouraged teachers to work hard. When teachers' exemplary performance was identified and rewarded, the morale of these teachers was enhanced. This made such teachers put in their best in learning processes. The end result was better performance of the schools.On the *last objective of the study*, it can be concluded that based on the promises of rewards, teachers put in extra rewards due to enhanced morale. This resulted in better fulfilment of learning objectives with school syllabuses being completed in time. Student-teacher relationships were also enhanced since teachers tended to be well motivated. Teachers had fewer problems at home due to enhanced financial security. This means that there was less absenteeism among teachers. The combined effects of these factors led to better performances of schools in national examinations as well as in extracurricular activities such as games and sports.

9.0 Recommendations

In view of the findings of the study, the following recommendations are made. The government should put in place mechanisms for enhancing progressive between training and development for teachers. Policies for augmenting budgetary allocations for funding training and development through the Ministry of Education should be regularly enacted. Progressive review of ways of assessing and formulating emergent training needs for teachers should be put in place so as to ensure that training and development was mainstreamed in the Ministry of Education. On

management style there should be effort to ensure that consultative, democratic and transformational leadership styles were promoted in schools.

There was also need to put in place mechanisms for ensuring that principals involve teachers, parents and students when making key decisions in schools. In addition, adequate policies aimed at guiding performance appraisal of teachers so as to the performance in schools should be formulated by the government in close collaboration with all education stakeholders.

Performance management should be strengthened in schools so as to enhance assessment and feedback among teachers. Furthermore, follow up efforts for ensuring that the recommended made after all assessments undertaken in schools are implemented should be put in place. There should be synchronized rewards management frameworks in schools so that promotions, cash incentives and other forms of rewarding teachers should be instituted. There should also be ways of ensuring that teachers' salary increment proposals negotiated with the Teachers' Service Commission are promptly implemented. Lastly, the financial risks facing teachers should be mitigated through loans and other benefits so as to ensure the socioeconomic security of their families

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Organizational Resources and Strategic Plans Implementation in Administration Police Service in Baringo County, Kenya

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Abstract

Purpose: The aim of the study was to explore the relationship between organizational resources and strategic plans implementation in Administration police service in Baringo County, Kenya.

Methodology: The study adopted descriptive research design. The population of this study was administration police officers deployed in Baringo County. The total number of officers was 720 found in six sub counties; Baringo Central 92, Baringo North 113, Mogotio 81, Marigat 223, Koibatek 128 and East Pokot 83. The aggregate sample size was 216. Data was collected by use of structured questionnaires adopting Likert scale formation. Data was analyzed mainly by use of descriptive and inferential statistics. Descriptive statistics included mode, mean, median, standard deviation. Inferential statistical techniques like correlation and regression coefficients were used to draw causal

relationship between the various organizational resources and implementation of strategic plans. Data was presented by use of graphs, pie charts and tables.

Results: The study findings indicate that organizational resources significantly influenced implementation of strategic plans. Financial, human, capital and technological resources greatly influence successful implementation of strategic plans in an organization.

Unique contribution to theory, practice and policy: The study recommended that there is need for increased funding of Administration police service in Baringo County both from the national and county governments. Job relationship between senior and junior officers should be improved. Government should ensure all housing facilities are operational, in good condition and enough. The study further recommends clear guidelines on implementation of reforms, community-based policing and improvement of guidelines on training, enhancement and capacity building.

Keywords: *Organizational, Resources, Strategy, Plans, Implementation, Administration Police Service*

1.0 INTRODUCTION

1.1 Back ground of the study

Strategy is the bearing and extent of an association over the long haul, which accomplishes advantage for the association through its arrangement of assets inside a testing domain, to address the issues of business sectors and to satisfy partner desires (Johnson & Scholes, 2002). An organization methodology comprise of the focused moves and business approaches that administrators are utilizing to develop the business, draw in and please clients, contend effectively, lead operations and accomplish the focused-on levels of hierarchical execution (Thompson JR, Strickland III & Gamble, 2008). As per Pearce and Robinson (2007), with the end goal for associations to accomplish their objectives and destinations, it is fundamental for them to conform to their condition through a system. Numerous associations today are concentrating on winding up more aggressive by propelling techniques that give them an edge over others by making winning procedures (Porter, 1996).

Implementation of strategic plans is one of the three primary periods of key administration (detailing, usage and control). It is the full scope of administrative exercises related with instituting a picked procedure, directing its interest and accomplishing the focused on comes about (Thompson JR, Strickland III & Gamble, 2008). As per Harrison and St. John (2004), it is the procedure through which associations examine and gain from their outside surroundings, build up vital bearing, make methodologies that are planned to help accomplish set up objectives and execute those techniques all with an end goal to fulfill key hierarchical bodies electorate.

Strategic plans implementation processes differ from one organization to another depending on the nature of business and management. Effective strategy implementation depends on competent personnel and effective internal organization systems (Aosa, 1992). Johnson and Scholes (2003) identified availability of resources, leadership style, organization culture, corporate structure, lack of focus and failure by strategy implementation team as some of the major challenges facing strategy implementation process in organizations. Therefore, evaluation of strategic plans implementation remains an important process in any organization given the available resources since it will identify difficulties and propose possible recommendations to counter them. To achieve desired objectives in an organization, adequate supply of financial, physical, human and technological resources is paramount (David 2003). An organization must comprehend and ascertain its main resources that will improve its competitiveness and sustainability for it to advance its performance (Rouse & Daellebach, 2009).

Strategy implementation is inextricably connected with organizational resources; financial, human, capital and technological (David, 2003). Nyogesa (2013), identified resources as a key component in implementation of strategic plans in NPS and proposed that the service should lobby for more resources and properly manage them with high levels of transparency and accountability. Technological resources have proved to be of great importance in implementation of strategies if properly managed by assisting in time saving and relaying of important information (Kipkurui, 2014). For effectiveness in administration of human resources there is need for regular staffing, training, enhancement and evaluation.

Administration Police Service is a governmental organization which is subject to environmental influence. The environment consists of other organizations that exert various forces of economic, political, or social nature which determine the organization's survival. According to Government Commissioned Reports in Kenya; (Ransely, 2008), John Krigler Report (2007), The Kenya police task force on reforms (2009) and Waki Report (2008) all indicated that the Kenyan Police had poorly adapted to changes in the external environment which called for greater demands to effectiveness and efficiency in the force. Implementation of reforms as part of APS strategic plan (2013-2017) poses a challenge to the service since the reforms are either slow or adopting a slow pace (Chtalu, 2014).

Currently, the service is operating under APS strategic plan 2013-2017(anchored in NPS strategic plan 2013-2017) which prioritizes on implementation of reforms in the service, strengthening of policy regime, development of physical facilities, application of ICT in policing work, improvement of staff welfare, capacity building and enhancement of officers, research and development in crime areas and changing police image and culture.

1.2 PROBLEM STATEMENT

Strategy implementation process is a standout amongst the most critical parts of key administration in light of the fact that without execution a system has no solid presence. Superb system execution is the best trial of administrative perfection and the most dependable formula for transforming organizations into standard entertainers (Thompson, Strickland III & Gamble, 2008). Excellent strategy has been seen as trying errand in numerous associations. Ngarachu (2008) stated that African nations are known for definition of plans, but they lack in achieving timely action or procrastinate in executing these plans which is attributed to leadership and strategic management. Major unpredictable changes faced by organizations today make strategy implementation a difficult and complex process. According to Harvey (2005), 80% of organization's directors believe that they have good plans but only 14% believe that they are able to implement them well. Mintzberg and Quinn (1999) noted that over 65% of organizational strategies fail to get implemented effectively which is attributed to the nature of strategic problems that an organization faces.

Administration police service is a branch of National police service with well formulated strategies laid down in NPS strategic plan 2013-2017 which ought to be fully implemented. Several studies have been done on implementation of the strategies and various observations made; Nyongesa (2013) conducted a research on challenges of strategy implementation in Kenya Police Service, a case study of Nairobi County and found out that the evolution of international terrorism, inadequate human resources, inadequate funding, inadequate modern security equipment, and change of Government rules and regulations were some of the factors affecting implementation of strategies in the service. Chtalu (2014) directed an exploration on the difficulties identified with police changes in Kenya: a study of Nairobi County and discovered that changes as a major aspect of vital destinations had taken a moderate stage and prescribed both government and the common society to set out on making maintained mindfulness battles on police changes both to the officers and the individuals from people in general.

KNCHR occasional report (2010-2014) observed that reforms of the National Police Service as relates to the welfare of police officers proposed in the Report of the National Task Force on Police Reforms (2009) were yet to be fully implemented which dampened the morale of officers. The report indicated that the reforms anticipated in the National Police Service, were proceeding at some very slow pace and police had not been equipped with sufficient resources and equipment to enable them discharge their functions effectively.

Moreover, it was noted that failure to fully institutionalize community policing served to alienate citizens from informing and participating in the formulation of strategies that could adequately respond to the crisis of insecurity faced by the country. From the above-mentioned studies, it is evident that implementation of strategic plans in NPS has not been fully achieved. It is on this background that this research sought to establish the progress made by NPS particularly APS in Baringo County in implementing its formulated strategies.

1.3 RESEARCH OBJECTIVE

The aim of the study was to investigate the relationship between organizational resources and strategic plan implementation in Administration police service in Baringo County, guided by the following specific objectives.

- **i.** To analyze how financial resources affect strategic plans implementation in administration police service in Baringo County.
- **ii.** To explore how human resources influence strategic plans implementation in administration police service in Baringo County.
- **iii.** To examine how capital resources affect strategic plans implementation in administration police service in Baringo County.
- **iv.** To determine how technological resources impact strategic plans implementation in administration police service in Baringo County.

2.0 LITERATURE REVIEW

2.1 Theoretical Review

2.1.1 Resource Based View Theory (RBVT)

The resource-based view of crucial organization is an explanation behind high ground of a firm which depends in a general sense on the usage of pile of beneficial generous or insignificant resources at the affiliation's exchange (Wernerfelt, 1984). To change a short-run high ground into an upheld high ground it requires that the benefits be heterogeneous in nature and not magnificently convenient (Peteraf, 1993). These satisfactorily changes over into imperative resources that are neither perfectly imitable nor substitutable without uncommon effort (Barney, 1991). Despite the way that, having heterogeneous and stable resources is essential in achieving high ground, it isn't adequate alone if the firm needs to help it.

Barney (1991) proposed VRIN structure that looks at if assets are important, uncommon, expensive to copy and non-substitutable. The assets and abilities that can meet the structure prompt managed upper hands. Assets are profitable in the event that they help associations to build the esteem offered to the clients. Assets that must be gained by one or few organizations are thought to be uncommon. Besides, the assets should likewise be exorbitant to impersonate or to substitute for an opponent if an organization needs to accomplish managed upper hand. Be that as it may, asset-based view contends that an asset without anyone else's input doesn't present any preferred standpoint for an association in the event that it isn't composed to catch the incentive from it. An association requires a powerfully developing port-folio of assets and capacities to support its aggressiveness and help drive changes in its execution (Thompson, Strickland III and Gamble, 2013).

2.1.2 Kurt Lewin's Theory

This theory was first proposed by Kurt Lewin (Kritsonis 2005) and is concerned with the forces that sustain balanced systems or those that break them down. Stable forces are dominant in a system maintaining status quo and if the system is to change it needs to reduce all stabilizing forces. Kurt Lewin's model involves three steps; unfreezing, transition and refreezing. Unfreezing involves breaking psychological detachments to the past by using information that demonstrates the existence of problems. This detachment is done by communicating existing problems and convincing the change implementers on the need to change the status quo. Transition refers to the recognition of a need to change, specifically cultural and structural changes and to establish new values and processes. Refreezing refers to the reinforcement of change in order to achieve a renewed equilibrium. At this stage new norms are established and a new way of doing things is achieved. Driving forces for change should be well formulated and communicated. However, the forces driving change should overcome those restraining it for successful implementation of strategic plans.

2.1.3 Mckinsey 7S Framework Theory

This theory was made in the mid-1980s by Tom Peters and Robert Waterman who were guides working at the Mckinsey and Company advising firm. The basic present of the speculation is that there are seven internal parts of an affiliation that ought to be balanced if it is to be viable. The framework can be used as a piece of a wide combination of conditions where a plan perspective is profitable, for example, to help improve the execution of an association, to examine the practical effects of future changes inside an association, to modify workplaces and systems in the midst of a merger or acquiring and to choose the best way to deal with realize a proposed strategy (Johnson, Whittington and Scholes 2011).

The speculation incorporates seven related elements which are orchestrated as either "hard" or "fragile" parts. "Hard" parts are less requesting to describe or recognize and organization can particularly affect them. They are system enunciations, affiliation diagrams and declaring lines, formal techniques and information advancement structures. "Sensitive" segments are all the more difficult to depict, not so much unmistakable yet rather more affected by culture. The seven related factors of the theory are the affiliations system, structure, systems, shared regards, style, staff and aptitudes. Shared regards are superordinate destinations which are basic issue to the headway of the different fundamental segments (Johnson et al 2011). The affiliation's structure, strategy, systems, style, staff and capacities all start from why the affiliation was at first made and what it stays for. The principal vision of an affiliation is encircled from the estimations of the creators and as the qualities change so does the different segments for proper game plan to each other.

The theory would be useful in the study to show the relationship between the independent and dependent variables. The shared values (independent variables) must be linked to all the dependent variables (reformation, training and capacity building, community-based policing and resource management). The APS strategy, structure, system, style, staff and skills are linked to all the strategic plans implementation processes in the service. However, change in any independent variable must be accompanied by similar change in strategy, structure, system, style, staff and skills which are all linked to dependent variables of the study

2.1.4 Institutional Theory

Institutions are social structures that have accomplished a high level of flexibility. They are made out of social subjective, regularizing and regulative components that together with related exercises and assets give dependability and importance to social life. Institutional hypothesis concentrates on the natural components experienced by an association, for example, outside or societal standards, tenets, and prerequisites that associations must fit in with so as to get authenticity and support (Scott 2004). The hypothesis depends intensely on the social builds to help characterize the structure and procedures of an association. It hypothesizes that society as entire assumes an imperative part in deciding the authenticity of an association and has substantially more power in the operations of an association.

The procedure of systematization depends vigorously on the association setup that comprises of the structures, procedures, connections and limits through which the association works (Johnson and Scholes, 2003).It states that the institutional condition can firmly impact the advancement of formal structures in an association more significantly than showcase weights. The hypothesis overcomes any issues between societal perspectives and association's activities. Administration is more mindful of social perspectives and suppositions and additionally ready to fuse societal standards and desires, tenets, controls and prerequisites in day by day operations of an association. The principles essential for the development of framework of institutional theory are social construction of institutional environment, viewing of organizations as open systems and conformity to rational myths.

This theory was useful in the study for it showed the management and public view of APS. The service would achieve considerable reforms and modernization if it implements its strategies accordingly. However, this is by full conformity to external factors such as societal norms, rules and requirements which gives legitimacy and support (Scott 2004).

2.2 Empirical Review

Rouse and Daellebach (2009) contended that for a firm to propel its execution, it must grasp and determine its primary assets that will enhance its intensity and maintainability. As per Barney (2011), an association's execution predominance isn't from one source yet from a bundle of assets both substantial and elusive. David (2003) noted that associations have no less than four sorts of assets that can be utilized to accomplish the coveted destinations; monetary, physical, human and innovative assets. Assets as a rule incorporate the accompanying key builds: assets, abilities and skills (Barney and Hesterly, 2010). Deliberately, assets are supplies of available things that are controlled by an association. Abilities include idle skills or aptitude utilized in association operations underlined with collected know-how (Day, 1994). Competencies are the association's qualities that empower it to better separate its items or administration quality by building innovative framework to react to clients' needs, henceforth enabling the firm to contend more effectively and effectively than different firms (Anderson, 2011).

The numerous actions important to execute a specific technique ought to be characterized regarding each sort of asset required. According to Johnson *et al*. (2003) some of the hindrances to strategy implementation include: availability of resources, leadership style, organization culture, corporate structure, lack of focus and failure by implementing team. Human, physical and financial resources play vital roles in the success or failure of implementing strategies in an organization (Musyoka, 2011). Nyogesa (2013), identified resources as a key component in implementation of strategic plans in NPS and proposed that the service should lobby for more resources and properly manage them with high levels of transparency and accountability.

Technological resources have proved to be of great importance in implementation of strategies if properly managed (Kipkurui, 2014). Introduction and update of ICT infrastructure in an institution has proved to be helpful in achieving the set goals and objectives. Moreover, with rapid advances in ICT, information has proved to be a key resource in an organization. The capacity to access and process data can construct or crush an association's center abilities that are critical for upper hand (Johnson & Scholes, 2002).

Human resources include all employees in an organization, their skills, qualifications and competencies. For effectiveness in administration of human resources there is need for regular staffing, training, enhancement and evaluation. Kipkurui (2014), while examining challenges facing implementation of strategic plans in NPS noted that though the service was over stretched there was inappropriate deployment where a good number of police officers were undertaking functions which were supposed to be carried out by other people. Resources are of great importance in helping an institution meet its set goals and objectives if well utilized.

2.3 Conceptual Framework

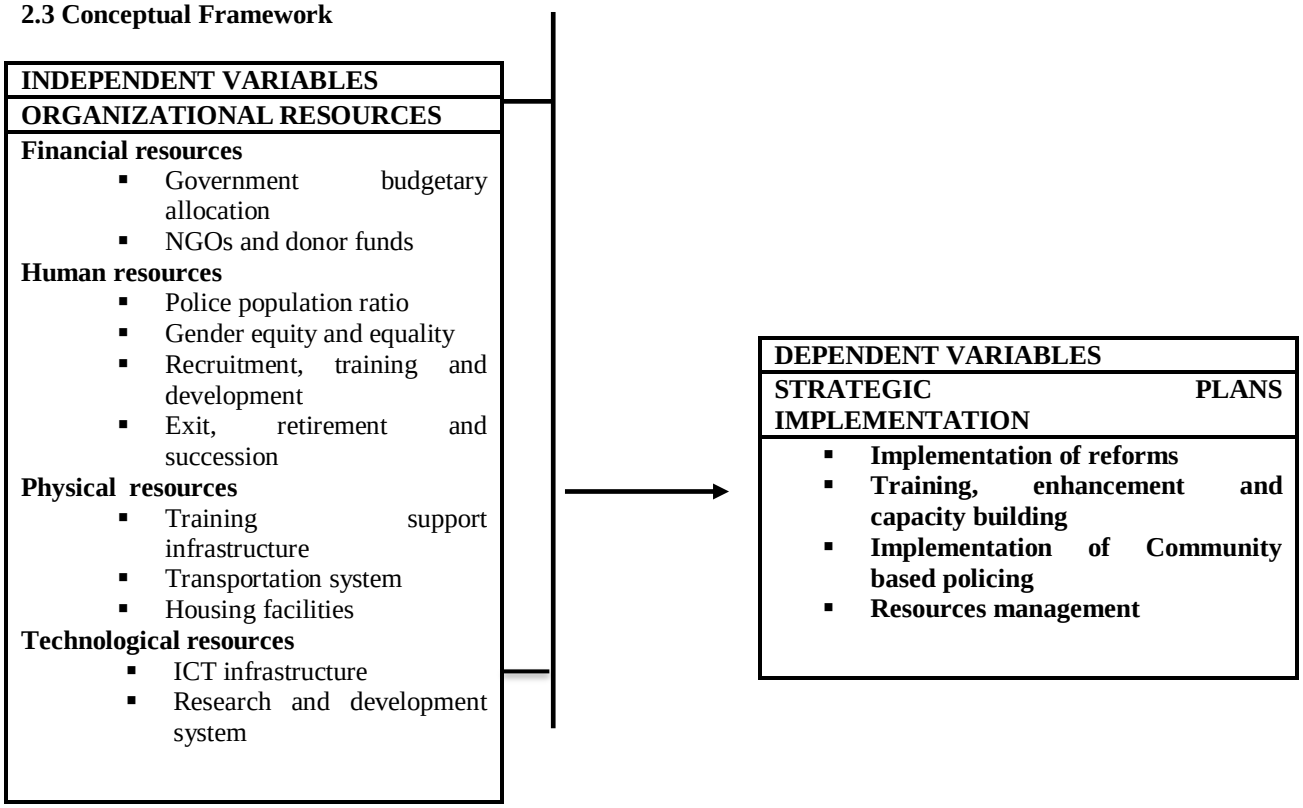

Figure 2.1 Conceptual framework

3.0 RESEARCH METHODOLOGY

The study adopted descriptive research design. The population of this study was Administration police officers deployed in Baringo County. The total number of officers was 720 found in six sub counties of Baringo county; Baringo Central 92, Baringo North 113, Mogotio 81, Marigat 223, Koibatek 128 and East Pokot 83. The aggregate sample size was 216 as shown in table 1 below. This study used both primary and secondary data. Data was collected by use of structured questionnaires adopting Likert scale formation. Data was analyzed mainly by use of descriptive and inferential statistics. Descriptive statistics included mode, mean, median, standard deviation. Inferential statistical techniques like correlation and regression coefficients were used to draw causal relationship between the various organizational resources and implementation of strategic plans. Data was presented by use of graphs, pie charts and tables. A pilot study was conducted in order to establish the validity and reliability of data collection instruments. This study used both construct validity and content validity. Statistical Package for Social Sciences (SPSS) computer software was used to produce both descriptive and inferential statistics. A multiple linear regression model was used to test the significance of the influence of the independent variables on the dependent variables.

Table 3.1: Research Size Sampling

S/No	Sub County	Population	Sample Size (30% of Population)	Percentage (%)
1.	Baringo Central	92	28	12.96
2.	Baringo North	113	34	15.74
3.	Mogotio	81	24	11.11
4.	Marigat	223	67	31.02
5.	Koibatek	128	38	17.59
6.	East Pokot	83	25	11.58
	Total	**720**	**216**	**100**

4.0 RESULTS AND DISCUSSIONS

4.1 Response Rate

The sample size of the study was 216 and generated a successful response rate of 74% as indicated in Table 4.1

Table 4.1: Response Rate

Variable	Frequency	Percentage (%)
Response	161	74
Non- Response	55	26
Total	**216**	**100**

4.2 Bio-Data Analysis

4.2.1 Gender Composition of Respondents

The study sought to establish the gender spread of respondents.

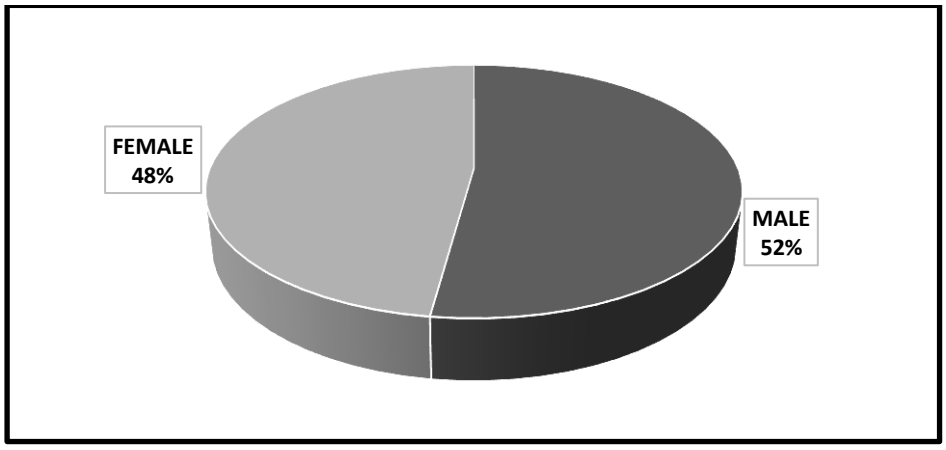

Figure 4.2.1: Gender

Figure 4.2.1 indicates that majority of the respondents 52% were male and 48% were female. This indicates that APS in Baringo County was not biased in recruiting and deploying officers in the county since it observed gender equity.

4.2.2 Length of Service

The researcher requested the respondents to indicate overall length of service in APS in Baringo County. The findings are indicated in Figure 4.2.2

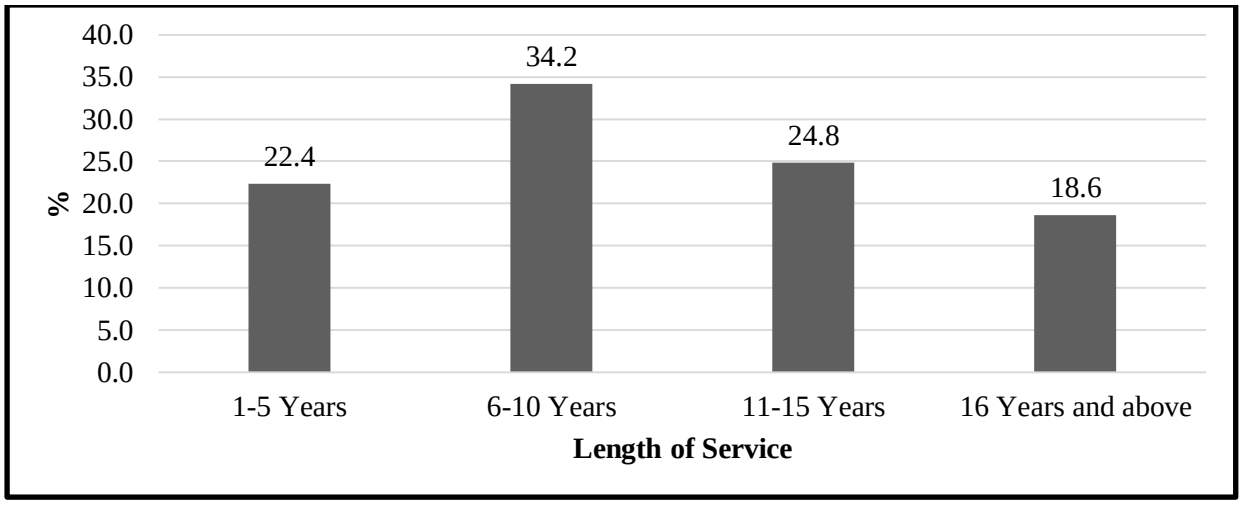

Figure 4.2.2: Length of Service
Figure 4.2.2 shows that 34.2% of the respondents' length of service was 6-10 years. 24.8% had worked for 11-15 years, 22.4% had served for 1-5 years and 18.6% had served for 16 years and above. This indicates that majority of the respondents' length of service was above six years. This shows that the respondents had clear information about their station hence reliable data was sought.

4.2.3 Current Station

The researcher requested the respondents to indicate their current station posted. The findings are indicated in the Figure 4.2.3.

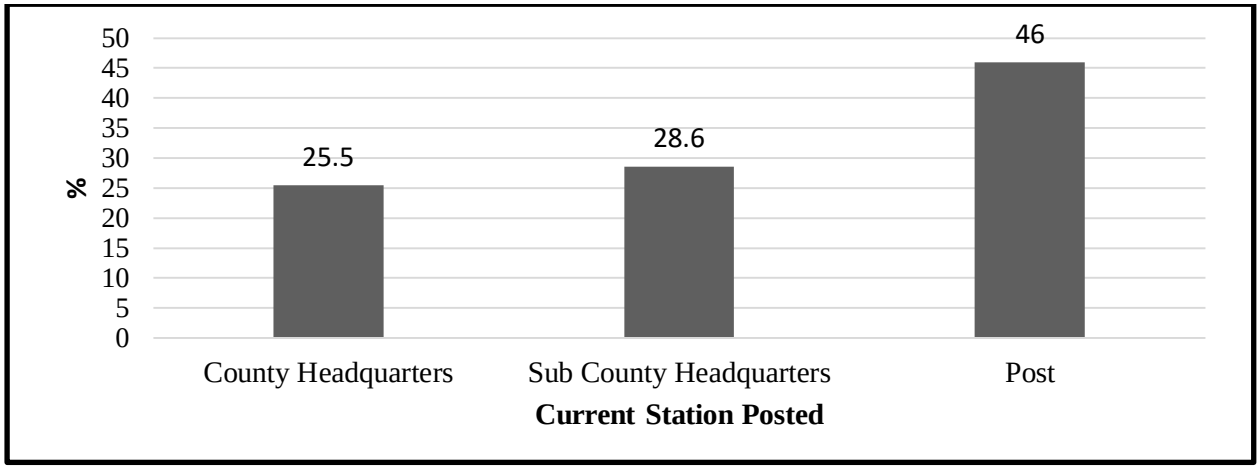

Figure 4.2.3: Current Station
Figure 4.2.3 point out that 46% of the respondents were currently deployed to police posts, 28.6% to Sub County headquarters and 25.5% to County Headquarters. This deduces that all the respondents were skilled on their line of duty and would give reliable data.

4.3 Descriptive findings

4.3.1 Financial Resources and Strategic Plans Implementation
Respondents were requested to indicate the extent of their agreements on the following statements. A Likert scale of 1-5 where; 1= Strongly agree, 2 = Agree, 3 = Neutral, 4 = Disagree and 5 = Strongly disagree was used. From the response, descriptive measure of dispersions was used for ease of interpretation. The findings are indicated in the Table 4.3.1

Table 4.3.1: Financial Resources

	Mean	Std. Dev
The government budgetary allocation to AP service in the county is sufficient	3.32	0.820
The county government funds APS in service delivery to the public	3.05	1.410
Community Development Fund (CDF) has supported construction of most AP housing facilities in the county	2.91	0.634
Most operations conducted by AP service in the county have been adequately funded by the government	3.89	1.250
All the funds allocated to the service in the county have been well utilized	3.41	1.210
NGOs and donors fund APS in the county	4.17	1.090

From Table 4.3.1, respondents agreed by a mean of 3.32 with standard deviation of 0.820 that the government budgetary allocation to AP service in the country was sufficient. County government funds APS in service delivery to the public as supported by a mean of 3.05 with standard deviation of 1.410. Respondents were in disagreement that community Development Fund supported construction of most AP housing facilities in the county as indicated by a mean of 2.91 with standard deviation of 0.634. In summary, government funding significantly influenced strategy implementation if well utilized by the administrators. This is in agreement with David (2003) who states that vital resources such as financial, physical, human and technological resources when well utilized can lead to successful implementation of organizational strategic plans. On the contrary, Kipkirui (2014), identified inadequate funding as a major challenge towards implementation of strategies in National police service and recommended the National government and donors to increase their budget allocation towards the service.

The study established a strong agreement that NGOs and donors fund APS in the county as indicated by a mean of 4.17 with standard deviation of 1.090. All the funds allocated to the service in the county were well utilized as shown by a mean of 3.41 with standard deviation of 1.210. Most operations conducted by AP service in the county were adequately funded by the government as supported by a mean of 3.89 with standard deviation of 1.250. In summary, APS receives funding majorly from the government and donors. The funds received were well utilized and the administrators are accountable. Lee *et al.,* (2001) states that an organization penchant towards achievement exchanges relies upon the accessibility of money related assets and an association might be shortened towards advancing procedures when monetary assets are restricted. Similarly, Musyoka (2011) highlighted that inadequate funding was a major hindrance that needed greater attention for strategy implementation.

4.3.2 Human Resources and Strategic Plans Implementation

Respondents were requested to indicate the extent of their agreement on following statements on a scale of 1-5 where; 1= Strongly agree, 2 = Agree, 3 = Neutral, 4 = Disagree and 5 = Strongly disagree. The findings are indicated in the Table 4.3.2

Table 4.3.2: Human Resources

	Mean	**Std. Dev**
There are enough officers in my work station to carry out APS mandate in the area	2.31	0.661
All the officers deployed in the station are competent and serviceable	4.07	0.962
Training, development and promotional courses have been offered to selected officers in the county	3.93	0.508
Job relationship between the station commander and the junior officers is good	4.37	0.892
Gender equity has been observed in recruiting and deploying officers in the county	3.23	0.920
Welfare of officers is adequately addressed by the management.	3.34	1.170

The findings as presented in Table 4.3.2 indicates that the respondents were in a strong agreement that job relationship between the station commanders and the junior officers was good as indicated by a mean of 4.37 with a standard deviation of 0.892. All the officers deployed in the station were competent and serviceable as supported by a mean of 4.07 with a standard deviation 0.962. Training, development and promotional courses were offered to selected officers in the county as shown by a mean of 3.93 with standard deviation of 0.508. This indicates that all the officers deployed in the stations were competent hence creating a good working environment. This is in agreement with Kipkurui (2014) who indicated that institutions have different processes of recruiting, training and developing its staff. Nyongesa (2013), further noted committed staff teamwork, partnerships and motivation of staff as some of the factors influencing strategy implementation in KPS.

Majority of the respondents were in agreement that the welfare of officers was adequately addressed by the management as indicated by a mean of 3.34 with standard deviation of 1.170. Gender equity was observed in recruiting and deploying officers in the county as shown by a mean of 3.23 with standard deviation of 0.920. The study further indicated an agreement that there were enough officers in police stations to carry out AP service mandate in the area as indicated by a mean of 2.31 with standard deviation of 0.661. This shows that the police officers administrators were gender sensitive and deployed enough officers to the stations. This is in agreement with Kipkurui (2014) who recommended deployment of police officers considering equality and gender.

4.3.3 Physical (Capital) Resources and Strategic Plans Implementation

The respondents were required to respond to the following statements on a scale ranging between 1 and 5 where; 1= Strongly agree, 2 = Agree, 3 = Neutral, 4 = Disagree and 5 = Strongly disagree.

Table 4.3.3: Physical (Capital) Resources

	Mean	Std. Dev
There is an office with a customer care desk in my station	4.08	0.595
Housing facilities are enough for all officers deployed in the station	2.37	0.932
All housing facilities are in good condition and operational	3.15	1.370
The police equipment in the station are enough and in good condition	3.66	1.120
There is government vehicle(s) allocated to the station to provide transport to officers while on official duties	3.69	1.060
My station is connected to electricity national grid	3.71	1.260

Majority of the respondents were in agreement that there was an office with a customer care desk at their stations as supported by a mean of 4.08 with standard deviation of 0.595. Stations were connected to electricity national grid as indicated by a mean of 3.71 with standard deviation of 1.260. There was government vehicle(s) allocated to the stations to provide transport to officers while on official duties as supported by a mean of 3.69 with standard deviation of 1.060. In summary, this indicates that the police posts had proper infrastructure. This is in agreement with Musyoka (2011), who found out that inadequate physical resources were major hindrance in the organization that needed greater management attention. Therefore, infrastructure was the major physical resources required by an organization.

Respondents were in agreement that police equipment in their stations were enough and in good condition as indicated by a mean of 3.66 with standard deviation of 1.120. All the housing facilities were in good condition and operational as shown by a mean of 3.15 with standard deviation of 1.370. Housing facilities were enough for all officers deployed in the stations as indicated by a mean of 2.37 with standard deviation of 0.932. However, Greco, Cricelli & Grimaldi (2013) noted that physical resources alone are insufficient to achieve the desired results hence they should be combined with other organizational resources.

4.3.4 Technological Resources and Strategic Plans Implementation

Respondents were requested to indicate their level of agreement on the following statements on a scale of 1 to 5 where; 1= Strongly agree, 2 = Agree, 3 = Neutral, 4 = Disagree and 5 = Strongly disagree. The findings are indicated in Table 4.3.4

Table 4.3.4: Technological Resources

	Mean	Std. Dev
My station is well equipped with ICT facilities (Computer, Printer, Photocopier, Scanner, Modem etc.)	4.27	0.941
ICT courses have been offered to nominated officers serving in the county	3.28	0.572
The station has qualified officers to handle and operate ICT facilities	3.59	1.120
There are modern police equipment allocated to the station by the government	4.23	1.000
My area of deployment is fully connected to network providers (Safaricom, Airtel, Orange etc.)	2.93	0.926
There is an urgent need for the government to capitalize on technological resources in the county	4.11	0.852

Majority of the respondents were in agreement to a great extent that their stations were well equipped with ICT facilities by a mean of 4.27 with standard deviation of 0.941. Stations had qualified officers to handle and operate ICT facilities as shown by a mean of 3.59 with standard deviation of 1.120. ICT courses were offered to nominated officers serving in the county as indicated by a mean of 3.28 with standard deviation of 0.572. In summary, majority of the police stations had adopted technology in their line of duty. This is in agreement with Kipkurui (2014), who

indicated that advanced use of inappropriate technology in policing was a major factor failing implementation of strategies in NPS due to increased developments which are major tools enhancing technology in the institution.

There was an urgent need for the government to capitalize on technological resources in the county as indicated by a mean of 4.11 with standard deviation of 0.852. There were modern police equipment's allocated to the stations by the government as supported by a mean of 4.23 with standard deviation of 1.000. This is similar to a study by Nyogesa (2013) who suggested improvement of technology in the service by acquiring modern communication gadgets, riffles, bullet proof vehicles and vests.

Respondents were in disagreement that their area of deployment was fully connected to network providers as shown by a mean of 2.93 with standard deviation of 0.926. Network connection would lead to increased communication and proficiency of the police department. This is in agreement with Arend and Levesque (2010) who indicates that organizational competency is an association's quality that empowers administration quality by building innovative framework to react to clients' needs, consequently enabling it to contend more proficiently and effectively than others.

4.5 Inferential Statistics

4.5.1 Correlation Analysis

The correlation analysis findings are indicated in table 4.5.1.

Table 4.5.1: Correlation Analysis

		Implementation	**Financial resources**	**Human Resources**	**Capital Resources**	**Technological Resources**
Implementation	Pearson Correlation	1				
	Sig. (2-Tailed)					
	N	161				
Financial Resources	Pearson Correlation	0.419**	1			
	Sig. (2-Tailed)	0.000				
	N	161	161			
Human Resources	Pearson Correlation	0.468**	0.529**	1		
	Sig. (2-Tailed)	0.000	0.000			
	N	161	161	161		
Capital Resources	Pearson Correlation	0.788**	0.337**	0.448**	1	
	Sig. (2-Tailed)	0.000	0.000	0.000		
	N	161	161	161	161	
Technological Resources	Pearson Correlation	0.878**	0.387**	0.375**	0.767**	1

	Sig. (2-Tailed)	0.000	0.000	0.000	0.000	
	N	161	161	161	161	161

Table 4.5.1 shows the findings of correlation analysis. Huber (2004) held that in the interpretation of results for the linear relationships in a study, for a weak correlation, "r" ranges from ± 0.10 to± 0.29; in a moderate correlation, "r" ranges between ±0.30 and ±0.49; while in a strong correlation, "r" ranges from ±0.5 and ± 0.9.

Financial resources had a Pearson correlation of 0.419 with a p value of 0.00. This indicates that the financial resources had a moderate correlation with strategic plan implementation. The p value was 0.00<0.05 indicating that the variable significantly influenced the study. For successful implementation of strategic plans proper utilization of financial resources with other organizational resources is useful (David 2003)

Human resources had a Pearson correlation of 0.468 an indication of moderate correlation with implementation of strategic plans. The p value was 0.00<0.05 indicating that the variable also significantly influenced the study. For full realization and implementation of strategic plans, involvement of human resources is mandatory (David, 2003)

Capital resources had a Pearson correlation of 0.788 indicating a strong positive correlation between the variables. The p value was 0.00<0.05 indicating that the variable also significantly influenced implementation of strategic plans. However, according to David (2003) capital resources alone cannot be utilized to achieve full implementation of strategic plans

Technological resources had a Pearson correlation of 0.878 an indication of strong correlation and the p value was 0.00<0.05 indicating that the variable significantly influenced the study. From the findings, technological resources had the strongest correlation with strategic plans implementation followed by; capital resources, human resources and financial resources consecutively. The p value of all the variables was 0.00<0.05 indicating that the study variables significantly influenced implementation of strategic plans.

4.5.2 Regression Analysis

Model Summary

The findings of coefficient of correlation and coefficient of determination was identified by the researcher as indicated in the Table 4.5.3

Table 4.5.3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.903[a]	0.815	0.809	1.75266

a. Predictors: (constant), financial resources, human resources, technological resources and capital resources

Coefficient of correlation R was 0.903 an indication of strong positive correlation between variables. Coefficient of determination R^2 was 0.815 which translates to 81.5%. This indicates that variations of dependent variables were explained by independent variables.

Analysis of variance (ANOVA)

An ANOVA was carried out at 5% level of significance. A comparison between $F_{Calculated}$ and $F_{Critical}$ was carried out. The findings are indicated in Table 4.5.4

Table 4.5.4: ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	2101.768	5	420.354	136.842	0.000[b]
Residual	476.132	155	3.072		
Total	**2577.901**	**160**			

a. Dependent Variable: Implementation of strategic plan

b. Predictors: (Constant), financial resources, human resources, technological resources and capital resources

$F_{Calculated}$ was 136.842 and $F_{Critical}$ was 2.2725. $F_{Calculated} > F_{Critical}$ an indication that the overall regression model significantly influenced the study. The p value was 0.00<0.05 indicating that the study variables significantly influenced implementation of planned strategies in Administration police service in Baringo County.

Coefficients

The following coefficients were generated the study.

Table 4.5.5: Coefficients

	Unstandardized Coefficients		**Standardized Coefficients**		
Model	**B**	**Std. Error**	**Beta**	**T**	**Sig.**
(Constant)	5.657	1.537		3.681	0.000
Financial Resources	0.258	0.067	0.037	3.851	0.000
Human Resources	0.130	0.056	0.100	2.308	0.022
Capital Resources	0.217	0.062	0.231	3.504	0.001
Technological Resources	0.735	0.063	0.646	11.725	0.000

a. Dependent Variable: Implementation of strategic plans

From the findings in Table 4.5.5, if all the factors (financial, human, technological and capital resources) were held constant, strategic plan implementation would be at 5.657. A unit increase in financial resources when all the other factors were held constant, strategic plan implementation would be at 0.258. A unit increase in human resource when all the other factors are held constant, strategic plan implementation would be at 0.130. A unit increase in capital resources would lead to an increase of strategic plan implementation by 0.217. A unit increase in technological resources when all other factors are held constant would lead to an increase in strategic plan implementation by 0.735.

The p value of financial resources was 0.00<0.05 an indication that financial resources significantly influenced strategic plan implementation. This is similar to a study carried out by Lee *et al.,* (2001) who indicated that organization penchant towards achievement exchanges relies upon the accessibility of money related assets and an association might be shortened towards advancing procedures when monetary assets are restricted. Similarly, Inmyxai and Takahashi (2010) stated that financial resources suggest the association's capacity to proficiently use its money related asset to expand benefits such as strategic plan implementation.

The probability value of human resources was 0.022<0.05 an indication that the variable significantly influenced strategic plan implementation. This is in agreement with Huselid, Jackson and Schuler (1997) who indicated that coordinating human asset administration with procedure, the basic HR aptitudes, demeanors, practices and exhibitions that are expected to effectively actualize methodologies can be obtained, created, spurred and kept up. The p value of capital resources was 0.01<0.05 indicating that the study variable significantly influenced strategic plan implementation

The p value of technological resources was 0.00<0.05 indicating that the variable significantly influenced strategic plan implementation. Technology is an important resource in influencing companies' performance (Njoroge, Muathe & Bula, 2016). Barney and Hesterly (2010) propelled that elusive innovation assets are more maintainable than substantial assets which can be gained and copied by contenders.

5.0 DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 FINDINGS

The study found out that financial resources positively influenced implementation of strategic plan in the Administration Police service in Baringo County. Majority of the operations conducted by the AP service were funded by the government. The funds allocated to the service in the county were well utilized. The county government funded APS in service delivery and Community Development Fund supported construction of most AP housing facilities in the county.

Human resources significantly influenced implementation of strategic plans in Baringo County. There was a good job relationship between the station commanders and junior officers. Majority of the officers deployed in the stations were competent and serviceable to the community. Training, development and promotional courses were offered to selected officers in the county for increased competence level. The welfare of officers was adequately addressed by the management. Gender equity was observed in recruiting and deploying officers.

Capital resources positively influenced the strategic plans implementation in Baringo County. Respondents were in agreement to a great extent that there was an office with a customer care desk in their stations of deployment. Majority of the stations are connected to electricity national grid. The government had allocated vehicle(s) in Baringo county AP stations to provide transport to officers while on official duties. The police equipment in the stations were enough and in good condition. Majority of the housing facilities were in good condition and operational. Housing facilities were not enough for all officers deployed in the station.

The study also established that technological resources significantly influenced strategic plan implementation in APS in Baringo County. Stations are well equipped with ICT facilities. Modern police equipment's were allocated to the stations by the government. The government is required to capitalize on technological resources in the county. The stations had qualified officers to handle and operate ICT facilities.

5.2 Conclusions

The study concludes that financial resources, human resources, physical (capital) and technological resources positively influenced strategic plan implementation in Baringo County. The resources are vital in achievement of an organization goals and objectives. However, the resources must be well utilized.

5.3 Recommendations

The study recommends that both national and county governments should increase their funding to APS in Baringo County for increased operations and efficiency in execution of its duties to the community. Community Development Fund should be utilized to support construction of AP housing facilities in the county.

Good job relationship between the station commanders and the junior officers should be maintained. Training, development and promotional courses should be offered to selected officers in the county for increased competency level. The welfare of officers should be adequately addressed by the management. There should be improvement on observing gender equity and equality while recruiting and deploying officers in the county to reduce gender discrimination. Deployment of officers in Baringo County to be increased for efficiency in service delivery.

The study also recommends all police stations to be connected to electricity national grid. The government should consider allocating more vehicles in Baringo county AP stations to ease transportation of officers while on official duties. The police equipment in the stations should be enough and in good condition. The government should ensure that all housing facilities are in good condition, operational and enough for all officers deployed in the county.

The study further recommends clear guidelines to be made on implementation of reforms and community-based policing and management of available AP resources in the county. Administration police service should improve its guidelines on training, enhancement and capacity building of its personnel.

5.4 Suggestions for Further Studies

The current study mainly relied on primary data, future studies should carry out both primary and secondary data for precise results. Coefficient of determination R^2 was 0.815 which translates to 81.5%. The residual of 18.5% was explained by other factors beyond the scope of the current study that future scholars should focus on. The study was carried out in Administration police service in Baringo County, future studies should be carried out in different counties in Kenya.

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Transformational Leadership and Growth of Women-Owned Micro and Small Enterprises in Kasarani Division, Nairobi County - Kenya

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***How to cite this article*: Muthoni, J.M. (2019). Transformational Leadership and Growth of Women-Owned Micro and Small Enterprises in Kasarani Division, Nairobi County - Kenya, *Journal of Human Resource and Leadership,* 3(1), 1-22.**

Abstract

The growth of women-owned enterprises is currently attracting much policy and literal attention. There is debate that transformational leadership is essential to the growth of micro and small enterprises (MSEs). However, empirical evidence of the role of transformational leadership on the growth of women-owned enterprises in Kenya is scarce. The purpose of this study was to examine the effects of transformational leadership on the growth of women-owned enterprises in Kasarani Division in Nairobi County. A random sample of 400 women-owned and managed MSEs was surveyed using a structured questionnaire. The Multifactor Leadership Questionnaire (MLQ) was used to measure transformational leadership. Regression models were used to examine the effects of transformational leadership on enterprise growth. Having parents in business and obtaining business advice were negatively associated with growth. Further, the age of the business and obtaining credit for business operations were positively associated with enterprise growth. The results of this study suggest that enhancing transformational leadership in women-owned enterprises is a viable policy option. The need to enhance business heritage is recommended.

Key Words: *Transformational Leadership, Growth, Women-owned SMEs,*

1.0 Introduction

1.1 Background to the Study

Growth is a multidimensional concept which includes economic and financial measures such as sales growth, profits, owner income, and number of employees. This can be referred to as objective measures (Lerner & Almor, 2002). Another way of looking at growth is by use of subjective measures which include non-financial goals and global success ratings made by women entrepreneurs (Helgesen, Nesset & Voldsund, 2008). Any of the above measures can be used to describe growth of an enterprise, hence the term multidimensional. According to a survey report by Central Bureau of Statistics, International Center for Economic Growth and K-REP Holdings (1999) change in the number of employees over time is considered a useful indicator of growth for MSEs. There is evidence that women

usually view growth of their enterprises using subjective measures (Machado, St-Cyr & Mione, 2003). Studies in Kenya have mainly focused on objective measures of growth (Gakure, 2003; Kibas, 2006) while neglecting subjective measures. Understanding the nature of growth in women-owned enterprises using subjective measures may reveal patterns of growth that are currently not known, hence the need for further research.

Existing data shows that women-owned enterprises in the country suffer from high mortality rates, operate informally thus incur the penalties of informality and rarely grow or graduate to high value-adding activities (Government of Kenya [GoK], 2005). According to McCormick (2001), women-owned enterprises that started small tend to remain small and very little transformation occurs among them. Eagly *et al*., (2003) demonstrates that firms set up and run by women tend to display distinctive features which influence their growth. For instance, during the phase of growth, women in business display distinct abilities in transformational leadership (Brush, 1992). It is however not clear whether transformational leadership influences growth of women-owned MSEs in Kenya.

Transformational leadership involves the leader's ability to make group members become less interested in themselves and more interested in the group (Rosener, 1990). Moore and Buttner (1997) observe that transformational leaders tend to encourage the participation of all employees at different levels of decisions, share power and information with them, stimulate and motivate them. Brush (1992) argues that women's attitude towards power tends to be relational consensual with little emphasis on authority and communication. Other characteristics mentioned are true concern over quality of services provided and an emphasis on social objectives (Machado, St-Cyr & Mione, 2003). This leadership style raises employee satisfaction and results in higher performance levels (Chaganti, 1986).

According to Bird (1989), women-owned enterprises do not grow at a rate that would realize economic benefits to the entrepreneur. It is, therefore, important to study and document what can spur the growth of women-owned enterprises in Kenya. Transformational leadership has been documented as a correlate of growth of women-owned enterprises in the developed world (Rosener, 1990) however similar data is not available in Kenya. This makes it difficult to develop appropriate policy options that could be used to enhance the performance of women-owned enterprises. Examining the effects of transformational leadership on the growth of women-owned enterprises is, therefore, necessary.

The Concept of Entrepreneurship

Entrepreneurship can be conceptualized as the discovery of opportunities and the subsequent creation of new economic activity often via the creation of a new organization (Venkataraman, 1997). Entrepreneurship is often discussed under the title of the entrepreneurial factor, the entrepreneurial function, entrepreneurial initiative and the entrepreneurial behavior.

The entrepreneurial factor is understood to be a new factor in production that is different to the classic ideas of hard labour and capital which must be explained via remuneration through income for the entrepreneur along with the shortage of people with entrepreneurial capabilities. Its consideration as an entrepreneurial function refers to the discovery and exploitation of opportunities or to the creation of an enterprise. Entrepreneurial behavior is seen as behavior that manages to combine innovation, risk-taking and pro-activeness (Miller, 1983). In other words, it combines the classic theories of the innovative entrepreneur (Schumpeter, 1934), the risk-taking entrepreneur that occupies a position of uncertainty as proposed by Knight (1921) and the entrepreneur with initiative and imagination who creates new opportunities. Entrepreneurial initiative covers the concept of creation, risk-taking, renewal or innovation inside or outside an existing organization.

Entrepreneurship could be said to be a process by which individuals, either on their own or within organizations pursue opportunities (Stevenson & Jarillo, 1990; Busenitz *et al.*, 2003). It has recently been claimed that if managers and businessmen of many firms were to adopt entrepreneurial behavior when developing strategies, firms would be facing a much brighter future than current perceptions suggest (Lee & Peterson, 2000).

The entrepreneur's central activity is that of business creation, which can be studied at an individual and/or at group level, analyzing psychological aspects and social variables of education, background on the family either at an environmental level using variables that enable business development, or by analyzing aspects of the economic,

social and cultural environments (Bird, 1989). The study of entrepreneurs as individuals analyses the variables that explain their appearance, such as personal characteristics, the psychological profile (the need to achieve, the capacity to control, tolerance and ambiguity and a tendency to take risks) or non-psychological variables (education, experience, networks and the family).

Women-Owned Enterprises

Some extant literature, however, suggests that women's past experience and backgrounds may shape their subsequent behaviours (Fischer, Reuber & Dyke, 1993; Beasley, 1999). For instance, Bruni, Gherardi & Poggio (2004) suggest that due to the constraints women face in a male dominated environment, women are likely to develop an ability to feel and anticipate the reactions of others. The concern for relational aspects and flexibility that women portray in business has roots in the variations in power and opportunity accorded to men and women in society. Elsewhere, Beasley (1999) argues that differences between men and women exist from their early stages of growth in life and result in fundamentally different ways of viewing the world. That is, men and women are inherently different because of differences in their socialization, training and experiences encountered prior to entry into particular work positions. Therefore differences emerge in nurturing results in different self-perceptions, motivations and belief structures between men and women. Consequently, women adopt different approaches to work (Fischer, Reuber & Dyke, 1993). Therefore, the unique experiences and backgrounds of women may explain the subsequent behavior in enterprise. Studies that have attempted to investigate the relationship between such antecedents, transformational leadership, and growth of women owned enterprises are not readily available.

This dearth of literature could largely be attributed to lack of appropriate frameworks. Existing literature highlights a universalistic model when investigating the relationship between transformational leadership (Reuber & Fischer, 1999) and the growth of women-owned enterprises.

The participation of women in business and especially, in the Micro and Small Enterprises (MSEs) sector has increased tremendously since the 1980s (Stevenson & St-Onge, 2005). MSEs are broadly defined as income generating enterprises that employ less than 50 persons (GoK, 2005) and have now become the main source of income and employment for the majority of women in the Kenya. By 1999, there were 612,848 women-owned MSEs in Kenya, making 47.7 percent of the total ownership of the MSEs in the country (Central Bureau of Statistics, International Center for Economic Growth and K-REP Holdings Ltd., 1999). The patterns of growth and factors involved in these enterprises is however not clear.

The performance of women-owned enterprises in Kenya is modest. Data shows that the average number of employees in women-owned MSEs in Kenya is 1.54 (Stevenson & St-Onge, 2005; Central Bureau of Statistics, International Center for Economic Growth and K-REP Holdings Ltd., 1999). These reports also indicate that in total, women-owned enterprises account for 40 percent of the employment in the MSE sector. About 86 percent of the workers in women-owned MSEs are owner managers, 4 percent are employees and the remainder is made up of either family members or apprentices. Women-owned enterprises also report on average, lesser income than that reported by their male counter-parts. For example, in the 1999 National Baseline Survey (Central Bureau of Statistics, International Center for Economic Growth and K-REP Holdings Ltd., 1999), women enterprises reported 57 percent of the income reported by male-owned enterprises. The performance of women-owned enterprises must therefore be improved if they are to effectively respond to the challenges of creating employment and wealth, alleviating poverty and redistributing wealth. Enhancing the performance of women-owned enterprises requires a clear understanding of growth and the factors involved.

Some factors identified include: gender inequalities in the distribution of income, limited access to and control of productive resources such as land and credit, and the multiple roles of women. While the identification of such factors is an important exercise, it appears that issues that affect women in general appear to be mentioned without regard to their relative importance in determining the growth of women-owned enterprises. Thus validation of such factors among women-owned enterprises is necessary. Conducting studies on the growth of women-owned enterprises might also identify other factors that are not explicitly mentioned in this *Sessional paper*. Identifying these factors along with their relative importance is crucial for policy prioritization, given that different factors might be associated with particular policy measures.

After identifying the constraints to growth of women-owned enterprises, *Sessional Paper Number 2* of 2005 on Development of Micro and Small Enterprises for Wealth and Employment Creation for Poverty Reduction (GoK, 2005) outlines in detail four sets of strategic options that are aimed at addressing the gender issues in MSEs. These include ensuring that the MSE policy is gender responsive, establishing a gender mainstreaming framework, empowering women and ensuring that MSE support programmes and projects are designed in such a way that they offer equal opportunities to all.

Prerequisite for policy intervention is sound empirical information on issues where action is required. The findings of this paper therefore, stand to provide a concrete input in the design of effective and gender-responsive MSE policy in Kenya.

The growth of women-owned enterprises continues to attract a lot of scholarly attention. This attention which has largely been developed in the industrialized countries revolves around the definition of the term growth (Rauch *et al*., 2006) and an analysis of the factors involved especially transformational leadership (Eagly *et al*., 2003).

The Nature of Female Entrepreneurship

Since the 1980s, an emerging body of literature has attempted to examine the role of the woman in enterprise (Moore & Buttner, 1997). This body of knowledge is commonly known as female entrepreneurship. Female entrepreneurship may simply be defined as the identification and exploitation of opportunities for gain by females. If these opportunities have to be fully beneficial, women-related studies especially on the area of growth have to be researched on.

Literature on female entrepreneurship may be categorized into five thematic areas. These include sectoral distributions of women enterprises, patterns of female entrepreneurship, barriers to women entrepreneurship, motivations of women entrepreneurship and the managerial styles of women entrepreneurship (Bruni, Gherardi & Poggio, 2004). Most literal works report that a great majority of women entrepreneurs are not only concentrated in commerce and especially services but also began work in that area (McCormick, 2001). Patterns of female entrepreneurship (Stevenson & St-Onge 2005; Gakure, 2003) have also been examined in previous studies on female entrepreneurship.

1.2 Statement of the Problem

Women-owned enterprises in Kenya suffer from high mortality rates, operate informally thus, incur the penalties of informality, rarely grow or graduate to high value-adding activities and very little transformation occurs among them (GoK, 2005; McCormick, 2001). These shortcomings compromise the current government's efforts that are aimed at wealth and employment creation, poverty alleviation and redistribution of wealth and policy formulation to enhance growth of this important sector. However, data on the factors that influence growth of women-owned enterprises is scanty in Kenya. In the developed world transformational leadership has been associated with growth of women-owned enterprises (Bruni, Gherardi & Poggio, 2004; Eagly *et al*., 2003; Beasly, 1999; Fischer, Reuber & Dyke, 1993). This paper, therefore, sought to examine the effects of transformational leadership in women-owned enterprises in order to spur growth in Kasarani division of Nairobi County, Kenya.

1.3 Objective of the Study

To establish the relationship between transformational leadership and growth of women-owned MSEs Kasarani Division of Nairobi County.

1.4 Research Question

What is the relationship between transformational leadership and the growth of women-owned MSEs in Kenya?

1.5 Significance of the Study

This paper attempts to apply entrepreneurship concepts into the growth of women-owned enterprises and also seeks to represent enterprise growth from a woman's way of being, thinking and doing. This is quite unlike the common and restrictive gender dualism approach. In addition the paper attempts to document the contingent effects of transformational leadership on growth of women-owned enterprises. Thus it is expected that this paper would eventually deepen the understanding of growth in women- owned enterprises as be used by future researchers as a base for their work.

2.0 Literature Review

2.1 Theoretical Literature Review

2.1.1 The Liberal Feminist and Social Feminist Theories

Two theoretical orientations have emerged that seek to explain the origins of the behaviours of female owner-managers. These are the liberal feminist and social feminist theories. Fischer, Reuber & Dyke (1993) notes that the liberal feminist theory is rooted in liberal political philosophy which encompasses basic beliefs in the equality of all beings, and in human beings as essentially rational, self-interest-seeking agents. The liberal feminist theory attributes gender-based differences to the variations in power and opportunity accorded men and women in society. Thus, differences in the achievements of men and women are ascribed to the inability of women to realize their full potential because they are denied equal access to opportunities in the labour markets and to resources. This in turn has hindered women from acquiring the skills and capabilities necessary to compete on equal basis with men.

According to the liberal feminist theory, gender differences in performance cease to exist once equal access to resources is ensured (Carter, Williams & Reynolds, 1997). Bruni, Gherardi & Poggio (2004) suggest that due to the constraints women face in a male dominated environment, women have been forced to develop an ability to feel and anticipate the actions of others. Therefore the concern for relational aspects and the flexibility they have natured in so many supporting roles as well as their everyday coordination of family and work responsibilities is a valuable organizational exploitable resource. Consequently, it should be expected that women exploit relational aspects to grow their businesses.

In contrast, the social feminist theory, which emanates from the social learning theory and psychoanalysis, holds that differences between men and women exist from their earliest moments in life and result in fundamentally different ways of viewing the world (Beasley, 1999). These differences are seen in the way women and men construct and interpret reality and how these influence the formation of their values and intentions (Carter, Williams & Reynolds, 1997). Men and women are inherently different because of differences in their socialization, background training and experiences encountered prior to entry into particular work positions. The differences that emerge in nurturing result in different self-perceptions, motivations and belief structures. Consequently, women adopt different approaches to work which may or may not be as equally effective as those adopted by men (Fischer, Reuber & Dyke, 1993).

2.1.2 Israel Kirzner's Theory

Kirzner (1997) represents the Neo-Austrian approach to entrepreneurship and be focused on the question of whether a market economy works, and, if it does so, what is the process that leads the economy towards equilibrium. He claims that initially the economy is in disequilibrium and the competition among alert entrepreneurs leads to equilibrium. He advocates that profit opportunities stimulate entrepreneurship. He contends that the alertness in an entrepreneur is a peculiar form of knowledge that cannot be obtained through a rational investment policy. He states that entrepreneurs are profit-seeking speculators characterized by a kind of superior knowledge that enables them to gain from the ignorance of others (Kirzner, 1997).

Kirzner's entrepreneurship model holds the following: that the entrepreneur sub-consciously discovers an opportunity to earn money by buying resource or producing the resource and then sell it at a profit; that the entrepreneur finances the venture by borrowing money from a capitalist; that the entrepreneur uses the funds for his entrepreneurial venture; and that the entrepreneur pays back the capitalists, including interest, and retains the pure entrepreneurial profit. In conclusion, Kirzner's considers the entrepreneur's alertness to recognize opportunity more characteristic than innovation in defining entrepreneurship. The entrepreneur either remedies or corrects errors of the customers (Kirzner, 1997).

2.1.3 Frank Knight's Risk Bearing Theory

Frank Knight first introduced the dimension of risk-taking as a central characteristic of entrepreneurship (1921). This theory considers uncertainty as a factor of production and holds the main function of the entrepreneur as acting in anticipation of future events. The entrepreneur earns profits as a reward for taking such risks. According to Knight, it is not change that gives rise to profits, but uncertainty and the possibility of incorrectness of expectations. If uncertainty characterizes the environment, the problem is no more represented by the actual execution of activity; the

issue is deciding what to do and how to do it. This primary function is the entrepreneurial function; the endeavour of deciding how various objectives are to be achieved and of predicting which objectives are worth achieving competes to the entrepreneur, a specialist who is prepared to bear the cost of uncertainty (Knight, 1921). The exercise of entrepreneurship is usually associated with uncertainty bearing and has something to do with imperfect knowledge. Recent theories emphasize that the entrepreneur does not merely deal with the consequences of imperfect knowledge but rather concerns the regards of discovering and using new knowledge.

If Knight's work and subsequent developments identify in the capability of treating uncertainty, a crucial determinant of the entrepreneurial decision, according to alternative perspectives, mere differences in risk aversion cannot explain the special role of entrepreneurs because independent risks can be insured by means of capital markets. These approaches assign the entrepreneur the role of coping with the unknown, that is, to produce an effort to get things done but to deal with unforeseen events where risks can fail to be assured (Bird, 1989). It is out of the works of Knight that the general equilibrium theory of the firm under uncertainty was developed by Kihlstrom & Laffont (1979).

2.2 Empirical Literature Review

2.2.1 Transformational Leadership and Growth of Women Entrepreneurship

Interactive transformational leadership was the style employed by many of the women managers who were rising in the organizational ranks and moving into work roles traditionally occupied by men (Riebe, 2003). The entry of large numbers of women into workplace, the emergence of teams and the growing importance of successful team management had provided women with opportunities to showcase their leadership skills. But as a consequent of prevailing attitudes (Kossek, Market and McHugh 2003), including stereotyping in organizations (Ely, 1994), women often found themselves marginalized (Kanter, 1977) and denied access to power (Kanter, 1987). Highly visible but isolated (Sealy, 2010) they learnt from experience to employ an interactive style of transformational leadership because it could moderate the effects of gender biases (Lerner and Almor, 2002).

Rosener (1990) calls women entrepreneurs' models of a leadership style which she labeled as non-traditional or transformational. Such entrepreneurs build a relationship of mutual stimulation and as elevation that converts followers into leaders and may convert leaders into moral agents. This occurs when leaders and followers engaged with others in such a way that leaders and followers raise one another to higher levels of motivation and morality (Burns, 1978 in Bass 1997).

Rosener (1990) suggests that one of the distinctive and characteristic features of women in leadership positions is their ability to engage in interactive leadership relationships with their managers and employees and a determination to empower others. Women see leadership as an on-going process, envisioning themselves as team leaders, as inspirational rather than directive, as participative rather than hierarchical, working to co-ordinate and balance their interests and those of their employees and transforming these into shared goals.

2.3 Conceptual Framework

Independent Variables

Dependent Variable

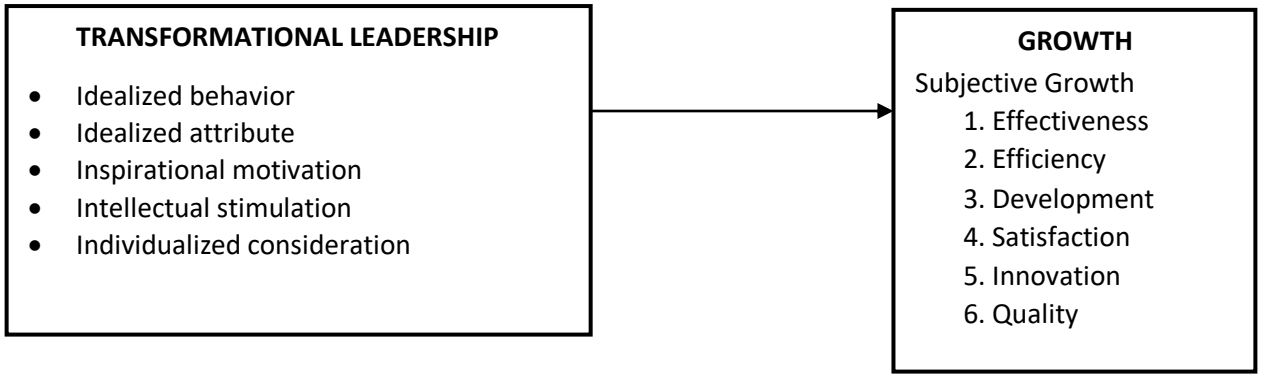

Figure 1.0: Conceptual Framework

3.0 Research Methodology

This was a cross-sectional survey of women owned enterprises. The rationale for this design was to seek to describe the current situation in regard to effects of transformational leadership and the growth of women-owned MSEs in Kasarani Division of Nairobi County. Surveys are useful in examining the relationship between phenomena and in policy derivation (Saunders *et al.,* 2003). Using the survey approach helped to obtain a holistic picture of growth dynamics in women-owned enterprises.

The target population of this study included all the women-owned MSEs in the study site that had between 2 and 50 employees. The population was heterogeneous since it comprised of MSEs operating in varied disciplines. These included salons and barber shops; green groceries; retail kiosks; food kiosks; hardware stalls; second hand clothes stalls; and cereals stalls. The MSEs are characterized by the following attributes: owner managers; less than 50 employees; premised in a mix of formal and informal shelters; location along major pathways within residential areas; and family-owned. The total population of this study included 1,759 women-owned enterprises. The list of women-owned MSEs in Kasarani Division of Nairobi was constructed from lists provided by Nairobi City Council (NCC) and City's Public Health office.

From the constructed sampling frame, simple random sampling procedures were used to select the study sample. The sample size formula (Black, 2005) was used to compute the sample size. This formula is applied for large sizes of population, especially where the actual size may not be know but estimates can be provided, just was the case in this study. The need to allow for the margin of error of 5 percent allows for the sample results to be generalized with utmost precision. This resulted to a sample size of 384 respondents.

$$n = \frac{Z^2 pqD}{d^2}$$

The study relied on primary data. Data from the MSEs was collected through administration of a structured questionnaire which contained structured questions covering issues of enterprise growth and transformational leadership. The questionnaires were administered through drop-and-pick method and a pilot study was conducted with 40 women-owned enterprises in the study area before the final survey. These enterprises did not form part of the final sample size. Pre-Testing was conducted to check the questionnaires structure and the sequence, meaning and ambiguity of questions. This process assisted in illuminating any potential problems of the research instrument and provided a basis for design or structural changes. This was also done to test the reliability, validity and workability of the instrument.

Estimated Regression Model

$Y_i = \beta_0 + \beta_i (TL_i) + \varepsilon$

Where:

Y = Growth of the i^{th} MSE

TL = Transformational Leadership of i^{th} MSE

β are coefficients to be estimated and

ε is the error term.

The collected data was cleaned, coded and summarized using frequencies, percentages, mean and standard deviation. It was then analyzed using descriptive statistics and regression model and presented in form of tables. A correlation analysis was conducted to identify the magnitude of Transformational Leadership on enterprise growth. The

correlation analysis was also used to examine multicollinearity. Then a multiple linear regression model was used with growth index as the dependent variable and transformational leadership as the independent variable. The coefficient of determination (R^2) was used to interpret the goodness of fit of the regression model.

4.0. Findings and Discussion

4.1 Descriptive Statistics

This study targeted 384 women-owned MSEs in Kasarani Division of Nairobi County. However, due to stratification and subsequent rounding of the proportion of enterprises to whole numbers in different sub-sectors, 400 women-owned MSEs were eventually surveyed. The mean age for the sampled women was 32.5 (SD = 7.5) years. The findings indicate that the sample was fairly split between the age categories of less than 30 years and between 31 and 50 years. This indicates that the sample was largely diverse across age groups.

The study results further indicate that all the respondents had attained at least primary level education, with most having attained secondary level education. This is an indicator that the sampled respondents were likely to have been acquainted with basic business management skills, including leadership skills. Over 90% of the sampled respondents were drawn from the nuclear family type. The rest of the respondents indicated that they were from either extended or single parent type of families. Finally, the findings indicate that over 80% of the sampled women entrepreneurs were parents of between one and four children aged below 16 years. This shows that most of the respondents had family responsibilities to attend in addition to their daily business duties.

Assessment of the previous employment profile of the respondents was based on five attributes namely: whether or not the respondents had engaged in formal employment; the level of satisfaction derived from past employment; number of previous employers; whether or not the respondents had engaged previously in managerial positions. The finding shows that 49 out of the 400 sampled respondents (13.3%) had never been employed. Further, 37.3 % of the respondents had only one previous employer. The remaining respondents had switched employers for more than once. The results further indicate that most of the sampled respondents (69.3%) had never been engaged in formal employment. Further, slightly over 4% of the surveyed respondents were satisfied with their previous formal employment.

The surveyed enterprises were relatively young with the modal class being between 2 and 5 years old. The mean age of the sampled businesses was 5.4 years (SD = 3.1). Most of the surveyed respondents had operated in their current business sector for less than 5 years. This indicates that most of the surveyed women had limited experience in the business sectors that they operated in. Over 85% of the surveyed enterprises were operated as sole proprietorships. Further, majority of the businesses were either owner-managed or managed with support from immediate family members. These results are an indicator of capacity constraints. The surveyed enterprises were also constrained in accessing formal finance. In the 12 months preceding the study, a majority of the sampled businesses (65.5%) had not borrowed money for business operations. Moreover, most of these enterprises (46.8%) had only obtained finances from informal sources (self-help groups, relatives and friends).

A growth index was computed by summing up the six dimensions of growth. The overall mean of the computed growth index was 3.01 (± 0.46). This growth index had satisfactory psychometric properties (Cronbach's $\alpha = 0.61$) and there was no significant change in its internal reliability by deletion of any item. The surveyed women rated meeting business objectives highest at a mean of 3.60 (± 0.61) and coming up with new products lowest at a mean of 2.51 (± 1.01).

Table 1: Correlation Analysis of the Dimensions of Growth

	Mean	SD	1	2	3	4	5	6
The enterprise:								
1. Meets its objectives	3.60	0.61	1					
2. Uses the fewest possible resources to meet its objectives	2.86	0.62	0.53*	1				
3. Develops its capacity to meet future opportunities and challenges	2.74	0.72	0.07	0.21*	1			
4. Satisfies all participants, stakeholders, employees and customers	3.03	0.89	-0.21*	-0.15*	0.42*	1		
5. Comes up with new products and processes	2.51	1.01	0.06	0.21*	0.27*	0.37*	1	
6. Offers products of high quality	3.32	0.77	0.15*	0.30*	0.10*	0.14*	0.60*	1

*Significance $\rho < 0.05$

Table 2: Reliability Assessment Statistics

Factor	Factor Indicators	Cronbach's Alpha
Idealized Attributes	I Instill pride in others for being associated with them; I go beyond self-interest for the good of the group; I act in ways that build others' respect for me; I display a sense of power and confidence	0.82
Idealized Behaviour (IB)	I talk about my most important values and beliefs; I specify the importance of having a strong sense of purpose; I consider the moral and ethical consequences of my decisions; I emphasize the importance of having a collective sense of mission	0.73
Inspirational Motivation (IM)	I talk optimistically about the future; I talk enthusiastically about what needs to be accomplished; I articulate a compelling vision of the future; I express confidence that goals will be achieved	0.77
Intellectual Stimulation (IS)	I seek differing perspectives when solving problems; I get others to look at problems from many different angles; I re-examine critical assumptions to question whether they are appropriate; I suggest new ways of solving old problems	0.69
Individual Consideration (IC)	I spend time teaching and coaching; I help others to develop their strengths; I treat others as individuals rather than just as a member of the group; I make personal sacrifices for other' benefits	0.74

The sampled respondents had a summary idealized attribute score that was above the validated benchmark levels (2). This reflects relatively high idealized attributes amongst the respondents. The idealized attribute scale identifies respondents who are able to build trust in their followers. The respondents are therefore able to inspire power and pride in their organizational teams, by going beyond their own individual interests and focusing on the interests of the enterprise and of its members.

Table 3: Descriptive Statistics of Dimensions of Transformational Leadership

Sub-scale	**Mean (± SD)**	**Normative Values* Mean (95% CI)**	**Difference (Mean- normative value)**
Idealized Attributes	2.95 (0.47)	1.50 (2.53, 2.69)	1.46
Idealized Behaviors	2.76 (0.59)	2.75 (2.28, 2.97)	0.02
Idealized Motivation	3.25 (0.66)	2.50 (2.67, 3.00)	0.76
Intellectual Stimulation	2.18 (0.61)	2.25 (2.72, 2.98)	-0.02
Individualized Consideration	2.02 (0.66)	2.75 (2.59, 2.64)	-0.56

* Source: Bass and Avolio, 2000; 1995

The surveyed respondents had an average score on the idealized behaviors scale that is within the global standards. This scale identified respondents who act with integrity and manifested positive and highly valued behaviors, like dominance, consciousness, self-control, a high moral judgment, optimism and self-efficiency. They talk about their most important values and beliefs; they focus on a desirable vision and almost always consider the moral and ethical consequences of their actions. They also zero in on building a commonly shared sense of a vision or mission for the team or group.

The respondents had a higher average score on the inspirational motivation scale. This shows that the sampled respondents are able to promote positive expectations as well as inspire and motivate their employees, partners, or associates within their enterprises. It also indicates how well the respondents communicate their goals, manipulate images, and help others find meaning in their work. The respondents appear to articulate, in simple ways, shared goals and mutual understanding of what is right and important. They further provide visions of what is possible and how to attain them and enhance meaning and promote positive expectations about what needs to be done.

High rating on inspirational motivation items indicates the ways in which the sampled female entrepreneurs take to inspire their followers to achieve both personal and organizational goals. The findings are indicative that they look at the future optimistically and enthusiastically by providing a realizable and acceptable vision with clear communication and by presenting followers ways to reach them. The values, that the respondents adopt, can also be adopted easily by the employees. Thus, this suggests that their inspirational traits impacts cohesion through visioning behaviors that involving rapport building between the leaders and their followers. Past studies have already shown that a leader, who promotes confidence in achievement and execution of goals and tasks, speaks optimistically about the future and provides an exciting image of organizational change, exhibits idealized, inspirationally motivating behaviors (Bass and Avolio, 2000).

The respondents had a relatively low average score on the intellectual stimulation scale. This scale was used to identify respondents who were able to encourage creative thinking. This result suggests that the surveyed respondents had challenges in stimulating the ideas and values of their employees. Further, the result indicates that the sampled respondents rarely take critical approaches in solving problems that arise from within their enterprises. Through intellectual stimulation, transformational leaders help others to think about old problems in new ways. They are encouraged to question their own beliefs, assumptions, and values, and, when appropriate, those of the leader. As a consequence, associates develop the capacity to solve future problems unforeseen by the leader. Associates learn to tackle and solve problems on their own by being creative and innovative. A key measure of a leader's effectiveness is how capable the associates are able to identify new innovative ways of solving old or future problems (Bass and Avolio, 2000; Hisrich and Brush, 1984).

The low score on the individual consideration attributes is indicative that the understanding and sharing in others' concerns and their personal developmental needs are not issues of great concern to the sampled women MSEs' owners. Individual consideration shares some aspects of the mentoring concept. It deals with a focus that expands the individual's development, providing feed-back between parties and making the individual feel included in the work. Mentoring is a good framework for this dimension because of the focus on trust. The reported results show that there is minimal mentorship between the sampled female MSEs owners and their followers (staff and family support members).

Table: 4 Descriptive Statistics and Correlation Coefficients of the Sub-scales of Transformational Leadership

	Mean	SD	1	2	3	4	5
1. Idealized Attributes	2.95	0.47	1				
2. Idealized Behaviour	2.76	0.59	0.64*	1			
3. Inspirational Motivation	3.25	0.66	0.46*	0.51*	1		
4. Individual Consideration	2.18	0.61	0.39*	0.44*	0.50*	1	
5. Intellectual Stimulation	2.02	0.66	0.49*	0.60*	0.42*	0.38*	1

* Significance $\rho < 0.05$

The factor analyses yielded a one factor solution for transformational leadership (Table 5). This single factor (transformational leadership summary score) explained 58.69 percent of the variance. The Cronbach's alpha coefficient of this factor was satisfactory ($\alpha = 0.82$), and was not affected by the removal of any of the sub-scales. This single factor had a mean of 2.63 (SD = 0.46).

Table 5: Factor Loadings Based on Principle Components Analysis for the 5 Dimensions of Transformational Leadership

Aspect of Transformational Leadership	Factor Loading
Idealized Attributes	0.79
Idealized Behaviour	0.85
Inspirational Motivation	0.75
Individual Consideration	0.69
Intellectual Stimulation	0.76
Eigenvalue	2.94
Explained Variance (%)	58.70

A simple linear regression model was used to determine this relationship (Table 6). The model had satisfactory properties ($F = 195.35$, $\rho < 0.05$). The growth of the sampled women MSEs was positively and significantly associated with transformational leadership. A one unit increase in transformational leadership was associated with a 0.57 increase in growth. Further, transformational leadership explained 33% of the variation in growth.

Table 6: Test of Relationship between Enterprise Growth and Transformational Leadership

	β	SE	Standardized Beta	t-statistic	ρ -Value
(Constant) Intercept	1.50	0.11		13.65	< 0.05
Transformational Leadership Index	0.57	0.04	0.57	13.98	< 0.05
$R^2 = 33\%$, $F = 195.35$, $\rho < 0.05$					

Dependent Variable = Enterprise Growth Index**.**

5.0 Conclusions

The purpose of the study was to examine the effects of transformational leadership on the growth of women-owned MSEs in Kenya. The reported data shows that most of the surveyed enterprises were experiencing moderate growth. The results show that on average, the respondents were able to meet their business objectives, utilize resources effectively, satisfy stakeholders and offer quality products. Innovation and building the capacities of the businesses were two notable problematic areas.

The study findings confirmed previous literature that shows that transformational leadership is driven by five attributes namely idealized attributes; idealized behaviors; inspirational motivation; intellectual stimulation; and individual consideration. Three attributes scored highly among the sample (idealized attributes; idealized behaviors'; and inspirational motivation) while low scoring was reported on two attributes (intellectual stimulation and individual consideration). High scoring on idealized influence attributes (idealized attributes and idealized behaviors) indicates that idealized influence is linked to charisma. Charisma development helps in mentorship and in resolution of conflicts. Idealized influence leaders serve as role models for their employees, allow them to identify with a shared organizational vision, and overcome obstacles in ways that breed pride and belief in employees. High scores rating on inspirational motivation items indicate the ways in which the sampled female entrepreneurs take to inspire their followers to achieve both personal and organizational goals. Low scoring on the individualized consideration attributes shows that understanding and sharing in others' concerns and their personal developmental needs are not issues of great concern to the sampled women MSEs' owners.

Individual Consideration shares some aspects of the mentoring concept. Low scoring on intellectual stimulation attributes indicates deficiencies in conflict management and problem solving between the sampled female entrepreneurs and their followers. Effective conflict management can lead to better team performance, as leaders and

followers are not dragged down by infighting and indecision. This could have contributed to possible slow growth experienced in the sampled enterprises because teamwork is diminished, and speed of decision-making and execution of tasks is curtailed. Transformational leadership was further found to be positively associated with growth of women-owned enterprises. This result supports literature that suggests that transformational leadership is essential in the development of women-owned enterprises. Therefore enhancing transformational leadership is a viable option for boosting the growth of women-owned enterprises

6.0 Recommendations

There is need to formulate policies and programs on education and training in order to foster transformational leadership in women entrepreneurs. The presented results suggest that enhancing intellectual stimulation and individualized consideration among women entrepreneurs are avenues that can be pursued. The MLQ paradigm can be used to enhance the formulation and implementation of meaningful educational and training programs for women entrepreneurs. Proper coordination in the various government departments to establish quality training programs emphasizing on women leadership and knowledge in business is required.

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FACTORS HINDERING GROWTH OF WOMEN OWNED MICRO AND SMALL ENTERPRISES: *A CASE OF MICRO FINANCE BORROWERS IN MAKADARA - NAIROBI.*

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Abstract: The Small and Medium Enterprises(SMEs) sector has an important role to play in Kenya's drive towards industrialization as well as its quest for poverty eradication. To the extent that this is true, SMEs need to grow. The limited access of SMEs to credit and financial services is often presented as one of the most important supply constraints confronting the SME sector and research findings indicate that financial problems are one of the main reasons why relatively few SMEs graduate into larger enterprises. This paper sought to analyse constraints faced by women entrepreneurs after loan that impeded growth of their enterprises. The study findings showed that a majority of the sampled enterprises have not expanded despite getting MFI loans. Major policy interventions recommended relate to an evaluation of the credit methodologies of MFIs in line with the business needs of the entrepreneurs The paper offers some background on Micro and Small Enterprises(MSEs) growth, conceptual framework, empirical review of literature on MSEs growth.

***Keywords*: MSEs, Women-run enterprises, growth, microfinance, microenterprise, small enterprise**

INTRODUCTION

There is an increasing awareness in the international Community on the important role and potential of the small and micro enterprises (SMEs) in fostering socio-economic development in both urban and rural settings. SMEs are dynamic entities. Some grow into large enterprises; some stabilize without changing their scale of operations, while others disappear. The success of these enterprises can be measured by their ability to survive and prosper (Bhalla, 1992).

MSEs are receiving attention among policy makers and scholars in developing countries with fiscal pressures constraining growth of public sector employment, and with large enterprises in turmoil, often in response to the process of liberalization, many observers see MSEs as a source of economic salvation (McGrath, 1999).

In developing countries, the MSE sector employs 30-80% of the economically active population. The sector often absorbs excess labour during periods of restructuring and responds quickly to excess demand during periods of economic expansion (World Bank, 1995). However, not all is well with this sector as most of SMEs hardly grow beyond the initial stages, and 3/5 of all new businesses die within the first five years (World Bank, 1998).

The limited access of SMEs to credit and financial services is often presented as one of the most important supply constraints confronting the SME sector and research findings indicate that financial problems are one of the main reasons why relatively few SMEs graduate into larger enterprises. The vast majority of SMEs have been established without capital from the formal financial institutions, usually being financed exclusively from savings and loans from either friends and family members or informal lenders (ILO, 1994). Lending institutions have not been enthusiastic to give loans to the poor and women who run micro enterprises. Thus, the 1980s witnessed a spectacular proliferation of non-conventional institutions (micro finance institutions-MFIs) geared to offering credit services and to some extent savings to those who had always been excluded or ignored by mainstream banking institutions, that is, women and the poor (Gellinas, 1998).

Panos, (1997) notes that micro finance schemes are often presented as the key to the development aspirations of women. The need for poverty alleviation schemes targeting women is unarguable as women own only 10% of the world's property while of today's 1.3 million absolute poor people living on less than one dollar a day; over 900 million are women.

In Kenya, the1993 MSE Baseline Survey observes that women play an important role in the MSE sector constituting 46% of entrepreneurs and 40% of employment in the sector. The 1999 MSE survey observes that women own 52% of the MSEs in urban areas compared to 48% of their male counterparts.

International Labour office (ILO, 1994), identifies factors that constrain the growth and profit potential of women's enterprises as: concentration in product markets for which there is poor demand, limited access to markets, information and efficient transportation, time taken for domestic responsibilities, lack of labour and time saving technologies and poor management and illiteracy.

The importance of improved access to credit has been confirmed by many studies on SMEs, with credit constraint featuring high on the list of constraints confronting small businesses. These studies, however, caution against regarding credit as a panacea to growth of SMEs (ILO, 1994).

This study focused on the constraints inhibiting the growth of women-run micro and small enterprises in Makadara area of Nairobi who are beneficiaries of various Micro finance programs. The study looked at the reasons why the MSEs are not growing even with accessibility to loans.

Statement of the problem

Micro finance schemes are often presented as the key to the development aspirations of women. The main reason given by MFI policy makers focusing on women is the need to empower women through social and economic development programs, a commanding focus of donor programs since the 1980's. For instance, to be eligible for CGAP funds, MFIs have to demonstrate that they are reaching larger numbers of the poor that women make up at least 50% of their client base. In Bangladesh, 94% of those who meet Grameen Bank criteria for loans are women (Panos, 1997).

In Kenya, women play a central role in the MSE sector, constituting 46% of entrepreneurs and 40% of employment in the sector. Women dominate in commerce sector. Women –run enterprise show a different dynamic than their male counterparts, tending to be small and using little start -up capital. Women's entrepreneurial activities generally involve very little money and produce little profits. Money is earned in small amounts and used to cover the daily expenses of food. Women enterprises face a different set of constraints than other entrepreneurs. (Parker 1993, McCormick 1992).

Studies show that lack of credit is not always the main constraint for micro enterprise growth and development, and that poor people demand a wide range of financial, business development and social services for different business and household purposes (Hege, 1998)

Kilemi (1997) in a study on Kenya Rural Enterprise Program (KREP) loanees observed that 45% of female –clients interviewed reported that their businesses had not grown at all or had a negative growth rate as a result of acquiring a loan.

This study therefore, sought to critically examine the constraints women entrepreneurs face after loan, which inhibit the growth of their enterprises. This study was significant in that it looked at the constraints after loan because accessibility to credit has been seen as the single most important constraint faced by female entrepreneurs yet their business are not growing even after acquiring MFI loans.

II. THEORETICAL LITERATURE REVIEW

The study reviewed five theories related to growth of MSEs. These include the Industrial organisation model, resources based view, stochastic model, human capital model and learning model.

Human Capital Model

The human capital model pioneered by Lucas(1978) is related to firm growth effect model of Penrose(1959). The growth effect model had two different arguments. The first argument is the 'resource push' argument which looks at firms as a bundle of resources bound together by set of administrative skills or capabilities which are used to deploy them as effectively as possible. The second is the managerial limits to growth hypothesis. Penrose argues that at any time there are limits to the expansion that existing managers can achieve, and limits to the management capacity due to the constraint to the expansion of the number of managers (Penrose 1959, O'Farrell & Hitchens, 1988). Lucas (1978) assumed that individual entrepreneurs have certain business or management capabilities which will influence their success in business. His other assumption was that skill varies across workers and as such the size distribution of firms is based on the relative endowment of entrepreneurial talents and skills of employees.

Human capital relates to the internal environment of the firm as evaluated from by personal and leadership characteristics of the owner-manager (Gibb and Scott, 1985 O'Farrell & Hitchens, 1988). Other factors cited

influencing firm growth include the owner's age, attitudes to growth, occupational background, personal objectives, management style, level of owner's education and training, personal values and attitudes (O'Farrell & Hitchens, 1988).

Industrial organization model

The industrial organization model looks at growth of firms from an external perspective, that is, environmental/external factors, instead of resources and capabilities that are internal to the firm, (Hitt *et al.*, 2009). This model posits that a business enterprise must first consider the external environment (industry) and choose the one that is most attractive to the firm and design a strategy that fits to the characteristics of the industry. The firm then must successfully implement the strategy to increase its level of competitiveness in order to generate above average return.

Learning Model

The learning model introduced by Jovanovic (1982) and discussed in the literature on small firm growth by(e.g Liedholm & Mead, 1999; Storey, You, 1995; 1994). Jovanovic assumed that management ability differs among entrepreneurs. Further, he assumes that firms have different efficiencies which are not directly observable. He asserts that a firm's true efficiency can only be learnt gradually after the firm enters into production. A firm will adjust its behaviour upon learning about its true abilities . Beside choosing output levels to maximise expected profits on the basis of imperfect information on their efficiency levels, firms will also update their expectations based on the efficiency level. Firms which adjust their ability upward will expand and those which adjust them downward tend to contract or exit (Liedholm & Mead, 1999; Storey, 1994; You, 1995). The learning model predicts that firm failure rates and growth rates will be inversely related to the age and size of the firm (Liedholm & Mead, 1999).

Stochastic Model

The size distribution of firms at a given point in time is the result of a stochastic process from cumulative random shocks over time (O'Farrell & Hitchens, 1988). The stochastic model posits that the probability of firm growth is based on pure chance and the size distribution of firms in an industry reflect these stochastic processes.

Resources Based View(RBV)

RBV looks at the unique resources and capabilities owned and controlled by each firm as the bases upon which the firm can generate above average return or higher growth than competitors. The theory contends that all firms face the same external environment and that firms with strong internal capacity can exploit environmental opportunities and in addition challenge any external threats and challenges. This implies that while firms with unique resources and capabilities earn superior profits, firms with marginal resources can only expect to breakeven (Barney, 1991; Petraf, 1993).

III. EMPIRICAL LITERATURE REVIEW

Role Of MSE Sector

Nearly three quarters of the developing countries in the world depend on micro enterprises for employment and the general improvement of the living standards of their citizens.

In these countries, outside agriculture, micro enterprises form the bulk of their income earnings. Households that depend on agriculture, also have part time or seasonal micro enterprise activities to supplement earnings from agriculture (Digest, 1999).

The 1999 baseline survey found that there are 1.3 million MSEs employing about 2.4 million people, or approximately 17% of the total labour force. In terms of Gross Domestic Product (GDP), the contribution of the MSE sector was found to be18.4%(ICEG, 2000).

Dondo (1999) notes that a significant proportion of activities in Kenya's urban areas is accounted for by MSEs. He further observes that the role played by MSE's in the urban areas in terms of employment creation, income generation, economic diversification and dynamism has made the sector to be the last hope for future industrial growth and development.

ICEG, (1999) notes that the growth capacity of the MSE sector has the potential to contribute great strides towards the achievement of Kenya's goals for industrialization, rapid employment generation, and poverty eradication.

MSEs Lack Of Access To Formal Credit

Less than 2 percent of poor people have access to financial services from sources other than moneylenders, while fewer than 10 million of the 500 million people currently running Micro and small enterprises have access to loan or savings facilities. Banks have tended to assume that the needy will not keep up repayments, or that costs of servicing transactions on small loans must make grassroots lending unprofitable. Commercial Banks, however, have begun to

show growing interest in investing in MSEs. Yet some banks, through caution or through lack of familiarity with this market growth area, appear to be holding back from responding to current market demand (Panos, 1997).
Working capital is the most common constraint identified by entrepreneurs of existing micro enterprises. To access working capital, micro entrepreneurs often borrow from informal financial source such as family or friends, suppliers or local moneylenders. Usually moneylenders charge relatively high interest rates and may not offer loans products or terms suited to the borrower (Ledgerwood, 2000).

Felsenstain and Schwartz, (1993) in a study on constraints to small business development in Israel concluded that the major constraint facing all entrepreneurs at the start up and sustained operations stages is a shortage of capital. In their research, lack of capital was cited as a principal obstacle by over seventy percent of the respondents. The study, however, was based on rural micro enterprises since only the peripheral areas of Israel were studied.

Levy (1993) studied obstacles to developing small and medium enterprises in Sri Lanka and Tanzania and concluded that finance represents the binding constraint on expansion of all classes of enterprises.

Khandker (1995) in a study on the Grameen Bank notes that informal lenders have traditionally provided credit to rural people but because of their excessive interest rates, are considered inefficient for improving productivity. The bank holds that lack of access to credit is the biggest constraint on the poor.

World Bank lending for SMEs provides credit under the assumption that financial markets are working imperfectly and that lack of access to available finance is a critical constraint on the SME growth (Webster, 1992.).

In Ghana, when enterprises were asked to indicate the four most serious constraints that were hindering expansion of their business over 43% of sampled firms listed lack of access to credit as their primary constraint. Smaller firms tended to cite lack of access to credit more frequently than larger ones, but it was the dominant constraint in all size categories and for both older and new firms. (Ernest, 1997).

In Tanzania, a survey on demand for rural financial services established that the informal, quasi-informal and formal credit sources catered for only about 2.3% of the credit required by the rural and urban micro enterprises. The survey also established an existence of an insatiable demand for credit in the sampled areas. The survey also revealed that 43% of the respondent required loans for investment in agriculture and about 38% require loans for investment in business. This implies that about 80% of respondents require credit for financing agricultural production and business. (Musinga, 1997).

In Kenya, the Sessional paper No.2 of 1992 cites access to capital as one of the factors inhibiting the development of small enterprises and the Jua Kali sectors. Other factors include lack of coherent policy guidelines and unfavorable regulatory environment. Inadequate physical infrastructure, limited markets for sectors' products and services, a weak institutional infrastructure, poor information gathering and dissemination, lack of policy on gender specific issues, lack of enterprise culture, lack of managerial planning and implementation.
The 1993 Base line survey of MSES points out that enterprises are most likely to close in their first three years. Entrepreneurs cited low demand in the market (30.1%) as the most important constraint facing their enterprises, followed by lack of access to inputs (24.7%) and working capital (14.2%) as major constraints.
Bowen (1997) studied determinants of micro enterprise growth and observed that the main source of capital to entrepreneurs is own savings followed by capital from family and relatives and other sources (NGOs, friends etc). Out of 117 respondents, 92 (82.1%) identified capital as a constraint. This is mainly capital to expand the business.

Karanja (1999) studied factors that influence the effectiveness of the manufacture and marketing of furniture products in Nairobi and his conclusions were that major constraints facing entrepreneurs were financial shortcomings 30%, limited markets 20%, inappropriate premises 16%, inadequate machines 15%, competition from large business 11%, lack of managerial skills 5% and cost of accessing materials 30%. In this study, credit ranks as the second major constraint.

Kimuyu (2000) studied institutional impediments to access to credit by MSEs in Kenya and concluded that lack of working capital is the most important reason for business closure for more than a 1/3 of the enterprises. Lack of credit is the second severest problem faced by SMES, the first one being lack of demand for their products. 36.2% of MSES cite shortage of working capital as a reason for business closure. On sources of initial and additional capital, he observes that that 80.4% of MSES source capital from own or family or friends, commercial banks 1.8%, NBFIs 1.1%, ROSCAs 1.1% and Others (NGOs, Government Programs, trade credit, and money lenders 8.1%).

The limited access of SMEs to credit and financial services is often presented as one of the most important supply side constraints confronting the SME sector and research findings indicate that financial problems are one of the main reasons why relatively few SMEs in Kenya graduate into larger enterprises (ILO, 1995). To the extent that this is true, the implication is that with credit MSEs should graduate into small businesses. This study therefore analyzed constraints to the growth of female run MSEs.

Lack Of Access To Credit By Women Enterpreneurs

Women are considered in many societies as unfit to assume the responsibility of credit, despite the fact that they generally take the responsibility for the survival of their families (Panos, 1997)

Liedholm and Mead (1987) observe that in the absence of formal credit opportunities, a majority of the women entrepreneurs are forced to resort to informal borrowing through close friends and relatives, money lenders, pawnbrokers, suppliers, credit unions and village banks.

Ngau and Keino (1996) in their research found that 53% of the women had raised their capital through personal savings, while 44% borrowed from husbands, relatives and friends, only 3% had obtained their initial capital through a bank loan. 95% of the women had not acquired a loan from any financial institution citing lack of security for collateral and lack of information concerning procedures involved in loan acquisition.

A research by Kimuyu (2000) shows gender differences in the demand for credit. Male entrepreneurs borrow more than twice the amounts borrowed by their female counterparts due to their greater access to properties with collateral value. He concludes that credit markets discriminate against women-owned enterprises.

ICEG, (2000) notes that the marital status of entrepreneurs is an important factor in access to credit and control of the business enterprise. It further observes that lack of collateral limits women's capacity to borrow. This thus hampers their bid to expand their businesses, yet they are good in debt repaying.

Whereas, the literature reviewed shows a lack of access to credit by women, other studies show that women –run enterprises tend to remain small and grow more slowly than their male run counterparts even with credit availability. This current study seeks to look at the constraints hindering the growth of businesses run by women borrowers of various MFIs.

Related Literature On Growth Of Women-Owned MSEs

Grown and Sebstad (1989) observe that though it is generally harder for women than men to secure funds for investment, a lack of capital is not the only factor that may impede growth. Women are likely to work in low return sectors, than men so their profits are lower. They further note that women spend a relatively high proportion of their profit on household needs, and have less access than men to use of household funds for investment.

Studies from Bangladesh show that women tend to invest more in the household, and men tend to invest more in the business (Mosley, 1996). Goetz and Gupta (1994) observe that; the credit-giving NGOs may simply have offloaded some of its debt collection task onto the backs of long-suffering women. Yet the extent to which women can improve their living standard through micro finance may be limited by macroeconomic policies. In other studies they demonstrated that a significant number of female clients to rural MFIs do not control the use of their own loans once they have gained access to MFIs. This may explain some of the reasons why women owned enterprises fail to grow or register negative growth after loan.

The growth dynamics of women's enterprises cannot be measured simply in terms of a single firm. More attention to the qualitative aspects of growth, the risks involved, and the influence of gender is needed (Lyberaki and Smyth, 1990).

In Ghana problems inhibiting growth of the informal sector operations made access to institutional credit, lack of access to technical advice and business development services, inadequate usable information about sector policy formulation, poor location of enterprises with respect to raw materials, supplies, services and markets (Quainoo, 1999).

Women run enterprises are much less likely to grow than men-run or multi-owner enterprises. Although women owned businesses outnumber men owned enterprises, due to their lower expansion rate, they only contribute 32% of expansion jobs compared to 43% by men-owned enterprises. The survey further notes that women-owned enterprises show a different dynamic than men-owned enterprises, tending to be smaller and to grow slowly than their men-owned counterparts. It also observes that women owned enterprises tend to use smaller amounts of start- up capital to locate more frequently within the home and to rely on unskilled and unpaid workers. It further notes that women entrepreneurs face a different set of constraints than other entrepreneurs (Parker, 1993). ILO report (1994) concurs with this by observing that while both male and female entrepreneurs face constraints that hinder firms' growth, women face special constraints.

McCormick (1993) noted that some of the barriers to growth include entrepreneurship, access to scarce resources, competitive market, costs of growth, distortions created by government policy and regulation, historical and cultural factors and simple luck.

The ILO Report (1994) identifies factors that constrain the growth orientation of female entrepreneurs as access to resources, investment patterns, time mobility constraints related to domestic responsibilities, involvement in diversified activities and illiteracy and lack of numeracy skills.

In Kenya, despite the fact that in theory the laws provide for equality between women and men, this is not the case in practice. For instance, the by-laws by the local government restrict women from running businesses in their homes or being hawkers. Furthermore there exist conflicts between the city administration and the firm proprietors. The council holds excessive powers over small-scale producers.

Bowen (1997) studied determinants of rural micro enterprise growth and concluded that risk constitutes a constraint to enterprise growth. He notes that risk averse entrepreneurs run relatively smaller enterprises. The study further established lack of capital to be the most binding constraint to growth of micro enterprises. The study, however, studied a sample population consisting of 76.1% male and 23.9% female. It is therefore necessary to study a more representative sample of women so as to critically examine how the above variables relate to growth of female – owned enterprises. The study also was carried out on the premise that capital was a constraint that is there was lack of access. Thus study therefore is significant in that it studies women who have access to credit but their businesses are not growing.

Many women engaged in small enterprises find it increasingly hard to grow for a variety of reasons. Firstly, compared to their male counterparts, women have generally less access to start-up capital as well as credit opportunities. The reasons for this include the customary and legal status of women as well as their limited control over family resources. Secondly, the role played by most third world women as domestic workers as well as their reproductive responsibilities greatly constrain their meaningful participation in their chosen small scale enterprises. Thirdly, women have generally more limited access to formal education as well as relevant technical and managerial information (Berger 1989, Liedholm and Mead, 1987).

Whereas there is general evidence currently of women entrepreneurs access to credit as reflected by the many MFIs whose majority of members are women, not much has been researched as to why even with credit female run enterprises are not growing. This study therefore sought to fill this gap.

The Model.

In order to capture the relationship between enterprise growth (dependent variable) and the constraints (independent variable) the following model was used.

$G = f$ (e, t, d, c, i, et) ----------

Where,

G =Growth of enterprise
e = Level of Education
t =Business training
d = Domestic roles
c =Working capital
i = Levels of income
et = Error term.

Equation (i) above can be expanded into a regression model:

$G = \alpha_0+\alpha_{1e}+\alpha_{2t}+\alpha_{3d}+\alpha_{4c}+\alpha_{5i}+$ et

Where et is the error or disturbance term and α_0, α_1, $\alpha_3 \ldots \alpha_5$ are parameters to be estimated.

IV. **FINDINGS**

Descriptive Results

Business Expansion and Education

A majority of the respondents (59.1%) had secondary education. This was followed by college education at 20.5%. 13.6% of the respondents had primary education. Only a small percentage (2.3% and 4.5%) had polytechnic and university education respectively. Only 2 out of 6(4.5%) of entrepreneurs who had primary education had their businesses expand. For 10 out of 26(22.7%) entrepreneurs with secondary education, businesses expanded while for

16(36.4%) businesses did not expand. Of the 9 entrepreneurs with college education only 3(6.8%) had their businesses expand. The highest expansion and non -expansion was in the category of those with secondary education (22.7% and 36.4%) respectively. In the university category, one business expanded out of 2 representing (2.2%). The Pearson (P) value of 0.93285 is not significant at 0.05 level of significance. We deduce that there is no relationship between business expansion and education.

Business expansion and Income

The table above shows that 40.9% of the respondents had an average monthly income of above Kshs. 6000. 36.4% had an income of up to Kshs.2000 while 11.4% had incomes of between 2001-4000 and 4001-6000. The highest number of businesses which did not expand (12 out of 16) representing 27.3% were those with incomes of between 0-2000. Of the entrepreneurs with incomes of above 6000, 9(4.5%) enterprises expanded while 9 did not. All the enterprises in the 2001-4000-income category did not expand. In the 4001-6000 income group 3(6.8%) enterprises expanded out of 5.

Using the Chi-square test at 0.05 level of significance, the Pearson (P) value was 0.09354. Therefore we conclude that there is no relationship between income and business expansion.

Business expansion and Training

From the findings, 77.3% of respondents had no training at all while only 22.7% got training from MFIs or NGOs such as Skills Across Kenya. Asked whether they thought training would be useful to their businesses, most of those who had no training answered yes. Entrepreneurs who had business training said that such training had been useful to their enterprises. Most entrepreneurs expressed the need for training in business management and marketing as well as quality control.

For 4 out of 10(9.1%)of the entrepreneurs with training, businesses expanded. Of the 34 entrepreneurs without training 12(27.3%) enterprises expanded. Using the Chi- square (P) value of 0.78567 the relationship was not significant at 0.05 level of significance.

Business expansion and Working Capital

From the study findings, 50% of those interviewed cited shortage of working capital as a constrain to the expansion of their businesses. Further, 70.5% of respondents who obtained loans from MFIs found the amounts inadequate. Only 29.5% were satisfied. Thus, such entrepreneurs still resorted to loans from shylocks to supplement MFI loans.

9 out of 22 enterprises which were constrained by lack of working capital expanded while 7out of 22 businesses not constrained expanded. Using the chi-square test of significance at 0.05 the P value of 0.53080 is not significant.

Business expansion and Domestic Responsibilities

For 52.3% of the respondents, domestic responsibilities constrained the expansion of their enterprises while for 47.7% it did not. Enterprises expanded for 11out of 23(25%) entrepreneurs who were constrained by domestic responsibilities. Businesses expanded for only 5 out of 21(11.4%) entrepreneurs not hindered by domestic responsibilities.

63.6% of the enterprises sampled had not expanded as a result of loan. The enterprises had either stagnated or declined. Only 36.4% of businesses surveyed expanded. When asked why their businesses were not expanding entrepreneurs cited the poor state of the economy and unrealistic repayment schedules.

52.3% of the enterprises surveyed do not employ any workers while 47.7% employ. 61.9% of the enterprises employing workers have not added workers since benefiting from MFI loans. When asked why they had not added employees, the entrepreneurs cited lack of expansion of their enterprises to warrant such addition. Some businesses as a result of decline or stagnation in growth either have been forced to lay off the existing employees or stop employing new ones. 38.1% of the respondents indicated an increase in workers.

A majority of the entrepreneurs (90.9%) had no other business. Only 9.1% have established other businesses elsewhere. Asked why they had not started new businesses entrepreneurs' cited non-expansion of their current enterprises as the main reason. However, most of those interviewed expressed a willingness to start an extra business as a way of spreading risk.

56.8% of women entrepreneurs interviewed used business profits for family subsistence with none being reinvested in business. On why they preferred to put all their income into family subsistence, most respondents said that their families came first. They also cited low profits, which did not leave anything for the business. This indicates a lack of

separation between the owner and the business. 29.5% of those sampled reinvested their profits back into business while only 13.6% saved the income from the enterprise. Perhaps the high proportion of entrepreneurs who use business income to meet family subsistence could explain why most of the enterprises are not expanding.
54.5% of the respondents cited loan repayment as a constrain to business growth. Most of those interviewed complained of short repayment schedules, which do not give them adequate time to generate income to repay the loans. Thus, some entrepreneur's are forced to use the principal amount obtained from the MFIs to repay the loan. However, 45.5% of respondents did not find loan repayment a hindrance to enterprise growth.

Other Findings

45% of the respondents did not keep business performance records. On why they did not keep records, many of the respondents said that profits were too low for them to bother monitoring their performance. Thus, such individuals could not monitor the growth of their enterprises. The remaining 55% kept business records. However, it is worth noting that most of the records kept were those on daily sales and clients owing the business. No attempt was made to keep records on income and expenditure.
Lack of markets was cited by 20.5% of the respondents, as a hindrance to business expansion.79.5% of those interviewed were not constrained by lack of markets.
Interest rates were cited as a constrained to business expansion by 47.9% of the respondents.
36.4% of entrepreneurs cited weak purchasing power as affecting the expansion of their enterprises. This they said was as a result of retrenchment, which had rendered most of their customer's jobless and the poor state of the economy.
Government regulations were also cited as affecting business growth by 31.8% of the respondents. Commonly mentioned were council regulations involving licensing advertising and harassment by council "*Askaris*".

Competition came out as a major hindrance to business growth, especially for women in textile manufacturing and "*mitumba"* business. This can be attributed to the fact that the quality of their products is still low.
Lack of information was cited as a constrain by 35.5% of the entrepreneurs interviewed. This was mainly information regarding marketing and new technology. Most of those who did not find information a problem, however, seemed not to understand the importance of information to business growth. Others were indifferent on the importance of information on business growth. This thus calls for education of the entrepreneurs.

Multiple Regression Results

From the above results R^2 is 0.19649 implying that 19.6% of variability in growth is accounted for by variables in the model. This implies that there are other variables other than those in the model such as type of business, lack of markets, lack of information, technology used etc. which explain growth. In addition, the small sample size as well as the limited area of coverage may have affected the result. The urban nature of the area also may have affected the result. In education for instance, earlier researches such as the 1999 Baseline Survey and GEMINI 1995 show entrepreneurs with primary education were the majority whereas in this research entrepreneurs with secondary education dominate. The unwillingness of the respondents to provide accurate and correct information also may have affected the result.

From the t-ratio of .0087 the regression results are significant at 95% confidence level. However, at 5% level of significance only domestic responsibilities and income are significant i.e.<. 05. Capital, education and training are not significant. This may have been as a result of factors outside the model, which affect both the trained and untrained as well as the educated and uneducated.

Correlation Results.

Correlation results showed a positive relationship between business expansion and working capital, business expansion and domestic responsibilities, business expansion and training while there was a negative correlation between business expansion and education and business expansion and income.

Conclusions, Recommendations And Suggestions For Further Research.

The regression analysis revealed that the variables in the model accounted for only 19.6% of the variations in the independent variable. This implies that there are other factors outside the model, which influence growth. Thus, it can be concluded that the variables in the model do not adequately explain growth.
The results showed a negative relationship between education and income with growth while domestic responsibilities, training and capital had a positive relationship. Only the relationship between training and capital confirmed the researchers' hypothesis.
From the study findings, other factors affecting growth include competition, short loan loan repayment duration, shortage of working capital, and high interest rates.
The study recommends that MFIs, government and other stakeholders should come up with policy measures to mitigate the factors hindering growth.

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DIGITAL INNOVATION AND CUSTOMER RESPONSIVENESS IN THE TELECOMMUNICATION SECTOR IN KENYA

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ABSTRACT

In the modern business world, organizations operate in an environment characterized by uncertainty and instability due to dynamism of business activities that call for innovation. Although the Kenya's Information and Communication Technology sector is among the key economic pillars, it posted 6.1 percent contribution in regard to GDP in 2016 which was the lowest contribution. The dismal performance of the ICT sector implied that the telecommunications firms are not responding to their customers as expected in the set standards of the Vision 2030. Further, the quality of service report indicated that all the firms have been fined by their regulator for failing to achieve the 80 percent minimum threshold set for compliance thus failing to meet the quality of service standards for the last five years. In the recent years, the telecommunications services have undergone a radical change due to the rapid evolution of ICT. Unlike other sectors, the innovation models in the telecommunication service providers are still inconsistent hence it calls for further investigation in the entire industry. This study seeks to develop a model that links three main variables, namely digital innovation, ICT capability, and customer responsiveness. The model will provide a solution to a gap that had received little attention by the prior research in the telecommunication industry.

Key words

Digital innovation, ICT Capability, customer responsiveness, User Experience, Value proposition, Internet of Things.

1. Introduction

In Kenya, the telecommunication sector is highly competitive since 1998 when the deregulation of the sector was introduced by the then Communication Commission of Kenya.(CA, 2017), (Waema, 2007). The industry is composed of Mobile Telephony Services, Fixed Telephony Services, Data/Internet Services, Broadcasting Services and Postal & Courier Services. Nowadays, all telecommunications firms, regardless of their sizes face the challenges dealing with the new technologies; with operating in the same way as private corporations, understanding what products are profitable and which are not, and dealing with almost constant change. To survive in today's world, telecommunication firms need to change through deregulation to become more competitive, market-oriented and customer-driven. In this environment, price is no longer the only determinant of the telecommunication industry. Speed and quality (or responsiveness) is the next source of competitive advantage especially in the telecommunication industry. These challenges would certainly require the telecommunication firms to be more innovative which in turn would also lead to better performance. The investigation on effect of innovation is important because the development of new service failure rate is very high (Su, Y., Xu, D. and Phan, P.H. (2007) In addition, most of the researches in the past have examined the effect of innovation on the operational and organizational performance in general but very little focus on the customer responsiveness. Therefore, the purpose of this paper is to discuss the current innovation in the telecommunication firms in relation to customer responsiveness, by proposing a model to be investigated in relation to this relationship.

1.1 Statement of the problem

The theme of the second Medium Term Plan (MTP), (2013-2017) of the vision 2030 indicates how the government, working through the ICT Authority, would attain the set economic targets, which include the creation of more 180,000 jobs and 8 percent contribution to the Gross Domestic Product (GDP) by 2017. According to the Kenya Economic report (2017), the ICT sector, in which the telecommunication industry is the main player, was the lowest contributor in terms of GDP rating at 6.1 percent by end of 2017 (The Kenya Economic report 2017, http://www.kippra.org). The Communications Authority of Kenya has fined the dominant market players for the last five consecutive years now for failing to achieve the 80 percent minimum threshold set for compliance thus failing to meet the quality of service standards(CA, 2017), (Www.coastweek.com) In addition, the market performance in the internet and telecommunication sector doesn't indicate a smooth curve of growth (CA, 2015)This is a clear indication that the telecommunications firms are not responding to their customers as expected by their regulator and in the set standards of the Vision 2030 as they rate below the stated percentage. The fact that the telecommunication industry environment has been affected adversely by the changing operating environment calls for adoption of digital innovation to enhance a competitive edge in terms of customer responsiveness in the markets.

2. Review of literature

The paper presents a summary of the conceptual literature on the constructs of user experience, value proposition, digital evolution scanning, skills, improvisation and customer responsiveness. This is then followed by the relevant theoretical review that discusses the main theories upon which the constructs are anchored.

2.1 Digital innovation and telecommunications firms

Innovation is about people creating values and ideas to the customers. It has become a driving force for a large number of organizations around the world. Even a small innovation would result in a cumulative strength that is capable of creating the new one (Kandampully, 2002)As marketplaces become ever more dynamic, there is a widespread recognition of the increasing importance of innovation to organizations and economies (Rowley, J.

2011,Oke et al.,2007). Taking risks is an integral part of innovation and people can learn as much from what did not work as what turns out to be successful. As information is increasingly digitized and mobile devices accelerate in pervasiveness and processing power, an arena and architecture for innovation is opened up one in which physical and digital components are combined (Yoo, Boland, Lyytinen, & Majchrzak, 2012). Recent research (Henfridsson et al., O. ,2014)); (Yoo et al., 2012) has highlighted how the unique properties of digital technology enable new types of innovation processes that are distinctively different from the analog innovation processes of the Industrial era. When engaging in digital innovation, both incumbents and new entrants face challenges and opportunities that showcase an exceptional complexity. One key aspect of this complexity is the rapid pace of digital innovation processes (Yoo, Henfridsson, & Lyytinen, 2010). Ultimately this rapid pace is enabled by the malleability of digital technologies: the ease with which they can be reconfigured (Tiwana, A., Konsynski, B., & Bush, A. A. (2010).); (Yoo et al., 2010). The rapid pace of digital innovation processes is particularly challenging as firms engage in the design of 'hybrid' or 'smart' products, via which digital components are embedded in traditional products.

Digital innovation enables service firms to gain competitive advantage (Droege S. 2009). Innovation in telecommunication firms is essential for their survival. Telecommunication services will continue to grow in line with the growth of online shopping or internet business, and more home delivery, coupled with the increased infrastructure of developing countries and rural areas. E-commerce will be a key driver in the growth of telecommunication sector with more and more people buying and selling through the Internet. People and the telecommunication articles and goods to be moved efficiently from one place to another anywhere within the country as well as overseas. Thus, an integrated development strategy for the telecommunication firms is timely as digital and physical communications are likely to complement each other.

In seeking to manage digital product and service innovation, uncertainty occurs across three dimensions: the firm's products, its digital environment, and organizational properties (see Table 1). Therefore, firms need a holistic view of digital innovation when navigating the rapidly changing digital innovation landscape. The framework presented in this article enables firms to gain such a holistic view of digital innovation, helping them to motivate and keep track of their digital innovation efforts.

N	Type of innovation	Area	Description	Indicators
1	Product	User experience	Digital products and services must offer high levels of usability, possess carefully designed aesthetic properties, and evoke engagement.	Usability, Aesthetics & Engagement
		Value proposition	Digital innovation involves an articulated value proposition; i.e., a customer segmentation including strategic pricing and positioning of the product portfolio, dynamic bundling of product units, and carefully negotiated commissions to channel owners.	Segmentation, Bundling and Commissions
2	Environment	Digital evolution scanning	In order to identify opportunities for innovation, firms need to scan their digital environment. This involves gathering information on new digital devices, channels, and associated user behaviours.	Devices, Channels and Behaviors
3	Organization	Skills	In order to reap the benefits of digital innovation, firms need to acquire new skills both internally and externally while establishing new digital roles. In doing so, firms should promote continuous learning of the unique properties of digital technologies in order to secure dynamic innovation teams.	Learning, Roles and Teams
		Improvisation	The malleability and low cost of digital technologies affords a higher degree of improvisation. As a consequence, managers need to ensure that they provide organizational members with an improvisational space where structure and flexibility is balanced in such a way that the constraints maximize creativity, dedicated time is given, and improvisational efforts are coordinated to deal with overlaps and waste.	Space, Time & Coordination

Table 1: Dimensions of digital innovation

2.1.1 User experience

In web-site navigation, users need to arrive at the desired product in a few clicks, thus measuring efficient browsing and usability is, however, not enough; the customers' experience of interacting with these web- sites is key. While the user experience design is a central differentiator and competitive force, Forrester recently reported that 97% of websites had a substandard user experience design. In digital innovation, measuring the user experience involves not only usability issues, but also the aesthetic properties of digital products and services.

Users are affected by beauty and appearance; therefore, these aspects need to be carefully lever- aged and aimed at evoking a positive emotional response from the user (Hassenzahl & Tractinsky, 2006); Tractinsky, N., Cokhavi, A., Kirschenbaum, M., & Sharfi, T. 2006). Finally, in the proposed model, the user experience is measured on the ways the firm's digital products and services evoke engagement. When seeking a way to create digital products and services that are engaging, firms need to explore and tap into values that can make the experience of their digital products and services meaningful to users (Diller, S., Shedroff, N., 2005). Creating an integrated user experience that evokes engagement is particularly important when moving beyond websites and desktop applications. User experience is the first key area that firms need to measure in order to motivate and keep track of their digital innovation efforts. This is done through obtaining a composite measure of the levels of usability, aesthetics, and engagement in firms' digital products and services.

2.1.2. Value proposition

In the telecommunication service industry, dominant designs provide a structure that enable benchmarking and unified pricing. In the digital age, however, firms increasingly innovate on malleable intangibles that can be rapidly reconfigured. Therefore, while digital product categories are fragile and negotiable (Nylén & Holmström, 2015) the ongoing reconfiguration of the firm's business model has been highlighted as critical in a context of digital innovation (e.g., (Lucas, H. C., Jr., & Goh,2009)In this model, the value proposition of digital products and services is evaluated through assessing three elements, beginning with customer segmentation. This involves analyzing the customer base in order to make strategic decisions about how to reach different groups of customers with the products and services in the firm's digital portfolio.

Smartphone and tablet apps are often based on a 'freemium' model via which users can opt out of ads by paying a fee. Customer segmentation enables firms to start reflecting on the pricing and positioning of their digital products and services. Having segmented the customer base, firms need to decide how the products and services in their digital portfolio can be differentiated and bundled. This includes the specific configuration of the balancing of premium and free and the role of advertising in each of the firm's digital products and services, as well as defining boundaries between them while defining units in each of them. Therefore, when engaging in digital innovation, firms need to consider how products and services can be bundled in new and innovative ways. In contrast to traditional product licensing models, firms engaging in digital innovation are faced with commissions of channel owners. Value proposition, dealing with how value is created and captured in each digital product and service, is thus the second key area to assess for firms that seek to achieve successful digital innovation management.

2.1.3. Digital evolution scanning

The nature of digital technology implies that it evolves in a 'recombinant' or 'combinatorial' manner. This refers to the ways in which hardware circuits and lines of code are configured to interact in new ways. In other words, digital

technology seems to evolve out of itself, starting with a few simple hardware and software components, combined in several rounds over time into more and more sophisticated and integrated ones, forming systems of increasing complexity (Arthur, 2009)During the last decade we have seen how this evolutionary process is constantly speeding up. This is not only manifested in ever-shorter release cycles of digital devices, but also in the explosion of social media and communication services and applications. This calls for revisiting established notions of strategic environmental technology scanning. Indeed, firms need to monitor these developments in order to ensure compatibility by implementing timely upgrades of their digital products and services. However, this scanning moves beyond compatibility concerns when firms seek to harness the full scope of digital innovation.

Digital evolution scanning involves identifying new opportunities for innovation. As digital innovation emerges in these acts of recombination, firms need to continuously consider how they can be active participants. That is, how can they exploit these opportunities and generate an aggregated value through creating digital products and services that utilize existing components? In doing so, firms need to keep up-to-date with and analyze the progress of digital technology and associated usage patterns. This is done through gathering intelligence on which new hardware devices are on their way to market, including components such as memory, processors, and chips, and devices such as PCs, smartphones, and tablets. While the former can enable embedding digital capabilities into traditional analog products, the increased processing capabilities of mobile devices is continuously allowing resource-demanding services and content such as films, video games, and advanced editing to be done on the same device.

Firms need to expect this evolution to continue and assess how it relates to their business. Furthermore, digital technology has enabled a re-invention of sales and distribution channels. Firms can now position and integrate their products and services with an abundance of mobile operating systems, social media sites, and app stores. Facebook is currently a key actor for many firms that utilize the platform to a varying degree, ranging from small businesses that push information out to their customers, to large players like Skype and Spotify that instead utilize Facebook to pull new customers in through formalized Facebook partnerships materialized in integrated user accounts. Finally, digital evolution scanning involves observing new user behaviours. New markets can emerge as users sometimes unexpectedly adopt a digital technology into a new use context. As noted, the ways in which devices, channels, and behaviours co-evolve is highly complex. Rather than try to reduce this complexity, firms should instead seek to harness it(Axelrod, R., & Cohen ,2000). This is done through digital evolution scanning, whereby firms can identify and exploit the structural holes in which opportunities for combinatorial digital innovation reside. Digital evolution scanning is thus the third key area that firms need to address in order to validate that they have the mechanisms in place for identifying opportunities for innovation that emerge in their digital environment.

2.1.4. Skills

Since production of quality products and content remains key, digital innovation requires new skills without making all existing skills obsolete. Three main elements should be measured when evaluating the firm's digital innovation skills. First, service industry firms should seek to leverage and translate skills obtained from developing analog products. Measuring this key area involves taking stock of the ways in which learning is supported and promoted throughout the organization. Digital innovation involves continuous learning whereby new digital technologies are explored in order to create an understanding of their unique properties. This can involve establishing conditions for retraining and incentives for existing staff to acquire digital skills. It is critical to acknowledge organizational members' spontaneous digital innovation initiatives throughout the firm.

Therefore, firms should be alert and identify organizational members that are drifting from their established roles toward improvising with digital technologies. Such talent is important to pick up in order to secure the appropriate skill sets for future projects, ultimately achieving sustainable digital innovation management. While new roles can

emerge from within the organization, firms may necessarily recruit externally for specialized digital roles that complement existing roles. In combining such roles, it is a key challenge for managers to assess the current status of organizational members' skills, ensuring that they can be fruitfully assembled in dynamic innovation teams with the right combination of skills for each project. Therefore, firms need to carefully consider the balance between carrying out digital innovation projects in-house and engaging specialized external consultants.

While managers may prioritize involving leading consultants to achieve supreme digital service de-signs in individual projects, developing in-house skills ensures the agility needed to handle the rapid pace of digital innovation processes. In large firms, this could involve sourcing and combining resources and skills from multiple countries and divisions within the firm. Guided by the composite measure on this fourth key area, managers can organize their digital innovation teams to address the rapid un-folding of digital innovation processes.

2.1.5. Improvisation

This paper argues that by promoting improvisation through- out the organization rather than trying to impose a central control on all digital innovation processes, contemporary firms can harness complexity through combinatorial innovation. In this context, improvisation is defined as ''the conception of action as it unfolds''(Cunha, M. P., Cunha, J. V., & Kamoche, K. 1999). Although it often emerges as a consequence of formal plans not playing out, managers can intentionally employ improvisation as a deliberate strategy (Pavlou, P. A., & El Sawy, O. A. 2010). In the digital realm, improvisation is often an act of reconfiguration. The malleability of digital technologies affords a higher degree of improvisation than their analog counterparts.

Improvisation involves risk taking, and in the context of digital innovation, the low cost of digital technology also means a lower cost of failure. Therefore, managers need to ensure that they provide organizational members with an improvisational space in which structure and flexibility is balanced in such a way that the constraints maximize creativity while evoking generatively (Avital, M., & Te'eni ,2009);(Yoo et al., 2012). Allocating time for improvisation is key; we have recently seen how Google allocates 20% of employees' working hours to individually initiated projects and 'skunkworks.' In digital innovation, improvisational efforts typically occur across different units, levels, and divisions of the firm. Therefore, it is critical for firms to establish mechanisms for capturing the successful outcomes of such efforts.

Meanwhile, in order to deal with overlaps and waste, coordination is a key measure. Digital innovation requires an organizational culture that allows for improvisation and, thereby, also failures throughout the firm. Improvisation is thus the final key area to be assessed by firms that seek to achieve sustainable digital innovation management.

2.2 Customer Responsiveness

This paper defines customer responsiveness as the extent of capability of a firm in providing speedy services, variety of services, and willingness to help customers within the service delivery system (Razalli, M. R. (2008). In other words, responsiveness is the operational performance that measure capability of the service providers in terms of time, quality and flexibility in relation to their customers. Prior studies have found that customer responsiveness is substantially important in the logistic companies especially the telecommunications firms. Indeed, one of the most important determinants of the firm's success in competitive markets is the firm's capability in providing its customers with proper responds to their needs (Jayachandran, S., Hewett, K., & Kaufman,2004). A rapid respond to customers' requests may position the firm as a first mover in the market and as a result enhances the performance of the firm in

the market .Customer responsiveness is also an important factor that significantly and positively affects the firm's performance in telecommunications sector (Sousa, C.M., Ruzo, E. and Losada,2010)

In order to achieve superior customer responsiveness, a firm must have the ability of doing a superior job over its rivals in identifying the right needs of its customers and fulfilling their satisfaction which can eventually generate a differentiation based competitive advantage and ultimately enhances its firm performance. For example, studies found that the level of responsiveness (in terms of speed) is influenced by the service delivery as an innovation (Sheu, C., Yen, H. R., & Chae, 2003) . Specifically, the use of technology in the service industry has been found to influence responsiveness (Poria, Y., Oppewal, H. 2003). A recent study on responsiveness also found that digital innovation influences responsiveness (Kritchanchai, D. (2004).Besides that,(Arias Aranda, 2003) discovered that service delivery is significantly related to service flexibility. Other studies have shown that the competence to innovate (Menor, L.J. and Roth, A.V. (2008).) and the firm's new innovation development process (Sundbo ,1997) could lead to a greater organizational performance. A study by (Chen & Tsou, 2012)also supported that a firm's decision to develop digital innovation for firm performance depends upon the innovation. Therefore, we conclude that digital innovation should lead to customer responsiveness.

2.3 Review of relevant theories

The conceptual discussion has paid attention to the nature of the key constructs in the conceptualization emanating from digital innovation to create a phenomenon leading to customer responsiveness. Some theories could prove useful in offering the needed explanation of the behaviour of the phenomenon within the context of the discussed constructs. The paper thus will consider the postulates and contributions of the: Resource-Based View (RBV) of the firm, Diffusion of innovation theory and Technology Acceptance model.

2.3.1 Resource- Based View of the Firm theory (RBV)

Barney's 1991 article "Firm Resources and Sustained Competitive Advantage," is widely cited as a pivotal work in the emergence of the resource-based view. However, some scholars argue that there was evidence for a fragmentary resource-based theory from the 1930s. RBV proposes that firms are heterogeneous because they possess heterogeneous resources, meaning firms can have different strategies because they have different resource mixes. The RBV focuses managerial attention on the firm's internal resources in an effort to identify those assets, capabilities and competencies with the potential to deliver superior competitive advantages. The essential idea of RBV is to leverage the companies' resources, particularly the internal sources (Kraaijenbrink et al. & Kraaijenbrink, Spender, 2010), and core competencies to generate a sustainable competitive advantage which also includes the degree of customer responsiveness. It focuses on costly-to-copy attributes of the firm as fundamental drivers of performance and competitive advantage (Barney, Jay, " Management Science, 1986, Vol. 32, No. 10). RBV theory is based on the idea that the effective and efficient application of all useful resources that a company possesses helps determine its customer responsiveness, and by extension, its performance.

2.3.2 Diffusion of Innovation Theory

According to Lieberman, M.B. and Montgomery, D.B. (1988), inventions are by definition, only introduced by one firm, or at most by a small handful of firms that bring a new product or service to market simultaneously. Companies that succeed in commercializing an invention are sometimes known as first movers. If an invention involves proprietary technology, then the first firm to obtain the patent or copyright wins the exclusive right to market the product. Chandler (1990), states that pre-emption of scarce assets can sometimes provide an advantage to one or a few first movers that will not be available to those that adopt the innovation later. According to Rogers (1983), the

creation of buyer switching costs can also provide an advantage to one or a few first movers that are denied to followers.

Firms seeking to gain one or another of these advantages are sometimes referred to as first movers. Those that do not aim for invention, but innovate by adopting an invention that appears to be a winner, can be said to be late movers. Even if an innovation is clearly incremental rather than radical, the first mover is introducing or seeking change to a greater degree than the late mover, who waits until an invention no longer seems new to the market or the industry before adopting it (Tushman and Anderson, 1986). Both supply and demand side factors influence the decision to adopt. From the demand perspective, there is some consumer demand for this facility. On the supply side, protection of reputation, competition, cost savings, mass customization, enhancement of marketing and communication activities, and retention and attraction of consumers have been cited as influential factors on the diffusion of Internet depositing (Daniel and Storey, 1997).

In the current business world, enterprises have entered the era of low profit and increasing competition. Competition is already up to the strategic level and becomes the key to success. Therefore, under the competitive environment, achieving competitive advantage is considered as the ability for a company to stay ahead of present or potential competition (Porter, 1985). Consequently, organizations in the telecommunication industry are operating in increasingly competitive market and innovation is often a necessary condition for their survival. The ability of a firm to innovate is ever more viewed as the single most vital factor in developing and supporting customer responsiveness. In the telecommunication sector, innovation is aimed at developing a change adept organization that anticipates, creates and responds effectively to change in the external and internal environments to increase customer satisfaction, along giving the firm competitive advantage over its competitors.

2.3.3 The Technology Acceptance Model

TAM as a theoretical model helps in evaluating the effects factors such as system characteristics on user acceptance(Davis, F. D. ” MIS Quarterly (13:3), 1989). Under TAM model, it is assumed that the user of a computer acts in a rational manner and uses information systematically in order to judge on whether to adopt the technology. Davis, F. D. (1989) acknowledged three major motives related to the acceptance of technology that relate to effectiveness and cognition.TRA was adopted as the basis for causal links between perceived importance, use of behavioral intention and technology attitude to explain adoption of technology.

TAM model advances that Prospective user's (PU) and Perceived Ease of Use (PEOU) beliefs are of great significance for the acceptance of technology. The probability that use of an application will lead to performance increment is illustrated by the PU component. If firms in the telecommunication industry perceive the cost of digital innovation as acceptable, they are likely to adopt them and use them for better customer responsiveness.

3. Call for a theoretical model

The reviewed conceptual, theoretical and empirical literatures in this study have brought out several constructs that will play different roles in a phenomenon involving digital innovation and customer responsiveness in the context of telecommunication firms. Specifically the review has brought out the following constructs: user experience, value proposition, digital evolution scanning, skills, improvisation and customer responsiveness.

3.1 Proposed Theoretical model

Based on the above discussion, this paper proposes the following model to be further investigated. The basic argument is that customer responsiveness is influenced by the digital innovation at telecommunication firms. The relationship is moderated by the level of ICT capability by the firm

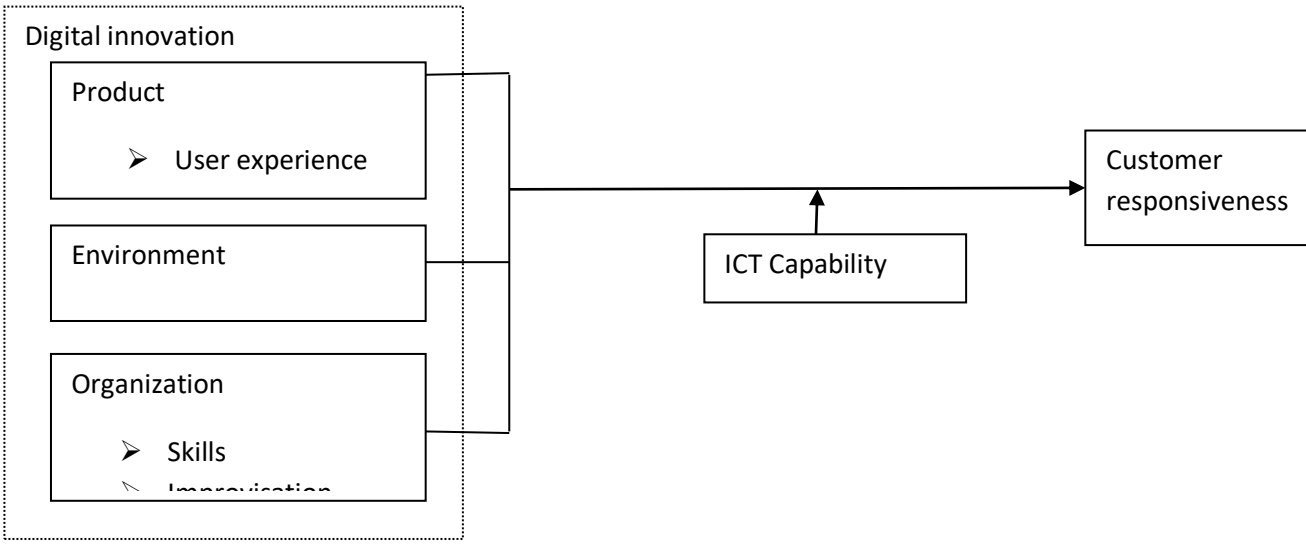

Figure 1: The Proposed model of Digital innovation and customer responsiveness

3.2 Digital innovation and customer responsiveness

Today's digital influences such as the cloud, increased mobility and cognitive computing technologies, mean that the opportunity to capitalise on the Internet of Things (IoT) is bigger than ever before. Business processes, including the supply chain, have become more flexible. It will be easier to provide customisation of products and services on-demand, fuelled by customer needs and facilitated by real-time access to information. For brands, these improvements mean faster, more cost-efficient flow of information, fusing business processes with intuitive consumer interaction data, ultimately providing a more powerful basis to execute from.

A new family of products is currently emerging as digital components are embedded in traditional products. Frequently referred to as 'smart products,' the embedded digital components enable firms to complement physical goods with online and mobile services that utilize the data generated ((Bharadwaj, El Sawy, Pavlou, & Venkatraman, 2013). Innovation is quickly becoming the new norm, with many global companies participating in open innovation initiatives and using APIs and technology platforms to deliver better outcomes. For many organisations, the increase in access to and the volume of behavioural data creates challenges in relation to storage, usage and security. In terms of customer experience, the increased amount of behavioural data means being able to demand a fair "value exchange". If consumers share more data, they will undoubtedly expect something in return. If you want a return on investment on data and how you use it, this is a critical note to make. When users leverage digital technologies as components or plat- forms to create new products and services beyond the original design intent (Yoo et al., 2010), it can result in cascades of innovation, whereby each innovation provides a platform for the next cascade.

The effects of the IoT will mean an increase in customer retention for forward-thinking businesses, thanks to advances in technology and smart devices. Customer interactions will be managed more intuitively and negative exchanges will be reduced thanks to the ability to personalise and hone in on customers' requirements. For companies that want to leverage these trends, they need to establish how they can derive the most value out of the IoT. Things are moving faster than ever and for businesses to keep up, they need to be prepared for digital disruption, open to innovation and must work towards effectively managing previously unknown growth opportunities. As digital technology becomes increasingly ubiquitous and affordable, hindrances are removed for engaging in digital innovation, thus enabling new constellations of actors to generate, develop, and fund novel digital products and services (Yoo et al., 2010). Progression within customer experience and communities will mean that satisfied customers can, in effect, be turned into an active sales force. In this way, brands can create new market share and generate new streams of income through providing flexibility for their customers. Through new technologies, complex tasks can become easier, which naturally impacts how businesses can serve their customers, by changing, or disrupting the needs of customers. Services that are available today such as same day delivery and mass customisation can become more automated in order to achieve more customer value through digital means. In this case, embedded digital capabilities enable real-time monitoring and service forecasting instead of scheduled servicing (Westergren & Holmstro¨M, 2012).

3.3 Role of ICT capability on customer responsiveness

In order to raise the digital innovation capability in the era of e-commerce, there is need for logistics service providers to employ new information technologies (Nixon, 2001). Adopting innovative logistics technologies may enable logistics service providers to enhance their service abilities (Lin, C.Y., 2007). Adopting technologies may involve five stages: awareness, interest, evaluation, trial and adoption (Weber, D.M., Kauffman, 2011). Awareness stage is when someone starts to learn the existence of a new technology. The next stage happens when they start to gather information about the new technology. The third and fourth steps are when they analyze and try out the new technology. Finally, after decision being made, they will adopt the technology. Companies can use ICT for both efficiency (cost and time saving; doing things right) and commercial advantage (providing superior value; doing the right things). ICT capability can also affect the companies throughout their value chain, starting from procurement, transformation, marketing, and distribution processes to their customers (Regan, N., A. Ghobadian,2006).

In general, ICT is a tool for innovation, but ICT capability is the ability of the firms to understand and utilized IT tools and processes for achieving competitive advantage (Ringim, K.J., M.R. Razalli, and N. Hasnan. 2010)The definition of ICT, however, is still quite vague and confusing in literature. Many authors have used ICT, e-commerce, Internet, and e-business interchangeably (Southern, A. and F. Tilley ,2000) One study explained that ICT is related with a wide array of technology, ranging from database programs to local area networks (Matlay, H. and M. Addis, 2003)Moreover, the results of the studies on the effect of ICT on innovation are inconsistent. A study by (Johannessen, J.-A., J. Olaisen, and B. Olsen, 1999) suggests that ICT by itself does not encourage or discourage innovation. It is the people working in the organization that create innovation, not ICT. ICT is more or less like a tool to be used for innovation, since new technology can help companies to do things in a new or better way. Another study, however, has found that the use of ICT has a positive relation with innovation and performance, which is due to learning and adjustment, boosted by the maturity in using ICT by IT companies. A study also found that IT capability is a strong moderator in the relationship between service innovation and supply chain performance (Wei-Chen & 2010). Based on this, we propose that customer responsiveness and digital innovation is contingent to the level of ICT capability of the telecommunication services

4. Conclusion

In this paper, a model of digital innovation in relation to the customer responsiveness in the telecommunication firms has been proposed. The paper has found this relationship to be further unveiled due to the intense innovation and the complexity of processes involved in the telecommunication firms. The proposed relationship has been described using support from the extant literature in advancing a theoretical model that predicts the linkages among the constructs drawn from the reviewed literature. The arguments have pointed at the need for a multidisciplinary literature in explaining the linkages among the constructs involved in the phenomenon involving digital innovation and customer responsiveness within the telecommunication firms. In addition, the paper differentiates the ICT capability and innovation. The capability of ICT is expected to moderate the relationship. The findings of the model are significant to the research and telecommunication firms for their business improvement especially in becoming more responsive to their customers.

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Organizational Attributes and Utilization of Financial Management Information Systems in Small and Micro Enterprises in Nyeri County, Kenya

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Abstract

The Government of Kenya identified public financial management reforms which necessitated the adoption of FMIS as the key driver to efficient public service delivery. However, small scale business organizations, such as SMEs, continue to experience challenges in the utilization of FMIS. The purpose of the study was to evaluate the factors influencing the utilization of FMIS in the SMEs in Kenya. The study sought to examine the influence of technical characteristics of information systems, staff competencies and firm's ICT infrastructure capacity, on the utilization of FMIS in SMEs in Kenya. The study was underpinned in the Diffusion of Innovations Theory, Task Technology Fit (TTF) Theory and Technology Acceptance Model. The study adopted a descriptive research design and its target population was all the 4430 SMEs from which a sample of 98 SMEs was selected by simple random sampling. Primary data was gathered using questionnaires. The data collected was edited, coded, tabulated and then analyzed using descriptive and inferential statistics. Regression analysis indicated that 89.1 percent of the variability in level of utilization of FMIS is explained by the three predictor variables: staff competence, technical characteristics of FMIS and ICT infrastructure of the SME. Based on the findings, the following recommendations are made. First, SMEs and other organizations develop their in-house management systems in order to be able to incorporate all their unique system needs. Secondly, SMEs should invest in building and enhancing the capacity of their employees on the use of FMIS. Finally, SMEs develop their ICT infrastructure by acquiring more up to date hardware and software. The findings of the study may benefit the managers and administrators of SMEs in addressing the organizational challenges that affect utilization of FMIS.

Keywords: *Financial Management Information Systems, Small and Micro Enterprises, staff competencies, technical characteristics, ICT infrastructure, utilization of FMIS.*

Introduction

Public and private organizations require up to date financial information so as to be in a position to make better choices relating to their businesses. Financial information is therefore important to users such as managers as well as stakeholders, investors, government agencies, and financial institutions such as banks; for the purpose of making decisions. (Hansen and Mowen, 2007:2). Financial information helps the organization when making management decisions such as investment, monitoring the trend of performance, taxes due, among others.

Successful utilization of an innovation demands that all the aspects of the organization make their contribution. Secondly, a good interface between the users and the system itself, is key to the success in the utilization of the system. Hallmarks of an effective management system include wide user participation, support from the top management, concise description of expectations, prudent planning and realistic demands from the potential users. According to Cooper (2006), the commitments that relate to achievement of goals and enhanced effectiveness of the financial information all determine the extent to which a given intervention such as management information system will be utilized. In

addition, Watson et al. (2009) identified the commitment of top management as vital in the utilization of a management information system, as well as the facilitation of the support for usage of the system.

Romney and Steinbart (2012) describe a financial information system as a system that has the capability to provide managerial information to enable users to manage, plan, and operate their businesses. In this sense, financial systems help the management in planning, implementation and control of processes, by availing up to date information that is reliable and relevant, to be used in decision making (Romney and Steinbart, 2012). In addition, according to Hall (2011: 9) FMIS seeks to avail management information to be used by the management, external users and the operational staff. In addition, Kieso *et al*. (2012: 5) posits that the management information system has the ability to gather raw data, process it in a usable form that can be of benefit to various categories of users. Further, Sacer *et al*. (2006: 6) asserts that the usefulness of financial information for management, emanates from the quality of the accounting processes that are applied in converting the raw data into usable form.

One of the significant capital expenditures for financial institutions is in the automized systems which makes available information to aid in designing and implementing prudent management decisions, with an overall ability to improve the performance of the organization. According to Dahlan (2013), most of the investments in ICT systems for management purposes are under-utilized in majority of the organizations despite the potential they have of turning around the fortunes of the organizations. Further, the author contends that a large proportion of organizations have in the past faced difficulties in coming up with quality management decisions due to ineffective book keeping processes and administrative errors.

Management information systems applied in financial management are able to integrate different subsystems and components and establish the relatedness of the systems, such that each sub system powers the other subsystem to enhance the output. A good financial management system gathers data from various sources, summarizes it, processes it into usable form and transmits it to the users who require it both within and external to the organization (Mc Leod and Schell, 2008). On the other hand, O'Brien (2009), the main factor that determines the success of utilization of a management information system is the support from the senior management.

Small and Micro Enterprises (SMEs) have continued to impact positively on the economy by creating employment and boosting the levels of income for majority of people. Secondly, they serve as drivers of the economy by ensuring equitable distribution of wealth and income. One of the challenges that the SMEs have faced is the use of outdated management systems which are inefficient and ineffective. The challenge can be addressed by developing or acquiring and adopting up to date financial management systems and digitizing all their operations.

ICTs' utilization in SMEs offers enormous opportunities to the SMEs. Despite the valuable potential in the utilization of ICT in financial management in the SMEs, previous research has indicated that there is slow adoption and utilization of FMIS among public and private organizations in Africa (Tsui-Auch, 2008). Furthermore, past research has indicated that use of ICT and specifically FMIS in businesses is scarce, uncoordinated and widely generalized.

Despite the potential of utilization of FMIS in the SMEs, the factors discussed above have influenced the effectiveness of utilization of FMIS in the organizations. There are factors can be summed up into organizational attributes associated with basic infrastructure issues, technological, institutional, as well as user challenges. This study sought to examine the organizational attributes influencing the utilization of FMIS in Small and Micro Enterprises (SMEs) in Nyeri County, Kenya.

Statement of the Problem

Research effort on the factors influencing the utilization of FMIS has mainly targeted public organizations. Yet majority of the privately owned financial institutions, such as SMEs, have not fully embraced the full use of integrated financial systems in financial management with most of them subscribing to manual systems. As such, the SMEs do not reap the benefits that accrue from the ongoing advancement in automation and integration of financial management systems and the available options that come with it. Research in the utilization of FMIS has been ongoing. For instance, Awino (2011) carried out a study on adoption of FMIS in public procurement performance in Kenya. Shale (2014) investigated the adoption of an e-procurement strategy, which is a form of FMIS, on the financial performance of corporates in Kenya. Miheso (2013) surveyed the adoption of IFMIS by the national government in Kenya. Kinoti (2013) studied the application of ICT in procurement, by parastatals in Kenya. On the adoption of FMIS in business organizations, Wangari (2014) investigated the effect of adoption of IFMIS on credit scoring in cooperative societies in Nyeri County. Most of the studies reviewed focused on application of FMIS on public institutions hence, research on factors influencing adoption of FMIS in small business organizations such as SMEs in Kenya is therefore scanty. The purpose of the study was to evaluate the factors influencing the utilization of FMIS in the SMEs in Nyeri County, Kenya. Specifically, the paper sought to achieve the following objectives:

i. To examine the influence of technical characteristics of information systems on the utilization of FMIS in SMEs in Nyeri County, Kenya.
ii. To evaluate the effect of staff competencies, in using information systems, on the utilization of FMIS in SMEs in Nyeri County, Kenya.
iii. To examine the how ICT infrastructure capacity affects the utilization of FMIS in SMEs in Nyeri County, Kenya.

Literature Review

The study was hinged on three theories; Diffusion of Innovations theory, Task Technology Fit Theory and Technology Acceptance Model. Financial management may be enhanced by prudent adoption of financial management systems. Ismail and King (2007) in their study of manufacturing companies reported that firms that aligned technology to the uses and the users, differ in the usage of technology considerably from the firms that do not adequately align technology to the users and the tasks to be handled. It implies that applications such as project management, financial analysis, budget variance analysis, modeling and human resource management have not been widely used by the SMEs. The finding further implied that enterprises, such as SMEs, have embraced technology at a low rate and have therefore not benefited much from the systems developed (Le Blanc & Kozar (1990). IT systems have the capacity to turn around the fortunes of an organization if well and adequately utilized, however, various organizational attributes may affect the SME's adoption of FMIS.

Many technological systems have in the past failed to achieve their intended goals since their basic functionality was not well defined right from the beginning of the intervention. According to Chêne (2009), FMIS must be designed carefully so as to meet the needs of users and the functional needs for which they are created, such as financial and accounting functions. Further, he says, the type of system adopted depends on the nature of the tasks to be handled, the data to be input, the nature of the output desired and the interfaces that are required for efficient usage. The organization must choose between over the shelf systems or custom made IT systems, depending on their unique needs. It was found out that most organizations use both custom made and off the shelve software, depending on the complexity of the task and cost.

Effective and efficient utilization of an innovation requires that the staff required to use it are competent enough in terms of possessing the requisite skills, knowledge and attitudes. Inadequate capacity and competence are the main cause of delay of sub optimal utilization of the system, According to Diamond & Khemani (2008), users of the system may be made more competent through training and capacity building. This may result in better chances of success in utilization of the FMIS.

Lack of adequate numbers of staff with IT competence cannot be easily solved by just capacity building and training. The remuneration offered by some organizations such as SMEs is not adequate to attract and motivate staff with high IT competence levels (Chêne 2009). Brar (2010) opined that low staff competence levels, is one of the factors that results in low utilization of FMIS in most organizations. On the other hand, Farelo & Morris (2006) argue that staff competence and attitude is an

issue that calls for urgent prioritization, with training being well aligned with the ICT needs and demands of organizations.

The commitment and support of the top -level management to all reform initiatives performs a crucial role in the success of implementation and utilization of a new innovation. The organization must have change champions who are respected individuals within the organization to cause the change. The champions maintain the reform momentum and commitment to reform, often taking personal risks in the process (Burke, 2002). These champions are supported and guided by a group of top-level managers (Yukl, 2002).

According to Chene (2009), implementation and utilization of FMIS is a resource intensive, complex, risky and complex undertaking that needs major changes of process in the organization; but unfortunately involves high level employees who may lack adequate motivation. Implementation and utilization of FMIS therefore requires change in technology, commitment to change among the staff as well as change in responsibilities, behaviors and skills of the staff (Rodin & Edwin 2008). By the fact that the adoption and utilization of FMIS is a complex project, it requires full awareness of all the participants on the magnitude of the undertaking. Further, according to Chene (2009), decision makers involved in the roll out must be convinced that the FMIS will offer greater benefits in excess of the inherent risks and the users must recognize the need for the new technological system that the organization is putting in place. In addition, Peterson (2008), avers that the commitment of top management features prominently among the determinants of failure or success of an information system. Diamond & Khemani (2006) asserts that the commitment of the management and the continuous involvement of the direct users and other stakeholders of the organization in all the aspects of the system are key to the success of the new ICT innovation.

Empirical studies on change management reforms affirm the importance of establishing the need for system updates and communicating persuasively to the stakeholders and other participants as much as is possible (Abramson & Lawrence, 2011). Success in the implementation of a new innovation or reform initiatives depend on the ability of the managers to communicate about the desired change clearly, to all the stakeholders, of the urgency of the reform (Rossoti, 2005). All organizations go through change at one time regardless of their size, age and industry. The operating environments are changing fast and organizations must institute change as well, in order to remain relevant. Depending on how an organization handles change, it can either survive and flourish or undergo extinction. The way businesses manage change and how successful they are at it, depends on the nature of the change, the change agents and the strategies involved in institutionalizing the change. The most vital determinant is the extent to which the people within the business understand change and how well they cope with it. The people within an organization who are subjected to the change must also have a change process such that by implementing the change, they can track it and manage the effect it has on the organization. Having a change process enables the people in the organization to monitor the change and mitigate the impact it has on the stability of the organization. A change process refers to a set of procedures that enable a team in the organization to manage and control the impact of change taking place effectively. According to Manage (2007), what matters is not the change taking place but how the people in the organization respond to the change that is taking place.

Management support is crucial to the implementation and utilization of IFMIS. The decision to implement FMIS goes a long way in instituting the change but, attaining support from the users of the new system and addressing resistance from those who are reluctant, is equally important. Management of change and overcoming the inertia towards the desired change is therefore an important part of implementation and utilization of FMIS system. (Brown, 2008). The organization should develop a strategy towards change management, considering the type of implications that the change may have on stakeholders in all calibers. An effective implementation of FMIS calls for strategies and an understanding of the culture of the organization. It also requires establishing a balance point to forces for and forces against the change. (Stebel, 2012). Education and training enables the users to internalize all the aspects of the FMIS system and ensures that they are ready to accept, adopt and utilize the new innovation in their operations (Legare, 2012). Inadequate training has been one of the significant

reasons of many FMIS systems failures (Gupta, 2010). A stream of research focusing on the utilization of FMIS has been documented. From these studies, four main categories of factors affecting utilization of FMIS by organizations can be identified as: interface, usability, information fragmentation and task-technology misfit. Ashrafi and Murtaza (2013) carried out a study on the impact and utilization of ICT on SMEs in Oman. The study sought to examine the software, ICT infrastructure, perceptions about the benefits of SMEs from ICT and the investments made by the enterprises on ICT. The findings of the study showed that only a few of the SMEs were aware of the importance of ICT on SMEs. It was found out that the main driver of investment in ICTs among the SMEs was to develop a faster and a better customer service to beat competition in the market. In addition, the study found out that most of the SMEs, which participated in the study, had a positive growth and performance among other benefits of utilizing SMEs. The challenges of utilizing SMEs identified by the study included: lack of adequate information on the most appropriate ICT packages to deploy, a high cost of ICT systems, lack of internal capabilities and staff incompetence. The study however did not address the financial management systems specifically. The present study will focus on the factors influencing utilization of FMIS in SMEs.

Karugu (2012) determined the factors affecting the implementation of an IFMIS project, with emphasis on the devolved government. Specifically, the study sought to determine the effect of the capacity of human resource in counties in IFMIS implementation, the ICT infrastructure related factors that influence the implementation of IFMIS and establish whether staff are willing to influence the implementation of IFMIS project in counties. The study used a population size of the forty-seven devolved governments in Kenya, where five counties implementing Integrated Financial Management Information System were surveyed. The study found out that, for effective implementation of the IFMIS system in devolved governments, adequate human resource capacity is needed before and after its implementation. The study revealed that one of the major challenges of IFMIS implementation was staff readiness adopt change. The study recommended that, change actors should train adequately, the users of the IFMIS system before and after its implementation. Further, the study recommended that, the ICT system's implementers should improve the county ICT infrastructure to be more stable and reliable thus improving and easing connectivity to IFMIS. However, the study only focused on the public entities.

Sigei (2013) researched on the success factors in the implementation of IFMIS in Kenya National Government ministries. Using the survey, research design, and stratified sampling method, the study used a population of professional's in the ministries, such as professionals in finance, ICT and human resource. The study classified the factors critical to the utilization of FMIS into nine categories. The factors were classified as: top level management support, risk management, capacity building, good communication strategies, prudent resource management, team spirit, appropriate infrastructure, user involvement and well set goals and objectives. Despite the fact that the study shone light on the factors influencing utilization of IFMIS, it only addressed government ministries which are nonprofit making entities. The present study focused on SMEs which are privately owned profit making organizations.

Wangari and Jagongo (2012) in a study of SACCOs in Nyeri County found that, internal control mechanisms facilitated by IFMIS, affect credit scoring among SACCOs in Nyeri to a great extent. The study also found that, centralization, formalization, hierarchical arrangement of authority and bureaucracies affect the credit scoring and the application of IFMIS among the SACCOs in Nyeri County. Despite the fact that the study addressed the utilization of IFMIS on organizations, it mainly focused on how the FMIS is applied and not the factors that affect its utilization.

Nduati (2012) established the factors that affect utilization of ICT in SMEs in Thika town. The study found out that lack of basic IT skills, high cost of IT equipment, lack of top management support, high cost of networking and the internet, as the major hindrance to the adoption of FMIS. Although the study concentrated on the SMEs, it covered ICT and focused on the adoption. The present study will

concentrate on only one aspect of ICT usage in SMEs; that is financial management systems and will concentrate on the utilization and not just adoption.

Muathe, Wawire and Ofafa (2013) in their study focusing on the adoption of ICT in health related SMEs, used an interview guide and structured questionnaires to collect data. Although the study brought out the relationship between the factors affecting ICT adoption, the present study took a wider scope of all the types of SMEs and concentrated on the utilization of FMIS and not any other applications of ICT.

Methodology

The study adopted a descriptive research design and its target population was all the 4430 SMEs in Nyeri County, from which a sample of 98 SMEs, based on Yamane's formula of determining sample, was selected by simple random sampling. From each of the selected SMEs, the owner/entrepreneur participated in the study. Primary data was gathered using questionnaires. The data collected was fine-tuned, coded and put into categories and then tabulated to facilitate analysis. SPSS was used to aid in the analysis. Descriptive statistics such as percentages, standard deviation and mean were used to carry out the analysis. Frequencies tables were used to present the data collected, for ease of understanding and analysis. Regression was used to determine nature and the strength of the relationship between the variables. The regression model to be estimated was;

$$\mathbf{Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon}$$

Where,

Y = Performance of SMEs (Dependent Variable)

β_0 = Constant (Coefficient of Intercept)

X_1 = Technical characteristics

X_2 = Staff competencies

X_3= ICT Infrastructure

ϵ = Stochastic Error term

Results and Discussions

Pearson Correlation was used to determine the nature of the relationship between the organization attributes, related to the characteristics of the FMIS used in the SMEs, and the utilization of the FMIS in the SMEs. The level of utilization of FMIS was indicated by the number of the financial processes that are automated on the FMIS. The results obtained indicated that for all the attributes tested, the Pearson correlation coefficients were close to 1 indicating high positive correlation. Secondly, the significance (2-tailed) on the correlations were all 0.000($p<0.05$) implying high statistical significance. The findings implied that the organizational attributes, related to the characteristics of the FMIS used, were significantly statistically related to the extent of utilization of the FMIS. The findings of the study concur with those of Chêne (2009) who found out that many IFMIS projects have failed to find maximal utilization due to failure to clearly spell out the functionalities of the system at the onset.

In addition, similar to the findings of the present study, Chêne (2009) found out that, for an FMIS to be fully utilized by organizations, it must be clearly designed to address the needs of the organization. On the Staff Competencies in FMIS and its Influence on Utilization of FMIS by SMEs, the study found out that for all the attributes tested, the Pearson correlation coefficients were close to 1 indicating high correlation. Staff training and staff experience in the extent of use of FMIS were positively correlated.

The findings imply that increase in staff training and staff experience corresponds to increase in the utilization of FMIS and vice versa. On the other hand, avoidance of FMIS related tasks and assistance seeking behaviour of the staff on the use of FMIS are negatively correlated implying that increase in the frequency of the practices corresponds to decrease in the utilization of FMIS and vice versa. The correlations were all statistically significant ($p<0.05$), implying that the organizational attributes, related to staff competence, were statistically significantly related to the extent of utilization of the FMIS. Thus, staff competence was found to affect utilization of FMIS by SMEs. The findings of the study echoed those of other researchers, such as Abramson & Lawrence (2011), who found out that successful utilization, is dependent on the competence of the users.

On the effect of firm's ICT infrastructure capacity on the utilization of FMIS, Pearson Correlation carried out on the results indicated that for all the attributes tested, the Pearson correlation coefficients were close to 1 indicating high positive correlation. Secondly, the significance (2-tailed) on the correlations were all 0.00($p<0.05$) implying high statistical significance. The findings imply that the organizational attributes related to the ICT infrastructure of the FMIS used were statistically related to the extent of utilization of the FMIS.

Finally, regression analysis was carried out to determine the statistical influence of the independent variables on dependent variable (utilization of FMIS). The regression model summary of the influence is displayed on Table 1, Table 2 and Table 3.

Table 1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.944[a]	.891	.887	.329

a. Predictors: (Constant), Technical Characteristics of FMIS, Staff Competence, Infrastructure Capabilities

The results indicate that R^2=0.891 which implies that Technical Characteristics of FMIS, Staff Competence, Infrastructure Capabilities predict a significant amount of the variation in the level of utilization of FMIS. This indicates that the independent variables tested predict 89.1 percent of the dependent variable

Table 7: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	69.841	3	23.280	214.630	.000[a]
	Residual	8.569	79	.108		
	Total	78.410	82			

a. Predictors: (Constant), Technical Characteristics of FMIS, Staff Competence, Infrastructure Capabilities

b. Dependent Variable: Utilization of FMIS

The output on Table 2 indicates that the *p*-value is small (p=0.000) implying that the relationship between the predictor variables and the dependent variables is statistically significant and the model can be used to predict the dependent variable.

Table 3: Coefficients

Model		**Unstandardized Coefficients**		**Standardized Coefficients**		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.185	.147		1.261	.211
	Technical Characteristics of FMIS	.496	.059	.642	8.416	.000
	Staff Competence	.801	.085	.847	9.475	.000
	Infrastructure Capabilities	.582	.113	.534	5.170	.000

a. Dependent Variable: Utilization of FMIS

In view of the results in Table 3, the model for predicting level of utilization of FMIS is represented as follows;

$Y= 0.185 +0.496X_1+0.801X_2+0.582X_3+\varepsilon$

where; Y= Level of utilization of FMIS

X_1=Technical characteristics of FMIS

X_2=Staff competence

X_3=Infrastructure Capabilities

The constant could be explained by other variables like government policy, management support factors, SME type, among others. The regression model on contribution of the three independent variables against level of utilization of FMIS was found to be significant ($p < 0.05$). The resulting goodness of fit was $R^2 = 0.891$ indicating that 89.1 percent of the variability in Y is explained by the three predictor variables. The rest, 11.9 percent of the variation in level of utilization of FMIS is contributed by the intervening variables. Staff competence contributed most to the impact of in determining level of utilization of FMIS (80.1 percent) while; technical characteristics of FMIS contributed the least (49.6 percent) to the variation in the utilization of FMIS by SMEs. The findings of the study are consistent with those of other researchers (Bruque and Moyano, 2007; Nguyen, 2009) which found that there are a myriad of factors that influence utilization of FMIS in SMEs and can be categorized into two major clusters of factors, and their subcategories of internal and external factors. The study has however dwelled on the SME related factors only. Other factors external to the SME influence the utilization of FMIS in the SMEs.

Based on the findings of the study, the following recommendations are made;

i. SMEs need to invest in financial systems that are flexible enough and can accommodate all financial operations they need.
ii. SMEs invest in building and enhancing the competence of their employees through training and attitude change towards use of FMIS.
iii. SMEs need to provide an adequate budget to acquire standard IT hardware, software and networking equipment in order to spur the level of utilization of FMIS.

The study intended to use all the SMEs in the locale, however, this was found not practical since a large number of SMEs were not formally registered while yet others were not accessible due to the geographical constraints. Further studies could be carried out by administering the research instruments through the phone or internet to increase access. In addition, more secondary sources could be used instead of relying on primary sources only, since some of the respondents were unwilling to provide the responses for personal reasons.

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CORPORATE SOCIAL RESPONSIBILITY ACTIVITIES AND COMPETITIVE ADVANTAGE OF EQUITY BANK KENYA LIMITED

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Abstract

Commercial banks in Kenya operate in a dynamic environment characterized by technological changes, competition, regulatory requirements, economic changes and opportunistic strategic decisions. The stiff competition among the various players in the banking industry has lead the banks to look for more innovative ways of satisfying their stakeholders while at the same time making profits. Banks in Kenya have been involved in corporate social responsibility programs in the area of education and training, health, sustainable environment, sports and improving the livelihoods of vulnerable groups in society. Corporate Social Responsibility refers to operating a business in a manner that accounts for the social and environmental impact created by the business. As competition in the banking sector intensifies not only amongst themselves but from other competitors such as Micro Finance Institutions and Saccos, there is need to focus on other strategies to gain competitive advantage. The objectives of this study were; to determine the influence of education programs, environmental protection, and enterprise development and staff development programs as CSR activities on competitive advantage of Equity Bank Kenya Limited. The study was anchored on stakeholder's theory, strategic leadership theory and resource based view theory. The study used descriptive research design. The target population of this study comprised all the management staffs of equity bank in Kenya drawn from the head office in Nairobi who total to 145. Stratified sampling was used to draw 67 respondents. Primary data was collected using a semi structured questionnaire administered to staff using pick and drop method. Data was analysed using descriptive statistics, correlation and regression analysis. Results of the study revealed positive and significant relationship between education programs, environmental protection, enterprise development, staff development programs and equity bank competitive advantage.

Key words: Competitive advantage, corporate social responsibility, Equity Bank Kenya Limited.

Introduction

A competitive advantage is what makes an entity's goods or services superior to all of a customer's other choices. The term is commonly used for businesses. The strategies work for any organization, country, or individual in a competitive environment. (Kimberly Amado)

Competitive advantage is also how an organization will achieve its objectives in the face of competition from other organizations (Carroll & Shabana, 2010). In achieving this goal, an organization must perform better than other players in its industry must. In so doing, this could boil down to meeting the needs of the consumers more effectively and this could enable the service provider to command a higher price which can lead to increased revenues (Crowth & Aras, 2008). In achieving this goal an organization must perform better than other players in its industry.

If the company is cost effective, it can then be able to command a lower price in its offering to the consumers and this can lead to increased revenues (Thompson, 2010). However, a review of approaches for building competitive advantage illustrates that marketing plays a central role. A number of popular approaches include, strong market positions with products and services which are not easily substituted, entry barriers, strong bargaining position, mobility barriers, balanced portfolio`s, core competences, innovation and speed or time based competition. Multinational Companies (MNC`s) can promote the adoption of CSR practices as part of their strategy so as to increase their competitiveness within the economy and industry.

In competitive advantage, the current globalized world, competition has become a buzzword with regard to organizational performance and survival (Porter & Kramer, 2012). Research has established that firms, which are unable to attain or sustain greater organizational performance often, collapse (Palmer, 2012). Thompson (2010) this gives the customer a reason that lasts to prefer the company

products to competitors. An organization derives its competitive advantage from either managing their costs or providing a unique offering to their market (Crowth & Aras, 2008).

According to Reverte (2009), he contends that to attain and sustain a competitive advantage, firms have to explore several alternatives including engagement in CSR strategies. According to Weber (2008), health strategy is a fundamentally effective means of attaining a competitive advantage in a competitive business milieu as individual beneficiaries of the health assistance and their relatives, friends and acquaintances develop a feeling that they owe the firm a lot. As such, it is perceptible that a health strategy is a potentially effective way of attaining a competitive advantage.

Schwenker and Wulf (2013) have argued that increased involvement in certain CSR strategies result in the enhancement of organizational performance and competitive advantage (CA). Firms have also undertaken to increase their assistance to the health sector and the people in need of certain medical attention but lack proper resources and funds to realize such needs (Kariuki & Rotich, 2013). Hamori (2013) points out that sports strategy in CSR serves to establish a good corporation reputation, which in turn guarantees high performance by the employees. This give the firm a competitive advantage relative to its key competitors thereby allowing the firm to retain its exceeding its business performance (Harvard Business Review, 2011).

According to Westover (2010) CSR influences the rates of employee retention or employee turnover rates. Turnover is process in which employees leave the organization and have to be replaced. Turnover is related to employee motivation. Excessive turnover can be a very costly problem, one with a major impact on productivity. But cost is not the only reason turnover is important. Lengthy training times, interrupted schedules, additional overtime, mistakes and not having knowledgeable employees in place are some of the frustrations associated with excessive turnover (Westover, 2010). It has been observed that a health strategy facilitates employee motivation in fulfilling their tasks to the firm and therefore facilitate organizational performance.

1.1 Objectives of the Study

1.1.1General Objective

The main research objective was to establish the influence of Corporate Social Responsibility activities on competitive advantage of Equity Bank Kenya Limited.

1.1.2 Specific Objectives

The specific objectives of the study were to**;**

i. Establish the influence of education programs on competitive advantage of Equity Bank Kenya Limited.
ii. Examine the influence of environmental protection programs on competitive advantage of Equity Bank Kenya Limited.
iii. Determine the influence of enterprise development programs on competitive advantage of Equity Bank Kenya Limited.
iv. Establish the influence of staff development programs on competitive advantage of Equity Bank Kenya Limited

2.Theoretical Literature

2.1 Stakeholder Theory

This theory was proposed by (Freeman, 1984). Stakeholders theory states the purpose of the company as to provide return on investment for shareholders and thus corporations are seen as instruments of creating economic value for those who risk capital in the enterprise, (Greenwood, 2001). It is believed that the sole constituency of business management is the shareholders and the sole concern of shareholders is profit maximization. Any activity is justified if it increases the value of the firm to its shareholders and is not justified if the value of the firm is reduced, (Cochran, 1994). Corporate

expenditure on social causes represents a violation of management responsibility to shareholders to the extent that the expenditure does not lead to higher shareholder wealth, (Ruf, 1998). In relation to shareholder theory, this implies that company managers are obliged to adhere to the objective of maximizing long-term owner value.

Stakeholder theory emerged as an alternative to shareholder theory, (Spence et al, 2001). According to Windsor (2001), the term stakeholder represents a softening of strict shareholder theory. It recognizes the fact that most, if not all firms have a large and integrated set of stakeholders, (Cochran, 1994) to which they have an obligation and responsibility, (Spence *et al*, 2001). This theory challenges the view that shareholders have a privilege over other stakeholders, (Freeman & Reed, 1983). The stakeholder theory is a response to financial theories that assert that firms should focus only on maximizing the economic interests of shareholders, (Orts & Schulder, 2002). According to Kaler (2003), the stakeholder approach involves a basic reformist stance toward shareholder theory, seeking to move it in the direction of greater equity and a less single-minded concentration on owner's interests rather than replacing it entirely.

The theory's application to this study is premised on the backdrop that the Chief Executive Officer (CEO) of Equity Bank Limited as manager saw the need to satisfy a bigger chunk of the stakeholders and or clients by engaging in such activities as promoting and shaping the future of the younger generation by offering them the platform to curve their niche in leadership as well as in education. Through equity bank involvement in education programs they are able to train and equip young generation with skills which they can use to serve in their respective institutions. Indeed, through the work based programs for all education beneficiaries the bank will be better placed to equip and tap skills which the students have.

2.2 Strategic Leadership Theory

The theory of strategic leadership finds its roots from the evolution of management theory by (Fredrick, 1856). The essence of strategic leadership involves the capacity to learn, the capacity to change and managerial wisdom (Boal & Hooijberg, 2001). This theory highlights the functions of a leader and how they manage crisis and maintain proper organizational structures, processes and culture for purposes of gaining competitive advantage. The effort of a leader is therefore very essential in the organization of human capital, financial resource, organization structure and process to achieve a competitive stand in the market

Waldman *et al* (2004) applies strategic leadership theory to CSR and noted that companies run by intellectually stimulating CEOs do more strategic CSR than comparable firms. These authors affirm that certain aspects of transformational leadership will be positively correlated with the propensity of firms to engage in CSR and that these leaders will employ CSR activities strategically. A strategic leader displays a dissatisfaction or restlessness with the present; absorptive capacity. Beatty and Quinn (2010) define strategic leadership as a combined responsibility of the leader, the follower and the organization. Leadership presents challenges that call forth the best in people, and bring them together around a shared sense of purpose.

Strategic leadership includes determining the firm's strategic direction, aligning the firm's strategy with its culture, modelling and communicating high ethical standards, and initiating changes in the firm's strategy, when necessary. Strategic leadership sets the firm's direction by developing and communicating a vision of future and inspires organization members to move in that direction. Unlike strategic leadership, managerial leadership is generally concerned with the short-term, day-to-day activities, (Pearce & Robinson, 2007).

Equity Bank CEO provides strategic leadership to the organisations equity group foundation whose sole responsibility is social and economic transformation. With intentionality, alignment, and a higher purpose; the work between the leader and the followers can create a synergy. This makes the theory relevant based on the need for effective management and leadership for CSR activities carried out in equity bank Kenya. The theory is appropriate for the study since equity bank has endeavoured to support skills for its employees as well as beneficiaries of equity foundation from whom they can attract and recruit them to serve in their respective bank as well as equity foundation.

2.3 Resource Based View theory

This theory was first proposed by (Edith Penrose's 1959**)**. The resource-based view of the firm (RBV) draws attention to the firm's internal environment as a driver for competitive advantage and emphasizes the resources that firms have developed to compete in the environment. Ultimately, firms that are able to leverage resources to implement a value creating strategy not simultaneously being implemented by any current or potential competitor can achieve competitive advantage, (Barney, 1991). The RBV as a basis for the competitive advantage of a firm lies primarily in the application of a bundle of valuable tangible or intangible resources at the firm's disposal, (Mwailu & Mercer, 1983). Moreover, Hart (1995) was the first to apply the RBV framework to corporate social responsibility. The study focussed exclusively on environmental social responsibility and asserted that, for certain types of firms, environmental social responsibility can constitute a resource or capability that leads to a sustained competitive advantage.

The RBV has put forward a number of assumptions that may be useful in the management of organizations: Resource Heterogeneity is the first assumption which states that the resources that organizations possess differ from one company to another. If organizations would have the same amount and mix of resources, they could not employ different strategies to outcompete each other therefore RBV assumes that companies achieve competitive advantage by using their different bundles of resources. The second assumption of RBV is that resources are not mobile and do not move from company to company, especially in short-run. Due to this immobility, companies cannot replicate rivals' resources and implement the same strategies. This is truer with the intangible resources, such as brand equity, processes, knowledge or intellectual property that are usually immobile, (Hooley & Greenlay, 2005).

Barney (1991) proposed the VRIN framework that examines if resources are valuable, rare, costly to imitate and non-substitutable. The resources and capabilities that answer yes to all the questions are the ones that lead to sustained competitive advantages. Resources are valuable if they help organizations to increase the value offered to the customers. This is done by increasing differentiation or/and decreasing the costs of production. Resources that can only be acquired by one or few companies are considered rare. A company that has valuable and rare resource can achieve at least temporary competitive advantage. However, the resource must also be costly to imitate or to substitute for a rival, if a company wants to achieve sustained competitive advantage.

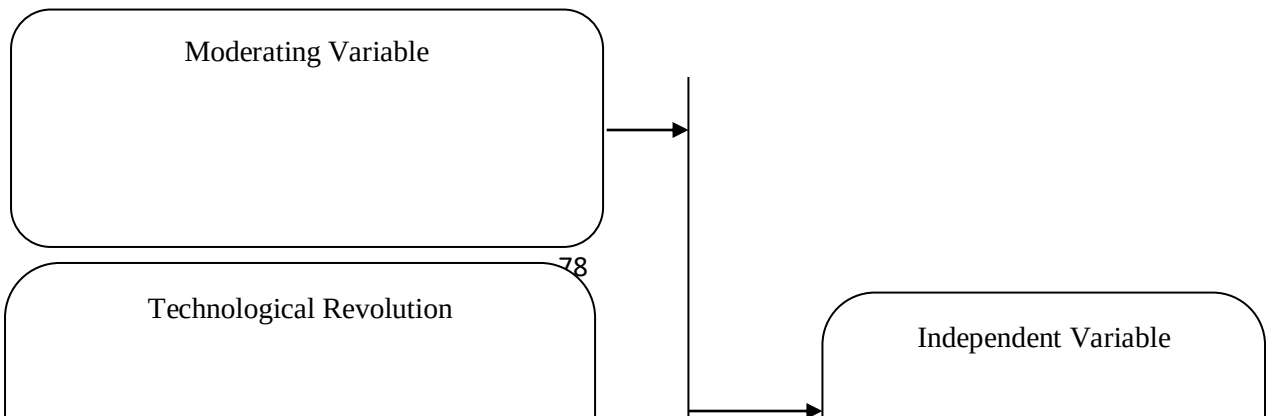
McWilliams and Siegel (2001) outlined a simple model in which two companies produce identical products, except that one firm adds an additional social attribute to the product, which is valued by some consumers and other stakeholders. In this model, managers conduct a cost/benefit analysis to determine the level of resources to devote to CSR activities by assessing the demand for CSR and evaluating the cost of satisfying the demand.

The theory is appropriate since through creation of conducive environment the bank will be able to operate optimally. Indeed, participation in environmental conservation strategies will act as an avenue to educate not only environmental issues but also a platform to promote equity product awareness. Also the theory supports enhancement of employee satisfaction through creation of cohesive programs which will promote skills development and health fitness by organizing health and sport related activities

2.4 Conceptual Framework

The dependent variable in this study was competitive advantage while the independent variable was corporate Social responsibility

Independent Variables **Dependent Variable**



3. Research Methodology

3.1 Research Design

The study adopted descriptive and cross-sectional research design which Mugenda and Mugenda (2003) posits that it is a systematic, empirical inquiring into which the researcher does not have a direct control of independent variable as their manifestation has already occurred or because the inherently cannot be manipulated. Research design ensures the study is applicable to the problem and its procedures are cost-effective for obtaining information. Descriptive research design is concerned with finding out about the how, who, when and where of a phenomenon so as to build a profile (Mugenda & Mugenda, 2003). The design was appropriate since the current study investigated corporate social responsibility on competitive advantage in Equity bank limited.

3.2 Target Population.

A population is a well-defined or set of people, services, elements, and events, group of things or households that are being investigated. The target population for study was all 145 management employees at Equity Bank Kenya Limited head office in Nairobi. These employees were categorised into 20 top level, 30 middle level and 95 in the functional level.

Table 3.1: Target Population

Category	Population size	Percentage
Top Level	20	13.8
Middle Level	30	20.7
Lower Level	95	65.5
Total	**145**	**100**

Source: Author (2017)

3.3 Sampling Size and Sampling Technique

Simple random sampling technique was used to obtain a representative sample since population of interest is homogeneous. Simple random sampling will be adopted to select 67 respondents who will be distributed in the three levels of management using stratified sampling technique. Out of 67, 9 will be drawn from top level management, 14 from middle level management and 44 from functional level. To give all respondents an equal chance of consideration simple random sampling will be used. A sample of 67 was calculated as follows according to Kothari (2011):

$$n = \frac{Z^2pq}{d^2}$$

Where:
n = sample size, N= entire Population, Z= level of significance (1.96 confidence level)

d= Expected Error, p = Probability of success, q = Probability of failure

As such the sample for this study can be derived as follows:

$$n = \frac{(1.96^2 * 0.5 * 0.5)}{0.12^2} = 67$$

Table 3.2: Sample Size

Category	Percentage	Sample Size
Top Level	13.8	9
Middle Level	20.7	14
Functional Level	65.5	44
Total	**100**	**67**

Source: Author (2017)

3.4 Data Collection Instrument

Primary data was collected by the help of a semi structured questionnaire. The close-ended questions provided more structured responses to facilitate tangible recommendations while the open-ended questions provided additional information that was be captured in the close-ended questions. The study used both primary and secondary data. Secondary data was collected from the records of the Equity Bank Foundation which is the CSR arm of the Equity group of companies. The CSR records showed the project undertaken and also the competitive performance information was indicated from the financial statements of the bank.

3.5 Validity and Reliability of the Study

3.5.1 Validity of the Study

Cooper and Schindler (2010) indicated that a pilot test is conducted to detect weaknesses in design and instrumentation and to provide proxy data for selection of a probability sample. According to Babbie (2004), a pilot study is conducted when a questionnaire is given to just a few people with an intention of pre-testing the questions. Pilot test is an activity that assists the research in determining if there are flaws, limitations, or other weaknesses within the interview design and allows him or her to make necessary revisions prior to the implementation of the study (Kvale, 2007). To establish the reliability and validity of the research instrument the study sought opinions of experts in the field of study especially the study's supervisor and lecturers in the school of business administration and strategic management. This facilitated the necessary revision and modification of the research instrument thereby enhancing validity.

Validity is a measure of the degree to which data obtained from the instrument accurately and meaningfully represents the theoretical concept and in particular how the data represents the variables. Where validity has been established, any inferences made from such data was accurate and meaningful (Mugenda & Mugenda, 2003). The first phase of this research employed the econometric technique to establish the relationship between corporate social responsibility strategies and performance of commercial banks in Kenya with a special focus on Equity Bank Limited. The data was collected from the organizations' departments such as human resource, IT, finance, operations, marketing and strategic management. This confirmed the validity of the data and relevant results.

3.5.2 Reliability of the Study

Cronbach's Alpha was applied to measure the co-efficient of internal consistency and therefore reliability of the instrument. In order to check reliability of the results, the study used Cronbach's alpha methodology, which is based on internal consistency. Cronbach's alpha measures the average of measurable items and its correlation. Overall scales' reliability of the present situation and the desirable situation were tested by Cronbach's alpha, which should be above the acceptable level of 0.70 (George & Mallery, 2003).

3.6 Data collection Procedure

Upon successful presentation of the research proposal, an introduction was sought from Kenyatta University School of graduate studies and it was presented to the National Commission for Science, Technology and Innovation (NACOSTI) to seek research permit.

4. Findings.

4.1 Response Rate

Although, the study had a sample of 67 respondents only 56 questionnaires were returned and correctly filled, this yielded 84%. According, to Kothari (2011) the response was appropriate because it was greater than 70%.

Table 4.1: Response Rate

Questionnaire	Frequency	Percentage
Returned	56	84
Non returned	11	16
Total	**67**	**100**

Source (Author, 2018)

4.2 Bank Engagement in Corporate Social Responsibility

The study investigated types of corporate social responsibilities equity bank engaged in. As shown in Table 4.5 most of the respondents reported that to great extent equity bank was involved in CSR activities (mean = 4.2, standard deviation = 0.9). Most of the respondents, 53.6% reported that to very great extent equity banks was involved in education and training programs, 50% reported to great extent equity bank was involved in environmental protection programs. Further, 42.9% reported that equity bank was involved in enterprise development initiatives, and 51.8% reported that to very great extent equity bank was involved in staff benefits enhancement.

Table 4.2: Bank Engagement in Corporate Social Responsibility

	Percentage (n=56)						
	Not at all	**Little extent**	**Moderate extent**	**Great extent**	**Very great extent**	**Mean**	**Std. Dev**
Education and training programs	0	3.6	5.4	37.5	53.6	4.4	0.8
Environmental protection programs	1.8	3.6	25	50	19.6	3.8	0.9
Enterprise development initiatives	1.8	3.6	16.1	42.9	35.7	4.1	0.9
Staff benefits enhancement	1.8	3.6	7.1	35.7	51.8	4.3	0.9
Overall average						**4.2**	**0.9**

Source (Author, 2018)

4.3 Competitive Advantage

Further, the study sought respondents' opinion in regard to competitive advantage upon equity banks participation in CSR. On a five point Likert scale most of the respondents reported that to very great extent equity bank participation in CSR had influence on its competitive advantage (mean = 4.5, standard deviation = 0.7). This was accounted for in recruitment of new customers (mean = 4.2), new investors local and foreign (mean = 4.4), employee satisfaction (mean = 4.4), brand appeal and association (mean = 4.5), entry into new markets (mean = 4.6) and accomplishment of strategic plans (mean = 4.7).

Table 4.3: Competitive Advantage

	Percentage (n=56)						
	Very low	**Low**	**Average**	**High**	**Very High**	**Mean**	**Std. Dev**
Recruitment of new customers	3.6	1.8	12.5	33.9	48.2	4.2	1.0

New investors local and foreign	1.8	1.8	7.1	35.7	53.6	4.4	0.8
Employee Satisfaction	1.8	0	7.1	37.5	53.6	4.4	0.8
Brand appeal and association.	1.8	0	3.6	33.9	60.7	4.5	0.7
Entry into new markets	0	0	1.8	37.5	60.7	4.6	0.5
Accomplishment of strategic plans	0	0	3.6	25	71.4	4.7	0.5
Overall Average						**4.5**	**0.7**

Source (Author, 2018)

5. Conclusion and further research

5.1 Conclusion

Based on the study findings the following conclusions can be drawn. CSR had significant influence on equity bank competitive advantage and accounted for 80% of its competitive advantage. Therefore, there is need for equity bank to amplify its participation in CSR activities more so in education and training programs, environmental protection programs, enterprise development programs and staff development programs.

Owing to success rates in equity banks wings to fly education programs, there is need for a diversified education program to be developed. Since the current program is skewed towards academic achievement, there should develop a program geared towards recognizing and rewarding outstaying talents. Through this participation in co curriculum activities will be enhanced and can aid in breaching of unemployment gaps.

Secondly, there is need for corporate organization participation in environment protection programs. Although, these programs may be expensive they may be avenues through which corporation can enhance its market penetration. Indeed, involvement of equity bank in tree planting and forest protection programs will not only portray them as environmentalist but also improve their brand association with current desire to alienate current threats.

Thirdly, entrepreneurship is the main yardstick which can be deployed to minimize unemployment in Kenya. Equity bank participation in enterprise development programs will not only enhance entrepreneur's skills but also improve its demand for financial support amongst SMEs who are in need for business expansion.

Finally, involvement in employee skills development programs will improve equity bank quality of work life and employees satisfaction. As stipulated by Maslow's hierarchy of needs there will be improved level of job satisfaction. This will amplify employees' gratification and enhance measures of improving corporate image.

5.2 Recommendations

From the study findings the following recommendations can be drawn; equity bank education programs should be diversified and look for more partnership. Through partnership equity bank will be better placed to serve more students who are mostly denied quality high school education due to lack of fees. To enhance whole life development there is need for education programs to have life skills support packages; this will enhance career planning and growth amongst high school and university students who are beneficiaries of equity bank education programs.

Since environmental protection programs have the capacity to improve corporate image. Equity bank should partner with government agencies such Kenya Wildlife Services (KWS), Kenya Forest Service (KFS) and schools so as to tree planting and environmental protection. Developing tree planting schemes in primary and high school would improve forest coverage. Equity bank should partner with ministry of education and initiate tree planting program countrywide. This will create its brand awareness and can ease recruitment of new account holders and also improve in levels of financial

inclusion amongst young children. Saving culture will be cultivated and consequently minimize poverty levels.

Thirdly, enterprise development programs should be customized so as to meet unique needs of their equity bank client base. Since, entrepreneurs could either be formally or informally trained, their training programs should be customized to address and breach financial, strategic and business development needs of their customers. Financial skills development would improve entrepreneur's development in financial acquisition and cash management strategy. Through strategic skills development entrepreneurs' would be better placed in understanding their clients' needs and consequently development products which would address their clients unique needs.

5.3Suggestions of Further Studies

Since the current study drew its respondent's commercial bank managerial positions, there is need for a similar study to draw respondents from its customers and examine influence of CSR on competitive advantage. The current study depended on 67 respondents there is need to increase the sample size. Since almost all banks engage in CSR activities there is need to carry out similar studies in respective banks and examine the influence of CSR on their competitive advantage. There are newly created financial institutions such as Savings and credit cooperative unions and micro finance banks there is need to examine their levels of involvement in CSR activities and they rely on it to achieve competitive advantage. The current study applied quantitative data, there is need for a similar study to adopt qualitative data or use mixed design. Structural equation modelling ought to be fitted so as to complement regression analysis.

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Abstract
Commercial banks in Kenya operate in a dynamic environment characterized by technological changes, competition, regulatory requirements, economic changes and opportunistic strategic decisions. The stiff competition among the various players in the banking industry has lead the banks to look for more innovative ways of satisfying their stakeholders while at the same time making profits. Banks in Kenya have been involved in corporate social responsibility programs in the area of education and training, health, sustainable environment, sports and improving the livelihoods of vulnerable groups in society. Corporate Social Responsibility refers to operating a business in a manner that accounts for the social and environmental impact created by the business. As competition in the banking sector intensifies not only amongst themselves but from other competitors such as Micro Finance Institutions and Saccos, there is need to focus on other strategies to gain competitive advantage. The objectives of this study were; to determine the influence of education programs, environmental protection, and enterprise development and staff development programs as CSR activities on competitive advantage of Equity Bank Kenya Limited. The study was anchored on stakeholder's theory, strategic leadership theory and resource based view theory. The study used descriptive research design. The target population of this study comprised all the management staffs of equity bank in Kenya drawn from the head office in Nairobi who total to 145. Stratified sampling was used to draw 67 respondents. Primary data was collected using a semi structured questionnaire administered to staff using pick and drop method. Data was analysed using descriptive statistics, correlation and regression analysis. Results of the study revealed positive and significant relationship between education programs, environmental protection, enterprise development, staff development programs and equity bank competitive advantage.

Key words: Competitive advantage, corporate social responsibility, Equity Bank Kenya Limited.

Introduction
A competitive advantage is what makes an entity's goods or services superior to all of a customer's other choices. The term is commonly used for businesses. The strategies work for any organization, country, or individual in a competitive environment. (Kimberly Amado)
Competitive advantage is also how an organization will achieve its objectives in the face of competition from other organizations (Carroll & Shabana, 2010). In achieving this goal, an organization must perform better than other players in its industry must. In so doing, this could boil down to meeting the needs of the consumers more effectively and this could enable the service provider to command a higher price which can lead to increased revenues (Crowth & Aras, 2008). In achieving this goal an organization must perform better than other players in its industry.

If the company is cost effective, it can then be able to command a lower price in its offering to the consumers and this can lead to increased revenues (Thompson, 2010). However, a review of approaches for building competitive advantage illustrates that marketing plays a central role. A number of popular approaches include, strong market positions with products and services which are not easily substituted, entry barriers, strong bargaining position, mobility barriers, balanced portfolio`s, core competences, innovation and speed or time based competition. Multinational Companies (MNC`s) can promote the adoption of CSR practices as part of their strategy so as to increase their competitiveness within the economy and industry.

In competitive advantage, the current globalized world, competition has become a buzzword with regard to organizational performance and survival (Porter & Kramer, 2012). Research has established that firms, which are unable to attain or sustain greater organizational performance often, collapse (Palmer, 2012). Thompson (2010) this gives the customer a reason that lasts to prefer the company products to competitors. An organization derives its competitive advantage from either managing their costs or providing a unique offering to their market (Crowth & Aras, 2008).

According to Reverte (2009), he contends that to attain and sustain a competitive advantage, firms have to explore several alternatives including engagement in CSR strategies. According to Weber (2008), health strategy is a fundamentally effective means of attaining a competitive advantage in a competitive business milieu as individual beneficiaries of the health assistance and their relatives,

friends and acquaintances develop a feeling that they owe the firm a lot. As such, it is perceptible that a health strategy is a potentially effective way of attaining a competitive advantage.

Schwenker and Wulf (2013) have argued that increased involvement in certain CSR strategies result in the enhancement of organizational performance and competitive advantage (CA). Firms have also undertaken to increase their assistance to the health sector and the people in need of certain medical attention but lack proper resources and funds to realize such needs (Kariuki & Rotich, 2013). Hamori (2013) points out that sports strategy in CSR serves to establish a good corporation reputation, which in turn guarantees high performance by the employees. This give the firm a competitive advantage relative to its key competitors thereby allowing the firm to retain its exceeding its business performance (Harvard Business Review, 2011).

According to Westover (2010) CSR influences the rates of employee retention or employee turnover rates. Turnover is process in which employees leave the organization and have to be replaced. Turnover is related to employee motivation. Excessive turnover can be a very costly problem, one with a major impact on productivity. But cost is not the only reason turnover is important. Lengthy training times, interrupted schedules, additional overtime, mistakes and not having knowledgeable employees in place are some of the frustrations associated with excessive turnover (Westover, 2010). It has been observed that a health strategy facilitates employee motivation in fulfilling their tasks to the firm and therefore facilitate organizational performance.

1.2 Objectives of the Study

1.1.1General Objective

The main research objective was to establish the influence of Corporate Social Responsibility activities on competitive advantage of Equity Bank Kenya Limited.

1.1.2 Specific Objectives

The specific objectives of the study were to**;**

v. Establish the influence of education programs on competitive advantage of Equity Bank Kenya Limited.
vi. Examine the influence of environmental protection programs on competitive advantage of Equity Bank Kenya Limited.
vii. Determine the influence of enterprise development programs on competitive advantage of Equity Bank Kenya Limited.
viii. Establish the influence of staff development programs on competitive advantage of Equity Bank Kenya Limited

2.Theoretical Literature

2.1 Stakeholder Theory

This theory was proposed by (Freeman, 1984). Stakeholders theory states the purpose of the company as to provide return on investment for shareholders and thus corporations are seen as instruments of creating economic value for those who risk capital in the enterprise, (Greenwood, 2001). It is believed that the sole constituency of business management is the shareholders and the sole concern of shareholders is profit maximization. Any activity is justified if it increases the value of the firm to its shareholders and is not justified if the value of the firm is reduced, (Cochran, 1994). Corporate expenditure on social causes represents a violation of management responsibility to shareholders to the extent that the expenditure does not lead to higher shareholder wealth, (Ruf, 1998). In relation to shareholder theory, this implies that company managers are obliged to adhere to the objective of maximizing long-term owner value.

Stakeholder theory emerged as an alternative to shareholder theory, (Spence et al, 2001). According to Windsor (2001), the term stakeholder represents a softening of strict shareholder theory. It recognizes

the fact that most, if not all firms have a large and integrated set of stakeholders, (Cochran, 1994) to which they have an obligation and responsibility, (Spence *et al*, 2001). This theory challenges the view that shareholders have a privilege over other stakeholders, (Freeman & Reed, 1983). The stakeholder theory is a response to financial theories that assert that firms should focus only on maximizing the economic interests of shareholders, (Orts & Schulder, 2002). According to Kaler (2003), the stakeholder approach involves a basic reformist stance toward shareholder theory, seeking to move it in the direction of greater equity and a less single-minded concentration on owner's interests rather than replacing it entirely.

The theory's application to this study is premised on the backdrop that the Chief Executive Officer (CEO) of Equity Bank Limited as manager saw the need to satisfy a bigger chunk of the stakeholders and or clients by engaging in such activities as promoting and shaping the future of the younger generation by offering them the platform to curve their niche in leadership as well as in education. Through equity bank involvement in education programs they are able to train and equip young generation with skills which they can use to serve in their respective institutions. Indeed, through the work based programs for all education beneficiaries the bank will be better placed to equip and tap skills which the students have.

2.2 Strategic Leadership Theory

The theory of strategic leadership finds its roots from the evolution of management theory by (Fredrick, 1856). The essence of strategic leadership involves the capacity to learn, the capacity to change and managerial wisdom (Boal & Hooijberg, 2001). This theory highlights the functions of a leader and how they manage crisis and maintain proper organizational structures, processes and culture for purposes of gaining competitive advantage. The effort of a leader is therefore very essential in the organization of human capital, financial resource, organization structure and process to achieve a competitive stand in the market

Waldman *et al* (2004) applies strategic leadership theory to CSR and noted that companies run by intellectually stimulating CEOs do more strategic CSR than comparable firms. These authors affirm that certain aspects of transformational leadership will be positively correlated with the propensity of firms to engage in CSR and that these leaders will employ CSR activities strategically. A strategic leader displays a dissatisfaction or restlessness with the present; absorptive capacity. Beatty and Quinn (2010) define strategic leadership as a combined responsibility of the leader, the follower and the organization. Leadership presents challenges that call forth the best in people, and bring them together around a shared sense of purpose.

Strategic leadership includes determining the firm's strategic direction, aligning the firm's strategy with its culture, modelling and communicating high ethical standards, and initiating changes in the firm's strategy, when necessary. Strategic leadership sets the firm's direction by developing and communicating a vision of future and inspires organization members to move in that direction. Unlike strategic leadership, managerial leadership is generally concerned with the short-term, day-to-day activities, (Pearce & Robinson, 2007).

Equity Bank CEO provides strategic leadership to the organisations equity group foundation whose sole responsibility is social and economic transformation. With intentionality, alignment, and a higher purpose; the work between the leader and the followers can create a synergy. This makes the theory relevant based on the need for effective management and leadership for CSR activities carried out in equity bank Kenya. The theory is appropriate for the study since equity bank has endeavoured to support skills for its employees as well as beneficiaries of equity foundation from whom they can attract and recruit them to serve in their respective bank as well as equity foundation.

2.3 Resource Based View theory

This theory was first proposed by (Edith Penrose's 1959**)**. The resource-based view of the firm (RBV) draws attention to the firm's internal environment as a driver for competitive advantage and emphasizes the resources that firms have developed to compete in the environment. Ultimately, firms that are able to leverage resources to implement a value creating strategy not simultaneously being implemented by any current or potential competitor can achieve competitive advantage, (Barney, 1991). The RBV as a basis for the competitive advantage of a firm lies primarily in the application of a bundle of valuable tangible or intangible resources at the firm's disposal, (Mwailu & Mercer, 1983).

Moreover, Hart (1995) was the first to apply the RBV framework to corporate social responsibility. The study focussed exclusively on environmental social responsibility and asserted that, for certain types of firms, environmental social responsibility can constitute a resource or capability that leads to a sustained competitive advantage.

The RBV has put forward a number of assumptions that may be useful in the management of organizations: Resource Heterogeneity is the first assumption which states that the resources that organizations possess differ from one company to another. If organizations would have the same amount and mix of resources, they could not employ different strategies to outcompete each other therefore RBV assumes that companies achieve competitive advantage by using their different bundles of resources. The second assumption of RBV is that resources are not mobile and do not move from company to company, especially in short-run. Due to this immobility, companies cannot replicate rivals' resources and implement the same strategies. This is truer with the intangible resources, such as brand equity, processes, knowledge or intellectual property that are usually immobile, (Hooley & Greenlay, 2005).

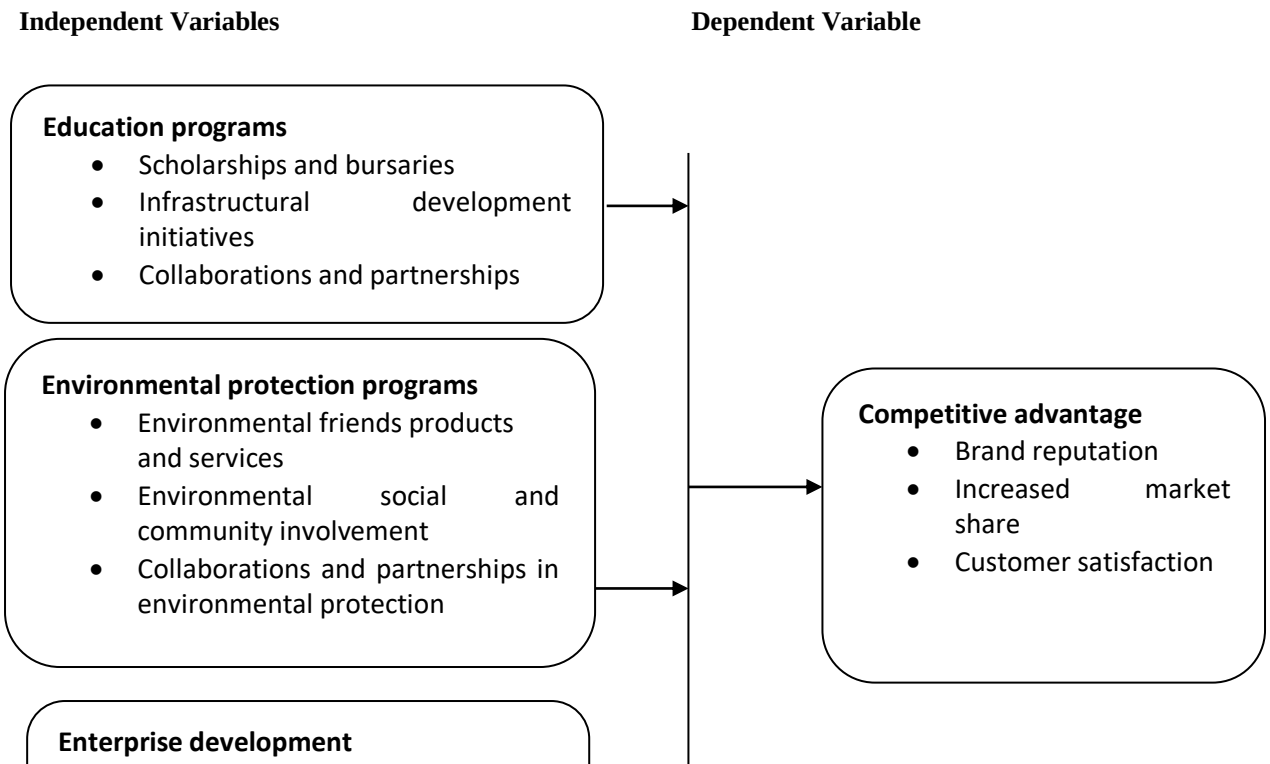
Barney (1991) proposed the VRIN framework that examines if resources are valuable, rare, costly to imitate and non-substitutable. The resources and capabilities that answer yes to all the questions are the ones that lead to sustained competitive advantages. Resources are valuable if they help organizations to increase the value offered to the customers. This is done by increasing differentiation or/and decreasing the costs of production. Resources that can only be acquired by one or few companies are considered rare. A company that has valuable and rare resource can achieve at least temporary competitive advantage. However, the resource must also be costly to imitate or to substitute for a rival, if a company wants to achieve sustained competitive advantage.

McWilliams and Siegel (2001) outlined a simple model in which two companies produce identical products, except that one firm adds an additional social attribute to the product, which is valued by some consumers and other stakeholders. In this model, managers conduct a cost/benefit analysis to determine the level of resources to devote to CSR activities by assessing the demand for CSR and evaluating the cost of satisfying the demand.

The theory is appropriate since through creation of conducive environment the bank will be able to operate optimally. Indeed, participation in environmental conservation strategies will act as an avenue to educate not only environmental issues but also a platform to promote equity product awareness. Also the theory supports enhancement of employee satisfaction through creation of cohesive programs which will promote skills development and health fitness by organizing health and sport related activities

2.4 Conceptual Framework

The dependent variable in this study was competitive advantage while the independent variable was corporate Social responsibility



3. Research Methodology

3.1 Research Design

The study adopted descriptive and cross-sectional research design which Mugenda and Mugenda (2003) posits that it is a systematic, empirical inquiring into which the researcher does not have a direct control of independent variable as their manifestation has already occurred or because the inherently cannot be manipulated. Research design ensures the study is applicable to the problem and its procedures are cost-effective for obtaining information. Descriptive research design is concerned with finding out about the how, who, when and where of a phenomenon so as to build a profile (Mugenda & Mugenda, 2003). The design was appropriate since the current study investigated corporate social responsibility on competitive advantage in Equity bank limited.

3.2 Target Population.

A population is a well-defined or set of people, services, elements, and events, group of things or households that are being investigated. The target population for study was all 145 management employees at Equity Bank Kenya Limited head office in Nairobi. These employees were categorised into 20 top level, 30 middle level and 95 in the functional level.

Table 3.1: Target Population

Category	Population size	Percentage
Top Level	20	13.8
Middle Level	30	20.7
Lower Level	95	65.5
Total	**145**	**100**

Source: Author (2017)

3.3 Sampling Size and Sampling Technique

Simple random sampling technique was used to obtain a representative sample since population of interest is homogeneous. Simple random sampling will be adopted to select 67 respondents who will be distributed in the three levels of management using stratified sampling technique. Out of 67, 9 will be drawn from top level management, 14 from middle level management and 44 from functional level. To give all respondents an equal chance of consideration simple random sampling will be used. A sample of 67 was calculated as follows according to Kothari (2011):

$$n = \frac{Z^2pq}{d^2}$$

Where:
n = sample size, N= entire Population, Z= level of significance (1.96 confidence level)

d= Expected Error, p = Probability of success, q = Probability of failure

As such the sample for this study can be derived as follows:

$$n = \frac{1.96^2 * 0.5 * 0.5}{0.12^2} = 67$$

Table 3.2: Sample Size

Category	Percentage	Sample Size
Top Level	13.8	9
Middle Level	20.7	14
Functional Level	65.5	44
Total	**100**	**67**

Source: Author (2017)

3.4 Data Collection Instrument

Primary data was collected by the help of a semi structured questionnaire. The close-ended questions provided more structured responses to facilitate tangible recommendations while the open-ended questions provided additional information that was be captured in the close-ended questions. The study used both primary and secondary data. Secondary data was collected from the records of the Equity Bank Foundation which is the CSR arm of the Equity group of companies. The CSR records showed the project undertaken and also the competitive performance information was indicated from the financial statements of the bank.

3.5 Validity and Reliability of the Study

3.5.1 Validity of the Study

Cooper and Schindler (2010) indicated that a pilot test is conducted to detect weaknesses in design and instrumentation and to provide proxy data for selection of a probability sample. According to Babbie (2004), a pilot study is conducted when a questionnaire is given to just a few people with an intention of pre-testing the questions. Pilot test is an activity that assists the research in determining if there are flaws, limitations, or other weaknesses within the interview design and allows him or her to make necessary revisions prior to the implementation of the study (Kvale, 2007). To establish the reliability and validity of the research instrument the study sought opinions of experts in the field of study especially the study's supervisor and lecturers in the school of business administration and strategic management. This facilitated the necessary revision and modification of the research instrument thereby enhancing validity.

Validity is a measure of the degree to which data obtained from the instrument accurately and meaningfully represents the theoretical concept and in particular how the data represents the variables. Where validity has been established, any inferences made from such data was accurate and meaningful (Mugenda & Mugenda, 2003). The first phase of this research employed the econometric technique to establish the relationship between corporate social responsibility strategies and performance of commercial banks in Kenya with a special focus on Equity Bank Limited. The data was collected from the organizations' departments such as human resource, IT, finance, operations, marketing and strategic management. This confirmed the validity of the data and relevant results.

3.5.2 Reliability of the Study

Cronbach's Alpha was applied to measure the co-efficient of internal consistency and therefore reliability of the instrument. In order to check reliability of the results, the study used Cronbach's alpha methodology, which is based on internal consistency. Cronbach's alpha measures the average of measurable items and its correlation. Overall scales' reliability of the present situation and the desirable situation were tested by Cronbach's alpha, which should be above the acceptable level of 0.70 (George & Mallery, 2003).

3.6 Data collection Procedure

Upon successful presentation of the research proposal, an introduction was sought from Kenyatta University School of graduate studies and it was presented to the National Commission for Science, Technology and Innovation (NACOSTI) to seek research permit.

4. Findings.

4.1 Response Rate

Although, the study had a sample of 67 respondents only 56 questionnaires were returned and correctly filled, this yielded 84%. According, to Kothari (2011) the response was appropriate because it was greater than 70%.

Table 4.1: Response Rate

Questionnaire	Frequency	Percentage
Returned	56	84
Non returned	11	16
Total	**67**	**100**

Source (Author, 2018)

4.2 Bank Engagement in Corporate Social Responsibility

The study investigated types of corporate social responsibilities equity bank engaged in. As shown in Table 4.5 most of the respondents reported that to great extent equity bank was involved in CSR activities (mean = 4.2, standard deviation = 0.9). Most of the respondents, 53.6% reported that to very great extent equity banks was involved in education and training programs, 50% reported to great extent equity bank was involved in environmental protection programs. Further, 42.9% reported that equity bank was involved in enterprise development initiatives, and 51.8% reported that to very great extent equity bank was involved in staff benefits enhancement.

Table 4.2: Bank Engagement in Corporate Social Responsibility

	Percentage (n=56)						
	Not at all	**Little extent**	**Moderate extent**	**Great extent**	**Very great extent**	**Mean**	**Std. Dev**
Education and training programs	0	3.6	5.4	37.5	53.6	4.4	0.8
Environmental protection programs	1.8	3.6	25	50	19.6	3.8	0.9
Enterprise development initiatives	1.8	3.6	16.1	42.9	35.7	4.1	0.9
Staff benefits enhancement	1.8	3.6	7.1	35.7	51.8	4.3	0.9
Overall average						**4.2**	**0.9**

Source (Author, 2018)

4.3 Competitive Advantage

Further, the study sought respondents' opinion in regard to competitive advantage upon equity banks participation in CSR. On a five point Likert scale most of the respondents reported that to very great extent equity bank participation in CSR had influence on its competitive advantage (mean = 4.5, standard deviation = 0.7). This was accounted for in recruitment of new customers (mean = 4.2), new investors local and foreign (mean = 4.4), employee satisfaction (mean = 4.4), brand appeal and association (mean = 4.5), entry into new markets (mean = 4.6) and accomplishment of strategic plans (mean = 4.7).

Table 4.3: Competitive Advantage

	Percentage (n=56)						
	Very low	**Low**	**Average**	**High**	**Very High**	**Mean**	**Std. Dev**
Recruitment of new customers	3.6	1.8	12.5	33.9	48.2	4.2	1.0
New investors local and foreign	1.8	1.8	7.1	35.7	53.6	4.4	0.8
Employee Satisfaction	1.8	0	7.1	37.5	53.6	4.4	0.8
Brand appeal and association.	1.8	0	3.6	33.9	60.7	4.5	0.7
Entry into new markets	0	0	1.8	37.5	60.7	4.6	0.5
Accomplishment of strategic plans	0	0	3.6	25	71.4	4.7	0.5
Overall Average						**4.5**	**0.7**

Source (Author, 2018)

5. Conclusion and further research

5.1 Conclusion

Based on the study findings the following conclusions can be drawn. CSR had significant influence on equity bank competitive advantage and accounted for 80% of its competitive advantage. Therefore, there is need for equity bank to amplify its participation in CSR activities more so in education and training programs, environmental protection programs, enterprise development programs and staff development programs.

Owing to success rates in equity banks wings to fly education programs, there is need for a diversified education program to be developed. Since the current program is skewed towards academic achievement, there should develop a program geared towards recognizing and rewarding outstaying talents. Through this participation in co curriculum activities will be enhanced and can aid in breaching of unemployment gaps.

Secondly, there is need for corporate organization participation in environment protection programs. Although, these programs may be expensive they may be avenues through which corporation can enhance its market penetration. Indeed, involvement of equity bank in tree planting and forest protection programs will not only portray them as environmentalist but also improve their brand association with current desire to alienate current threats.

Thirdly, entrepreneurship is the main yardstick which can be deployed to minimize unemployment in Kenya. Equity bank participation in enterprise development programs will not only enhance entrepreneur's skills but also improve its demand for financial support amongst SMEs who are in need for business expansion.

Finally, involvement in employee skills development programs will improve equity bank quality of work life and employees satisfaction. As stipulated by Maslow's hierarchy of needs there will be improved level of job satisfaction. This will amplify employees' gratification and enhance measures of improving corporate image.

5.2 Recommendations

From the study findings the following recommendations can be drawn; equity bank education programs should be diversified and look for more partnership. Through partnership equity bank will be better placed to serve more students who are mostly denied quality high school education due to lack of fees. To enhance whole life development there is need for education programs to have life skills support packages; this will enhance career planning and growth amongst high school and university students who are beneficiaries of equity bank education programs.

Since environmental protection programs have the capacity to improve corporate image. Equity bank should partner with government agencies such Kenya Wildlife Services (KWS), Kenya Forest Service (KFS) and schools so as to tree planting and environmental protection. Developing tree planting schemes in primary and high school would improve forest coverage. Equity bank should partner with ministry of education and initiate tree planting program countrywide. This will create its brand awareness and can ease recruitment of new account holders and also improve in levels of financial inclusion amongst young children. Saving culture will be cultivated and consequently minimize poverty levels.

Thirdly, enterprise development programs should be customized so as to meet unique needs of their equity bank client base. Since, entrepreneurs could either be formally or informally trained, their training programs should be customized to address and breach financial, strategic and business development needs of their customers. Financial skills development would improve entrepreneur's development in financial acquisition and cash management strategy. Through strategic skills development entrepreneurs' would be better placed in understanding their clients' needs and consequently development products which would address their clients unique needs.

5.3Suggestions of Further Studies

Since the current study drew its respondent's commercial bank managerial positions, there is need for a similar study to draw respondents from its customers and examine influence of CSR on competitive advantage. The current study depended on 67 respondents there is need to increase the sample size. Since almost all banks engage in CSR activities there is need to carry out similar studies in respective banks and examine the influence of CSR on their competitive advantage. There are newly created financial institutions such as Savings and credit cooperative unions and micro finance banks there is need to examine their levels of involvement in CSR activities and they rely on it to achieve competitive advantage. The current study applied quantitative data, there is need for a similar study to adopt qualitative data or use mixed design. Structural equation modelling ought to be fitted so as to complement regression analysis.

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The influence of marketing strategies on performance of Kenya Airways.

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Abstract

The aim of this study was to investigate the influence of marketing strategies on the performance of Kenya Airways. A primary research methodology was adopted using questionnaires as instruments of data collection. The case structured questionnaires were distributed to employees, managers and directors of Kenya Airways in Nairobi Headquarters. Using a simple random sampling technique, a sample of 100 respondents were selected to participate in the study. Data collected was coded and entered into Statistical Package for Social Sciences (SPSS). Quantitative results were generated in form of descriptive statistics (frequencies, proportions, and standard deviations) and inferential statistics (regressions). A multiple regression model was used to test the relationship between independent and dependent variables. Further, the regression results included ANOVA and coefficient of variables respectively at 95% confidence level. Results obtained showed that marketing strategies have a positive and significant influence on performance in an organization. It was recommended that that the Kenya Airways management should implement suitable marketing strategies that can attract and maintain customers in order to improve company performance. Future studies should focus on a wider scope and in order to validate the findings from this study.

Key words: marketing strategies, performance, Kenya Airways, management.

Introduction

Background

The ever-increasing competition in modern markets inspire companies to implement various performance improvement strategies. The frequency of poor performance in organizations has increased in the recent past, and unless steps are taken to address it, the severity of decline worsens to the point of financial distress where the firm is unable to satisfy its monetary obligations. One approach of addressing organizational non-performance is implementation of strong turnaround strategies particularly those oriented to marketing activities (Brooks, Weatherson and Wilknson, 2010). To determine if performance is improving or not improving, Brooks *et al.* (2010) recommend that business organizations ought to execute performance measurement. A number of metrics can be used by organizations to measure their performance. Such approaches include but they are not limited to the following; using balanced score cards, using financial forecasts and budgets for financial indicators and variance analysis, and employing strategic metrics as well as operational metrics especially for non-financial indicators among others (Inyange, 2014).

Performance management is a crucial aspect in modern businesses. Its centrality is founded on the observation that it determines the overall growth of an organization. Mutegi (2017a) strongly believes that performance management is usually perceived as the metrics under which an organization's overall growth can be assessed. Companies have a wide array of strategies of improving performance that they can select implement. One of the categories of these strategies is turnaround strategies. Turnaround

strategies refer to those efforts and options organizations can explore to improve their performance and ensure that the results obtain depict their anticipations and goals respectively. Managers at various departmental levels such as marketing, human resource management, financial departments, production, and public relations among others are on the run to ensure that the strategic decisions made by entities more importantly at departmental levels are not only supporting the overall goal of an organization, but also improving performance in order to keep up with the pace of competition as well as market trends (Brooks *et al*., 2010). Types of turnaround strategies frequently used in the contemporary business world include competitive strategies, marketing strategies, human resource strategies, and financial strategies. However, most scholars and practitioners give attention to marketing strategies in the endeavours of performance improvement (Dann & Dann, 2011; Dicke, 2016; Charles & Anderson, 2016; Fraser & Hite, 2010).

Marketing strategies include aspects such as diversity marketing, relationship marketing, search engines use, and celebrity endorsement and increasingly becoming common in the modern business environment. Diversity marketing encompasses the adoption of various strategies which are used collectively to build on each other (Rogers, 2011; Hassan, Ullah, Sharif & Mukhtar, 2013). Moreover, relationship marketing was first defined as a form of marketing developed from direct response marketing campaigns which emphasizes customer retention and satisfaction, rather than a focus on sales transactions. Relationship marketing differs from other forms of marketing in that it recognizes the long term value of customer relationships and extends communication beyond intrusive advertising and sales promotional messages. With the growth of the internet and mobile platforms, relationship marketing has continued to evolve as technology opens more collaborative and social communication channels. This includes tools for managing relationships with customers that go beyond demographic and customer service data. Relationship marketing extends to include inbound marketing efforts, (a combination of search optimization and strategic content), PR, social media and application development. A part from relationship marketing, other forms of marketing strategies that are important in airline industry include search engine optimisation and celebrity endorsement respectively (Inyange, 2014; Hill, 2013).

Problem

The airline industry has been under immense pressure over the past few years with regards to performance. Kenya Airways for instance has recorded losses for the last two consecutive years something which has not gone down well with a number of stakeholders in the industry (Kimotho, 2016). KQ's financial results for the financial year 2015/16 were one of the worst for its historical performances (Aglionby, 2016). The publication cited that the airline reported a net loss of Kshs. 26.2bn ($258m) for 2015-16, up from Kshs. 25.7bn in the previous financial year, as its results were hit by a series of one-off items including charges linked to a poor fuel hedging policy. Empirical studies have indicated that a company's future can be improved by adopting turnaround strategies (Rogers, 2011; Nderu, 2014; Mutegi, 2017b). However, research on how marketing strategies can improve performance of Kenya Airways is still inadequate. Due to existing gaps from previous studies on the impact of marketing strategies on performance, the current study will seek to explore how these strategies have benefited or not benefited Kenya Airways owing to its continued loss making as complained by shareholders and other stakeholders.

Aim

The general objective for this study is to investigate the turnaround strategies and performance in Kenya Airways.

Objectives

To investigate the influence of marketing strategies on performance of Kenya Airways.

Significance

The study will be of great importance to various stakeholders such as the management of Kenya Airways, the employees in Kenya Airways, the Government of Kenya and other shareholders, and the

academicians respectively. The management of Kenya Airways will be able to benefit from this research because they will be able to understand the specific marketing strategies that they can implement to improve performance of the organization.

Literature Review

Theoretical Review

This study was anchored on the marketing theory. Marketing is a broad field with a number of models or theories that can be grouped together to explain the basic concepts behind marketing. The theory of marketing is founded on the premises of the philosophies that firms or companies utilize in turning around their performance strategies (Hunt, 2015). The philosophies are commonly referred to as the P's of marketing and they include product, price, promotion and price among others (Palmer, 2012). These philosophies are collectively referred to as marketing mix. A part from the marketing mix, marketing theory involves other strategies such as; channel marketing and viral marketing respectively (Dann and Dann, 2011). All these strategies are important because they collectively shape marketing theory and firms can utilize them in enhancing performance irrespective of the industry in which they belong, as opposed to those theories such as mass marketing that are industry specific depending on the nature of products and services being offered.

Firstly, the marketing mix strategy encourages organizations to consider factors that can directly or indirectly influence their business (Charles and Anderson, 2016). For example, it is important for a company to consider price in reference to their competitors as to whether it is reasonable, affordable and competitive. Secondly, place in which services and marketing efforts are carried out should be strategic in the sense that sales can be closed (Palmer, 2012). Using promotion serves to attract customers both existing and potential ones in order to achieve revenues targets. Additionally, the nature of product or service offered to the market should be of high-quality in order to be able to satisfy customer needs (Charles and Anderson, 2016).

Secondly, "a basic marketing theory states that to maximize sales, a company must position its products or services in the marketplace in such a way that consumers believe they need a particular product for service or that a product or service they need has a particular benefit" (Dicke, 2016). This concept can be explained adequately using the channel marketing concept in the sense that where an organization such as KQ markets its services should be strategic with potential customer leads. Thirdly, the concept of viral marketing is based on a recent development in marketing theory and centers around the effects of technology on marketing products (Charles and Anderson, 2016). It involves the use of social marketing as a way of communicating in marketing using platforms such as emails, Twitter accounts, Facebook pages, and any other electronic or internet enabled platforms to reach customers.

Generally, the theory of marketing is important to this study since the main focus is to identify turnaround strategies that Kenya Airways can use to ensure that they improve performance that has been for a long time of a greater concern and worry to different stakeholders. For example, they can position their marketing strategies, charge reasonable prices as opposed to charging expensive tickets as already revealed in background of study, identify the specific areas they can target (place) in order to realize profits, and promote their services to target market respectively (Dicke, 2016). Further, the company can adopt both viral marketing and channel marketing concepts to improve their marketing activities. In this regard, the theories or philosophies in marketing are relevant to objectives such as marketing and competitive strategies. Therefore, the theory supports the variable of marketing strategies and it is relevant to the current study as it offers a foundation for investigating the approaches currently used by KQ.

Empirical Review

Financial strategies in organizational performance are considered as one of the key strategic approaches that can be utilized to help an organization turnaround its performance (Rhyne, 2013). It is important however, to appreciate the fact that they cannot be pursued in isolation if effective results must be achieved. Strategy implementation involves organization of the firm's resources and motivation of the staff to achieve objectives (Muchira, 2013). Primarily, these assertions complicate management and

implementation of financial strategies owing to the nature in which there is an overall intertwining of the organizational approaches. In a more simplistic manner, Rhyne (2013) states that financial strategies cannot be relied upon in isolation. On the other hand, Muchira (2013) also states that implementation of any strategy involves both personnel and financial resources. In this case, it is evident that the main assumption from this statements is that implementation of any strategy in an organization must have an element of financial resources.

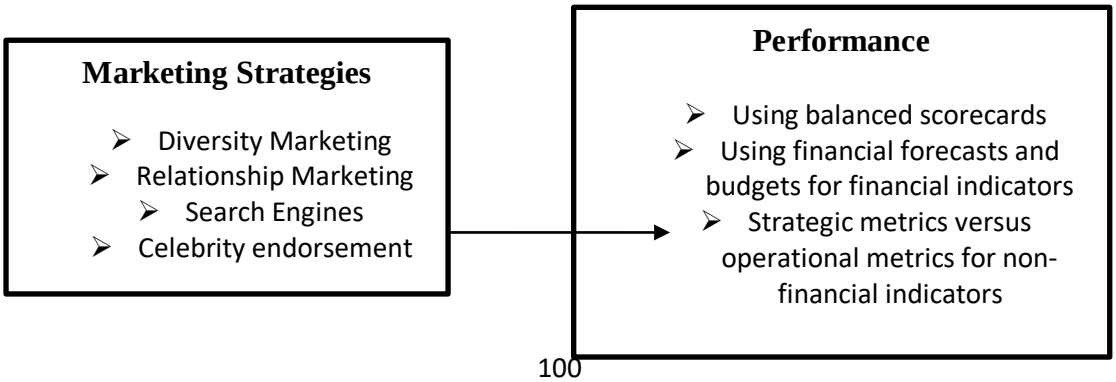
Similarly, a study was carried out by Namada, Aosa, Awino and Wainaina (2014) on "management participation and firm performance". Although the study was founded on the premise of management as an overall area of concern, it came out clear from the study's findings that organizational participation is very critical in ensuring that results are achieve. Namada and his colleagues clearly demonstrate that while considering different strategies for performance improvement, there is an integration of all departments in an organization from a management perspective. However, the most critical of all the departments is the financial department. It is important to acknowledge the fact that as all other strategies are pursued by incorporating financial section, the overall assumption is that they are all considered financial strategy in nature in one way or the other although not in a direct manner.

Firm performance is basically a strategic planning function, while financial planning is one of the main strategic decisions in an organization. Arasa and Obonyo (2012) explored a qualitative research in identifying the "relationship between strategic planning and firm performance". They observed that strategic planning encompasses a number of decisions key of which is financial resources allocation and distribution, as well as fundraising. Critically, this relationship demonstrates that for all other strategic decisions to be implemented there is an inevitable element of budgeting, in which case an organization must satisfy the measures to be taken to raise sufficient funds and how these funds should be allocated among competing needs in an organization.

Although not trying to present financial strategies as superior to other strategies, it is important to impact and role financial decisions have in the overall organizational performance. Isaksson and Lantz (2015) too share the same sentiments in their publication on "outsourcing strategies and their impact on financial performance". The authors, who had initially targeted to investigate outsourcing effectiveness in small organizations, ended up drawing an important line of literature that can be used in this study. Precisely, they noted that outsourcing in any manner is a move towards helping an organization utilizes its resources from a financial perspective. For instance, by outsourcing, a firm is able to minimize costs as opposed to having full time commitment. This can be linked to leasing from out assets and aircrafts in the case of airline industry. However, organizations must be strategic in identifying areas that can be outsourced and those that should not while focusing on maximization of returns from a financial perspective.

Waweru and Ngugi (2014) investigated the influence of "financial management practices on the performance of small and micro enterprises in Kenya". In their study, they observed that knowledge on financial management is one of the strategies to help entities improve performance hence promoting economic growth in an economy. An exploratory study by Capon and Farley (2014) also contributed that strategic planning helps firms to ensure that financial decisions are made in a manner that help firm maximize their returns. In overall, the two studies have shown that financial strategies cannot be overlooked as they are as important as any other strategies, but more importantly very critical in determining general performance.

Conceptual Framework



(Figure 1: Conceptual framework)

Methodology

Descriptive design is suitable is it enables the researcher to answer questions such as how, what, when, which, where, who among others (Creswell, 2014).

For this research, the target population comprised directors, senior management, head of departments and staff/employees of Kenya Airways in Nairobi headquarters distributed across various groups as presented in table 3.1 below.

Table: 1 Target Population

Level	*Number*	*Percentage of target population*
Directors	10	2.50
Senior Management	20	5.00
Head of Departments	30	7.50
Employees	340	85.00
Total	400	100.00

The researcher employed a sampling formula as proposed by Kothari (2014) to select a sample size which is represented in the sampling frame table 2 below.

$n=N/1+N(e)^2$……(i)

Where;

N = Population Size, n = sample size, and e = is the level of precision which is 0.05 in this case for a 95% confidence level. Because of time and financial constraints, the above formulae will be adjusted by dividing it by 2 based on the researcher's judgement, provided the overall sample size will be above 20% as recommended by Kothari (2014).

Hence; the sample size will be given by; N = 400, e = 0.05

Calculated as; $\{400 / [1+400(0.05)^2]\}/ 2$

= 100

Sample size of 100 respondents is 25% of the target population distributed in different groups as in the sampling frame table 3.2 below.

Table 2: Sampling Frame

Level	**Initial population size**	**Calculated Sample Size using 25%**
Directors	10	2
Senior Management	20	5
Head of Departments	30	8
Supervisors	340	85
Total	400	100

Structured questionnaire containing both closed ended and open ended questions were used to collect data. Majority of the questions were closed-ended so as to encourage the respondents to give feedback as because it required them to tick from among the provided options. The researcher then administered

the questionnaires with the interview questions face to face and allow the respondents to fill in their responses after seeking permission from the entity's management. The questions were classified into sections with regard to background information and the four objectives envisaged in this research.

Reliability was determined based on internal reliability which is basically on the internal consistency of the constructs or items used and this will be measured by the use of Cronbach's Alpha test (alpha value should be at least 0.7). The researcher ensured the questionnaires met the requirements of content validity. This involved basically examining the content of data collection instruments to establish if they are valid.

Data collected using questionnaires was cleaned, organized, sorted and analyzed using Statistical Package for Social Sciences (SPSS) and the results will subsequently be presented using tables and figures respectively. The to be obtained will be used to present the entire interpretation in a regression model that will show the relationship of the dependent variable with independent variables in an equation as presented below;

$$Y = B_O + B_2X_2 + e$$

Where:

Y = Dependent Variable; B_0 = a constant coefficient (if any); B_2 = Coefficient of marketing strategies; X_2 = Marketing strategies; e = is an error time respectively.

The researcher ensured confidentiality of personal information of the respondents that may take part in the study. The researcher also ensured informed consent and data safety during the whole process of data collection, analysis and interpretation.

Findings

Response rate and Reliability

This section presents findings from the study that achieved a 92% response rate. The questionnaire items regarding marketing strategies was 0.747 as shown in table 3 below.

Table 3: Cronbach's Alpha Test for Independent Variables

Independent Variables	Number of items	Cronbach's Alpha
Marketing Strategies	17	0.747

The table above shows the Cronbach's Alpha value for the variable marketing strategies is 0.747, which are sufficient to conclude that there is data reliability since are above the recommended value of 0.7.

Demographic Characteristics

The study analysed demographic characteristics of the respondents and presented findings using table 4 below.

Table 4: Demographic characteristics

	Variable	**Characteristic**	**Frequency**	**Proportion**
1	Age	Below 20 years	20	21.7%

		21 - 30 years	21	22.8%
		31 - 40 years	14	15.2%
		41 - 50 years	22	23.9%
		Above 51 years	15	16.3%
		Total	92	100.0%
2	Gender	Male	49	53.3%
		Female	43	46.7%
		Total	92	100.0%
3	Level of education	Diploma	21	22.8%
		Bachelors	29	31.5%
		Masters	21	22.8%
		PhD	21	22.8%
		Total	92	100.0%
4	Department	Director	4	4.3%
		Senior manager	15	16.3%
		Head of department	20	21.7%
		Junior employee	53	57.6%
		Total	92	100.0%
		Below 1 year	6	6.6%
		Between 1 - 2 years	17	18.7%
		Between 3 - 4 years	15	16.5%
		Between 5 - 6 years	12	13.2%
		Between 7 - 8 years	13	14.3%
		Between 9 - 10 years	11	12.1%
		Above 11 years	17	18.7%
		Total	91	100.0%

Majority of the respondents were males (53.3%) aged 41-50 years (23.9%) with an undergraduate degree (31.5%), working as junior employees (57.6%) and having worked with Kenya Airways for a period of 1-3 years.

Marketing strategies influence on Performance of Kenya Airways

The objective of this study was to investigate the influence of marketing strategies on performance of Kenya Airways. The respondents were subjected to a series of questions that were meant to determine their opinions on marketing strategies. The responses obtained have been analysed and presented in the sections that follow.

The respondents were asked to indicate the extent to which they agree with the given set of statements related to marketing strategies. They were required to indicate if they strongly disagree, disagree, neutral, agree or strongly agree.

Table 5: Extent to Agreement of Statements on Marketing Strategies

Statements	Strongly Disagree (%)	Disagree (%)	Neutral (%)	Agree (%)	Strongly Agree (%)	Mean
KQ focuses on customer satisfaction in all its services	5.4	5.4	4.3	42.4	42.4	4.11
No need to advertise since KQ is a big firm	1.1	1.1	7.6	44.6	45.7	4.33

Marketing can help KQ to turnaround poor performance	5.4	5.4	4.3	44.6	40.2	4.09
Marketing employed not strategic in the market	2.2	4.3	4.3	60.9	28.3	4.09

Source: (Survey Data, 2018)

Hassan et al. (2013), in their study reputed that marketing strategies are paramount turnaround strategies that any organization should embrace. The study findings revealed the respondents applauded the focus on customer satisfaction, n need to advertise since KQ was a big firm, marketing can help KQ to turnaround poor performance and marketing employed not strategic in the market since they had an average of above 4 as shown in the table 4.12 above. The findings contradict a study by Jaakkola (2011) who established that there was need for advertisement and strategic marketing despite the size of the firm. Moreover, the percentages of the four statements imply that the respondents were satisfied with marketing strategies embraced by the Kenya Airways.

The respondents were asked to express their opinions on whether the marketing strategy was an effective strategy to help an organization turnaround its performance.

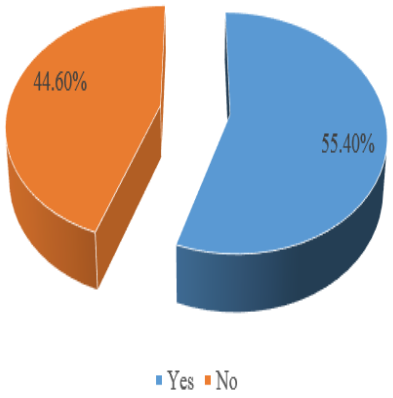


Figure 2: Marketing is an Effective Turnaround Strategy

The responses indicated that 55.4% of the respondents said yes while 44.6% said no as shown in the figure 4.5 above. The findings implied that marketing dimension of any company influenced its turnover. According to Ogbu (2016), effective marketing strategies resulted to a huge market share, increased number of customers and boosted reputation of the firm thus boosting sales revenue and improved performance of the firm. Additionally, the findings were echoed by Lucio and Noci (2010) who found out that marketing had great impact on the turnaround strategies and the performance of the firm.

The findings of the study on the extent to which marketing as an effective strategy to help an organization turnaround its performance indicated that 38% of the respondents said it was small extent, 37% said it was a large extent and finally 25% of the respondents said it was moderate extent as shown in the figure 4.6 below.

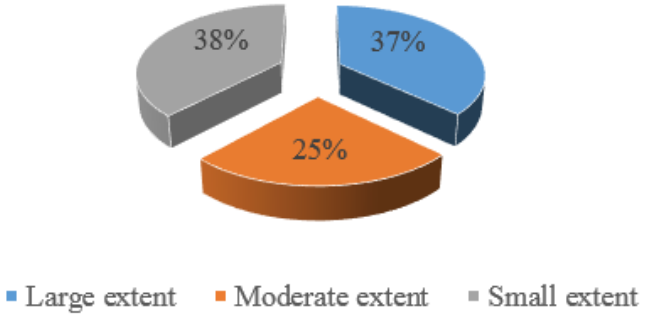


Figure 3: Extent of Marketing as a Turnaround Strategy

The respondents were asked their opinions on which marketing strategies they thought were important to Kenya Airways.

Table 6: Marketing Strategy Important To Kenya Airways

Important	Frequency	Percentage
Diversity marketing	19	20.7%
Transactional marketing	17	18.5%
Social media marketing	16	17.4%
Celebrity endorsement	12	13.0%
Relationship marketing	14	15.2%
Others	14	15.2%
Total	92	100.0%

Source: (Survey Data, 2018)

The responses obtained revealed that 20.7% of the respondents believed diversity marketing was the most important, 18.5% agitated for transactional marketing, 17.4% proposed the social media marketing, the respondents who chose relationship marketing and other marketing strategies were represented by 15.2% each. Also, the respondents who were for celebrity endorsement were represented by 13% as displayed in the table 4.183 above. The findings agree with the study by Russow and Okoroafo (2013) who enumerated transactional marketing, social media marketing, celebrity endorsement and relationship marketing as the most important marketing strategies to boost performance of a firm. They further argued that the strategies were essential turnaround strategies to transform poor performance of any firm.

Relationship between marketing strategies and performance of Kenya Airways

The regression analysis found an R-square of 0.696 (R^2=0.696) as shown in table 7 below.

Table 7: Model summary

R	R Square	Adjusted R Square	Std. Error of the Estimate
.392[a]	.696	.657	.57249

This implies that the independent variable (marketing strategies) explain about 69.6% of the changes in the dependent variable (performance) when all other factors are held constant. Further, a value of 0.657 implies 65.7% of the changes in the dependent variable are explained by the independent variables ceteris paribus when adjusted for the degrees of freedom.

Analysis of variance revealed that the model was significant in predicting the relationship between the independent and dependent variables due to its p-value of 0.005 ($p<0.05$).

Table 8: The ANOVA Table

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	5.171	4	1.293	3.945	.005
Residual	28.514	87	.328		
Total	33.685	91			

The coefficient of marketing strategies was found to be 0.454 with a significant level of 0.00 as shown in table 9 below.

Table 9: A Table for Regression Coefficients

Model	**B**	**Std. Error**	**Beta**	**t**	**Sig.**
(Constant)	3.755	.428		8.772	.000
Marketing strategies	.454	.120	.534	3.778	.000

The complete regression model is given by the equation below;

$Y = 3.755 + 0.454\ X_3 + 0.57249$…….(ii)

At 95% significance level, the marketing strategies are found to have a significant positive relationship with the performance of a firm (Fraser and Hite, 2010). The sig. value 0.000 which is less than alpha value of 0.05. This indicates that a unit increase in marketing strategies leads to 0.454 increase in the level of performance of Kenya Airways.

Conclusions

This study aimed at investigating the effect of marketing strategies on the performance of Kenya Airways, owing to its failed expansion strategy. Findings from the study revealed that Kenya Airways did not focus on customer satisfaction in all its services. Failure to focus on customer satisfaction is against the basic marketing theory that states to maximize sales, a company must position its products or services in the market place in such a way that consumers believe they need a particular product for service or that a product or service they need has a particular benefit. It was also noted that the management saw the need to advertise despite Kenya Airways being a big firm hence boosting the public image and reputation. The design of the marketing strategy highly influenced the performance as

turnaround strategy. In addition, marketing strategy was regarded as an effective strategy to help an organization turnaround its performance. The respondents enumerated diversity marketing, transactional marketing, social media marketing, relationship marketing and celebrity endorsement as the main elements of marketing most important to Kenya Airways in its turnaround strategies and improvement of performance. Further, the findings of the study established that there is a positive and significant relationship between the marketing strategies and the performance of a firm.

The study results were used to conclude that marketing strategies are key in improving the performance of Kenya Airways. Marketing should entail creativity while designing the strategies and be implemented fully to enhance performance. Also, it was concluded that customer satisfaction on all its services were key to improvement of its performance. Proper marketing strategies would boost the public image and the reputation of the Kenya Airways. This would in turn through multiplier effects draw more customers to Kenya Airways boosting its revenue base. Further, it was concluded that the marketing strategies are effective turnaround strategy for any organization. The study concluded that diversity marketing, transactional marketing, social media marketing, relationship marketing and the celebrity endorsement were the key elements associated with marketing strategies applicable to Kenya Airways. In addition, it was concluded that there exists a positive linear relationship between marketing strategies and the performance of Kenya Airways. This implied that transformed and efficient marketing strategies translated to better turnaround strategies and improved performance for Kenya Airways.

The study recommends that customer satisfaction in all services of Kenya Airways be implemented. Satisfied customers will be help in marketing Kenya Airways to potential customers hence boosting its reputation and image. Meeting customer needs is recommended as the first goal of Kenya Airways in its turnaround strategy. Based on the findings of the study, it is recommended that diversity marketing, transactional marketing, social media marketing, relationship marketing and celebrity endorsement to be implemented by Kenya Airways as part of marketing strategies. Moreover, the research recommended proper designing and package of the marketing strategies and ensure they are implemented fully. Marketing strategies were recommended to be enhanced in all operations of Kenya Airways to improve its performance.

One of the limitations of this study is that it focused only on turnaround strategies in relation to performance. Future research may consider to investigate the management of funds and extent of corruption in Kenya Airways. This is due to the fact the government of Kenya has been bailing out the airline regularly yet it continues to report huge losses and deteriorated performance. Moreover, from the findings of the research, it has been established that the respondents cannot tell whether the emerging airlines for local transport are threats to the performance of Kenya Airways. Therefore, studies should be carried out to investigate the effect of emerging airlines for local transport on the performance of Kenya Airways.

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MORTGAGE INTERST RATES AND FINANCIAL PERFORMANCE OF COMMERCIAL BANKS LISTED IN THE NAIROBI SECURITY EXCHANGE, KENYA

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ABSTRACT

There has been decline in the financial performance of banks dealing with mortgage financing which is mainly brought by mortgage defaults by customers. Mortgage financing has been viewed as an important aspect in the banking sector, though it has not been adopted fully by the financial institutions. Those that have adopted the scheme have a lot of challenges of mortgage defaults which affects the financial performance of commercial banks. The sector has been pointed out as an alarm factor that possesses challenges to housing segment repayment. The study is guided by the following objective: To assess the effect of mortgage interest rates on financial performance of commercial banks listed in the Nairobi Security Exchange. The study research hypothesis was that mortgage interest rates has no effect of on financial performance of commercial banks listed in the Nairobi Security Exchange, Kenya. The study was grounded on the theoretical premise of mortgage financing theory framework. For this study the most appropriate design used was a descriptive research design. The study drew samples from the population of 11commercial banks quoted in the NSE and that deal with mortgage financing. The research used census sampling method. Secondary data was collected for this study. The data on mortgage interest rate was available on financial reports. The data was entered into SPSS version 21 for analysis. Ordinary least squares were used to model a regression function that explains how the independent variables influence the dependent variables. The study revealed that higher level of market interest rates improves mortgage firm's profitability.

Keywords: *mortgage financing, performance, commercial banks and interest rates*

1.1 Background of the study

The aim of home loan variation is meant to decrease a person's contact with unaccounted for changes in the rates of interest. If there are uneven rates which go shoot up and get half of one's debt in a durable fixed rate, an individual be less disadvantaged as compared to if their home loan in a differentiated or short time period. On the other hand, given that rates go down, an individual with home loan still get to gain benefit. Rasmussen and Clausen, (2007), determined that in the present day, people in possession of homes are presented with a variety of home loan choices for aiding in buying of houses. In many cases, owners of homes are additionally given different option of paying back their home loans. In some nations, it is important and competent to provide options of paying back loans in accordance to the situations of a market or the conditions of owners of homes. While only one home loan would carter for the requirements of a borrower in the past, it is different today because now it seems that an assortment of loans serve better the home loan requirements of a person ant the level of risk they are willing to take. True to it, it can be determined with ease that an assortment of home loans is capable of giving decreased standard entire pay back throughout the period of a home loan, and with less inconsistency as rates of interest transform, (Zenios, 2007).

In the latest years in Kenya, spontaneous creation of different mortgage-backed securities has caused fundamental change in the mortgage segment. As a result of the evolving home loan market and special financing needs due to extensive acquisition of homes leading to notable changes in home loan lending tradition. Commercial banks act as monetary go-in between so as to mobilize resources that drive the economy of the world. Financial institutions, particularly Banks play a great role in financing houses. Microfinance institutions adopt mortgage financing for different reasons such as high rates of interest,

market penetration as well as cross selling which are strategies to increase profit. The relationship between mortgage financing and profitability is therefore expected to be positive (Chen, 2016).

In Kenya, investment in mortgage financing will lead to higher profitability since the mortgage market in Kenya comes number three in terms of mortgage development in the African Sub-Saharan having home-loan assets that are equal to 2.5% of the GDP of Kenya, (Al-Tally, 2014). The size and growth of mortgage market has seen growth in profitability of the microfinance institutions that have been offering mortgage credit to Kenyans. Giving mortgage loans to qualified applicants means that MFI's funds are held up and that these funds will be paid back later on and can only happen if financial institutions expect to make profit from the investment, (Kariuki, 2013). As stated, speedy growth of various securities to back mortgages in latest years has resulted into essential changes in the Kenyan mortgage segment. The transforming home markets and the special monetary needs caused extensive possession of homes hence an ongoing growth in mortgage distribution tradition. As monetary go-in between, Commercial banks mobilize resources in terms of money that in turn drive economies of the world.

1.1.1 Mortgage interest rate

Interest rate is the rate of return on investment and the cost of borrowing funds (Chen, 2016). Interest rates are a price for the use of funds and if rapid monetary expansion contributes to excessive demand and inflation, it also contributes to rising interest rates. Central Bank's role under the interest rate instrument is to set a short-term official rate of interest, which indicates the price at which it will make liquidity available to the banking system as a lender of last resort. In Kenya, this rate is called the Central Bank Rate. This rate is reflected in the CBK overdraft rates.

Mortgage interest rates vacillate depending on larger economic factors and investment activity. Mortgage interest rate indicates the annual cost to borrow money from the lender. The rate is expressed as a percentage of the total loan balance and is paid on a monthly basis, along with principal payment, until the loan is paid off.

In using interest rates, first the Central Bank sets a target inflation rate and then interest rates are steered to move inflation to its intended levels. In this case, interest rates are increased when the inflation rate is above the target rate, and reduced when inflation is below the target rate. A reduction in the official rate for instance, encourages the commercial banks to borrow money from the Central Bank, thereby increasing money supply in the economy. Mortgage interest rates reflect the general lending rate of banks as any other loan in the banks.

1.1.2 Performance of commercial banks

The banking business in the nation is run by several acts including, The Companies Act, (1978), The Banking Act, (1991), the Central Bank of Kenya Act, (1984) as well as the different credible rules set by the Central Bank of Kenya (CBK). Liberalization of the banking industry begun in 1995 and it is the time at which control on exchange was done away with. Central Bank of Kenya is categorized in the Finance Minister's section and is tasked with creating and executing financial policies and promoting the liquidity, solvency and proper performance of the monetary structure. As one of its roles, Central Bank of Kenya provides information on the commercial banks as well as non-banking sectors that operate in Kenya and also information on the rates of interest rates in addition to other financial publications and rules. The Kenya Bankers Association (KBA) provides an umbrella for Kenyan banks under which they can act on their interests and work out challenges that the members experience, (CBK, 2012).

CBK controls all the Kenyan financial institutions in addition to other micro-financial organisations as provided for by Kenya rules and regulations under the bank act. Commercial banks seem to be the leading titans in the nation's finance system and they are thoroughly scrutinised by regulators to

warrant that they are in consistent with following the laws and directions. The Kenyan finance industry comprises of 43 banks registered total net assets of Ksh. 2.7 trillion as at 31st December 2013, (CBK 2013). The classification of banks in Kenya is in three different tiers depending on a weighted composite index of their assets, productivity, funds and capitals as well as other fiscal aspects, (CBK, 2015).

According to the NSE, there are 11 listed commercial banks in Kenya, (NSE, 2014). For the sole purpose of hiking their profits, Kenyan Commercial Banks have ventured into real estate and lending finances to consumers, (Ng'ang'a, 2012). This tendency has taken roots in the Kenyan commercial banks as they look into expanding loan assortment as well as reducing the risks associated with the unsecure loans that are common to people in the country. For instance, just close to 5% of the loan from the banking system was channelled into real estate (RE) from 1997-2008 with a decreasing tendency, close to 6% was channelled into private households (PH) with a hiking tendency and about 2% into consumer durables (CD) which also had an increasing tendency.

1.1.3 Objective of the study

To assess the effect of mortgage interest rates on financial performance of commercial banks listed in the Nairobi Security Exchange, Kenya

1.1.4 Hypothesis/ research question

HO_1: Mortgage interest rates has no effect of on financial performance of commercial banks listed in the Nairobi Security Exchange, Kenya

1.2 Statement of Problem

There has been decline in the financial performance of banks dealing with mortgage financing which is mainly brought by mortgage defaults by customers. The banks have not been making significant profits mainly because of the interest rates capping introduced in 2016 by the government. This also leads to the decline in return on equity and assets of commercial banks. Mortgage financing has been viewed as an important aspect in the banking sector, though it has not been adopted fully by the financial institutions (CBK, 2011). Those that have adopted the scheme have a lot of challenges of mortgage defaults which affects the financial performance of commercial banks. The sector has been pointed out as alarm factors that possess challenges to housing segment repayment. The mortgage defaults are due to low income level earnings by individuals in the country which leave the banks unpaid the full amounts by their clients (Ndururi, 2013) hence poor performance of commercial banks. Therefore, there is need therefore to assess the influence of mortgage financing on financial performance of commercial banks in Kenya.

2.1 Theoretical Review

The theory supposes that the chief objective of a bank is to maximize its profits despite the constraints of its soundness, liquidity, lawfulness and liquidity. Decision making in banks are motivated by the ability of the decisions to create more value for the shareholders and this has seen the adoption of systems that mitigate against risk. The theory applies to how banks provide funding for real estate projects by instituting systems that increase return management and mitigated risks. The theory emphasizes on optimization of risk, identification of risks, reward of efficient portfolios and precise determination of expected value derived from a loan issued, (Doling, 1997).

The Mortgage financing theory posits that the banks plans the fiscal value of new retail mortgage business and permits the business to make calculated and tactical decisions based on projected profitability. This theory treats mortgage as a long-term investment that spans over a longer period. Financing contractual agreements in mortgage has impressed upon banks the need to be prepared to finance long-term loans and they can also invest in providing real estate products to their followers,

(Benington & Moore, 2010). According to the theory, the lack of a long –term finance will imply that the banks won't have the capacity to finance building of new properties and thus the mortgage market will considerably shrink since the providers of funds won't have the capacity to offer mortgage loans.

2.3 Empirical Review

Sinaida, (2017) carried out a research on the effect of lending interest rates on financial performance of commercial banks in Kenya. The main goal of the study was to determine the effect of lending interest rates on financial performance of commercial banks in Kenya. A descriptive research design was adopted. The sample population for the study was 42 banks registered before 2016. The study relied on secondary data in the form of publications about bank accounts for the period 2012-2016. The data gathered was analyzed using both descriptive and statistical analysis. The regression analysis showed that there was a significant relationship between lending interest rates and financial performance in banks. An increase in interest rates on loans results in better performance by banks (Sinaida, 2017). The study identified a gap in the market regarding information asymmetry. The information about property price indices and general information was lacking and the study intended to fill gap in order to improve mortgage evaluation by customers.

Odalo, Achoki, & Njuguna, (2017), carried out a research on the influence of interest rate on financial performance of agricultural firms. The study adopted a descriptive and causal research design. The trio undertook a census of the 7 registered agricultural firms. Questionnaires were administered to 220 respondents working in the firms in the finance department. The primary data collected were analysed using statistical analysis. The findings revealed that interest rate has a positive and significant relationship with ROA, ROE, and EPS. Another study by Wambari and Mwangi (2017) on the effects of interest rates on financial performance by commercial banks in Kenya suggested that interest rates had a significant effect on the financial performance of banks. The study adopted an explanatory research design and targeted 47 commercial banks. The study used secondary data which was analysed via SPSS version 20 by applying multiple regression analysis. The findings reported that lending rates affected financial performance positively while deposit rates affected the banks negatively (Wambari & Mwangi, 2017). The gap this study intended to fill was to provide sufficient information regarding the effectiveness of mortgage financing management. The information of management of time, loan sizes, training and interest rates was critically missing in the existing body of knowledge.

Njoroge, (2013) in his study on determining the relationship between interest rates and financial performance of firms listed at the Nairobi securities, established that there is a link between interest rates and financial performance. However, the significance of the relationship differs among companies and interest rates. The study aimed at assessing the relationship between interest rates and financial performance. The study adopted the causal research design to establish the link between interest rates and financial performance. The target population for the study was 56 firms registered in the Nairobi securities exchange. Secondary data was the only data used in the study. The secondary data comprised of publications of by the Central Bank and financial statements of 56 firms listed in the Nairobi security exchange for the period 2008-2012. The data were analysed using regression analysis. The study recommended further studies on the factors affecting financial performance other than interest rate, which had little to no significance with financial performance.

Table 2.8: Summary of Literature Review and Research Gap

Author	Methodology	Title	Recommendations	Findings	Gap Filled
Sinaida, (2017)	Descriptive research design. Sample of the study was 42 registered banks.	The effect of lending interest rates on financial performance	increase in interest rates on loans results in better performance by banks.	increase in interest rates on loans results in better	The study filled the gap on identifying the effects of

	Secondary data on the banks for the years 2012-2016 was gathered and analyzed.	of commercial banks in Kenya.		performance by banks.	interest rates on performance of banks.
Wambari & Mwangi, 2017	The study adopted an explanatory research design and targeted 47 commercial banks. The study used secondary data.	Effect of interest rates on the financial performance of commercial banks in Kenya.	Commercial banks in Kenya should keenly manage their lending interest rates given that lending interest ratio is directly related to performance.	Lending rates affected financial performance positively while deposit rates affected the banks negatively.	The study provided a complex and in depth link between interest rates and financial performance in Kenya.
Odalo, Achoki, & Njuguna, (2017)	The study adopted a descriptive and causal research design. The trio undertook a census of the 7 registered agricultural firms. Questionnaires were administered to 220 respondents working in the firms in the finance department.	Influence of interest rate on the financial performance of agricultural firms listed at the Nairobi securities exchange	Financial institutions and banks in Kenya should assess their clients which include agricultural firms listed in NSE while setting up interest rates policies.	Interest rate has a positive and significant relationship with ROA, ROE, and EPS.	The study covered the effects of interest rates on financial performance of the agricultural sector.

Source: Research, 2018

2.4 Conceptual Framework for the Study

A conceptual framework is a diagrammatic presentation of the relationship between dependent and independent variables. The independent variable is mortgage interest rates while the dependent variable is financial performance.

Independent Variable **Dependent Variables**

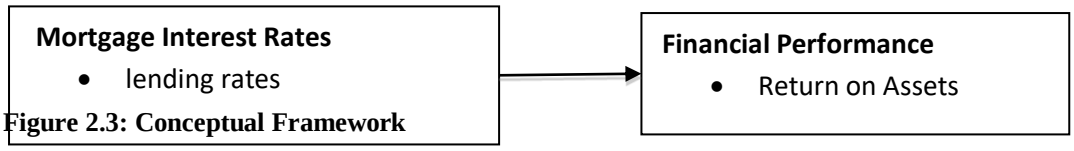

Figure 2.3: Conceptual Framework

Source: Researcher, 2018

3.1 Methodology of the study

Research design

The study adopted a descriptive research design. It targeted 11 quoted commercial banks that deal with mortgage financing (NSE, 2017). The study adopted a census method therefore composed of all the 11 listed commercial banks.

Data collection

Secondary data was collected for this study. This data was useful for generating additional information for the study from already documented data or available financial reports as per the document. The data on mortgage interest rate was available on financial reports. This essentially suggests that the assimilation of valued statistical data in the study. The research procedure included the preparation of the financial statements for secondary data. This was followed by the recruitment of Research Assistants to gather data from the commercial bank's websites. The enumerators were trained on the research tool to minimize data collection errors. The enumerators also were retained for the whole period of data collection.

Data analysis

The secondary data collected was checked for completeness in order to ensure that relevant data for each of the years is available. The data was entered into SPSS version 21 for analysis. Ordinary least squares were used to model a regression function that explains how the independent variables influence the dependent variables. The effects of determinants of mortgage financing on the financial performance was determined by conducting a time series analysis. The model that used to carry out the data analysis is given below. Y is the dependent variable while X_1, X_2 and X_3 are the independent variables.

$$\mathbf{Y = \beta o + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \mathcal{E}}$$

Where Y = Financial Performance (measured by Return on Assets)

$\mathbf{X_1}$ = Mortgage Borrowing Cost (measured by Actual Borrowing Cost – Income from investment)

X_2 = Mortgage Interest rate (measured by Average annual lending interest rate (Total monthly lending rates/12))

$\mathbf{X_3}$ = Mortgage Income level (measured by average net income)

$\boldsymbol{\beta_0}$ = constant

$\boldsymbol{\beta_1}$, $\boldsymbol{\beta_2}$, and $\boldsymbol{\beta_3}$ are the regression co-efficient or change introduced in Y by each independent variable

$\boldsymbol{\mathcal{E}}$ is the random error term accounting for all other variables that affect financial performance but not captured in the model.

This study used ANOVA to test the significant level of the independent variables on the dependent variable at 95% level of significance; the ANOVA tested whether there is any significant change or variance between the variables.

4.0 Findings

Table 4.9: Mean of Interest Rates

Year	Min	Max	Mean	Std Dev
2009	17.171	20.274	18.104	0.362
2010	16.758	19.238	18.693	0.251
2011	13.122	19.147	16.104	0.241

2012	14.141	17.463	17.152	0.152
2013	15.366	19.374	16.296	0.147

Source: Research findings (2019)

The results in table 4.3 of the trends of interest charged on mortgage loans offered by the commercial banks listed in NSE revealed unsteady fluctuations in interest charged on mortgage loans for the period 2009 to 2013. The interest charged on mortgage loans increased steadily from 18.104 in the year 2009 to 18.693 in the year 2010. The trends however revealed steady decline in the Interest charged on mortgage loans offered by the commercial banks to 16.104 in the following year (2011) before steadily increasing to 17.152 in the year and dropping again to 16.296 in 2013. The study duration has therefore recorded an overall unsteady decline in the interest charged on mortgage loans offered by the commercial banks listed in NSE. The findings contradict with Odalo, Achoki and Njuguna (2017) that interest rate has a positive and significant relationship with ROA. The findings reported that lending rates affected financial performance positively while deposit rates affected the banks negatively.

4.3 Regression Analysis

4.3.1 Model Summary

In this study, a multiple regression analysis was conducted to test the influence among predictor variables. The research used statistical package for social sciences (SPSS V 21.0) to code, enter and compute the measurements of the multiple regressions. The model summary are presented in the table below

Table 4.10: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.847[a]	.717	.684	.34156

Source: Research findings (2019)

The study used coefficient of determination to evaluate the model fit. The adjusted $R^{2,}$ also called the coefficient of multiple determinations, is the percent of the variance in the dependent explained uniquely or jointly by the independent variables. The model had an average adjusted coefficient of determination (R^2) of 0.684 and which implied that 68.4% of the variations in performance of commercial banks listed in Nairobi Security Exchange are explained by the independent variables understudy (mortgage borrowing cost, mortgage **interest rates** and mortgage income level).

4.3.2 ANOVA

The study further tested the significance of the model by use of ANOVA technique. The findings are tabulated in table below.

Table 4.11: Summary of One-Way ANOVA results

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	22.341	3	7.447	6.453	.000[b]
	Residual	8.078	7	1.154		
	Total	30.419	10			

Source: Research findings (2019)

Critical value =2.50

From the ANOVA statics, the study established the regression model had a significance level of 0.0% which is an indication that the data was ideal for making a conclusion on the population parameters as the value of significance (p-value) was less than 5%. The calculated value was greater than the critical

value (6.453>2.50) an indication that mortgage borrowing cost, mortgage interest rates and mortgage income level all have a significant effects on the performance of commercial banks listed in Nairobi Security Exchange. The significance value was less than 0.05 indicating that the model was significant.

4.3.3 Coefficients of Determination

In addition, the study used the coefficient table to determine the study model. The findings are presented in the table below.

Table 4.12: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.194	.205		5.824	.004
	Mortgage Borrowing Cost	-.575	.107	-.507	5.374	.012
	Mortgage Interest Rates	**.435**	**.094**	**.411**	**4.628**	**.014**
	Mortgage Income Level	.456	.082	.424	5.561	.013

Source: Research findings (2019)

As per the SPSS generated output as presented in table above, the equation ($\mathbf{Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + + \varepsilon}$) becomes:

$$\mathbf{Y= 1.194 -0.575X_1 +0.435X_2 + 0.456X_3}$$

From the regression model obtained above, a unit change in mortgage interest rate holding the other factors constant would positively change the performance of commercial banks listed in Nairobi Security Exchange by a factor of 0.435. The analysis was undertaken at 5% significance level. The criteria for comparing whether the predictor variables were significant in the model was through comparing the obtained probability value and α=0.05. If the probability value was less than α, then the predictor variable was significant otherwise it wasn't.

5.0 Summary, Conclusion and Recommendations

Further the study established that interest rates charged on mortgage facility were dependent on the collateral attached to the borrowed funds. Commercial banks base the mortgage rates on the volatility of the CBR as their lending rate. CBR affect the mortgage financing since the mortgage rates are pegged towards CBR. The increase in CBR leads to a consistent increase in the mortgage rate which tends to slowdown mortgage uptake. High mortgage rate leads to an increase in cost of borrowing, leading to defaults by borrowers and foreclosures. Conversely, high mortgage rates results to increase in profits by mortgage issuing firms, Interest rates charged on mortgage financing loans remained the same during the entire period of servicing the loans. The CBK sets its rate for overnight loans to commercial banks at 8.5%. The commercial banks ought to use the CBK interest rate to set their prime lending rates. This is not the case; the banks are still offering mortgages with interest rates as high as 28% (CBK, 2013) these findings concur with the findings by Worthington (2003) observed that prevailing interest rates affect the financial performance of firms.

The findings of this study also revealed that a unit change in Mortgage interest rates while holding the other factors constant would positively change the performance of commercial banks listed in Nairobi

Security Exchange by a factor of 0.435, The findings go hand in hand with the study findings by Cook (2015) who established that the impact of variations in market interest rates on banks' profitability largely depends on the degree of responses of asset and liability rates.

Conclusion of the study

On mortgage interest rates that mortgage interest rates have a significant influence on ROA and overall financial performance, it can be concluded that commercial banks in Kenya banks should always ensure that the mortgage interest rates are friendly and reasonable to facilitate participation of borrowers in mortgaging as it contributes to greater returns for commercial banks.

Recommendations of the study

The study recommends that commercial banks in Kenya should always ensure that appropriate and friendly mortgage interest rates and uptake of interest rate capping which are informed by the changes in the market environment and the government regulations and consider them when issuing the mortgage to the customers.

Implications to Theory and Practice

The study contributes to empirical literature on mortgage financing and financial performance of commercial banks listed in the Nairobi security exchange, Kenya. Specifically, the study found that mortgage interest rates have a significant influence on ROA and overall financial performance of commercial banks listed in the Nairobi security exchange, Kenya. Therefore, the study findings contribute to the knowledge of mortgage interest rates by providing empirical evidence on effect of mortgage financing on financial performance.

The study contributes to the theoretical literature by supporting the proposition of the Mortgage financing theory that decision making in banks are motivated by the ability of the decisions to create more value for the shareholders and this has seen the adoption of systems that mitigate against risk. The theory applies to how banks provide funding for real estate projects by instituting systems that increase return management and mitigated risks. The theory emphasizes on optimization of risk, identification of risks, reward of efficient portfolios and precise determination of expected value derived from a loan issued.

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Marketing Mix and Adoption of Improved Sanitation Products among Rural Households in Magarini, Kilifi County Kenya

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ABSTRACT

Adoption of improved sanitation has remained a challenge over a period of time. Kenya is one of the countries that missed the MDG target, with almost 70% lacking access to improved sanitation, and approximately 6 Million Kenyans defecating in the open. There is evidence of social marketing strategies being used to change behavior and increase adoption of products with health benefits. However the use of the conventional marketing strategies is scantly explored. This research sort to seek the following specific objectives: 1) the effects of product attributes on adoption of improved sanitation among rural households in Magarini, Kilifi County, 2). the effects of price on adoption of improved sanitation among rural households in Magarini, Kilifi County, 3. the effects of promotion on adoption of improved sanitation among rural households in Magarini, Kilifi County, 4. the effects of product placement on adoption of improved sanitation among rural households in Magarini, Kilifi County. Primary data was collected from a total of 375 households. Using semi structured questionnaires. Data was analyzed using both descriptive and inferential statistical methods. In particular multiple regression was also used to establish the effect of marketing mix on adoption of improved sanitation as well as the change in R^2 with introduction of income and payment options as a moderator. Findings indicate that community meetings, friends and relatives play a great role in influencing adoption. The marketing mix significantly influence adoption and the relationship is moderated significantly by income and payment mode used by the providers. The study recommends introduction of flexible payment options as a way of increasing adoption as well as utilization of community volunteers as sales agents.

Keywords: Improved sanitation, Millennium development goals and marketing mix.

Introduction

Better part of developing countries can be classified as rural and these areas are characterized by: low investment in business and social amenities, which affects access to education, proper housing, sanitation and healthcare services (Rao, 1985). Marketing is an instrument to deliver a standard of living rather than a process of exchanging goods and services to satisfy human needs and wants (Rao, 1985). The rural population tend to look for specific values. In order to penetrate the rural market, marketers need to consider many factors including how affordable the product is to the target customer both economically and psychologically, the attitude towards the product, the preference of the product by customers, the basic knowledge about the product, the brand familiarity (awareness) and the reachability or convenience to point of sale (Sheth, 2012).

Subsequently social marketers are playing a great role in changing social behaviors to ensure product adoption (Kotler, 2012). Kotler and Zaltman (as cited in Lokhande 2014) refers to social marketing as the calculated move to design programs that can influence the acceptability of social ideas, implementing product pricing, communication strategies distribution channels and market research. Marketing on the other part is the application of commercial Marketing strategies to product development, pricing, promotion and distribution in order to influence voluntary social behavior to improve the individual and societal welfare (Murlidhar, 2014). The right product at affordable prices is accompanied by better distribution and use of appropriate communication techniques and they act together in costumers' views (Išoraitė, 2016). . The right market solution should affordable, well distributed, communicated to create awareness, and reach the consumer in a more convenient way (Išoraitė, 2016)

The rural market has several challenges including low disposable incomes, unstable irregular income, seasonal planned expenditure heavily depended on cash crop and special occasions, poor roads networks, lack of access to electricity and lack of exposure to advertising (Chintan Shah, 2013). Besides the right marketing mix, the demand for a product is affected by other social and economic factors. For instance , the household income level, the source of income, the expected income that can be spend on a toilet, the expected price, the prioritization of a product by households and the willingness to pay can moderate the relationship between marketing mix and adoption.

Marketing mix and product adoption

Mutuku (2011) in the study on influence of marketing mix on consumer brand preference on user of smartphones among public university students in nairobi' found out that students are motivated by both the features, and the brand origin of the smart phone. Further ShanthakuMary (2004) in the study on the impact of marketing mix on consumer buying behavior, found a high positive relationship between marketing mix and brand loyalty Subsequently Gituma (2017) study on the effects of marketing mix on sales performance argued that product quality positively influence sales.

Cavusgil (1996), suggested that factors such as cost of production inputs, demand, external competition and the rate of exchange should be put into consideration when pricing a product (Marmullaku, 2015). As much as lower prices for inputs will increase adoption, other factors like product preferences, product quality, come into play to determine adoption (Karina, 2011). Results from various studies indicated that stable prices increase adoption of technology, (Ahaiwe, 2015). The choice of distribution channels can affect pricing strategy, at the same time product pricing also has an impact on distribution channel choice. The more intermediaries a firm includes in distribution strategy the more the effect on product's price, this is because every member of the channel seeks to make profit (Cuellar-Healey, 2013). Abdullah (2014) argues that most consumers make the decision to purchase a product based on price, this decision has very little to do with brand name or product accessibility

From a study of hypo bleach products in Nigeria it is evident that integrated marketing communications leads to high level of awareness (Ahaiwe, 2015) Many companies conduct market research to introduce products to the customers even before the product is launched (Svetlana, 2014). Promotional activities like advertising increases sales since a number of customers acquire products by impulse (Svetlana, 2014).

Economists believe that there is a correlation between advertising expenditure and product adoption, that increase in advertising budget will lead to an increase in sales, this has worked well for large scale enterprises like Proctor & Gamble which in 2011 increased expenditure on advertising and realized a 7.2% increment compared to 2010, (Adage, 2011).it should be noted that, the increase in advertising budget will not have an impact on sales , if the previous sales were attributed to other channels of communication other than advertising eg word of mouth (Gitau, 2012).

For Manufacturers to remain competitive, they have to adopt a distribution channel strategy that optimizes their manufacturing and business process , such strategies are delivered in relation to key partners and players in the industry (Parrish, 1995) Adoption will depend on successful distribution channel selection, distribution channels are designed to cost effective at the same time meet customer shopping needs (Cuellar-Healey, 2013). Product positioning and product pricing too have an impact on the choice of distribution channels (Cuellar-Healey, 2013). In choosing a distribution channel, it's important to select a channel that is cost effective, efficient in reaching target audience, it's important to know where the target customers located, the time they are likely to buy, the place they buy from, how much they buy and why they buy (Cuellar-Healey, 2013)

Successful distribution coverage can be measured by the intensity with which the product is made available to the customers (Cuellar-Healey, 2013). This finding is important in assessing how well enterprises have chosen distribution channels for sanitation products and how available this products are. Gituma (2017) found out that locating distribution channels in urban centers can lead to more returns on investment than rural channels, it was also established that use of distribution channels influences product availability, store design has a positive effect on consumer purchase and sales volume, use of distribution channels influences sales and profit (Gituma, 2017). This type of perception

can have an effect on adoption of improved sanitation, it's important to establish the location of distribution channels in relation to target customers

Intangible products affects consumers' pre-purchase behaviour, distribution channels give an opportunity to consumers to evaluate products before making decisions (Daniel, 2014). Consumers being exposed to a distribution channel like brick and motor shops get a chance to impact and test the product hence influencing decision making (Cox & Rich, 1964) as cited in (Daniel, 2014). Direct distribution is desirable for custom made products, same applies to industrial user products (Daniel, 2014). Direct distribution can also be applied to technical products that requires personalized selling, unique talent, skill or service, products of high unit value that are sold by travelling to the customer unlike customers coming to point of sale (Chand, 2018). Lack of experience in distribution makes new companies rely on middlemen for distribution, similarly, lack of financial muscle by an enterprise can make the managers choose to work with middlemen, on the contrary when a company doesn't want to lose control over its communication, control, it's likely to adopt direct distribution (Chand, 2018). Apart from channel compensation at every point of sale, there are other costs like personnel compensation, insurance, storage, and interest on inventory which are likely to affect the choice of distribution channels (Chand, 2018). Studies have found a significant relationship between distribution channel differentiation and performance this means that the more channels are differentiated the more the increase in performance (Adimo, 2017)

Rural markets are fragmented, heterogeneous, they have poor road networks, poor access to communication channels, lack of warehousing facilities which hinders market penetration and growth (Shah, 2013). Companies seeking to penetrate rural markets have to consider how to ensure awareness, affordability, availability and acceptability of products (Shah, 2013). Kavitha concluded that the real challenge is to develop business models that address accessibility, affordability and availability in an appropriate manner. Therefore, the marketer's should understand the social, economic, psychological background and value system of rural folks as cited in (Krishna, 2013). For this reasons the 4Ps marketing mix may not guarantee adoption without considering the 4As of rural marketing. It is important for this research to correlate the 4As of rural marketing with adoption of improved sanitation and establish the presence of any mediation effect between 4Ps marketing mix and adoption

From the literature review, the 4Ps (product, price, promotion, place) were the main independent variables while adoption of improved sanitation was the dependent variable. The study hypothesized that:

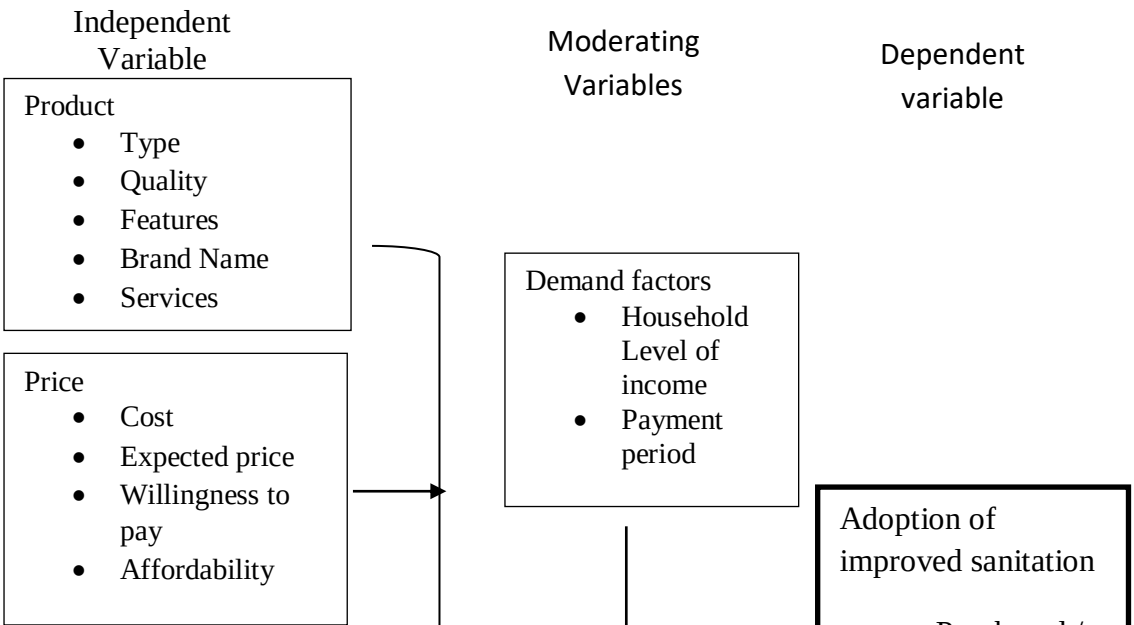
H_{01} Product attributes have no statistical significant effect on adoption of improved sanitation among rural households in Magarini, Kilifi County

H_{02} Price does not have statistical significant effect on adoption of improved sanitation among rural households in Magarini, Kilifi County

H3 Promotion does not have statistical significant effect on adoption of improved sanitation among rural households in Magarini, Kilifi County

H4 Product placement does not have statistical significant effect on adoption of improved sanitation among rural households in Magarini, Kilifi County

The figure 1 demonstrates the hypothetical relationships anticipated



Methodology Study Design and Data Collection

Descriptive and explanatory research design were used in the study. Descriptive design focused on examining the household characteristics explaining the effects of variables in relation to current status of improved sanitation adoption. It looks at relationship between marketing mix variables variable and adoption of improved sanitation as moderated by demand factors and government subsidy policy. This study also employed qualitative and quantitative the quantitative approach involved hypotheses, while a qualitative approach was used in inductive testing using scale. A total of 375 households were selected using stratified sampling while, with individual households identified by convenience

Data Analysis and Presentation

Qualitative data was analyzed using the five standardized steps of documenting data collection, organizing and categorizing the data into concepts, creating connections between the concepts verifying the data collected and presenting the data collected. Quantitative data was recorded on a spreadsheet and analyzed through SPSS. The descriptive analysis was to show the relationship between the 4Ps and adoption while the inferential statistics were used to show the level of significance of each variable and the change in R^2 upon introduction of a moderator

.

Data Analysis, Results and Discussions

Response rate

A total of 375 questionnaires were administered, across various areas, feedback was collected from 367 questionnaires. Only 8 questionnaires were not returned. This can be accounted from the sample size as 7 from Adu and 1 from Garashi. This translates to 97.86% response rate. With 100% response from Gongoni ward. The response rates are as indicated in the tables below. With 47% male respondents and 53% female respondents

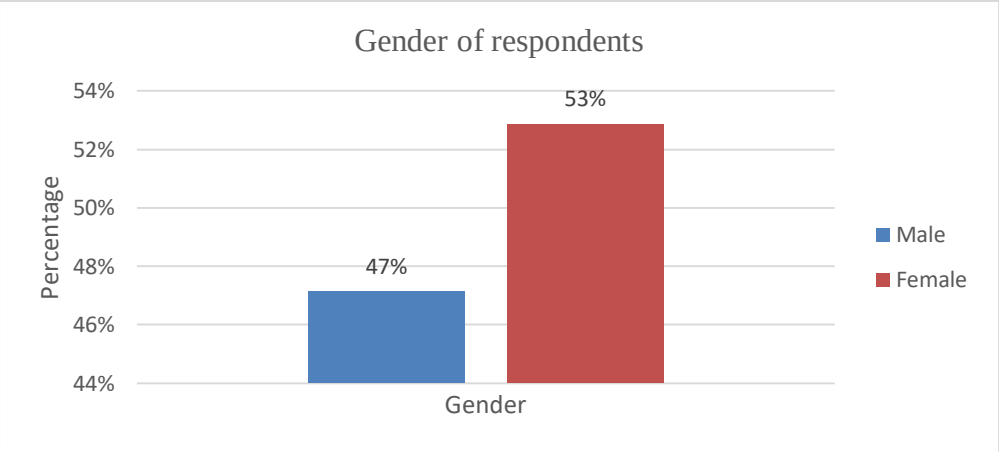


Figure 2 Response rate Source Researcher (2018)

Household sources of income and income levels

A majority of households 44% work in informal sector, 35% are self-employed, 1% have no income. From these, 55% earn less than 10,000 Kenya shillings with only 6% earning between 30,000 and 40,000, 3% earning between 40,000 and 50,000 while only 1% earning above 50% shilling per month. World bank sets affordability of a toilet at 5% of annual income, this implies that a toilet sold at 6,000 Kenya shillings will be affordable to 55% of the population, while a toilet sold at 12,000 Kenya shillings is affordable to 21% of the population, a toilet set at 18,000 will be affordable to 15% of the population. Only 9% will afford a toilet 20,000 shillings and above.

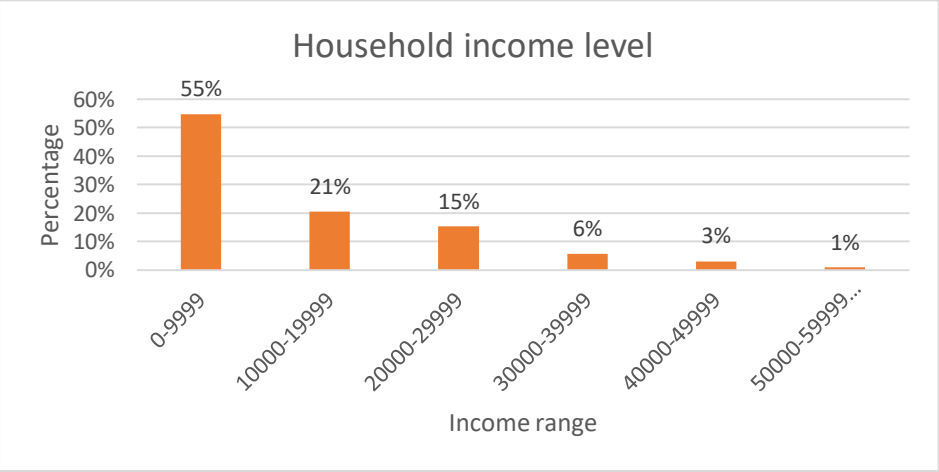


Figure 3 household level of income Source Researcher (2018)

Toilet adoption rate

At least 30% of the population admitted not to own a toilet at the time of the survey, of which 25% of this population admitted to defecate in the bush. This was subject to social desirability, the findings were triangulated with how the toilet was acquired, which revealed that 14% of the people who said they own a toilet are sharing toilets with the neighbour. This means that the no. of people who don't

own toilets is more than 30% approximately 44%. Sharing of a toilet is considered lack of access in rural areas due to the distance and inconvenience at night. It was established that only 16% have access to improved sanitation while 59% use the traditional pit that does not meet the standards of an improved toilet. This means that there is need for improved sanitation and all the people with traditional pit and those practicing open defecation form 84% of the total target market

Figure 5 percentage households that own toilet

Source Researcher (2018)

Most households 68% constructed the toilets themselves, 12% engaged a professional artisan, 4% sort community support while only 3% have benefited from NGO/GOK subsidy. The 14% sharing a toilet are considered not to have acquired. Most toilets are self-developed, this is one way of cutting down on the cost. This implies that a "Do it yourself" type of improved toilet could be ideal for rural households and can increase adoption of improved sanitation. There is need for further research on the effect of cost of labour on improved sanitation and its level of significance

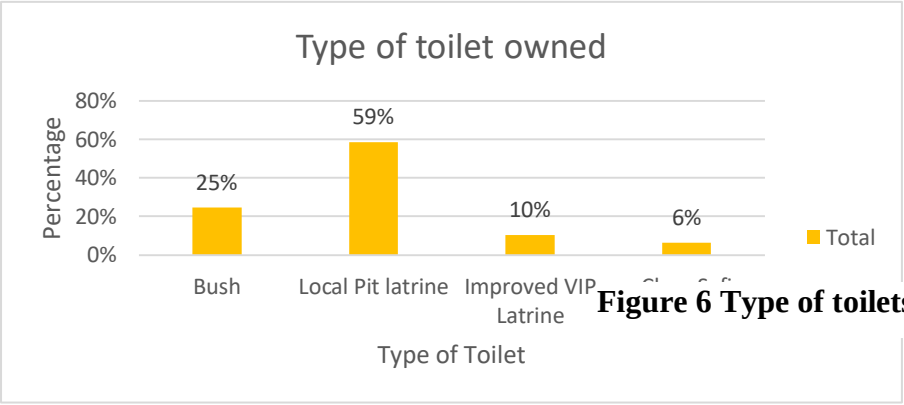


Figure 6 Type of toilets owned by households

Source Researcher (2018)

Product Preference

78% of the population intents to purchase/ construct a toilet in the near future. Of these percentage, 46% intent to construct improved VIP, 29% choosafi brand, 24% will Construct traditional pit, while 1% intent to construct other types of toilets. From the intention to purchase, we can predict 75% potential market for improved sanitation.

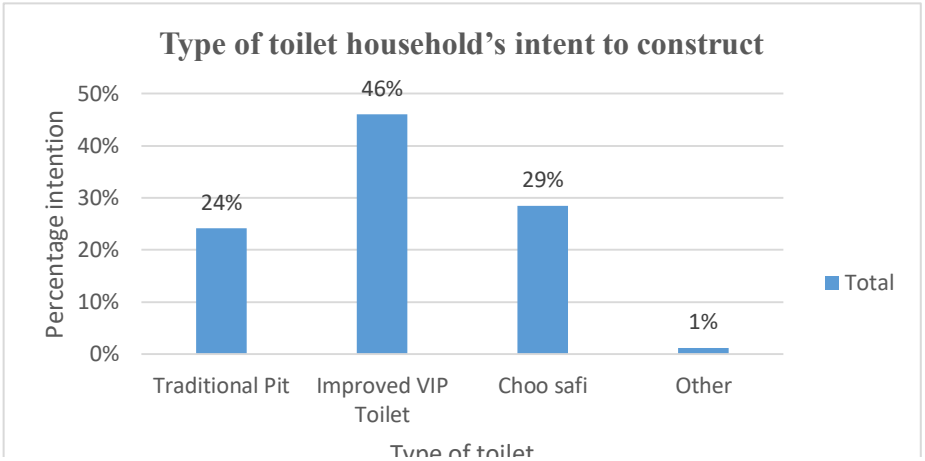
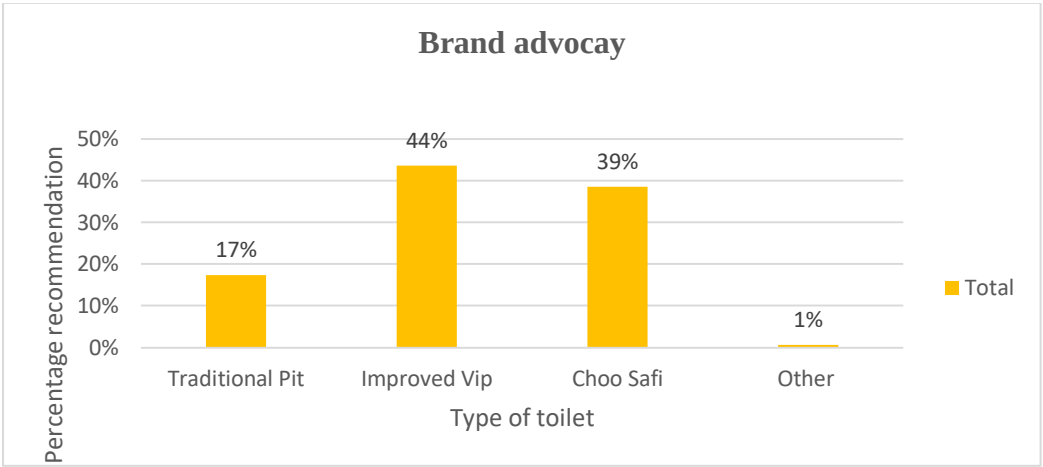


Figure 7 Percentage households with intention to purchase a toilet

Source Researcher (2018)

The respondents are likely to recommend a type of toilet to a friend of relative, 44% would recommend the Improved VIP latrine. 35% can recommend Choo safi brand while 17% would recommend traditional pit, with only 1% recommending other types of toilets



Source Researcher (2018)

Figure 8 Type of toilets households can recommend to a friend or relative

Product Prices and preferred modes of payments

From the above findings, 4.3.2 on type of toilet owned and how it was acquired, majority have traditional pit latrine that are self-developed. This findings indicates that most of these self-made latrines 37% cost above 10, 000 Kenya shillings, 28% cost between 20,000 and 35,000 only 7% have been able to construct a toilet that costs above 40,000 Kenya shillings. For this reason, majority of households would prefer other modes of payment for a toilet other than cash. Only 21% prefer cash payments, 37% prefer instalments, 25% would be willing to take loan while 17% would prefer being given the product on credit

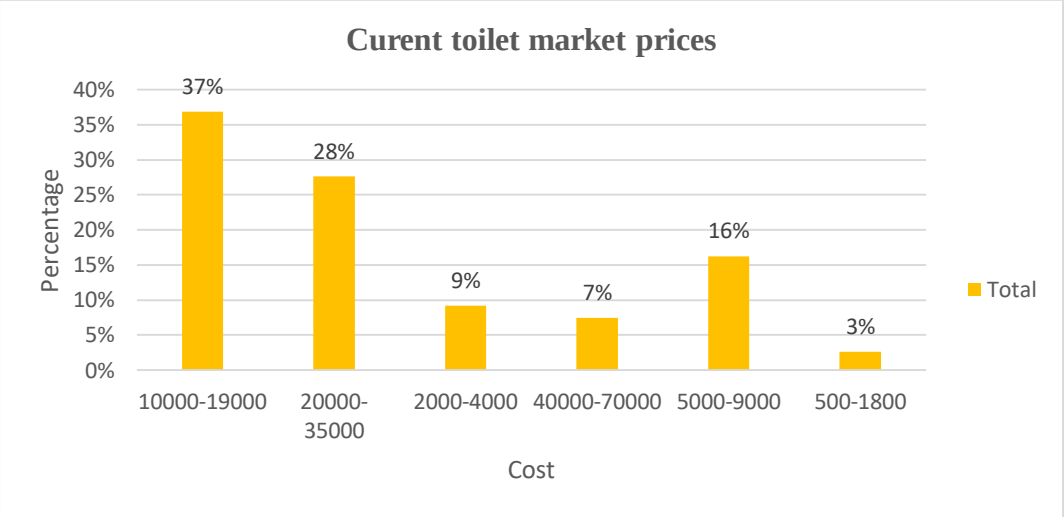


Figure 9 percentage of cost of current toilets owned by households

Source Researcher (2018)

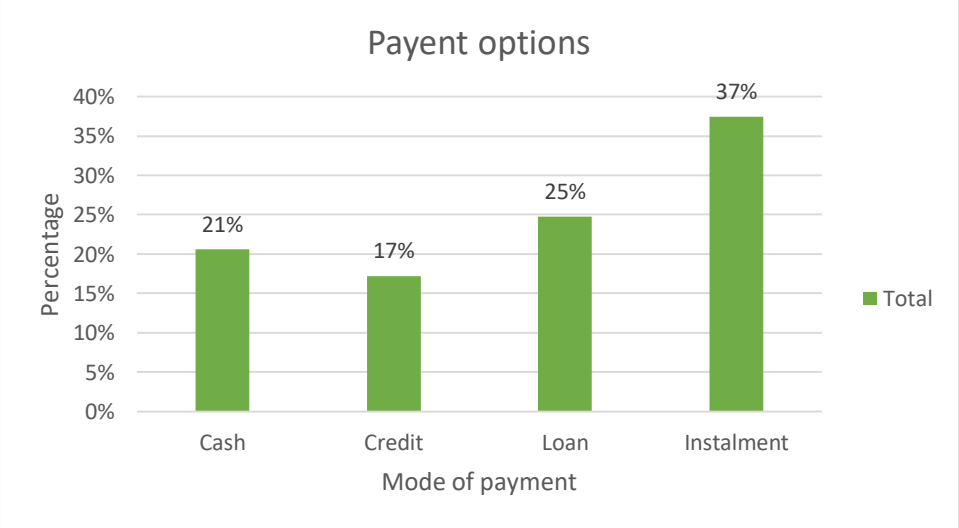
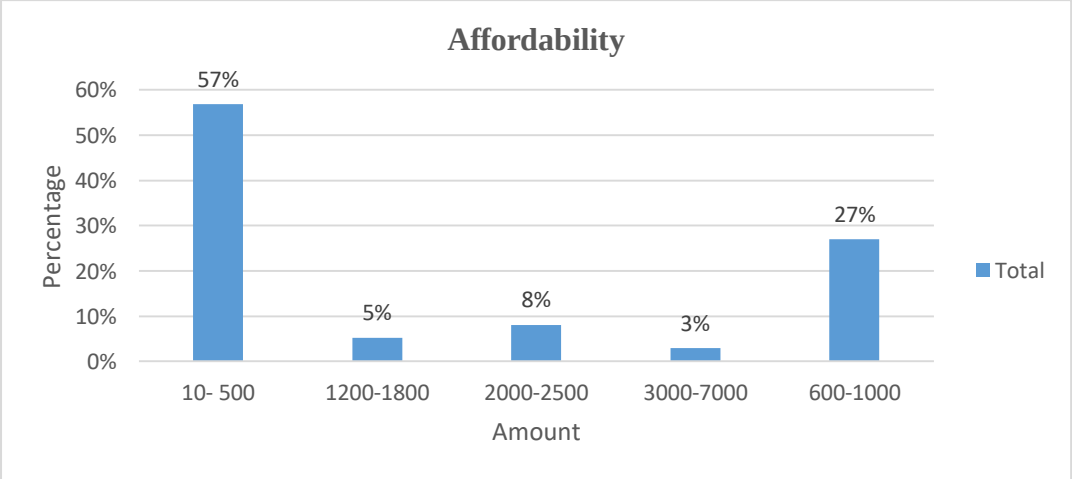


Figure 10 percentage of mode of payments preferred by households

Source Researcher (2018)

As much a people want flexible payments for a toilet, 57% can afford 500 Kenya shillings and below, 27% can afford between 600 and 1000 Kenya shillings per month. This means 57% of the population can afford a toilet worth 6,000 Kenya shillings per year while 27% can afford a toilet worth 12,000 Kenya shillings per year. Based on the current cost of improved toilets in the market ranging from

25,000-70,000 Kenya shillings, such households would take 4-12yrs saving or paying for improved sanitation.



Source Researcher (2018)

Figure 11 Amount households can afford to pay per month for a toilet

Promotional outreach and channel analysis

Most households, 92% have been reached with information. 35.4% have been reached through community meetings, 26% through direct sales representatives, and 15% through GoK officers, 12% have been informed by friends and relatives. Very few households got information through TV 8% direct marketing 2.9% brochure 0.3%. There was no respondent who got information through social media (Facebook and twitter). This can be attributed to the fact that the research was conducted in rural areas where most households lack access to TV and internet. It is evident that private sector is doing very little in promoting adoption of improved sanitation

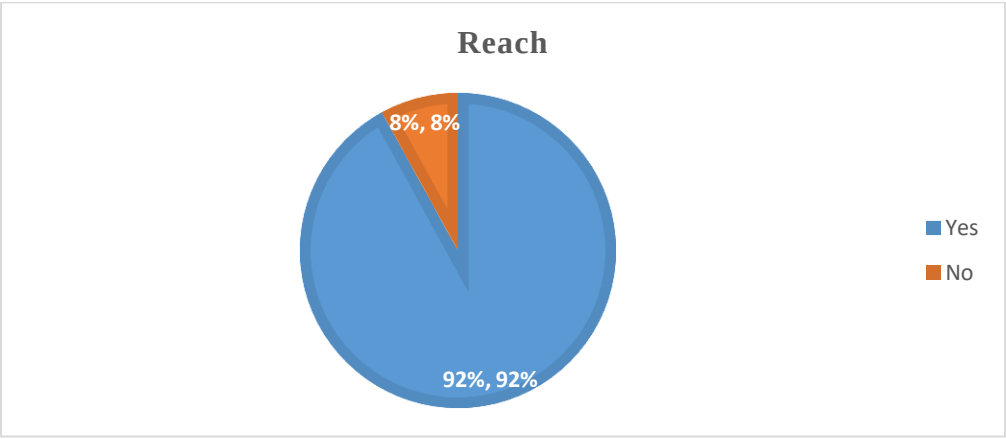


Figure 12 percentage of people reached with information on improved sanitation

Source Researcher (2018)

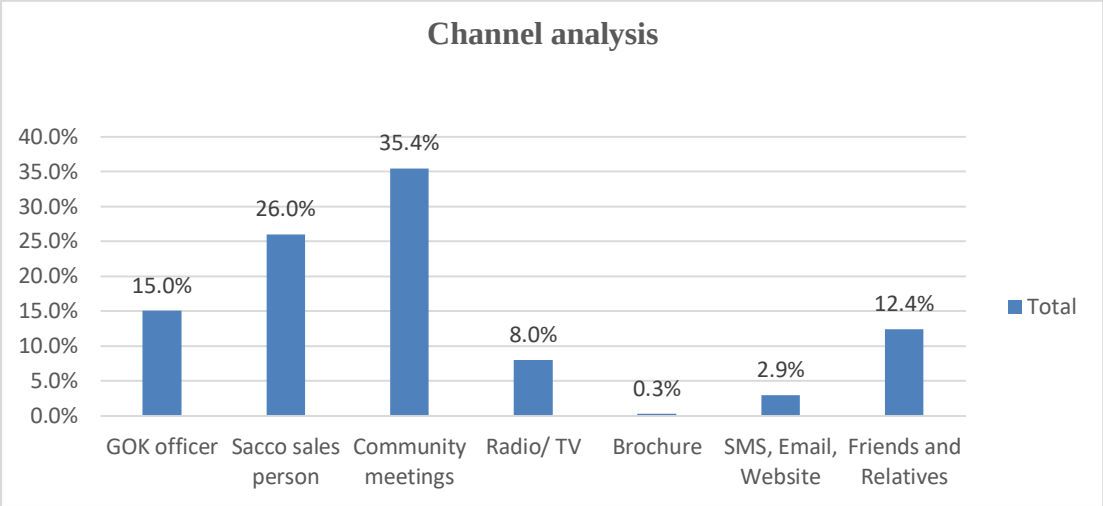


Figure 13 Percentage by channel by which households were reached with information

Source Researcher (2018)

Most households 60% are aware of Choo Safi as a toilet brand, 24.9% are aware plastic slab, 9.% are aware of Improved VIP as a brand while 5.7% are aware of ECO toilet

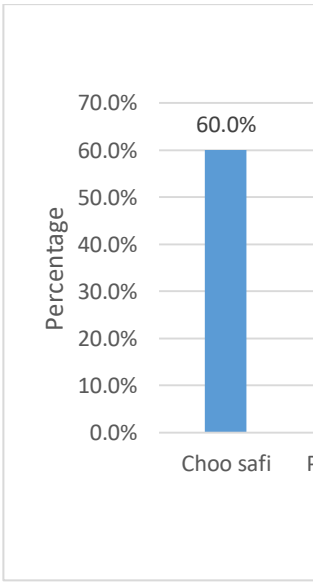


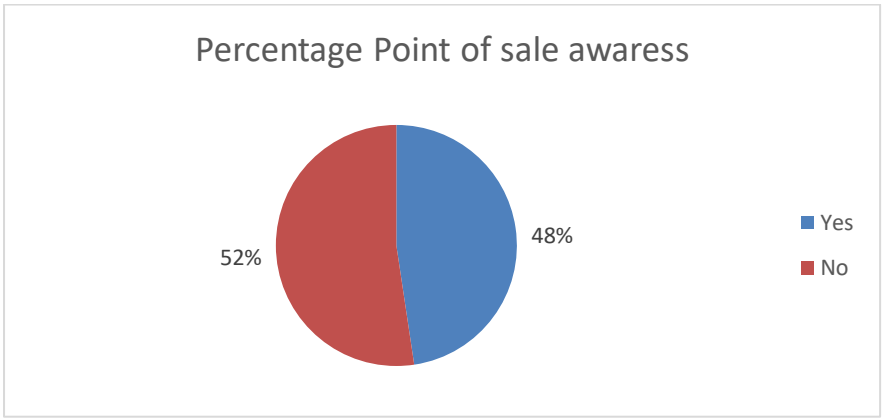
Figure 14 Brands of toilets that households are aware of

Source Researcher (2018)

Distribution Channels and Point of Sale analysis

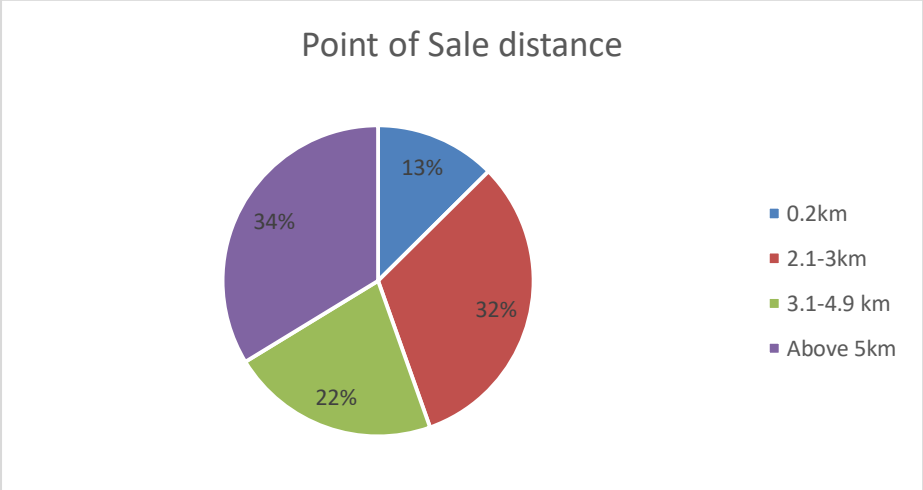
Only 48% of the households knew where to buy a toilet at the time of the survey, 34% live in an area of a distance above 5km radius, this product in considered not easily available to this population. The rest of the population can be considered to have ease of access to the market, 32% live within 2.1 to 3km radius, 22% live within 3.1 to 4.9 km radius, and 13% live within 0.2km radius from point of sale

Figure 15 percentage of households who know where to buy a toilet



Source Researcher (2018)

Figure 16 percentage of households within a given distance from toilet point of sale



Source Researcher (2018)

Most Households lived within a reasonable distance from the point of sale of Latrines materials and toilets. 30% of the households approximated the cost of transport to be between 700 to 1400 Kenya shillings, 22% approximated the cost to be between 100 to 500 Kenya shillings. While 18% approximated 1500-2500 Kenya shillings, 16% put their transport cost at 3000- 5000 Kenya shillings and 9% put it between 11000 to 17000 Kenya shillings.

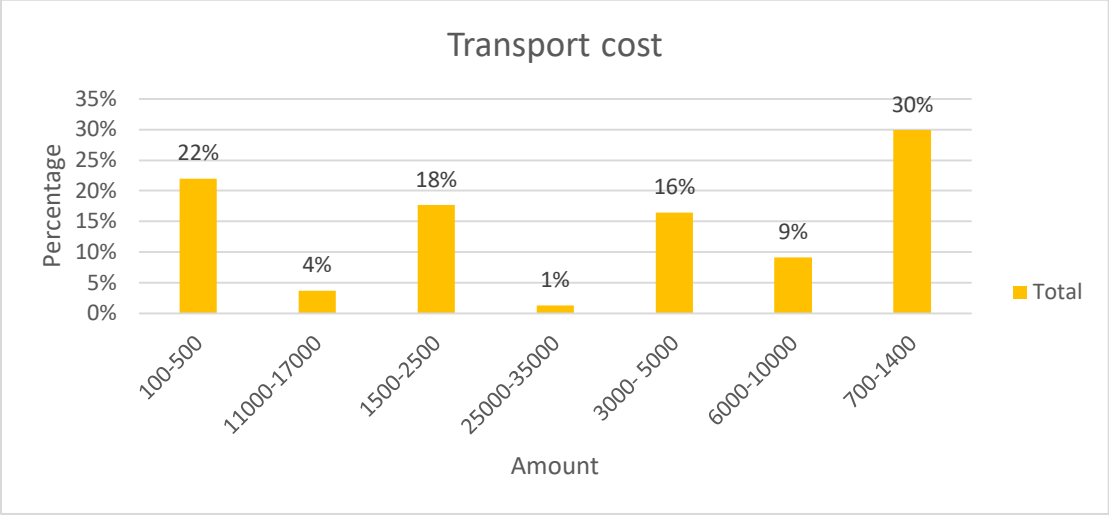


Figure 17 Percentage of amounts households pay for transport of material from point of sale

Source Researcher (2018)

This implies that distance from point of sale is likely to increase the cost of transport by up to 17,000 Kenya shillings. This is likely to discourage adoption of improved sanitation. This calls for intensified distribution to reduce on the cost of transport to the end user. There is need for research on the ultimate cost to the producer if they intensify the distribution channels how it affects prices and profit margins

Descriptive statistics

This section presents the analysis for descriptive statistics for the various variables in the study. It describes the statistics for product attributes, price, promotion, distribution and finally the dependent variable (adoption)

Descriptive statistics for Product Attributes

The first objective was to determine the effect of product attributes on adoption of improved sanitation among rural households in Magarini. The households were asked to indicate to what extent would the features below influence your decision to choose a type of toilet, from a scale of 1-5 with 1 = not at all 2= a little 3= moderately 4= large extent 5= very large extend

Table 1 Descriptive statistics for Product Attributes

Product attributes

	not at all	a little	moderately	large extent	very large extent	Mean	Standard Deviation
Durable	4.4%	13.9%	19.9%	40.2%	21.6%	3.61	1.10
Easy to clean	6.6%	12.8%	33.1%	26.8%	20.8%	3.42	1.15
Safe to Use	5.5%	12.1%	29.9%	31.2%	21.4%	3.51	1.12
Attractive	6.0%	13.9%	33.3%	27.9%	18.9%	3.40	1.12
The design Easy access and use	3.8%	9.8%	33.1%	29.0%	24.3%	3.60	1.07
Does not smell	3.8%	6.3%	27.3%	37.4%	25.1%	3.74	1.03
Does not attract flies	3.0%	12.0%	20.8%	34.2%	30.1%	3.76	1.10
Aggregate mean						**3.577**	**1.09**

The findings indicate that the following latrine/ toilet attributes would influence their product choice to a large extent. These are:- a toilet that does not attract flies 3.76 mean, that does not smell 3.74 mean, a toilet that is durable 3.61 mean a design that is easy to access 3.6 mean, and finally a toilet that is safe to use 3.5 mean. Product attractiveness and easy to clean are some of the attributes that would moderately influence households decision with a mean of 3.4 and 3.42 respectively. The aggregate mean 3.577 indicates that product attributes are likely to affect the choice of a toilet by rural households to a large extent. This implies that during product design, all these attributes are equally important to the customer.

4.4.2 Descriptive statistics for statistics for Price

The second objective was to determine the effect of price on adoption of improved sanitation among rural households in Magarini. The households were asked to indicate what extent they agreed with various price characteristics that are likely to influence adoption of improved sanitation , from a scale of 1-5 with 1 = not at all 2= a little 3= moderately 4= large extent 5= very large extend

Findings indicate that respondents agree moderately that provision of credit/ instalment payment and discounts will increase adoption of improved sanitation with a mean of 3.01, and 2.9 respectively. Households have moderately agreed that: - high prices of improved sanitation is one of the barriers to adoption (mean of 2.50), that they are willing to purchase improved sanitation (mean 2.77), that they able to purchase improved toilets at the current price with (mean 2.65), they also expect the prices to come down in the near future with (mean 2.68) and they are waiting for this prices to come down so that they can purchase improved toilets (mean 2.68). From the findings, households agreed moderately that most people have been offered discounts on toilets. It is clear that improved sanitation is not affordable as indicated by most respondents agreeing a little that improved sanitation is affordable (mean 2.3). The aggregate mean 2.668 indicates that product pricing is moderately influencing adoption of improved sanitation in rural areas. In order to increase adoption, the private sector will need to consider designing products that are affordable to rural households.

Table 2 Descriptive statistics for statistics for Price

Price characteristics

	Mean	Std Dev
Improved sanitation is affordable in this area	2.30	.91

High Prices is the main reason to why most people do not have improved sanitation	2.50	.95
I expect the price of improved toilets to come down in the near future	2.68	1.47
I am waiting for the price of improved toilets to reduce before I purchase/ construct one	2.68	1.00
I am able to purchase/ construct improved sanitation at the current market prices	2.65	1.04
I am willing to purchase/ construct an improved toilet at the current market prices	2.77	1.05
Most people have been offered price discounts on purchasing/ constructing improved toilet	2.51	1.15
Discount on prices will increase the number of people purchasing improved toilets	2.91	1.14
Provision of credit/ instalment payments will increase the no. of people who are able to adopt improved toilets	3.01	1.93
Aggregate Mean	**2.6677**	**1.182222**

Descriptive statistics for Promotion

The third objective was to determine the effect of promotion on adoption of improved sanitation among rural households in magarini, the respondents were asked to indicate to what extend have various channels influenced their decision to choose a type of toilet, from a scale of 1-5 with 1 = not at all 2= a little 3= moderately 4= large extent 5= very large extend

Findings indicate that most respondents agree moderately to have been influenced by: - community meetings (mean 2.95) government officer (mean 2.93), they also agree a little that they have been influenced by other channels like: sacco sales agent (mean 2.25), friends and relatives have also influenced each other a little (mean 2.31). Other channels have also influenced households a little in the choice of a toilet though with a lower mean than the sales agent and friends and relatives. TV/radio (mean 1.74), social media and direct marketing (mean 1.72), Brochure (1.64). This indicates that community meetings and government officers are some of the best channels in marketing improved sanitation products in rural areas in Kenya. It also indicates that direct sales representatives, word of mouth by friends and relatives can play a role in influencing adoption of improved sanitation. The aggregate mean indicates that promotion has a little effect on adoption of improved sanitation, this could be influenced by the lower mean of the other channels of communication that are not common in rural Kenya,

Table 3 Descriptive statistics for Promotion

Promotion channels

	Mean	**Standard Deviation**
I have been influenced by (GoK officer)	2.93	1.12
I have been influenced by (SACCO sales person/ artisan)	2.25	1.61
I have been influenced by (Community Meetings)	2.95	1.17
I have been influenced by (radio, tv)	1.74	1.17
I have been influenced by (Brochure)	1.64	1.15
I have been influenced by (SMS, email, website)	1.72	1.27
I have been influenced by (Friends & relatives)	2.31	1.35
I have been influenced by (Facebook, twitter…etc)	1.72	1.31
Aggregate mean	**2.1575**	**1.26875**

Descriptive statistics for Distribution

The fourth objective was to establish the extent to which product placement affects adoption of improved Sanitation among rural households in Magarini, the respondents were asked to what extend they would you rate the Availability/Accessibility of these improved sanitation construction materials

and components (slabs, concrete rings etc) and also, to what extend they agreed with some statements in relation to how convenient it is to buy a toilet from different types of distributers to a scale of 1-5 with 1 = not at all 2= a little 3= moderately accessible 4= large extent accessible 5= very largely accessible . This findings were split into two different table, the availability of materials and the ease and convenience of buying from various agents and distributers

Findings indicate that, households agree moderately that: - materials for traditional pit latrine are easily available (mean 3.03), Choo Safi materials (Mean 2.65), plastic slabs (mean 2.54). Households also agreed a little that ECO toilet materials (mean 2.37) and VIP latrine material (mean 2.35) are easily available. The aggregate mean indicates that the distribution of latrine construction materials/ components moderately influences the adoption of improved sanitation (mean 2.588)

Table 4 Descriptive statistics for Distribution

Availability of materials

	Mean	**Standard Deviation**
Traditional pit materials are easily available	3.03	1.03
VIP materials are easily available	2.35	1.04
Choo safi materials are easily available	2.65	1.03
Plastic slab materials are easily available	2.54	1.07
Eco toilet materials are easily available	2.37	1.18
Aggregate Mean	**2.588**	**1.07**

Table 5 Descriptive statistics for Distribution point of sale

Point of sale characteristics

	Mean	Standard Deviation
It is easy to buy a toilet from Magarini Artisan Sacco	2.21	.92
It is easy to buy a toilet from Any Artisan in the community	2.20	.98
It is easy to buy a toilet from Community Health Volunteer (CHV)	2.62	1.01
It is easy to buy a toilet from Hardware Shop	2.23	1.03
It is easy to transport construction material/ components from point of sale to my homestead	2.16	1.00
Distance from the point of purchase to homesteads has affected the adoption of improved toilets	2.63	1.03
The cost of transporting improved sanitation materials has discouraged people from purchasing/ constructing improved sanitation	2.62	1.07
Aggregate Mean	**2.381**	**1.0057**

Findings indicate that households have a greed moderately that distance of households to point of sale and the cost of transport have affected the adoption of improved sanitation, with a mean of 2.63 and 2.62 respectively. They have also moderately agreed that it is easier to buy a toilet from community health volunteers as compared to other agents. This could be due to high presence of this volunteers up to village level. Households agree a little that it's easier to buy toilets from the following channels: - hardware shop mean 2.23, Magarini artisan sacco mean 2.21, any artisan in the community mean 2.20. They also agreed a little that it's easy to transport latrine construction materials/ components (mean 2.16). This findings also indicate that community health volunteers could be the ideal distributers of improved sanitation products in rural areas but distance and cost of transport could be challenges they are likely to face. The aggregate mean 2.38 indicates that the choice of distribution agents affects the adoption of improved sanitation a little.

Descriptive statistics Adoption

The general objective was to find out the relationship between marketing mix on adoption of improved sanitation. Adoption was measured by already purchased, the intention to purchase or ability to recommend to someone

Table 6 Descriptive statistics Adoption

Adoption characteristics

	Mean	**Standard Deviation**
Most people in this community have adopted improved toilets	2.46	.83
Improved sanitation is a priority among the things I want to purchase soon	2.65	.93

I have plans to purchase/ construct improved toilet	2.70	1.00
I have started saving money/ making payments in instalments towards purchasing improved toilet	2.41	1.11
I have been able to recommend improved toilet to a friend/ neighbor	2.52	1.06
I can recommend improved toilet to a friend/ neighbor	2.72	1.12
Aggregate Mean	**2.577**	**1.008**

Findings indicate that households agreed moderately that: - improved sanitation is a priority (mean 2.65), that they have plans to construct/ purchase improved toilets (mean 2.70), that they can recommend a toilet to a friend/ relative (mean 2.72) and they have been able to recommend improved sanitation to friends and relatives (mean 2.5). Households agreed a little that: - most people have adopted improved sanitation (mean 2.46) and they have started making savings / instalment payments towards purchasing improved sanitation (mean 2.41)

Inferential statistics

Through inferential investigation, a Multiple Regression analysis was conducted to establish the relationship between the 4Ps of marketing (Product price, Promotion and placement) and adoption of improved sanitation in rural areas.

4.5.1 Regression

The study used multiple regression analysis to establish the relationship between product attributes, price characteristics, promotion channels, distribution and adoption of improved sanitation among households in Magarini sub-county, Kilifi County.

Table 7 Regression

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.779[a]	.663	.671	.29978

Findings indicate that the coefficient of determination (R-Square Value) is 0.663. This means that product attributes, price, promotion and distribution can explain up to 66.3% of adoption of improved sanitation in rural areas in Magarini, Kilifi County.

Variance Analysis

Table 8 Regression variance analysis

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	110.909	4	27.727	308.532	.000[b]
	Residual	32.532	362	.090		
	Total	**143.442**	**366**			

The results indicate a P-Value of 0.000, this means that the model obtained was significant. This is less than 0.01 and 0.05, which implies that at 5% significance level, the marketing mix is useful in predicting adoption of improved sanitation among rural households. The table below provides both unstandardized and standardized model coefficients which explain the direction of the independent variables and the level of significance of each variable

Table 9 Independent Variable Regression Coefficients

Independent Variable Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.520	.079		6.568	.000
Averageproduct attribute	.023	.023	.030	.996	.020
Averageprice Characteristics	.546	.038	.406	14.405	.000
Averagepromotion	.144	.020	.194	7.389	.000
Averagedistributed	.530	.032	.530	16.327	.000

Findings show that all factors held constant at zero marketing mix interventions, adoption of improved sanitation in Magarini, Kilifi County will be at 0.52. All coefficients for product, price, promotion and distribution are positive, this implies that the marketing mix has a positive effect on adoption of improved sanitation. An increase in desirable product attributes can increase adoption by 0.023, an increase in price discounts, payment options, and a reduction in prices will increase the adoption of improved sanitation by 0.546. Similarly, an increase in promotion activities will increase adoption of improved sanitation by 0.144. Finally an intensified distribution channels through agents will increase adoption of improved sanitation by 0.53. All variables have a level of significance of 0.000 which is less than 0.05 except product attribute which has a significance level of 0.02. This implies that the 4Ps (Product, Price, promotion and placement) are within 5% level of significance in explaining adoption of improved sanitation in Magarini, Kilifi county

Conclusions

The research sort to establish the relationship between marketing mix and adoption of improved sanitation. The marketing mix has an influence on adoption of improved sanitation in rural Magarini, Kilifi County. All the 4Ps (product attributes, price, promotion, placement) have a significant effect on adoption of improved sanitation among households in rural Magarini.

From the findings, research has concluded that there is a potential market for improved sanitation, but the current products in the market are not affordable to the community. An affordable product to the majority would cost at least 6,000 Kenya shillings. It is also clear from the findings that community meetings are the ideal channels of communication in rural Magarini and that friends and relatives have an influence on adoption of improved sanitation.

Recommendations

This research recommends that product attributes like durability, ease to access, no smell, no flies, safe to use, attractive, easy to clean be considered in any improved sanitation product. It is recommended that flexible payment options for improved sanitation products be introduced in order to increase adoption. This research also recommends that community meetings be adopted as a major channel of communication for promoting improved sanitation, but should be supported by other channels. Finally it is recommended that sanitation products be distributed by community health volunteers as sales agents

Recommendations for further research

There is need for further research to develop or Identify an affordable improved toilet that meets the desired product attributes for rural households below the bottom of the pyramid. There is also need for research to establish the effect of intensified product distribution on profit margins of enterprises selling sanitation in rural areas

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Corporate Social Responsibilities Practices and Organizational Performance of Firms in the Petroleum Industry: A Case of Total Kenya Limited, Kenya

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ABSTRACT

The study sought to investigate the relationship between environmental responsibility, and the organizational performance of Total Kenya Limited. The study was anchored on the theory of fiduciary capitalism, stakeholder's theory,Theory of Social Costs, and Carroll´s Pyramid of Corporate Social Responsibility. The study adopted an explanatory research design. The study targetedthe 400 employees of Total Kenya Limited to determine the relationship between its various corporate social responsibility practices on organizational performance. A sample of 80 employees established using Slovin's formulae was used in this study. Statistical Package for the Social Sciences was used to code and analyze the collected data. Besides, regression analysis was conducted to determine the relationship between Corporate Social Responsibility practices and organizational performance. The findings of the study revealed that there exists a positive correlation between environmental responsibility on organizational performance. The study concluded that apart from the four variables studied, there are other CSR practices that can be adopted to enhance organizational performance.Therefore, the study recommended that further studies are conducted to establish the other CSR practices. Besides, further studies should be done in other companies in the petroleum industry as well as in other sectors and compare results.

Key words: cooperate social responsibility, organizational performance, petroleum industry, environmental responsibility.

Introduction

Organizational Performance is the ability of a firm to fulfill its mission viastrong governance, a persistent rededication to fulfill set goals, and sound management (Parasuraman, 2012). According to Cater & Pucko (2010),"organizational performance entails recurring activities to establish set organizational goals, monitor progress towards achieving the goals, and making adjustments in order to achieve the goals efficiently and effectively". It is "the measure of standard or prescribed indicators of effectiveness, efficiency, and environmental responsibility" like productivity, cycle time, regulatory compliance, and waste reduction. Venkataraman & Ramanujam (2001) considered performance as "the metric relating to how a particular request is handled, or an act of performing or doing something successfully using knowledge compared to merely possessing it". Performance is a result of all the firm's strategies and operations.

Marrewijk (2003) defined "corporate social responsibility"as Company activities that are voluntary and demonstrate the inclusion of environmental and social concerns in business operations as well as in interaction with stakeholders. McWilliams, Siegel & Wright (2006) defined CSR as "actions that appear to further some social good, beyond the interests of the firm and that what is required by law." Therefore, CSR activities are voluntary actions that go beyond the legal requirements and the organization's interest to promote social good in society (McWilliams & Siegel, 2001). It involves the treatment of all the stakeholders in a responsible and ethical manner (Hopkins, 2003).

Environmental sustainability initiatives by corporates focus on reducing greenhouse gases and limiting pollution. With increased awareness of environmental issues, businesses that take initiative to reduce land, air, and water pollution can improve their standing as good corporate citizens as well asbenefit the entire society. The global concerns on environmental issues have made many companies focus on the environmental area of CSR (Krohn, 2018). In this study, environmental conservations such as tree planting and awareness campaign on environmental issues will be used as indicators of environmental sustainability initiatives.

Total Kenya Limited is"one of thetotal groups of companiesan international energy producer and a leading international oil and gas company. Globally, itis alsothe second in ranks among the solar energy operator with sun power. The Group isthe leader in Africa with an estimated market share of 18%. TotalKenyaLimited is deeply established in Kenya with long-term investments totaling to multi-billions of shillings. The companyhas been operating in Kenya for over six decades. It was the first oil company to be quoted on the Nairobi Securities Exchange and is a key part of Kenya's essential services infrastructure". Besides, it is one of Kenya's largest revenue generators (Total Kenya Limited, 2016).

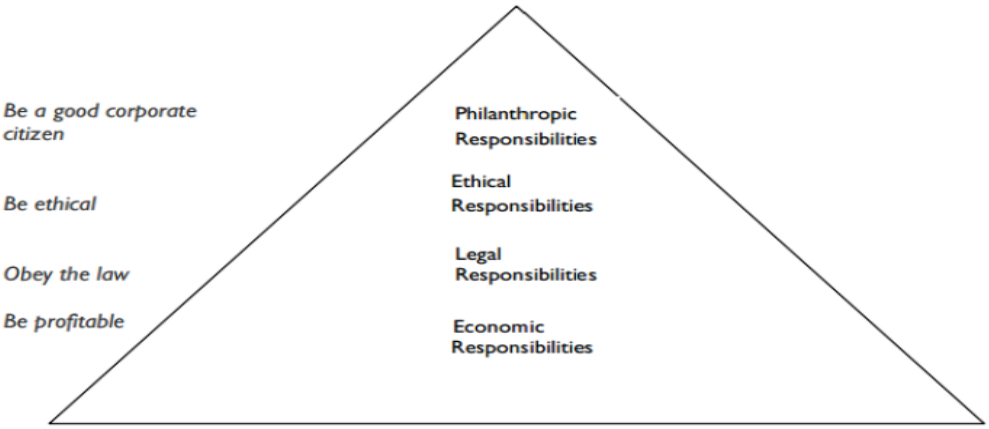
The core business of total in Kenya is the"marketing and distributing of petroleum products and related services to industry, commercial, transport, and domestic users throughout Kenya. Its mainstream fuel products include petrol, diesel,LiquidPetroleum Gas (LPG), both Illuminating kerosene and Jet A1,dual-purpose kerosene (DPK), aviation fuel (Avgas), and industrial diesel.

2.0Literature review

The proponent of the Fiduciary Capitalism Theory of CSR is Friedman. According to Friedman and Friedman (1962), the theoryholds that the "only social responsibility of businesses is to make a profit and, in the supreme goal, to increase the company's economic value for its shareholders. This is the theory that underlies traditional neoclassical economic theory, primarily concerned with shareholder utility maximization. The Nobel laureate Milton Friedman, with his wife Rose Friedman, said that In such an economy, there is one and only one social responsibility of business; to use resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competitions, without deception or fraud".

This theory is applicable to this study as it links corporate social responsibility to organizational performance. Even today, it is commonly accepted that in certain conditions, the satisfaction of social interest leads to shareholders

value maximizing. Therefore, large corporates pay attention to CST especially in considering the interest of the stakeholders (Jensen, 2000).



Source: Carroll(1991).

The theory of Carroll's pyramid of corporate social responsibility was proposed by Carroll's in 1991. It is the most common theory of CSR(Carroll, 1991). The model shows the levels of CSR ranging from philanthropic, ethical, legal and economic responsibilities. These four perspectives can be represented as a pyramid (Pandey, 1999) as shown in figure 2.2.

Economic responsibility is based on profits serving as a foundation of all other aspects in the pyramid. Legally, a firm is expected to adhere to rules and regulations(Santiago, 2004. The model shows that ethical tasks are defined by societal expectations on the organizational embracement of societal values and norms. Philanthropic responsibilities relate to corporate citizenship through support to the community with the purpose of an improved life quality(Carroll, 2016). This theory was relevant to the study as it help the management to understand the level of CSR and what is expected at each level. This theory informed the four dependent variables of the study; namely, environmental responsibility, Philanthropic initiatives, Ethical responsibility, and economic responsibility.

The stakeholder theory holds that "the purpose of the firm is to create value or wealth for the stakeholders through converting their stakes into goods and services" (Clarkson, 1995) or to "serve as a vehicle for coordinating stakeholder interests" (Evan &Freeman, 1988). Therefore, an organization should be"managed for the benefit of its stakeholders; that is, its suppliers, owners, customers, employees,and local communities, as well as to ensure the survival of the organization (Evan & Freeman, 1988). The structure of decision-making is based on the top management's discretion and corporate governance". The stakeholder theory of CSR is related to the belief that companies have an obligation to the community other than stockholders and beyond that prescribed by law or union contract" (Jones, 1980). Thus, this theory considers individuals or groups who have a stake in the organization including employees, shareholders,supplier, customers, and the local community as shown in figure 2.2.

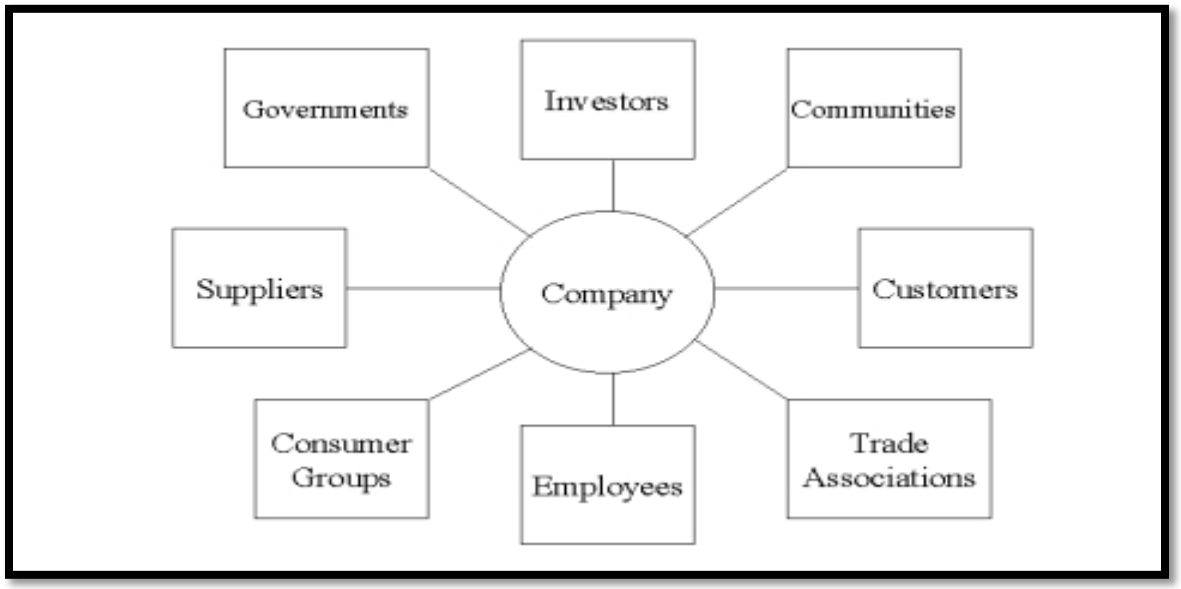


Figure 2. 1:

Stakeholders model of a company

Source Freeman, (1984)

According to Freeman (1984),"the stakeholder concept provides a new way of thinking about strategic management. By paying attention to strategic management, executives can begin to put a corporation back on the road to success. However, it is also a normative theory which requires management to have a moral duty in order to protect the corporation as a whole and, connected with this aim, the legitimate interests of all stakeholders (Friedman, 1970). Evan and Freeman (1988) stated that management, especially top management, must look after the health of the corporation, which involves balancing the multiple claims of conflicting stakeholders".

Friedman (1970)the term stakeholder meant to generalize the notion of stockholdersasthe only group to whom management need to be responsible. 'Stakeholder' can be taken in two senses. In a narrow sense, the term stockholder includes "those groups who are vital to the survival and success of the corporation" (Freeman and Reed, 1983). In a wide sense, it includes "any group or individual who can affect or is affected by the corporation" (Freeman, 1984). Thus, "stakeholders are identified by their interests in the affairs of the corporation and it is assumed that the interests of all stakeholders have intrinsic value" (Donaldson and Preston, 1995).

The stakeholder's theory is relevant to the study on the basis that the community is part of the firm's stakeholders whose interest is addressed in corporate social responsibilities. This theory informs the independent variable of the study; organizational performance and ethical responsibility. The theory holds that the purpose of the firm is to create value or wealth for the stakeholder which is only achievable through performance. The theory informs the variable, ethical responsibility in that it is a management theory based on the moral treatment of stakeholders (Harrison, Freeman & Abreu, 2015).

Marshall and Pigou proposed the theory of social costs in 1920 (Marshall, 1920) argued that the focus of corporate non-economic effects on the social economy is the basis for responsible allocation. In other words, the theory of social cost holds that the problem of modern corporate responsibility deals with the fair allocation of social costs. Some problems arise in the literature concerning the study of "eternal economies." According to Marshall (1920), "external economies need to be secured by the concentration of many small businesses of a similar character in specific localities or by the localization of industry". The location of small enterprise is considered a matter of exogenous advantage when they can be placed among a cluster of similar enterprises (Marshall, 1920).

According to Pigou (1920), “the issue of social costs relates to the organization originating the costs and to their coverage. Of the two, the latter produces a huge debate (Meade, 1973). Based on the fact that the problem relates to justifying state intervention in the economy and making it easier to reach a ‘natural’ equilibrium, this assumption has crucial consequences regarding social responsibilities. The state’s role in the economic system aims to cover social costs and may be intended as the state assuming responsibilities to preserve the national product and its citizens’ welfare.

Therefore, its natural counterpart should be that of leaving no responsibilities to the firm that produces the cost even if indirectly or involuntarily. This issue makes it clear that paying for social costs is a matter of contracting and that it has to be assumed by either the firm or by the state (Coase, 1960). From a different perspective, Coase (1960) tries to shift the issue to corporate production factors”. The main thesis is that the “costs of the transaction between citizens and government determine whether the state intervenes in the economy or not” (Coase, 1988). Paying for social costs is a matter of contracting. The theory of social cost is relevant for the study since firms affect the environment around them leading to social costs, which is what corporate social responsibility tries to compensate to the community.

2.1Empirical Literature Review

There is various empirical literature on the relationship between environmental responsibility and the firm’s performance. Ngwakwe (2008) researched “environmental responsibility and firm performance in Nigeria”. He used a field survey methodology and a sample of sixty manufacturing companies in Nigeria. The findings showed that there exists a positive relationship between an environmentally responsible and firm’s performance. However, this study usednon-random methods of sampling that is, a purposive sampling technique that may have yielded a sample that is not representative and thus the findings may not be generalized. Ngwakwe (2008) used employee health and safety, waste management, and community development as indicators of firm performance. However, the current study will use Customer satisfaction, Employee satisfaction, and Sales growth as the indicators of firms’ performance.

Clause & Pall (2011) studied the “effect of the environmental investment on investment decisions”. They suggested that environmental information disclosure affects investment allocation decisions. These findingsimplied that “companies that are apathetic to their environmental responsibility might experience eventual crashes on their stock price if their investors are rational in considering the future value of the firm based on its present state of environmental responsibility”(Clause & Pall, 2011). While this study focused on environmental responsibility, it used decisions made to invest in the firm as an indicator of performance. This may not be the best way of measuring a firm’s performance since there could be other reasons why Investment decisions are made by investors including the management intention to allow external investors.

Lars & Henrik (2010) investigated the “effect of environmental information on the market value of listed companies in Sweden using a residual income valuation model”. The findings indicated that environmental responsibilities as disclosed by sampled organizations have value relevancebecause it is expected to affect the future earnings of the listed firms. Their finding implies that the future solvency of organizations that do not take care of the environment may be eroded with gradual depletion in earnings. The focus of this study was the provision of environmental information which can be done by a company that does not practice CSR activities; hence the findings cannot be used to generalize the relationship between environmental responsibility and firm performance.

Okwemba, Chitiavi, Egessa, Douglas & Musiega (2014) investigated the“effect of corporate social responsibility on organization performance in the banking industry in Kenya”. The findings show that there is a significant positive but weak relationship between organization performance and environmental activities. This implies that a bank has been involved in environmental activities such asthe use of renewable energy, good waste management, obey local and international laws on environmental will increase its performance but not significantly. This study was limited to the banking industry and not the petroleum industry and measured firms’ performance using profitability, a financial measure. The current study will use non-financial measures of firm performance. Yang, Hong, & Modi (2011) studied the “impact of lean manufacturing and environmental management on business performance”.Within

their study, environmental management practices were measured against financial and market performance. Yang, Hong, & Modi (2011) discovered that there existed a negative relationship between the two variables.

3.0Research Methodology

Explanatory design was adopted for carrying out an in-depth, holistic and comprehensive investigation with much emphasis on the relationship between environmental responsibility and organizational performance of Total Kenya Limited.

Kombo &Tromp (2006) defines a population as "a group of individuals, objects, or items from which samples are drawn for measurement". It is an entire group of people or elements that at least share one thing in common. The study targetedthe 400 employees of Total Kenya Limited to determine the relations between its various CSR practices on organizational performance. The 400 employees comprised of 50 top-level management, 100 middle-level management, and 25 subordinate staff as shown in Table 3.1.

Table 2: Target Population

"Employees	**Target population**	**%**
Top level management	50	12.5
Middle level management	100	25.0
Subordinate staff	250	62.5
Total	**400**	**100"**

Source: Total Kenya (2019)

Marczyk, DeMatteo & Festinger (2005) described a sample as "a subset of the population to be studied". The main advantages of using sampling are reduced costs, enhanced speed,andaccuracy,as well as increasedquality of the data (Ader, Mellenbergh, & Hand, 2008). The researcher adopteda simple random and stratified sampling technique to select a representative sample for the study. First, stratified sampling was applied to classify the population into three categories of targeted population; namely subordinate staff, top-leveland middle-levelmanagement. The list of employees who works atTotal Kenya Limited formedthe sampling frame of the study. Second, simple random sampling methods were used to select the sample. All employees on the sampling frame were assigned a specific number, and the table of random number was used to select the appropriate sample.

To come up with the sample from the population, Slovin's formula was used. The Slovin's formula is written as follows

$n = \frac{N}{1+N(e)^2}$; Where N= Target Population; n= Sample size; and e = error tolerance / confidence level.

In the study, N= 400, e = 0.1,

$n = \frac{400}{1+400(0.1)^2}$ = 80

The sample size was 80 respondents comprising of 10 top-level management, 20 middle-level management,and 50 subordinate staff.

Table3: Sample size

Employees	**Target population**	**Rate 80/400**	**Sample Size**

Top level management	50	0.2	10
Middle level management	100	0.2	20
Subordinate staff	250	0.2	50
Total	**400**	**100**	**80**

Source: researcher (2018)

The researcher used questionnaires as the main data collection instrument to collect primary data from the sources. A drop and pick method was used to administer the research questions, where the questionnaires were administered and collected after three days to give the respondents time to fill in.

The questionnaire was categorized into twosections. The first sectionpresented the demographic and general information of the respondents. The second part comprised questions that helped to determine the relationship between environmental responsibilities and organization performance.

To assess the validity of the content and enhance the accuracy of the questionnaire, 5 facilitators were engaged to discuss the questionnaire. Theircontributionswereused to enhance the validity of the research instrument.

In the current study, external validitywasattained byusing the appropriate sample size which helped to attain external validity.

The face validity and construct validity was assessed before using the research instrument. Construct validity was attained as the researcherworked with the supervisor who assessed the logical validity of the questionnaire.

The reliability of the study measures was assessed by computing Cronbach's Alpha coefficient for all items in the questionnaire (Sekaran & Bougie, 2010)". A correlation coefficient greater or equal to 0.7 was accepted.

Table 4: Reliability Analysis

Scale	Cronbach's Alpha	Number of Items
Environmental Responsibility	0.846	6

Source: survey data (2019)

The right procedure was followed when collecting data. First, the research soughtan introduction letter from the University for the purpose of introducing himself to the target population. Second, a research permit from NACOSTI was acquired before embarking on the data collection process. Once the permit is issued; the researcher sought consent and appointment with the management of Total Kenya Limited when schedules for collecting data were agreed upon. Then, on the agreed date, the research instruments was delivered to the sampled respondents after which follow up was done after 3 days to ensure the questionnaires are filled in appropriately. Finally, filled questionnaires were collected from the respondents.

The researcheranalyzed data through quantitative techniques. Descriptive analysis like frequencies, weighted mean, and percentageswill be employed. Weighted mean was calculated by using the aggregated statistical mean of the responses for each variable. Inferential statistics like correlation analysis as conducted to test the correlation between the variables. SPSS was used to analyze data based on the objectives of the study. Frequency and percentage tables were used to presentthe data; toensure that the research findings are easily interpreted for easier understanding.

The study also employed a multiple linear regression model to test the significance of the effect of the independent variables on the dependent variable. The multiple linear regression model will be as shown below.

"$Y = \beta_0 + \beta_1 X_1 + \varepsilon$

Whereby;
Y= Organizational performance
β_0= Constant
$\beta_{1,,}$ = Coefficients of determination
X_1= Environmental responsibility,
ε = Error term"

Relevant procedures were throughout the research process. These included; permission to conduct the study will be obtained from relevant authorities. The principle of informed consent was adhered to; whereby participants were asked to give their consent. Participation in the research was the respondent's choice ;hence, the researcher informed them of the importance of carrying out the research to get their consent. The collected information are confidential and are used for academic research only. The identification of respondents was protected by avoiding showing their names in the final report. Besides, the questions in the questionnaires were carefully structured. The study avoided research misconduct like plagiarism, data falsification, and fabrication.

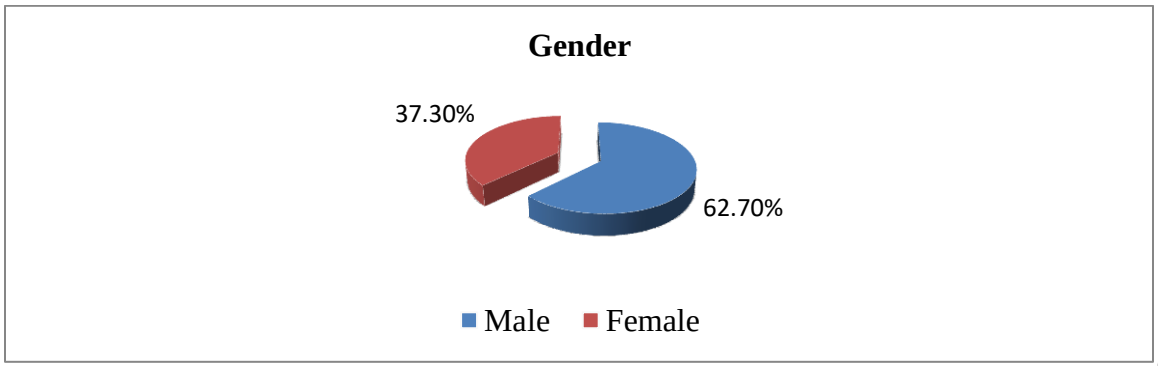
4.0 RESULTS AND FINDINGS

The study targeted a total of 80 respondents among the top level, middle-level management and Subordinate staff in Total Kenya Limited. However, 75 questionnaires were returned duly filled in. This translated to 93.75% response rate. According to Mugenda and Mugenda (2003), a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent. Therefore, this response rate was adequate for this study.

4.3 Descriptive statistics

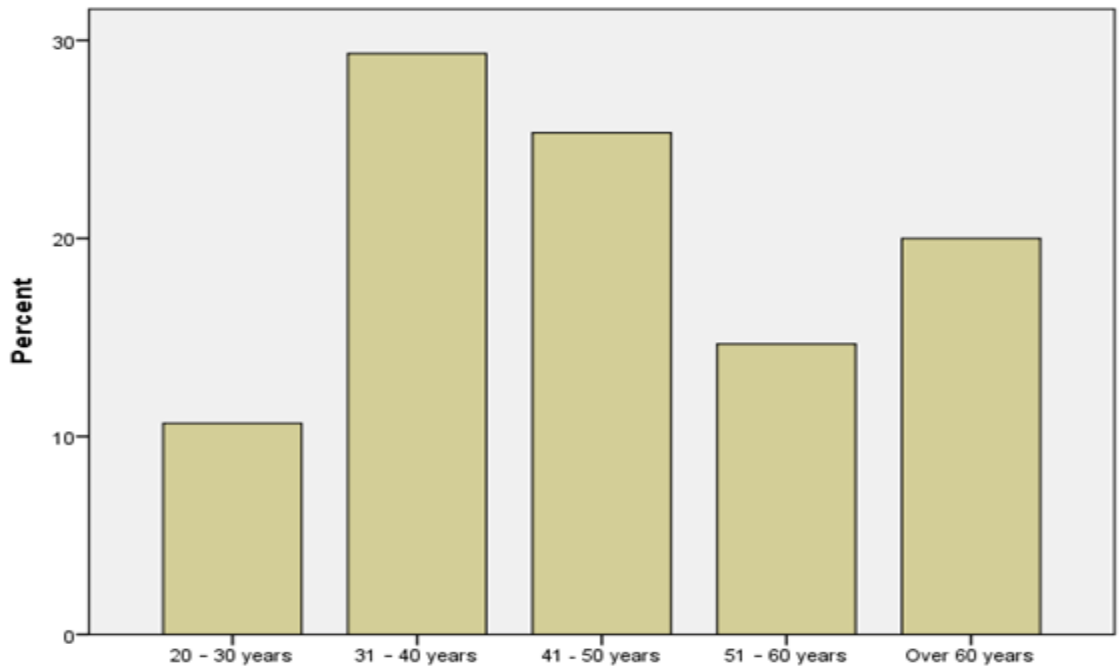
The study sought to establish the background information of the respondents including their gender; age; duration they have worked for Total Kenya Limited; highest level of education and position they hold in the Company. The findings are presented in figures 4.1; 4.2; 4.3; 4.4; and 4.5.

Figure 4. 4: Respondent's Gender



Source: Survey data 2019

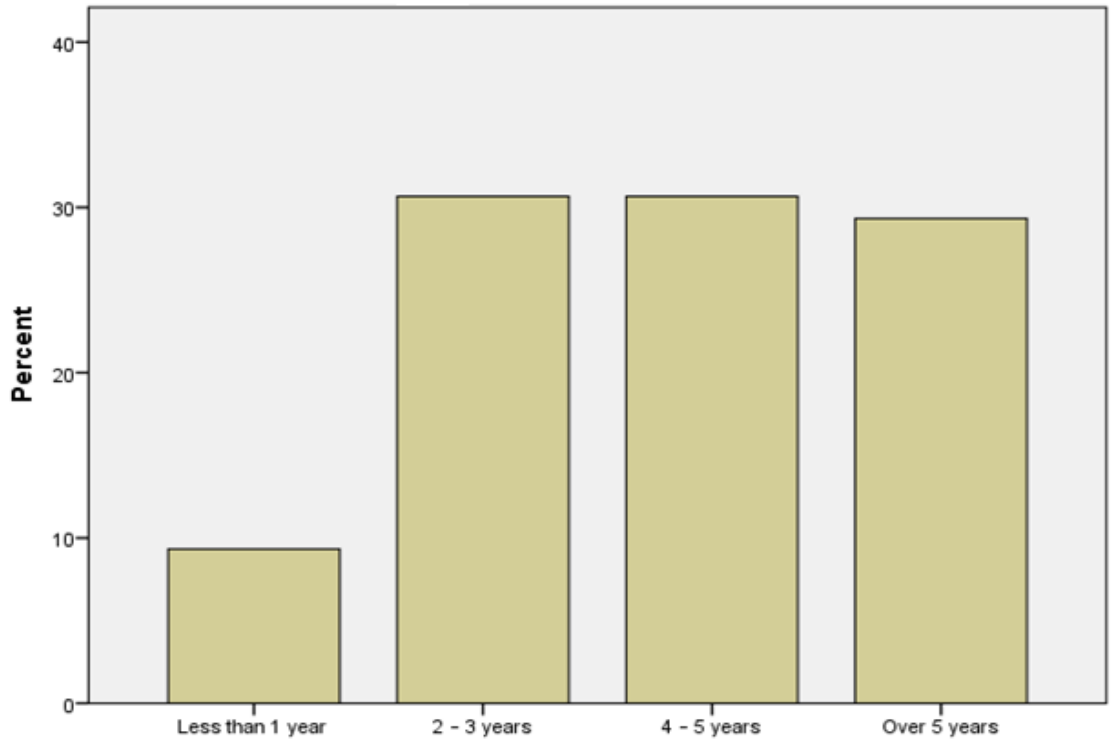
Figure 4. 5: Respondent's Age



Source: Survey data 2019

The study sought to establish the age of the respondents. The results indicated that the majority of the employees of Total Kenya (29.3%) were between the age of 31 and 40 years. Those who were between the age of 41 and 50 years were 25.3% and those who were over 60 years were 20%. Another 14.7% were between the age of 51 and 60 years while 10.7% were between the age of 20 and 30 years. These results indicated that Total Kenya has employed both the youth and elder. This may indicate that the company retains its employees for long and employ the youth as it expands its business.

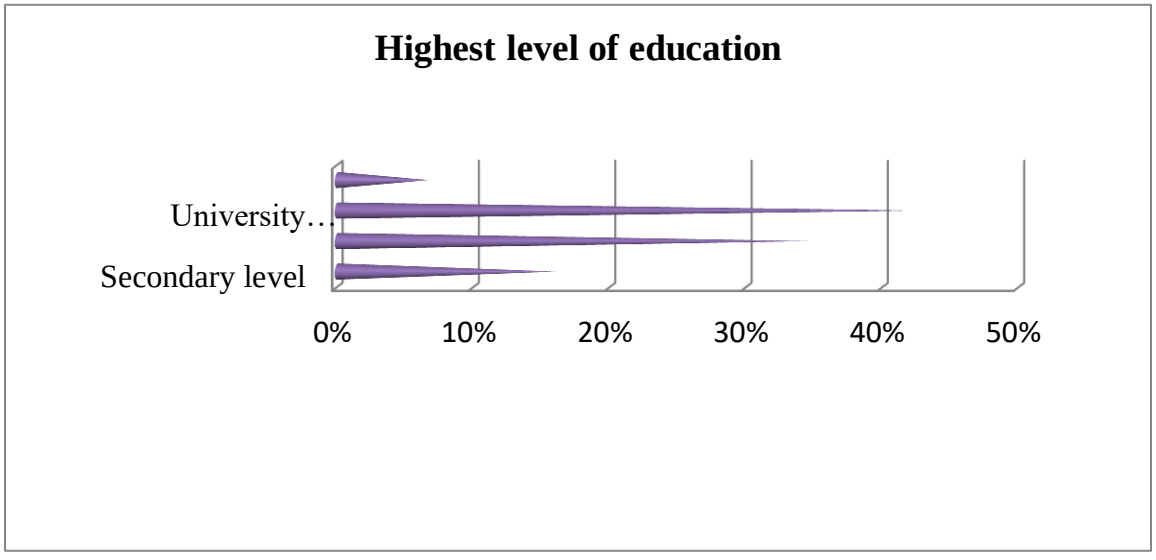
Figure 4. 6: Duration working for Total Kenya Limited



Source: Survey data 2019

The majority of the respondents have been working for Total Kenya Limited for more than 5 years. While 29.3% have been working for the company for over five years, 30.7% has worked between 4 and 5 years and another 30.7% have worked for the company between 2 and 3 years with only 9.3 % who have worked for the company for less than one year. These results confirm that Total Kenya has less employee turnover and it is still recruiting more as it expands.

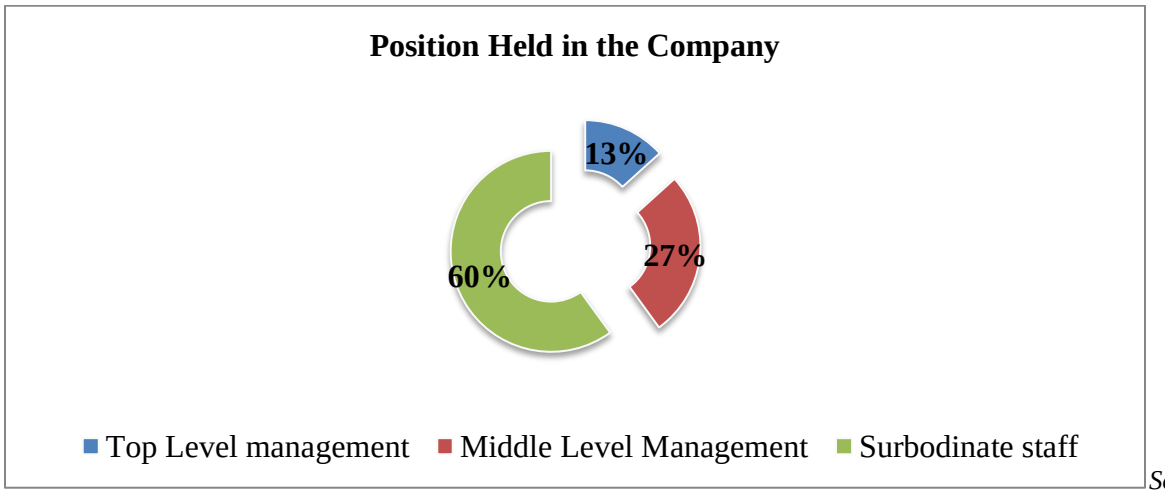
Figure 4. 7: Highest Level of Education



Source: Survey data 2019

The findings revealed that the majority of the respondents (42.70%) had attained university level-undergraduate level of education followed by 34.70% who had attained a college level of education. The respondents who had attained a secondary level of education were 16% and those who had advanced to masters' level were 6.7%. This may suggest that the company encourage personal development of its employees.

Figure 4. 8: Position Held in the company



Source: Survey data 2019

4.4 Environmental Responsibility

Table 4.1 shows respondents responses on various issues concerning environmental responsibility. The majority of the respondents were in agreement where 48% strongly agreed and 37.3 % agreed that the company runs programs aimed to conserve the environments, while 14.7% were undecided. The undecided are perhaps as a result of new recruits since there is quite a number who have worked for Total Kenya limited for less than one year. This implies that some employees may have been unaware of such programs. However, the variations on the responses on these issues were relatively high as shown by a mean score of 4.3333 and a standard deviation of 0.72286. This is because the undecided were quite a number.

Table 4. 1: Environmental Responsibility

Statement	Strongly Disagree	Disagree	Undecided	Agree	Strongly Agree	Mean	Standard Deviation
The company runs programs aimed to conserve the environments	0	0	14.7	37.3	48	4.3333	0.72286
The company has an annual budget for environmental conservation initiatives	0	0	8	60	32	4.2400	0.58909
Regulars awareness campaign on environmental issues are held by the company	0	0	10.7	64	25.3	4.1467	0.58572
The company discloses its environmental costs in the financial statements	0	0	9.3	34.7	56	4.4667	0.66441
The company partners with the government and other partners in environmental conservation initiatives	0	0	14.7	58.7	26.7	4.1200	0.63587

Waste management is a priority for our company	4	5.3	13.3	24	53..3	4.1733	1.10739

Source: Survey data 2019

The findings revealed that the majority of 92% were in agreement that the company has an annual budget for environmental conservation initiatives, with 60% agreeing and 32% strongly agreeing, while only 8% were undecided. This indicated by a slightly low standard deviation of 0.58909. Concerning whether there is regulars awareness campaign on environmental issues held by the company; 64% agreed, 25.3 % strongly agreed and 10.7% were undecided. The majority (56%) of the respondents strongly agreed and 34.7% agreed that the company discloses its environmental costs in the financial statements, which 9.3% were undecided. On the other hand, the majority (58.7%) agreed and 26.7% strongly agreed that the company partners with the government and other partners in environmental conservation initiatives. However, 14.7% were undecided. When asked whether Waste management is a priority for the company, the respondents gave a varying response as shown by a high mean of 4.1733 and high standard deviation of 1.10739. However, the majority were in agreement, with 53.3 % strongly agreeing, 24% agree, 5.3% disagreed, 4% strongly disagreed, and 13.3% were undecided.

The study also sought to establish the respondents' opinion concerning the influence of environmental responsibility

Table 4. 2: Organizational Performance

Statement	**Strongly Disagree**	**Disagree**	**Undecided**	**Agree**	**Strongly Agree**	**Mean**	**Standard Deviation**
Environmental responsibility influence organizational performance	0	0	0	80	20	3.2000	0.40269

ource: Survey data 2019

The results indicated that the respondents unanimously agreed that environmental responsibility Therefore, there is a low variation as shown by high mean of 3.2 and a low standard deviation.

4.10 Inferential statistics

Pearson's product moment correlation analysis was used to assess the relationship between the variables while multiple regressions were used to determine the predictive power between organizational performance and environmental responsibility.

4.10.1 Correlation Analysis

The data presented before on environmental responsibility and organizational performance were computed into single variables per factor by obtaining the average Pearson's correlations analysis was then conducted at a 95% confidence interval and 5% confidence level 2-tailed. Table4.6 shows the results of a correlation matrix

Table 4. 3: Correlation Matrix

		OP	**ER**	**PI**	**ETR**	**ECR**
Organisational performance	Pearson Correlation	1	.150	.066	.150	.253*
	Sig. (2-tailed)		.199	.571	.199	.028
	N	75	75	75	75	75
Environmental	Pearson Correlation	.150	1	.239*	1.000**	.099
	Sig. (2-tailed)	.199		.039	.000	.400

responsibility	N	75	75	75	75	75

The significance values for relationship between organizational performance and Environmental responsibility was 0.199. This implies that environmental responsibility is significant

Table 4. 4: Analysis of variance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5.184	3	1.728	4.302	.044[b]
	Residual	53.296	71	.751		
	Total	58.480	74			

Source: Survey data 2019

The significance value is 0.044 which is less than 0.05; hence, the model is statisticallysignificant in predicting how Environmental responsibility affect the organizational performance inthe petroleum industry in Kenya. The F critical at 5% level of significance was 3.23. Since F calculated is greater than the F critical (value = 4.302), this shows that the overall model was significant

Multiple regression analysis was conducted to determine the relationship between Organizational performance and the four variables. Based on the SPSS generated table 4.9 above, the equation

($\mathbf{Y = \beta_0 + \beta_1 X_1 + \varepsilon}$) becomes:

$Y= 13.316+ 0.064X_1$

Based on the established regression equation, when all factors are held constant at zero Environmental responsibility organizational performance would be 13.316. The analyzed data shows that when all other independent variables at Zero, a unit increase in environmental responsibilitywould lead to 0.064 increases in organizational performance

5.0 Conclusions and Recommendations

The study aimed to establish relationship between environmental responsibility and performance of Total Kenya limited. The study established that the company runs programs aimed to conserve the environments. However, a small proportion of the employees were not aware of such program hence indicated they were undecided; perhaps the new recruits. The study also found that the company has an annual budget for environmental conservation initiatives and it carries regular campaign on environmental issues. Further, the study found that the company discloses its environmental costs in the financial statements, and it partners with the government and other partners in environmental conservation initiatives. Besides, waste management was found to be a priority in total Kenya limited. Although the majority agreed on the above, a small proportion representing the new recruits who are not well versed with the operations of the company as well as its corporate social responsibility programs. Regression analysis revealed that there exists a positive correlation between environmental responsibility and organizational performance. This is in support to previous studies by Ngwakwe (2008) and Okwemba, Chitiavi, Egessa, Douglas & Musiega (2014) who found that there is a positive correlation between environmental activities and organizational performance.

The management of other corporate organizations can benefit from the findings of this study in various ways. The recommendations are presented is based on the findings of the study and may be generalized to other companies in other sectors besides, petroleum sector. The study concluded that Total Kenya Limited is committed to conserving the environment in its operations as one of its corporate social responsibility practice. This is a noble course especially at this era where nature is responding to environmental pollution through global warming in various parts of the world. It is, therefore, recommended that the company comes up with more programs meant to conserve the environment as well as campaigns to create more awareness so that other companies in the petroleum and other sectors can join hand in environmental conservation. It is worth noting that when a company makes it clear that environmental responsibility has contributed positively to its organization's performance, other firms including the competitors will follow the same route for the benefit of the environment.

6.0 Recommendation for further studies

The study also concluded that there are other CSR practices that can be used to enhance organizational performance. Thereafter, it is recommended that further studies be done to establish other CSR practices that may be used to enhance organizational performance. This study was conducted at Total Kenya Limited, yet there are also other players in the petroleum sectors. Therefore, it is recommended that further studies are conducted in other companies in the petroleum industry as well as in other sectors and compare results.

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COMPENSATION SCHEMES AND EMPLOYEE PERFORMANCE OF COMMERCIAL BANKS IN NAIROBI CITY COUNTY, KENYA

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Abstract
Compensation and benefits are the most critical factors in attracting and retaining high quality employees. The employees' commitment and motivation are directly tied to this aspect of the employment relationship. Great employers provide generous monetary and non-monetary compensation and benefits to their workforce. Money is considered as the reward which is given to employees against work, to support their family, and payment for the work which is done. The banking sector in Kenya has over the years faced a number of challenges including increasing competition, increased regulation by the government and high rate of technological growth especially the mobile phones that now offer banking services. Managers often use rewards to reinforce employee behaviour that they want to continue. The general objective of this study was to establish the relationship between compensation schemes and employee performance among commercial banks in Kenya. Further, the study sought to find out the effect of commissions and bonus schemes on employee performance among commercial banks in Kenya. The study was guided by the following theories: Expectancy theory, and Herzberg's Two-Factor Theory of Motivation. A descriptive research design was used to gather the information needed to achieve the objectives. The target population was all the 44 commercial Banks consisting of staff members working in the human resources department at top level, middle level and low level management totalling to 336. Stratified random sampling technique was used to generate a sample size of 101 respondents who formed 30% of the target population. A semi-structured self-administered questionnaire was used to collect the data. The data was analysed using descriptive statistics and presented in tables, charts, means and percentages. The study established that. Commission (β=0.179, p=0.030<0.05) had a positive and significant effect on employee performance. Bonus schemes (β=0.171, p=0.015<0.05) had a positive and significant effect on employee performance. The study concludes that incentives had a positive and significant effect on employee performance.

Keywords: Compensation schemes. Commissions, bonus, employee performance

INTRODUCTION

According to Barney and Hesterly (2014), an organizations employee compensation policy and practice is important in implementing a strategy. A company that adopts a compensation policy that is consistent and reinforces its practices is more likely to implement those practices than a firm that adopts compensation policies that are inconsistent with its strategies (Armstrong, 2015). A reward strategy should enhance commitment and engagement and provide more opportunities for the contributions ofpeople to be valued and recognized. According to Rudman (2013) paying for performance is a big issue in contemporary human resources management; organizations have long believed that productivity improve when pay is linked to performance and payment by results systems and incentives are developed to support this belief. Studies have found a positive relationship between performances related pay and performance.

Compensation and benefits are the most critical factors in attracting and retaining high quality employees. The employees' commitment and motivation are directly tied to this aspect of the employment relationship. Practices, which were effective when they were introduced, may degenerate as the organization evolves or it degenerates. Reward management is therefore is not only about money, it is also concerned with intrinsic, as well as extrinsic motivation; with non-financial, as well as financial rewards. This leads to several components of reward management such as strategic reward, job evaluation, Market rate analysis, grade and pay structure as well as contingent pay, (Ripley, 2012).Organizations provide rewards to their personnel in order to try to motivate their performance and encourage their loyalty and retention. According to Luthans and Fred (2014), organizational rewards take a number of different forms including money (salary, bonuses, and incentive pay), recognition and benefits.

Despite the tendency in the recent years to downgrade the importance of pay as an organizational reward, there is ample evidence that money can be positively reinforcing for most people, and, if the pay system is designed properly to fit the strategies, can have a positive impact on individual, team and organization performance. For example, many organizations use pay to motivate not just their upper level executives but everyone throughout the organization.Moreover, these rewards may not always have to be immediately forthcoming. Many individuals will work extremely hard for rewards that may not be available for another 5 or 10 years. Additionally, every permanent employee receives benefits, even though they often seem to be unaware and not know the usually high monetary value of these benefits. In fact, benefits constitute a large percentage of most organizations expenses (Armstrong, 2012).

A study by Kiarie (2015) on selected employees in Mobile Phone Industry concluded that performance is not a major factor while setting compensation schemes for most quoted companies in Kenya. A majority of companies use salaries to compensate their employees with only a small number combining both salaries and bonuses. These salaries are based on grading systems that companies set based on either the education level or the experience of the employees.

Ooko (2013) concluded that employees in the mobile phone industry perceive a link between performance and incentive pay both among the sales persons and technicians. Work, salary and incentives are important to most

employees in the mobile phone industry positively influence satisfaction among employees and the timing of incentives is satisfactory to majority of employees. McNamara (2008) also found that monetary compensation is an essential component in recruitment and retention process; but benefits are equally important and can often be the deciding factor in whether an individual accepts an offer or even stays in the organization.

Huselid, (2011); Dotty, (2016); Goel (2014). People receive extrinsic or intrinsic rewards (Armstrong, 2014), Dessler, 2015, Goel 2014). Extrinsic rewards e.g. pay bonuses, promotions, time off, special assignments, office fixtures, awards and verbal praise are externally administered (Dessler, 2015; Armstrong, 2014).Intrinsic rewards are self-administered (Dessler, 2015).The dynamic state of global business greatly influences how organizations position themselves for performance and profitability. An organization's success is highly dependent on the performance of its employees. Poor employee performance is detrimental to any organization while effective employee performance is a great source of organizational success.

In most organizations, rewards are directly linked to employee performance (Zaman, 2011). Dewhurst et al (2010), defines rewards as both financial and non-financial benefits that are given to employees for good performance at work, or for accomplishing assigned duties, as stipulated in an organizational structure, strategies, policies, and processes. Zaini, Nilufar, and Syed (2012) define employee rewards as tangible financial benefits and services, and other non-tangible benefits given to employees for playing their part in an organization. Richard, Ryan and Deci (2010) say that organizational rewards significantly influence employee performance in organizations.

Employee performance can be defined as the ability of an employee to accomplish his or mission based on the expectations of an organisation (Pierce et al, 2014). It can also be said to be the level to which the employees apply their skills, knowledge and attitudes towards achieving the desired results and meeting the specified objectives, (Rehman, 2012). Bohnstedt & Larsen, (2014) points out that employee performance is often indirectly measured using aspects of employee behaviour at work such as speed, courtesy, etiquette, precision, time management, consistency and influence on other employees.

Performance based compensation is a method of compensation designed to reward employee performance. Performance based compensation may be based on individual and team performance (Gomez, 2013). Gomez-Mejia and Balkin (2013) specify favorable conditions under which performance related compensation is deemed to be favorable and they include; where individual performance can be objectively and meaningfully measured, where individuals are in a position to control the outcomes of their work, where close team working or cooperation with others is not central to successful job performance and where there is individualistic organizational culture.

In Asian countries, rewards have been used for decades to enhance employee performance (Thomas, 2012).Long before multinationals started venturing in Asia, countries like Malaysia, Japan, and Singapore were using reward systems to enhance employee performance. A study conducted by Ali, and Ahmad (2012) on effects of rewards on employee performance in Malaysian hospitality industry established the existence of a relationship between rewards,

motivation, job satisfaction, and performance. The study found that financial rewards were directly related to employee performance as well. Further, they noted that organizations in the hospitality sector should design evaluation systems for rewards that are able to uncover employees' weaknesses and strengths in a specific job, and reward factors that motivate employees towards enhanced performance.

Africa as a continent has used rewards systems from pre-colonial days. However, Africa's pre-colonial employee rewards were not as advanced as the monetary extrinsic systems used in Europe (Dewhurst, Guthridge & Mohr, 2010). Employees who worked in farms received higher rewards when the harvest was bountiful as a way of showing appreciation and recognition.Many studies have shown a positive relationship between HRM strategies and performance in the manufacturing sector (Huselid 2017; Armstrong & Baron, 2012; Katou, 2014; Ahmad & Schroeder, 2013; Bae & Lawler, 2010; Batt, 2012; Delery & Doty, 2016; Guthrie, 2011; Gardner & Moynihan, 2013). Despite these findings most SHRM studies have been characterized by lack of a solid theoretical foundation explaining the mechanisms causing the observed enhanced performance.

Nairobi City County is the County hosting the Capital City of Kenya and therefore most of the headquarters for commercial banks and other organizations are based in the city. In Kenya, the Banking sector is composed of the Central Bank of Kenya, as the regulatory authority and the regulated, Commercial Banks, Non-Bank Financial Institutions and Forex Bureaus. As at 31st Dec 2011 the banking sector comprised 45 institutions, 43 of which were commercial banks and mortgage finance companies. Commercial banks and mortgage finance companies are licensed and regulated under the banking Act 488 and Prudential Regulations and regulated under the Central Bank of Kenya (CBK) Act Cap 491. Out of the 45 commercial bank institutions, 33 were locally owned and 12 were foreign owned. The locally owned financial institutions comprised 3 banks with significant government shareholding, 28 privately owned commercial banks and 2 mortgage finance companies (NIFC's). Of the 44 private banking institutions in the sector, 71% were locally owned and the remaining 29% were foreign owned. According to the Central Bank of Kenya website by January, 2017 there are 44 commercial banks, 1 mortgage finance company (HFC), and 7 authorized holding companies in Kenya. Out of the 44 commercial bank institutions, 30 are locally owned and 12 are foreign owned.

Statement of the problem

The banking sector in Kenya has over the years faced a number of challenges including increasing competition, increased regulation by the government and high rate of technological growth especially the mobile phones that now offer banking services. The shift by commercial banks in Kenya to strategic management has created a lot of interest on the effect of compensation practices on employee performance. Commercial banks in Kenya are faced with issues of productivity, competition for customers, efficiency in operation, trade unions and high staff turnover. Such issues must be dealt with (Robbins, 2001). Achieving success in core business is the concern of every organization. This requires considerable skill, expertise, experience and judgment on the part of its staff. Commercial banks must implement motivational structures that will attract, retain and motivate employees to major objectives of the organizational pay system which include efficiency, equity and compliance with laws and regulations (Gomez and Balkin, 2014).

Employee performance among commercial banks has been a challenge due to high competition from other sectors on rewards and compensation, volatile financial sector environment, unfavorable government policy and above all dynamism in the labour market. Most of the staff are not motivated due to non-consumerate compensation and overwork among the banking institutions (Okioga, 2015)).Previous studies show that good compensation for employees will be able to stimulate the emergence of fresh ideas and employees' innovation.

Commercial banks in Kenya are faced with issues of productivity, competition for customers, efficiency in operation, trade unions and high staff turnover. To compete effectively, organizations must continually improve their performance by reducing costs, innovating products, improving quality, increasing productivity of staff and efficiency in operation. Past research has predominantly focused on the performance- pay strategies among CEO and top management. For instance Steven et.al.,(2011) investigated the relationship between firm strategy and the use of performance measures in executive compensation and found that there was an increased emphasis on sales in the determination of executive compensation for firms pursuing a cost leadership strategy in order to attain competitive advantage through low price and high volume. Studies that have been done on employee performance based pay include Kiarie (2015), a survey of performance based compensation schemes in companies listed at the NSE and Ooko (2013), employee perception of the link between performance and incentive pay.

Available literature highlights that most of the studies examining the relationship between HRM and employees' performance have been conducted in the manufacturing sector mostly in the United States (Huselid, 2011; Guest, Michie, Conway, & Sheehan, 2013). Very few studies have been done in Kenya particularly in the banking sector. This study therefore sought to establish the influence of compensation schemes on the employee performance among commercial banks in Nairobi City County, Kenya.

General Objective

The general objective of this study was to establish the relationship between Compensation schemes and employee performance among commercial banks in Nairobi City County, Kenya.

Specific Objectives

The study was guided by the following specific objectives;

i. To establish the relationship between commissions and employee performance among commercial banks in Nairobi City County, Kenya.
ii. To determine how bonus schemes influence employee performance among commercial banks in Nairobi City County, Kenya.

Research Questions

i. What is the influence of commissions on employee performance among commercial banks in Nairobi City County, Kenya?
ii. What is the influence of bonus schemes on employee performance among commercial banks in Nairobi City County, Kenya?

Scope and limitations of the study

The study sought to establish the influence of compensation schemes on employee performance among commercial banks in Nairobi City County, Kenya. The compensation schemes considered include incentives, piece rate systems, commissions and bonus schemes. The study focused on the 44 commercial banks in Kenya which have been licensed and regulated by the Central Bank of Kenya as per the attached list in appendices and have operations in Nairobi County. The study was confined to banks in Nairobi City County since it is the main hub and headquarters for all the banks in Kenya According to Central Bank of Kenya website there were forty two licensed commercial banks and one mortgage finance company as at January, 2017.

Theoretical Underpinnings

Herzberg's Two-Factor Theory divides motivation and job satisfaction into two groups of factors known as the motivation factors and hygiene factors. According to Frederick Herzberg, "the motivating factors are the six 'job content' factors that include achievement, recognition, work itself, responsibility, advancement, and possibility of growth. Hygiene factors are the 'job context' factors, which include company policy, supervision, relationship with supervision, work conditions, relationship with peers, salary, personal life, relationship with subordinates, status, and job security" (Ruthankoon, 2013). Basically Herzberg theory differentiates the factors between intrinsic motivators and extrinsic motivators. The intrinsic motivators, known as the job content factors, define things that the people actually do in their work; their responsibility and achievements. These factors are the ones that can contribute a great deal to the level of job satisfaction an employee feels at work. The job context factors, on the other hand, are the extrinsic factors that someone as an employee does not have much control over; they relate more to the environment in which people work than to the nature of the work itself (Schermerhorn, 2013). The theory supports the study on the motivation and hygiene factors. Reward and competition are some of the key motivators of employees in an organization. Managers and owners of firms should appreciate the efforts of their work force by remunerating, recognizing and rewarding them accordingly. This will assist in reducing employee turnover among firms especially commercial banks.

Expectancy Theory

This theory was proposed by Victor Vroom (1932) of the Yale School of Management. Expectancy theory (or expectancy theory of motivation) proposes an individual will behave or act in a certain way because they are motivated to select a specific behaviour over other behaviours due to what they expect the result of that selected behaviour will be. In essence, the motivation of the behaviour selection is determined by the desirability of the outcome. However, at the core of the theory is the cognitive process of how an individual processes the different motivational elements. This is done before making the ultimate choice. The outcome is not the sole determining factor in making the decision of how to behave. The theory supports the study that favourable human resource management practices are meant to motivate employees which will boost their expectancy and hence their retention in the organization. Compensation schemes are some of the significant human resource management practices that foster employee productivity in a firm.

Literature Review

Literature on the dependent variable and the two independent variables on commissions and bonus were reviewed

to identify the gaps in research.

Commissions and Employee Performance

Appelbaum (2016) on an analysis of the effect of sales commissions on firm performance indicated that the commission schemes improve rate of sales but interest of the organization or the customer may not predominate. This can be reduced by paying only for outcomes which are acceptable to the organization or by paying true salary, which is related to wider issues than financial performance (Appelbaum, 2016).

Mach (2013) on exploratory study on the influence of commission schemes on sales, indicated that commission schemes typically treat the salesperson as a self-standing profit unit. The commission plan is structured to share the gross margin of sales between the organization and the salesperson. If the organization provides selling tools such as a car, mobile phone or portable computer, these costs may be explicitly taken into account. He further indicated that the main risk inherent in commission schemes is that the sales person will be motivated only by personal gain.

Taylor (2014) on his analysis on the other hand, on the relationship between commission based remuneration and career progression among the sales staff in South Africa indicated that commission pay scheme might not give any recognition to levels of competence or performance except through the level of earnings. In these circumstances salespeople often ask for a career structure. This can be provided by defining the number of levels of sales role. Progression through these is governed by a set of criteria which could include performance levels and competence standard. Commission is a variable component of compensation package. It is given on the basis of business generated by the employee. Commission is a pre fixed component say 5% of the total sales done by the employee. It is practiced in the retail and other sectors in the marketing and sales segment.

According to McConnell et al (2014) on the effect of commissions on sales for FMCG companies in the UK, payments often are calculated on the basis of a percentage of the goods sold, a way for firms to solve the principal–agent problem by attempting to realign employees' interests with those of the firm. Sales personnel are thus paid, in part of entirely, on the basis of products or services successfully sold rather than being paid by the hour, by attempted sales, or by any other measure. A common form of commission sales is real estate; in the United States, a real estate agent who successfully sells property will collect a commission of 6% of the sale price but a realtor who makes no sales will collect no salary or compensation whatsoever.

Madhani (2017) did a study on how commissions improve employee performance commissions are intended to create a strong incentive for employees to invest maximum effort into their work. One of the most common means of attempting to align principal and agent interests is to design a contract with incentives that track agent performance. The principal–agent theory provides an explanation for the dissimilarities across the marketing firms in the types of compensation plans used by them, such as fixed salary, straight commission or a combination of both fixed salary and straight commissions. Often, a firm embracing a commission structure may not involve employees, but may solely establish themselves using independent contractors. Reward in the form of commission alone with no pay or salary is known as straight commission. Reward may also take the form of commission plus a fixed salary. Industries where commission is commonly paid include car sales, property sales, insurance broking, and many other sales jobs.

Bonus Schemes and Employee Performance

A company that gives its employees bonuses is bound to motivate them to perform highly (Dohmen and Falk, 2017). Furthermore, Mwita (2012) concludes by stating that, the performance incentive bonus scheme is the logical process by which an organization includes its employees as individuals and team members, in refining organizational effectiveness in the achievement of organizational goals and mission. This information is further backed up by Kanji (2015) who stated that performance Incentive Bonus Scheme is a pillar of any individual life and organization, once employees appreciate what needs to be done and when and why/what is to be done, then the organization will achieve its goals and employees will feel empowered.

Methodology

A descriptive research design was adopted for the study. According to Mugenda and Mugenda (2013) the purpose of descriptive research is to determine and report the way things are and it helps in establishing the current status of the population under study and is useful for describing, explaining or exploring the existing status of two or more variables.The target population comprised of all the 44 commercial banks licensed and regulated by the Central Bank of Kenya with head offices in Nairobi City County. The target population consisted of staff members working in the human resources department who include 44 top level managers one from each bank, 84 middle level managers two from each bank and 210 low level managers who will be 5 from each of the 44 commercial banks registered and regulated by the Central Bank of Kenya with operations in Nairobi City County, who made a total of 336 .

Table.1: Sample Size

Category	Population	Sample Ration	Sample Size
Top level managers	44	0.3	12
Middle level managers	84	0.3	25
Low level managers	210	0.3	63
Total	**336**	**0.3**	**101**

Source: Researcher (2018)

The study covered all commercial banks but sampled the respondents from each of the 44 banks using the stratified random sampling technique. Kothari (2014) argues that when all items are covered, no element of chance is left and highest accuracy is obtained. Kothari (2015) argues that if well-chosen a sample of 30% of a population can often give good reliability findings. Mugenda and Mugenda (2013) stated that in stratified random sampling where population within each stratum is known, a sample of 30% is adequate representation for data collection. Therefore 30% of each stratum formed the sample for the study as shown in Table 1.

Data was collected using a semi-structured questionnaire. The study sought to establish the validity of the questionnaire through the opinion of the research project supervisor and a field test to measure the face and content validity. A pilot study or pre-test was done in I&M bank and respondents who took part

were not included in the main study. The pre-test enabled update the research questionnaire hence enhancing content validity. Reliability was tested using Cronbach's coefficient alpha (Cronbach 1951).

a Cronbach's coefficient above 0.70 is acceptable as an internally consistent scale so that further analysis can be possible.Before processing the responses, the completed questionnaires were edited for completeness and consistency. Descriptive analysis was used; this includes the use of weighted means, standard deviation, relative frequencies and percentages. The study was guided by the following regression model to establish the relationship between the study variables:

$$\mathbf{Y= \alpha + \beta_1 X_1 + \beta_2 X_2 + \varepsilon}$$

Y = Employee performance

α = Constant

β = Coefficients

X_1= Commissions

X_2= Bonus schemes

ε = Error Term

Data Analysis and Findings

A total number of 101 questionnaires were issued out to respondents of the study by the researcher. From these questionnaires, 79 of them were completely filed and returned to the researcher. This was equivalent to a response rate of 78.2%.

Descriptive Analysis

Descriptive statistics were used to describe how compensation schemes affected employee performance of commercial banks in Nairobi city county, Kenya. In particular, means and standard deviation were employed. This section presents the findings of the analysis using these descriptive statistics.

Commissions and Employee Performance

The findings on commissions and how they influenced employee performance are shown in Table 2

Table 2 **Commissions and Employee Performance**

	Mean	Std. Dev
The bank has a commission based payment system for sales staff	4.13	0.872
The bank gives employees a retainer then commission based on volume of sales	4.14	0.617
The bank only pays sales staff commissions without any salary	3.53	1.065
The bank has a graduated commission system	3.73	0.783
Employees are consulted in designing the commission criteria	3.49	0.529
Management only decided on the commission to be earned	3.78	0.893
Commissions given are not competitive	3.44	0.875
The commissions paid to employees are not motivating	3.47	0.898
Average Score	**3.71**	**0.816**

The findings in Table 2 indicate that the bank gave employees a retainer then commission based on volume of sales with a mean of 4.14 and standard deviation of 0.617. The study revealed that the bank had a commission based payment system for sales staff with a mean of 0.872 and standard deviation of 0.872. The findings of the study further indicated that the management only decided on the commission to be earned with a mean of 3.78 and standard deviation of 0.893. The study revealed that the bank had a graduated commission system with a mean of 3.73 and standard deviation of 0.783. A small portion of respondents however agreed that their bank only paid sales staff commissions without any salary with a mean of 3.53 and standard deviation of 1.065. Respondents however were not sure whether employees were consulted in designing the commission criteria with a mean of 3.49 and standard deviation of 0.529, the commissions paid to employees were not motivating with a mean of 3.47 and standard deviation of 0.898 or the commissions given were not competitive with a mean of 3.44 and standard deviation of 0.875.

On average, respondents agreed with a mean of 3.71 that commission affected employee performance. Taylor (2014) on his analysis on the other hand, on the relationship between commission based remuneration and career progression among the sales staff in South Africa indicated that commission pay scheme might not give any recognition to levels of competence or performance except through the level of earnings.

Bonus Payments and Employee Performance

Table 3 reports the findings on bonus payments and how they influenced employee performance.

Table 3: Bonus Payments and Employee Performance

	Mean	Std. Dev
The firm has a bonus payment system for staff	3.98	0.789
Bonus payments are done at the end of each financial year	3.96	0.881
Bonus payments are based on employee targets	3.69	0.982
Bonus payments are based on organizational targets	3.89	0.874
Organizational mission determines bonus payments	3.59	0.890
Bonus payment system is not standardized	3.40	0.887
Average Mean	**3.75**	**0.883**

As shown in Table 3 the study revealed that the firm had a bonus payment system for staff with a mean of 3.98 and standard deviation of 0.789. The study established that bonus payments were done at the end of each financial year with a mean of 3.96 and standard deviation of 0.881. The study revealed that bonus payments were based on organizational targets with a mean of 3.89 and standard deviation of 0.874. The study established that bonus payments were based on employee targets as shown by a mean of 3.69 and standard deviation of 0.982. Some respondents slightly agreed that their bank mission determined bonus payments with a mean of 3.59 and standard deviation of 0.890. Respondents however were not sure whether bonus payment system was not standardized with a mean of 3.40 and standard deviation of 0.887.

The average mean was 3.75, which shows that respondents generally agreed on the statements under bonus payment. Kanji (2015) stated that performance Incentive Bonus Scheme is a pillar of any individual life and organization.

Employee Performance

Employee performance was the dependent variable of the study. The findings are shown in Table 4.

Table 4: Employee Performance

	Mean	Std. Dev
The output per employee has significantly improved with the reward system	3.88	0.673
The level of job satisfaction among staff has improved	3.63	0.997
Customer service has increased with performance based rewards on staff	3.89	0.876
Employee efficiency has improved with performance based rewards	3.76	0.888
The compensation schemes system in the bank has improved employee effectiveness	3.77	1.064
The bank staff are motivated and feel proud working for the bank	3.68	0.873
Customer loyalty has improved	3.65	0.872
Average Mean	**3.75**	**0.891**

The study established that customer service had increased with performance based rewards on staff with a mean of 3.89 and standard deviation of 0.876. The findings on employee performance from Table indicate that the output per employee had significantly improved with the reward system with a mean of 3.88 and standard deviation of 0.673. The study established that compensation schemes system in the bank had improved employee effectiveness with a mean of 3.77 and standard deviation of 1.064. Employee efficiency had improved with performance based rewards as shown by a mean of 3.68 and standard deviation of 0.876. The study established that the bank staff were motivated and felt proud working for the bank as shown by a mean of 3.68 and standard deviation of 0.873. Respondents agreed that customer loyalty had improved as shown by a mean of 3.65 and standard deviation of 0.872. The level of job satisfaction among staff had improved with a mean of 3.63 and standard deviation of 0.997.

Regression Results

Regression analysis was employed to determine how compensations schemes influenced employee performance. The findings are reported in sections that follow. Table 5 is the Model Summary that indicates the value of the coefficient of determination R squared.

Table 5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.858[a]	.737	.703	1.92029

From the findings in Table 5, the coefficient of determination R square is 0.737. This shows that 73.7% change in employee performance is explained by compensation schemes in place. The findings of the Analysis of Variance (ANOVA) are shown in Table 6.

Table 6. Analysis of Variance

	Sum of Squares	df	Mean Square	F	Sig.
Regression	317.067	2	79.267	51.842	.000[b]
Residual	113.146	74	1.529		
Total	**430.213**	**76**			

As shown in Table 6, the value of F calculated is 51.842 while F critical (from the F-tables) is 2.495. Since the value of F calculated is greater than F critical, this indicates that overall regression model was fit. The findings on the p values and beta coefficients of each of the study variables are reported in Table 5

Table 7: Coefficient Results

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	3.207	1.474		2.175	.043
Commissions	.179	.081	.215	2.201	.030
Bonus schemes	.171	.069	.229	2.475	.015

From Table 7, the following regression equation is formulated;

$$\mathbf{Y=3.207+0.179X_3+\ 0.171X_4\ +e}$$

Y = Employee performance; X_1= Incentives; X_2= Piece rate systems; X_3= Commissions and X_4= Bonus schemes.

Thus, the possible level of employee performance when all the factors were held constant would be 34.207.

At 5% level of significance, Commission (β=0.179, p=0.030<0.05) had a positive and significant effect on employee performance. The findings of the current study agrees with Appelbaum (2016) on the analysis of the effect of sales commissions on firm performance indicated that the commission schemes improve rate of sales but interest of the organization or the customer may not predominate.

Bonus schemes (β=0.171, p=0.015<0.05) had a positive and significant effect on employee performance. This study concurs with Kanji (2015) who stated that Bonus Scheme is a pillar of any individual life and organizational Performance.The study established that commissions had a positive and significant effect on employee performance. The bank gave employees a retainer then commission based on volume of sales. The study revealed that the bank had a commission based payment system for sales staff. The findings of the study further indicated that the management only decided on the commission to be earned. The study revealed that the bank had a graduated

commission system.

The study established that bonus payment had a positive and significant effect on employee performance. The study revealed that the firm had a bonus payment system for staff. The study established that bonus payments were done at the end of each financial year. The study revealed that bonus payments were based on organizational targets. The study established that bonus payments were based on employee targets.

Conclusions

The study concludes that commissions have a positive and significant effect on employee performance. The bank gave employees a retainer then commission based on volume of sales. The bank had a commission based payment system for sales staff. The management only decided on the commission to be earned. The bank had a graduated commission system. The study further concludes that bonus payment has a positive and significant effect on employee performance. The firm had a bonus payment system for staff. The bonus payments were done at the end of each financial year. The bonus payments were based on organizational targets.

Suggestions for Further Studies

The focus of the current study was on remuneration schemes and how they influenced employee performance. From regression analysis, the value of R square was 73.7% showing that there exist other factors apart from remuneration schemes that have an influence on employee performance. Thus, future studies should focus on these other factors with significant influence on employee performance.

The focus of the current study was on commercial banks operating in Kenya that belong in the larger financial industry. Thus, future studies should focus on other firms within the financial sector including Micro-finance institutions and SACCOs. This would facilitate generalization of the finding to the entire finance sector.

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MARKETING STRATEGIES AND PURCHASE DECISION AMONG CONSUMERS OF SMARTPHONES IN NAIROBI CITY COUNTY, KENYA

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Abstract*: The study sought to establish the effect of marketing strategies among consumers of smartphones in Nairobi City County. The study was guided by the Stimulus Response Model, Howard & Sheth model and Jerome McCarthy' 4Ps, it applied descriptive and explanatory research design. Residents of Nairobi between the ages 18 and 35 years formed the target population, they were approximated to be 1,694,127 and a sample size of 278 drawn from this population. The research adopted area sampling method which is a form of cluster sampling and data was collected using self-administered questionnaires based on a 1-5 Likert Scale. Descriptive and inferential data was analyzed using stepwise multiple regression and data was tested using SPSS (22.0). Findings reveal that product strategies significantly influenced purchased decision with brand name and camera resolution being the leading drivers. Pricing strategies also had a significant influence on purchase decision with everyday low pricing, free data bundles and high price for high specifications as the most significant strategies. Place strategies significantly influenced purchase decision with indicators like shops stocking a wide variety of phones, online presence and availability of warranty centers being the most significant. Social media reviews, family and friends, TV advertisements were the most effective of all promotion strategies items. Customer characteristics (age, education and income) had a significant moderating effect on the relationship between marketing strategies and purchase decision. Based on these findings the study concluded that marketing strategies do have a significant effect on purchase decision.*

Keywords: ***Marketing strategies, purchase decision, differentiation, branding***

Introduction

The purchase decision is one of the important stages in the consumer buying process. It is at this point that the consumer actualizes the process that involved need recognition, information search and evaluation of alternatives by acquiring the product (Kotler & Keller, 2012). Today's consumer is more informed and knowledgeable about the products they want, this has created a shift in how manufacturers design, communicate and price their products, with more focus on the consumer needs and wants (Blackwell, Miniard, & Engel, 2006).Organizations today have adopted the marketing concept whereby an organization focuses all its efforts at satisfying the customer and understanding what it takes to satisfy him/her as they consider the consumer to be the path to profits (Perreault & McCarthy, 2005). Factors such as product features, price and social influence significantly determine demand for smartphones (Suki, 2013). Product strategies like differentiation, product life cycles, branding, pricing strategies like cost, breakeven , marginal analysis, promotion strategies through the various channel have a huge effect on the choices that consumers make as portrayed by Saif and Aimin(2015) in their research on analysis of Huawei's smartphone strategies in the Arab world.The regional Smartphone market has seen tremendous growth in the demand putting Africa at the third position globally in high volume shipments of handsets (IDC, 2017).

The Kenyan market has several operators or service providers like Safaricom, Airtel, Finserve, Telkom Kenya and Sema Mobile services, of these operators Safaricom has the largest share of subscriptions with 71.2%, followed by Airtel at 17.6%, Telkom Kenya at 7.4%, Finserve at 3.8% and the rest goes to Sema Mobile services (CA, 2016). These players have facilitated the increased demand for smart phones in the market.The key brands of smartphones in Kenya include Samsung, Apple, Huawei, Oppo, Infinix, Sony, Tecno, and HTC among others. Samsung smartphone sales in Kenya were considered to be the highest in year 2016 at 24.37%, followed by Huawei at 6.68%, Nokia5.50%, LG 1.77%, Alcatel at 1.16 and the other vendors like Oppo, Tecno, IPhone among others sharing 59.36% in the third quarter of 2016 (Evolita, 2016).

In Kenya there are few notable studies on Smartphones and consumer choice like the growth of the smartphone market in Kenya (Zab, 2015), mobile phone usage among university students in Kenya, a case of Nairobi university student (Octutu, Martita, Nyakerario, Wanekeya, &Akoth, 2014), Factors Influencing Young Kenyan Consumers' Use Of Smartphones (Odipo, 2016), though the studies touch on smartphone usage they hardly focus on the

consumer purchase decision. Researches and reports that have been conducted by private and government firms in Kenya fail to connect the marketing aspect with the consumer purchase decision. Smartphone industry reports on volume of handset sold globally by research firms like CCS Insight and International Data Corporation (IDC). The local research on mobile subscriptions by Communications Authority of Kenya (CAK) only focuses on statistics of smartphone brands in volumes. They do not narrow down on the specifics of the consumer's purchase decision in regards to how they arrived at their decision. Hence the need to conducta research whichto provided empirical data on factors behind the consumer choice of smartphones in Nairobi City County.

Marketing Strategies

Strategy is the long-term course of action taken up by an organization and is created to deliver a unique customer experience while achieving its goals (Kerin, Hartley, & Rudelius, 2009). A marketing strategy is the big picture a firm has for a market, two intertwined parts are needed to achieve this and that is the target market and the marketing strategies (Perreault & McCarthy, 2005)., it is also an organizations path to creating value for consumers and defining the boundaries from which to operate from (Paswan, Charles, & Guzman, 2011).Theories relating to marketing strategies for instance example Stimulus response Model (Kotler 1997), Howard and Sheth (1969) and Jerome McCarthy (1960) 4Ps of marketing among others focus on how to meet and satisfy customer needs better than the competition. The 4ps of marketing namely price, product, place and promotion was introduced by Jerome McCarthy back in 1960 as a framework that identifies the prime choices made by managers in firms in designing their offerings to match the needs and wants of the consumer (Goi, 2009).

As the discipline of marketing has continued to expand and grow the theory is taking on new forms with additional Ps like people, process and physical evidence (Bitner, Booms, & Tetreault, 1990)for services marketing, Partner, Presentation and passion (Londre, 2016).McGrath(1994) also suggested three additional Ps namely personnel, physical facilities and process management, for the purpose of this study we will focus on the tradition 4Ps by Jerome McCarthy(1964) which focuses on price, product, promotion and place. Even in changing marketing landscapes, the 4Ps are still relevant and the model combines the four elements namely price, product, place and promotion into a most favorable blend that seeks to satisfy the consumers' needs and wants, it is also dynamic and can adapt to changing needs and wants of consumers (Dimitrova, 2011).

Literature Review

The research relied on 3 major theoretical models namely the stimulus response model, Howard and Sheth and the 4Ps model. The stimulus response model is based on the marketing environmental and a set of psychological processes that combine with certain consumer characteristics that help in a series of steps in making decisions and ultimately the purchase decision(Kotler & Keller, 2012). The Howard and Sheth model sought to show the relationship between the stimulus responses in order to explain the consumer's purchase decision behaviour over a period of time(Jisana, 2014).Finally the 4Ps model focuses on 4 aspects namely price, product, promotion and place. It asserts that the customer is not part of the marketing strategy but the target of the marketing efforts (Perreault & McCarthy, 2000). This model also guides the current study as it supports the independent variables giving deep insights into how they operate and how they designed to ensure the client needs and wants are met.

Research on product strategies and consumer purchase decision indicate that the products innovative features, quality brand image, family and friend influence were among the leading motivating factors behind the purchase of a mobile phone (Khan &Rohi, 2013). Features that consumers would want to identify with in an innovative product like a smartphone include the relative advantage, compatibility, trialability, observability and complexity (Clarke, 1999). An almost similar criteria that consumers used to select a product as noted by Belbag, Gungordu, Yumusak and Yilmaz(2016) in their study is its user friendliness, durability, design and resolution.

Price strategies in the smartphone market like low cost are among drivers of purchase (Zab, 2015). Similarly Samsung mobile used a high quality-low price strategy to penetrate the Indian market (Singh, 2012). Pricing should be done in such a way that it upholds the image of the brand and that its quality has not been compromised or a dilution of brand equity as found out in a research conducted by Erdem, Keane &Sun (2008). Rao (2009) noted that end users are sensitive to price change and differences among brands and use these price differences to switch brand. Promotion Strategies focused on promotional activities related to offering information to the consumer either by advertising in the media, through suppliers or through social media also play a part in consumer purchase decision. Studies by Alshurideh, et al.,(2015) found there was a statistically significant effect of informational reinforcement

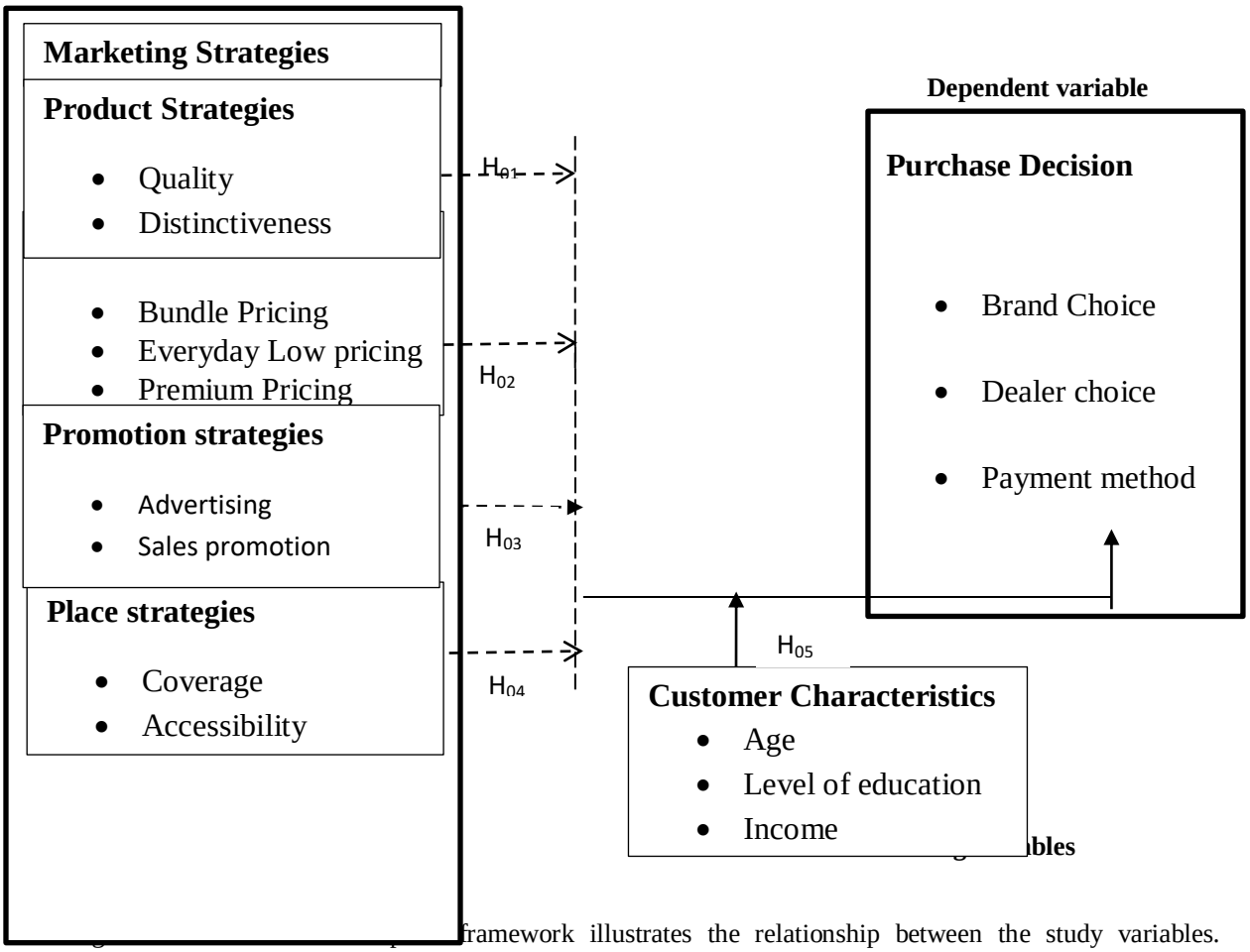
on mobile brand choice and that the various sources of information available to the consumer drove his or her choice for the mobile phone. Findings by Odoom (2016) indicate that one of the advertising options like celebrity endorsement were 1.583 times more likely to influence choice and loyalty. Finding in a research by Woo& and Koo(2015) indicate that consumers made a decision to purchase goods like mobile phone via sources of information (in order of highest preference) like word of mouth, TV broadcast, internet search, subscription TV, magazines, radio and finally newspapers.

Place strategies involve the distribution channels, availability of the product to the consumer in terms of how many outlets stock the desired product is crucial when it comes to brand choice, manufacturers that have an intensive distribution design with marketing support programs end up having more retailers stocking their products and hence increasing presence and availability as researched by Frazier &Lassar (1996). Findings in a study by Alshurideh, Bataineh, Alkurdi and Alasmr (2015) argued that the services offered by the vendor like warranty and after sales services were found to be critical in the purchase of a mobile phone

Conceptual Framework

Figure 1: Conceptual framework guiding the study

Independent variables



framework illustrates the relationship between the study variables. The independent variables for the study were price, product, place and promotion, the dependent variable was purchase decision. The moderating variables included age, income and level of education.

Research Methodology

The study was guided by positivism philosophybecause of its ability to allow for data to be strategically analyzed, and for hypotheses to be developed and proven empirically (Schiffman & Kanuk, 1997). Descriptive research design which was cross sectional in nature was used to establish knowledge that describes the characteristics of problem

(Foya, 2015). It was considered appropriate as it embraced probability sampling and allowed for structured instruments of data collection hence setting the nature and standard of the research (Kothari, 2004). The cross sectional nature ensured that the observations were done and data was collected at one single point in time(Tashakori & Tedllie, 2003).

Target population included consumers of ages between 18-35 years; who were mostly employees, businessmen and women, students in the city. The study used multistage sampling design which originates from cluster sampling design; the design is used for large geographical areas. Multistage sampling design divided the large geographical areas into a number of smaller units that do not overlap and were randomly selected to be included in the overall sample (Kothari, 2004). Determination of sample size was by the use of the formula by Yamane (1967) which yielded 278 respondents. The research used structured questionnaires as the tool for data collection. They were considered to be the most convenient forms of data collection as they could be standardized and covered all aspects of the topic(Kothari, 2004).

Pretesting of the questionnaire was done among 10university students and redesign and calibration was done immediately after the feedback and then questionnaires were issued to the intended respondents. This ensured that content, criterion and construct validity was achieved. Test for reliability gave a Cronbach Alphawas utilized. The outcome of the test gave an alpha value of 0.749. This indicates that the instrument reliable as guided byNunnally (1978) who states that a value of 0.7 and above shows that the research tool is reliable.

The study was guided by five (5)research hypotheses listed H_{01}- H_{05}

H_{01} Product strategies have no significant effect on purchase decision among consumers of smartphones in Nairobi City County Kenya

H_{02} Pricing strategies have no significant effect on purchase decision among consumers of smartphones in Nairobi City County Kenya

H_{03} Promotion strategies have no significant effect on purchase decision among consumers of smartphones in Nairobi City County Kenya

H_{04} Place strategies have no significant effect on purchase decision among consumers of smartphones in Nairobi City County Kenya

H_{05} Customer characteristics have no significant moderating effect on the relationship between marketing strategies and purchase decision among consumers of smartphones in Nairobi City County Kenya

The general multiple regression model to test the effect of the independent variable on the dependent variable took the form shown in model (i). The model was further computed to establish the effect of each individual independent variable on the independent variable

$$\mathbf{Y=\beta_0+\beta_1X_1+\beta_2X_2+\beta_3X_3+\beta_4X_4+\varepsilon}\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\text{Model (i)}$$

Where:
Y=Consumer purchase decision β_0=Constant term ε =Error term

β_1-β_4=Beta Coefficient of Marketing strategies

X_1=Product strategies, X_2= Price strategies, X_3= Promotion strategies, X_4= Place strategies

In order to establish the moderating effect of the moderating Variable – customer characteristics

on the relationship between the independent variables and the dependent variable model (ii) was used as illustrated.

$$\mathbf{Y=\beta_0+\beta_5MSx+\beta_7MS*CC+\varepsilon}\ldots\ldots\ldots\ldots\ldots\ldots\text{Model (ii)}$$

Where:

Y= Purchase decision
β_0= Constant
MSx=Composite index for Marketing Strategies-Product, price, promotion, place
CC= Customer Characteristics
B_7= Beta coefficient of the interaction between marketing strategies and customer characteristics
Customer characteristics items included the age, gender and education level of the respondents, therefore the fifth hypothesis was tested for moderation by using three sub-hypotheses with indicators of the customer characteristics using multiple regression.The study adopted a three step approach whereby the first step was to get the composite index of marketing strategies which is the independent variable regressed against the dependent variable purchase decision.

Research Findings and Discussion

The research targeted a sample of 278 respondents. Questionnaires were distributed to the 278out of whome171 responded giving a response rate of 61.5% . The rate was considered adequate for analysis as recommended by Babbie (2002) who considered 50% response rate as adequate.

Table 1: Demographic information of the respondents

Demographic information	Frequency (n = 171)	Percent%
Gender		
Male	117	68.4
Female	54	31.6
Age (years)		
18 – 23	10	5.8
24 – 29	40	23.4
30 – 35	70	40.9
36 and above	51	29.8
Highest Level of Education		
Primary	1	0.6
Secondary	13	7.6
Diploma/Certificate	54	31.6
Degree and above	103	60.2
Nature of occupation		
Self employed	54	31.6
Full time employment	90	52.6
Part time	7	4.1
Not employed	20	11.7

Source: Survey Data (2018)

The findings presented in Table 1 indicates that majority of the respondents were male at 68.4%and female at 31.6%.The respondents ages were divided into four categories namely 18-23 years, 24-29 years, 30-35 years and 36-years and above. Most of the respondents were between the ages of 18-35 which cumulatively accounted for 70.1% of the respondents.Education was classified under four categories namely primary, secondary, diploma/certificate and degree and above. 60.2% of the sampled respondents had a degree and above and 31.6% had Diploma/Certificate level of education.

Descriptive analysis

Marketing Strategies

The results of the four independent variables of the marketing strategies which were product, price, promotion and place strategies are presented in Table 2

Table 2: Summary of marketing strategies

Item	Description	Aggregate mean Scores
1	Product Strategies	3.71
2	Pricing Strategies	2.68

3	Promotion Strategies	2.93
4	Place Strategies	3.29
	Aggregate Mean score	**3.44**

Source: Survey Data (2018)

As presented in Table 2, product strategies had the highest mean score of 3.71 followed by place strategies at 3.29, promotion strategies at 2.93 and price strategies at 2.68.With an aggregate mean score of 3.44, marketing strategies influenced purchase decision to a moderate extent. The results were based on questionnaires that used a likert scale of 1-5 with 1=Not at all, 2=little extent,3=moderate extent, 4=large extent, 5=Very large extent.
Product strategies used on purchase decision among consumers of smartphones was established based on seven test items; brand name, processing speed, battery life, size of the handset, durability, Camera resolution and color of the phone. Responses received indicated that the respondents considered the battery life to a large extent followed by processing speed and durability which had mean scores of 4.20, 4.12 and 4.09 respectively. Similarly studies by Khan and Rohi (2013), Suki (2013), Alshurideh, Bataineh, Alkurdi&Alasmr (2015) also found processing speed as a big decision influencer when purchasing a smartphone. Also worthy to note is that battery life ranked 9 out of 14 items which implies that consumers considered the battery life when looking to buy a smartphone (Saif & Aimin, 2015). The aggregate mean score of product strategies was 3.71 with a standard deviation of 1.25, an indicator that consumers highly valued the product features to an almost large extent.

The effect of pricing strategies was similarly tested based on six items namely free data bundles, phone accessories, constant low price, everyday low prices, high price for highest specifications and discounts. Respondents greatly considered discounts in pricing at the time of purchase to a moderate extent with a mean score of 3.53. An aggregate mean score of 2.68 and standard deviation of 1.35 is a positive indicator that the pricing strategies play a role in influencing the purchase decision for smartphones among consumers to little extent.Discounts increased the chances of purchase by up to 76% (Fang, Luo, Andrews, & Phang, 2014). An indicator that manufacturers have to focus more on quality of the product so as to attract more customers (Alshurideh, Bataineh, Alkurdi, & Alasmr, 2015).

Promotion strategies on purchase decision among consumers of smartphones were established on six test items. These source of information included print media, Television advertisements, family and friends, social media reviews, mobile phone displays and loyalty programs. The respondents mainly considered family and friends and social media reviews as the most influential sources of information regarding a smartphone with mean scores of 3.33 and 3.23 respectively. These finding are consistent with Suki (2013) and Khan &Rohi (2013) that showed family and friends as key variables that influence a purchase decision. The aggregate mean score for promotion strategies was 2.93 and standard deviation of 1.35, this is an indicator that promotion strategies played a role in the purchase decision a nearly moderate extent.

Place strategies effects was analyzed based on six test items namely ease in accessibility, stock of wide variety, availability of warranty centers, online presence, offering of delivery services and manufacturer's presence at the shop.The average response indicates that the respondents considered availability of warranty centers in their decision making to an almost large extent with a mean score of 3.86. Similarly 80% of respondentsconsidered after sales services like warranty as a factor that would make them buy the same brand of smartphone again (Chen, Chen, & Lin, 2016). Zab (2015) also recommends that brands wishing to get ahead must create great attention in after sales services. The aggregate mean score for place strategies is 3.29 and a standard deviation of 1.38, this implies place strategies had a positive influence on purchase decision to a moderate extent

The effect of marketing strategies on purchase decision among consumers of smartphones was established based on six test items. This included loyalty, popularity of the brand, stocking at preferred shop, accessibility of the preferred shop, variety of payment options and credit facilities offered by the shop. A high number of respondents agreed that their preferred shop is easily accessible with a mean score of 3.41. This was followed by brand loyalty and access to a wide variety of payment options which had means scores of 3.25 and 3.14 respectively.

Availability of shops has often been cited as one of the important factors of ensuring a product reaches the consumer easily, Huawei strategy of having their markets divided into first tier and lower tier markets increased their penetration and ultimately the demand for their product in the Middle East (Saif & Aimin, 2015). The aggregate mean score of 2.95 and a standard deviation of 1.39 is a strong indicator that consumers have a positive view of their purchase decision and considered it to a moderate extent.

Inferential Statistics

Diagnostic Tests

Several diagnostic tests were conducted, a normality test using the Shapiro-Wilk test resulted in p-value of 0.340, 0.448, 0.451, 0.437 and 0.134 for product, price, place, promotion strategies and consumer purchase decision respectively. At the $p<0.05$ significance level the results were rejected concluding that data was normally distributed and satisfied the regression assumption of normality allowing further analysis of the variables. Linearity tests using deviation from linearity yieldedvalues of product, price promotion and place strategies at a p-values of 0.549,0.200, 0.275 and 0.310 respectively. At the significance level of $p<0.05$ the variables were above the significance level confirming that the relationship between the independent variables were linearly dependent (Field, 2009). Test for Multicollinearity using aggregate VIF indicator gave a value of 1.312 which showed that the data was suitable for hypothesis testing using regression since the VIF of the independent variables was less than 10 and greater than 1 (Field, 2009).

Test of Hypotheses and Discussion of results

The research was based on hypotheses that marketing strategies do not have any effect on purchase decision of smartphones among consumers in Nairobi County and that this relationship was moderated by the consumer characteristics. This section starts with presentation and interpretation of the results and followed by discussions of these results

Effect of marketing strategies (product, pricing, promotion and place) on purchasedecision

The actual effect of the marketing strategies on purchase decision was computed using a multiple regression model (i);

$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon$…….. (i)

Where Y = Purchase decision; β = Beta coefficient, β_0 = constant, X_1 = product strategy, X_2= pricing strategy, X_3 = promotion strategy, X_4 = place strategy, ε = error term

The results from this analysis are shown in Tables 3, 4 and 5. The results on goodness of fit were illustrated in Table 3.

Table 3:Model Summary for marketing strategies on purchase decision

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.683	.466	.454	.71057

a. Predictors: (Constant), product, pricing, promotion and place strategy
b. Dependent variable , purchase decision

Source: Survey Data (2018)

As presented in Table 3, the regression result showed that R^2 value was 0.466 indicating that 46.6% variation in the purchase decision was as a result of the marketing strategies, this implies that the rest is explained by factors not included in the current study.

An Analysis of Variance (ANOVA) was computed to check the effect of marketing strategies on purchase decision and the results presented in Table 4.

Table 4: ANOVA for marketing strategies on purchase decision

Model	Sum of Squares	Degree of freedom	Mean Square	F	Significance Level

1	Regression	73.258	4	18.315	36.273	.000
	Residual	83.815	166	.505		
	Total	157.073	170			

a. Predictors: (Constant), marketing strategies(product, pricing, place promotion strategies)
b. b: Dependent variable , purchase decision

Source: Survey Data, (2018)

The results presented in Table 4 on analysis of variance shows an F statistic Value of 36.273, p-value of 0.000, at the significance level of $p<0.05$, marketing strategies had a significant effect on purchase decision.

Regression coefficients were analyzed for the individual independent variables and their effect on the dependent variable and findings presented in Table 5

Table 5 : Regression coefficients of marketing strategies on purchase decision

Model		Unstandardized Coefficients		Standardized Coefficients	t-Value	Significance Level
		B	Std. Error	Beta		
1	(Constant)	.328	.218		1.503	.135
	Product strategies	.263	.065	.292	4.021	.000
	pricing strategies	.135	.079	.130	1.714	.012
	promotion strategies	.261	.076	.260	3.435	.001
	place Strategies	.156	.068	.169	2.294	.023

Source: Survey Data (2018)

Findings presented in Table 5 indicate that the independent variables namely product, pricing, promotion and place strategies had *p*-values of 0.000, 0.012, 0.001 and 0.023 respectively, at the significance level of $p<0.05$, marketing strategies did have a significant influence on purchase decision among the consumers.

The standardized beta coefficients of product, pricing, promotion and place strategies were 0.292, 0.130, 0.260 and 0.169 respectively. The regression analysis thus, produced a model equation using standardized beta coefficient of;

$Y = 0.328 + 0.292X_1 + 0.130X_2 + 0.260X_3 + 0.169X_4$ where X_1 = Product strategy, X_2= pricing strategy, X_3 = promotion strategy, X_4 = place strategy.

Findings presented in Table 5 show that standardized beta coefficient of product strategies was 0.292, a t-statistic of 4.021 with a corresponding p-value of 0.000. With a t-statistic value of 0.292 it can be deduced that 29.2% of changes in purchase decision can be explained by marketing strategies, the rest was due to variables not captured in the study. At the significance level of $p<0.05$ product strategies had a significant effect on purchase decision. These findings are consistent with studies by Suki(2013), Mutinda (2016) and Mutuku (2011) where product strategies like brand name, processing speedand battery life were among the most influential among the respondents when making their purchase decision.

Pricing strategies had a standardized beta coefficient of 0.130, t-statistic value of 1.714 and a p-value of 0.012. These results imply that there was a positive relationship between pricing strategies and purchase decision. According to the t-statistic of 0.174, it can be concluded that a 0.174 change in purchase decision is a result of the pricing strategies, the rest is due to variables not captured in the study. At a significance level of $p<0.05$, the p-value of pricing strategies at 0.012 indicates that there was a significant effect of pricing strategies on purchase decision. In comparison to similar studies a low price for smartphones was found to have the highest number of respondents at a combined 45.8% (Khan &Rohi, 2013). Discounts for data traffic packages was also considered to be of importance (Saif&Aimin, 2015). Similarly discounts at the time of purchase was considered to be the most influential pricing strategy as illustrated in the current study. Consumer would be willing to pay a premium price for a smartphone brand of their choice (Muigai, 2017), price was found to have a significant effect on the buying behavior of smartphone consumers in all the highlighted researches.

Promotion strategies had a standardized beta coefficient of 0.260, t-statistic of 3.435 and p-value 0.001. These results indicate that the effect of promotion strategies on purchase decision was positive. The beta coefficient implied that only 26% of changes in purchase decision can be explain by the promotion strategies. Also at the significance level $p<0.05$, effect of promotion strategies on purchase decision was significant.These findings are in in line with studies where social media penetration in Kenya was found to be at 83% (Zab, 2015), in the current study social media was the second most preferred source of information on smartphones. Television advertising was found to be the highest source of information preferred by respondents for mobile phones (Woo, Ahn, Lee, & Koo, 2015), similarly promotion activities had significant influence among the youth consumers (Murigi, 2016). TV and social media advertisements highly influenced brand purchase decision and customers agreed that they would not buy a product if they didn't like the advertisement (Masimane, 2017).

Place strategies as presented in Table 5 show a standardized beta coefficient of 0.169, t-statistic 2.294 and a p-value of 0.023. This implies that the effect of place strategies on purchase decision was positive, also that a unit change in places strategies would create a proportionate increase in purchase decision. At the significance level of $p<0.05$, place strategies had a significant effect on purchase decision. In comparison to similar studies having an online presence was considered to be a critical element that influenced mobile brand choice (Alshurideh, Bataineh, Alkurdi, & Alasmr, 2015). Accessible dealer and operator shops greatly influenced purchase behavior (Mutuku, 2011), service quality after and during purchase of the product like warranty, had a significant effect on purchasing decision and brand loyalty on smartphone consumers (Chen, Chen, & Lin, 2016). This is similar to a response by majority of respondents in the current study who stated that availability of warranty centers influenced their purchase decision to a large extent.

Moderating effect of customer characteristics on the relationship between marketing strategies and purchase decision

Customer characteristics was assessed through its indicators income, age and level of education and results presented in Table 6.

Table 6: Summary of Coefficients for the moderating effect of age, education and income between the relationship of marketing strategies and purchase decision

Coefficients[a] - Age						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.159	.130		24.362	.000
	Age	-.456	.184	-.139	-2.481	.014
	Average marketing strategy(MS)	.640	.054	.665	11.893	.000
2	(Constant)	3.158	.125		25.231	.000
	Age	-.452	.177	-.138	-2.551	.012
	Average marketing strategy(MS)	.367	.091	.382	4.027	.000
	AveMarketXAge (MSx*Age)	.450	.124	.344	3.636	.000
Coefficients[a]Education						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.820	.378		7.462	.000
	Average marketing	.651	.055	.677	11.851	.000

	strategy					
	Education	.010	.083	.007	.123	.902
2	(Constant)	2.872	.389		7.390	.000
	Average marketing strategy	.772	.211	.803	3.657	.000
	Education	-.001	.085	.000	-.006	.995
	AveMarketXEdu	-.150	.252	-.130	-.595	.552

Coefficients[a] for Income

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.019	.086		34.936	.000
	Average marketing strategy	.650	.054	.676	12.102	.000
	Income	-.291	.128	-.127	-2.267	.025
2	(Constant)	3.006	.085		35.311	.000
	Average marketing strategy	.790	.075	.822	10.486	.000
	Income	-.261	.127	-.113	-2.055	.041
	AveMarketXIncome	-.327	.126	-.204	-2.603	.010

a. Dependent Variable: average purchase decision

The study created three sub hypotheses which tested the individual relationship of each indicator against the relationship between marketing strategies and purchase decision. Age and income had p-values of 0.00 and 0.010 respectively, at the significance level of $p<0.05$ the two indicators were found to have a significant moderating effect on the relationship between marketing strategies and purchase decision, however level of education was found to have no significant effect on this relationship as it yielded a p-value of 0.552.With high number of indicators showing a significant effect it can be concluded that customer characteristics were found to have a significant effect on the relationship between marketing strategies and purchase decision.

These findings are consistent with research by Trojanowski& Kulak (2017), where age was an important moderator in the use of a mobile phone; age is also considered an independent factor that influences buyer behavior (Kanagal, 2016). Mutuku (2011) found that respondents in the age group of 22-25 year were the largest respondents in the research and attributed age to biggest influence in brand preference for smartphones. Mudondo (2014) noted that age played a key role in understanding of technological advancement in the smartphones industry; youth are better placed to understand the current technology than the older generation.Income was found to have a significant effect on the purchase behavior among consumers in a study by Chen, Chen &Lin (2016). In research by Sethi (2017) income was the deciding factor on when the consumers bought their smartphones and from which store, the level of income also determined how much consumers were willing to pay for a smartphone. Lay-Yee, Kok-Siew& Yin-Fah (2013), Zab (2015) also noted that respondents between ages 18-35 had low incomes but were willing to pay more for higher priced smartphones with advanced features.

Research by Bringula et al. (2018) noted that even though respondents were computer literate undergraduate students preferred an in store purchase to an online purchase. Findings in a study by Christopher, John &Sudhahar (2014) indicated that education did not have a significant effect on peer influence regarding purchase decision for a smartphone. These findings can also be attributed to the fact the majority of respondents in the current study had a minimum education level of high school.

Conclusions and Recommendations

Marketing strategies was the independent variable with four indicators namely product, pricing, promotion and place strategies, the dependent variable was purchase decision and the moderating variable was customer characteristics which included age, education and income.When assessing the first objective it was found that product strategies like brand name, battery life, processing speed were found to have a significant effect on purchase decision among consumers of smartphones. Based on these findings it can be concluded that organizations need to look more into the product features like design and specifications when producing smartphones. The second objective found that pricing strategies like premium price, discounts, and free accessories had a significant effect on the purchase decision of consumers of smartphones. Based on this it can be concluded that both vendors and manufacturers work together to get effective pricing solutions.

Conclusion on the third objective based on research findings found that promotion strategies like use of social media, family and friends, television advertisements had a significant effect on purchase decision. Similarly conclusions drawn on the fourth objective found that place strategies namely warranty centers, stocking a wide variety of smartphones and easily accessible shops did have a significant effect on purchase decision among consumers of smartphones. Finally the fifth objective of the study which was to assess the moderating effect of customer characteristics on the relationship between marketing strategies and purchase decision, found that customers characteristics did have a significant effect on the relationship. Based on these findings it can be concluded that marketers should incorporate the demographic features of their customers when planning out their marketing strategies.

Contribution to the body of Knowledge

Study contributes to body of knowledge at the theoretical level by supporting the Stimulus response model, Howard and Sheth Model and the 4ps Model. It supports the stimulus response model by empirically proving that marketing strategies interacted by customer characteristics actually aid the steps arrived at in purchase decision. It supports the Howard and Sheth model by empirically supporting the input variables like marketing strategies, significative stimuli like advertisement and social stimuli like family and friends which contributes toward buyer behaviour and the ultimate purchase decision. The study also supports the 4Ps model which ascertains that the marketing strategies are directed towards the customer, marketing strategies have been seen to influence the consumers purchase decision. There have been few studies in Kenya focusing on purchase decision among consumers of smartphones and some whose results are often insufficient, the current research closes this gap by providing well researched results which give an accurate picture of the effect of marketing strategies on purchase decision.

Policy recommendations

Access to information is one of the articles enshrined in the Kenyan Constitution; the mobile phone has brought along with it numerous accesses to various types of information like access to government websites, health services, financial services, education services and so much more. As such the government through the Communications Authority and Kenya Bureau of standards should ensure that the quality of the smartphone imported into the Kenyan market is of high quality and that the manufacturer is able to offer after sale services like warranty and software support. A good quality handset not only safeguards the health of the consumer but also his or her money invested in purchasing the smartphone. Easy access to smartphone could improve their citizens' access to information and services offered by the government regardless of geographical boundaries without the need of investing in expensive equipment like desktop computers, internet connection and printers

The study has also demonstrated that manufacturers should focus more on creating smartphones that meet the needs, tastes, preferences and requirements of the customer. Today's consumer is looking to have a lot of features in one device so as to save them from purchasing and owning several devices doing different tasks. Manufacturers need to be creative in designing and creating smartphones that will attract and retain their customer base as technology is constantly evolving and the next design of smartphone might just make them lose a number of customers to the competitor.

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INVESTIGATING THE EFFECTS OF LEADERSHIP COMMITMENT AND THE IMPLEMENTATION OF STRATEGIC PLANS IN NANDI COUNTY, KENYA

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ABSTRACT

The Government of Kenya adopted strategic planning in various parastatals, institutions and ministries to address distinct and prioritized strategic agendas in order to uplift service delivery. In the County Government of Nandi, strategic planning is part of the on-going public sector reforms geared at improving effectiveness and efficiency in the prompt delivery of public services. Strategic planning in the County Government is aimed at achieving the sustainable development goals (SDGs) as well as the targets set in the Kenya's economic recovery strategy (KERS). This is one of the devotions of the Government of Kenya as a way of realizing her vision of providing accessible, affordable and quality services for all Kenyans. The core objective of this study was to determine the effect of managerial competence in the implementation of strategic plans in Nandi County. The research was carried out through a case study and interviews were conducted with the management, the sample populace and the functional staff with the help of interview guides. Nandi County developed its current integrated strategic development plan between the years 2013-2014 and during its implementation the strategic focus was on five wider objectives. However, the county continued to encounter managerial challenges in attaining her objectives. The research project sought to determine if County leadership, employees training, and resource allocations from the central government affect the implementation of the strategic plans. The target population for the project was members of the strategic management and implementation team of the various sub counties in Nandi County out of which all the 96 members were censured. The study employed a complete enumeration survey method where each and every item in the population was selected for the data collection. Primary data used in the study was collected using questionnaire which were self-administered while secondary data was collected from Nandi county's annual reports and the quarterly departmental reports, researches journals, books, articles, and the internet publications. The questionnaires were evaluated for content reliability and validity. Pilot study was done on 20 respondents who were not included in the main study. Data analysis began by sanitizing data and establishing recurrent themes from the respondents' description of their experiences. The data was then tested for completeness, coded, and analyzed. Tallying of the responses was carried out to generate information and to illustrate the general trend of findings about the respondents on the variables that were under study. The findings presentations was done using Statistical Package for Social Sciences (SPSS) software. Presentation took the form of tables, graphs and charts whereas qualitative findings were presented thematically. Majority of the respondents from the findings disagreed that the laid down strategies had been implemented. There was also no ideal period for the implementation of county strategic plans. Additionally, majority of the respondents agreed that there was need for improvement by benchmarking with other counties on the implementation of county strategic plans. The results of the study are of great significance to the county leadership and other related stakeholders in the various public or private sectors as it will recommend on parameters and or key indicators for improvement in the implementation of strategic plans. The study recommended that the county government of Nandi should give more priority to employment of woman so that the one –third rule envisage in the constitution of Kenya is realized. Additionally, the study recommended that top-level management should actively participate in formulation and implementation of strategic plans.

Keywords: Investigating the effect of Leadership Commitment and Implementation of Strategic Plans

1.0 INTRODUCTION.

Although strategy formulation is a challenging task for any most management teams, implementing and ensuring that the strategy works as predicted is more difficult (Hrebiniak, 2006). Various elements stand in the way of procedure by which strategic plans are transformed into executable steps in an organization. As opposed to strategy implementation, strategy formulation is perceived as an art, as opposed to a science, and its findings historically have been outlined as disjointed and diverse. Therefore it is expected that after deliberations on strategic decision, the implementation phase is faced with numerous challenges. The implications of these challenges are that the foreseen performance of any strategic decision may be unsuccessful in materializing despite there being a perfect strategy, as noted by Noble (1999b). Findings obtained from numerous researches have agreed to the same school of thought. A survey carried out by an economist deduced that 57 % of organization's were faced with challenges in carrying out strategic innervations throughout that last three years and similarly to a study of 276 top level operating managers in 2004 (Allio, 2005). Execution of Strategy in view the famous Chinese Corporation's White Paper of the year 2006, establishes that successful implementation of strategic plans are a very significant managerial impediment in most corporations currently. The survey reported based on the Chinese's document shows that greater percentage of firms and organizations at 83% evaluated did not achieved in the implementation of their strategy with a consistency as dismal as 17% which implied that they nailed consistency in the implementation of strategy process.

The cutting edge challenge for most of today's organizations is the implementation of strategy and it is common knowledge that there are numerous reasons that affect success of strategy implementation and not limited to the following; people who drive and oversee the strategy implementation and communicates of processes, co-ordination mechanisms and lastly benchmarks to strategic implementation process. Formulation and control is an intertwined loop that affect Strategy implementation Herbiniak (2006) argued that strategy formulation is challenging but executing and making strategy work is even more difficult and taxing. The findings of Cater & Pucko (2010) showed that majority of firms with 80% have the right strategies formulated, however it is only 14% of the sampled firms that have successful with the implementation stage. In establish the link between formulation of strategy and execution of the same strategy, Egelhoff (1993) studied the period or stage suits best a firm or organization to start thinking about implementation strategy. Failure of implementing a strategy that is well formulated might be in vain and also failure to implemented a strategy that which is not perfectly formulated or consider's most of the features of strategy implementation would end up with developing a pierced strategy with analysis paralysis hence executing it is misusing the scarce resources and the valuable time. Previous studies done by, Zaribaf & Bayrami (2010) manifested the same results which determined that most organization's managers labour most resources in developing a strategies, and fails to put in adequate resources to implementation phrase.

Several studies such as Cater & Pucko 2010, stressed developing and auctioning strategies with emphasis formulation other than implementation process cause of its difficulty. Formulation of strategy requires precision planning, leadership skills, and organizing resources alongside ensuring employees are committed to the newly developed strategy, while the implementation aspect requires scanning and understand market dynamics, creativity and lastly knowing the strengths of the firm or institution. Top level management is usually taxed with development of strategies while auctioning of the established plans is the duty of managers in the lower levels of management. Function of organizations executives is important in operationalization of strategy and clearly instructing mid-level managers who then proceed with implementation processes in a fluid manner.

Development of strategies is normally an entrepreneurial function which needs the understanding to judge, analyze, and innovate on the other hand laying down of strategy needs both managerial and administrative capability to anticipate challenges which could pop up during the implementation phrase. Strategic planning is an important management tool acclaimed internationally in terms of work performance by any organization since it set's the organization on a path of make or break (Bryson, 1998). A documented plan is the definition of a strategy that which

is geared at producing results which would redefine and redirect organizations to achieve a particular purpose by focusing in the future (Pearce & Robinson, 2007).

2.0 Literature Review

Hrebiniak & Joyce (2006), submitted that the process of implementing strategic plans is not only key and challenging but nevertheless it is also a difficult field for most researchers to study. Based on analysis of organizations exhibiting and sustaining a good performance index, the organization's ability to achieve in the short run is identified by four main factors affecting the desired output and it include the following aspects namely; starting efficient and effective firm, clearly designing a strategic path, starting a culture which is adaptive in nature and lastly moving from customer targeting and reduction of cost to the wider picture.

Also Hrebiniak & Joyce (2006), states that the people mandated with implementation requires a sequential and a simultaneous thinking which applies majorly to important decisions. The sequential thinking describe the nature of a relationship between interconnected activities and consecutives events. In the design of the logical sequence of causality one should think of an event to be implemented first, call it event (A). It subsequently lead one to question the consequences on task (B) and on the other hand questions the essential change in (B) which aids execution of task (A). The link between task A and B must be defined to show their relationship. After discerning the link between subsequent events up-to the end interconnection (Z) is determined. Though the use of sequential analysis under consideration of rational establishment in the procedure of implementation, narrowness and simplicity of range that is which remains undisclosed is not sufficient hence the need to infer using the ultimate effect in the structure and purpose of the firm if each of the occurrences is implemented and materializes.

Implementation process must not only be conceptually wide but also entirely center on exact tasks while carrying out analysis. It is a challenging task for organizations implanting sequential and simultaneous thinking in process of arriving at resolution. Additionally, fragmentation of convolution of challenges into smaller fragments lessen the cost of losing the broader intention. However, Manager's and the individual capabilities can provide the needed combination of exact and integrative analysis during the formulation period hence there for an organization must to institutionalize important capabilities entrenched in individual employees so as to maintain task over a given period(Joyce, 2009). The theory is used to emphasize independent and dependent variables of the study.

2.1Empirical Literature Review

Boonyada Nasomboon (2014) undertook a research to find out the correlation and linkage amongst Organizational Performance, Employee Engagement, and Leadership Commitment, through their influence a number of intervening variables for instance Alignment of strategy, Employer's Branding, Agility of an Organizational, and Practices of Human Resource management. Based on the relationships on existing theories a conceptual model was developed. The collected date was obtained from managers of the 26 petrochemical companies which were analyzed and identifiers of the dominant or untapped variables in the model were realized. Principles of structural equation was used in completing the process of modeling which needed confirmatory factor analysis on both the path analysis and measurement model on the structural model. After the analysis were carried out found out that Leadership Commitment has a direct effect on organizational performance. The research did not however explore the various management processes that would affect organization performance namely budgeting, staffing, planning, measuring performance, problem solving, and also clarifying jobs.

Well-developed strategies in combination with an effective and robust professional pool of employees are a very key resources determining the success of strategy, while poor leadership on the other hand is one of the greatest challenge in fruitful strategy implementation that is according to Pucko & Cater (2010). Lorange (1998) argued out that the top level management and organization executives must focus attention on the interfaces in the organization. The main obstacle during strategy implementation process is making sure that the work force is persuaded by set

goals and that they can focus their business understanding and potential to the new strategy hence the desire of an effective leadership supersede other factors. Eisenstat & Beer (2000) viewed the issue with a different school of thought and proposed that the absence of good leadership and most conflicting consideration will lead to inadequate or ineffective coordination because the work force will think that the executive or their management would favor in avoiding embarrassing circumstances and potentially threatening situations. The other responsibility of leadership is promoting transfer of information across and amongst the different levels within the structure of the firm. Blocking vertical communication has a specific negative effect on the organization's capability to refine and to subsequently implement its strategy that is according to, Eisenstat & Beer (2000).

Deriving from critical review of existing theories and related extant empirical literature, a conceptual framework displaying the relationship between the study variables is presented in figure 1.

• Leadership commitment

Figure 1: Conceptual Framework Source: Nandi County Annual Report, 2015

The conceptual framework in these project was a diagrammatic presentation of the interconnection between various independent variables and the dependent variable. The independent variable that determine the effectiveness of the implementation of strategies under consideration is leadership commitment. The dependent variable was the implementation of strategies.

3.0 Research Methodology.

Research design is a framework in used while generating solutions to research questions (Noum, 2007). The research objective is to collect data during a specific period and use it in describing the conditions of an existing nature. The research's problem was deliberated using a descriptive survey design. The design is normally employed when the study desires to describe the character identified in groups, approximate the people's proportion with determined characteristics and construct predictions. Borg & Gall (1996) recommended descriptive survey design because of its potential to generate statistical data of education aspect which is of value to the formulators of policy and researchers.

Mugenda & Mugenda on the other hand pointed out that descriptive researcher designs are suitable in determining and reporting the way things are. This design was chosen because the study was trying to determine the correlation between independent variables and the dependent variable in an existing circumstance. The dependent variable being implementation of strategic plans while independent variables were: leadership commitment, resource allocation and employee training.

The population study mainly focused on the strategic management teams of the different departments of the 6 sub counties in Nandi County. Both the management and the support staff were targeted from such departments as Public works, Planning, Environment, Basic Education, Housing, Finance and Public Sanitation and Health. All the targeted respondents did have a chance of being considered to take part during administration of the question in the studies questionnaires, hence bring the total study respondents in the research to 96 as shown in table 3.1.

The total target population of the study comprised of 96 correspondents including 84 employees and 12 administrators. In percentages, administrators comprises the smallest proportion at 12.5 % whereas the rest of the employees has the largest proportion of the total population at 87.5% as tabulated below.

Table 3.1 Target population

No.	Sub Counties	Target population (Administrators)	Censured Population (Administrators)	Target population (Clerks)	Censured Population (Clerks)	**Total of Censured Population**
1	Nandi Hills	2	2	11	11	**13**
2	Tinderet	2	2	12	12	**14**
3	Emgwen	2	2	14	14	**16**
4	Mosop	2	2	16	16	**18**
5	Aldai	2	2	17	17	**19**
6	Chesumei	2	2	14	14	**16**
	Total	**12**	**12**	**84**	**84**	**96**

Source: Nandi County Government (2015)

The instrument used to collect the primary data in the study was a self- administered questionnaire as attached as appendix 1. A questionnaire is a document designed specifically with a set of questions deliberately to steer responses from respondents primarily for data collecting (Ritchie & Lewis, 2013).

The questionnaire had open ended as well as the close ended questions. The questionnaire in this study was divided into four sections with each covering planning, implementation, monitoring and evaluation and project sustainability. Additionally, the instrument had five-point Likert scale format to ensure that respondents are well guided in answering the questions. A Likert scale is important in evaluation of a behavior on a continuum (Stoecker, 2012).

Secondary data was also obtained via the following sources namely; Nandi County's year and quarterly department reports, researches, journals, journals, articles and the internet.

Validity of instrument defines to the precision and accuracy in which an instrument measures what was intended to, for a particular purpose and a group (Saunders et al 2003). Johnson & Gill suggested that there are specific and certain criteria which could be employed in evaluating research findings. The research aimed at ensuring validity of the research instrument by use of simple mode of communication that which would easily be understood by the respondents. Opinions of other entities rendered sound judgment in respect to adequacy was heeded by the researcher. In ensuring that the questions tested what was desired to capture the researcher also engaged his supervisor. The validity of the research instruments were tested through a pilot research study. Responses were tabulated and any inconsistencies were corrected.

A pilot study was undertaken through random sampling from the targeted population. Vague questions were revealed by a Piloting exercise which allowed for review till the same meaning to all the subjects was conveyed (Mugenda & Mugenda, 2013). The researcher also able to check whether the variables collected could be processed and analyzed easily during the pri.test phase. The questionnaire's reliability was determined using Cronbach's Alpha where internal consistency is checked and the results are shown in the table 4.1.

Table 3.5: Reliability of the questionnaire

Study variables	Cronbach's Alpha (α)	Number of Items
Implementation of county strategic plan	0.667	4
Leadership Commitment	0.731	3
Employees Training	0.677	3
Resource Allocation	0.716	3
	0.70	**3.25**

Aggregate scores

Field data, 2018

Source: Pilot Data (2018)

The results illustrated that the aggregate score as per cronbach's Aipha **(α)** was 0.70 and it is established that dependent variables under the study were visible since their values of reliability exceeded the predetermined threshold of 0.6 in respect to Nunnally (1978).

Empirical data was collected using questionnaires through a drop-and –pick method. Research permit was sought from the National Commission for Science, Technology and Innovation (NACOSTI) to aid in the implementation of the research study. Any respondent that for some reason was not willing to participate in the study was excluded from the investigation. The identity of respondents' were not indicated anywhere on the data collection tools for confidentiality and the data gathered was only be used for academic purpose.

The collected data was edited and the responses were coded to allow the researcher to minimize errors during data entry and analysis of results. After coding, the data was carefully entered into the SPSS software using the codes assigned and a final check performed to ascertain the level of accuracy, completeness and consistency. The research data gathered was analyzed to generate the measures of both descriptive and inferential statistics. Descriptive statistics included such measures as frequency, percentages, sample mean, and sample standard deviation; however inferential statistics involved the use of bivariate correlation analysis and simple linear regression analysis.

The study was guided by the multiple regression models presented as follows:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Where Y – Implementation of county strategic plans, X_1- Leadership commitment, X_2– Employee training, X_3– Resource allocation, β_0– Constant term

β_1, β_2 and β_3 are coefficients of independent variables and ε - Error term.

4.2.1Gender Distribution of Respondents

The findings in figure 4.1 demonstrated that majority of the response at (73.8%) were male, while the other gender comprised of 26%. The results show that Nandi County staff is dominated by male gender. The one third gender rule envisaged in the Constitution of Kenya, 2010 was not satisfied.

4.3. Descriptive Statistics

The section presents findings related to the various variables of the study.

4.3.1. Leadership commitment

In order to evaluate the influence of county leadership commitment on implementation of strategic plans in Nandi County, the respondents were provided with statements related to leadership and asked to indicate the extent of their consent with each of the statements by ticking appropriately along a five point scale, where the responses were coded as follows for analysis with the SPSS version 23 Those who strongly agree (SA) = (1); Those who agreed (A) = (2) The undecided (UD) = (3); Those who disagreed (D) = (4); and those who strongly disagreed (SD) = (5). The responses are summarized and tabulated in table 4.4 below.

Table 4.3 Leadership Commitment

Statement	**Mean**	**SD**
The county leadership fully participates in the formulation and implementation of the strategic plans	**4.16**	**0.77**
	4.23	**0.73**
The county leadership carries out a thorough monitoring and evaluation on the implementation of the strategic plans		
	3.74	**0.82**
The county leadership is accountable for the implementation of the county strategic plans		
Aggregate Scores	**4.04**	**0.769**
n = 80		

Source: Field Data (2018)

From the findings, the respondents disagreed that the county leadership fully participates in the formulation and implementation of the strategic plans and that the county leadership carries out a thorough monitoring and evaluation on the implementation of the strategic plans as expressed by a mean score of 4.16, and 4.23 respectively. The respondents are undecided whether the county leadership is accountable for the implementation of the county strategic plans as expressed by a mean of 3.74. The study therefore indicates that the respondents disagreed that Nandi County leadership is committed to implementation of county strategies as expressed by an aggregate score of 4.04 based on the five point likert scale in the questionnaire.

4.4 Inferential Statistics

The findings related to analysis of the relationships between the dependent and independent variables of the study was discussed in this section. It contains results of regression and correlation analysis between dependent variable, implementation of strategic plans and independent variables namely leadership, employee training and resource allocation.

4.5. Regression Analysis

The findings related to analysis of the relationships between the dependent and independent variables of the study was discussed in this section. It contains regression and correlation analysis results between implementation of strategic plans and independent variables; leadership, employee training and resource allocation.

The model analysis of regression in Table 4.7 indicates the strength of the relationship between the independent variables (Leadership commitment, Employee Training and resource allocation) and the dependent variable (Strategy Implementation). The R square value in this case was 0.062, which clearly suggests that there is a strong relationship between Strategy Implementation and Leadership commitment, Strategy Implementation and Quality training, Strategy Implementation and resource allocation. This indicated that Leadership commitment, Employee training and resource allocation share a variation of 83.4% of Strategy Implementation.

Table 4.8: Regression Coefficients

Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
		B	Std. Error	Beta		
1	(Constant)	1.050	.425		9.533	.000
	Leadership Commitment	.504	.098	.525	.036	.002
	Employee Training	.637	.084	.649	1.635	.000
	Resource Allocation	.340	.090	.355	.447	.002

Dependent variable: Implementation of strategic plans

Source: Field Data (2018)

From the table above $\beta_0 = 1.050$, $\beta_1 = 0.504$, $\beta_2 = 0.637$ and $\beta_3 = 0.340$

The simplified regression equation becomes

$Y = 1.050 + 0.504\ X_1 + 0.637\ X_2 + 0.34\ X_3$

The simplified regression equation becomes

$Y = 1.050 + 0.504\ X_1$

Table 4.9: Analysis of Variance

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	6.575	3	2.192	31.53	.027[b]
1	Residual	100.100	144	.695		
	Total	106.676	147			

a. **Dependent Variable**: Implementation of strategic plans

b. **Predictors**: Leadership commitment

The Anova table indicates that the overall model was a good fit since (F-value = 31.53 and p-value = 0.02<0.05)

Source: Field Data (2018)

The researcher sought to determine the effect of Leadership Commitment on implementation of strategic plans. The results of regression analysis in Table 4.10 demonstrated that Leadership Commitment is significant at β=0.504; t = 0.036; p = .002. This implies that at 95% confidence level, Leadership Commitment has a positive effect on implementation of strategic plans.

These results confirm that a unit increase in Leadership Commitment is responsible for 0.504 increases in implementation of strategic plans. Thus, this study concludes that Leadership Commitment affects implementation of strategic plans in Nandi County, Kenya.

5.0 Summary, Conclusion and Recommendations.

The objective of the study was designed to establish the effect of leadership commitment on implementation of strategic plans in Nandi County, Kenya. Leadership commitment was measured using indicators comprising of participation, monitoring and evaluation, and accountability. Results of the descriptive statistics analysis revealed that the data collected manifested that leadership commitment has a statistically significance on the implementation of strategic plans in Nandi County, Kenya and thus the expectation of this study was made. The conclusion section stipulates what the study reassures and gives major findings that the researcher postulated in each of the variables under the study.

The results of descriptive statistics analysis showed that the data gathered revealed that leadership commitment has a statistically significant effect on implementation of strategic plans in Nandi County, Kenya. Thus, the researcher concludes that leadership commitment positively affects implementation of strategic plans in Nandi County, Kenya. The study also recommends that the top-level management should actively participate in formulation and implementation of strategic plans.

5.5 Suggestions for Further studies

The study recommends further research to identify the other various aspects of leadership, for example, leadership style, that negatively affect implementation of strategic plans in the various counties.

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LENDING INTEREST, INFLATION AND FOREIGN EXCHANGE RATES RELATIONSHIP WITH LOAN DELINQUENCY IN THE TEA SUBSECTOR IN KENYA.

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ABSTRACT

Delinquent loans are in the rise both globally and locally leading to closures, receiverships and even collapse of institutions receiving and offering agricultural loans. The agricultural sector plays a very critical role in economic development, employment and wealth creation and as a source of revenue. The state of tea sector in Kenya currently is a combination of a number of factors; colonial history, socio-economic environment, regional economic relations, resource endowments and the general policy environment. This study therefore sought to determine the relationship between three macroeconomic variables namely, lending interest, inflation and foreign exchange rates; and delinquency of loans in the tea manufacturing companies managed by Kenya Tea Growers Association for the period Quarter 1, 2008 to Quarter 4, 2017. The study adopted explanatory research design approach and the population of study was 16 tea manufacturing companies. Secondary data on the macro-economic variables and delinquency of loans was collected and analyzed using E-Views software. The study findings reveal that at 95% level of confidence, the independent variables have no significant relationships (p=0.38). In the short-run, Error Correction Model depicts a significant relation between loan delinquency and the three macroeconomic for the period under study. Regression analyses depict negative relationships between lending interest rate, foreign exchange rate; and loan delinquency. Inflation rate reflected a positive relationship. The results of Autoregressive Distributed Lag Model revealed sufficient evidence of insignificant relationships between loan delinquency and the selected macroeconomic variables in the long run. This study notes that macro-economic environment should therefore, be monitored by the regulators and should take fiscal and monetary measures to ensure management of loan delinquency in the tea sector, and the economy as a whole.

1.0 BACKGROUND OF THE STUDY

Following global financial Crisis, recession has left institutions and individuals in debts, leading to loan delinquency and subsequently non-performance of loans. According to Addae-korankye (2014), loan delinquency 'results into loan default where a debtor has not met his or her legal obligation according to the debt contract'. The concept of loan delinquency is not new. For the European Union as a whole, NPLs was at over 9% of GDP 2014 end. In the United State of America, the percentage of NPLs to total loan was 2.21 percent in 2008 rising to 5.3 percent in 2010, after which there was a decrease from 4.5 percent in 2011 to 1.67 in 2015. The same pattern was experienced in the United Kingdom where the percentage rose from 1.56 in 2008 to 3.96 in 2011, followed by a decline to 1.04 percent in 2015. Germany recorded 2.85 percent of the total loans as NPL s in 2008, 3.03 percent in 2011 then 2.34 percent in 2014 (Statistica, 2017).

Agricultural credit institutions in developing and developed countries have been plagued by high default and delinquency rates. Delinquency rate for loans to finance agricultural production farm loans in Commercial banks in the USA was recorded at 1.19, 2.37, 3.04, 2.11, 1.56, 1.45, 0.9 and 0.84 percent for year 2008 to 2015 respectively (Board of Governors of Federal Reserve System of the US, 2017). 40 per cent of the borrowers in Sirsa district of Haryana, India repaid approximately 50 per cent of loan. 5 per cent of the borrowers repaid more than 70 per cent of agriculture loan (Bala, 2015). In the developing world, out of Naira (₦)7,188,575,000 loans granted to farmers registered under Agricultural Development Programes (ADP) in their states in Nigeria, between years 2009-212, only ₦ 3,523,018,005 of the total loan granted was repaid giving a default rate of 51 % (Obasi, 2015). Oladele and Ward (2016) concluded that 29.3 percent of loan beneficiaries from Micro Agricultural Financial Institution in North West Province, South Africa, did not repay their loan while 44 percent made partial repayment.

Agricultural firms offering agricultural credit in Kenya have not been an exception. For example, the rate of group loan default to farmers by Agricultural Finance Corporation (AFC), Eldoret Branch, has been on the rise from 0.5% in 2006 to 89% in 2008. The default rate in 2013 stood at 68% (Amwayi, Omete, & Asakania, 2014). According to Nyanumba (2012), AFC has written off Ksh.6 billion of non-performing debt portfolio owed by farmers as at December 2011. AFC puts the amount of non-performing portfolio debt comprising of 1,632 clients at a close to Ksh.7 billion as at April, 2010. In November, 2016, the Kenyan Government bailed out coffee farmers from Sh2.4

billion owed to cooperative societies. This was the second bailout by the Government after Sh1.2 billion shillings was released early 2016 to help revive the sector (Mugo, 2016).

1.1 Problem Statement

According to Food and Agricultural Organisation (2016), 10% of the Kenya's population depend on tea and it contributes 4% of the country's GDP and leading export earner (26% of total export earnings). Tea industry contributes to the livelihoods of over 400,000 farmers and it gives employment to over two million Kenyans. Kenya accounts for 22% of the total world tea exports, making it the leading exporter of black tea with its major markets being Pakistan, Egypt, United Kingdom, Afghanistan, Yemen and Sudan (Export Promotion Council, 2016). Despite the major contributions of tea to our Kenyan economy, literature has shown that the tea sub-sector is still faced with delayed and non-repayment of loans. As at 30th June, 2017, Greenland Feather Limited, a subsidiary of KTDA recorded a 22% (kshs.11,898,263) loan default by tea manufacturers (Greenland Feather Limited, 2017). According to the World Bank Group (2016), delinquent loans globally skyrocketed after 2007 to 2015, rising from 2.992 percent in 2008 to 4.342 percent in 2015. In Kenya, total gross NPLs rose from 108 billion shillings in 2014 to 139.9 billion shillings by November 2015. This is the highest figure in six years. The trend of NPLs in the agriculture sector between 2009 and 2015 rose from kshs5.45 billion to khs8.384 billion (CBK supervisory reports 2009-2015).

The problem of NPLs in a number of sectors has been linked to economic factors. Past studies, for example in the banking sector, Muriithi (2013) investigated on the effects on NPLs in Commercial banks in Kenya. The study revealed that NPLs of Commercial banks in Kenya are positively correlated with inflation rate and negatively correlated with real interest rate. Bucur and Dragomirescu, (2014) found unemployment rate, Money supply growth rate and market foreign exchange rate and credit risk are negatively related in Romanian banking sector. In the mortgage sector, Franco, (2014) concluded that there existed significantly strong and positive correlation between unemployment, real Interest rates and Non-Performing loans in mortgage firms in Kenya.

Given the increasing trend of loan delinquency in the agriculture sector generally, this study did seek to investigate the relationship between macro-economic variables and loan delinquency in this sector with specific reference to tea sub-sector which is the leading foreign exchange earner in Kenya. Central Bank Rate (CBR) is the lowest rate of interest Central Bank of Kenya (CBK) charges banks and microfinance banks and its movements, both in direction and magnitude, signals the monetary policy stance (Central Bank of Kenya, 2015). For example, CBK raised the Central Bank Rate (CBR) from 8.5 per cent to 10.0 per cent in June, then to 11.5 per cent in July, 2015 to contain inflationary pressures and stem exchange rate volatility (Kenya Bureau of Statistics, 2016). Though there is no literature review on a study that has employed CBR as moderating variable, this research used CBR as the moderating variable to determine the moderating effect of CBR on the relationship between loan delinquency and the explanatory variables. The objective of this study was therefore, to investigate the relationship between lending interest, inflation and foreign exchange rates; and loan delinquency in the tea manufacturing companies managed by KTGA.

1.2 Specific Objectives

The specific objectives were;

i. To determine the relationship between lending interest rate and loan delinquency in the tea manufacturing companies managed by KTGA.

ii. To determine the relationship between inflation rate and loan delinquency in the tea manufacturing companies managed by KTGA.

iii. To determine the relationship between foreign exchange rate and loan delinquency in the tea manufacturing companies managed by KTGA.

iv. To determine the moderating effect of the Central Bank Rate on loan delinquency in the tea manufacturing companies managed by KTGA

2.0 LITERATURE REVIEW

This section analyzes the empirical work of a number of studies in relation to loan delinquency, lending interest rate, inflation rate and foreign exchange rate.

2.1 Loan Delinquency

According to the Consultataive Group to Assist the Poor (CGAP) (2009), loan delinquency means failure to make loan payments when they are due, hence, the loan is in arrears. A number of studies have been done on loan delinquency. Ochami (2004) investigated NPLs in Housing Finance Company of Kenya (HFCK) Limited. The study attributed external environment to NPLs. While investigating the causes of NPL in the 43 Commercial Banks in Kenya, Muriithi (2013) for the period 2008-2012, the study adopted descriptive design and applied multiple regressions. It concluded that NPLs are positively related to inflation rate (0.316) and negatively with real interest rate (-0.468). Nkurrunah (2014), investigated the factors that affect NPLs at the Commercial Bank of Africa (Kenya). The study adopted a partly descriptive and a partly correlational research design. The population of the study included 451 staff members currently working for CBA - Kenya. From this population a sample size of 122 individuals was derived and to these the data collection instrument, semi-structured questionnaire was administered. It was found that the prevailing economic conditions were the major economic factor affecting the levels of NPLs. Using a logit model, Mashatola and Darroch (2003) concluded that the farm size and off-farm income affects repayment pattern for 83 medium scale sugarcane farmers in Kwazulu- Natal, South Africa. Another study, Kohansal and Mansoori (2009) investigated the factors influencing on repayment behavior of farmers that received loan from agricultural bank by using a logit model and a cross sectional data of 175 farmers of Khorasan-Razavi province, Iran, in 2008. Results showed that loan interest rate is the most important factor affecting on repayment of agricultural loans. Addae-korankyeb (2014), a study that analyzed the causes and control of loan delinquency/default in microfinance institutions in Ghana employed Random sampling technique to select twenty-five microfinance institutions and two hundred and fifty clients for the study. The study found high interest rate, inadequate loan sizes, poor appraisal, lack monitoring and improper client selection affecting loan delinquency in micro-finance institutions in Ghana.

2.2 Lending Interest rate

A number of studies support a positive relationship between interest rates and loan delinquency. Khemraj and Pasha (2009) estimated on data covering the period 1994 to 2004 using a fixed effect model to explore on the determinants of NPLs in the Guyanese banking sector. The findings from this study reveal that higher interest rates leads to higher NPLs. Espinoza and Prasad (2010) examined the macroeconomic determinants of NPLs in the Gulf Cooperation Council banking system using a sample of 80 banks. According to the study, interest rates have a positive relationship with loan defaults though not significant. In Malaysia, a study, Adebola, Yusoff and Dahlan (2011) explored the determinants NPLs covering the period 2007 to 2009. An ARDL approach was applied in this study and the study concluded a positive relationship. Messai and Jouini (2013) conducted a study on Italy, Greece and Spain from 2004-2008 to identify the determinants of NPLs for a sample of 85 banks. The study applied Fixed Effect model and found a positive relationship of real interest rate with NPLs. Warue (2013), a study on 44 Commercial Banks in Kenya, found similar results with significance in affecting NPLs in commercial banks.

Franco (2014), a study to identify the major macroeconomic causes of nonperforming loans in the mortgage institutions in Kenya. Using descriptive survey research design and analysis of variance, the study found a significant strong and positive correlation between real interest rates and non-performing loans with a correlation coefficient of 0.7209 and a probability of 0.0001 which was less than the significance level of 5%. Addae-korankye (2014) investigated the causes and regulators of loan delinquency in microfinance institutions in Ghana. Employing random sampling technique with a sample of two hundred and fifty clients and twenty-five microfinance institutions, the study concluded on high interest rate as one of the causes of loan delinquency. Using descriptive research design and Ordinary Least Square Model for the year 1988 to 2013, Ting, Qun, Yee, Wei, and Cheng (2015), investigated on the relationship between bank credit risk with inflation rate, interest rate, gross domestic product (GDP), bank performance and required reserve in Malaysia banking sector. Inferential analyses showed interest rate is insignificantly but positively related to credit at 10% significance level. These confirms other past studies (Dash and Kabra, 2010; Ngetich and Wanjau, 2011).

Other studies showed a negative relationship. Park and Zhang (2012) investigated the effects of Bank-Specific Determinants of the U.S NPLs and macroeconomic variables. The results showed that the coefficient for interest rate was negative in relation to credit risk. Using fixed effect model, Gezu (2014) the found statistically significant negative impact of lending interest rate on NPL in Ethiopia. Using nine macroeconomic variables and time series data of NPLs ratio from 1990-2011 and OLS to test macroeconomic variables as determinants of NPLs in Pakistan, Ahmad and Bashir (2013) proved negative and significant association of interest rate with NPLs (r=-0.58).

2.3 Inflation Rate

Several studies have found inflation rate as a significant variable explaining loan delinquency with a positive relationship. Using panel vector autoregressive (VAR) estimation for the period 1998 to 2009 for a sample of 26 advanced economies, Nkusu (2011), found empirical evidence of positive correlation between inflation and NPLs. The study concluded one to one relationship between inflation and NPLs by the fourth year. Mileris (2012)

employed an OLS regression model for 22 European Union countries in years 2007-2011 and concluded on positive relationship between inflation and NPLs. Using a well-structured questionnaire Farhan *et al*. (2012) also concluded that Pakistani bankers perceive a positive relationship in top 10 Pakistani banks. Furthermore, Badar and Javid (2013), assessed dynamics between NPLs and macroeconomic variables from January 2002 to December 2011 of 36 commercial banks in Pakistan. The analysis was conducted by employing co-integration, Granger causality and vector error correction models. The study concluded a weak short run positive relationship between non-performing loans with inflation and exchange rate. Clementina and Isu (2014) proved that during inflation, borrowers find it difficult to pay back loans due to increasing cost of capital. Prasanna (2014) investigated the determinants NPLs in the Indian banking system by applying panel data modelling approach. By analyzing 31 Indian banks for the period of 2000 to 2012, the study found that higher interest and inflation rates contribute positively to rising NPLs. This is according to (Turan & Koskija, 2014). This study confirms previous studies by (Bonilla, 2012; Derbali, 2011; Ting *et al*. 2015).

However, inflation can also make debt servicing easier by reducing the real value of outstanding loans, hence negative relationship. Taking a descriptive design, Mboka (2013) sought to establish the effects of macro-economic variables on NPLs in 15 commercial banks in Kenya for the period 2003-2012 and found a negative relationship between inflation rate and NPLs in the banking sector. Taking a descriptive design, the study was based on a population of fifteen banks out of the existing forty-four commercial banks for the period of ten years 2003-2012. Systematic random sampling was employed, where secondary data was used as obtained from CBK database as all banks are expected to file their annual financial results with CBK. The research was both quantitative and qualitative in nature. The study found that a strong correlation existed between inflation and current account deficit. Using Fixed Effect Model and seven Central and Eastern European countries, Skarica (2014) studied on the determinants of NPLs in Central and Eastern European countries from 2007 to 2012. The findings reveal that inflation has negative impact. Similar findings were concluded in a recent study, (Washington (2014).The study claims that business will pass on the burden of inflation to the consumers during when inflation increases. This ensures the business can still repay their debts.

Contrary to the above findings, Okenyuri (2013) found no relationship between inflation and NPLs. Using annual data for the period 2003-2012, the study employed quantitative research design to find out the relationship between lending interest rate, interest rate spread, inflation rate and real GDP growth rate; and NPLs in the banking industry in Kenya. Based on quarterly data covering the period 2001:Q1 to 2014: Q2 and employing Vector Autocorrelation model, (Sheefeni, 2015), concluded that inflation rate is not significant in explaining non-performing loans in Namibia .

2.4 Foreign Exchange Rate

The increase in foreign exchange rate can reduce the competitiveness of export firms and unfavorably affect their ability to repay their loans. However, it can also improve the loan repayment ability of borrowers who borrow in foreign currency (Fofack, 2005). Using a simple linear regression function, Khemraj and Pasha (2009) investigated the determinants of NPLs in Guyana from 1994-2004. The study concluded a positive relationship. Zribi and Boujelbène (2011) analyze the internal and external factors determining the levels of bank credit risk-taking in Tunisia. The sample consists of a panel of 10 commercial banks over the period 1995 to 2008. The results showed that foreign exchange rate is statistically significant at a level of 1% with bank credit risk. Castro (2013) analyzed the link between banking credit risk and macroeconomic developments in Greece, Ireland, Portugal, Spain and Italy (GIPSI). By employing dynamic panel data approaches to these five countries over the period 1997q1-2011q3, the study found a positive relationship. While studying the factors affecting NPLs at the Commercial Bank of Africa (Kenya), Nkurrunah (2014) adopted a partly descriptive and a partly correlation research design and a population of 451 staff members working for CBA - Kenya. The study concluded that increase in exchange rate increases NPLS, hence positive relationship. Akinlo and Emmanuel (2014) looked at the determinants of NPLs in Nigeria utilizing annual data over the period 1981-2011. Employing logistic regression, the study concluded that in the short run, credits to the private sector, exchange rate, lending rate and stock market index are the main determinants of NPLs. Ouhibi, Ghabri, and Hammami (2017) analyzed the determinants of financial soundness indicators (non-performing loans) of the banking system in the Southern Mediterranean countries. In particular, a sample of six out of ten countries of the Southern Mediterranean (Tunisia, Morocco, Egypt, Lebanon, Jordan and Turkey) was analyzed. An ordinary least square (OLS) technique was applied on a general panel regression on the annual frequency for the period 2000 to 2013. A similar relationship was concluded.

Other studies have concluded on contrary findings. Beck, Jakubik, and Piloiu (2013) is a research that used a panel data technique to study the real GDP, exchange rates, lending interest rates, share prices and total banks' credit and nonperforming loans (NPLs) across 75 countries. The study concluded that exchange rate depreciation during 2007-2008 crisis contributed to a significant increase in NPLs in Ukraine in 2009 and 2010. Using a descriptive and a multidimensional statistical analysis for Romanian banking system from 2008 to 2013, Bucur and Dragomirescu

(2014) the study found a negative and significant relationship. (Nursechafia, 2014) is a study on Islamic financing sustainability, specifically in Indonesia using f co-integration and vector auto regression (VAR). Monthly data for the period October 2005 to May 2012 were used for analysis. It is found that the exchange rate negatively influence credit risk rate. Using annual data of all the 43 Commercial banks in Kenya for the period of 1990 to 2013 and OLS as the regression equation and applying an error correction Model on the equation and testing the values at 5% significance level, Washington (2014) found that in the long run, exchange rate is negatively and significantly related to credit risk.

The literature reviewed above varies significantly in terms of findings though there is a consensus regarding the macroeconomic factors affecting non-performing loans as identified in several studies. Notably, there are also different methodological approaches used in the studies. However, there seem to be no study on macroeconomic determinants for delinquent loans in the tea manufacturing companies in Kenya. Hence, this study intended to fill the gap and add to empirical literature for Kenya.

3.0 RESEARCH METHODOLOGY

This section defines the research design employed, the data collected and the model employed to explain the lending interest, inflation and foreign exchange rates relationship with loan delinquency in the tea manufacturing subsector in Kenya.

3.1 Research Design

The study adopted explanatory research design. According to Saunders, Lewis and Thornhill (2009), explanatory research emphasizes on studying a situation to explain (rather than just describing) the relationships between the variables. The study seeks to establish and explain the relationship between macroeconomic variables and loan delinquency in tea manufacturing companies managed by KTGA. The data was analysed using statistical techniques and determine the causal relationships through the analysis of correlations between variables.

3.2 Empirical Model

In order to explain the relationship of the macro-economic variables and delinquency of loans, the study employed multiple time series estimation based on Autoregressive Distributed Lag (ARDL) co-integrated technique. The regression model of the form below was applied, consistent with (Gezu, 2014; Chebiwott, 2010; Ting et al., 2015; Washington, 2014);

$Yt = \beta o + \beta Xt + \varepsilon t$

Where: - Yt is the dependent variable in quarter 't', β_0 is the constant term, β is the coefficient of the independent variables of the study, X is the independent in quarter 't' and εt the error term. The coefficients of the explanatory variable were estimated by the use of an Error Correction Model (ECM) to analyze the dynamic short term-relationships due to existence of co-integration. Based on the conceptual framework, the estimated model used was;

$LD_t = \beta_0 + \beta_1 \Delta LIR_t + \beta_2 \Delta IR_t + \beta_3 \Delta FER_t + e_t$ Where:

LD_{it} = The ratio of total gross delinquent loans to total gross loan and advances at quarter t; **β_0** is a constant which captures all other explanatory variables which affect loan delinquency , but are not captured in the model; **β_{1-3}** = Regression coefficients of LIR, IR and FER Δ = Difference operator; **LIR_t**, **IR_t**, **FER_t** represented average lending interest rate, average inflation rate and average Foreign Exchange rate at quarter t respectively; ***e*** the error term which is a disturbance, is the amount at which the equation may differ during empirical analysis due to intentionally/ unintentionally omitted or added variables.

3.3 Target Population and Data Collection

The population for this research was all the 16 tea manufacturing companies managed by KTGA. This formed the sampling frame for the study. These includes; James Finlay (Kenya) Limited, Williamson Tea K Limited (Changoi/Lelsa) Estate, Williamson Tea K Limited (Tinderet) Estate, Williamson Tea K Limited (Kaimosi) Estate, Kapchorua Tea Limited, Sotik Tea Company Limited, Kaisugu Limited, Nandi Tea Estates Limited, Kipkebe Limited, Karirana Tea Estates Limited, Kamiti Tea Limited, Gakoe Tea Limited, Mogusii Farmers Company Limited, Kerumbe Farm, Itibo Estate, and Emrok Tea (EPZ) Factory Limited (Kiarii, 2017). The study employed a census survey by studying all the 16 tea manufacturing companies managed by KTGA during the period under study.

The study used quarterly time series secondary data for the period 2008 to 2017 from the 16 tea manufacturing companies under KTGA. Secondary data on loan delinquency was collected using document review schedules from the companies under study, data on inflation and foreign exchange rates were collected from the KNBS website and data on CBR was collected from CBK website. The data was then fed in the schedules in readiness for data analysis.

4.0 RESULTS AND DISCUSSION

4.1 Empirical Results

Three independent variables (lending interest rate, inflation rate and foreign exchange rate) were regressed against loan delinquency which is the dependent variable. Long run relationship was determined using the general ARDL model. Secondly, both short run and long run effects were conducted using ECM mechanism which is considered to be the best fit model to obtain both short and long term relationships in one equation. The ARDL long run model was in the form of the following equation;

$$LD_{it} = \beta_0 + \beta_1 LIR_{it} + \beta_2 IR_{it} + \beta_3 FER_{it} + e_{it}$$

The relations between loan delinquency and the three independent variables were as follows;

$$\text{Loan delinquency} = 12.2 - 0.54\ LIR + 0.004\ IR + 0.043\ FER + e$$

The coefficient of determination (R_2) indicated that the explanatory variables explained 63.54% of the loan delinquency. The p-value (F-statistic) of 0.00000, which is less than at 5 % significance level, showed that the explanatory variables in the model are jointly statistically significant. A one unit change in lending interest rate produces a 0.54 unit negative change in loan delinquency, though statistically insignificant (p=0.51). A one unit change in inflation rate produces a 0.004 unit positive change in loan delinquency, though statistically insignificant (p=0.99). A one unit change in foreign exchange rate produces a 0.04 unit positive change in loan delinquency, though statistically insignificant (p=0.76). After the ARDL Cointegration equation was identified, the ARDL model of the cointegrating equation was reparametrized into an Error Correction model ECM) which combines short-run dynamics (traditional ARDL) and long run relationship of the variables of a single model.

Employing Error Correction mechanism (ECM), objectives of the study were determined. The ECM, considered to be the best fit model, was derived from ARDL model through a simple linear transformation. The associated ECM model employed the three optimal lags and differenced values of the variables to capture the data generating process. The model was in the form of the following equation;

$$LD_{it} = \beta_0 + \beta_{1\Delta} LIR_{it} + \beta_{2\Delta} IR_{it} + \beta_{3\Delta} FER_{it} + e_{it}$$

The relations between loan delinquency and the three independent variables were as follows;

$$LD = -0.71 - 2.01\ LIR_{t-1} - 6.25\ LIR_{t-2} + 0.26\ IR_{t-1} + 0.15\ FER_{t-1} - 0.22\ FER_{t-2} - 0.20\ e_{t-1}$$

The R_2 indicated that the explanatory variables explain 64.31% of the loan delinquency. This indicates that the regression model had a significant strong explanatory power as only 35.69% of variation in loan delinquency was not explained by the model. This significant correlation between dependent and explanatory variables was also concluded by other studies (Franco, 2014). The model had a p-value of 0.000295 indicating that the explanatory variables in the model are statistically significant and can influence loan delinquency jointly. All the three explanatory variables are significantly associated with non-performing loans as described below. This therefore means the model was fit.

The first objective of the study sought to determine the relationship between lending interest rate and loan delinquency. Lending interest rate is the basic factor that affects the repayment of loans. The regression results showed that there is a negative but significant relationship with a beta coefficient of -6.25 and a probability of 0.0024. The beta coefficient showed that a one unit increase in lending interest rate produces a 6.25 unit decrease in loan delinquency. The theoretical justification for this significant association is that higher lending rate curtails ability to borrow, which decreases the amount of loan and therefore reduces loan delinquency. These findings confirms other studies that found both negative and statistically significant relationship (Ahmad & Bashir, 2013; Gezu, 2014).

The second objective was to determine the relationship between inflation rate and loan delinquency. The findings indicate that the inflation rate and loan delinquency have positive and statistically significant (p=0.0034) relationship. A beta coefficient of 0.26 means a one unit increase in inflation rate leads to a 0.26 unit increase in loan delinquency. This may be explained by the fact that increased inflation can weaken the loan payment capacity of the borrowers by reducing the real income. Badar and Javid (2013) state that increase in inflation will force monetary regulators to conduct contractionary monetary policy. Central bank will raise interest rate to control inflation, however this action will lead to an increase in the cost of borrowing thus will decrease the borrower's ability to repay the loan. Nkusu (2011) further explains that inflation reduces the debt servicing capability as lenders adjust the lending interest rates to adjust their real return. Studies (Clementina and Isu 2014; Ting *et al*., 2015) similarly found positive and significant relationship between the two variables. Clementina and Isu (2014) conclude that the borrowers are difficult to repay their existing loans because the rising cost of capital during inflation period. (Farhan *et al*., 2012), a study on the economic determinants of non-performing loans in Pakistan, concluded on a positive (β = 1.381) and highly significant (p = 0.000) with non-performing loans.

The third objective of the study sought to determine the relationship between foreign exchange and loan delinquency. The findings indicate that the foreign exchange rate and loan delinquency have a negative, yet statistically significant (p=0.0003) relationship. A beta coefficient of -2.01 means that a one unit increase in foreign exchange produces a 2.01 unit decrease on loan delinquency. This is because as the real exchange rate increases, the tea sector earns more from exports and they are able to repay loan borrowed, hence decrease in loan delinquency; and the vice versa is true. Other studies confirm the same findings of negative and significant relationships (Beck et al., 2013; Bucur & Dragomirescu, 2014). Washington (2014) concluded on a positive though insignificant relationship between the two variables.

4.2 Diagnostic Tests

4.2.1 Stationarity/ Unit Root Test

In order to determine the model applicable for this research, the study conducted a stationarity test. Data is stationary when there is a constant pattern over time or inclination fluctuating around the average value (Gujarati & Porter, 2009). The study employed Augmented Dickey-Fuller (ADF), similar to Chebiwott (2010), to determine the existence of a unit root using the null hypothesis; Ho= Non-stationary/ unit root present. If the value of the ADF test statisctic is less than Mackinnon critical value at 5 % significance level, the study rejected the null hypothesis, meaning the data is stationary,hence no unit root. From the unit root test, two variables (IR and CBR) were stationary at level (IR; t-statistic of -4.61 >critical value of -2.94, CBR; t-statistic of -3.41 >critical value of -2.94) and the other three variables (LD, LIR and FER) were non-stationary at level or original values leading to first difference. The first difference of the three variables showed that they were integrated of order 1 and significant at 5 % in the ADF test. Other studies also had similar stationarity findings (Chebiwott, 2010; Washington, 2014). Chebiwott (2010) found all the variables (NSE 20 Share Index, Foreign exchange rate, Interest rate, money supply and Gross Domestic Product) were integrated of order 1, i.e. 1(1), except for inflation which was integrated of order zero, 1(0). This stationarity test where some variables are integrated of order zero 1(0), and other variables integrated of order 1 1(1), indicated the use of Autoregressive Distributed Lag (ARDL) model to estimate the extent of relationship between macroeconomic variables and loan delinquency in tea manufacturing companies managed by KTGA.

4.2.2 Multicollinearity Test

Multicollinearity indicates the existence of exact linear association among some or all explanatory variables in the regression model. It reduces the individual explanatory variables' predictive power because they share almost same information, hence highly correlated. (Theodros, 2011). The study employed Karl Pearson's coefficient of correlation (r) to determine presence or otherwise of multicollinearity. +1 indicates a perfect positive relationship, -1 a perfect negative relationship and 0 shows no correlation at all. 0.5 indicates no multicollinearity and those greater than 0.5 show degree of collinearity. Excess of 0.8 indicates serious multicollinearity (Bedru & Seid, 2005). Correlation coefficients showed no multicollinearity between the explanatory or independent variables since all the correlation coefficients (r) were below 0.5, except for lending interest rate and Central Bank Rate where the correlation coefficient was above 0.5 (r= 0.74). To avoid multicollinearity, CBR was dropped at this point and therefore the model was run without a control variable.

4.2.3 Co-integration Test

According to Nkoro and Uko (2016), Cointegration is an econometric concept that explores the presence or otherwise of a long-run equilibrium amongst economic time series that converges over time. Existence of long run relationship means that the means and variances are constant and not depending on time. Bound Cointegration testing technique was used to determine existence or otherwise of co- integration. H_0: No cointegration. Decision Rule: If the Wald F-Statistic, which is the computed F-statistic is above the upper critical value, Reject H_0, meaning

there is cointegration and therefore, long run relationships. If the Wald F-Statistic is between the lower and upper bound critical value, it is inconclusive. If the Wald F-Statistic is below the lower bound critical value, do not reject the H_0, hence there is no co-integration (Bahmani-Oskooee & Ng, 2002). Given the study had less than 100 observations, the critical values provided by Narayan (2007) were used.

In this study, the Wald F-Statistic was 5.20 above the upper critical value of 4.803, indicating existence of Cointegration and therefore long run relationships. Given the existence of Cointegration and hence long run relationships, ARDL model was found fit to run a long run model to determine the long run relationships between the explanatory and dependent variables. ARDL Cointegration technique is preferred when dealing with variables that are integrated of different orders, 1(0), 1 (1) (Nkoro & Uko, 2016).

4.2.4 Determination of optimal Lag

According to Gujarati and Porter (2009), a lag is a lapse of time in responding to the dependence of a dependent variable on another explanatory variable. Determining the optimal lag helps to ensure normal error terms do not suffer from non-normality, autocorrelation and heteroscedasticity. For this study, the selection of optimal lag was based on the shortest lag of Akaike Information Criterion (AIC) and Schwarz Information Criterion (SIC). The model gave three lags with the lowest AIC and SIC which were employed in the study.

4.2.5 Normality test

Histogram-normality test was done to check whether the error terms are normally distributed around a zero mean. Absence of this implies the estimates are these BLUE but the study cannot assess their statistical reliability by classical test of significance. Jarque-Bera (JB) statistic was used with the following null hypothesis. H_0: Error term is normally distributed. Decision Rule: Reject H_0 if p-value (probability) of JB statistic is less than significance level of 5%, otherwise, do not reject H_0. The probability (p-value) of JB was 0.55, which is greater than the 0.05 significance level, and thus fails to reject the null hypothesis and conclude that the residuals are normally distributed. Similar finds were concluded by a number of studies (Ahmad & Bashir, 2013; Chebiwott, 2010 (p= 0.7889); Washington, 2014). The errors were independently and identically distributed with zero mean and constant variance and therefore, the coefficient estimators were normally distributed with means equal to the corresponding coefficients and therefore the ARDL model fit for analysis.

4.2.6 Heteroscedasticity test

Heteroscedasticity is a situation where the variance of each error term is not the same for all values of the independent variable (Bedru & Seid, 2005). Presence of this makes hypotheses testing unreliable since the variances and errors are underestimated. This study used Breusch-Pagan-Godfrey test statistic which is a chi-squared test to test for Heteroscedasticity.

H_0: There is no Heteroscedasticity problem in the model. Decision Rule: Reject H_0 if p-value is less than significance level of 5 %. Otherwise, do not reject H_0. The p-value of the test statistic (p= 0.98), was greater than the significance level of 0.05 (5%), therefore, there was no heteroscedasticity. Similar finds were concluded by a number of studies (Ahmad & Bashir, 2013; Chebiwott, 2010; Ting *et al*., 2015).

4.2.7 Autocorrelation test

Autocorrelation is assumed that an independently distributed error term for a particular observation(or period) is not related to the error term of another observation (or period) i.e zero covariance, otherwise, the assumption of independence of error term will not hold (San, Yee, Sin, & Yi, 2015). According to Ting et al., 2015, where autocorrelation exist, the parameters in the model may lead to misleading results on the significance of parameters in the model. Breusch-Godfrey Serial Correlation LM Test was used to detect autocorrelation problem. The statistic is statistically more powerful than other statistics like Durbin-Watsons statistic. H_0: There is no autocorrelation problem in the model. Decision Rule: Reject H_0 if p-value is less than significance level. The Breusch-Godfrey Serial Correlation LM Test showed a probability of the F-statistic (p= 0.38) greater than significance level of 0.05; therefore, there is no autocorrelation. Similar findings were concluded by a number of studies (Ahmad & Bashir, 2013; Chebiwott, 2010; Ting *et al.*, 2015; Washington, 2014). This therefore means that the significance of parameters in the model will be accurate and not misleading since an independently distributed error term for a particular observation (or period) is not related to the error term of another observation.

5.0 CONCLUSION

Non-performing loans are dangerous not only for the economy of one country but also for the whole world as we have seen the financial crisis created by these loans in East Asian countries, America and Sub-Saharan Africa, so there is the need of the era to identify the factors responsible for non-performing loans; as researchers believe that

once we identify these factors then we can make policies to prevent any future happenings of these loans (Adebola, Wan Yusoff, & Dahalan, 2011). A huge volume of non-performing loans serve as preface to financial fragility. The purpose of this study was to investigate the relationship between lending interest, inflation and foreign exchange rates; and loan delinquency in the tea manufacturing companies managed by KTGA. Regression analyses depict negative relationships between lending interest rate, foreign exchange rate; and loan delinquency. Inflation rate has a positive relationship with loan delinquency. The p values (0.0025 for lending interest rate, 0.0034 for inflation rate and 0.0044 for foreign exchange rate), depicts statistically significant relationships between the three independent variables and loan delinquency as the dependent variable.

From the findings above, macro-economic environment is very critical for loan delinquency in the tea sector in Kenya. The above findings are an eye-opener to the regulators even as they regulate the market to ensure stability and growth of economy; to ensure the above macroeconomic variables are regulated to limit or avoid loan delinquency in the tea sector. For example, in order to minimize loan delinquency, the regulations can increase lending interest rate. Increased inflation rate translates to increased loan delinquency. The regulators should regulate the economy to curb inflation. These above aspects must be monitored by the regulators and they should take fiscal and monetary measures in a such a way that the macroeconomic variables may be recovered back and could not hurt the tea sector profitability and liquidity to a greater extend, affecting loan delinquency in the sector.

From the analyses, all the three explanatory variables are significant in influencing loan delinquency in the tea sector. However, lending interest rate has the greatest impact on loan delinquency. A unit increase in lending interest rate produces a 6.25 unit decrease in loan delinquency as per the results of the study. The policy makers can use this information to adjust lending interest rate accordingly. Inflation rate coms second with a positive 0.26 unit change on loan delinquency. Foreign exchange produces a negative 0.22 unit change on loan delinquency in the tea sector. The Government should therefore regulate the three variables in order of coefficients given all depicts significant relationships.

Lending institutions can also lend more to the tea sector when foreign exchange rate is high because tea being a leading export earner, the tea manufacturing companies earn more from higher foreign exchange rate and are likely to repay their loans more. The above study was done for a period of ten years on quarterly time series. It was also based on three macroeconomic variables on Tea Sector. Other studies can be done for longer period and a different sector based on more economic variables. Besides macroeconomic forces, there are other factors contributing to loan delinquency in the tea sector, which can be ascertained in future research such as regulatory weaknesses, internal factors, corruption, mergers and acquisitions and institutional stability.

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THE INFLUENCE OF MONITORING AND EVALUATION ON THE PERFORMANCE OF NON GOVERNMENTAL ORGANIZATION'S PROJECTS IN BUSIACOUNTY, KENYA

KHAEMBA NASIMIYU JACKLINE

ABSTRACT

The aim of the study was to establish the influence of monitoring and evaluation on performance of Non-Governmental Organizations (NGOs) projects in Busia County Kenya, and use the results to come up with recommendations to improve the performance of NGOs projects. The objectives of the study were to assess the extent of involvement of stakeholders in M&E process influences performance of NGOs projects, to establish the extent to which budgetary allocation in M&E influences of performance of NGOs projects, to investigate how use of M&E findings influence the performance of NGOs projects and to determine the influence of M&E plan on the performance of NGOs projects. The study adopted a descriptive research design. The target population for the study was 22 NGOs. The study used stratified random sampling to select 40% of the target population. The sample size of the study was 85 respondents, fifty one (51) project committee members and eighteen (18) project leaders, seven (7) NGOs M&E and nine (9) community leaders). A structured questionnaire was used to collect primary data. Qualitative data was analyzed by use of content analysis and presented in a prose form while quantitative data was analyzed by use of Statistical Package for Social Sciences (SPSS) version 21 and presented in tables, graphs and charts.

The study found that M &E contributes to project performance with all the independent variables(stakeholders involvement, budgetary allocation , M & E findings, and M & E plan) recording a high average rating. Spearman correlation showed a positive relationship between M&E parameters (stakeholder's involvement, budgetary allocation, M & E findings, and M & E plan) and project performance. Based on the findings, it can be concluded that the monitoring and evaluation have positive impact on projects performance in NGOs and should be institutionalized in NGOs.

CHAPTER ONE: INTRODUCTION

1.1Background of the study

Non-Governmental Organizations (NGOs) have been viewed to be playing a vital role in both national and international development by initiating projects which play a pivotal role in enabling development locally, regionally and nationally

According to International Society for Performance Improvement (ISPI, 2006) , theories that were developed by economists in 18th and 17th century explained the performance and earliest changes of people that lead to the yield of more by inventing things such as early tools and iron.

The South Africa National Evaluation Policy Framework (NEPF) is current out of three previously introduced policies elements exhibited to the Policy Framework of the Government in which Wide Monitoring and Evaluation System, was accepted by the 2005 Cabinet

In Kenya, the Public Benefit Organization Act, 2013 initial program, part II section 13 on monitoring, evaluation and reporting, emphasizes on team work in companies via outcome versed leadership for the purposes of consumer satisfaction, start clear reporting rules also ensure use of indicators for monitoring and evaluation for growth and successful outcome of their activities.

Ike, Diallo&Thuillier (2012) argue that many of the projects in Kenya have underperformed in terms of what is to be delivered within the expected time frame, quality and budget.

1.1.1 Non-Governmental Projects in Busia County

A project is an exemplary set of activities with related tasks and defined objectives with allocated resources and funds in order to uplift living standards of people within a specified period of time (Gray, 2008).

Despite massive funding by international donors, NGOs projects are still underperforming in Busia County (Busia County report, 2013).

1.2 Statement of the Problem

From the studies background, there is evidence pointing out that project underperformance is still a major weakness in most developing countries as most of the projects implemented at massive costs often show underperformance. A study done by Nyika (2012) established that, 79.2 % of projects perform poorly.

Despite massive funding by international donors, NGOs projects are still underperforming in Busia County (Busia county report, 2013).

1.3 Objectives of the study

The objective of this study was to determine the influence of Monitoring and Evaluation to the Performance of Non-Governmental projects in Busia County, Kenya.

1.3.2 Specific objectives

This study was therefore to take into account the following objectives:

i. To assess stakeholders involvement in monitoring and evaluation process and their influence on the performance of Non-Governmental Organizations in Busia county, Kenya
ii. To establish the extent to which budgetary allocation in monitoring and evaluation influence the performance of Non-Governmental Organization's Projects in Busia County, Kenya
iii. To establish the extent to which how use of monitoring and Evaluation findings influence the performance of Non-Governmental Organization's Projects in Busia County, Kenya.
iv. To determine the influence of monitoring and evaluation plan on the performance ofNon-Governmental organization's Projects in Busia County, Kenya.

1.4 Research questions

The study was guided by the following research questions:

iii. What is the influence of involvement of stakeholders in monitoring and evaluation process on the performance of Non-Governmental Organization's Projects in Busia County, Kenya?
iv. To what extent does budgetary allocation in monitoring and evaluation influence the performance of Non-Governmental organization's Projects in Busia County, Kenya?

v. To what extent does monitoring and evaluation findings influence the performance of Non-Governmental organization's Projects in Busia County, Kenya?

vi. How does monitoring and evaluation plan influence the performance of Non-Governmental organization's Projects in Busia County, Kenya?

1.5 Significance of the Study

The researcher expects that these research outcomes will give Busia County organizations employees with vital data which will be used while reporting to the donors and thus determining how projects will be funded by donors in future.

2.5 The Conceptual Framework

The independent variable in the conceptual framework consists of four dependent variables of Monitoring and evaluation, namely involvement of stake holders, budgetary allocation, use of monitoring and evaluation findings and M&E plan.

INDEPENDENT VARIABLES
MONITORING AND EVALUATION

DEPENDENT VARIABLE
PROJECT PERFORMANCE

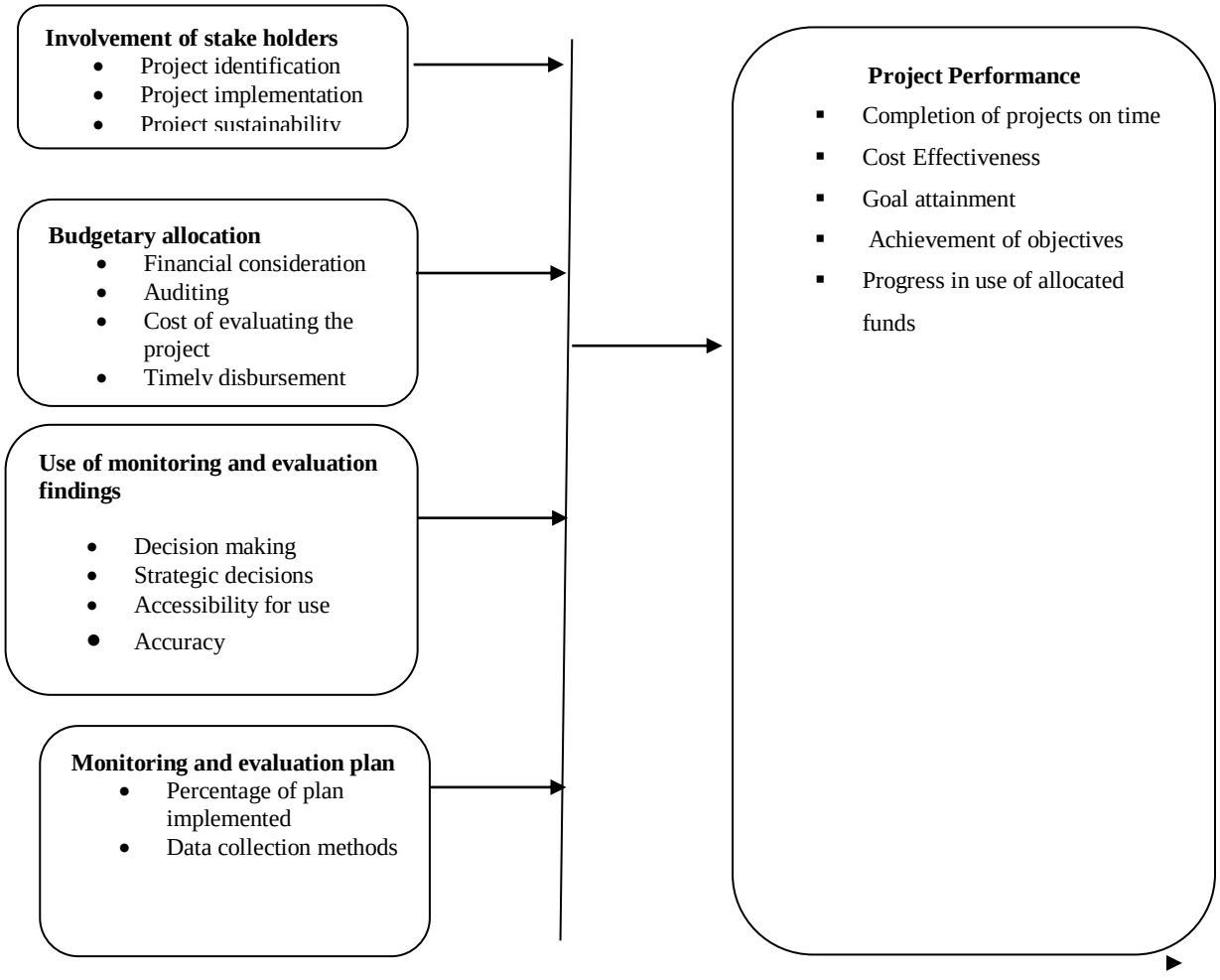

Figure 2.4 Conceptual Framework

RESEARCH METHODOLOGY

3.1 Introduction

This section describes the research design, target population, sample size and sampling techniques, data collection instruments, validity of the instruments, reliability of instruments, data collection procedures and data analysis procedures.

3.2 Research design

The research used a descriptive research design these is where various variables were looked into without any manipulation or alteration. Descriptive survey is a method of collecting data by interviewing or giving out questionnaire to a sample of individuals (Orodho, 2004).

3.3 Target population

The study targeted 22 NGOs projects to be implemented in Busia County. The population for this study was NGOs M& E Committee members 17, project leaders 43, Project Committee members 128 and 22 Community Leaders drawn from the seven sub counties of Busia county.

Table 3.13 Population Target population category

	Nambale Sub county	**Matayos Sub county**	**BunyalaSub county**	**Teso North**	**Samia Sub county**	**Butula Sub county**	**Teso South**	**Target population**
NGO M&E Committee members	3	2	2	3	3	2	2	17
Project leaders	7	5	5	7	5	6	8	43
Project committee members	20	20	17	20	18	15	18	128
Community leaders	2	2	6	2	5	3	2	22
Total	**32**	**29**	**30**	**32**	**31**	**26**	**30**	**334**

Source: (Busia County Report, 2013)

3.4 Sampling procedure

Participants were drawn from all sub counties of Busia County. The research used stratified random sampling technique in order to get the number of participants for the study. Gay (2005) points out a sample

of 10%-40% is considered adequate for an in depth study in a descriptive research. In this study, 40% of the sample was considered.

Table 3.14 Sample size Target population

Category	Nambale sub county	Matayos Sub county	Bunyala sub county	Teso North	Samia Sub county	Butula Sub county	Teso South	Sample size
CDF M&E Committee members	1	1	1	1	1	1	1	7
Project leaders	3	2	2	3	2	3	3	18
Project committee members	8	8	7	8	7	6	7	51
Community leaders	1	1	2	1	2	1	1	9
Total	**13**	**12**	**12**	**13**	**12**	**11**	**12**	**85**

Source: Author 2018

3.5 Research instruments

This study used questionnaires to uphold confidentiality, saved time and was not bias. The questionnaire had two main parts, one part was to seek data on the respondent, and part two was to seek data on performance in project management. (Kothari, 2005).

3.6 Instrument validity and reliability

This study used content validity, which is the degree to which the content of a given test are related to the traits for which it is designed to measure (Best & Kahn, 2016).

For purposes of ensuring validity of the questionnaires used in the study, the researcher involved supervisors in discussions concerning the contents of the instrument. This study selected a pilot group of 10% of the sampled 20 NGOs to involve two in the Busia-county (Kothari, 2005). To determine the coefficient of reliability, Cronbach's alpha was calculated by application of Statistical Package for Social Sciences (SPSS).

3.8 Data Collection Procedure

The researcher obtained permission to carry out the study from Kenyatta University, through the academic supervisor thus, applied for a research permit from the National Council for Science and Technology.

Selected NGOs were visited by the researcher and the assistants. Managers were explained to the aim and nature of the study before they consent to participate. The researcher administered the questionnaires to the managers. They were given assurance that the information given was to be confidential verbally and that the information gathered was to be used for academic purpose only.

3.9 Data Analysis

Data collected was coded and descriptive statistics of percentages, means and frequencies was used to report the data. The findings of the analysis were reported in summary form using frequency tables and the responses from various respondents compared. The researcher also used multiple regression analysis to establish the strength of the relationship between the dependent and independent variables.

The multiple regression equation is:

$$\mathbf{Y= \beta 0+ \beta 1X1+\beta 2X2+ \beta 3X3+ \beta 4X4+\alpha}$$

Where: Y is the dependent variable (performance of NGO projects),

β0is the regression coefficient/constant/Y-intercept,

β1, β2, β3 and **β4** are the slopes of the regression equation,

X1 is M&E involvement by stakeholders

X2 is M&E Budgetary allocation

X3 is Utilization of M&E Findings

X4 is M&E plan

A is an error term normally distributed about a mean of 0 and for purpose of computation, the α is assumed to be 0.

3.10 Ethical Considerations

The researcher sought permission from National Council for science and Technology (NCST. The researcher conducted visits to NGOs with purposes of informing the respondents the importance of the intended research, what role they would play and then sought for their informed consent to be involved in the study. The researcher gave assurance the respondents of confidentiality. The researcher sought permission from senior management to involve the managers.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

The current chapter presents the results of the primary data which was collected through the use of closed ended questionnaires. Both descriptive and inferential statistics were used to analyze the data. The results were presented starting with the demographic data of the sampled respondents followed by the study objectives presented thematically.

Correlation analysis was used to show the strength of the relationship between project performance and strength of stake holder's involvement, budgetary allocation, use of M& E findings, M&E plan.

4.2 Response rate

A sample of 85 participants was established, data was collected in line with influence of monitoring and evaluation on performance of NGO's projects in Busia County Kenya.

Table 4.1 Response rate

Response	Frequency	Percentage
Responded	67	78.82%
Not responded	18	21.17%
Total	85	100%

Source: Author 2018

4.2 Monitoring and Evaluation on its staff

The study was meant to determine whether the organization has conducted monitoring and evaluation on its staff. Results on the distribution are shown below.

Table 4.15 Distribution of Respondents by Monitoring and Evaluation on Staff

Category	Frequency	Percentage
No	10	14.93
Yes	57	85.07
TOTAL	67	100.00

Source: Author 2018

Majority of the respondents 85.07% revealed that their NGOs have carried out M&E process.

4.3.8 Whether M&E was based on need

Table 4.16 Distribution of respondents based on M & E need

Based on need	Frequency	Percentage
Partially	18	26.87
Correct	34	50.75
Not really	8	11.94
Doubtful	7	10.45
TOTAL	**67**	**100.00**

Source: Author 2018

50.75% of the respondents who were the majority believed that M&E process was based on the needs assessment.

4.4 Influence of Stakeholders involvement in M&E Process on the Performance of NGOs

Table 4.17 How Involvement of Stakeholder in M & E Process Influence on Performance of NGOs

	Not at all	Strongly Disagree	Disagree	Agree	Strongly Agree	MEAN SD
	N (%)	n (%)	n (%)	N (%)	n (%)	
My NGO supports active involvement in M&E process	2 (3.2)	4 (5.3)	4 (6.1)	34 (50.4)	23 (35)	4.07 (0.951)
Stakeholders participate in every stage of project management	7 (10.2)	8 (11.2)	8 (12.3)	27 (40.6)	17 (25.7)	3.58 (1.271)

Monitoring and evaluation process is frequent in my organization	2 (2.9)	2 (3.2)	3 (5.1)	34 (50.2)	26 (38.6)	4.19 (0.885)
Participation in my organization enhance performance	2 (3.2)	4 (6.1)	3 (4.2)	32 (47.5)	26 (39)	4.13 (0.960)
The organization conducts M & E programs that enhance teamwork	2 (2.4)	2 (3.6)	2 (2.9)	35 (52.6)	26 (38.5)	4.21 (0.873)
There is a collaborative approach to management among the various stakeholders	1 (2.2)	2 (2.4)	10 (14.6)	27 (40.2)	27 (40.2)	4.15 (0.885)
There has been a number of regular reporting to stakeholders	5 (7.6)	8 (12.1)	11 (16.2)	25 (37.9)	17 (25.6)	3.64 (1.205)
My NGO monitors the performance of stakeholders	3 (4.6)	4 (6.7)	7 (10.9)	34 (51.4)	18 (26.4)	3.93 (1.012)
Project manager monitor the processes and measures progress at team levels	2 (3.6)	5 (7.1)	8 (12.3)	33 (49.6)	18 (27.4)	3.93 (0.982)
Mean Response						3.98

Source: Author 2018

From the study outcomes, most of the participants accepted that the organization conducts M & E programs that teach teamwork and co-operation required for the programme by a mean of 4.21,Monitoring and evaluation process is frequent and functional in their organization as shown by a mean of 4.19, ,Participation in my organization enhance quality, efficiency, sustainability and effectiveness as shown by a mean of 4.13.Their NGO allowed and supported active involvement within the monitoring and evaluation process by a mean 4.07. Others agreed that their NGOs looks into performance of partners as shown by a mean of 3.93 and that Project manager monitor the processes and measures progress, both qualitatively and quantitatively, throughout the project at individual, team and whole project levels as shown by a mean of 3.93.There has been a number of frequent presentation of findings reporting to the national government agencies on the nature of services given to the public as shown by a mean of 3.64. involvement of interested parties at all levels of the project is shown by mean of 3.58.

4.5 Budgetary Allocation in M & E Influence on Performance of NGOS

The second objective of this study was to assess the extent to which budget allocation influence the performance of NGOs projects in Busia County.

Table 4.18 Budgetary Allocation in M & E Influence on Performance of NGOs

How budget allocated influence performance of NGOs projects in Busia County	**Very low Extent %** (n)	**Low Extent%** (n)	**Moderately High Extent%** (n)	**High Extent%** (n)	**Very High Extent%** (n)	Mean SD
Challenges of performance is lack of accountability for monitoring on performance	3 (2)	5 (3)	12.6 (8)	38.4 (26)	41 (27)	4.12 (0.985)
Monitoring and evaluation budget should be about 5 to 10 percent of the entire budget	10.2 (7)	14.1 (9)	14.1 (9)	25.4 (17)	37.3 (25)	3.66 (1.366)
The project budget should give provision for monitoring and evaluation	3.1 (2)	7 (5)	24.3 (16)	40.2 (27)	25.4 (17)	3.78 (1.004)
Monitoring and evaluation budget can be put in the overall project budget	6.1 (4)	17.2 (12)	24.3 (16)	36.7 (25)	15.7 (11)	3.37 (1.132)

Mean Response

Source: Author 2018

Result show that majority of the respondents with a mean of 4.12 reported that there was a high extent on challenges of performance monitoring in government. A mean of 3.66 of the respondents argued that monitoring and evaluation budget should be about 5 to 10 percent of the entire budget had a high extent on project performance. A mean of 3.78 of the respondents argued that the project budget should provide a

clear and adequate provision for monitoring and evaluation events since it had a high extent on project performance. Mean of 3.37 of the respondents reported that there was moderately high extent on project performance if monitoring and evaluation budget can be obviously delineated within the overall project budget to give the monitoring and evaluation function.

4.6 How Use of M&E Findings Influence the Performance of NGOS

The researcher further sought to ascertain the level of satisfaction in utilization of M&E findings through that leads to the performance of NGOs project in Busia County. Table 4.12 below gives detailed results.

Table 4.19 How Use of M & E Findings Influence the performance of NGOs

How use of M & E findings influence the performance of NGOs	**SD%** (n)	**D%** (n)	**N%** (n)	**A%** (n)	**SA%** (n)	Mean (SD)
Decisions are made purely based on the collected information	3.2 (2)	6.1 (4)	16.5 (11)	36.9 (25)	36.9 (25)	4.00 (1.0221)
M & E information has been valuable for learning purposes	2.9 (2)	4.1 (3)	10.9 (7)	47.8 (32)	34.9 (23)	4.06 (0.9440)
The department finds M & E information utilization essential for project performance	3.3 (2)	3.3 (2)	9.8 (7)	51.2 (34)	33.4 (22)	4.07 (0.9029)
As a manager, i can contribute to the promotion of information in monitoring of NGOs projects	1.9 (1)	2.6 (2)	1.9 (1)	59.6 (40)	33.8 (23)	4.22 (0.7495)
Mean Response						

Source: Author 2018

Result shows that majority of the respondents with a mean of 4.22 agreed that as a managers, involved in management processes. A mean of 4.07 of the respondents also agreed that departments find M & E information reporting and utilization essential for project performance. A mean of 4.06 of the respondents agreed that M& E information has been valuable for learning purposes a mean of 4.00 of the respondents agreed that decisions are made purely based on the collected information.

4.7 M & E Plan and Project Performance

The fourth objective of this study was to assess the extent to M&E plan influence the performance of NGOs projects in Busia County

Table 4.20 How M & E Plan influence Project Performance

M & E plan and project performance	Very Low Extent % (n)	Low Extent % (n)	Moderately High Extent % (n)	High Extent % (n)	Very High Extent % (n)	Mean SD
Speed in deployment of project resources	8.4 (6)	10.9 (7)	15.2 (10)	33.9 (23)	31.6 (21)	3.69 (1.2602)
Effect on ease of project staffing	8.2 (5)	10.3 (7)	14.6 (10)	36.2 (24)	30.7 (21)	3.73 (1.2165)
Effect on adequacy of scheduling	3 (2)	6.2 (4)	16.2 (11)	40.7 (27)	33.9 (23)	3.97 (1.0069)
Impact on project stakeholders, understanding of project timelines	2.4 (2)	9 (6)	25.6 (17)	35.9 (24)	27.1 (18)	3.75 (1.0416)
Appropriate data collection methods specified	7.4 (5)	23.1 (15)	24.2 (16)	30.2 (20)	15.1 (10)	3.25 (1.1887)
Mean Response						3.68

Source: Author 2018

Majority of the respondents with a mean of 3.97 reported that Effect on adequacy of scheduling has high extent on project performance followed a mean of 3.75 Impact on project stakeholders, understanding of project timelines who reported to high extent. Thirdly, a mean of 3.73 reported that Effect on ease of project staffing has high extent on project performance; with a mean of 3.69speed in deployment of project resources had high extent on project performance. Moreover, a mean of 3.25 reported that it had to moderate high extent appropriate data collection methods specified.

4.8 NGO Performance

Table 4.12 presents information on project performance as reported by the evaluation officers and project officers altogether.

Table 4.21 NGO Performance

NGO Performance	1 (n)	2 (n)	3 (n)	4 (n)	5 (n)	Mean Standard Deviation
Ability to M&E has greatly improved performance	1.9 (1)	2.4 (2)	37.2 (25)	28.6 (19)	29.9 (20)	3.82 (0.9451)
M&E contributed to completion of tasks on time	2.6 (2)	2.1 (1)	27.7 (19)	40.3 (27)	27.3 (18)	3.87 (0.9287)
M & E practices has contributed to efficiency and effectiveness	2.1 (1)	2.7 (2)	29.2 (20)	37.6 (25)	28.4 (19)	3.88 (0.9064)
M&E has led to project sustainability	1.6 (1)	2.9 (2)	30.2 (20)	31.7 (21)	33.6 (23)	3.94 (0.9444)
Training of staff on M & E has led to improved performance	1.9 (1)	2.6 (2)	33.4 (22)	33.4 (22)	29.8 (20)	3.87 (0.9287)

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Source: Author 2018

1. Decreased, 2. Remained Constant, 3. Increased, 4. Moderately Increased and 5. Highly Increased

Majority of the respondents with a mean of 3.94 reported that Monitoring and evaluation has led to project sustainability thus enhanced performance to a high extent. It was followed by a mean of 3.88 who responded that NGO M & E practices has contributed highly to efficiency and effectiveness to a high extent. Thirdly a mean of 3.87 reported that properly trained staff on M & E has led to improved organizational performance and Monitoring and evaluation contributed to completion of tasks on time to a high extent. Moreover, a mean of 3.82reported that a high extendibility to monitor and evaluate work in an organized manner by all staff members has greatly improved performance.

4.9 Correlation Analysis

The analysis of correlation results between project performance and Involvement of Stakeholder gives a positive coefficient 0.858, with a p-value of 0.000. This implies that there is significance at α =5% that if stake holders involvement is increased then; it will impact positively on project performance. The correlation results between, budget allocated to M&E and project performance also indicates the same type of result p-value of 0.000, a correlation coefficient of 0.941, significant at α = 5%. The results also suggest use of M & E findings influence and project performance with a correlation coefficient of 0.869, and a p-value of 0.000. Further, the result shows a positive relationship between M & E plan and project performance with a correlation coefficient of 0.933, with a p-value of 0.000

Table 4.22 Correlation of NGO Performance with M & E Parameters

		NGO Performance	Involvement of Stakeholder	Budget allocated	Use of M & E findings	M & E plan
NGO Performance	Spearman Correlation	1				
	Sig. (2-tailed)					
Involvement of Stakeholder	Spearman Correlation	.858**	1			
	Sig. (2-tailed)	.000				
Budget allocated	Spearman Correlation	.941**	.926**	1		
	Sig. (2-tailed)	.000	.000			
Use of M & E findings	Spearman Correlation	.869**	.968**	.926**	1	
	Sig. (2-tailed)	.000	.000	.000		
M & E plan	Spearman Correlation	.933**	.914**	.975**	.915**	1
	Sig. (2-tailed)	.000	.000	.000	.000	

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

4.10 Multiple Regression Analysis

Table 4.23 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the estimate
1	0.896	0.803	0.705	0.241

Adjusted R squared is coefficient of determination which tells us the variation in the NGOs project performance due to changes in the stakeholders' involvement, budgetary allocation in M&E, use of M&E findings and M&E plans. From the findings in the above table the value of adjusted R squared was 0.705 an indication that there was a variation of 70.5% on performance of NGO projects in Busia County Kenya due to changes in M&E involvement by stakeholders, budgetary allocation in M&E, utilization of M&E findings and M&E plans at 95 percent confidence interval. It is evidence that 70.5%changes on performance of NGO projects in Busia County could be accounted to M&E involvement by stakeholders; M&E budgetary allocation, M&E plans, and utilization of M&E findings.

Table 4.24 Analysis of Variance

Model	Sum of Squares	df	Mean Squares	F	Sig.
Regression	5.56	4	1.39	8.17	0.001
Residual	10.548	62	0.1701		
Total	16.108	66			

Critical value = 1.58

From the ANOVA statistics, the study established the regression model had a high significance level ($p<0.01$) at 99% confidence interval which is an indication that the data was ideal for making a conclusion on the population parameters. The calculated value was greater than the critical value (8.17>1.58) an indication that M&E involvement by stakeholders, M&E budgetary allocation, M&E plans, and utilization of M&E findings all have a significant influence on performance of NGO projects in Busia County. The significance value was less than 0.05 indicating that the model was significant.

Table 4.25 Regression Coefficients

Model	Un standardized Coefficient		Standardized Coefficient	T	Sig.
	B	Std. Error	Beta		
(Constant)	1.376	1.036		1.486	0.001
M&E Involvement By Stakeholders	0.435**	0.108	0.198	4.345	0.02
M&E Budgetary allocation	0.412**	0.097	0.205	4.231	0.031
Utilization of M&E Findings	0.416**	0.087	0.216	4.654	0.04
M&E plan	0.408***	0.112	0.251	3.607	0.001

Key** and*** =significant at 5% and 1% level respectively

From the data in the above table the established regression equation was

Y = 1.376 + 0.435X1 + 0.412X2 + 0.416 X3 + 0.408 X4

Regression equation findings noted that holding M&E involvement by stakeholders, M&E budgetary allocation, utilization of M&E findings and M&E plans to a constant zero, the performance of NGO projects in Busia County would be at 1.376, a unit increase in M&E involvement by performance of NGO projects in Busia County stakeholders would lead to an increase on by a factor of 0.435, a unit increase in M&E budgetary allocation would lead to increase on performance of NGO projects in Busia county by 0.412, a unit increase in utilization of M&E findings would lead to increase on performance of NGO projects in Busia County by a factor of 0.416, and a unit increase in M&E plans would lead to an increase performance of NGO projects in BusiaCounty by 0.408. All the variables were significant as their significant value was less than ($p<0.05$).

SUMMARY OF THE FINDINGS, DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

Summary of findings

The outcome of the research was based on are the basis of conclusions and recommendations by a response rate of over 70%.

The first objective of the study was to assess how stakeholder's involvement influences project performance. The research found out that stakeholder involvement influences project performance positively .Correlation analysis between stakeholder involvement and project performance was also strong and positive (average 0.858).

The second objective of the study was to establish how budgetary allocation influence project performance. According to the respondents based on the statement average rating on the influence of budgetary allocation on project performance was high at 3.73 out of 5with a strong positive correlation of a magnitude of 0.941

Another objective was to look into how M&E findings influence project performance. based on this the rating on how M&E findings influence project performance was high at 4.08. It also showed a high positive correlation of magnitude 0.869

The fourth objective of the study was to establish how monitoring and evaluation plans influence project performance. This is a very important aspect of M&E planning of which response rate was high (3.68 out of 5). Correlation analysis between M&E planning and project performance also indicated a high magnitude of positive correlation (0.933).

Discussion of the Findings

The foregoing findings of the study indicates nature of which M&E influences project performance.

Stakeholder involvement and Project Performance

The study found out involvement of stakeholders in monitoring and evaluation influenced project performance by a factor of 0.435as it would lead to empowerment and increase accountability.

Monitoring and Evaluation Planning and Project Performance

Research findings indicated that involving planning in M&E can lead improve performance of NGO projects in Busia County by a factor of 0.416.

Budgetary allocation

Research findings indicated that involving in M&E budgetary allocation can improve the performance of NGO projects in Busia County by factor of 0.421.

M&E findings and Project Performance

Action Aid, (2008) noted M&E findings should be relayed in order to know the current status during project execution. Without relaying periodic findings, it is hard to know the impact that a project would have when its done.

Conclusion of the study

As per the outcome of the research it can be concluded that all the independent variables in the study influences NGOs projects performance (dependent variable).

Recommendations of the study

From the findings, stakeholders' interests need to be factored in for better performance of NGOs project. Key consumers must be involved at every stage of program execution.

As revealed by this study, the study recommends that organizations should increasing budgetary allocation to trigger high performance in NGOs since the relationship was established to be significant and positive.

Suggestions for further research

The research shows more study fields that various researches can be conducted. Precisely the suggestions below can be put into consideration:

1. A replication of same research in various counties in the country, to identify other factors influencing the performance of NGOs projects.

2. Analysis of different types of monitoring and evaluation among NGOs and its effect on performance.

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ABSTRACT

The study was conducted to investigate the effects of staff development interventions on firm level performance of humanitarian organizations in Nairobi, Kenya. Changes in the business landscape have resulted in organizations adopting different strategies to improve their performance. The humanitarian sector is experiencing increased numbers of people requiring humanitarian assistance, increased accountability requirements and competition for scarce funding resources. These have resulted in pressure for each business unit to demonstrate accountability, for expenditures, and investments, and contribution to firm-level performance. Staff development is viewed as one of the drivers of competitive advantage and firm-level performance. Huge investments in staff development are being made but organizations do not go to great lengths to demonstrate the value and contribution to firm-level performance. The need to implement a firm-level performance measurement approach becomes imperative to substantiate the relationship and demonstrate significance between firm-level performance and human capital investment decisions. The study was an exploratory research using the Phillips Evaluation Framework. Staff *(N=15)* enrolled in the humanitarian skills development programme, in 2017, and their supervisors *(N=7)* were the target population. Samples were selected using a stratified random sampling approach. Data was collected by administering questionnaires *(α=.84).* Independent t-tests conducted showed no significant differences between the responses of the two groups of respondents. The satisfaction levels were high, the levels of learning application were high, the benefits of learning application were high and these benefits were higher than the cost incurred *(Cost benefit ratio 1.71 and 2.40)*. There was positive correlation *(r=.31, r=.35 and r=.22)* between satisfaction levels, learning application, benefits of learning application and firm-level performance. The staff development initiative was effective in enhancing staff capacity, it represented value for money for the organization and it influenced the quality of humanitarian assistance by the organization.

KEYWORDS

Firm-level performance, staff development, cost, benefit, humanitarian response, accountability, value for money

INTRODUCTION

Technological advancement, globalization and increasingly diverse workforces have made the business environment to become very dynamic, placing increasing pressure on organizations to develop and implement strategies that will help maintain their competitive advantages. Change in organizational structures, business process re-engineering and the re-invention of business functions are among some of the strategies adopted by organizations. Narrowing down to the humanitarian sector, a sector whose main aim is to provide life-saving assistance to people in need, the operating environment is compounded by the increased number of people requiring assistance due to rapid changes in climate patterns, global migration related challenges and political crisis in different parts of the world (Development, 2015). The Active Learning Network for Accountability and Performance in Humanitarian Action's (ALNAP) report on the state of the humanitarian system (ALNAP, 2015) found continued gaps in humanitarian coverage despite increased levels of funding. Across all sectors, the different business functions, sales and marketing, operations, human resources and finance, are increasingly being judged by their contribution to firm level performance. For the humanitarian sector, given the increasing pressure on humanitarian organizations to deliver timely and quality humanitarian assistance, it is imperative for them to devise means and ways of improving effectiveness across business units that will translate to firm-level performance. Like other functions, it is now imperative for human resource professionals to demonstrate the positive impact and contribution of their function to firm-level performance. To make a strategic contribution and to deliver value through strategy execution and human capital administrative efficiency.

Staff development is one of the components of the human resource function that is receiving more attention and is taking on a greater role in firm-level performance. This strategic role is affirmed by Cornachione (2010) who highlights the constant focus of human resources development professionals on investment decisions related to development of human capital, via its interventions. Nadler (1990), defined staff development as "organized learning experiences in a definite time period to increase the possibility of improving job performance [and] growth." Part of the attention is in the form of increased funding allocations as staff development is viewed as a driver for competitive advantage (Phillips, 2003). The increased resource deployments on staff development have seen a corresponding increase in accountability requirements. This is similar in the humanitarian sector where ALNAP (2015) noted that human resources are increasingly being recognized as a central determining factor in effective humanitarian action and with this acknowledgement comes the need to invest more in staff development, (People In Aid, 2014).

When the focus is set on staff development interventions as a driver of competitive advantage and firm-level performance, then the evaluation data spans beyond the human resources function. It should aim to provide information that feeds into the information architecture that facilitates investment decision processes at the strategic level. Although in the humanitarian sector staff development has largely been acknowledged to have positive effects on firm-level performance the evidence has remained largely anecdotal, there is little evidence of what works and is contextually appropriate. It has been assumed that training programmes will simply work, trainers feel threatened by the prospect of an objective evaluation of training and its outcome (Sims, 1993). Sachdeva (2014), found resistance by human resource development practitioners' as well as resistance by top management in organizations as two of the main barriers towards training evaluation. made the link between the human resource development perspective of investment in human capital with a branch of program evaluation, which deals with solutions to provide knowledge of worth or merit of specific organizational interventions. This calls for an expansion of the staff development perspectives and relying more on existing frameworks for human capital evaluation models.

The issue of the relationship between staff development and firm-level performance has generated mixed opinions by human resource development practitioners. Some, arguing on the intangible nature of competencies, have viewed it as inappropriate, while others have seen it as the answer to the accountability query posed on their staff development programmes. Nevertheless, in spite of the mixed opinions it is occupying a significant space in discourses regarding organizational performance measurement frameworks and evaluation debates on staff development programmes. Several issues are driving the interest but pressure from senior management for the human resource function to demonstrate the return on their staff development investment is probably the most influential driver. Competitive economic pressures are causing intense scrutiny of all expenditures, including all training and development costs. Total quality management, reengineering, and Six Sigma have created a renewed interest in measurement and evaluation, including measuring the effectiveness of training programmes and its impact on organizational performance. These and other factors have created an unprecedented wave of applications of different evaluation frameworks applied to staff development. Yet, despite these issues, Kaplan & Norton (1996) assert that the broadening of the theoretical and normative aspect of firm-level performance has led to increased interest being focused on more dimensions of performance in recent years.

The concept of firm performance is different from the broader construct of organizational effectiveness. According to Venkatraman, & Ramanujam (1986), the broader construct covers three overlapping concentric circles, with the largest representing organizational effectiveness. Firm – level performance is a subset of organizational effectiveness that covers both non-financial and financial outcomes. The focus on more dimensions of firm-level performance has been driven by the need to incorporate non-financial performance measures to complement existing financial measures in order to give a clearer picture of the organization's attainment of its objectives. This need has driven the development and adoption of a plethora of firm-level performance measurement frameworks and methodologies in recent years (Neely, 2007). The most popular of the firm-level performance measurement frameworks has been the balanced scorecard, proposed by Kaplan & Norton (1996). The Balanced Scorecard reflects many of the attributes of other measurement frameworks but links measurement to the organization's strategy. It identifies and integrates four different perspectives looking at performance (financial, customer, internal business, and employee and learning). In their conceptualization of the framework, Kaplan and Norton assert that financial performance, its drivers (customer and internal operational performance) and the drivers of ongoing improvement and future performance should be given equal weight. They argue that the full potential of the balanced scorecard will be realized only if an organization links its measures, clearly identifying the drivers of performance (Kaplan and Norton, 1996). So far, this contribution has presented

the key attributes of existing performance measurement frameworks that enable organizations identify the set of performance measures that appropriately reflects their performance and objectives. Given the core business of humanitarian organizations, some of the firm-level performance measurement frameworks used by the private sector may not apply to the humanitarian sector or may apply differently. In the humanitarian organization under study, which uses the Balanced Score Card framework, the architecture of the four perspectives are constructed differently; the target group perspective, the internal process perspective, the employee and learning perspective and the funding perspective. If this organization's performance is to be measured successfully, the effectiveness in delivering assistance to the crisis-affected people, the target group perspective is placed at the top of the strategy map of the balanced scored card. So as part of the overall effort to be successful and be accountable for every dollar spent, more effort needs to be put to determine appropriateness and scale of staff development initiatives as part of the employee and learning perspective, including how they contribute to firm-level performance, which will translate to better assistance and enhanced resilience to the crisis-affected persons.

The humanitarian sector is composed of the organizational entities for which emergency and lifesaving assistance is the main business and raison d'être, and others that may play significant role but have other goals and functions important roles in aid. Apart from the general trend towards accountability in all spheres of business on the different business functions, accountability has gained currency in the humanitarian sector. Major institutional donors in this sector have become increasingly conscientious about how disbursed funds are spent. The Humanitarian Aid Department of the European Commission (ECHO) as part of its guidelines on Enhanced Response Capacity Funding (ECHO, 2010) included measurability among other principles that will inform "discussion on progress, assess impact and explore further replication of capacity building efforts." The Department for International Development (DFID) of the United Kingdom has put in place value for money guidelines for all its funding modalities on both humanitarian and development programmes.

The lack of a strong evidence base is a problem for humanitarian capacity strengthening. Work is needed to build evidence that such programmes have the desired impact. Donors and non-governmental organizations (NGOs) have invested considerable sums of money in capacity building in the sector, but with few tangible results. The DFID (2012) report confirms that the level of professionalism in the humanitarian sector needs to be raised through better investment in skills and training. A number of studies covering different aspects staff development in the humanitarian sector have been carried out but none covered firm-level performance from the evaluative perspective using the return-on-investment model. A study done by Development Initiatives (2016), commissioned by DFID on humanitarian evidence in east Africa found that there few cost effectiveness studies done in the region while other studies by Ashdown (2011) and DFID (2012), concluded that there is scanty evidence on what staff development approaches are contextually appropriate, relevant and work best.

Problem statement

Huge investments in staff development in organizations are being made and in spite of this, organizations do not go to great lengths to demonstrate the value of these investments and how they translate to firm level performance. The ones that carry it out do it superficially not at the level that has impact on the bottom line. Research from the American Society of Training and Development (ASTD) found that 45 percent of surveyed organizations only gauged trainees' reactions to courses i.e. measurement at level 1. This is not unique to America. Martin & Grubb (2005), in research done in 15 countries of the Organization for Economic Cooperation and Development (OECD) found that the majority of organizations believe employee training is responsible for many aspects of organizational effectiveness. However, many of these organizations have not measured the benefits and related them to the cost of training in a way that reveals their contribution to firm level performance.

The same problem exists in the humanitarian sector where most organizations declare that staffs are their most important asset in accomplishing their mission and assisting beneficiaries, but they are not active in measuring the benefit of investment in staff or its impact on the quality of assistance they provide. A number of studies covering different aspects staff development in the humanitarian sector have been carried out but none covered firm level performance from the evaluative perspective. The 2014 report on the State of Human Resources by People In Aid (2014) concluded that there is too little evidence in the humanitarian sector of measuring the impact and return-on-investment, and defining firm level performance contribution, for the human resources function, despite staff-related costs being a high proportion of programme costs overall. A study done by Development Initiatives (2016), commissioned by

DFID on humanitarian evidence in east Africa found that there few cost effectiveness studies done in the region while other studies by Ashdown (2011) and DFID (2012), concluded that there is scanty evidence on what staff development approaches are contextually appropriate, relevant and work best.

The need is now greater for human resource professionals to demonstrate impact staff development programmes are having not only at the individual level but also at the firm level and their contribution to organizational accountability. Against the background of increased need for organizational effectiveness, pressure to demonstrate value for money and humanitarian agencies competing for scarce resources (Sachdeva, 2014), the need to implement a firm level performance measurement approach such as the Philips ROI methodology becomes imperative to substantiate the relationship and demonstrate continued significance between firm level performance and human capital investment decisions. A strong and sustainable commitment to building staff capacities on the part of this humanitarian organization and the wider humanitarian community will be built once there is clear evidence that these investments result in improved firm level performance and consequently better delivery of assistance to the crisis affected people.

The aim of this research study was to evaluate the effect of staff development interventions on firm-level performance within the humanitarian sector, specifically looking at the humanitarian skills development programme (HSDP) for organization x that has a regional office in Nairobi, Kenya. The specific objective was to establish the relationship between the benefits of learning application to firm level performance.

METHODS

The study was modelled on Phillips Return-On-Investment Evaluation Methodology (Phillips, 2003). It sought to implement a measurement framework to determine effects of staff development interventions on firm-level performance in the humanitarian sector. This study was conducted as an exploratory survey research. According to Reiter (2017) an exploratory research is helpful when a research aims to examine an issue or phenomena that is little understood. Neuman (2014) notes that exploratory research helps a researcher to become familiar with the basic facts, settings and concerns of the phenomena under study and to generate new ideas, inferences, or hypotheses. The design was chosen because there are few researches or little evidence on research on what staff development initiatives work best or are contextually appropriate in the humanitarian sector.

The target population were staff who enrolled and completed the HSDP in 2017 and their supervisors. Twenty-one staff members were enrolled in this programme through a competitive application and selection process managed by the regional human resources department. Together with their twenty-one supervisors, they formed the target population of the study.

Stratified random sampling was used for this study. Neuman (2009) notes that random sampling is useful for research to eliminate bias and allow for the estimation of the sampling error. He also asserted that if a population from which a sample is to be drawn does not constitute a homogeneous group, stratified sampling technique is generally applied in order to obtain a representative sample. The total sample size was determined using the Krejcie - Morgan Table (n = 40) (Krejcie & Morgan, 1970). To ensure proportional allocation of sample size in the different strata the formula from Neuman (2009) was used:

$$i = n * Pi$$

Where if *Pi* represented the proportion of population included in stratum *i*, and *n* represented the total sample size. Adopting the formula to calculate the proportional allocation, the sample sizes are shown in table 1 below as well as the response rates from the samples:

Table 1: Sample Frame

Stratum	Strata size	Proportion of population	Sample size (n)
Officers and their supervisors	20	48%	17
Assistants and their supervisors	10	24%	9
Coordinators and their	12	28%	10

supervisors			
Total	42	100%	36

Source: Researcher (2019)

Measures for the dependent variable in this study, firm level performance, were obtained through an online questionnaire administered to the participants and their line managers. Survey monkey, a cloud based survey platform, was used to host the online questionnaire. This method was chosen because of ease of administration and access. The respondents were able to read and fill in their responses with no administrative help (Creswell, 2009). It also reduced the need for manual data entry and compilation as it has an in-built feature for automatic compilation of responses in a file format that is compatible with SPSS, the statistical software used for further analysis. The components of the questionnaire were designed from previously used questionnaires.

For benefits of learning application, measures of job performance and organizational commitment were used. Five items taken from Meyer and Allen's organizational commitment tool (Meyer & Allen, 1997) were used to measure organizational commitment *(α = .84)* and four items to measure job performance were adopted from the employee job performance scale *(α = .83)* used by Wiedower (2001) and Harrell (2001). Responses for each of the items were measured using a five point Likert type scale

To preserve the content validity of the study, the research questionnaire was piloted and tested with participants at the Nairobi office because they were near and easy to access. The Regional Monitoring and Evaluation Department provided an expert opinion about the research instrument. After input from the experts and piloting, the questionnaire was adjusted and modified for appropriateness before being administered to the final respondents. To preserve the construct validity (Denzin & Lincoln, 1994) of the study two approaches were adopted as suggested by Yin (2009). Data was collected using two different strategies as well as from different sources. Instead of mainly relying on the HSDP information repository, the staff participating in the programme and their line managers were the other sources of primary data. In order to determine the reliability of the questionnaires, Cronbach's alpha coefficient was calculated on the piloted questionnaire *(α = .84)* and calculated again for the final questionnaire administered to the respondents *(α = .84)* indicating an acceptable reliability coefficient.

Before embarking on data collection, a letter of introduction from Kenyatta University was obtained as well as research permit from the National Commission for Science, Technology and Innovation (NACOSTI) and a written authorization from the Regional Director of the organization under study.

The questionnaire was uploaded on Survey Monkey © and a link to the online questionnaire emailed to each respondent. Survey monkey was been chosen because it has a free version that makes it easy to design and administer questionnaires as well as collect responses. Because it is a cloud-based solution, the respondents could revisit the questionnaire anytime they wanted and the responses were accessible to the researcher anytime and anywhere. The respondents were given three weeks to respond to the questionnaire with a reminder sent after two weeks for those who had not responded. After three weeks, the link to the questionnaire was automatically de-activated. Secondary data was collected from the HSDP information repository.

After data collection, both descriptive and inferential statistical analysis were done to summarize and relate the variables from the responses in the administered questionnaires. The descriptive statistical analysis allowed for basic characteristics of the data mainly measures of central tendency such as mean and measures of dispersion like the standard deviation to be derived. The inferential statistical analysis carried out included correlation analysis on the independent variables on the dependent variables and independent t-tests to determine the distribution between the two response groups.

RESULTS

Both participants and their supervisors were asked to respond to statements on organizational commitment and job performance after participating in the HSDP.

Organizational commitment

The results from the respondents on the statements focussed on the affective component of organizational commitment as this has been shown to have a significant positive relationship (Bartlett, 2001). The results of their responses are presented in the table 2 below:

Table 26: Summary of responses on organizational commitment

Statement			SA	A	NA/ ND	DA	SD	Mean	STD
After participating in the HSDP I (my staff) now feel a strong sense of belonging to organization x **[OC1]**	F	P	6	8	1	0	0	1.67	0.62
		S	6	0	1	0	0	1.29	0.76
After participating in the HSDP I (my staff) now feel I (she/he) can spend longer career time with organization x than initially planned **[OC2]**	F	P	2	9	4	0	0	2.13	0.64
		S	4	0	3	0	0	1.86	1.07
After participating in the HSDP I (my staff) now enjoy discussing organization x with people outside it **[OC3]**	F	P	5	7	2	1	0	1.93	0.88
		S	2	1	3	0	1	2.29	1.25
After participating in the HSDP I (my staff) really feel as if organization's x problems are my (their) own **[OC4]**	F	P	4	9	1	1	0	1.93	0.80
		S	2	3	2	0	0	2.29	1.35
After participating in the HSDP I think (my staff) could easily become attached to another organization as I (they are) am to organization x **[OC5]**	F	P	5	3	6	1	0	2.20	1.01
		S	0	0	5	0	2	3.57	0.98
F- frequency, P- participant, S- Supervisor, SA- Strongly Agree, A- Agree, ND/NA- Neither Agree nor disagree, D-Disagree, SD- Strongly disagree, STD- Standard Deviation									

Source: Researcher (2019)

The average mean score for participants on this item was 1.97 with a standard deviation of 0.79, indicating little variation in the responses. For the supervisors the average means score was 2.26, with a standard deviation of 1.08, also indicating little variation in their responses The only item that majority of the participants returned a neutral response was OC5 (F=40%). This was whether they could become attached to another organization as they are to NRC after participating in the HSDP. This could be due to a variety of reasons, one of which could be since it is a neutral response they do not have enough information to form and opinion, and the neutral response can be interpreted in a variety of ways. On whether their staff member could easily, become attached to another organization as he/she is to organization x majority of the line managers returned a neutral response while the second highest number indicated that they strongly disagree with this statement. This scale item had more respondents indicating neutral responses compared to the participants responses. 43% of the line managers gave a neutral response when asked whether their staff now enjoys discussing organization x with people outside the organization. A possible explanation for this neutral response could be the limited information that the line manager has in order to form an opinion about this statement given that they might have little interaction with their staff outside the organization. Majority of the line manager and participant interactions' happen within the organization. Hence the neutral response given.

A Mann-Witney U test was conducted to determine whether there are statistically significant differences the responses between the two groups of respondents for measures of organizational commitment. The results of the test are presented below in Table 3.

Table3: Significant differences between respondents groups on organizational commitment

	OC1	OC2	OC3	OC4	OC5
Mann-Whitney U	32.5	43	44	30.5	20
Wilcoxon W	60.5	71	164	150.5	140
Z	-1.586	-.714	-.628	-1.631	-2.468
Asymp. Sig. (2-tailed)	.113	.476	.530	.103	.014

Exact Sig. [2*(1-tailed Sig.)]	.162[b]	.535[b]	.581[b]	.123[b]	.021[b]
b. Not corrected for ties.					

Source: Author (2019)

The results showed that for 4 out of the 5 items the U scores ranged between 30.50 and 44, with all values p>0.05. Suggesting that there is no statistically significant difference in the ranks of the two population groups. The results of these four items can be generalized for participants and line managers alike. The only exception were the test results for OC5 (*U=20, p<0.014*) (After participating in the HSDP I think my staff member could easily become attached to another organization as he/she is to NRC) which suggest that there were significant differences in the distributions of the scores between the participants and the line managers. This suggests a divergence of responses regarding this aspect of organizational commitment.

The findings corroborate the results of the study by Muganda (2008) that found one of the benefits of training programmes in the Kenya Red Cross Society, a national organization that responds to nationwide disasters, is the commitment by staff to stay employed longer by the Kenya Redcross. The findings also support the work the work of Jehanzeb & Ahmed, (2013), Obi-anike & Ekwe, (2014) and Thakane (2015) who confirmed that there is strong relationship between employee training and development, and organizational commitment.

Job performance

Both line managers and participants were asked to respond to statements indicative of the participant's job performance after participating in the HSDP. The results of their responses are presented in the table 4 below:

Table 4: Summary of participants' responses on job performance

Statements			SA	A	NA/ ND	DA	SD	Mean	STD
The application of the learning from the HSDP has had a positive impact on the timeliness of my work **(JP1)**	F	S	3	4	0	0	0	1.57	0.49
		P	9	6	0	0	0	1.40	0.51
The application of learning from the HSDP has had a positive impact on the quality of my work **(JP2)**	F	S	5	2	0	0	0	1.29	0.45
		P	11	4	0	0	0	1.27	0.46
The application of learning from the HSDP has had a positive impact on the quantity of my work **(JP3)**	F	S	2	4	1	0	0	1.86	0.64
		P	8	7	0	0	0	1.47	0.52
The application of learning from the HSDP has had a positive Interpersonal impact with my colleagues **(JP4)**	F	S	2	5	0	0	0	1.71	0.45
		P	5	9	1	0	0	1.73	0.59
F- frequency, P- participant, S- Supervisor, SA- Strongly Agree, A- Agree, ND/NA- Neither Agree nor disagree, D-Disagree, SD- Strongly disagree, STD- Standard Deviation									

Source: Researcher (2019)

The average mean score of the participants' response was 1.47 with a standard deviation of 0.52, indicating little variability in the responses. The high scores across the different statements suggests that the respondents found that applying the learning from the HSDP had resulted in a positive impact on their overall job performance. The average score for the line manger responses was 1.6 with a standard deviation of 0.5, again indicating little variability in the responses. The high scores also suggest that the respondents correspond to high scores by the participants, suggesting that the line managers also found that the

application of the learning from the HSDP had an eventual positive impact on the overall job performance of their staff.

A Mann-Witney U test was conducted to determine whether there are statistically significant differences the responses between the two groups of respondents for measures of job performance. The results of the test are presented below in Table 5.

Table 5: Significant differences among participants and line managers on job performance

	JP1	JP2	JP3	JP4
Mann-Whitney U	43.5	51.5	36	52.5
Wilcoxon W	163.5	171.5	156	80.5
Z	-.735	-.091	-1.315	0.000
Asymp. Sig. (2-tailed)	.462	.927	.189	1.000
Exact Sig. [2*(1-tailed Sig.)]	.535[b]	.945[b]	.267[b]	1.000[b]
b. Not corrected for ties.				

Source: Researcher (2019)

However, results from the four tests on the organizational commitment the U scores ranged between 36 and 52.5, with all values p>0.05. Suggesting that there is no statistically significant difference in the ranks of the two population groups. This can suggest that the HSDP was seen as having a significant influence on the job performance of the participants by both participants and their line managers.

The findings confirm previous studies done by Clegg & West (2004) that found job performance has become one of the significant indicators in measuring organizational performance. Holton et al. (1997) explained that learning affects the individual performance, which leads to organizational performance. The studies are consistent with the studies reviewed in chapter two related to training and development and employee performance. Thakane (2015) found that training increases employee performance and leads to employees being more committed to their work. Obi-anike & Ekwe (2014) found a positive relationship between interpersonal relations and teamwork, two of the benefits of training and development, and organizational performance. Jehanzeb & Ahmed (2013) found that efficiency and other factors related to employee performance were some of the benefits of employee training and development.

Lastly, the correlational analysis for benefits of learning application *(M=1.84, SD=0.40)* and firm level performance *(M=1.64, SD= 0.53)* revealed a positive correlation, (*r =.215*) albeit a weak one. Respondents who reported high benefits accrued because of applying the learning from the HSDP also reported high levels of firm level performance for the organization.

CONCLUSION

The objectives of this research have been successful accomplished through the chosen empirical methodology. The credibility and reliability of the results was enhanced by triangulating the self-reported measures of the participants with the measures from their line managers, an integral component of the participants' support system as well as the most informed staff group about the work of the participants by virtue of providing direct supervision.

The overall objective of the humanitarian skills development programme was to develop humanitarian competencies of existing staff at national and regional level, and to respond to emergencies effectively. The results of the study show that the organization was successful achieving this objective and that the quality of the learning programme as indicated by the satisfaction levels has enabled the humanitarian organization to continue providing quality humanitarian assistance.

There are myriad benefits that can be obtained from applying the learning of a specific learning programme. This study sought to look at the constructs of job performance and the perceived organizational commitment of the participants. It can be concluded that providing the HSDP enabled the humanitarian organization to provide better quality of humanitarian assistance through improving

individual staff performance. It also led to better staff retention rates for this humanitarian organization. The humanitarian organization benefitted from investing in the HSDP given that the findings showed that not only did the job performance of the participants improve after attending the HSDP but also their commitment to the organization was enhanced.

The HSDP is a classic example of a well-considered initiative representing a prudent balance between cost and benefit. It can be concluded that the HSDP represented an appropriate investment for this humanitarian organization. This is a significant given that human capital investment decisions that have a sound and related empirical basis are very useful in demonstrating that staff development interventions are translating to competitive advantage and to improved quality of humanitarian assistance for this humanitarian organization. Therefore, providing the HSDP was a prudent financial decision for this humanitarian organization and the organization is getting value for its money.

Just like all other studies, this study has some limitations', which can provide future areas of research for both academia and practitioners in both the humanitarian sector and the wider human resource development field.

The non-experimental nature of the study using Phillips ROI model of training evaluation that relied on subjective estimation of productivity gains from the HSDP as a method of isolating the effects of the staff development initiative on firm level performance. The results of this study can further supported by replicating the results using an experimental design would have allow for the use of actual productivity measures from the staff who attended the learning programme.

The HSDP is a learning programme that has been made available to all humanitarian organizations that want to develop humanitarian skills of their staff. The organization has been implementing the single agency format and the programme is also being conducted as a multi-agency format. A future area of research would be to replicate this study in both single agency format and in the multi- agency format. This will provide enough empirical evidence for the generalization of the findings to the wider humanitarian sector.

In this study, the dependent variable was firm-level performance and construct conceptualized was the perceived quality of humanitarian assistance. A further area of research would be to explore other constructs of firm level performance in line with current discourse on the strategic planning and performance measurement frameworks that different organizations are using.

Contribution to theory and practice

The results of this study provides a basis for evidence based decisions about staff development as a valued component of humanitarian work due to its relationship with firm level performance. This will in turn inform policies and guidelines on capacity building in the humanitarian sector. To the organization implementing the HSDP, it provides information regarding the value of the staff development interventions but also justifies the resource deployments on staff development. In the end the results of this study will shape policies and the design of strategies related to staff development and overall the human resource function in the organization.

This study has added to the existing body of knowledge by providing evidence on what works with regard to staff development and strengthen a culture of research, inspire and encourage continuous research on impact of staff development interventions at the firm level, particularly to all human resource development practitioners and researchers, in the humanitarian sector.

There are a number of studies on the impact of staff development as well as an ongoing debate on relevance of evaluation models. This study was implemented using the Philips ROI evaluation model as performance measurement methodology. The findings of the study will serve as a reference material and a guide for future researchers who wish to conduct the same study or any study related to staff development interventions and firm level performance.

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INTERNAL CONTROLS AND CREDIT RISK AMONG COMMERCIAL BANKS LISTED IN NAIROBI SECURITIES EXCHANGE JARED OCHIENG AGANG

INTRODUCTION

1.1 Background of the Study

The banking sysytem performs crucial roles in the development of any economy (Adeyemo, 2012). Financial institutions are the main reservoirs of the public savings, the center of the how to make purchases, channel gifted the capability of creating money, distribution of financial assets and manner in which credit and monetary policies are implemented (Idolor, 2010; Akindele, 2011). A strong internal check is a significant bank supervision component and a basis for secure and sound control of a banking organization (Dubrin, 2008). The objectives of a banking sector can be met through strong internal controls which help the bank to achieve its profits in the long run and ensure that sound reliable financial and managerial reporting is maintained (Channar, Maha, & Irfan, 2015).

For most financial institutions such as banks globally, loans form the basis of credit risk; nevertheless, other causes of credit risks can be found from the undertakings of a bank such as the banking books of accounts and off-balance sheet items (Akwaa-Sekyil, 2016). Banks also encounter if debtors default in swaps transactions, transactions between the banks, credit funding, foreign exchange market, equities, bonds, options, futures, guarantees and commitments, and settling contracts (Basel Committee on Banking Supervision, 2000).

A number of studies have been carried out to show the relationship between ICS and credit risk have been done in developed economies. Jin, Lobo, Kanagoretnam, and Mathieu (2013) found that commercial banks lacking reliable internal risk reduction sysyems could expand in the short term but they are more likely to fail in the near future. Regionally, the study was done in Nigeria by Olatunji (2009) centered around how operational control structure affects the lending and saving industry. A study done by Kessey (2015), on processes and challenges of credit risk practices in the banking industry in Ghana, showed that banks that do not implement the credit policy (as indicated in the credit manual policy), find it hard to manage credit risk. Angella and Eno (2009) did a study on evaluation of internal control systems in Uganda which focused on assessing the internal control methods embraced by African Development Bank Group for the purpose of ensuring that Public sector project financing is well managed. The researchers concluded that some elements of the control system are not properly implemented (Channar, Maha, & Irfan, 2015).

In a study on loan loss provision and internal bank control weakness, it was discovered that banks with sound policies and internal controls flaws decreased their pobability of loan default with time (Cho & Chung, 2016). Despite the study of the relationship between internal controls and credit risk, their report failed to use elements of individual control procedures. The research on the effect of internal control measures in Ghana banks found out that there was an existence of a strong positive relationship between risk assessment and internal controls (Akinyomi ,2010). In Nigeria, Tunji carried out a study on effective and efficient internal controls system as a remedy for hazard in the Nigerian banking system, found out that existence of Internal Control System in most of the banks studied was intentionally being look down upon by management of the banks showing weak risk assessment practices (Tunji 2013).

As shown in figure 1.1 below, the non-performing loans to total gross in Kenya has been increasing from 2012 with 4.59% to 5.05%,5.46,5.99% and 7.82% in 2013,2014,2015 and 2016 respectively (World Bank Report, 2017).

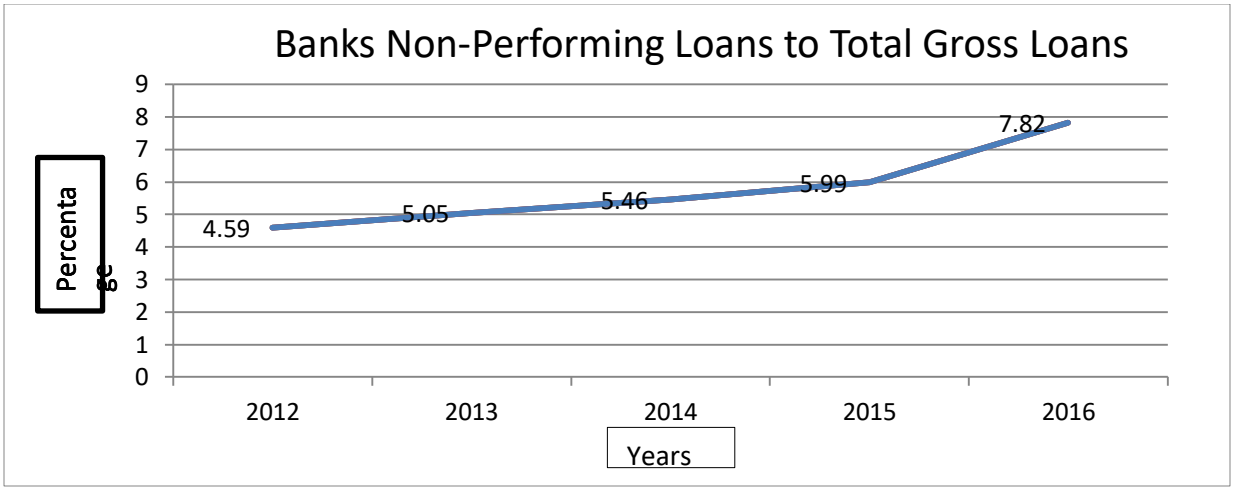

Figure 1.1: Banks Non- Performing Loans

Source: World Bank Report (2017)

In Kenya, the banking sector has been faced with problems which arise from poor credit standards, inadequate portfolio risk management, failure to have a keen interest in changes in the economy or other events that can result in a decline in the credit rating in the counterparties of the bank (Wanjohi, 2014). In emerging economies such as Kenya, the primary and seconday markets have not become fully functional, therefore lending is the pillar of banking business (Mwisho, 2011). The loaning activities have been a contentious issue to most of the transition economies because on one hand customers are criticizing the inadequate existence of credit, and the extremely strict requirements put in place by banks, while Commercial Banks, on the contrary, have incurred losses unpaid interests on credit falicilites (Richard, 2012). According to Basel (2010), for loan losses to be minimized, it is important for commercial banks to have a strong Credit Risk Management (CRM) system and effective internal control system in place. Since unequal information occurs between banks and borrowers, lenders should have a method of evaluating default risk to avoid adverse selection and moral hazards (Richard, 2012). According to Afande (2014), banks are faced with the problems of adverse selection and moral hazard when dealing with small firm lending propositions.

1.2 Statement of the Problem

Internal control systems perform an integral part in the governance of banks and other financial institutions in any country. They are created to ensure all bank assets are in safe custody, avoid assets mismanagement or misappropriation and to identify, prevent errors and risks (Ahmad, Abdullah, Jamel & Omar, 2015).According to Mawanda (2008), designing and implementation of proper internal controls will always lead to improved financial performance while Weak internal control systems increase the chances of fraud and scandals occuring. Such financial scandals were witnessed at Enron and WorldCom. These financial scandals led to passing into the law the "Public Company Accounting Reform and Investor Protecting Act" commonly known as the "Sarbanes-Oxley Act (SOX Act)". The SOX Act lays down clearly that the management should be fully responsible for internal control system over financial reporting within the organization and assess its effectiveness. Mawanda (2016) suggested that the Board of directors should supervise the management of the organization, but on contrary the Board only implements recommendations made by the management committee of the organization and this is due to the information asymmetry that exists between the managers and the Board of Directors.

Inappropriate credit policies, as well as inadequate, limited institutional capacity by Kenya's financial sector, led to several of the banking institutions collapsing over what was termed as poor management of credit risks which resulted to increased amounts of loans that were not being serviced (CBK, 2014). The poor management of threats associated with credit extension exposed most Kenyan banks to non-

performing loans which were eventually written off thus reducing the bank's profitability (Kithinji, 2010). The World Bank report 2017 shows an upsurge in the level of non-performing loans to total gross loans from 4.59 % in 2012 to 5.05%, 5.46, 5.99% and 7.82% in 2013, 2014, 2015 and 2016, respectively. Banks are still grappling with a sharp rise in the fraction of non-performing assets in their books of accounts in spite of employing strategies responsible for managing risks related to lending, (World Bank, 2017).

Despite the guidelines set out by Central Bank of Kenya in accordance with the Banking Act Cap,there has been numerous cases of bank failures in performance due to fraud and weak internal controls as well as compliance with internal and external regulations within the industry (FLSTAP, 2011). The Central Bank of Kenya put three banking institutions under receivership in the period of August 2015 to April 2016 .Imperial bank of Kenya the 19th largest bank in kenya was put under receivership due to what Central Bank of Kenya termed as inappropriate banking practices (Kuo, 2015). In another case the Dubai Bank of Kenya was put under receivership for breaching banking guidelines for a spate of years.Chase bank was later on put under receivership in what the regulator termed as unsafe financial conditions thus; leaving the questions of the gaps that exist within the banking sector owing to such multiple breaches without any action being taken (Ngigi, 2015).

Though internal controls have been instituted in the banking sector; The Central Bank of Kenya Supervision Report (CBK, 2016), indicated that the level of non-performing loans has been on a steady growth in Kenya. Internal control systems impact on the performance of both financial and non-financial institutions. In the current market environment where financial institutions have been on the receiving end due to unethical issues and increase in banking fraud it's vital to assess the role of internal control systems in mitigating losses and fraud in the banking industry. There is scanty evidence on the link between internal control systems and credit risk of commercial banks and this has motivated the current research. The studies on the role of internal controls indicate that while control environment is an essential aspect of internal control (Gamage, 2014); its specific contribution on credit risk has not been established with certainty. Similarly, the role of risk assessment, control activities and monitoring on credit risk has not been fully established especially in the local setting. The present study thus aimed at bridging these gaps by conducting a survey on the effects of internal control components on credit risk using commercial banks trading on the Nairobi Securities Exchange.

1.3 Objectives of the Study

The objectives of this study were:

1.3.1 General Objective

The general objective of this research paper was to determine the effects of internal controls on credit risk among the Commercial banks listed in Nairobi secuties Exchange.

1.3.2 Specific Objectives

The specific objectives of the study were:

i. Determining how the control environment affects credit risk among the listed commercial banks in Kenya.
ii. Establishing the effect of risk assessment on credit risk among the listed full service banks in Kenya.
iii. To find out whether control activities have an effect on credit risk among the listed banking companies in Kenya.
iv. To examine how monitoring credit risk among the listed commercial banks in Kenya

DATA ANALYSIS, FINDINGS AND DICUSSION

4.2 Response rate

Out of the 44 questionnaires circulated, the researcher was able to collect 40 questionnaires making a response rate of 90.9% which was deemed sufficient according to Mugenda and Mugenda (2003) who say the questionnaires response rate of at least 50% are sufficient.

Table 4.27: Response rate

Response	Frequency	Percentage (%)
Responded	40	90.9%
Not responded	4	9.1%
Total	**44**	**100%**

4.3 Demographic Characteristics

The information contained in this section describes basic features such as gender of the respondent, age, years worked in the bank, level of education, professional qualifications and current position in the bank.

4.3.1 Gender of the Respondents

The respondents were requested to show their gender. The responses are as presented in Table 4.2.

Table 4.28: Gender of the Respondents

Gender of the Respondents	Frequency	Percentage (%)
Male	28	70%
Female	12	30%
Total	**40**	**100%**

From the findings, most of the respondents were male who represented 70% of the sample while 30% were female. This implies that the internal controls and credit risk departments' positions are dominated by male.

4.3.2 Age of the Respondents

The respondents were asked to indicate their age. The results are presented in Table 4.3.

Table 4.29: Age of the Respondents

Age of the Respondents	Frequency	Percentage (%)
Between 20 -25 years	1	2.5%

Between 26-30 years	2	5%
Between 31-35 years	6	15%
Between 36-40 years	11	27.5%
Between 41-45 years	12	30%
46 and above	8	20%
Total	**40**	**100%**

Outcomes in Table 4.3 show that 12(30%) of the respondents were aged between 41 and 45 years; 11(27.5%) were aged between 36 to 40 years; 8(20%) were above 46 years; 6(15%) of the respondents was aged between 31 to 35 years. Only 2(5%) and 1(2.5%) of the respondents were aged between 26-30 and 20-25 years respectively. It is evident that most of the Compliance and Monitoring Manager, Underwriter, Internal Auditor and Strategy and Risk Manager were aged between 41 and 45 years thus had enough experience in running internal control and credit risk affairs.

4.3.3 Experience

Parameters considered were the number of years worked in the bank. This was important because it enabled the researcher to have an overview of the respondents in relation to their working experience within their banks. The findings presented Tables 4.4

Table 4.30: Experience

Experience	Frequency	Percentage (%)
1-3 Years	2	5%
4-6 Years	12	30%
7-9 Years	19	47.5%
10-12 Years	5	12.5%
More than 12 years	2	5%
Total	**40**	**100%**

The research study revealed majority of the respondents (47.5%) have experience between 7-9 years of working, 30% have experience of between 4-6 years of working, 12.5% have worked for between 10-12 years, while 5% and 5% of the respondents had experience of between 1-3 years of working and more than 12 years respectively. This implies that the respondents are adequately experienced and they understood the questionnaire and so their responses can be relied upon.

4.3.4 Level of Education of the Respondents

The respondents were asked to indicate their highest level of academic education. The Table below shows the study findings on the highest level of academic education.

Table 4.31: Highest level of academic education

Level of Education	Frequency	Percentage (%)
College certificate	0	0%
Diploma certificate	3	7.5%
Bachelor's Degree	24	60%
Master's degree	10	25%
Doctorate degree	3	7.5%
Total	**40**	**100%**

The findings revealed that 60% of the respondents had their highest level of education being bachelor's degree, 25% had master's degree while 7.5% had doctorate degree and diploma certificate respectively.The results show that, the respondents gave the valid answers since most of the respondents have bachelor's degree.

4.3.5 Professional Qualifications of the Respondents

The researcher sought to establish any other professional qualifications the respondents had. The output was shown below in Table 4.6.

Table 4.32: Professional Qualifications

Professional Qualifications	Frequency	Percent
CPA	20	50
ACCA	11	27.5
Others	9	22.5
Total	**40**	100

The Table 4.6 above shows, majority of the respondents (50%) shown CPA as the other professional qualifications they had while 27.5% indicated ACCA as the other professional qualifications they had while 22.5% indicated they had other professional qualifications.

4.3.6 Current Position in the Bank

The researcher wanted to find out the respondents' current position in the bank. The results were shown in Table 4.7 below.

Table 4.33: Current Position

Current Position	Frequency	Percentage (%)
Compliance and Monitoring Manager	12	30%
Underwriter	9	22.5%
Internal Auditor	10	25%
Strategy and Risk Manager	9	22.5%

Total	**40**	**100%**

Out of 44 respondents only 40 respondents responded in 11 banks and the research study revealed that 12(30%) of respondents were Compliance and Monitoring Managers, 10(25%) were Internal Auditor, while 9(22.5%) and 9(22.5%) were Underwriter and Strategy and Risk Manager respectively. Considering that the topic of study centers on credit risk management, the respondents were drawn from the relevant departments and are therefore considered to be adequately informed on the topic of study and are therefore capable of giving reliable responses.

4.4 Descriptive Statistics

This segment discusses the descriptive otcome on credit risks in banks, control environment of the bank, risk assessment of the bank, control activities of the bank and monitoring. In these sections. The descriptive statistics were evaluated using the means and standard deviation. A likert scale data was gathered evaluating the extent of agreement in a measure of 1 to 5 where 1= Strongly Disagree, 2= Disagree, 3= Neutral, 4= Agree, 5= Strongly Agree. The outcomes from the collected responses were examined depending on means and their standard deviations to indicate the changes or variablity of each responses from the total mean of the responses per each characteristic. The mean outcomes are hence set on a scale interval where a mean value of up to 1 is an indication of a strong extent of disagreement; 1.1 – 2.0 is disagree; 2.1 – 3.0 is a moderate extent of agreement, 3.1 – 4.0 agree and a mean value of 4.1 and above is an suggestion of a strong extent of agreement.

4.4.1 Credit Risks in Banks

Findings on the credit risks are presented in Table 4.8.

Table 4.34: **Credit Risks in Banks**

Credit Risks in Banks	**Mean**	**Std. Deviation**
The bank has limited institutional capacity for managing credits	3.08	.839
Our bank's credit policies are inappropriate	1.90	.867
Credit controls are properly observed in the bank	4.04	.993
The bank has poor credit management system	1.83	.707
The bank has low capital and liquidity levels	1.67	.973
There is poor underwriting of loans in the bank	2.03	.838
The bank offers more insider and/or direct lending	4.11	.998
The bank conducts proper credit assessment and adheres to good lending practices	4.23	.851

From Table 4.8 above, the respondents were in agreement that the bank conducts proper credit assessment and adheres to good lending practices as shown by 4.23 mean with a standard deviation of 0.851. Findings also show that, the respondents agreed (mean = 4.11; standard deviation = 0.998) indicating that the bank offers more insider and/or direct lending and that Credit controls are properly observed in the bank as shown by a mean score of 4.04 and standard deviation of 0.993. Majority of the respondents were not taking sides with the statement that the bank has limited institutional capacity for managing credits as shown by 3.08 mean with a standard deviation of 0.839.

However, most of the respondents disagreed (mean = 2.03; standard deviation = 0.838) indicating that there is poor underwriting of loans in the bank. Further, most of the respondents strongly disagreed that our bank's credit policies are inappropriate as indicated by a mean score of 1.90 and standard deviation of 0.867, the bank has poor credit management system as indicated by a mean score of 1.83 and standard deviation of 0.707, and the bank has low capital and liquidity levels as shown by a mean score of 1.67 and standard deviation of 0.973. The findings therefore imply that the bank conducts proper credit assessment

and adheres to good lending practices, and the bank offers more insider and/or direct lending and that Credit controls are properly observed in the bank.

4.4.2 Control Environment of the Bank

The results are based on the means and standard deviation for the data that was collected through the likert scale. The outcomes on control environment are shown in Table 4.9 below;

Table 4.35: **Control Environment of the Bank**

Control Environment of the Bank	**Mean**	**Std. Deviation**
The attitude of the bank's board and management have a great influence on credit risk in banks	4.33	.592
Our bank has effective rules and practices for managing credit risks	3.97	.857
The bank has clearly defined the authority and responsibilities of credit personnel	4.34	.995
The organizational structure enables easy management of the bank's credit whereby all credit risk management plans are properly communicated throughout the bank for all to understand them	3.90	.873
Our bank's board and management are committed to enabling proper internal controls over a bank's operations and credit control	4.27	.762
The top management philosophy upholds integrity, competence and ethical values in all bank's credit operations	4.09	.928
The bank has adequate staffs who are knowledgeable and experienced to manage the organization's credit risks	4.54	.697
The bank has established a suitable credit environment through policy guidelines and approaches that clearly outline the scope and distribution of bank credit facilities	4.10	.581

From the Table 4.9 above, the respondents strongly agreed with the statements that the bank has sufficient personnel who are knowledgeable and experienced to manage the organization's credit risks as shown by 4.54 mean score and 0.697standard deviation. Most of the respondents also agreed that the bank has clearly defined the authority and responsibilities of credit personnel as shown by a mean score of 4.34 and standard deviation of 0.995, the attitude of the bank's board and management have a great influence on credit risk in banks as shown by a mean score of 4.33 and standard deviation of 0.592, our bank's board and management are committed to guaranteeing proper internal controls for the bank's tasks and credit control as shown by 4.27 mean score with standard deviation of 0.762, the bank has established suitable credit environment through policy guidelines and approaches that shows the scope and distribution of bank credit facilities as shown by a mean score of 4.10 and standard deviation of 0.581, the top management philosophy upholds integrity, competence and ethical values in all bank's credit operations as shown by a mean score of 4.09 and standard deviation of 0.928, our bank has effective rules and practices for managing credit risks as shown by 3.97 mean score with standard deviation of 0.857, the organizational structure enables easy management of the bank's credit whereby all credit risk management guidelines are properly communicated throughout the bank for all to understand them as shown by a mean score of 3.90 and standard deviation of 0.873. This is an indication that the bank has able personnel who are knowledgeable

and experienced to manage the organization's credit risks, the bank has clearly defined the authority and responsibilities of credit personnel, the attitude of the bank's board and management have a great influence on credit risk in banks, our bank's board and management are committed to guaranteeing appropriate internal controls over the operation of the bank and credit control, the bank has put in place an suitable credit environment through policy guidelines and strategies that clearly outline the scope and allocation of bank credit facilities, the top management philosophy upholds integrity, competence and ethical values in all bank's credit operations, our bank has effective rules and practices for managing credit risks, the organizational structure enables easy management of the bank's credit whereby all credit risk procedures are appropriately communicated throughout the bank for all to understand them.

4.4.3 Risk Assessment of the Bank

Table 4.10 presents the study results on statements on risk assessment and their influence on performance of banks. Thus the mean scale are presented below.

Table 4.36: **Risk Assessment of the Bank**

Risk Assessment of the Bank	**Mean**	**Std. Deviation**
The management of the bank frequently evaluate the credit risk levels in order to be aware of the credit risks faced by the bank	4.27	.389
Our bank conduct proper credit risk assessment on the borrowers before offering credit facility to the customers	4.01	.611
The bank's top management is open to all communications about credit risks	3.96	.547
Our bank has put in place measures that enable easy detection of non-performing loans	3.88	.809
The bank performs a full and systematic verification of its credit risks	3.56	.393
The bank uses qualitative analysis methods such as high, moderate, low in its risks analysis related to credits	4.23	.540
The top management monitors the effectiveness of credit risk management as an integral part of routine management reporting in our bank	4.07	. 901

From the Table 4.10, the respondents agreed that the management of the bank frequently evaluate the credit risk level in order to be aware of the credit risks encountered by the bank as shown by a mean score of 4.27 with standard deviation of 0.389, the bank uses qualitative analysis approaches such as low, moderate, high in its risks analysis related to credits with 4.23 mean score and 0.540 standard deviation,the top management monitors the effectiveness of credit risk management as an integral part of daily management reporting in our bank and 4.07 mean score with standard deviation of 0.901, our bank conduct proper credit risk assessment on the borrowers before offering credit facility to the customers with a mean score of 4.01 and standard deviation of 0.611.

Also, the respondents agreed with the statements that the bank's senior management is receptive to all communications about credit risks with a mean score of 3.96 and standard deviation of 0.547, our bank has put in place measures that enable easy detection of non-performing loans with a mean score of 3.88 and standard deviation of 0.809, and the bank does a full and systematic verification of its credit risks with a mean score of 3.56 and standard deviation of 0.393. The findings above resonate with the conclusions

drawn by Magara (2013) that indicated that without an effective internal control systems, institutions would fail to achieve their goals due to ineffective risk assessment. The findings were further in agreement with the observations of Ondieki (2013) who indicated that the objectives of internal control audit should be aligned to the management goals as well as the objectives of the firm. Further, study by Olatunji (2009) which concluded that standard internal control system that is strong can help the bank to stand against the wiles of fraud and promote better operations.

4.4.4 Control Activities of the Bank

The section presents the study statements on the control activities that banks employed as measures of internal controls and their effect on the banks' financial performance. The outcomes are shown in Table 4.11.

Table 4.37: **Control Activities of the Bank**

Control Activities of the Bank	Mean	Std. Deviation
The bank has a credit handbook that documents and explains the strategies for managing Credit	3.56	1.103
The bank has approaches for giving credits focus on who, how and what should be done at the outlets and corporate division levels while evaluating borrowers	4.40	0.705
Approvals and authorizations of credits are clearly outlined in the bank's credit policy	4.04	0.743
The bank has a well-documented Credit Risk Management procedure	3.66	1.337
The bank ensures credit compliance and prudence	3.48	1.158
Our bank has put in place measures that ensure credit limit in terms of loans to deposit ratio	3.81	1.013
The bank's processes exist to provide independent credit verification of a sufficient sample of transactions to ensure integrity of the decision-making process	3.80	.905

Findings as presented in Table 4.11 shows that the bank has approaches for giving credits focus on who, how and what should be prepared at the outlets and corporate division levels while evaluating borrowers. This is as indicated by the level of agreement of the respondents where this obtained a 4.40 mean with a standard deviation of 0.705 indicating that the respondents strongly agreed to this fact. Findings also show that the approvals and authorizations of credits are clearly outlined in the bank's credit policy (mean = 4.04; standard deviation = 0.743).

The findings also show that banks have put in place measures that ensure credit limit in terms of loans to deposit ratio, the processes in the bank exist to give autonomous credit corroboration of a sufficient sample of transactions to ensure honesty in the making decision, the bank has a well-documented credit risk management plan and the bank has a credit guidebook that documents and explains the strategies for managing credit risk as shown by mean scores of 3.81, 3.80, 3.66 and 3.56 respectively. The findings above are in line with the work of Barra (2010) who concluded that segregation of duties within the bank was a least -cost method towards deterring fraud in the system. Nonetheless, a large number of the respondents were not taking sides with the statement that the bank ensures credit compliance and prudence as indicated by a mean score of 3.48.

4.4.5 Monitoring of Credit Risk

The study statements on the monitoring controls employed by banks are as presented in Table 4.12.

Table 4.38: **Monitoring of credit risk**

Monitoring of credit risk	Mean	Std. Deviation
The bank continuously evaluates its internal control systems	3.42	.688
The banks conduct frequent internal and external audits to assess the bank's internal control function	4.32	.942
The bank's board and management conduct proper credit assessment so as to monitor its credit position	4.21	.813
Our bank maintains an appropriate credit supervision that involves observing process as well as adequate controls over credit	3.27	.675
The bank conducts continuous monitoring of the internal control system to check its relevance and appropriateness to the bank's objectives	3.86	.987
Our bank has sound documentation, approval and verification system	4.56	.776

The findings in Table 4.12 shows, most of the respondents strongly agreed with the statement that our bank has sound documentation, approval and verification system mean of 4.56 with a standard deviation of 0.776. Also most of the respondents agreed with the statements that the banks conduct frequent internal and external audits to assess the bank's internal control function with a mean of 4.32 and a standard deviation of 0.942, the bank's board and management conduct proper credit assessment so as to monitor its credit position with 4.21 mean and a standard deviation of 0.813, the bank conducts continuous monitoring of the internal control system to check its relevance and suitability to the bank's goals with 3.86 mean with a standard deviation of 0.987. The findings are in agreement with the proposition by Jones (2008) that increased personnel accountability in recognition of their roles led to less fraud cases and losses. Hence regular reconciliations on accounting records can be a key component to eradicating fraud. However, most of the respondents were neutral with the statements that the bank continuously evaluates its internal control systems with mean of 3.42 and a standard deviation of 0.688 and our bank maintains an appropriate credit supervision that involves monitoring process as well as suitable controls over credit with 3.27 with a standard deviation of 0.675.

4.5 Inferential statistics

In this section the researcher covers information on regression analysis, Analysis of Variance (ANOVA) and coefficient of variation.

4.5.1 Regression Analysis

Model summary is used when forecasting the value of a variable based on the value of another variable and the variable being forecasted is known as dependent variable while the variable used to forecast other variable's value is known as independent variable. Table 4.13 below shows the model summary.

Table 4.39: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.906[a]	.820	.812	.24141

a. Predictors: (Constant), Control environment, Risk Assessment, Control Activities, and Monitoring.

From the Table, the degree to which Control environment, Risk Assessment, Control Activities, and Monitoring is related to credit risk and was expressed in the positive correlation coefficient (R) = 0.906 and coefficient of determination, (R^2) =0.820. The value of R^2 is 0.820, which means that 82 percent of the total variance in four variables together has been explained by variability in credit risk practices.

4.5.2 Anova

Analysis of variance (ANOVA) tests the significance of the regression model. The outcomes were as shown in the table 4.14 below.

Table 4.40: ANOVA

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1.303	4	.434	2.758	.000[b]
	Residual	7.403	35	.158		
	Total	8.706	39			

a. Dependent Variable: Credit Risk

b. Predictors: (Constant), Control environment, Risk Assessment, Control Activities, and Monitoring

The findings (P- value of 0.000) in the Table above show that there was a strong significant relationship between the independent variables (Control environment, Risk Assessment, Control Activities, and Monitoring) and dependent variable (Credit Risk). For this case, P is 0.000 which is less than 0.05 and indicates that; overall, the model applied is significantly good enough in predicting the outcome variable.

4.5.3 Coefficient of Variation

The study sought to determine the significance of the correlation between dependent and independent variables. Table 4.15 shows the coefficients that provided the information on the predictor variable.

Table 4.41: Coefficients Distribution

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.841	.803		2.287	.002
	Control environment	.353	.124	.061	.425	.001
	Risk Assessment	.230	.190	.174	1.212	.000
	Control Activities	. 128	.220	.107	.634	.003
	Monitoring	.164	.119	.273	1.916	.000

a. Dependent Variable: Credit Risk

From the findings, standardized beta coefficients are 0.061, 0.174, 0.107 and 0.273, and are significant at 0.000. It means that a unit change in Control environment, Risk Assessment, Control Activities, and Monitoring leads to a change in credit risk mechanisms at 0.061, 0.174, 0.107 and 0.273. All the independent variable showed a positive coefficient indicating a positive result on the credit risk. The regression coefficients show a significant relationship as indicated by the p-values where all the significant values are less than 0.05 indicating a significant relationship between the dependent and independent variables.

Additionally, in testing the relationship, Control environment, Risk Assessment, Control Activities, and Monitoring were used to run the multiple regression against Credit Risk Management banks as the dependent variable.

Based on these, the regression model; $Yt= \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$ therefore becomes;

$Yt= 1.841 + 0.353X_1 + 0.230X_2 + 0.128X_3 + 0.164X_4 + \varepsilon$

According to the results as presented in the model, a unit change in X_1 (control environment) led to a unit increase in credit risk management as shown by a coefficient of 0.353. Thus, there is a positive and significant relationship between control environment and credit risk management of banks ($\beta_1 = 0.353$, $t = 0.425$).

With regard to the relationship between risk assessment and credit risk management of banks, the model illustrated that a unit change in X_2 (risk assessment) led to an increase in credit risk management as shown by a coeffiecient of 0.230. This also showed a significant influence on credit risk management with the coefficient ($\beta_1 = 0.230$, $t = 1.212$) indicating a positive effect on credit risk management.

With regard to the relationship between control activities and credit risk management of banks, the model illustrated that a unit change in X_3 (control actovoties) led to an increase in credit risk management

as shown by a coeffiecient of 0.128. This also showed a significant influence on credit risk management with the coefficient ($\beta_1 = 0.128$, t = 0.634) indicating a positive effect on credit risk management.

The findings in Table 4.15 also showed that monitoring is positively related to credit risk management of banks. The findings show that a unit change in X_4 (monitoring) led to a unit increase in 0.164 in regard to credit risk. The study findings showed a positive and significant relationship between monitoring and credit risk management of banks in Kenya ($\beta_1 = 0.164$, t = 1.916).

4.6 Discussion of Findings

The study revealed a positive and significant relationship between control environment and credit risk management of banks. The findings concur with a study by Magara (2013) who argued that control environment contribute positively to the financial performance of SACCOs in Kenya. It is also evident from the study that if the internal controls within these institutions are not strong, the SACCOs would be performing dismally with the risk of closiding down due to poor financial performance.

This also showed a significant influence of risk assessment on credit risk management with the coefficient ($\beta_1 = 0.230$, t = 1.212) indicating a positive effect on credit risk management. This is in line with a study by Mwachiro (2013) who suggested that the five components of the control environment, risk assessment, control activities, information and communication and monitoring must be available for internal controls to work. The study determined that weak internal controls and especially poor ethical values in the organization have stimulated collusion to fraud, loss of income and misuse of collected revenue.

The study findings showed a positive and significant link between monitoring and credit risk of banks in Kenya. According to Ondieki's (2013) study on impacts of internal audit on financial performance of commercial banks, internal controls such as monitoring can have features built into them to ensure that fraudulent activities are signaled if not impossible, to transact. Internal control audits provide guarantee that controls are working, but they do not necessarily identify fraud or corruption.

Overall, the findings show a positive relationship between control environment, risk assessment, control activities, and monitoring and credit risk management. Without a proper credit risk management practices such as control environment, risk assessment, control activities, and monitoring, banks incur huge financial losses. Credit risk management practices enhances good financial positions of the various banks survey.

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Summary of Findings

The study found that the bank conducts proper credit assessment and adheres to good lending practices, and the bank offers more insider and/or direct lending and that Credit controls are properly observed in the bank. The study also found that the bank has adequate personnel who are competent and well conversant to manage the organization's credit risks, the bank has clearly defined the authority and responsibilities of credit personnel, the attitude of the bank's board and management have a great influence on credit risk in banks, our bank's board and management are committed to ensuring proper internal controls over a bank's operations and credit control, the bank has established an suitable credit environment through policy guidelines and strategies that visibly shows the scope and distribution of bank credit facilities, the top management philosophy upholds integrity, competence and ethical values in all bank's credit operations, our bank has effective rules and practices for managing credit risks, the organizational structure enables easy management of the bank's credit where by each and every credit risk management plans are appropriately communicated throughout the bank for all to understand them.

The study also found that the management of the bank continually evaluate the credit risk profile in order to be aware of the credit risks faced by the bank, the bank uses qualitative analysis approaches such as high, moderate, low in its risks analysis related to credits, the top management monitors the effectiveness of

credit risk management as an essential part of routine management reporting in our bank, our bank conduct proper credit risk assessment on the borrowers before offering credit facility to the customers.

Concerning control activities, the study found that the bank has strategies for giving credits focus on who, how and what should be done at the outlets and corporate division levels while evaluating borrowers and that the approvals and authorizations of credits are clearly outlined in the bank's credit policy. It further found that our bank has put in place measures that ensure credit limit in terms of loans to deposit ratio, the bank's processes exist to provide autonomous credit corroboration of a enough sample of transactions to ensure reliability in making decision, the bank has a well-documented credit risk management plan and the bank has a credit guidebook that documents and elaborates the strategies for managing credit.

Conclusion

The study concludes that without an effective internal control systems, institutions would fail to achieve their goals due to ineffective risk assessment. The study established that the objectives of internal control audit should be aligned to the management goals as well as the objectives of the firm. Further, concluded that standard internal control system that is strong can help the bank to stand against the wiles of fraud and promote better operations. The study also concluded that concluded that segregation of duties within the bank was a least -cost method towards deterring fraud in the system. The study established that increased personnel accountability in recognition of their roles led to less fraud cases and losses. Hence regular reconciliations on accounting records can be a key component to eradicating fraud. The study concludes a positive and significant relationship between monitoring and credit risk management of listed banks in Kenya. The study also recognized that risk assessment has a significant influence on credit risk and that weak internal controls and especially poor ethical values in the organization have encouraged collusion to fraud, loss of income and misuse of collected revenue.

In the present World financial markets have become more dependent and collaborating due to globalization therefore employing the modern practices and procedures related to internal control systems appears to be a responsibility rather than a necessity. Therefore the study concludes that poor internal control method and strategy may result in major losses for both banks and economies. On the other hand, studies done in this field point out that current internal control system can provide a reasonable assurance to corporations on discovery of errors and risk prevention.

Internal control activities have been gaining a much more important presence in banking practices as the time passes. Additionally, modern internal control system strategy has started to gain prominence than traditional approaches. It is also clear that the banks have been trying to improve and put forward distance and central internal control practices through reducing centralized audit and control functions. This study draws the key factors of internal control systems, which can be cultivated by the management of listed ommercial banks to improve their credit performance. Hence this study broadens the scope of detecting measures that will improve organization credit performance like control environment, risk assestment, control activities and monitoring . Therefore banks have to invest in establishing strong internal control systems to minimize their credit risk.

Recommendations

The commercial banks need to implement proper risk assessment to direct their operations. Internal controls are key to the operations of the banks. To ensure effective controls, the banks' management such as senior audit manager should enable conduction of regular checks on the ability of the strategies in place for internal controls in regards to efficient risk assessment.

The commercial banks to should establish efficient control activities todirects their operations. The banks' management such as the senior human resource manager should review the level of employee integrity when allocating them responsibilities particularly areas where the employees handle confidential information involving the banks' vital documents.

The banks' monitoring strategies should be aimed towards effective operations and achievement of the organizational goals. There is need therefore for the commercial banks' management specifically the senior risk manager to ensure that there are policies in place guiding the banks' dealing with threats to the banks' operations.

5.5 Suggestions for further Research

This research could be further developed by looking at the effect on credit risk in other institutions such as investment banks and microfinaces; hence giving a comprehensive view on how internal controls affect not only the commercial banks but also investment banks and microfinace in Kenya. It will assist management of commercial, investment banks and microfinaces towards advancement of the financial sector as a whole.

DETERMINANTS OF RESIDENTIAL HOUSING MOVES: A REVIEW OF LITERATURE

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Abstract

The paper documents various key determinants of housing moves amongst home owners as well as renters. Empirical and theoretical literature attributes housing moves to a myriad of factors which include: search for improved housing utility, changes in demographic characteristics, changes in neighbourhood and housing environment (housing stress), psychological biases (mainly heuristics and anchoring), changes in jobs, forced moves by government among others. The paper further documents information asymmetry issues that arise in the course of housing moves. However, as households initiate moves, they often invest in extensive search (in terms of search effort and search cost) in order to alleviate information asymmetry and optimize utility arising from their moves. The paper reviews extensive related empirical literature (mainly from the West as well as Kenya).

Key Words: **Housing moves, Housing Utility, Mobility, Search, Asymmetric Information, Homeowners and Renters.**

1. Introduction and Background

Real Estate/Real Property consists of land and all property that is permanently attached to it including all the immovable such as buildings, houses, homes, fences and trees. It also includes forestry, agricultural, commercial, residential and industrial, and special purpose properties (Bayer, 2003; Aigula, 2003). The decision to purchase a residential house is part of personal finance (Kapoor et al., 2007). Title is a person's right of ownership of property. A person in possession of reliable proof of ownership of an asset is said to have good title. Title deeds are documents that show proof of good title to land and also contain the terms to which the land is owned (Oxford Dictionary of Finance and Banking, 2008).

A household is a group of people who slept in the same house last night and ate from the same cooking pot (SMART methodology, 2012). Doling (2008) notes that moves out of a household are explained by housing and housing market attributes. Quigley and Weinberg (1977) indicate that moves are made if expected gains from moving outweigh the costs of moving and that the decision to move is also strongly influenced by the cost of moving. Housing moves are occasioned by the need of households to improve on gains arising from housing. Such mobility constitutes an active movement of households from one house to

another in an attempt to improve their housing utility following dissatisfaction with their previous house and the neighbourhood (Wheaton, 1990).

Housing mobility has been attributed to various factors. According Maier and Herath (2009), the location of a house is a key decision that households must make. Smith et al. (1979) attribute choice of neighbourhood to income and value of the house. Phipps (1988) contends that households move in order to adjust its housing stress and they are indeed faced by a budget constraint that ultimately influences their housing location, source of financing and choice of neighbourhood. Smith et al. (1979) attribute housing moves to elements of neighbourhood, changes in household life cycle and economic constraints while Galvez (2011) contends that households move in an attempt to improve quality of life. He attributes housing decisions to household characteristics such as age, size and income as well as safety considerations and access to work.

Various other constraints determine housing mobility. Rossi (1955) contends that a households relocation costs include costs of moving possession and the out-of-pocket costs particular to each type of tenure like psychic costs. Li and Tu (2011) indicate that a household's available budget influences their moving decisions and households consider moves in order to improve their utility. Their housing choices have to be in an ideal location: the location has to be supplied with amenities besides affording easy access to work. And, the more they search for housing, the higher the possibility of finding appropriate housing units. However, Chiappori *et al.* (2006) caution that information asymmetry is prevalent in all markets and that regardless of the product or service being traded, sellers do not know much about buyer preferences nor their maximum price they are willing to part with.

In Malaysia, Tan *et al* (2008) found that housing choices were affected by factors beyond price: in particular they found that choices were explained by the location of the house and in general, determinants of home ownership included housing characteristics (type of house and property type), employment and income trends, socio-cultural and demographic predictors. Smith *et al.* (1979) attribute choice of neighbourhood to income and value of the house. Grether and Mieszkowski (1974) attribute real estate values to neighbourhood conditions, size of house, location of house, available land for parking, condition of house, pollution in the area, supply of amenities and utilities among others. The Grether and Mieszkowski (1974) New Haven Metropolis Area study of 1962-1969 sought to explain determinants of real estate values based on characteristics of the house, the surrounding environments, available amenities and public utilities within the neighbourhood, location of the house, population density, pollution in the area among other factors.

Quality of neighbourhood determines housing mobility. Quigley and Weinberg (1977) found that those households who initiated moves in the US did not settle far away from their previous homes. Decisions to move were caused by dissatisfaction with housing, household characteristics and in some cases factors associated with forced moves like renovations or government demolition of old houses to construct new

ones. Galvez and Kleit (2011) found that most of the movers due to the Holmat Consent Decree in Mineapolis remained in the central city close to their original homes (39% stayed within 2 miles radius and 58% within 3 miles). Empirical evidence has shown that apartments are more popular than bungalows and maisonnettes in other real estate markets (Lambson et al. (2007), Eubank & Sirmans (1979), Garmaise & Moskowitz (2004) among others). Watkins (1998) also found that 89% of home buyers in Scotland actually bought apartments.

2. Information, Search and Residential Housing

2.1 Information and Residential Housing

Watkins (1998) categorically states that information is crucial in the operation of property markets and households are poorly informed about prevailing market conditions. Asymmetric information is hidden knowledge and hidden action in market interactions leading to adverse selection problems and moral hazards (Kau *et al.,* 2010). This arises due to information problems. Hence, households invest in search (search effort and search cost) as they invest in real estate. Palmquist (2001) cautions that some of the characteristics of housing have the nature of public good hence certain information about housing is often not readily available. Turnbull and Sirmans (1993) indicate that different groups of homebuyers have varying levels of information about the real property market as well as different search costs. Lofgren *et al.* (2002) observe that that those who live near a property will always have an information advantage over those who reside far away.

Relevant information will often be undersupplied in housing markets. Clauretie and Sirmans (2006) contends that real property markets will always experience undersupply of certain relevant information like proposed zoning laws and regulations, road improvements, availability of public utilities and other nearby developments. Hence, most households will spend to obtain relevant information in order to improve their housing utility. Mulder (2006) indicates that international migrants are less likely to have thorough knowledge of the local housing market. Hence, they are often disadvantaged in terms of relevant housing market information compared to their counterparts who are citizens or locals.

2.2. Search and Residential Housing

In the context of residential housing, search constitutes the efforts buyers expend to improve their home ownership decisions and the associated costs of searching in a largely inefficient real estate market (Cronin, 1982). According to Wong (2002), household home buying decisions are influenced by search process, choice of location, type of housing, neighbourhood characteristics, location of one's job, community ties, transaction, information and upheaval costs, size of the house and price of housing. Quigley and Weinberg (1977) contend that to enhance utility, moves in the housing market are characterized by search. This is also supported by Rashidi *et al.* (2012) who indicate that residential search influences household location decisions.

Despite search being a key factor in housing, it comes with some complexities. Cronin (1982) advocates for intensive searching in real estate markets than in other economic markets considering that housing is usually the household's most expensive and largest asset in addition to the heterogeneous and decentralized nature of the real property market. Koklic and Vida (2001) indicate that the process of information search importantly shapes buyer decisions. Smith et al. (1979) contend that expected utility attached to searching for housing in a given neighbourhood is based on housing characteristics in the area and the expected costs of search in that area.

Housing search is costly and intermediaries are often engaged to alleviate search costs. Carrillo (2012) contends that the cost of searching in housing markets is significant and contributes to market inefficiency. Cronin (1982) indicates that the cost of searching is mainly attributed to the source of information used, the transportation mode used in the course of searching and the opportunity cost of time devoted in searching. Evidence from the housing market indicates that a mover's race and composition of potential neighbourhoods may limit search and housing options. Watkins (1998) contends that search is aided by the presence of market intermediaries like financial institutions, surveyors and property agents.

Both buyers and sellers incur expensive costs during the search process of buying or selling a home; search cost is significantly large in real estate markets and contributes much to market inefficiency (Carrillo, 2012). Such costs include time, transportation and emotional costs. Carrillo found that homebuyers in Virginia US spent $506 each time they visited and considered buying a house compared to $1,700 that home buyers spent in Tokyo. Galvez and Kleit (2011) contend that households with a large social network are likely to find a home through social networks. They further note that formal sources of searching would involve using newspaper advertisements or using market intermediaries; informal sources of information may include asking friends, reading housing vacancy signs and contacting friends and family.

Search varies across various types of households. In Allegheny County USA, Cronin (1982) found that minorities facing discrimination expended much less time and resources on search. Using cheaper transportation means led to higher levels of search; households with a car searched more extensively while lower cost sources of information led to higher levels of optimal search; using real estate agents resulted in more neighbourhoods and dueling units searched; minority households searched fewer housing units than their nonminority counterparts. Cronin cites several earlier studies that indicated very low levels of housing search: Rossi (1955) found that 48% of renters and 33% of home owners had examined only one housing unit; the Brown and Holmes (1971) study found 44% of home owners had examined only one unit while 88% percent searched four units or less; the Barrett (1973) study found that 42% examined four units or less and still found that 48% of households searched for less than a month.

Using households as respondents, Cronin (1982) used data from Allegheny County (Pittsburgh) to maximize on demographics and search differentials and found that in deed households did search efficiently for housing. Home buyers can conduct formal search by contacting market intermediaries or by

reading newspaper advertisements; they can also use informal sources of search which include asking friends, reading housing vacancy signs and contacting family (Galvez & Kleit, 2011). Prospective home buyers would ordinarily search for information on housing legislation, infrastructure, security of the area, social and public utilities, sewerage system, transport network among others (Makachia, 2010; Oundo, 2011; Imwati, 2010).

Home buyers often search for certain key information relating to neighbourhood conditions (like rate of crime, weather and pollution), ownership rights, zoning and development control laws, cost of mortgage financing, infrastructure (especially state of road network), public and social utilities, ease of commuting to work, physical space, location of the house, age of building, floor and parking space (Makachia, 2010; Imwati, 2010; Ito & Hirono, 1993; Clauretie & Sirmans, 1996). Evidence indicates that homebuyers in Virginia US spent $506 each time they visited and considered buying a house compared to $1,700 that home buyers spent in Tokyo (Carrillo, 2012). The cost of searching is mainly attributed to the source of information used, the mode of transportation used in the course of searching, the opportunity cost of time devoted in searching and transportation costs (Cronin, 1982; Smith *et al.,* 1979).

3. Demographics and Residential Housing: Empirical Evidence

Demographics are the description of a population according to selected characteristics such as age, income, marital status and gender (Kerin *et al.,* 2009). Wheaton (1990) indicates that households consider change of homes when they experience shifts in demographics such as changes in income, family size among others or when their jobs change with a sufficient commuting distance. Hence, they initiate moves away from their current homes in search for better housing to improve utility. Housing moves will often be initiated as demographics change. According to Galvez and Kleit (2011), the higher the mover's income, the more likely they are to move to a 'superior' neighbourhood. Wong (2002), citing Littlewood and Munro (1997), invokes mobility theory which warns that high costs of moving tend to impede residential mobility. Rossi (1955) contends that households who expect to move frequently opt for rental housing as opposed to buying a home.

Hood (1999) makes several observations regarding demographics and residential housing. She indicates that tastes for home ownership increase with increases in family income; one would not invest in a home if they did not have adequate wealth that would provide ability to receive a mortgage loan; males often have higher incomes than females and hence more likely to access mortgage loans; the highly educated are bound to have higher incomes since they often maintain good jobs- they have higher repayment ability in case of mortgage loans; older households have more wealth due to their certainty of income; increase in number of children creates a greater need for home ownership though larger families may have higher financial needs that may prevent home ownership; racial discrimination makes costs of housing high due to large down payments and other fees; married couples are less mobile than the unmarried and due to their need to 'settle down', they would pool resources to buy a home; .

Koklic and Vida (2001) indicate that the home buying process is influenced by lifestyle, characteristics of the buyer, size of the house, location, the fact that the house will be shared by others, needs and preferences of several individuals in the family among others. Rashidi *et al.* (2012) emphasize that homeownership decisions are influenced by lifestyles, preferences, property value, utility, and distance to work. In addition, Hood (1999) contends that marital status, education and presence of children have a strong influence on home ownership. He also notes that when mortgage rates are low, an individual is more likely to invest in housing. Wheaton (1990) indicates that singles may end up occupying large houses while families may end up in small houses.

Cronin (1982) empirical investigation found that household income, household expenditure levels, size of the household, age, race, and education of household head to be some of the critical demographics influencing the choice of residential housing unit. However, his study only targeted low-income households. Case and Shiller (1989) cite Engle, Lilien and Watson's San Diego resale housing market study of 1973 to 1980 which found that movements in housing market prices were largely explained by demographically driven changes. However, this study did not explore the influence of demographics on household home ownership decisions. In their Tucson Arizona, US study, Northcraft & Neale (1987) found that the influence of experience with the real estate market and buyer expertise was dependent on demographics such as age, gender, years lived in the area, whether one has ever bought a house, and whether one had ever bought a house within the area or they were first-time buyers.

While addressing the price adjustment mechanism for real property rental market in the US, Eubank and Sirmans (1979) found that rent and operating expenses were some of the key demographics that explained variations in rental price on multi-family dwellings. Interestingly, Quigley and Weinberg (1977) found that age, income and duration of residence were not directly affecting the decision to move. In Netherlands and Germany, Mulder (2006) found that couples preferred housing of certain quality before they started having children. In Germany and Australia, Mulder found that homeowners were less likely to divorce than renters. In addition, those in stable marriages were more likely to buy a home. This was also evident in Britain where homeownership was strongly related to first being married. Hood (1999) found that marital status had a strong influence on home ownership unlike family size; as the family size exceeded four, fewer families actually owned homes.

Galvez and Kleit (2011) found that households of all races avoided neighbouhoods that were largely dominated by racial groups other than their own. Their investigation also found that movers were frequently minorities. Doling (2008) concluded that in Italy, Greece, Portugal and Spain, older people were less likely to move al all or to move into smaller dwellings since most of them had different sources of wealth. The study also found that personal preferences, information available through close social relations had a significant influence on relocation outcomes.

Mundra and Oyelere (2013) found that the older the household head, being a female and higher educational attainment increased chances of home ownership. This was supported by Fisher and Jaffe (2003) who found that the probability of owning a home in Spain increased with age and educational attainment. Fisher and Jaffe also cite a study conducted in 32 countries by Angel which found that on average, household size, availability of housing credit and inflation explained about 40% of variation in home ownership rates. Interestingly, the study found that wealth was not correlated to homeownership rates. Hood (1999) cites a 1992 Haurin *et al.* empirical study that found that the presence of a child in a household had a significant positive effect on homeownership.

Beguy *et al.* (2010) indicate that changes in family, changes in socioeconomic status and search for actual employment are some of the key factors that explain household mobility rates especially among low income households like slum dwellers. Imwati (2010) contends that informal settlements vary in demographic characteristics, size, social and ethnic composition and that income actually determines ones settlement. Case and Shiller (1989) cite Engle, Lilien and Watson's San Diego resale housing market study of 1973 to 1980 which concluded that movements in housing market prices were largely explained by demographically driven changes. Fisher and Jaffe cite a study conducted in 32 countries by Angel which found that on average, household size explained home ownership rates. Interestingly, Angel study found that wealth was not correlated to homeownership rates. Doling (2008) found that in Italy, Greece, Portugal and Spain, older people were less likely to move. Quigley and Weinberg (1977) found that mobility rates increased with family size, short-distance moves were associated with females and the never married were less likely to move than the ever married; it also emerged that the older the household head, the lower the mobility rate.

In Netherlands and Germany, Mulder (2006) found that couples preferred housing of certain quality before they started having children; in Germany and Australia, homeowners were less likely to divorce than renters while those in stable marriages were more likely to buy a home. This was also evident in Britain where homeownership was strongly related to first being married. Similalry, Hood (1999) found that marital status had a strong influence on home ownership unlike family size; as the family size exceeded four, fewer families actually owned homes. In the US, Mundra and Oyelere (2013) found that the older the household head, being a female and higher educational attainment increased chances of home ownership. In Spain, Fisher and Jaffe (2003) found that the probability of owning a home increased with age and educational attainment.

4. Psychological biases (Anchoring and Heuristics) and Residential Housing

Phipps (1988) indicates that personal and cognitive biases influence decision choices and that people are limited in terms of cognitive abilities for processing information and for making judgment in complex environment. Heuristics have also been empirically cited as rules that govern housing decisions. Northcraft and Neale (1987) confirmed that decision biases like anchoring influenced the real property prices that

buyers were willing to pay for real property whether the buyers were amateurs (students) or experts (real estate professionals).

Phipps (1988) indicates that heuristic rules govern decisions and that the decision to inquire and select homes during the search process is more predicted by heuristics than rationality. Northcraft and Neale (1987) contend that decision biases influence prices for buyers who have a previous experience with real property markets and those who have arbitrary reference points for property prices. They note that psychological literature on heuristics suggests that an arbitrary chosen reference point (anchor) will significantly affect the estimates that buyers make on property values. Northcraft and Neale further conclude that price anchors influence price estimates that buyers give when they enter a market and that even professionals are susceptible to decision biases no matter how much information and experience they had

Simonsohn and Loewenstein (2002) address the problem of anchoring and real estate by concluding that buyers who are accustomed to high prices buy larger or more expensive homes than buyers accustomed to lower prices. Turnbull and Sirman (1993) study used 151 real property transactions and concluded that out-of-town buyers did not pay significantly different prices than their in-town counterparts. The Lambson et al. (2004) study contradicted the findings of Turnbull and Sirmans (1993) and Myer et al. (1992) since their study found that buyers from outside the Phoenix metropolitan area paid a higher premium than those from within Phoenix (the premium paid by out-of-state buyers was associated with high search costs, upwardly biased beliefs (Anchoring) and haste associated with Out-of-State buyers). They further found that buyers purposely bought property from the neighbourhood compared to those at a distance, buyers who are anchored to high real property prices in their home estate set their minds for high property prices while entering the Phoenix apartment market

On the contrary, Myer et al. (1992) concluded that out-of-country buyer premium did not exist. Contrastingly, Miller, Sklarz and Ordway (1998) arrived at conclusions similar to Lambson et al. (2004): using 421 observations (with 30% of them being Japanese buyers), Japanese buyers paid higher real property prices for real property purchases in two Honolulu neighbourhoods in the late 1980s. On a similar note, Northcraft and Neale (1987) find an anchoring bias for property prices in real estate market: when they asked amateur and expert valuers to give valuations of houses upon giving them some reference prices, the former priced them highly than the latter; they found that home buyers with limited market information used price anchors in making housing purchases in Arizona, US.

The modern theory of markets, in situations of asymmetric information, is founded on the contributions of George Akerlof, Michael Spence and John Stigliz (Aldea & Marin, 2007). Akerlof demonstrated how the presence of information asymmetry can induce adverse selection in the market; *S*pence concludes that informed agents can actively signal their private information to uninformed agents for the former to gain a

higher return from the contract; Stigliz explains how the less informed agents can offer a menu of contracts to 'direct' the more informed counterparties to the contracts that best fits their risk profile.

Evidence by Lambson *et al.* (2004) contradicts the findings of Turnbull and Sirmans (1993) and Myer, He and Webb (1992). Turnbull and Sirmans (1993) use 151 real property transactions and conclude that out-of-town buyers do not pay significantly different prices than their in-town counterparts. Similarly, Myer *et al.* (1992) conclude that out-of-country buyer premium does not exist. Contrastingly, Miller *et al.* (1998) findings support Lambson *et al.* (2004) since they use 421 observations (with 30% of them being Japanese buyers) and find that Japanese buyers paid higher real property prices for real property purchases in two Honolulu neighbourhoods in the late 1980s. Similarly, Northcraft and Neale (1987) find an anchoring bias in the real estate market: when they asked amateur and expert valuers to give valuations of houses upon giving them some reference prices, the former priced them highly than the latter.

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REAL ESTATE MARKET IN KENYA: INVESTOR EDUCATION AND POLICY INTERVENTIONS

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Abstract

The paper presents a review of theoretical and empirical literature on selected issues pertaining to the real estate market in Kenya. In particular, the paper mainly focuses on the market for informal settlements, issues of land, low income housing and government housing (for renters and owners) in both commercial and residential housing. A substantial review of investor education literature is documented as well as literature on key determinants of quality of real estate. A highlight of key stakeholders in the market (such as financiers, government, market intermediaries) is captured as well as their contributions to the market. The paper equally reviews various policy interventions by government as part of regulatory prescriptions. Empirical evidence on factors affecting quality of housing and causes of residential housing mobility is similarly reviewed.

Key Words: **Housing moves, Mobility, Search, Asymmetric Information, Informal settlement, Homeowners and Renters.**

I. Introduction and Background

Real Estate/Real Property consists of land and all property that is permanently attached to it including all the immovable such as buildings, houses, homes, fences and trees. It also includes forestry, agricultural, commercial, residential and industrial, and special purpose properties (Bayer, 2003; Aigula, 2003). According to Bayer (2003), real property consists of land and all property that is permanently attached to it including all the immovable such as buildings, houses, homes, fences and trees. It also includes forestry, agricultural, commercial, residential and industrial, and special purpose properties. Brueggeman and Fischer (2008), defines real property as any piece of land including the air above it and the ground below it and any other structures on it. The Kenya Constitution (2010) defines property as any vested or contingent right to or interest in or arising from land, or permanent fixtures on, or improvements to land. Examples of property rights include the right to control, occupy, develop, improve, exploit, pledge, lease, and sell real estate. All these privileges are referred to as property rights. Title is a person's right of ownership of property. A person in possession of reliable proof of ownership of an asset is said to have good title. Title deeds are documents that show proof of good title to land and also contain the terms to which the land is owned (Oxford Dictionary of Finance and Banking, 2008).

Wambugu (2011) notes that real property valuers are meant to give an independent appraisal of real property for purposes of mortgage lending. However, they still get involved in real property sale besides

valuing property for prospective buyers. Such conflicting interests present an asymmetric information situation for real property buyers to enter into suboptimal transactions. Most real property buyers are victims of adverse selection due to their financial illiteracy (*Biashara Leo,* 2011). Most of them are constrained by time and do not know what constitutes relevant information in the real estate market. They do not usually involve real property agents who are deemed to be more informed than them (Gichuki, 2011). There is substantial literature to indicate substantial information gaps in the Kenyan real property market since most buyers will be misinformed comparative to the sellers (Ojijo, 2005). The following factors are important in purchase of land (Muthoka, 2011): the location should offer the buyer some proximity to key facilities like schools, hospitals, shopping malls and other infrastructural facilities; the purchase price of the land should be considered in line with the construction costs if one is to develop the land; the cost of electricity and water supply should considered if the land has to be developed for residential of commercial purposes; the location of land should provide convenience to other family members and your lifestyle in general.

The decision to purchase a residential house is part of personal finance (Kapoor et al., 2007). Muthoka (2011) acknowledges that most real property investors in Kenya have some information gap and may still not consider the services of brokers who are in most cases better informed. However, the brokers' vested interests and costs associated with providing information to the buyers complicate the buyers' real property investment decisions. Kyambo (2011) also notes that most real property buyers in Kenya make mistakes by trying to carry out the investment process on their own without soliciting for professional help.

Land

Mburathi (2010) provides some criteria for purchasing commercial land after concluding that purchasing of office premises is superior to renting the same since the former will maximize ones value from the property. First, he advises that the location of the premises should be ideal for the business. Kyambo (2010) also notes that the value of the property can actually increase when one converts residential property for commercial use); the premises should have a provision for future expansion; the cost implication in terms of transport to the premises and accessibility; the standard and quality of the building should be ideal; availability of adequate parking space; provision of amenities and ventilation to the building including a generator; the quality of the lobby area; the occupancy capacity and appropriate fire escapes among others.

Muthoka (2011) advises buyers to consider several factors before purchasing land. These include: location of the land should provide proximity to facilities and amenities, purchase price should be right, cost of public utilites should be considered if the land has to be developed for commercial or residential purposes, location should provide convenience to other family members, documentation (especially sale agreement) in order. Since supply of land is largely inelastic, its price will always rise especially where there is high

demand. And property developers will overcome this problem by constructing storey buildings (Gichuki, 2011).

II. Consumer Education on Real Estate Investment

Ojijo (2005) documents a huge information gap in the real estate market in Kenya since most buyers are often misinformed compared to property sellers; most real property buyers also become negligent by not considering key factors in their decision making process. Ojijo (2005) further indicates that some of the key considerations for a home ownership decision include: having adequate cash to buy the property; engaging reputable agents to help identify the best property and subsequently help reduce incidental costs; making an appropriate offer to the seller; ascertaining the stamp duty due; performing searches at the land control board; getting a valuation of the property by a registered valuer; taking the appropriate insurance cover; making use of a reputable lawyer to facilitate the sealing of the contract. Owaga (2010) indicates that purchase of commercial real estate requires one to properly investigate title and sign sale agreements. He advocates for planning inspection to check out the structure, engaging architects on planning matters, assessing tenancy agreements, confirming if new developments will infringe on existing developments, familiarizing with tax obligations, maintenance requirements and expectations, searching for encumbrances among others.

Kyambo (2010) advises on several considerations before investing in real estate. These include: transportation to the premises and accessibility, the quality of the building should be ideal, availability of adequate parking space, provision for amenities, occupancy capacity of the building, appropriate fire escapes etc. Most real property buyers in Kenya do not consider the option of property insurance. They may not be informed of the benefits that come with such insurance. Most mortgage financiers will ask the borrower to take an insurance cover over their life so as to hedge themselves against potential loss in the event of the borrower's death or any misfortune that may hinder their loan repayment. Such insurance policies are called Mortgage Protection Covers (Waweru, 2011).

Gikuni (in D2 Daily Kenya Living Magazine of 30th May 2013) advises property buyers on several key considerations which include the need to know the reputation of the developer, computing a true cost of the property to be bought, determining legal and valuation fees, assessing defects associated with the property, surveying the neighbourhood, investigating zoning requirements and pollution requirements and checking out amenities and public utilities. Once a building has been bought, the financier may also require an additional cover on the building (for loss or destruction) against perils such as fire, riots, earthquakes, burglary. Such covers will be taken in the joint names of the borrower and the financier to since the financier is a stakeholder until the mortgage is fully repaid. Waweru (2011) further notes that in some cases, contractors would take some covers for the duration of the construction process to hedge against certain perils like floods, earthquakes etc. once the construction is complete and handed over to be buyer, and they may still proceed and take another cover popularly known as the Home Owners Insurance.

Muthoni (2009) indicates that read property should be linked to several factors. These include: location of the property, comfort of family members, ease of commuting to work and school, access to public transport system, access to facilities and utilities like hospitals and schools, validity of title, access to professional advice, environmental assessment reports, structural checks and verification of payment of rates. Gikuni (in DN2 Daily Kenya Living Magazine of 30th May 2013) indicates that when one opts to construct a house instead of buying one, they should consider the suitability of the location, security, deciding between leasehold and freehold property, access to public utilities, understanding of building plans, scrutinizing the builders credentials among other factors.

In the Homes Kenya Magazine Issue Number 44 (April-May 2013), Benix Agot alerts prospective property buyers of several considerations. These include: understanding the legalities surrounding the transaction, the need to engage a lawyer and reputable real estate agents, conducting a search at the lands board to avoid encumberances and verify ownership, verification of accessibility to basic utilities like water, electricity, road network, sewer system, security, shopping, recreation, education, and financial institutions among others. Owaga (2010) highlights the need for commercial real estate buyers to properly investigate title and equally sign sale agreements. There is need for comprehensive inspection of existing structures, engaging an architect, getting into a tenancy agreement, tax obligations, knowing if the development will infringe on other adjacent development and maintenance of the building as per the local authority laws. Mburaithi (2011) indicates that use of architects is good and will eventually translate to several benefits arising from the fact that the investor is able to benefit from a lot of information from them besides their experience with housing markets and the relevant requirements.

Omengo (2013) outlines ten points to consider when buying real estate. These include: choosing an ideal location (accessible to schools, shopping centres, roads a location convenient to ones place of work); utilizing registered and licensed real estate agents who are knowledgeable on aspects of property law, construction economics etc; ensuring that the property is approved by the relevant authority; understanding the title by conducting a search for encumbrances at the lands registry; avoiding public utility property and property close to by-passes and road reserves; conducting an environmental impact audit and getting approval from the National Environment Management Authority (NEMA); confirming land rates liability; confirming land rent liability for leasehold property; engaging a conveyance lawyer and getting an appropriate financial partner for mortgage financing if need be.

III. Safety of Buildings

Kairu (2005) indicates that the personal safety of a buildings occupants and the safety of the building are key concerns in real property. Unprofessional tactics include “buying plans” from local authorities, using a tactician to design plans and even getting some from the internet. Most real property owners who want to develop their property and always uncomfortable with the professional fees charged by the architects hence the incentive to avoid such costs. Kairu (2005) indicates that safety of a building should be a key concern

for real estate investors. Buildings should be designed to deter theft, vandalism and natural calamities. They should be designed with fire exits, surveillance cameras besides having security guards to man the buildings. Kyambo (2011) contends that real estate investors in Kenya often make investment mistakes by avoiding professional advice. Mburaithi (2011) contends that the use of such architects will eventually translate to more cost savings as opposed to not engaging one.

Wairimu (in DN2 Daily Kenya Living Magazine of 30th May 2013) blames poor quality of housing on unscrupulous contractors who use poor quality materials and their laxity towards rules and regulations. Wairimu (2013) cites the Board of Registration of Architects and Quantity Surveyors who note that beween 1996 and 2011, a total of 24 buildings collapsed in kenya killing 41 people and injuring 47 with the annual loss being estimated to be 1.4 billion shillings. The losses are attributed to poor workmanship, cost-cuting measures, professional negligence and invation of industry by quaks. Consequently, National Construction Authority (NCA) was to commence a fresh registration of contractors. In Nigeria, Wairimu notes that 69% of building collapses were attributed to structural defects.

IV. Pricing of Real Estate

Gichuki (2011) indicates that the real property market is bullish since it is estimated that the demand for housing units in kenya is about 150,000 annually whereas developers are only able to supply a paltry 30,000 units annually. Wambugu (2011) contends that infrastructural developments surrounding real property will affect their pricing. For instance, Wambugu contends that the rising prices of real estate in Thika and Athi River areas in Kenya are attributed to the construction of Thika dual lane highway and the Train services respectively. Other factors that affect prices include: beautification of the surrounding, recreational facilities, schools, hospitals, police post in the neighbourhood, security in the area among others.

Gichuki (2011) attributes high cost of construction to a relatively weak Kenya shilling. He notes that most of the essential raw materials for constructing houses are imported and weak Kenya shilling will always pose problems to developers. Consequently, real estate developers will pass on the high construction costs to property buyers. In addition, he notes that high prices of fuel drive up the cost of transporting such materials making it even more expensive to construct houses. In Kenya, Property valuers are usually engaged by mortgage lenders to provide an independent opinion on the value of real property. However, most of them have commingled valuation services with other services causing some conflict of interest. For instance, most of them real property valuers are also engaged in offering professional services in the valuation of real property and in addition, they will also be engaged in property management, selling, and letting of property (Gichuki, 2011). Such conflict of interest affects the credibility of their real property values. The value of real property can be upgraded in several ways (Muthoka, 2011): subdividing the land into several small pieces and subsequently selling it in small units; changing the uses of property from residential to commercial can boost its value; refurbishing of land by fencing or painting the property;

giving a name to the property; change of user with the council; buying soon to appreciate property and holding on to the same for some while; engaging agents in the deals since they are considered to be more informed about the local market conditions and government regulations.

V. Nairobi City County Housing Market

Oundo (2011) indicates that Nairobi is unique due to its special problems of size and complexity caused by rapid spacial changes and several commercial centres. Imwati (2010) notes that Nairobi metropolitan is rapidly changing and is multi-ethnic; Nairobi is also faced with challenges of insecurity, spacial constraints, infrastructural challenges and social-economic development crises. With an estimated 30% of Kenya's population living in urban centres, Nairobi accounts for about 25% of the country's urban population (Rockefeller Foundation, 2005). Nairobi contributes about 50% of Kenya's GDP (Oundo, 2011). In Nairobi, there is an Architectural Association of Kenya (AAK) which incorporates architects, quantity surveyors, town planners, engineers, landscape architects, construction project managers and environmental design consultants. They help facilitate provision of decent, convenient and affordable housing in Kenya (www.aak.or.ke).

There is a City Planning and Architecture Department which is in charge of management and developments within the city of Nairobi. The department controls urban developments in Nairobi besides reviewing building plans to ensure compliance with building codes (Oundo, 2011). Kenya's revised National Housing Policy of 2004 gave increased attention to Nairobi especially on addressing shortfalls in residential housing supply and slum upgrading initiatives by the Kenyan government. Beguy *et al.* (2010) note that Nairobi is a major labour market in Kenya hence increased need for residential housing to accommodate the influx of labour market displacement of persons from other counties.

In year 2001, the Government of Kenya through the Ministry of Housing announced a new housing policy for public servants. The establishment of The Civil Servants Housing Scheme fund under Legal Notice No. 98 of 15th Septmember 2004 led to provision of housing loans to civil servants to enable civil servants to purchase or construct homes. This would lead to sale of 1,081 housing units to civil servants under Phase I, and 1,365 housing units in Phase II which covered 34 districts. The Ministry of Housing set aside 600 Million kenya shillings in the 2006-2007 financial year to be issued as loans to civil servants to buy houses. Each of them would be entitled to a maximum loan of 5 Million kenya shillings. The scheme advanced loans to civil sevants who bought houses in Makadara estate (developed by National Housing Corporation) and Nyayo Highrise at Embakasi estate (developed by National Social Security Fund). The ministry also dispatched housing loans for civil servants through Kenya Commercial Bank Limited and Housing Finance (www.housing.go.ke).

Imwati (2010) studied peri-urban settlement of Mlolongo Township in Nairobi and conceptualized household demographics as a factor affecting planning and formation of informal community settlements. Makachia (2010) investigated households in Kaloleni and Buruburu Estates in Nairobi and conceptualized

demographics as a factor explaining household transformation: the study further focused on housing legislation, housing development laws and environmental conditions affecting quality of residential housing. Beguy *et al.* (2010) investigated factors influencing household migration rates among Korogocho and Viwandani slums in Nairobi and conceptualized demographics and infrastructure as key determinants of household migration rates. Oundo (2011) conceptualizes demographics as a factor contributing to changes in commercial urban forms of Nairobi besides investigating their influence on location and neighbourhood decisions.

VI. Kenyan Housing Market and Government Policy on Residential Housing

Kenya has a large housing gap which is increasing steadily especially in urban areas. The country has an estimated annual need of about 206,000 housing units (with about 40% of the needs being in urban areas that is 82,000 units) but the annual supply of housing is estimated to be about 50,000 units. Hence, Kenya has an annual housing deficit estimated at about 156,000 units (World Bank, 2011). The Kenyan housing market is characterized by large demand and a huge undersupply of formal housing (Arvanitis, 2013). Nabutola (2004) indicates that about 60% of the Nairobi residents live in informal settlements or slums (a population of about 3,000,000). The World Bank (2011) housing study found that about 70% of the houses in Nairobi were permanent and only 11% of urban population could actually afford mortgage financing. Low mortgage penetration rates were also cited in Zambia where property developers faced a low sale-to-rental ratio on the properties they had built due to high interest rates and low mortgage uptake making most of the households prefer rental housing to buying houses (Arvanitis, 2013).

The Finscope Survey of 2009 found that only 1.5% of home owners acquired their homes through formal or other credit with the rest of the home owners buying the same using cash or/and informal financing means (World Bank, 2011). Arvanis (2013) indicates that there is a very low mortgage penetration rate in Kenya that is 2.5% of outstanding mortgages to GDP. The Central Bank of Kenya Survey of 2010 found that banks themselves identified access to long-term finance as the greatest challenge to the growth of their mortgage portfolios. According to Central Bank of Kenya, by year 2012, the average mortgage across Kenya was 6.6 million shillings requiring a repayment of 90,000 shillings per month over 20 years. This is by all means way above the means of majority of Kenyans (Arvanitis, 2013). In year 2012, property developers took about 73 days to register property while the cost of registering property as a percentage of the property value was 4.3%; it took the property developers a total of 9 procedures to register property (World Bank, 2011).

Mwangi (2010) indicates that Kenyans in diaspora have contributed significantly to the housing sector. Gichuki (2011) corroborates this by noting that Kenyans in diaspora are often keen on real estate investment and will pay high prices that most locals will not pay. According to CBK (2008), 30-40% of the Kenyan real estate market is driven by Kenyans living in Diaspora and 17% of real estate business comes

from the diaspora. Gichuki (2011) indicates that Kenya has an annual need of 150,000 housing units while developers are only able to supply 30,000 units per annum. The housing sector is considered a hedge against inflation since it can offer returns of 25%-30% in a period of 2-3 years. According to Wambugu (2011), the boom in the real estate sector in Kenya is largely attributed to a massive shortage of housing units in urban centres due to a huge influx of people coming from rural areas in search for jobs.

Nabutola (2014) investigated policy on informal settlements and housing challenges and recommends an improvement of infrastructure, the need to make the neighbourhoods safer and more conducive to live and the essence for the Kenya government to come up with Housing Act to address homelessness. Arvanitis (2013) indicates that in year 2003, the Kenyan Government and UN- HABITAT entered into a memorandum of understanding to upgrade slums and informal settlements starting with selected areas in Nairobi. The Kenya informal settlement improvement project was initiated and spearheaded by the World Bank and the programme aimed at improving conditions of informal settlement.

The first attempt on a Kenya National Housing Policy was first captured in Sessional paper No. 5 of 1966/1967. After a couple of decades, a new policy was put in place that is the Kenya National Housing Policy of 2004. The policy addressed the deteriorating housing conditions in the country and how to bridge the shortfall in housing especially in urban areas (Nabutola, 2004). According to World Bank (2011), the year 2004 housing policy aimed at addressing the deficit in housing supply and containing the deteriorating housing conditions countrywide; the policy also documents how to address the housing shortfall in urban areas associated with demand exceeding supply of housing units. Some of the objectives of the housing policy include: to facilitate eventual right to adequate housing for every Kenyan, development and ownership of housing that is environmentally friendly and ideal, identify land and develop public housing in urban areas, increase the proportion of the exchequer allocation for housing, to provide improved infrastructural facilities and living environment, to protect the environment of human settlement among others (National Housing Policy for Kenya, 2004).

The problem of housing deficit has also been attributed to several factors which include rapid urbanization (especially in relation to search for employment), inaccessibility to housing finance, stringent planning regulations, restrictive building standards, high cost of infrastructure, poor economic performance among others (National Housing Policy for Kenya, 2004). The policy also recognizes the need to harmonize existing laws governing urban development besides creating a Housing Development Fund. Urban areas are also affected by acute shortage of habitable dwellings, inadequate infrastructure and congestions. With mortgage financing being elusive to many (due to its high cost), the government of Kenya has provided incentives to promote real estate investment which include: full interest deductibility of mortgage loans and low-cost housing developers in all regions being given 100% investment deduction (National Housing Policy for Kenya, 2004).

In the Kenya Vision 2030, housing and urbanization are addressed under Section 4.8 that is the Social pillar. Kenya Vision 2030 intends to provide the country's population with adequate and decent housing in a sustainable environment. The social pillar seeks to create a clean and secure environment, enhanced access to adequate finances to developers as well as home buyers. On matters security, Kenya Vision 2030 recognizes the need to provide Kenyans with more secure living environment (Kenya Vision 2030, 2007). Consequently, Vision 2030 initiated a nationwide urban planning and development strategies. In addition, as part of the Economic Recovery Strategy, there is an aim of expanding and having well maintained national road network and improved safety of urban settings: the introduction of community-based policing was one such key measure to address security issues linked to theft, robbery, petty offences and drug problems in urban centres. All these issues have a bearing on the residential neighbourhood, location of residential housing and the general quality of housing. Socio-economic development of Kenya has been curtailed by overcrowding, poor and inadequate sanitation, pollution in urban slums and unplanned informal settlements (Kenya Vision 2030, 2007).

The Rockefeller Foundation (2005) acknowledges that Kenya has experienced rapid urban population growth due to rural-urban migration with about 30% of the nation's population thought to be living in urban areas as of year 2004. Nairobi, the capital city of Kenya, accounts for about 25% of the country's urban population with more than half of the population living in informal settlements. Constraints to housing in Nairobi are attributed to: affordability, land, building codes and approvals, low levels of housing finance (only 6% of total loans to private sector was lent to the real estate sector) and government initiatives through institutions like Housing Finance, National Housing Corporation, challenges associated with slum upgrading programmes among others. To address the problem of low mortgage penetration rates in Kenya, the Jamii Bora Trust low-cost housing scheme was initiated. The trust developed a low-cost housing programme worth 600 Million Kenya shillings for the construction of about 2,000 housing units in Kajiado District with the project targeting those living in Nairobi Slums. To finance this project, funds were expected from member savings and donations from well wishers. Members would then receive loans from the Trust and would be expected to make monthly repayments of sh. 3,000. These mortgages would attract interest rates ranging between 8.5%-10% over a repayment period of 10-15 years (Rockefeller Foundation, 2005).

Land is an integral part of real estate. The land question in Kenya has received increased attention following rapid population growth, rapid urbanization, lack of clearly defined property rights and difficulties in accessing land, inadequate environmental management systems among others. The Kenya National Land Policy (2009) alludes to the fact that Kenya does not have a clearly defined National Land Policy due to the existence of several land laws some of which are contradictory and incompatible. The objective of the year 2009 Kenya National Land Policy was to institute a framework of policies and laws to enhance the maintenance of a system of land administration and management that will provide all citizens

with an opportunity to access and beneficially occupy and use land and the efficient and effective utilization of land and land based resources.

The Kenya Constitution (2010) makes a provision for the creation of the National Land Commission to deal with wide ranging land issues in Kenya. The land control board is expected to provide all the relevant information about caveats, defects associated with legal title of land and all other information that would influence the judgment of a reasonable real estate investor. When the real estate market lacks such essential information, asymmetric information problems often arise. Powers of compulsory acquisition of land are mainly vested with the National Land Commission. This is corroborated by Section 5 Chapter 66 of the Kenya Constitution (2010) which indicates that the state may regulate the use of any land, or any interest in or right over any land, in the interest of defence, public safety, public order, public morality, public health, or land use planning. Development control is the power of the state to regulate property rights in urban and rural land. Development control further focuses on the use of land and to ensure its sustainability (National Land Policy, 2009).

X. Empirical Evidence from the Kenyan Housing Market

In Kenya, most empirical investigations have dwelt on demographic characteristics, housing regulations and environmental factors influencing household mobility. Beguy *et al.* (2010) used longitudinal data in measuring migration flows (household mobility) and demographic trends as a key determinant of mobility in Korogocho and Viwandani settlements of Nairobi between years 2003 to 2007. The study Beguy *et al.* (2010) study found that gender and age had a strong influence on mobility; the presence of basic amenities like electricity reduced chances of migration; mobility/migration was high among early adults especially between ages 20 to 24; gender was a factor explaining mobility since women were more mobile than men.

Beguy *et al.* (2010) further indicate that educational attainment, marital status, characteristics of a house and ethnic groupings are key factors explaining mobility amongst low income households. The study attributed housing formation to ethnic affiliation (tribe) by finding that about 64% of the residents who owned houses in Nairobi were from the kikuyu community. The study further found that those who were in marital unions were less likely to migrate, mobility within Korogocho and Viwandani settlements was highly attributed to notice of demolition, educational levels, insecurity concerns, differences attributed to ethnicity, access to electricity, lack of stable source of income, calendar effects (mobility was high in the months of December and February) and changes in marital status (when women got married, they increased their mobility).

Makachia (2010) investigated transformation of housing in formal housing in the rental housing and owner-occupied housing in Kaloleni and Buruburu Estates of Nairobi, Kenya and found that economic and social factors explained transformation of residential housing in the two estates. The study concentrated on dweller initiated transformations associated with strategies adopted in the design of housing and inherent

failures and successes. Insecurity, physical space, amenities, transportation system, size, type and location of house, economic factors, age of household head, size of household, income, occupation and tribal affiliation were key social and economic factors affecting housing transformation within the two estates (Makachia, 2010). Imwati (2010) used cluster sampling in studying planning and the role of demographics in the peri-urban settlement of Mlolongo Township, Nairobi and found that indeed, demographics did influence settlements in Mlolongo. The study focused on the slums and shanties especially the low incomes, unemployed and those living in poor conditions and found that the informal settlements varied in demographics, size, social and ethnic composition with income being the key determinant of housing decisions amongst most households.

Oundo (2011) investigated the commercial urban forms in Nairobi with special interest on the impact of location decisions on performance of commercial real estate markets. He found that choice of commercial location decisions were influenced by service charges, easy access to clients/customers, transportation system, rent and other economic factors. Nairobi contributes more than half of Kenya's GDP and the city has a dispersed urban form. Most commercial centres in Nairobi are located closer to residential neighbourhoods (especially Upperhill and Westlands) and hence, accessibility, location and heighbourhood characteristics were key consideration for commercial housing decisions. The study found that decisions on location of commercial housing in Nairobi were highly explained by increase in population, easy access to customers, transportation system, supply of utilities, sewerage system, street lighting, quality of building, space for business expansion, rent and service charges (occupational costs), economic growth, the physical state of the inner city and a firm's individual location decision. The inner city of Nairobi suffers from poor environmental conditions, high rate of crime, inadequate schools, poor housing, traffic congestion amongst others. Clustering of commercial urban units was actually explained by time factor and cost of travel (Oundo, 2011).

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ABSTRACT

Innovative technological services are crucial to sustain organizations' financial performance and raise their competitive strengths. Savings and credit cooperative society are the main drivers of economic and social development in rural areas of developing countries. In Kenya 81% of the population rely on the Savings and credit cooperative society to access financial services. However, the use of Savings and credit cooperative society by Kenyans as a financial service provider has been declining. The Savings and credit cooperative societies are faced with challenges of survival due to decline of members. The decline is attributed to the competition from banks which have embraced financial innovations. The study therefore sought to investigate the effect of innovative technological services on financial performance of Savings and credit cooperative society in Nairobi City County, Kenya. The specific objectives include; evaluating the influence of use of mobile banking, internet banking, credit/debit cards and Electronic funds transfer. The study employed descriptive survey research design and had a population of 410 of management employees that are directly involved in management of the Savings and credit cooperative societies registered and regulated by Sacco Societies Regulatory Authority in Nairobi City County. The respondents were purposively selected; top level management, middle level management and lower level management. To get the sample size 30% of the target population which is termed as a good demonstration was used for analysis. The sample was selected through stratified random sampling. Therefore, the sample size was 123 respondents. The researcher used questionnaires to collect primary data from the sample population and secondary data was collected from the Savings and credit cooperative societies' reports and other related studies. There was a pilot test for questionnaire before carrying out the data collection to determine instrument reliability. After collection, the data was edited, coded and classified and analysed using descriptive statistics and inferential statistics using Statistical Package for Social Sciences software. The results show that a positive relationship between financial performance and innovative technological services was established. From the findings on the multiple regression analysis, the value of R square is 0. 916. This indicates that 91.6% of variance in dependent variable (financial performance) is explained by variance in the independent variables (innovative technological services). This shows that 91.6% changes in the savings and credit cooperative society financial performance could be accounted for by mobile banking services, internet banking, credit cards and electronic fund transfer at 95% confidence interval. The regression equation established, taking all factors (mobile banking services, internet banking, credit cards and electronic funds transfer) constant at zero, the financial performance of deposit taking saccos will be 4.456. Further, taking all other independent variables at zero, a unit increase in mobile banking services will lead to a 0.545 increase in financial performance. A unit increase in internet banking will lead to a 0.318 increase in financial performance; a unit increase in credit cards will lead to a 0.356 increase in financial performance while a unit increase in electronic funds transfer will lead to a 0.303 increase in financial performance. The study recommended that the government should create policies that enables conducive environment for diffusion of innovations whereas academic institutions should intensify and encourage more research on innovation capabilities and financial performance of savings and credit cooperatives. Also, deposit taking savings and credit cooperatives should intensify development of technology in fund transfer since they have a considerable positive influence of financial performance.

1. INTRODUCTION

Innovative technological is a means of getting and making public new devices of financial services and technologies, organizations and markets. It includes organizational, product and method innovation. Policymakers in developing countries have long considered the value of offering financial services to the unfortunate and near-poor. The global 'microcredit' program that has appeared in the last decade contrasts with earlier credit programs in being more demand-driven, charging bigger interest rates, regulating costs, and emphasizing savings mobilization as a requirement for viable credit provision (Mwangi, 2013).

According to Mosongo, Gichana, Ithai and Nguta (2013) financial innovations lowers the transaction cost of transferring funds from lower yielding money balances to higher yielding alternatives. Therefore, with financial innovation market participants attempt to minimize risk and to maximize returns. Changes in international financial environment and increasing integration of domestic environment lead to financial innovation. Currently SACCO's are providing a very stiff competition to the commercial banks, given that they have introduced currents financial innovations in service delivery. These SACCO's just like the commercial banks have adopted innovation products such as debit cards, credit cards, ATM cards, M-pesa and others which facilitate the use of electronic means of payment and sometimes substitute for the use of physical cash. These have made them very competitive with investors turning away from banks and opt to invest in these SACCO's.

Financial innovations are used by financial institutions as formidable strategic tool to outshine competition and are an essential means for the institutions to maintain their effectiveness and improve their performance in the market (Batiz & Woldesenbet, 2006). In the current dynamic and competitive business environment, a firm must continuously develop products in order to satisfy the constantly changing needs and desires of customers and maximize its set objectives in terms of sales volume, market share and profitability (Grundiche, 2004).

Product innovation offers a potential protection to a firm from market threats and competitors (Becheikh, Landry & Amara, 2006). Susman, Warren, Ding & Stites, (2006) proved that product innovation had positive and significant link with financial performance. All financial innovation strategies are implemented using a few basic techniques such as increasing or reducing risk, pooling risk, swapping income streams, splitting income streams and connecting long-term obligation into short-term ones (Onduko, 2013). Innovation strategy is determinant of Sacco financial performance and provides additional insight into the indirect contribution of the individual dimensions of innovation strategies to Sacco performance.

1.2 Statement of the problem

Onduko (2013) indicated that SACCOs and other MFIs in the financial sector in Kenya risk closure and redundancy if they are not able to embrace innovative technology to counter the ever rising competition from the commercial banks. The Savings and credit cooperative societies are faced with challenges of survival due to decline of members despite their geographical spread compared to other financial providers in the country (Kiragu, 2015). This trend in loss of customers is attributed to the competition from banks which have embraced financial innovations thus being able to offer better services like easy access transaction accounts and consumer loans through mobile and internet platforms (Sacco Societies Regulatory Authority, 2014). This scenario has sparked off stiff competition for customers between Savings and credit cooperative society and these other Financial Institutions.

Deposits taking SACCO's in Kenya have always straggled to keep pace with this ever changing technology with some of the SACCOs collapsing and others operating under losses. Long lines due to increased membership, transaction error, and insecurity and network failures are the common challenges in the financial markets (Smith, 2013). This has highly lowered customer's perception on the quality of service offered, reducing credibility in the banks and microfinance (Joseph *et al.*, 2003).

Majority of Savings and credit cooperative societies' growth in Kenya is decimal. Many of them still do not have Front Office Services Activity. How to strategize for financial innovation basing on the available resources to attain growth has become a great challenge (Sacco Societies Regulatory Authority, 2015). There is clear inadequacy of financial innovation among Savings and credit cooperative societies in Kenya.

Failure by previous researcher to keep updating with the current innovations in the deposit taking SACCO's, the problems of ineffectiveness and poor financial performances in the SACCO's are experienced. Thus this research sort to investigate the role of current financial innovations and how they affect the financial performance of SACCO's registered with SASRA. This study looks to address this gap through looking at innovative technological services and the financial performance of Deposit Taking Savings and credit cooperative societies in Nairobi City County, Kenya.

1.3 Research Objectives

The specific objectives included;

i. To evaluate the influence of mobile banking services on financial performance of Deposit Taking SACCOs in Nairobi City County.
ii. To determine the effects of internet banking on financial performance of Deposit Taking SACCOs in Nairobi City County.
iii. To examine the influence of credit cards on financial performance of Deposit Taking SACCOs in Nairobi City County.
iv. To investigate the effect of Electronic Funds transfer on financial performance of Deposit Taking SACCOs in Nairobi City County, Kenya

1.4 Research Questions

This study sought to answer the following research questions in view of the specific objectives

i. What is the influence of mobile banking on the financial performance of Deposit Taking SACCOs in Nairobi City County?
ii. What are effects of internet banking on the financial performance of Deposit Taking SACCOs in Nairobi City County?
iii. How does the use of credit cards influence the financial performance of Deposit Taking SACCOs in Nairobi City County?
iv. Does the Electronic funds transfer facility influence the financial performance of Deposit Taking SACCOs in Nairobi City County, Kenya?

1.5 Significance of the study

This research work will provide useful information regarding innovations and its effects on the financial inclusion and deepening and hence provide a clear framework on supervision and regulation of SACCOs. It will also benefit the policy makers in creation of a conducive environment to encourage innovations at different levels in the SACCO sector. This is because; this study will encourage the various stakeholders to conduct training through seminars to educate SACCO trustees on the innovation importance and how to go about it.

Sacco's managers will benefit from this study to improve on their market share as they will gain knowledge on effects of financial innovation on growth, what specific financial innovations will be of value and hence allocate more funds on them. SACCO Managers will be able to know that they can use financial innovation to seek an alternative source of funds instead of only relying on the contribution of their members. This will enable them to provide members with financial services at lowered interest rates tailored to their specific needs.

The study will be helpful to researchers and academicians who seek to develop theories on financial innovations which will help them understand the relationships that exist between financial innovations and growth of SACCOs. It will help them build up their research work since this study provides a keen look at the financial innovations that influence the growth of SACCOs. Academicians will use this study at source of their study materials especially those that are specializing in SACCO and Cooperative banking studies.

LITERATURE REVIEW

2.1 Theoretical review

2.2.1 The theory of Rogers Innovation Diffusion

Rogers (1995) outlining the diffusion of innovation theory explains how financial innovations (new) are accepted. This theory outlines five features that affect acceptance of an innovation to include; complexity, compatibility, testability, observability and relative advantage. Complexity refers to the innovation's comprehension hardness and its use (Greenhalgh, 2014).

Therefore, any financial innovation that is compatible and presents relative advantage will be seen as a competitive advantage by SACCOs in Kenya. If the SACCOs implement and put them into practice, many customers/clients are bound to become members thus increasing customer base to these SACCOs which eventually translate into growth (Otieno, 2011). This theory indicates that SACCOs needs to come up with technological innovations for them to gain competitive advantage. This also assist in lean operations, peak performance, effectiveness and efficiency in service delivery.

2.2.2 Task-Technology Fit Theory

As stated by Goodhue & Thompson (1995), the task-technology fit (TTF) addresses the appropriateness of the job at hand and the technology in question. The task-technology fit models have four major constructs, Technology Characteristics, Task Characteristics, which jointly affect the third one Task- Technology Fit, which later influences the outcome variable, either Performance or Usage. TTF models hypothesize that IT will be utilized if, and only if, the IT functionality are appropriate to the user tasks. Rational, knowledgeable users will choose those tools and methods that will help them complete the task with the maximum net benefit. IT that does not offer satisfactory benefits will not be used (Mosoti & Masheka, 2010). Information systems are modeled to assist users carry out tasks more efficiently and competently. SACCOs spend millions of dollars on information systems to add value to performance that eventually would translate into growth (Wyman, 2012).

IT is an important factor to SACCOs' operations in achieving growth. Customers rationally would prefer being served quickly and sufficiently. Therefore, SACCOs that embrace technology in their daily operations aiming at attaining efficiency usually attract and impress their customers who intern become point of referrals leading to the growth of their customer base hence growth. Sufficient efficiency on tasks performed. Consequently, for efficiency of operations the IT technology must align with the errands that the specific technology is meant to support (Muthui, 2013). Technological innovations therefore are found to be the best placed in handing firm services. Technological service innovations enhance Sacco efficiency and therefore profitability.

2.2.3 Agency Theory

Agency theory was first suggested by Stephen and Mitnick (1973). Agency theory is developed as framework for analyzing conflicting interests between key stakeholders, in addition to the development of mechanisms for resolving conflicts according to Abdullah and Valentine (2009). Besides prevalent contribution within discipline of corporate governance, agency theory application is extensive: agency theory may be applied in every situation in

which one party (the principal) delegates work to another (the agent), who performs that work. Agency theory attempts to describe the relationship in terms of behavioural characteristics and provides mathematic instrument for evaluating situations between parties who lack mutual trust. The incentive for agency theory development is the relationship between ownership and control function within larger corporations.

First, the theory conceptually reduces the corporation to two participants of managers and the owners. Second, agency theory suggests that employees or managers in SACCO's can be self-interested. Shareholders expect the agents to act and make the decisions in the principal's interest. On the contrary, the agent may not necessarily make decisions in the best interests of the principals (Padilla, 2002). In agency theory, the agent may succumb to self-interest, opportunistic behaviour and falling short of the agreement between the interest of the principal and the agent's pursuits. Indeed, agency theory can be employed to explore the relationship between the ownership and management structure. However, where there is a separation, the agency model can be applied to align the goals of the management with that of the owners. The model of an employee portrayed in the agency theory is more of a self-interested, individualistic and are bounded rationality where rewards and punishments seem to take priority (Jensen & Meckling, 1976). This theory prescribes that employees must constitute a good governance structure since they are held accountable in their tasks and responsibilities. This theory will help the researcher identify and describe the parties involved in SACCO's. The agency costs that a SACCOs incurs also affect financial performance of SACCO's.

This theory has however been criticized. Stewardship theory rejects the agency theory assumptions and presupposes context in which managers perceive that satisfying shareholders goals is also in their personal interest. Separation of ownership and corporate control does not automatically lead to the conflict of goals and interests between owners and managers (Donaldson & Davis, 1991).

The theory is instrumental in assessing the effect of the motivation and motives of the credit officers who are instrumental in ensuring that risk management practices work and who are apprised and remunerated on the strength of their effectiveness on these tasks. The study will assess if the credit officers and committees always act on the best interest of the owners of SACCO or if there are cases of unethical practices in loaning and other agency cost challenges in the loaning by SACCOs.

2.2 Empirical Review

2.3.1 Mobile Banking and Financial Performance

Lee, Lee and Kim (2007) in their investigation on mobile banking and budgetary execution of commercial banks in China built up that portable managing an account offers a large number of individuals a potential arrangement in developing markets that approach a mobile phone, yet excluded from the financial mainstream. It can make essential budgetary administrations more open by limiting time and separation to the closest retail bank offices (CGAP, 2006) and in addition decreasing the bank's own overheads and exchange related costs. Mobile banking introduces an opportunity for financial organizations to stretch out managing account administrations to new clients accordingly expanding their market.

Ching *et al*. (2011) contemplated the components influencing Malaysian portable mobile banking adoption from the purpose of an experimental examination. This examination went for broadening the Technology Acceptance Model (TAM) to research portable mobile banking acknowledgment in Malaysia. All the more particularly, the goal of this investigation was to inspect the connections between builds of apparent value, saw convenience, social standards, saw dangers, saw inventiveness, and saw relative focal points towards conduct goal in embracing versatile managing an account. The discoveries of this investigation uncovered that apparent helpfulness, saw convenience, relative focal points, saw dangers and individual creativity were the variables influencing the conduct expectation of

versatile clients to receive portable mobile service in Malaysia. In the meantime, the social standards were the main factor observed to be irrelevant in this investigation.

2.3.2 Internet Banking and Financial Performance

E-banking as is commonly referred is the use of internet and networks of telecommunications networks to provide a broad array of better services and products to the clients of the banking sector. Hence internet as a medium of offering banking is a significant delivery avenue for a better reach to the continuously growing clientele hence being in a position to create and sustain good incomes to the SACCOs (Wyman, 2012). Online banking therefore does enable SACCOs' clientele conduct routine banking activities conveniently (Devlin, 2015). Therefore financial institutions should embrace information systems to meet the clients' expectations since they are well cognizant of technological happenings (Devlin, 2015).

A few empirical studies exist in the literature, which have inspected the relative execution of banks offering Internet managing account administrations. Egland *et al*. (1998) was the main critical investigation, which evaluated the quantity of US banks offering Internet saving money and dissected the structure and execution attributes of these banks. It found no confirmation of significant contrasts in the execution of the gathering of banks offering Internet managing an account exercises contrasted with those that don't offer such administrations as far as benefit, productivity or credit quality. In any case, value-based Internet banks contrasted from different banks principally by measure. As opposed to the consequences of Egland *et al*. (1998), Furst *et al*. (2000) found that banks in every single size class offering Internet keeping money were by and large more beneficial and had a tendency to depend less vigorously on conventional saving money exercises in contrast with non-Internet banks.

2.3.3 Credit cards and Financial Performance

Naim (1995) states that credit card is an agreement whereby the card guarantor be resolved to credit a specific measure of cash for somebody who is the cardholder keeping in mind the end goal to meet her or his own buys from shops that are related with the backer of the card with an agreement to acknowledge the satisfaction of cardholder's buys and that is the last settlement after each predetermined period. As per (Al-Zubaidi, 2002) charge card was characterized as a card that gives the holder the privilege to manage numerous shops that are steady with the backer of the card to acknowledge the allowing of the credit for the cardholder to pay off her or his buys, who will reimburse the estimation of buys to the bank through 25 days from the date of the purchase.

Wilfred Michoma, the KCB Group head of credit cards said that the section of SACCOs, Equity, I&M and Cooperative banks into the handling of installments business has helped increment the quantity of POS machines especially in zones which did not initially have these machines. He said that in the course of the most recent two years most POS terminals have swung to utilizing versatile lines for correspondence rather than the land line innovation utilized beforehand and thusly the postpones that used to encounter when a line is down have been tended to. HabilOlaka, the CEO of Kenya Bankers Association said the expansion can be ascribed to the acknowledgment of the utilization of plastic cash as a method of installment, instead of the long-lasting perspective of it as a grown-up toy. This has been helped extraordinarily by the take-up of innovation by the extensive retail general store chains and retailers (Business Daily posted November 21, 2012).

The utilization of the credit cards in the general public has influenced conventional shoppers, as well as vulnerable groups, for example, students, senior residents, and handicapped natives. College students have experienced childhood in the period of credit, getting to be autonomous shoppers prior throughout everyday life, and continually presented to new items and administrations accessible through charge cards. Alongside innovation and the development of the web, they turn into an engaging statistic amass for Mastercard organizations and money related foundations for an assortment of reasons. Solicitation on school grounds has caused worry among school authorities, consumer advocacy groups and administrators (Robb& Sharpe, 2009).

2.3.4 Electronic Fund Transfer and Financial Performance

Oluwatolani, Joshua & Philip (2011) explained that electronic networks that enhance funds transfer support large piles of data incorporating other technical challenges like switching EFT messages and terminal requirements. Gonzalez (2008) also observed that the e-baking has undergone real speedy developments altering traditional banking practices. Discussing the matter, Mosongo (2013) observed that thanks to the computerization of banking practices, the financial sector has become intense since the initial ATM was used - USA in 1968 that was a *mere* cash vending machine (Jabnoun & Al-Tamimi, 2013).

3. RESEARCH METHODOLOGY

3.1 Research design

This research adopted descriptive survey to make assertions on how innovative technological services influences financial performance of SACCOs in Nairobi City County, Kenya

3.2 Target Population

The target population comprised all management employees among the 41 Deposit Taking SACCOs registered and regulated by SASRA to operate in Nairobi City County who total up to 410 employees

3.3 Sampling Design

Stratified random sampling strategy was utilized as a part of a circumstance where the populace being examined is heterogeneous and in this manner can be subdivided into gatherings or strata to get a representative sample. As stated by Mugenda & Mugenda (2012) any sample size that is between 10% and 30% is a good demonstration of the target population and as a result 30% will be used for analysis. From the target population of 410 employees, the researcher will select 123 employees.

3.4 Data Collection Instrument

Questionnaire was used to gather primary information. The instrument was produced to contain the items that are aligned towards achievement of objectives of the study. Secondary data for the current study were collected from records of co-operatives in Nairobi City County.

3.5 Data Analysis and Presentation

Quantitative data were analyzed using descriptive statistics. Descriptive statistics contain discrete numerical data (Mugenda & Mugenda, 2003). Descriptive statistics which include measure of central tendency such as means, mode and median and measure of dispersion which includes standard deviations were derived. A regression model will be used to test the influence of innovative technological services and financial performance of Deposit Taking SACCOs in Nairobi City County, Kenya. The general form of multiple Regression: $\mathbf{Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon}$

Where; Y = Financial Performance of Deposit Taking SACCOs
X_1 = Mobile banking
X_2 = Internet banking
X_3= Credit cards transfer
X_4= electronic funds transfer
β_0= Constant Term;
β_1, β_2, β_3, β_4= Beta coefficients; ε = Error Term

4. RESULTS

4.1 Descriptive analysis

4.1.1Mobile Banking Services and financial performance

The objective one was to evaluate the influence of mobile banking services on financial performance of Deposit Taking SACCOs in Nairobi City County. The respondents were to rate the parameters of mobile banking services on a scale of 1 to 5 where 1, not at all, 2 low extent, 3 moderate extent, 4 to great extent and 5 to a very great extent. The means and standard deviations were developed.

Table 4.1 Influence of mobile banking services on financial performance of Deposit Taking SACCOs

Parameters	Mean	SDEV
Mobile banking network is sufficient	3.43	0.585
The SACCO has partnered with all mobile subscribers to deliver banking services	3.36	0.752
Most products can be accessed on the mobile platform by consumers	3.15	0.715
Mobile banking platform for the SACCO is dependable and trusted	3.85	0.546
Mobile banking reduces the cost of transactions	2.74	0.549
Mobile banking has increased the rate and number of transactions	2.72	0.789

Source: SACCOs data (2018)

From finding in table 4.1 the respondents agreed that; mobile banking network is sufficient, the SACCO has partnered with all mobile subscribers to deliver banking services, most products can be accessed on the mobile platform by consumers and mobile banking platform for the SACCO is dependable and trusted with mean of 3.43, 3.36, 3.15 and 3.85 respectively. Mobile banking introduces an opportunity for financial organizations to stretch out managing account administrations to new clients accordingly expanding their market. However, mobile banking reduces the cost of transactions and mobile banking has increased the rate and number of transactions was low as represented by mean of 2.74 and 2.72 respectively. The study findings correlates with Lee, Lee and Kim (2007) in their investigation on mobile banking and budgetary execution of commercial banks in China built up that portable managing an account offers a large number of individuals a potential arrangement in developing markets that approach a mobile phone, yet excluded from the financial mainstream. Ching *et al*. (2011) contemplated the components influencing Malaysian portable mobile banking adoption from the purpose of an experimental examination

4.1.2 Internet Banking and financial performance

The objective two was to determine the effects of internet banking on financial performance of Deposit Taking SACCOs in Nairobi City County. The respondents were to rate the parameters of internet banking services on a scale of 1 to 5 where 1, not at all, 2 low extent, 3 moderate extent, 4 to great extent and 5 to a very great extent. The means and standard deviations were developed.

Table 4.2 Effects of internet banking on financial performance of Deposit Taking SACCOs in Nairobi City County

Statement	Mean	SDEV
Internet banking has increased geographical coverage of the SACCO	4.26	0.664
Internet banking has improved customer liquidity	3.97	0.528
Internet banking is cost effective for clients and the SACCO	3.96	0.558
It has enhanced penetration of banking services to unbanked markets	3.94	0.515
Enhances access of full range of banking products to informal settings	3.78	0.634
It is the backbone of electronic money banking	3.98	0.588

Source: SACCOs data (2018)

Table 4.2 present responses on internet banking; from the results majority of the respondents agreed that internet banking has increased geographical coverage of the SACCO (mean = 4.26), internet banking has improved customer liquidity (mean = 3.97), Internet banking is cost effective for clients and the SACCO (mean = 3.96), it has enhanced penetration of banking services to unbanked markets (mean = 3.94), enhances access of full range of banking products to informal settings (mean = 3.78) and it is the backbone of electronic money banking (mean = 3.98). The findings collaborates with Egland et al. (1998) noted that no confirmation of significant contrasts in the execution of the gathering of banks offering Internet managing an account exercises contrasted with those that don't offer such administrations as far as benefit, productivity or credit quality. Internet managing an account was too little a factor to have influenced banks' gainfulness. Hence internet as a medium of offering banking is a significant delivery avenue for a better reach to the continuously growing clientele hence being in a position to create and sustain good incomes to the SACCOs (Wyman, 2012). It found no confirmation of significant contrasts in the execution of the gathering of banks offering Internet managing an account exercises contrasted with those that don't offer such administrations as far as benefit, productivity or credit quality. In any case, value-based Internet banks contrasted from different banks principally by measure.

4.1.3 Credit cards and financial performance

The objective three was to examine the influence of credit cards on financial performance of Deposit Taking SACCOs in Nairobi City County. The respondents were to rate the parameters of Credit cards services on a scale of 1 to 5 where 1, not at all, 2 low extent, 3 moderate extent, 4 to great extent and 5 to a very great extent. The means and standard deviations were developed

Table 4.3 Influence of credit cards on financial performance of Deposit Taking SACCOs

Statement	Mean	SDEV
Most customers have credit cards	3.19	0.809
The SACCO promotes use of cards to transact	3.32	0.817
The ATM network is sufficient	3.54	0.559
The ATMs are strategically located close to customers	3.63	0.884

The ATM machines are of modern technology	3.98	0.847
ATM machines are dependable and trusted	2.58	0.795
ATM machines reduce the cost of transactions	3.03	0.963
ATMs have increased the rate and number of transactions	2.45	0.857

Source: SACCOs data (2018)

Table 4.3 shows the study findings on influence of credit cards financial performance of Deposit Taking SACCOs, majority agreed that ATM machines are of modern technology (mean = 3.98), the ATMs are strategically located close to customers (mean = 3.63), the ATM network is sufficient (mean = 3.54), the SACCO promotes use of cards to transact (mean =3.32), most customers have credit cards (mean=3.19). However, few respondents agreed that ATM machines are dependable and trusted (mean =2.58), ATM machines reduce the cost of transactions (mean =3.03). Moreover, very few respondents agreed that ATMs have increased the rate and number of transactions (mean = 2.45). The findings agreed with Wilfred Michoma (2012) findings revealed that the section of SACCOs, Equity, I&M and Cooperative banks into the handling of installments business has helped increment the quantity of POS machines especially in zones which did not initially have these machines. The utilization of the credit cards in the general public has influenced conventional shoppers, as well as vulnerable groups, for example, students, senior residents, and handicapped natives. Alongside innovation and the development of the web, they turn into an engaging statistic amass for Mastercard organizations and money related foundations for an assortment of reasons. According to Robb and Sharpe (2009) alongside innovation and the development of the web, they turn into an engaging statistic amass for Mastercard organizations and money related foundations for an assortment of reasons. Solicitation on school grounds has caused worry among school authorities, consumer advocacy groups and administrators.

4.1.4 Funds transfer and financial performance

The objective four was to determine the effect of Electronic Funds transfer on financial performance of Deposit Taking SACCOs in Nairobi City County, Kenya. The respondents were to rate the parameters of Credit cards services on a scale of 1 to 5 where 1, not at all, 2 low extent, 3 moderate extent, 4 to great extent and 5 to a very great extent. The means and standard deviations were developed.

Table 4.4 Effect of Electronic Funds transfer on financial performance of Deposit Taking SACCOs

Statement	Mean	SDEV
Most customers use the EFT platform to receive money	3.55	0.857
The SACCO promotes use of EFT to transact	3.44	0.689
The EFT network is sufficient	3.56	0.724
The EFT services by most agencies like money gram, western union etc are available	3.53	0.788
The EFT machines are of modern technology	3.21	0.578
EFT services are safe and fast in money transfer	3.25	0.782
EFT services reduce the cost of transactions	3.12	0.751
EFT services have increased the rate and number of transactions	3.58	0.886

Source: SACCOs data (2018)

From table 4.4, it was realized that electronic funds transfer influence financial performance of deposit taking SACCOs. The findings revealed that respondents agreed that EFT services have increased the rate and number of transactions (mean = 3.58), The EFT network is sufficient (mean = 3.56), Most customers use the EFT platform to receive money (mean =3.55), The SACCO promotes use of EFT to transact (mean = 3.44). However, only few respondents agreed that EFT services are safe and fast in money transfer (mean = 3.25), The EFT machines are of modern technology (mean = 3.21) and EFT services reduce the cost of transactions (mean = 3.12). Electronic networks enhance funds transfer support of large piles of data. The results concur with Mosongo (2013) observed that thanks to the computerization of banking practices, the financial sector has become intense since the initial ATM was used - USA in 1968 that was a mere cash vending machine.

4.2 Regression Analysis

The researcher conducted multiple regression analysis to examine the influence of innovative technological services on financial performance of Deposit Taking SACCOs in Nairobi City. The findings are indicated in subsequent sections;

Table 4.5 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.933	0.916	0.720	0.396

Source: SACCOs data (2018)

The table above indicates the model summary. From the findings, R was 0.933, adjusted R square was 0.720 and R squared was 0.916. An R square of 0.916 implies that 91.6% of changes on financial performance of Deposit Taking SACCOs are explained by the independent variables of the study. There are however other factors that influence financial performance of Deposit Taking SACCOs are not included in the model which account for 8.4%. An R of 0.933 on the other hand signifies strong positive correlation between the variables of the study.

Table 4.6 ANOVA

Model	SS	df	MS	F	Significance
Regression	468.12	5	475.4	5785.16	0.0006
Residual	256.55	331	0.952		
Total	**724.67**	**336**			

Source: SACCOs data (2018)

From the ANOVA table above, the value of F calculated is 578.16 while F critical is 475.4. Since the value of F calculated is greater than F critical, the overall regression model was significant and therefore a reliable indicator of the study findings. In terms of p values, the study indicated 0.000 which is less than 0.05 and therefore statistically significant. Magali (2015), Mugo (2012), Omondi (2013), Njeri (2012) Kanzi (2011) found positive results in the relationship between innovativeness financially and growth of SACCOs in Kenya.

Table 4.7 Regression Coefficients

Multiple Regression Analysis					
Variables	**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
	B	**Std. Error**	**Beta**		
(Constant)	4.456	0.317		6.924	.0006
Mobile Banking Services	0.545	0.0163	0.155	1.850	.0005
Internet Banking	0.318	0.0281	0.0326	3.535	.0018
Credit cards	0.356	0.0415	0.2323	2.624	.0036
Electronic Funds transfer	0.303	0.0204	0.0487	3.156	.0020

Source: SACCOs data (2018)

In addition, the researcher conducted a multiple regression analysis so as to determine the relationship between financial performance of Deposit Taking SACCOs and the four variables. As per the SPSS generated table, the equation ($\mathbf{Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon}$) becomes:

$$\mathbf{Y = 4.456 + 0.545\ X_1 + 0.318 X_2 + 0.356 X_3 + 0.303 \beta_4 X_4}$$

Where Y = financial performance of Deposit Taking SACCOs

X_1 = Mobile Banking Services

X_2 = Internet Banking

X_3 = Credit cards

X_4 = Electronic Funds transfer

According to the regression equation established, taking all factors (mobile banking services, internet banking, credit cards and electronic funds transfer) constant at zero, the financial performance of Deposit Taking SACCOs will be 4.456. Further, taking all other independent variables at zero, a unit increase in mobile banking services will lead to a 0.545 increase in financial performance. A unit increase in internet banking will lead to a 0.318 increase in financial performance; a unit increase in credit cards will lead to a 0.356 increase in financial performance while a unit increase in electronic funds transfer will lead to a 0.303 increase in financial performance. This infers that mobile banking services contributed more to the financial performance of the Deposit Taking SACCOs.

At 5% level of significance and 95% level of confidence, mobile banking services had a 0.0005 level of significance; internet banking had a 0.0018 level of significance, credit cards showed a 0.0036 level of significant, while electronic fund transfer showed a 0.0020 level of significance. Hence, knowledge mobile banking services are the most significant factor in contributing to the financial performance of Deposit Taking SACCOs. The findings agreed with Wyman (2012) noted that Mobile banking is a complementary avenue

through which banking services can be offered. This therefore is seen by SACCOs as a better means to serve its wide and ever-growing customer base with quality service, fast, efficient and convenient manner. It is also believed to create good revenue to SACCOs thus leading to profitability and growth.

5. CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

In conclusion, innovations influence financial performance of deposit taking SACCOs in Nairobi City County, Kenya. The adoption of innovations by deposit taking SACCOs has a high potential of improving financial performance. SACCOs in Nairobi City, Kenya have continued to perform well even when other sectors of the economy show lagged performance. This can be explained by the use of innovations which have enabled SACCOs to start making income away from interest, trade and asset financing. Through mobile banking, internet banking, credit cards and electronic fund transfer, SACCOs have made more commission income from transactions.

The findings of the study revealed a benefit relationship between innovative technological services and financial performance of deposit taking SACCOS in Nairobi City County. The correlation of coefficient (R) of 0.933 the between innovation technological services and financial performance supports these findings. Additional, the relationship between innovation technological services and financial performance of deposit taking SACCOS is statistically significant as the p value of regression is 0.006, which is less than 0.05. The Findings infers that deposit taking SACCOs in the Nairobi City County have developed innovation technological services with the intent of gaining profit hence enhance financial performance

5.2 Recommendations

The study recommended that SACCOs should relate their monetary policy instruments to their financial reports. This should indicate the appropriate effect of each financial innovation.

Deposit taking SACCOs should intensify development of technology especially in innovation process, internet banking and electronic fund transfer since they have a considerable positive influence of financial performance.

Since innovative is a major factor affecting the performance of SACCOs, the government should create policies that enables conducive environment for diffusion of innovations whereas academic institutions should intensify and encourage more research on innovation capabilities and financial performance for SACCOs.

Deposit taking SACCOs should continue to invest in new and emerging financial innovative technology to continue realizing the benefits that accrue from new financial innovations e.g. improved customer satisfaction and reduced operational costs.

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INFLUENCE OF TRADE UNIONS' MANAGEMENT OF COLLECTIVE BARGAINING TERMS ON PRODUCTIVITY IN TECHNICAL AND VOCATIONAL EDUCATION TRAINING INSTITUTIONS IN KENYA

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ABSTRACT

The study aimed at establishing the influence of management of collective bargaining terms on productivity in Technical and Vocational Education Training (TVET) Institutions in Kenya. The research adopted cross sectional survey research design. The target population was TVET Institutions with 5718 individuals that included Principals, Deputy Principals, heads of departments, teaching staff, non-teaching staff, a ministry of science and technology education official, Secretary Generals of KNUT, KUPPET, COTU, TUC and representative from the TVET Institutions. The sample size was 361 of which 315 responded. Purposive sampling was used to select 10% of sample size of institutions for pilot testing. Normal approximation to the binomial distribution and stratified sampling were used to arrive at the sample size. A structured questionnaire and an interview schedule were used to collect primary data. The questionnaire was pretested before data collection for validation and reliability. Secondary data was collected through evaluation of journals, reports, and publications. The Statistical Package for Social Sciences (SPSS) version 22 was used for the statistical analyses. The study revealed that there is a positive linear relationship between trade unions' management of collective bargaining terms and productivity. The study recommended that TVET institutional heads and Ministry of Science and Technology officers should always seek to work harmoniously with trade unions instead of competing in order to enhance productivity of lecturers and other members at the TVET institutions. TVET institutional heads and the ministry officials should tap into the influence of trade unions to achieve organizational goals at TVET institutions and thereby enhance productivity. The study is beneficial to Education stakeholders, trade union officials and the Government at large.

Key Words: *Trade Unions Management of Collective Bargaining Terms, Productivity, TVET Institutions in Kenya*

INTRODUCTION

Collective bargaining is a voluntary negotiation between employers or employers' organizations and workers' organizations, with a view to the regulation of terms and conditions of employment by collective agreements (Akhaukwa; Maru, & Byaruhanga, 2013; ILO Convention No. 98 of 1949 cited in Tubey, Kipkemboi, & Bundotich, 2015). According to Khan and Khan (2011), workers join unions for such benefits as higher wages, better benefits, job security, safer working conditions, and the right to have input into workplace affairs.

Trade unions play different roles in different countries, for example, unions in the United States of America (USA) exercise their power through collective bargaining and organizing strikes. German unions, on the other hand, participate in employment-related decision processes in a co-determination system. Japan has a similar joint-consultation system, in which employee groups communicate with management on issues of policy, production, personnel, and finances. Unlike managers in the USA who hold anti-union attitudes, many Japanese executives begin their career as union members and union leaders, and as a result have a greater appreciation for the perspective of labor as well as management (Bernardin, 2010).

Several studies have shown that trade unions have beyond collective bargaining role such as role in increasing worker's productivity or efficiency, improvement of workers discipline, workplace peace and harmony and participating in decision making with management (Khan & Khan, 2011). Bryson *et al*., (2011), states that in theory, trade unions may have a negative influence on organization performance. If they are successful in bargaining for above-market wages or in capturing quasi-rents (for example, through restrictive practices that reduce productivity) they will reduce profitability. Trade unions can enhance performance through voice effects which raise labour productivity and improve managerial decision-making (Freeman & Medoff, 1984), cited by Bryson *et al*., (2011), by acting as an agent for the employer in monitoring workers, or in assisting with organizational change (Vroman, 1990) cited by Bryson *et al*., (2011). Productivity seems to improve in an economy promoting policies to weaken industry-wide collective bargaining. Further research is needed in Industry-wide work rules and productivity (Lamarche, 2013).

Trade unions in Kenya especially those representing lecturers, employees, civil servants, doctors and nurses have been agitating for higher salaries, job security, improved terms and conditions of employment for their members among other things. The Constitution of Kenya (COK) 2010, which provides for industrial action under Article 41 in the Bill of Rights, has led to a fresh vibrancy in trade unionism. Some 14 trade unions have been registered since the promulgation of the Constitution on August 27, 2010, bringing the total number to 79 (Nyaencha, 2014). Most trade unions in Kenya are organized on an industrial basis and any union applying for registration is scrutinized and registered or refused registration on this basis (Aluchio, 1998, cited by Nyaencha, 2014). In Kenya, there are over 56 Technical institutions spread across the country and offering technical and vocational training. Technical skills form the basis for the realization of industrial transformation and a meaningful quest for Kenya's Vision 2030. Technical skills are a basic requirement that enable graduates of TVET in Kenya to engage productively after graduating. This implies that employees TVET should have a higher productivity (Sang, Muthaa, & Mbugua, 2012). In a research conducted by Commonwealth Secretariat in TVET institutions in Kenya, one of the recommendations was that there is need to strengthen teacher training and professional development, particularly in terms of developing and improving a competency-based approach to teaching and assessment (Commonwealth Secretariat, 2013).

Employees' productivity

There are authors who belief that trade unions can improve employee productivity while others belief that union presence lowers employee productivity. Hirsch (1997), cited by Khan *et al*., (2011) quoted studies of Maki (1973), who used aggregate Canadian data, concluded that the shock effects of unionization initially increase productivity levels but that unionism is associated with slower productivity growth. He quoted British studies of (Nickell, Wadhwani, & Wall 1992, Gregg, Machin, & Metcalf 1993 cited by Khan *et al*., 2011) for differences in productivity growth between unionized and non-unionized firms, evidencing that unions have either a negative effect or no effect on productivity growth during the early years of their analysis but positive effects during the 1980s. There is evidence that managers regard trade unions as a stumbling block to workplace performance. This has resulted in union avoidance, suppression and substitution (Gill & Meyer, 2013).

Statement of the Problem

Trade Unions worldwide are facing many challenges. Despite impressive performance and contribution to national economy, the Education, Health and Flower sectors are still faced with decent work deficit. Omolo (2006), cited by Odhong' & Omolo state that these could be manifested in terms and conditions of employment leading to industrial unrest in these organizations (Odhong' & Omolo, 2014). Some of the problems being faced by trade unions in Kenya are poor negotiation skills and poor procedures for collective bargaining agreements (Anyango, 2010) cited by (Morara & Gakure, 2015). The effectiveness of the collective bargaining process is often hampered by poor negotiating skills of the bargaining parties.

The results of these poor negotiation skills and poor procedures are anger, fear, greed, and uncertainty that influence employee's productivity negatively (Ionescu, 2015). Despite much research being done by researchers like Daveri *et al*., (2005), cited by (Damiani & Ricci, 2014) and (Gray, 2013), on the influence of trade unions on productivity, productivity across the world has been slowing for years. The findings by the Conference Board, a global business research institute cited by Gray (2013), show that productivity globally, had declined by 1.8 percent in 2012, the largest drop since 2001. This is a global problem (Gray, 2013). Technical skills form the basis for the realization of industrial transformation and a meaningful quest for Kenya's Vision 2030. Technical skills are a basic requirement that enable graduates of TVET in Kenya to engage productively after graduating. This implies that employees in TVET should have a higher productivity (Sang, Muthaa, & Mbugua, 2012). In Kenya there has been declining labour productivity in all sectors of the country's economy, increasing unit labour cost and low levels of competitiveness. Kenya's labour productivity growth has, for example, declined from 4 per cent in 2007 to 1.4 per cent in 2012 (Odhong, Were & Omolo, 2014). There is a marked expansion of vocational and technical training institutions in Kenya but despite this, the system has some marked shortcomings. The trade unions (KNUT and KUPPET) representing the education sector in Kenya have been in the news (electronic and printed media) for organizing strikes due to poor terms and conditions of employment for their members. It is against this background that this study carried out research to examine the influence of trade unions on productivity of Technical and Vocational Education Training Institutions in Kenya.

Objective of the Study

To establish the influence of Trade Unions' management of collective bargaining terms on productivity in Technical and Vocational Education Training Institutions in Kenya.

Research Hypotheses

H_3: Trade Unions' Management of collective bargaining terms has no statistically significant influence on productivity in TVET Institutions in Kenya.

LITERATURE REVIEW

Theoretical Framework

Ability, Motivation, Opportunity Theory (AMO Theory)

Ability, Motivation and Opportunity, (AMO) theory from (Appelbaum *et al.,* 2000) cited by (Katua *et al.,* 2014) propose HRM-performance framework, and argue that organizational performance is served by workers who have the ability to do the work, possess the necessary skills and knowledge, are motivated to work and have the opportunity to arrange their skills in doing their work. According to Musah (2008) cited by Katua *et al.,* (2014), performance is a function of Ability + Motivation + Opportunity (AMO). AMO theory advocates that there is no specific list of HR practices that may influence performance. It states that, the whole process depends on HR architecture that covers policies designed to build and retain human capital and to influence employee behaviour. HRM polices that are required in order to turn AMO into action are considered to be recruitment and selection, training and development of career opportunities, these are linked to ability and skill; rewards and incentives, are linked to motivation and involvement, team working, work-life balance, while welfare services and autonomy are linked to opportunity to participate.

This theory implies that performance at individual level, which leads to productivity, depends on high motivation, possession of necessary skills and abilities. It is important for TVET institutions to implement the HRM practices that encourage, for example, employee participation through their trade unions. According to Musah (2008) cited by

Katua *et al.* (2014), skilled, motivated and flexible workforce can help develop an organization's sustainable core competencies which increase their productivity. While implementing AMO policies, employees in TVET institutions should develop organizational commitment, motivation and job satisfaction (attitudinal outcome). These attitudes are expected to lead to employee demonstrating a range of positive behavioural outcomes that is reflected in their performance and productivity. Discretionary behaviour that is, making the right choices about how to do a job, such as speed, care, innovation and style and organizational citizenship behaviour lie at the heart of the employment relationship and are strongly connected to employee performance and productivity. Highly committed, motivated and satisfied employees perform better. Ability, Motivation and Opportunity (AMO) policies are expected to develop attitudes and feelings of satisfaction, commitment and motivation in most employees because these translate into great performance leading to high productivity (Purcel *et al.,* 2011).

Conceptual Framework

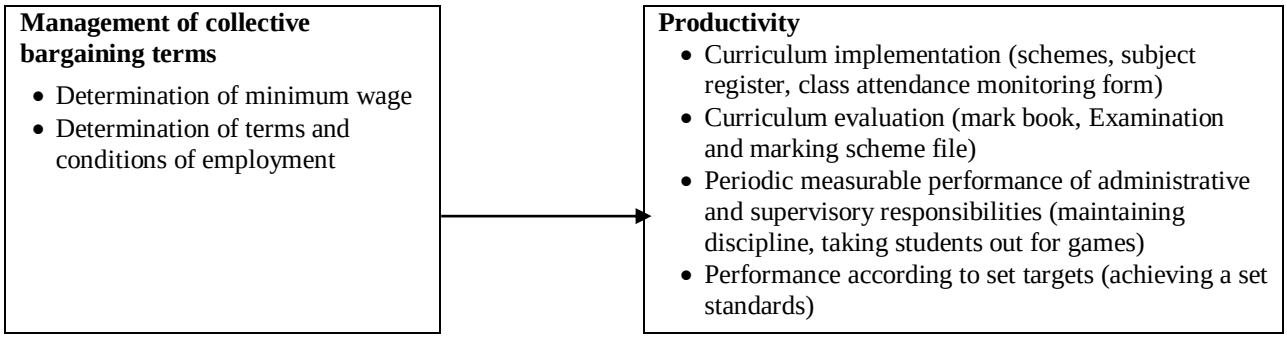

Figure 1: Conceptual Framework (adopted from Gill, 2009)

Empirical Review

Gichaba, (2013), states that how much trade union raise wages, for whom, and the consequences of unionization for employees, organizations and the economy have been studied by economists and other researchers for more than a century. Pierce (1999) cited by Gichaba, (2013) used the new Bureau of Labour Statistics survey of employers and the National Compensation Survey to study wage determination and found a union wage premium of 17.4% in 1997. That study was based on observations of 145,054 non 20 agricultural jobs from 17,246 different establishments, excluding the federal government.

Kearney and Carnevale (2001) cited by Gichaba, (2013) found that in the public sector, employees with collective bargaining rights earn 5-8% more than those without such rights. Trade unions lead employees in their negotiations and agreement with their employers on appropriate payment and work conditions (Manda, 2005). An established finding is that unionized low level employees earn more in the public sector than those in comparable positions in the private sector. According to Ale (2002) collective bargaining is used by workers to get organized and negotiate working conditions with their employees on expectations of wages, working hours and employment conditions. Trade unions can bargain for wage increases for their members, but public sector wages are limited by budgets and by public opinion (Shapiro, 1978; Mitchell, 1988; Kearney and Carnevale, 2001) cited by Gichaba, (2013). Pencavel (2009 cited in Gichaba, 2013), argues that elected leaders of trade unions negotiate with employers on behalf of ordinary members of the union for better working conditions. Favourable working environment, attractive salary package, participative management and regular promotion are the main factors influencing workers to exhibit high productivity (Olatunji, 2004 cited by Gichaba, 2013).

RESEARCH METHODOLOGY

This study adopted cross-sectional survey research design as it seeks to examine the influence of trade unions' management of collective bargaining terms on employees' productivity in Technical and Vocational Education Training Institutions in Kenya. The study utilized both Quantitative and qualitative methods. The population of this study was drawn from a sector with disputes. The trade unions representing the education sector in Kenya, the Kenya National Union of Teachers (KNUT), had been in the news (electronic and printed media) for organizing strikes due to poor terms and conditions for employees. The sampling frame consisted of teaching (4410) and non-teaching staff (1301), Principal secretary, State department of Science and Technology (1), Director TVET(1), TVET (1) and secretary generals of KNUT (1), KUPPET (1), KUDHEIHA (1), COTU (1) and TUC(1), (Ministry of Science and Technology, 2015) (KNUT, 2015, KUPPET 2011, KUDHEIHA, 2014, COTU, 2016, TUC, 2016). This target population had a group of individuals with some common defining characteristic that the researcher can identify and study. The study adopted proportional stratified sampling that ensured that the institution teaching staffs with higher population (4410) has more members in the sample than non-teaching staff (1301). Questionnaires were self-administered and two research assistants were recruited and trained so that they could obtain quality results. The

quantitative data collected was analyzed by calculating response rate with descriptive statistics such as mean, median, standard deviation and proportions using Statistical Package for Social Sciences (SPSS) version 22 and Microsoft Excel.

RESEARCH FINDINGS AND DISCUSSION

Out of the targeted 361 respondents, 315 participated in the study meaning the response rate was 87.26%. The study obtained demographic data for the respondents. 85.71% of the respondents were lecturers. This implied that the bulk of trade union membership in TVET institutions was made up of lecturers. The study sought data on the number of years the respondents had worked in the targeted institutions; 34.42% (n=106) of respondents had worked in the current institutions for 6-10 years while 23.38 % (n=72) had worked for 11-15 years. This meant that majority of respondent had enough work experience and thus the information they gave could be relied upon. The study captured data on the level of education of the respondents; 37.34 % (n=115) of respondents were graduates while 34.09 % (n=105) were diploma holders. This means that most of respondent had high literacy levels. The study obtained the job titles of the non-teaching staffs. The total number of non-teaching staff was 66 out of the total 308 which was 21.43%. Out of this majority (27.27%) were secretaries followed by nurses who were 25.76% followed by financial officers at 24.24% then drivers at 22.73%. The study sought data on general information about the trade union respondents belonged to, length of membership and position respondents occupied. 40.9% of the respondents belonged to Kenya Union of Domestic, Hotels, Educational institutions, Hospital and Allied workers (KUDHEIHA), 34.1% belonged to Kenya Union of Post –Primary Education Employees (KUPPET) while 25% of them belong to Kenya National Union of Teachers (KNUT). This meant majority of staff working in TVET institutions in Kenya belonged to KUDHEIHA. The data further showed that 94.5% of the respondents' unions were recognized by the institutions. This implied a huge level of recognition for trade unions in the targeted institution. 85.7% of respondents had more than 6 years of membership to the trade unions which was reasonably a long period of time and thus most respondents gave information based on experience. The data further revealed that majority (96.4%) of respondents did not occupy any position in trade union.

Influence of Trade unions' Management of Collective Bargaining on Productivity in TVET Institutions

The study's aimed establishing whether trade unions management of collective bargaining terms influences productivity in TVET Institutions in Kenya. The obtained data was analyzed and results of the descriptive analysis presented in the Table 1.

Table 1: Trade Unions' Management of Collective Bargaining Terms

Responses	SA	A	NAD	D	SD
The trade unions representing employees in TVET institutions have improved my working conditions, for example, wages and benefits.	22.1	39.9	22.7	7.5	7.8
Trade unions play critical role in championing for continued improvement of terms and conditions of employment for employees	24.0	53.6	13	2.3	7.1
My trade union participates in ensuring that there is promotion and salary increase for its members	21.8	55.8	16.9	2.9	2.6
My trade union participates in ensuring that there is Job security for its members	19.8	49.4	23.7	5.2	1.9
My trade union participates in ensuring appropriate leaves are granted to employees	16.9	46.1	27.6	4.2	5.2
My trade union participates in ensuring that there is Education and training for employees	19.2	52.3	19.8	6.2	2.6

My trade union ensures job contracts provides for probation and legal tenure of employment	26.6	45.5	17.5	6.8	3.6
My trade union ensures that demotion and transfers are done according to agreed performance contract	18.2	38	25.6	14.3	3.9
My trade union participates in ensuring that there Termination of services, Job classification and overtime and management rights	23.7	53.6	13.6	6.8	2.3
Collective bargaining promotes cooperation and mutual understanding between workers and management by providing a framework for dealing with industrial relations issues without resorting to strike and lockouts.	20.8	48.4	20.1	7.8	2.9
Trade unions can enhance employee terms and conditions of employment through monitoring and collective voice	22.4	53.2	16.5	4.9	2.9
The Trade unions have helped in the improvement of staff's medical benefits	16.9	51.0	23.7	6.8	1.6
The Trade union fight for recognition and merit awards on staff that deserve to be rewarded.	22.7	50.6	17.2	3.2	6.2
The trade union monitors the employer against unfair work practices	10.1	57.1	17.5	13.6	1.6

Table 1 show that majority (62%, n=191) of the respondents agreed (22.1% strongly agreed, 39.9% agreed) that trade unions have improved employees' working conditions. This implies to a significant extent, that trade unions play a role in the improvement of employees' working conditions. Pencavel, (2009) argues that elected leaders of trade unions negotiate with employers on behalf of ordinary members of the union for better working conditions. Table 1 further shows that 77.6% (n=239) of respondents agreed (24% strongly agreed, 53.6% agreed) that trade union ensures promotion and salary increase for its members. This means that majority viewed that trade union ensures promotion and salary increase for its members. This corroborated views from Secretary General KUDHEIHA who observed that trade unions are involved in negotiating with employer for better terms and services for members. KNUT suggests introduction of new salary scale for lecturers who have attained Master's and Doctoral degrees. They also participate in general social-economic welfare. Table 1 also shows that majority (76.6% n=239) of respondents agreed (21.8% strongly agreed, 55.8% agreed) that trade unions participate in ensuring that there is promotion and salary increment for its members. Table 1 further show that majority (69.2% n=213) of respondents agreed (19.8% strongly agreed, 49.4% agreed) that trade union ensures that members are granted job security. The views further indicated that trade unions ensure job security for members. The Table further shows that majority (63%, n=194) either agreed (46.1%) or strongly agreed (16.9) that the trade union participates in ensuring appropriate leaves are granted to employees. This means that most of the trade unions in TVET institutions do participate in ensuring members are granted leaves.

The Table also shows that majority 71.5% (n=220) of respondents agreed (52.3.1% agreed and 19.2% strongly agreed) that trade union ensures education and training is provided for the employees. This implies majority of trade unions in TVET institutions emphasize about education and training of their members.

Table 1 also show that majority (72.1%, n=222) of respondents agreed (45.5% agreed 26.6% strongly agreed,) that trade union ensures that job contract provides for probation and legal tenure of employment. This means that to a significant extent trade union are concerned on whether the job contract provides for probation and legal tenure of employment. Table 1 further shows majority (56.2%, n=173) either strongly agreed (18.2%) or agreed (38%) that trade union ensures that demotion and transfers are done according to agreed performance contract. This implies that most of the trade union are involved and ensure that demotions and transfers are legal. Table 1 also show that majority (77.3%, n=238) of respondent either strongly agreed (23.7%) or agreed (53.6%) agreed that trade union ensures that job termination, classification and overtime and management rates rights are observed . This implies that to a significant extent majority of trade union ensures that job termination, classification and overtime and

management rates rights are observed. Table 1 also present that majority 69.2% n=213) of respondents either strongly agreed (20.8%) or agreed (48.4%) that trade unions ensures that Collective bargaining promotes cooperation and mutual understanding between workers and management by providing a framework for dealing with industrial relations issues without resorting to strike and lockouts. This means majority of trade unions in TVET institutions promote cooperation and mutual understanding between workers and management by providing a framework for dealing with industrial relation issues without resulting to strike and lockouts. According to Amstrong, (2007) collective bargaining arrangements are set up by agreements between managements, employers' associations, or joint employer negotiating bodies and trade unions to determine specified terms and conditions of employment for groups of employees. The table further shows that majority (75.6%, n=233) of respondents either strongly agreed (22.4%) or strongly agreed (53.2%) that trade unions can enhance employee terms and conditions of employment through monitoring and collective voice. This means most of trade unions in TVET institutions are involved in the monitoring of terms and conditions of employment and also in the offering of collective voice.

Table 1 also show that majority (75.6% n=233) of respondent either strongly agreed (22.4%) or agreed (53.2%) agreed that trade union enhances employee terms and conditions of employment through monitoring and collective voice. This implies that to a significant extent trade union enhances employee terms and conditions of employment through monitoring and collective voice. Trade unions, as indicated by Ale (2002) collective bargaining is used by workers to get organized and negotiate working conditions with their employees on expectations of wages, working hours and employment conditions. This applies not only to terms of employment such as pay, working hours and holidays, but also to the way in which individuals are treated in such aspects of employment as the redress of grievances, discipline and redundancy. Table 1 also shows that majority (67.9% n=209) of respondents strongly agreed (16.9%), while 51% agreed, that trade union have helped in the improvement of staff's medical benefits. This implies that majority believes that trade union have helped in the improvement of staff's medical benefits.

Table 1 further shows that majority (73.3%, n=226) of respondents either strongly agreed (22.7%) or agreed (50.6%) that the trade unions fight for recognition and merit awards on staff that deserve to be rewarded.This means most of trade union in TVET institutions fight for recognition and awarding of staff based on merit. The table further shows that majority (67.2%, n=207) of the respondents either strongly agreed (10.1%) or agreed (57.1%) that the trade union monitors the employer against unfair work practices. This implies that majority of trade unions in TVET institutions monitor against unfair work practices.

Qualitative data from Secretary General, KNUT showed that there is need for more effort in improving terms and conditions of employment. To achieve this, the trade union and the employer should harmonize and honour CBA as an effort to improve terms and conditions of employment. According to the Secretary General, KUPPET, the government makes effort to respond to workers complaints about wages, promotions and salary increments. An example is the setting up of the salaries and remuneration commission whose aim is to harmonize salaries in public sector and the setting of minimum wage every first of May during the Labor Day. Findings on the Influence of Trade Unions' Management of Collective Bargaining on Productivity in TVET Institutions rhymes with the principles of the equity theory perspectives that posits that an organized action, such as a strikes or protest, may be the ultimate way for employees to fight collectively for their benefits.

Employees' Productivity

The study however sought data on employee's productivity, which was the dependent objective. The study sought data on whether the Trade unions play critical role in championing for curriculum implementation through keeping of recommended documents as required by the employer (mark book, schemes, subject register, and class attendance monitoring form). Majority (76.62%, n=236) of respondents agreed (35.39% strongly agreed, 41.23 % agreed) that trade unions played a critical role in championing for curriculum implementation through keeping of recommended documents as required by the employer (mark book, schemes, subject register, class attendance monitoring form). This contrasts findings by Mutuku (2015) in a study that investigated Kenya National Union of Teachers' Initiative Influencing Provision of Quality Education in Primary Schools in Machakos County, Kenya that revealed that 36.2 percent of teachers were not satisfied with KNUT'S sensitization programmes on curriculum implementation while only a small number, 12 percent were highly satisfied. This implied that most trade unions are involved in championing for curriculum implementation through keeping of recommended documents as required by the employer.

The study sought data on whether Trade union encourages employees, during training, to complete and update assigned duties (assigned duties, mark books, schemes of work preparation and teaching syllabus on time, weekly record of work, subject register). Majority (80.23%, n=247) of respondents agreed, (31.17% strongly agreed, 49.03% agreed) that trade union encourages employees, during training, to complete and update assigned duties (assigned duties, mark books, schemes of work preparation and teaching syllabus on time, weekly record of work, subject register). This implied that trade unions in TVET Institutions encouraged their members through training; to complete and update assigned duties. This corroborates Wairagu (2013) in a study that assessed the effectiveness of trade unions' strategies in enhancing teacher professional performance in public secondary schools in Kieni West District, Kenya that revealed that Teachers professional performance in assessing students' assessments and homework was rated highly by majority (70%) of the head teachers. However, punctuality and lesson preparation was rated average by most of the head teacher.

This shows that trade unions have a role in encouraging employees to complete and update assigned duties. The study sought data on whether Trade unions encourages employees, during training, to monitor class attendance, maintain and record marks in the subject register. The analyzed data further revealed that majority (77.85% n= 239) of respondent agreed, (57% agreed, 20.85% strongly agreed) that trade union encouraged employees, during training, to monitor class attendance, maintain and record marks in the subject register. The study sought to establish whether the trade unions influence on employees to participate in co-curricular activities like music, athletics, handball, basketball, soccer and volleyball. Majority (71.1%, n= 219) of respondents agreed (40.6% agreed, 30.5% strongly agreed) that trade unions exert influence on employees to participate in co-curricular activities like music, athletics, handball, basketball, soccer, and volleyball. This means that trade unions do encourage their members in the TVET institutions to participate in co- curricular activities. This contrasts a study by Mutuku (2015) that showed that involvement of KNUT in improvement of teachers' welfare did not influence learners' participation in co-curricular activities.

Hypothesis testing

Hypothesis 3: Trade Unions Management of Collective Bargaining Terms has no Significant Influence on Productivity

Model Summary

Table 2 Model Summary

Model1	R	R Square	Adjusted R Square	Std. Error of the Estimate
	.482[a]	.232	.195	.852

Predictors: (Constant): Management of Collective Bargaining

Table 2 provides the R and R-Square value. The R value is 0.482, which represents the simple correlation. It indicates a relatively strong degree of correlation. The R-Square value indicates how much of the dependent variable, "productivity", can be explained by the independent variable, "Management of Collective Bargaining ". In this case, 23.2% can be explained, which is fair.

ANOVA

The study did ANOVA for Management of Collective Bargaining against productivity. The results are presented in Table 3.

Table 3 ANOVA

Model 1	Sum of Squares	df	Mean Square	F	Sig.

Regression	63.342	14	4.524	6.237	.000
Residual	209.654	289	.725		
Total	272.997	303			

Dependent Variable: Productivity

Predicator: Management of Collective Bargaining

ANOVA results in Table 3 indicate that the regression model predicts the outcome variable significantly. This indicates the statistical significance of the regression model that was applied. An F statistic of 6.237 indicated that the model was significant. This was supported by a probability value of 0.000 that is below 0.05, and indicates that on overall, the model applied can statistically significantly predict the outcome variable. This is further supported by the F-critical obtained at 95% probability where the degree of freedom 1 is 13 and the degree freedom 2 is 295 which was 1.75. This was lower than the observed value of F (6.237), which means that the null hypothesis that states that management of collective bargaining terms has no statistically significant influence on productivity in TVET Institutions in Kenya is false and therefore rejected.

ANOVA results in Table 3 indicate that the regression model predicts the outcome variable significantly. This indicates the statistical significance of the regression model that was applied. An F statistic of 6.237 indicated that the model was significant. This was supported by a probability value of 0.000 that is below 0.05, and indicates that on overall, the model applied can statistically significantly predict the outcome variable. This is further supported by the F-critical obtained at 95% probability where the degree of freedom 1 is 13 and the degree freedom 2 is 295 which was 1.75. This was lower than the observed value of F (6.237), which means that the null hypothesis that states that management of collective bargaining terms has no statistically significant influence on productivity in TVET Institutions in Kenya is false and therefore rejected.

Model Coefficient

The study determined the coefficient of Trade Unions Management of Collective Bargaining on productivity and presented the results in Table 4.

Table 4: Coefficients Determination of Trade Unions Management of Collective Bargaining and Productivity

Model 1	**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
	B	Std. Error	Beta		
(Constant)	.643	.196		3.284	.001
Management of Collective Bargaining	.186	.076	.179	2.449	.015

a. Dependent Variable: productivity

Table 4 provides the information needed to predict productivity from Management of Collective Bargaining. Management of Collective Bargaining contribute significantly to the model; this means that a unit increase of Management of Collective Bargaining will result to 0.186 increases in productivity. The regression equation is presented as follows;

Productivity = 0.643 +0.186 (Management of Collective Bargaining)

According to Edwards (2009), though payment of labour is a core element of the employment relationship and the most conspicuous focus of collective bargaining, in the recent years the influence of trade unions has been under pressure due to increased internationalized competition in the labour market. This is because pay is a price of labour that is subject to globalized market forces.

Qualitative Data Analysis

Qualitative data obtained from the study was analyzed thematically along the objectives of the study, then the results obtained discussed in the section that follows.

Influence of Management of Collective Bargaining On Productivity in TVET Institutions

Regarding challenges the Government encounter in an effort to meet the requests set by trade unions the following themes emerged: a) Funding, b) Stakeholders not honouring promises**.** Regarding Government's response to matters related to employee's working conditions such as minimum wages, promotions and salary increments the following themes emerged: a) Setting minimum wage, b) Discrimination on implementation of salary increments, c) Indifferent to call for salary increments, d) Government non-committal to implementation.

Productivity

Regarding what trade unions should do to enhance productivity the following themes emerged:- Enhance staff professionalism through training, push for enactment of laws; provide all the necessary tools to the lecturers and awarding employees,setting clear objectives, managing exams, managing of teachers and students' discipline, supporting curriculum implementation. According to Director, TIVET, productivity can be enhanced if principals of TVET institutions award trophies, cash, certificates and recognition to employees who enhance academic, sports, athletics, drama and music festivals' performance in their institutions, during education and prize giving days. Trade unions should ensure employees in TVET institutions are paid higher salaries commensurate with semi developed countries like Kenya. The need to use reward in TVET Institutions, is in agreement with Koretz (1995) cited by Haenisch (2012), who states that insufficient rewards can lead to low productivity.

To improve productivity, Secretary General, KNUT, suggested that clear objectives should be formulated in two ways, that is, objectives for fighting for workers' rights, and for enhancing staff professionalism, production and ethics. This agrees with Leonard (2000),cited by Haenisch (2012), who noted surveys indicating that less organizational bureaucracy, a greater sense of purpose, clear goals, and being able to see results were essential to productivity. The informant observed that the government should provide an insurance cover for employees. This is because the working environment is characterized with risky machines which can affect the health of the lecturers and other employees. The trade unions should recognize TVET trainers as professionals and push for scheme of service for the lecturers as well as agitate for training and development for all trainers in order to meet the prevailing technological and economical levels in the world.

Secretary General, KUDHEIHA observed that trade unions influence productivity though the influence can be positive or negative. This corroborates with Hirsch (1997) cited by Khan and Khan, (2011) who concluded from many studies that there are both negative and positive effects of unions on productivity. Other studies show negative and positive effects of trade unions on productivity at different places in the same study. It is positive if what (for example, working tools) the trade Union is pursuing for, on behalf of teachers, is provided on time. It is negative if necessary working tools are not provided on time. As a result, teachers will give minimum effort or teach theoretically. This also agrees with Fashoyin (1997) cited by Khan *et al*.,(2011) who is of the opinion that in Japan the productivity improvement movement has had a much greater influence and trade unions were an important party to the productivity improvement campaign. Human Rights Watch (1998) cited by Khan *et al*., (2011) quoted a study of ILO, which showed that productivity in Malaysia is higher in firms where the employees are organized in industrial unions than in non-unionized organizations.

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

To a significant extent, trade unions play a role in the improvement of employees' working conditions while ensuring promotion and salary increase for members. They are involved in negotiating with employer for better terms and services for members while ensuring job security, demotions and legality of transfers for members. They also ensure employees get appropriate leaves, that job contract provides for probation and there is legal tenure of employment. They also ensure observation against illegal job termination, jobs' classification and overtime and work-rate rights. They also fight for recognition and awarding of staffs promotion, based on merit. Majority of trade unions in TVET institutions emphasize about education and training of their members and in the improvement of staff's medical benefits. They also promote cooperation and mutual understanding between workers and management by providing a framework for dealing with industrial relation issues without resulting to strike and lockouts. They enable identification of disputes, complaints, grievances and disciplinary procedures at an early stage, which is a proactive role in conflict management. They are involved in the monitoring the terms and conditions of employment and in offering a collective voice over such issues such as pay, working hours and holidays, and also the way in which individuals are treated in such aspects as employment, redress of grievances, discipline and redundancy while monitoring against unfair work practices. The study established a statistically significant relationship between management of collective bargaining and productivity, which means that the null hypothesis that trade unions management of collective bargaining terms has no statistically significant influence on productivity in TVET Institutions in Kenya is false and thus rejected.

Conclusion

On the influence of management of collective bargaining on productivity in TVET Institutions the study concludes that trade unions play a role in the improvement of employees' working conditions through bargaining for comprehensive bargaining agreements on pay, promotions and benefits like housing, medical-cover and hardship allowance, travel allowances, right to rest and leisure, right to reasonable limitation of working hours and accessing allowance for paid periodic holidays and in monitoring the terms and conditions of employment. The study established a statistically significant positive linear relationship between management of collective bargaining and productivity, which means that the null hypothesis that stated that trade unions management of collective bargaining terms has no statistically significant influence on productivity in TVET Institutions in Kenya, is false and therefore rejected.

Recommendations

TVET Institutional Heads should always avoid any intimidation activities towards union officials since the trade union is important in reduction of unfair treatment at work place. TVET institutional heads and the ministry officials should tap into the influence of trade unions to achieve organizational goals at TVET institutions and thereby enhance productivity. Both Trade union leaders and TVET institutional heads should harmonize trade union goals with those of TVET institutions so as to enhance the productivity.

Areas for Further Research

The study suggests an investigation into the influence of trade unions in entrenchment of high productivity work place practices in the TVET institutions and a study into the role of trade unions on the working environment of unionisable staffs in technical institutions in Kenya. The study further suggests research into the influence of trade unions in the organizational communication practices at technical education institutions and in the resolution of labour conflicts in these institutions. The study also suggests an investigation into the influence of trade unions on transformative leadership programs in TVET institutions within a changing education context in Kenya.

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SOCIAL CULTURAL ENVIRONMENT AND PERFORMANCE OF DONOR FUNDED HEALH PROJECTS IN KENYA.

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ABSTRACT

Health projects have been found to play a critical role in enhancing the well-being of society. Although the amounts of funding from donors in Kenya have been rising over the years, most donor funded projects in Kenya are not performing well. This study sought to find out the effect of the social cultural environment; language barrier, local community literacy levels, lack of community support and corruption on the performance of donor funded health projects in Kenya. The study was anchored on the theory of constraints. The study adopted explanatory and descriptive research designs. A census of all the sixty nine donor funded health projects initiated between 2010 and 2018, and are ongoing was conducted. A semi-structured questionnaire was administered to managers of the donor funded health projects and the heads of donor funded projects at the ministry of health. Both descriptive and inferential statistics were applied in the analysis and presentation of data. Quantitative data was analyzed using the Statistical Package for Social Sciences (SPSS), while qualitative data was analyzed by content analysis based on patterns and themes. A multiple regression model was used to explain the effect of the social cultural environment on the performance of donor funded health projects in Kenya. The study found out that social cultural factors had a significant effect on the performance of donor funded health projects. The study recommends that all decision makers and other donor funded health project stakeholders devise policies and strategies for controlling the effect of the social cultural environment on the donor funded health projects.

Key words;
Social-cultural, Environment, Performance, Donor, Funded, Projects

BACKGROUND

Due to the dynamic nature of the work environment, organizations are increasingly using organizational projects in their work to achieve organizational goals (Hyvari, 2016). Governments too initiate and run projects aimed at meeting the needs of the citizenry. Whether company, Organizational or government, projects are funded from internal resources or by international agencies. Of concern to all organizations is the performance of their projects which is measured by the project success pillars of time, quality and budget alongside other project specific parameters (PMI, 2013).

Projects by the Kenya government are either government funded or donor funded. The projects cover a wide range of areas which include health, water and sanitation, agriculture, education, security, energy, infrastructure and tourism. The Kenya Vision 2030 categorises the government projects into economic, social and political projects which it calls the pillars of Vision 2030. Vision 2030 in Sessional paper 10 of 2012 identified flagship projects which will directly address priorities in key sectors such as agriculture, education, health, water and the environment. According to the Vision 2030, health projects are critical to the attainment of all the other pillars of Vision 2030 because they ensure the availability of healthy and sufficient manpower. A good and working health

system also reduces on the costs of downtime due to the ill health of workers by ensuring that the workers are healthy and fit to perform their work.

Many high cost projects undertaken world over tend to have sustainability challenges which is a concern for key donors including the Asian Development Bank, the World Bank, as well as bilateral aid agencies (Mugambi, 2014) .According to Kiprop, Nzulwa and Kwena (2017), little development has taken place in Sub-Sahara Africa despite donor funding for over a half a century. High levels of unemployment, indebtedness, poverty, poor health and poor economic performance are still prevalent in most of the sub-Saharan countries. Kiprop *et al*., recommend that due to the performance issues tagging the donor funded health projects, studies should be conducted to establish the challenges facing implementation of donor funded projects in Kenya. Project challenges emanate from both inside and outside the project. Those from within the project are controllable while those from outside are largely uncontrollable. According to Musa, Amirudin, Sofield and Musa (2015) the external environmental factors include the political, technological, economic and social environments.

Project Performance

According to The Project Management body of Knowledge (PMBOK) guide, project performance is measured in terms of budget or cost, time and quality which are the three constraints of project performance (PMI, 2013, p. 1) as illustrated by figure 1.1. According to Gaturu and Muturi (2014) time is a critical factor and measure of project performance. The Bostock Marketing Group (BMG) Research (2015) also observed that budget and quality standards are critical measures of project performance.

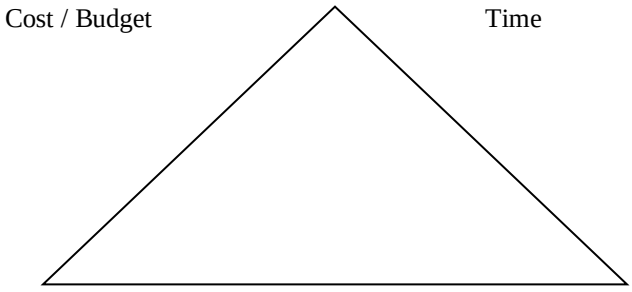

Figure 1.1: Project Performance Constraints
Source; Project Management Institute, 2013

Time is an essential resource in the management of projects. It is irrecoverable, limited and dynamic (Adeojo, 2012). It is an important factor in the measurement of the performance of projects (PMI, 2013). Projects are time bound and as such, during the project planning phase a clear start and end time for the project should be determined (PMI). According to Mortaheb,Amini, Younesian and Soltani (2012) project performance is viewed in terms of delivery on time. Memon, Rahman and Azis (2012) also observed that time performance is a fundamental criteria for performance measurement for any project.

The performance of a project is good if its time use is within the planned timelines. World over, many projects are experiencing time overruns. According to Memon (2012), 79.5 percent of public projects and 66.25 percent of private projects experience time overruns in Malaysia. Assedri (2009) observed that the Northern Bypass project in Uganda had a time overrun of up to 100 percent of the planned duration. The 2017 edition of Deloitte Africa Construction report indicated that 87 percent of projects in Kenya experience time overruns. Solis-Carcano, Corona-Suarez and Garcia- Ibarra (2015) observed that prolonging the project execution time will result in cost overruns due to the extra expenses on materials, personnel,financial costs and contract penalties.

Memon (2012) associated time overruns to both internal and external factors. Akanni et al (2014) identified social, economic , technological, political and environmental factors as the external factors.This study investigated the effect of the external environment on the project duration which is a measure of performance. The data collected from the respondents of the study was analysed together with cost and quality weights to determine a composite measure of a project's performance.

Cost is a measure of the total of what has been spent on the project to the current level. It is dynamic and not static (Adeojo, 2012). According to the PMI (2013), cost is one of the measures of the performance of projects alongside time and quality. Memon (2012) concurs that cost is a critical measure of the performance of a project. In Malaysia, 53.2 percent of public projects and 62.8 percent of private projects experience cost overruns with an overrun of between 5 – 10 percent of project cost (Memon). In Kenya 48 percent of the projects experience cost overruns (Labuschagne, 2017).Cost overruns are caused by inflation on materials (Olawale & Sun, 2018) , time overruns (Solis-Carcano et al.,2015) and rework (Hwang,Thomas & Haas, 2009). This study investigated the effect of the social environment on the cost measure of performance.

Every project has an anticipated level of quality based on the details and specifications set out by the users (Stojcetovic,Lazarevic, Prlincevic, Stajcic & Miletic, 2013). According to Ng and Anuar (2011), quality performance is concerned with the quality of the project's final outcome and the quality objectives of the project. Mortaheb et al., (2012) observed that a project outcome has quality if it satisfies the client's overall expectations and if it achieves the technical specifications.Quality is a key measure of the performance of a project. To conclude that the performance of a project is good, time , cost and quality outcomes have to be considered.

The quality of a project is affected by lack of knowledge and skills to transform ideas into quality outcomes (Ng & Anuar, 2011), lack of understanding on quality expectations and the newness and uniqueness of the project (stojcetovic et al., 2013), and project risks (Aller, 2016). The sources of project risks are both internal and external to the project. This study will focus on social – cultural, economic, technological and political sources of project risks, which are external sources.

To achieve the expected levels of quality and hence performance, quality management practices should be adopted. According to Stojcetovic (2013), project quality management includes processes and activities of the project organization that determine quality policies, objectives and responsibilities that satisfy the needs for which the project was undertaken.

Performance of Donor Funded Health Projects

The factors that affect the performance of donor funded health projects vary from project to project and from country to country.Thiele (2016) suggested that both internal and macro environmental factors affect project performance. Thiele identified the level of community development, community cohesion, community trainings and involvement of local leadership (Barangay Captain) as the external factors that affect the performance of donor funded projects in Phillipines.

Although donor-funded projects are considered important in the growth and development of many developing countries, their outputs in terms of quality, cost, time and stakeholder satisfaction remain the subject of debate (Azhar, 2008). According to Busiinge (2008) as cited in Kuria & Wanyoike (2016), poverty in Africa is on the increase despite the increase in donor funding to government and NGOs towards poverty reduction programs. In Uganda, many donor-funded projects show signs of irrationality and a deficient risk assessment and management mechanism (Mujabi *et al* ., 2015). Kenya's donor funded projects faced similar outcomes despite the country's strong economic growth and reform efforts in the period from 2008 to 2018. In that period the country's health system remained underdeveloped and the performance of donor funded health projects was not steady.

Endemic corruption and poor reporting structures in the public sector in Kenya are causes of delays in donor funded health projects (DFID, 2012). Gaturu and Muturi (2014), observed that delays plague the delivery of donor funded projects in many developing countries. The consistent delays in the completion of projects and cost overruns in Kenya just like in most parts of the developing world calls for research to determine the factors that are causing the poor project performance.This study expected the findings from this study to confirm that the social cultural environment had an effect on the performance of donor funded health projects in Kenya.The level of performance of a project was a composite measure of time, cost and quality.

Project Social Environment

According to Akanni *et al*.,(2014) the macro environment has an impact on the performance of building projects in Nigeria. Akanni *et al*, observed that the external environment comprises of the political, legal, technological, economic, social-cultural and physical factors. While citing William (2002), Akanni *et al*, observed that the social-cultural environment consists of customs, lifestyles and values that characterize a society.

Musa *et al*. (2015) classified the external environment factors as those related to the project, the project manager and team members, the organization, and the external environment. Musa *et al* identified political, economic and social factors as the macro environmental factors affecting the performance of construction projects in developing countries. Musa *et al,* observed that social factors concern culture, health consideration and the general lifestyle of people.

The social-cultural environment factors such as religion, ethnicity, family, physical status, economic status, education and language directly affect lifestyles. According to Gudiené *et al*. (2013) as cited in Musa *et al*. (2015) social factors include cultural issues, health consideration and the general life style of people. William (2002) as cited in Akanni *et al*. (2014) opines that socio-cultural dimensions of a project environment consist of customs, lifestyles, and values that characterize a society. Population demographics, rising educational levels, norms and values, language and attitudes toward social responsibilities are examples of socio-cultural variables (Engobo, 2009 as cited in Akanni *et al*.). These variables have the potential to affect organizations that operates within the society. Community hostilities towards a medical initiative will for example hinder the uptake and success of the project.

LITERATURE REVIEW

Theoretical Foundation

According to this theory of Constraints, a very small number of constraints limits any manageable system in achieving more of its goals (Chowdhary, 2009). The attainment of project goals is affected by both internal and external constraints. If these constraints are not managed well, projects are bound to fail (Muchungu 2012 as cited in Kisilu et al., 2016). The theory provides for ways of identifying the key factors that limit (constrain) the achievement of goals. It also provides for ways of ensuring that the constraint is not a limiting factor by improving it in a well-organized manner. Kiprop, *et al.* (2017) has suggested that the overall performance of a project could be improved by focusing on fixing the main problem (constraint). This study sought to determine the effect of the social cultural environment on the overall performance of the donor funded health projects in Kenya. The determination will guide project managers in the development of project plans and their execution to achieve expected levels of performance in the projects.

According to Maina & Gathenya (2014) every system is limited in getting more of what it strives for by at least one constraint. Were it not so, then the system's output would be infinite. The theory of constraints has been applied to production planning, production control, project management, supply chain management, accounting and performance measurement and other areas of business such as hospitals and military depots which are not-for-profit facilities. Although performance constraints may be acknowledged or not, they determine the output of a system. To achieve organizational goals, it is in a manager's best interest to identify and reduce the organization's system constraints (Maina & Gathenya).

Projects are designed with specific cost, time and quality objectives in mind. The attainment of these objectives results in good performance for the project. However, attainment of the project goals faces several external and internal environment constraints (PMI, 2013). The external environment constraints are economic, social – cultural, technological, political, legal and environmental. The theory of constraint provides a good base for determining the most limiting constraint to the attainment of project goals. This base was applied in this study to determine the effect of the social cultural environment on the performance of donor funded health projects in Kenya.

Social – Cultural Environment and the Performance of Projects

Akanni *et al*.,(2014) in a study on the impact of environmental factors on building project performance in Delta State , Nigeria investigated political, legal, construction technological and resources, economic and financial, socio-cultural and physical environment factors. Akanni *et al.*, applied a survey study approach and analysed data by use of the Spearman correlation technique. According to this study,social and cultural factors had a significant relationship with cost overruns in building projects in Nigeria. Akanni *et al*. observed that youth restiveness, attacks on construction workers especially kidnapping of expatriates and militancy were key social factors that affected the performance of the building projects. This study further observed that language had a significant effect on building projects in Nigeria as the illiterate building workers developed "Pidgin English" which was an adulterated form of English that they used for communication among them. This study observed further that the groups of unemployed youth often demanded for illegal fees popularly known as ''settlement''which caused delays ranging from days to weeks on construction activities.The study by Akanni *et al*.,focused on economic, social and technological factors among others and their effect on building project performance in Nigeria and but not on donor funded health projects.

A study by Zuo *et al.* (2014) on ''Does project culture matter? A comparative study of two major hospital projects'', observed that project culture played an important role in achieving harmonious relationships between project participants and better project outcomes in terms of schedule, functionality, satisfaction with the process, satisfaction with the relationships, environmental issues addressed, commercial success, further business opportunities and the overall project performance. The study whose variables were project procurement culture (integration, cooperation, goal – oriented, flexible and people – oriented factors) and project performance used a case study research design and was based on Hofstede's dimension theory. The study was based on two public hospitals in South Australia. Zuo *et al.* further observed that the project's culture should be developed from the outset and sustained during the project period. Furthermore, the study also highlighted that the project culture should be translated to all levels of the supply chain; sub-contractors and suppliers if the desired performance is to be attained. Although this study was on hospital projects, its location is different from this study, its focus was on the effect of the internal project culture on project performance and not the effect of the external project culture on project performance, and it used a case study research design while this study used explanatory and descriptive research designs. The projects focused on were also not donor funded.

In their study on the influence of the social cultural environment on the success of public housing projects in developing countries, Musa *et al.*,(2015) observed that the performance of projects was affected by macro factors which are economic, social and political. These three factors were the independent variables while the success of public housing projects was the dependent variable.The study employed a survey study and structural modelling techniques as well as narrative and factor analysis techniques in analysing the collected data.From the study ,the researchers developed a hypothetical model for the relationship between critical success factors and public housing project success as in figure 1.1.

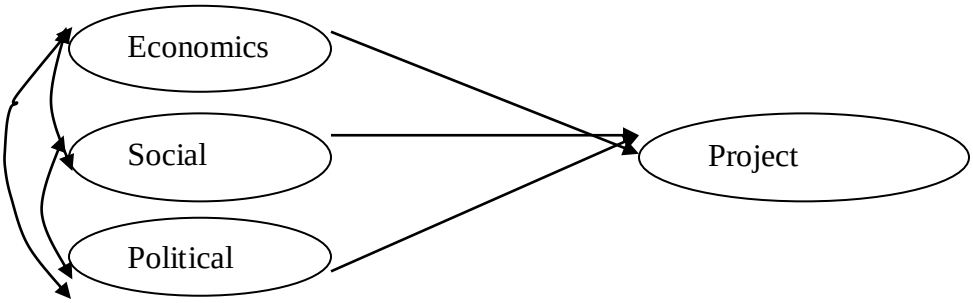

Figure 1.1 Hypothetical Model

Musa *et al.*, (2015) further observed that the social environment constitutes cultural aspects, health consideration and the general life style. Although Musa *et al.* studied the effect of the social cultural environment on the performance of projects , the researchers did not focus on donor funded health projects but on public housing projects. The study by Musa *et al* was located in Nigeria and the researchers used Structural Equation Modelling, narrative and factor analysis in data analysis and interpretation while this study applied multiple regression analysis.

Namukunda and Ogolla (2016) studied the factors affecting the implementation of family planning projects by non-governmental organisations in Kenya. The independent variables of the study were technical capability, project planning, financial controls and project communication. The study also investigated the moderating effect of culture on the implementation of family planning projects. The dependent variable was implementation of family planning projects. The study observed that the independent variables affect the implementation of family planning projects in Kenya. The study used descriptive research design and the data was analyzed by multiple regression models. Namukunda and Ogolla anchored their studies on the project management theory, Lewin's change management theory and the logical framework model and network theory. The study recommended for further investigation on the factors causing low implementation of family planning projects not identified in the study. Namukunda and Ogolla (2016) specifically observed that cultural norms, beliefs and taboos affected the implementation of family planning in Kenya and hence the perfomance of the projects. Although this study was based on health projects, it investigated the effect of internal project environment factors on family planning projects. The projects were not donor funded and culture was tested as a moderating factor on the independent variables. The theories on which the Namukunda and Ogolla study is anchored are also different from the theories anchoring this study.

RESEARCH METHODOLOGY

This study applied explanatory and descriptive research designs. The combined designs have the potential to offer a more robust research (Caruth, 2013). A combination of explanatory and descriptive research designs will provide more insights into the subject of investigation and capture information that could have been left out when using only one study design. While the descriptive research seeks to answer the question "what is going on?" explanatory research will answer the question "why is it going on? This will enable the researcher to simultaneously understand mechanisms, explore associations and document risks (Morse & Niehaus, 2016).

In a descriptive research, respondents will answer a set of questions administered by either interview or a questionnaire from which the researcher will describe a study phenomenon. By measuring the relationships between the independent variable and the dependent variable, explanatory research was used to test hypotheses by analyzing the collected data using statistical techniques. Explanatory research will not just describe, but explain the phenomena being studied (Given, 2008).

Empirical Model

To analyse the data collected on the social cultural environment and the performance of donor funded health projects so as to determine the relationship between them, a regression model was used as suggested by Muthen and Muthen, (2012) who observed that for continuous outcome variables linear regression models will be applied. This model is suitable for this study since performance is a continuous variable. According to Gujarati & Sangeetha (2007), where the dependent variable Y is quantitative in a model, estimation of its expected mean or mean value from the values of the independent variable given is the objective. The empirical model is;

$$Y = \beta_0 + \beta_1 X + \mu_i$$

Where β_0 is the constant, β_1 is the coefficient of the social cultural environment and μ_i is the error term.

Sample Design

According to Saunders, Lewis and thornhill (2012), an optimum study sample is one which meets efficiency, representativeness, reliability and flexibility requirements. Since the population in this study is small, a census study was conducted to ensure representativeness and reliability.

Data Collection Instruments

To empirically study the effect of the social cultural environment on the performance of donor funded health projects in Kenya, a semi-structured questionnaire was applied. Saunders et al., (2012) observes that in a questionnaire research, objectives are translated into specific questions whose answers provide data for hypothesis testing. A questionnaire allows for the collection of data from large samples, has no bias, upholds confidentiality and saves time. The questionnaire was made up of open and closed ended questions with some of them being measured on a likert scale of 1-5.

Data Analysis and Presentation

Descriptive and inferential statistics with the aid of the Statistical Package for Social Sciences (SPSS) version 20.0 was used to analyse quantitative data. This involved the computation of mean scores, frequencies, percentages, standard deviations and variances (Berenson, Levine, Krehbiel, O'Brien, Jayne & Watson, 2013). Correlation analysis was conducted to determine the strength of the relationship between the predictor and the predicted variables. To determine the relationship between the predictor and predicted variables, regression analysis was applied since the study's model has many predictor variables and one possible outcome. According to Muthen and Muthen (2012), regression analysis is the best statistical approach in analyzing continuous dependent variable outcomes.

RESEARCH FINDINGS AND DISCUSSIONS

The social cultural environment factors investigated were; level of literacy in the community, lack of support from the local communities on the project, language barrier between the project team and the local community and corruption in the running of the projects. The findings were analysed as in table 4.1.

Table 4.1: Social Cultural Environment

	N	Mean	Std. Deviation
Level of literacy in the local community	42	2.48	1.330
Lack of support from the local community on the project	42	2.33	1.337
Language differences between project team and local community	42	2.05	1.287
Corruption practices in the project	39	1.64	1.266
Overall	**2.125**		**1.305**

Source: (Survey data, 2019)

The study revealed, that the social cultural environment had an effect on the donor funded health projects in Kenya. This is in line with the findings of Akanni *et al* (2014) and Musa *et al* (2015) that social cultural factors had an effect on the performance of construction projects in the Delta State of Nigeria and on the public housing projects success in Nigeria respectively. From the study, the level of literacy in the local community, lack of support from the local community on the project and language differences between project team and local community have low effect on project performance as shown by their means 2.48, 2.33 and 2.05 respectively. The study further found out that corruption practices in the project affect the donor funded health projects to a very low extent as indicated by the mean of 1.64 and standard deviation of 1.3. Overall, the social cultural environment had a mean of 2.125 which indicates a low effect of the environment on the performance of the donor funded health projects. Although the study revealed that corruption had the least effect on the performance of the donor funded health projects in Kenya, the researcher expected the variable to have a very high effect since corruption is rampant in Kenya as is evident in the Transparency International index of 28 out of 100 which places Kenya as one of the countries highly affected by corruption (Transparency International, 2018)

The respondents who rated the effect of the social cultural environment on the performance of donor funded health projects as low and very low held that; the community was very receptive and participated in the project activities, majority of the community members are literate and aware of development issues, community priority to implement is low and there is an indirect contact between the donors and the community members. On corruption, most respondents attributed the low levels of corruption to the stringent controls by the donors on the disbursement of donations such as the direct payment for goods and services by the donors rather than the provision of funds to the Kenyan government to procure the goods and services. Those who rated social-cultural environment high and very high held that, norms and beliefs affected testing and usage of HIV/AIDs drugs, some counties required translators who may not translate well and language barrier between community members and the personnel implementing the project.

Regression Coefficients

Table 4.2. Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		β	Std. Error	Beta		
1	(Constant)	3.572	.056		64.088	.000
	Social-Cultural	.061	.019	.109	3.176	.002

a. Dependent Variable: Project Performance
Source: (Survey data, 2019)

The regression model between the social cultural environment and the performance of donor funded health projects in Kenya is;

$$Y = 3.572 + 0.061X + \mu_i$$

This indicates that there is a positive relationship between the independent and the dependent variable. This is as indicated by the β value of 0.061.

Effect of Social Cultural factors on Performance of Donor Funded Health projects

The effect of the social cultural factors on the performance of donor funded health projects was tested by use of the hypothesis;

$H_{01:}$ Social cultural factors have no significant effect on the performance of donor funded health projects in Kenya

The β coefficient for social cultural environment indicates a positive relationship between the social cultural factors and the performance of donor funded health projects in Kenya (β_1 = 0.061). With a P value of 0.002, this relationship was significant at 95 percent confidence level since 0.002< 0.05. Thus, we reject the null hypothesis that social cultural factors have no significant effect on the performance of donor funded health projects and accept the alternative hypothesis that social cultural factors have a significant effect on the performance of donor funded health projects in Kenya. These findings concur with the findings of Akanni et al. (2014) and Musa et al (2015) that social cultural factors have a significant effect on the performance of construction projects in the Delta Estate, Nigeria and that the social cultural factors are significantly related to public housing project success.

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Summary

The effect of the social-cultural environment on the performance of donor funded health projects was tested using the level of literacy of local community, support of the local community, language barriers and presence of corruption on the project as variables. The findings indicated that, the social-cultural environment has a low effect on the performance of donor funded health projects. The reasons for the low effect as provided by the responses received was that the communities were very receptive and participative in the projects, majority of the community members were literate and aware of development issues and there is a low and indirect association between the donors and the community members. The regression analysis indicated that there was a significantly positive relationship between socio-cultural environment and project performance.

Conclusion

The social-cultural environment has a significant positive relationship with the performance of donor funded health projects. This implies that, an increase in the support accorded to projects by the local community will increase the performance of donor funded health projects. Therefore, this study concludes that, the social-cultural environment is a significant macro environment variable that has a significant effect on the performance of donor funded health projects.

Recommendations

The study recommends that further study be conducted on the challenges facing the donor funded health projects so as to explain the causes of the poor performance in the projects.

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Abstract

Over the last eight years, agency banking has progressively gained importance in Kenya. Agency banking has enabled banks to save on costs associated with opening bank branches and has offered convenience to bank customers who before the introduction of agency banking involuntarily had to travel long distances and incur hefty amounts on transportation in order to access a bank branch. Studies on agency banking within the country and world over have concentrated on the how agency banking has affected the performance of banks while other studies have concentrated on the customers of the agency and how agency banking has impacted on their livelihoods with little attention being focused on the effect of agency banking on the financial performance of banking agents. Driven by this knowledge gap, this study sought to determine the effect of agency banking transactions on the financial performance of the primary businesses of Small scale enterprises in Kiambu Town, Kenya. Objectives of his research examined the effect of agency financial transactions; common costs of agency and primary business and agency liquidity on the financial performance of primary business of small scale enterprises in Kiambu Town, Kenya. The study indicated that entrepreneurs not only boost their income from the commissions received from the banks but they also gain additional business from the customers who often purchase goods and services from their primary business. The businesses engaging in agency business also save on operational costs since the same resources are used to derive additional income. The study recommended an awareness campaign on all the financial services offered by agents as most customers seem only to engage on few of the permissible activities of agency banking.

Key words: Agency banking, small scale enterprises, agency liquidity, common costs, financial performance

1.1 Background of the Study

Agency banking is a type of branchless banking where an existing business is contracted by a commercial bank to process the banking transactions of its customers. It is varied from a branch teller because it is the business owner or an employee of the business who undertakes the banking transactions which include deposits, withdrawals, bill payments, account balance inquiry (Kumar, Nair, Parsons & Urdapilleta, 2006).

According to Jonson and Susan (2011), agency banking is the recently developed way that commercial banks in Kenya are using deliver banking services at an economical rate to the unreachable population. The huge costs of instituting bank branches against the expected yields have been a deterrent for commercial banks to extend their services to some rural areas, but agency banking has created way to these markets at minimal cost. Although both large enterprises and small scale enterprises have embraced agency banking, their reasons for engaging in agency banking greatly differ. Whereas the main reason for Small scale enterprises to engage in agency banking is to supplement the income of their primary business, the large enterprises engage in agency banking as a way of offering service and convenience to their customers (CGAP, 2010).

According to Ivantury and Timothy (2006), agency banking will possibly be beneficial to the small scale businesses in these ways: increase in sales due to additional foot traffic, variation from other businesses, and good repute from affiliation with well-known banks and added revenue from commissions and incentives from banks. Banking agents gain from both commissions and additional business from clients who habitually buy goods from their shops (CGAP, 2011c). According to Equity bank (2013), an agent will need to transact an estimate of around fifty transactions in a day in order to cover their monthly overheads. This of course depends on the efficiency of the agents and also their ability to maintain costs at minimum. The monthly overheads include rent, salaries, cost of float, business permits and airtime to name but a few. Regulation requires agents to be engaged in an existing economic activity so that agency banking becomes another product in their premises. Unless an agent attains break even points, the agency will close unless he or she is able to spread costs to the core business.

The Kenyan small scale enterprises sector has grown rapidly, and the government estimates that the Small scale enterprises sector constituted 89.7 per cent of total employment created in 2012 (GoK, 2013). It is estimated that there are 7.7 million of Small scale enterprises in Kenya out of which 965 are licensed in Kiambu Town (KNBS, 2016). Kiambu Town, a constituency of Kiambu County is located close to Kenya's capital, Nairobi. The population of Kiambu Town is 118,259 (KNBS, 2012). Kiambu Town is a hotbed of businesses both small and large scale. Banks that serve Kiambu town include: Family Bank, Equity Bank, Standard Chartered bank, Co-operative Bank, Kenya Commercial Bank and National Bank (KNBS, 2016).Out of the 965 Small scale enterprises licensed in Kiambu Town, 168 of them operate agency banking services alongside their primary business and are contracted by Equity Bank, KCB and Cooperative Bank. The KCB agent outlet is dubbed KCB Mtaani while the Cooperative agent outlet is named Co-op Jirani. Equity Bank have branded their agents as simply Equity agents (CBK, 2013).

1.2 Statement of the Problem

Small scale enterprises are significant both to individuals and to the economy of a country. Small scale enterprises are recognized for employment creation and the improvement of living standards. In addition Small scale enterprises complement large scale modern sector enterprises, they utilize agricultural and other raw materials that would have otherwise gone to waste, and they serve limited or closed markets that need only small scale production (Bwisa 2011). While the contributions of Small scale enterprises to development are generally acknowledged, owners of small scale enterprises face many obstacles that limit their long term existence and development. Research on small scale business development has shown that the rate of failure in developing countries is higher than in the developed world (Arinaitwe, 2006). Statistics show that three out of five businesses fail within the first few years of operation (Kenya National Bureau of Statistics, 2016). Data from small scale and Small Enterprise Authority (MSEA) indicates that more than 400,000 of small scale enterprises wound up before three years (MSEA, 2015).

Agency banking has been recognized in the last decade as the potential provider of financial services to low income earners who are excluded from the traditional banking networks, and in particular those living in remote and rural areas. Banking agents have a potential of being a tool for poverty alleviation and financial inclusion since through their services, they boost the household incomes of the rural population previously excluded from the banking orbit (Microsave, 2014).A study done by Ignacio (2008) asserts that successful branchless business models must work not only for providers and end clients, but also for agents. According to CGAP (2011), agency banking as a replica of mobile banking has been very flourishing in boosting the commercial banks' performance in most developing states. Jagongo and Molonko (2014) argued that through the adoption of agency banking, many financial institutions, including commercial banks, are getting huge profits from people from the bottom part of the economic background.

Whereas many economists and scholars have concluded that agency banking model is viable for financial institutions, little study has distilled the viability of agency banking from the agents perspective. From the foregoing studies, it is evident that whereas many studies have provided much descriptive and empirical evidence on agency banking, there exists some gaps in the literature that needs to be addressed to link agency banking and Small scale enterprises. It is apparent that no study has been done on agency banking transactions on the financial performance of primary businesses of Small scale enterprises. Most studies focused on the impact of agency banking on the financial performance of commercial banks but little or no study has focused on banking agents themselves. This study therefore seeks to fill this existing gap.

1.3 General objective

The general objective of this study was to investigate the effect of agency banking transactions on the financial performance of primary business of small scale enterprises in Kiambu Town, Kenya.

1.4 Specific objectives

In order to accomplish the above general objective, the study sought to address the following specific objectives:

i. To establish the effect of agency financial transactions on the financial performance of primary businesses of Small scale enterprises in Kiambu Town, Kenya.

ii. To determine the effect of common costs on the financial performance of primary businesses of Small scale enterprises in Kiambu Town, Kenya.
iii. To determine the effect of agency liquidity on the financial performance of primary businesses of Small scale enterprises in Kiambu Town, Kenya.
iv. To establish the moderating effect of regulation by Central Bank of Kenya on the financial performance of primary businesses of Small scale enterprises in Kiambu Town, Kenya.

1.5 Scope of the Study

One of the requirements of Central Bank for those Small scale enterprises that want to engage in Agency banking is for them to have a commercial activity for the past 18 months. Based on this requirement, the study considered Small scale enterprises that have been in a profitable activity for at least two years. The researcher concentrated specifically on Small scale enterprises operating as bank agents for Equity Bank, KCB and Cooperative Bank. These three banks were the pioneers of agency banking and have aggressively adopted the agency model. Statistics on the distribution of agents, 87% are with the three banks: Equity Bank with 25,450 agents, KCB with 12,900 and Cooperative bank with 8,900 agents (CBK, 2013). In addition, distribution of banks in Kiambu Town is not adequate thus the researcher's selection of three banks. The study administered questionnaires to either the owners or employees of the agents working for the three banks in Kiambu Town.

1.6 Theoretical Review

1.6.1 Agency Theory

The Agency theory which was developed by Jensen and Meckling in 1976 explains the conflict between shareholders and managers (agents of shareholders). The fundamental idea behind the agency theory is that the principal is busy to do a given job and hence hires an agent to work for him. The problem comes in when the principal is not able to monitor the agent accordingly. This therefore develops an agency problem as the agent also has his interests which he places in priority over the principal's interests. It is therefore the principal's problem to design an incentive contract in line with that of the agent (Blume & Easley 2008).

A deceitful bank agent may divide one deposit transaction into many transactions so as to earn more in commission paid by the bank. A banking agent may also steal from bank customers for instance by skimming of bank cards or accepting deposits when there is no network coverage.

Agency theory underpins all the objectives of the study as it explains the relationship between the banks and their agents and how conflict may arise in this relationship. Banks are accountable for the activities of the agents as the customers belong to the bank. The banks must therefore devise supervision and monitoring procedures to ensure agents work in their best interests.

1.6.2 Pecking Order Theory

This theory was proposed by Myers and Mailuf (1984) based on the proposition that financing follows a hierarchy, and that businesses prefer internal over external financing and debt over equity. This theory explains how firms choose to obtain financing for their future activities and for their growth. Small scale enterprises by their very nature are commonly financed by the owners due to lack of accessibility to external financing like long term debt which is the basis of Pecking order theory. The theory suggests use of internal sources followed by debt then equity which is the order of Small scale enterprises.

The Second research objective was anchored on Pecking order Theory as the theory since Small scale enterprises intending to engage in agency banking must consider the cost of investing in agency banking which in most cases in Kiambu Town, self-financing is usually preferred followed by loans advanced by family and friends.

1.6.3 Intermediation Theory

This theory was developed in the nineteen sixties with Gurly and Shaw (1960) being the starting point. The existence of the financial intermediaries was necessitated by the high transaction costs arising from information

asymmetry between lenders and borrowers. The financial intermediaries thus reduce these transaction costs and they contribute to efficient functioning of markets.

This theory underpins the moderating variable. Intermediation in this study comes in as it places the regulator of commercial banks and their agents as the one that intermediates between money and the household. One of the guidelines issued by CBK is on non-exclusivity of bank agents meaning that a small scale enterprise can operate as an agent for several banks in the existing business premise. Non exclusivity of agents improves access to agency banking and reduces the costs associated with travel to access the financial services. Non exclusivity of agents is also crucial in the rural areas where qualified agents are also scarce.

1.7 Empirical Review

1.7.1 Agency Transactions

A study was conducted by Aduda and Ndwiga (2013), in regards to the relationship between agency banking and financial performance . The study found out that out the banks studied, co-operative bank, Equity Bank and Kenya Commercial Bank showed significance performance index. Other banks, however, did not show the performance index as the aforementioned. Further, the findings showed that there was increase in the annual performance of those banks with agency banking. This implied that agency banking was progressively improving leading up to a significant increase in financial performance of those banks. The study however only concentrated on how agency banking transactions enhance financial performance of banks. It failed to look at relationship between transactions of agency banking and financial performance of the agents. The current research sought to address these aspects of agency banking.

Jagongo and Molonko (2014) investigated the role of agency banking operations in the financial performance of commercial banks. They argued that many financial institutions, including commercial banks, are getting huge profits from people from the bottom part of the economic background. This has led to high competition as most financial institutions employ various market entry methods to venture in this market segment with an aim of maintaining their competitive advantage. The findings revealed that by use of agency banking commercial banks were able to increase their transactions, including cash withdrawals, funds transfer as well as deposits, from people who were considered to be of low income. The current research sought to address these aspects of agency banking and in particular whether Small scale enterprises engaging in agency banking are able to increase the sales and profitability from engaging in transactions of agency banking.

1.7.2 Common Costs

A study was conducted by Ombutora and Mugambi (2013) pertaining to how agency banking had affected the performance of banking agency businesses. Nairobi. In conclusion and recommendation, the study established that there was a positive correlation between the transaction cost and performance of agent entrepreneurs. The variable, transaction cost, affect the performance of agent entrepreneurs with high transaction cost lowering performance of agent entrepreneurs while low transaction cost boosting the performance of agent entrepreneurs. The study however failed to appreciate the operational costs incurred by the Small scale enterprises in order to facilitate delivery of agency banking to customers. The current research sought to address how the common costs of agency banking and the primary business affect the financial performance of small scale enterprises operating banking agents in Kiambu County, Kenya.

Veniard and Melinda (2010) did a study on economics of small accounts in Africa, Latin America and Asia and how agency banking influences them. The study findings indicated that banking agencies were up to three times cheaper to operate as compared to bank branches. The main reason being that agency banking minimizes fixed costs by leveraging on the existing business thus the banks do not invest on their own infrastructure. This research proved agency banking lowers fixed costs for banks. It did not consider how this affects the agents in relation to common costs of agency business and the primary business. The current research sought to find out whether there are any cost saving advantages for Small scale enterprises that have embraced agency banking.

1.7.3 Agency Liquidity

A study was conducted by Musau (2013) on the utilization of agency banking and the performance of selected banks in Nairobi County. Among other findings, his study established that the liquidity availability affects the performance of banks. The study did not look at how agency liquidity also affects the financial performance of bank agents. The current study sought to fill the gap by establishing the effect of agency liquidity on the financial performance of bank agents.

Achieng (2011) did a study on strategies applied by bank agents in order to sustain their market share.The findings of this research indicated that the success of banking agents depended on service to the clients, efficiency of the technology and depth of knowledge of the banking products being offered. This study focused much on developing measures on increasing the market share such as without specifically looking into how agency liquidity also affects the performance of banking agents. The current research sought to evaluate the effect of agency liquidity on financial performance of primary businesses of small scale enterprises in Kiambu County,Kenya.

1.7.4 Regulation by Central Bank of Kenya

A study was done by Kirimi (2011), on the level of implementation of agency banking amongst the commercial banks in Kenya. The research determined that there was difficulty in the enforcement of appropriate oversight by the CBK in the interactions of the agents and the customers. The research concentrated mainly on training of agents only as a support service offered by banks to their agents. The current research established how regulation CBK affects the financial performance of Small scale enterprises operating agency banking services.

A study was conducted by Ndung'u, Okibo and Nyang'au (2015) pertaining to the factors that affect the performance of banking agency business in Kenya. The researchers evaluated the effect of fraud, financial literacy, network capability and cost of financial services. The conclusion of the study was that financial literacy and cost of financial services had greatest impact on the performance of the agencies. Although the study recommended that the banks invest more in training of customers on the products of agency banking, it failed to investigate the role played by CBK on Small scale enterprises financial performance. The current research sought to address how regulation by CBK moderates the financial performance of Small scale enterprises operating baking agents in Kiambu County, Kenya.

1.8 Conceptual Framework

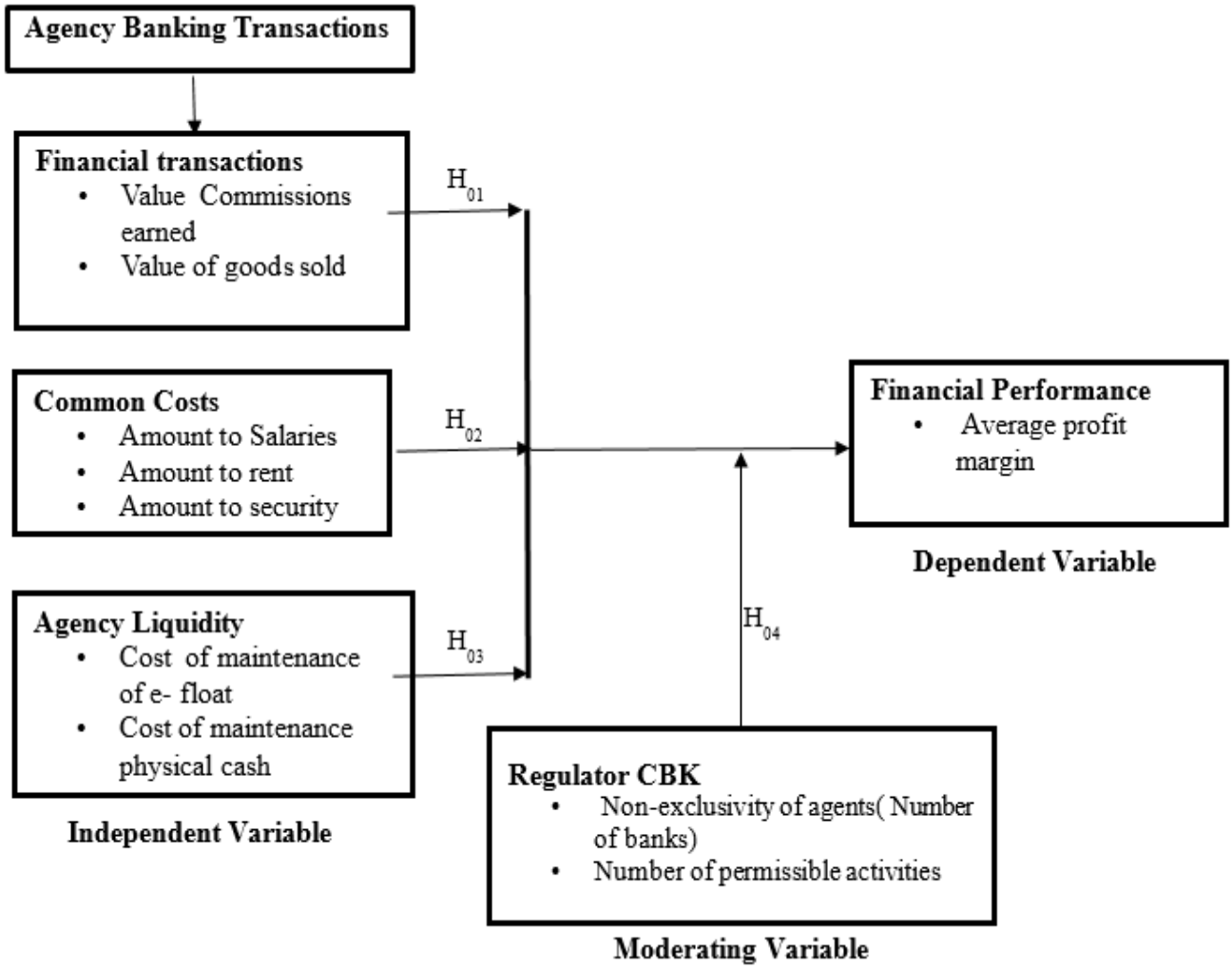

Figure 2: Conceptual Framework

1.9 Research Design and Methodology

1.9.1 Research Design

The study adopted the cross sectional descriptive survey combined with explanatory research design to determine the effect of agency banking transactions on financial performance of primary businesses of small scale enterprises in Kiambu County, Kenya.

With the cross sectional survey, data was observed and gathered at a point in time. According to Orodho (2004) cross-sectional study design allows the researcher to compare many variables at the same time. The descriptive design assisted the researcher to obtain the characteristics of the population and also test hypothesis. Explanatory research design was incorporated to assist in explaining the relationship between variables and test relationships supported by theories .This design was necessary as regression analysis was carried out (Orodho, 2004).

1.9.2 Target Population

Target population is the total group of individuals from which the sample might be drawn (Mugenda & Mugenda, 2003). The target population was all agents of Equity Bank, KCB and Cooperative Bank operating in Kiambu Town totaling to 168.

1.9.3 Sample and Sampling Procedures

A sample represents a fraction of the population such that the selected portion represents the whole population in an adequate manner. This study adopted stratified random sampling of agents of KCB, Equity and Co-operative bank in Kiambu Town. In stratified random sampling, the population is divided into two or more appropriate subsets or strata basing this division on one or several attributes (Saunders, Lewis & Thornhill, 2009). A random sample of 30% was drawn from each of the subsets. According to Mugenda and Mugenda (2003), a sample of between 10 to 30% is considered good enough if well-chosen and the sample is more than thirty. For the exact businesses to participate in the study, simple random technique was used as it offered every member of the population an equal chance of being included in the sample.

1.9.4 Data Collection

The research adopted a structured closed and open ended questionnaire which was administered face to face as the main instrument of data collection. Majority of the questions in the questionnaire were closed ended but there were also few open ended questions so that the respondents could elaborate further on their responses.

1.9.5 Data Analysis and Presentation

Quantitative data was analyzed using both descriptive and inferential statistics. Descriptive statistics used included percentages, means and standard deviation. Further regression analysis was used to deduce meaning from the data. Statistical Package for Social Sciences (SPSS) package was used to analyze the quantitative data. The research hypotheses was tested by using the generated p value while the effect of the independent variables on the dependent variable was determined by using the regression equation as shown below:

$$Y = ß_0 + ß_1 X_1 + ß_2 X_2 + ß_3 X_3 + \varepsilon$$

Where Y= Financial performance
X_1 =Financial transactions
X_2 =Common costs
X_3 =Agency liquidity
ε =Error term

To test the moderating effect of regulation by CBK the equation below was derived:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + + \beta_3 X_{3+} \beta_4 X_4 + \beta_{14} X_1 X_4 + \beta_{24} X_2 X_4 + \beta_{34} X_3 X_4 \varepsilon$$

Where X_4= Regulation by Central Bank of Kenya

Moderation is confirmed if the strength if the model is increased even further due to this interaction.

1.10 Empirical Results

1.10.1 Descriptive findings for Agency Financial Transactions and Financial Performance

Respondents were asked to indicate the volume of transactions undertaken on a daily basis. Table 1 shows the results.

Table 1: Daily Transactions

Daily Transactions	Frequency	Percentage	Cumulative percentage
1-20	5	9.8	9.8
21-40	8	15.7	25.5
41-60	16	31.4	56.9
Above 60	22	43.1	100

The results shown by Table 1, indicate that 43.1% (n=22) of the agency businesses record more than 60 financial transactions in a day, 31.4% (n=16) record between 41-60 transactions while 15.7% (n=8) record between 21-40 transactions in a day. This shows that bank clients are visiting bank agents fundamentally reducing the trips they make to the banks.

In addition to the volume of transactions of the agency, respondents were asked to indicate the number of transactions undertaken per a listed range of deposits, withdrawals and other transactions. The researcher used this information to deduce the value of commissions earned from these transactions. Tables 2-4 show the results.

Table 2: Average Commission Income-Cash Withdrawals

Cash withdrawals	Average no of Transactions	Average Commission (Ksh.)	Value of Commissions (Ksh.)
100-2500	10	15	150
2501-5000	8	25	200
5001-10000	5	35	175
10001-20000	4	60	240
20001-35000	5	70	350
35001-50000	1	90	90
50001 and above	2	120	240
Total	**35**		**1,445**

The results shown by Table 2 indicate that agents make an average of thirty five withdrawals in a day out of which majority of the withdrawals (ten) were for small value transactions. The value of commissions from the withdrawals indicated were deduced to be an average of Kshs 1,445. The findings are in line with a study by Hamblen, (2008) which stated that bank agents facilitate financial transactions on behalf of the banks and are paid according to the volume of transactions undertaken. The study established that majority of commissions made were for small value transactions. This indicates that most customers who visit bank agents conduct mostly small value transactions which would have been uneconomical to travel and conduct in a bank branch that is far away.

Table 3: Average Commission Income-Cash Deposits

Cash Deposits	Average Number of Transactions	Average Commission (Ksh)	Value of Commissions (Ksh)
10-5000	11	10	110
5001-10000	4	15	60
10001-20000	5	20	100
20001 and above	2	30	60
Total	**22**		**330**

The results shown by Table 3 indicate that agents make an average of twenty two deposits in a day out of which majority of the deposits (eleven) were for small value transactions. The value of commissions from the deposits indicated were deduced to be an average of Kshs 330.From the findings above, commissions on deposits are quite low compared to cash withdrawals. The reason could be due to the fact that customers do not pay for the deposits transactions yet banks still pay the commissions to the agents. Most customers seem to shy away from depositing huge amounts of cash at the agency banking outlets due to security reasons. Customers cite security risk of losing their cash to fraudulent agents or cash not reflecting in their bank accounts after depositing at the banking agent (Kariuki, 2015).

Table 4: Average Commission Income-Other Transactions

Other Transactions	Average no of Transactions	Average Commission (Ksh)	Value of Commissions (Ksh)
Account Opening	1	100	100
Bill Payments	5	25	125
Balance Enquiry	5	5	25
Total	**11**		**250**

The results shown by Table 4, indicate that apart from withdrawals and deposits, customers also engage in other permissible activities of an average of eleven transactions in a day. The value of commissions from the other transactions indicated were deduced to be an average of Kshs 250.This implies that customers of agency banking are engaging in fewer of the permissible activities. According to Kithuka (2012), it is evident that many customers prefer to undertake major transactions at the bank branches as they are not aware of all of the permissible activities being offered by the banking agents.

1.10.2 Descriptive findings for Common Costs and Financial Performance

Respondents were asked to indicate whether there are any cost saving advantages for the small scale enterprises that have embraced agency banking. Figure 2 shows the results.

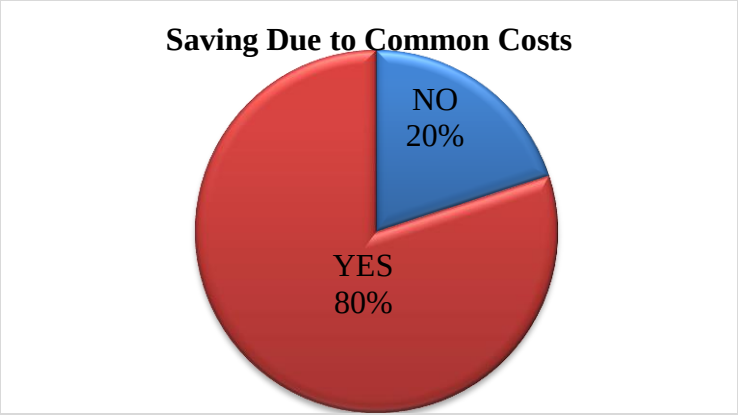

Figure 2: Saving Due to Common Costs

Based on the results on figure 2, majority of respondents representing 80% indicated that embracing agency banking had enabled the business to save on costs while 20% indicated it had not enabled cost savings. Businesses that incorporated agency banking into their existing business saved on the operational costs because attributed to more income since agency banking is an added business on the side to grow the business as an additional source of revenue from fees and commissions. The findings are in line with Veniard and Melinda (2010) which indicated that banking agencies were up to three times cheaper to operate as compared to bank branches. The findings also concur with Kambua (2015) who also noted that the infrastructural cost is low in agency banking, efficiency and convenience in operating bank agents has contributed to increased customer transactions and thus increased financial performance of banks.

1.10.3 Descriptive findings for Agency Liquidity and Financial Performance

The respondents were asked to indicate how often their businesses suffer from lack of cash for withdrawals and deposits.

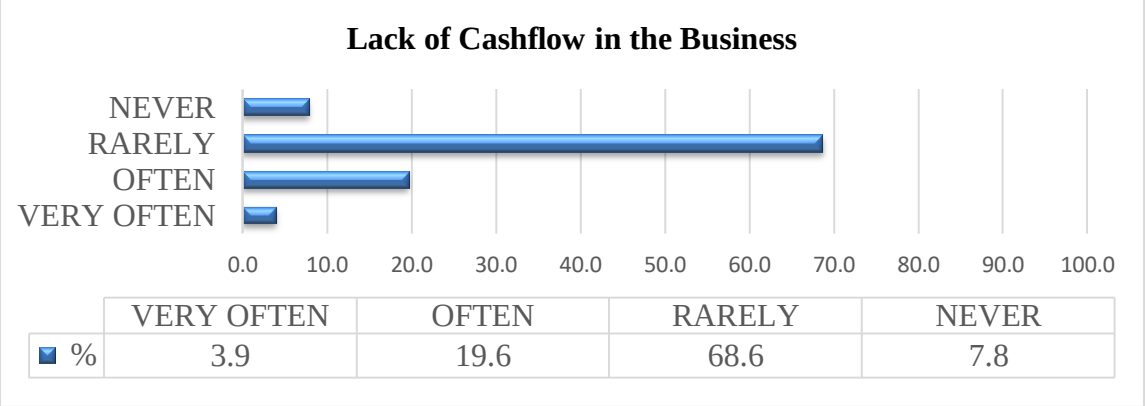

Figure 3: Lack of Cash Flow in the Business

Responses from the figure 3 indicated that 68.6% of businesses rarely suffer from lack of cash for withdrawals and deposits. The findings confirm that the agency business rarely suffer from lack of cash flow due to the additional flow of income from the primary business. This helps avoid cash flow problems that lead to customer frustration.

This concurs with a survey by Microsave (2014) which indicated that the number of transactions undertaken determines the profitability of agents and thus those agents who turn away customers by denying a high percentage of the transactions are less profitable. The reason being that the volumes of transactions are a driver to profitability and thus liquidity outage has a bad implication on the sustainability of an agency business. Customers also lose trust

on such an agency as this erodes the trust that has been built since the introduction of agency banking and a major hurdle that financial service providers have to overcome to drive adoption and usage.

1.10.4 Descriptive findings for Moderating Effect

The respondents were requested to indicate how their business as an agent has been affected by regulation of CBK. The results are indicated on table 5

Table 5: Regulation by CBK

	Mean	**Standard Deviation**
Customers are aware of all the permissible activities of an agent as approved by the CBK and hence effect on commissions earned.	2.47	1.08
Approval by CBK allowing a small scale enterprise to work as an agent for multiple banks has promoted financial performance of my business.	3.02	0.68

Based on the results on table 5, the respondents were neutral to the statement that their customers are aware of all the permissible activities of an agent as approved by the CBK with a mean of 2.47. However this opinion had a considerable standard deviation of 1.08 meaning that respondents varied in their opinion to this statement .The reason for this could be because the customers of agency banking engage few of the permissible services; mainly in cash withdrawals, cash deposits, bill payments and balances requisitions despite the fact that permissible services that the agents are allowed to offer are many. This is attributed to low levels of financial literacy on agency banking among customers and could have an effect on the performance of banking agents. This study agrees with a study conducted by Ndung'u, Okibo and Nyang'au (2015) which recommended that the banks invest more in training of customers so as to improve levels of financial literacy in order to push more end user acceptance and for users to know about all the transactions they could undertake at a bank agent outlet.

Based on the results on table 5, the respondents agreed with a mean of 3.02 and a standard deviation of 0.68 that the regulations by CBK allowing a small scale enterprise to work as an agent for multiple banks had promoted financial performance of their business. All of the businesses sampled were acting as bank agents for more than one bank alongside their primary business. This means that a business is able to be an agent of several banks in one premise. This finding backs the regulation by CBK on the clause that empowers agents to provide agent banking services for to multiple banks as long as an agent has different contracts and has the capacity to manage the transactions for each of the institution (CBK, 2010).

1.11 Inferential Statistical Results and Discussions

This section shows the correlational results of the relationship between the independent variables and dependent variables.

1.11.1 Financial Performance and Financial Transactions

The Inferential results statistics that relate to Agency Banking Transactions are shown on table 6:

Table 6: Agency Banking Transactions and Financial Performance Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	VIF
	B	Std. Error	Beta			
(Constant)	1.521	.836		1.819	.000	1
X1	.042	.074	.086	.567	.030	1
X2	-.150	.209	-.120	-.718	.022	1
X3	.367	.274	.222	1.339	.013	1

a. Dependent Variable: Y

The coefficient table estimated the equation $Y = 1.521 + 0.042\ X_1 – 0.150\ X_2 + 0.367X_3$

The coefficients of the model imply that for every unit increase in (X1) financial performance will increase by 0.042 units while for every unit increase in (X2) financial performance will decrease by 0.15 units while for every unit increase in (X3) financial performance will increase by 0.367 units.X1 was found to be significant in the model (t = 0.56, P = 0.30) ,(X2) was found to be significant in the model (t = -0.718, P = 0.22 and (X3) was also found to be significant in the model (t = 1.339, P = 0.13) therefore all the independent variables were useful in increasing financial performance.
The findings resonate with (Neil & Leishman, 2010) who established that banking agents who provide a range of services such as deposits, withdrawals, bill payments, checking of balances, account opening and as well as engage in selling of goods and services of the primary business are able to generate many transactions, make more sales and balance liquidity hence improve on their financial performance.

The findings are also in agreement with argument by Ombutora & Mugambi (2013) pertaining to how agency banking affects the performance of banking agencies. The study established that costs of transactions affect the performance of banking agents. The results of this study now show that financial performance of Small scale enterprises also increased due to decreased costs attributed to sharing costs between the primary business and the agency business.

The findings resonate with a study conducted by Maina (2014) on factors influencing the endorsement of agency banking services by customers in KCB in Kenya. The study concluded that agency liquidity affects the uptake of agency banking services as Agencies that were recorded to have well maintained liquidity were able to retain more clients. This implied that more transactions were undertaken when an agent is able to maintain liquidity and hence improved financial performance.

1.11.2 Moderating Effect

The Inferential results statistics that relate to moderating effect are shown on table 7:

Table 7: Regression Results for Moderating Effect

Model		F	R^2	$\triangle R^2$	Sig
$Model_1$	$Y = 1.521 + 0.042\ X_1 – 0.150\ X_2 + 0.367X_3$	0.725	0.591	-	0.044

Model$_2$	$Y = 2.433 + 0.031X_1 - 0.044\ X_2 + 0.227\ X_3 + 0.006\ X_4 + 0.020\ X_1X_4 + 0.406\ X_2\ X_4 - 0.179\ X_3\ X_4$	3.119	0.302	-0.289	0.054

The coefficients of Model$_1$ which does not include the moderating variable are higher than the coefficients of Model$_2$ which involves the influence of the moderating variable. From these results it is evident that Regulation by Central Bank of Kenya did not add value as a moderator in the model. In fact it weakened the R^2 value of Model$_2$ where the moderator was introduced additionally the model was not significant $p>0.05$. For these reasons it was not possible to reject the null hypothesis (H_{04}) that Regulation by Central Bank of Kenya had no statistically significant moderating effect on the relationship between Agency Banking Transactions and Financial Performance of Primary Businesses of Small scale Enterprises in Kiambu Town, Kenya.
The findings of the study agree with Kirimi (2011), which revealed that enforcing oversight on the interaction of the customer and the agent is difficult. The viable solutions to this were regular trainings of agents on agency banking policies and supervision by the banks.

2.1 Summary of the study

The first objective of the study was to determine the effect of agency financial transactions on the financial performance of primary businesses of SMEs in Kiambu Town, Kenya. The study hypothesized that there was no effect between agency financial transactions and the financial performance of primary businesses of Small scale enterprises in Kiambu Town, Kenya. The study finding was that financial transactions of agency banking have a positive and significant relationship with the financial performance of SMEs as the p- value was 0.03

The second objective was to determine the effect of common costs on the financial performance of primary businesses of SMEs in Kiambu Town, Kenya. The study hypothesized that there was no effect between common costs and the financial performance of primary businesses of Small scale enterprises in Kiambu Town, Kenya. The study finding was that common costs have a negative and significant relationship with the financial performance of SMEs as the p- value was 0.022

The third objective was to determine the effect of agency liquidity on the financial performance of primary businesses of SMEs in Kiambu Town, Kenya. The study hypothesized that there was no effect between agency liquidity and the financial performance of primary businesses of Small scale enterprises in Kiambu Town, Kenya. The study finding was that agency liquidity have a positive and significant relationship with the financial performance of SMEs as the p- value was 0.013

The fourth objective was to establish the moderating effect of Central Bank of Kenya on the financial performance of primary businesses of SMEs in Kiambu Town, Kenya. The study hypothesized that there was no moderating effect of regulation of Central Bank of Kenya and the financial performance of primary businesses of Small scale enterprises in Kiambu Town, Kenya. The study finding was that moderating effect of Central Bank of Kenya does not have a significant moderating effect on the financial performance of SMEs as the p- value was 0.054.

2.2 Conclusion

The study concludes that primary businesses boost their income from the commissions received from the banks and gain additional business from the customers who purchase goods and services from their shops after engaging in agency transactions. Customers have preference for the banking agent where they undertake their agency banking transactions thus driving more patronage and sales opportunities for the primary business. The study concludes that primary businesses involved in agency business also save on operational costs since the same resources are used to derive additional income thus boosting their profits. The study concludes that bank agents rarely suffer from lack of liquidity due to the additional flow of income from the primary business.

2.3 Recommendations

The study recommends a public awareness campaign on the services offered by banking agents with bias towards other services offered by banking agents apart from cash withdrawals and deductions. This study therefore recommends creation of an adequate agent management framework that will effectively determine the number of

agents within a certain radius. The current study established that regulation by CBK had no moderating effect on the interactions between the variables. The findings of the study differ with other studies which established that the CBK has a moderating effect on banking. Further research on this moderating variable is therefore important in order to establish its relationship with agency banking. The study also recommends simulation of this study in the other towns in Kenya.

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LOAN INTEREST COST AND THE FINANCIAL GROWTH OF SMALL AND MEDIUM ENTERPRISES IN NYANDARUA COUNTY, KENYA

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ABSTRACT

Credit plays an important role in economic development and it is therefore believed that the expansion of credit programs will have a positive effect on income increase among small businesses of any economy. It helps in the diversification of livelihood, elimination of poverty and increases the skills of entrepreneurs. In Kenya, many small businesses source their credit from the informal sector and therefore their access to formal credit remains low. The focus of this study was to analyze the preference and perception of small scale business owners on the access to credit facilities so that their accessibility can be improved and that their needs for credit can be met adequately. The specific objective of this study was to determine the effect of loan interest costs on the financial growth of small and medium enterprises in Nyandarua County. The target population for the study was all the SMEs in Nyandarua County in the sectors of manufacturing, trade and service provisions which are 456 in number. The study applied stratified sampling design in coming up with a sample size of 137 respondents for the study which was a probabilistic sample of 30% among the three strata of manufacturing, trade, and service provision. Questionnaires were used as instruments for the study to collect data from financial managers and owners of these enterprises. Data collected was analyzed through descriptive analysis, content analysis, and regression analysis and emerging results presented in tables. The study found that there is a negative and significant relationship between loan interest costs and financial growth. The study recommends for the financial institutions to charge low-interest rates on their credit facilities so that many small businesses take up loans. Also, the businesses can take up other alternatives of financing that have low costs charged on loans such as SACCOs therefore increasing their ability to access credit.

Keywords: Small And Medium Enterprises, Credit Facility, Interest charge, Financial Growth

1.1 Background to the study

Small and medium enterprises (SMEs) form the backbone of every economy. However, the natures of these businesses majorly being startups are faced with the challenge of sustaining their growth due to the lack of working

capital. The financial institution, on the other hand, perceives small startup business as risk enterprises and therefore remains skeptical on offering them financial support through loans (Rogaly, 2010).

Small and medium enterprises across the world almost face similar challenges on their growth paths despite their big role in social stability, contribution to gross domestic product and creation of employment. For instance, small businesses in the European Union (EU) privately owned have created about 90% of employment and contributed up to 61% on the gross domestic product (GDP). Similarly, in China privately owned enterprises have been key players in employment creation as well as significant contributors to economic development. Small businesses in Malaysia have been reported to face a major blow through the limitations of accessing loans from financial institutions (Huppi & Feder, 2015).

In the developing countries there exists asymmetry of information on the financial markets with the formal credit institutions deliberately ignoring the informal lenders. It is therefore common to find the informal businesses getting their loans from close friends, relatives, neighbors as well as people whom they are in the same profession. This in itself reduces on the transaction as well as enforcement costs leading to low default rates. On the other hand, these loans are usually small and limit the growth of these enterprises. Small businesses also face another problem of collateral and interest rates challenges. Whereas some assets that can be accessed by small businesses are highly valued they fail to have property rights to be used as collateral to secure huge loans with the formal institution (Gichuki, Njeru & Tirimba, 2014).

In developing countries, small businesses are run by mainly people who have failed to secure formal employment leading to starting these businesses in manufacturing and in retail businesses. The entrepreneur's also running these ventures lacks the knowledge of how they can borrow to finance different undertakings of the business and projects. Others cited the lack for collateral by the struggling new enterprises to secure loans with financial institutions. The financial institutions have themselves being accused of giving loans in skewed to businesses and at very high interest rates (Morduch, 2010).

In Kenya, small businesses have also gone through the same turmoil on the financial institutions' bureaucracy on assisting them in obtaining credit facilities. They have reported that big loans to them have declined as a result of being generally described as risky enterprises (Atieno, 2011).

1.1.1 Credit Accessibility and Growth

Small and medium enterprises have been noted to require capital to enable them to run daily operations, venture into new products, venture into new markets as well as funding research and development for creativity and innovativeness. Studies carried out have revealed that small businesses that have been able to obtain loans from the formal institutions are able to register higher sales, report higher profits, better returns on equity, and better returns on investments etc., their businesses and even able to raise their productivity from economies of scale realized.

Studies also carried out by Kimuyu and Omiti (2017) have revealed that an increase to access to credit facilities by small businesses results to about 20% increase in sales and profits and also an improvement on the cash flows.

1.2 Statement of the Problem

Small and medium enterprises need capital for working capital, entry into new markets and development of new products as well as sustenance. With increased access to credit facilities of about 10% of firms have registered a growth of about 20% according to a survey done by Tybout (2012). This means therefore that access to capital is at the center of every venture growth.

Many small businesses have collapsed in their first five years as a result of limited access to capital that would otherwise sustain such ventures during difficult times where innovations of new products, as well as diversification into new markets, would sustain them. The challenges on accessibility resulting from high-interest rates on loans borrowed (Poutziouris, Wang, & Chan, 2016; Desai, Foley & Forbes, 2017). Studies carried out in the past have shown non-consistencies on the effect of interest charges on the accessibility of credit facilities, with some showing little effect while others showing no relationship at all between interest charged on loan and financial growth of SMEs calling for a more in-depth study.

1.3 Objective of the Study

To determine the effect of loan interest cost on the financial growth of small and medium enterprises in Nyandarua County

1.4 Research Hypothesis

H_{01}. There is no relationship between interest cost charges and the financial growth of small and medium enterprises in Nyandarua County.

2.2 Theoretical Review

The study was guided by pecking order theory

2.2.1 Pecking Order theory

This theory was pioneered by Donaldson in 1961. This theory stipulated that when a firm need to finance its project there is an order or ranking on different financial sources at its disposal. The order is in such a way that reduces risks to the firm and also reduces exposure to control (Frank & Goyal, 2013).

In the informal borrowing, a firm obtains its funds from either personal before saving or its retained earnings (Sánchez-Vidal, & Martín-Ugedo, 2015). In the formal borrowing, however, a firm would first consider internal financing first before going for external financing. In the internal financing retained earnings as well as internal equity is given priority because of its risk-free. For external borrowing debts that attract low interests are considered before other external financing options such as external equity that can expose the firm to high risk of control (Zoppa, & McMahon, 2012). This theory plays an important role in this study by explaining how firms with adequate and reliable information make informed choices on different sources of financing, therefore, reducing the burden of the cost of loan.

2.2.2 Imperfect Information Theory

This theory was pioneered by George Akerlof in 2002. This theory is guided by the unequal distribution of information between the managers of the organization and the investors. This inequality acts as a guide in making key decisions concerns the raising of capital in the organization to do business. According to this theory finance managers of organization prefer to utilize internally generated capital, later would go for debt in the form of loans and finally would go for equity capital (Rothschild & Stiglitz, 2010).

Two major risks are involved in pecking order theory which involves adverse selection and moral hazard. The adverse selection comes in because the firm has more information about the project than the bank itself. Therefore it is necessary for the two parties to be at par in the disclosure of key information relating to the project in order to make a solid judgment by the bank in giving the loan. That is to inform the bank about the purpose of the loan and how it shall be paid back (Stiglitz & Weiss, 2011).

According to Bhattacharya (2009), moral hazard, on the other hand, is the risk that the borrower may divert the many given to other uses other than the intended ones. In this case, the bank may guard against the case by having someone on the board that follows through board meeting to avowing diverting money. This theory is important to the study by explaining the importance of information among borrowers in accessing credit facilities.

The theory on resource base was pioneered by Barney in 1991. The proposition of the theory is that a firm uses the resource it has in its disposal to achieve strategic competitiveness. A firm which has more resource in its disposal is, therefore, able to meet both its short term as well as long term objective. A firm would therefore easily develop new products or enter the new market niche if it has adequate and appropriate resources at its disposal (Grant, 1991).

According to Das and Teng (2010) for small business to grow they need to have a property right that would enable them to provide collateral to acquire loans from financial institutions around. Likewise, an institution that has an adequate and reliable source of information about the financial market is able to borrow at the best interest rates and also get best credit facilities. This theory is important to this current study by explaining how resources such as collateral and literate human resource can help n organization in getting best credit facilities for its growth.

2.2.3 Resource Based theory

The theory on resource base was pioneered by Barney in 1991. The proposition of the theory is that a firm uses the resource it has in its disposal to achieve strategic competitiveness. A firm which has more resource in its disposal is, therefore, able to meet both its short term as well as long term objective. A firm would therefore easily develop new products or enter the new market niche if it has adequate and appropriate resources at its disposal (Grant, 1991).

According to Das and Teng (2010) for small business to grow they need to have resources and capital at its disposal that would enable them to an alternative means of capital for growth. Likewise, an institution that has an adequate and reliable source of information about the financial market is able to borrow at the best interest rates and also get best credit facilities. This theory is important to this current study by explaining how resources enables organizations to access the best information and therefore getting best credit facilities for its growth.

2.3 Empirical Review

2.3.1 Interest Cost

Green, Kirkpatrick, and Murinde (2006) covered agribusiness firms in Uganda where 512 small firms were tested on the relationship between interest cost and financial performance. The descriptive results of the study established that 89% of the respondents were of the view that indeed interest costs affected accessibility to credit facilities only 11% found it not a hindrance. Small business does require small capital compared to bigger firms, therefore due to economies of scale small firms get their loans at higher interests because they are also considered risky ventures. The study concluded for a firm to grow steadily, they have to access finances to the formal sector which is considered riskier. The study, however, failed to use correlation well as regression analysis to test the strength of the relationship between the interest costs on financial growth as well as its level of significance. Therefore this study had the objective of establishing such levels of significance as the strength of the relationship.

In a study carried out by Aryeetey, Hettige, Nissanke, and Steel (2007) in Malawi to find out the effect of interest charges on accessing credit facilities, the results of the study from 415 business owners found that 92% of the respondents believed the high-interest cost was a major hindrance to accessing credit facilities. The reason associated with the small business holder being left out is their fear for exploitative interests charged on borrowed capital. The study, in this case, was studied in a country with a different financial regulatory system and therefore necessitating a study to be carried out in a country like Kenya with the different regulatory framework.

Grace and Tomola (2008) carried out a study on the role of access to finance on financial performance in Lagos consultancy firms. The study adopted a casual research design where 423 questionnaires collected data from the owners of these firms. The study established that access to finance had a weak positive relationship with financial performance. The study, however, carried out in an urban setup with different macro as well as the macro environment to a rural setup. Therefore this study aim at establishing the effect of interest cost on the growth of firms in the rural setup

A study by Ochanda (2014) sought to find out the factors affecting financial growth among small businesses in Nairobi, Kenya. The study sampled 97 Small firms in the retail business. The study carried out descriptive statistics on the data collected from questions seeking to find out if interest charges had an effect on financial access and growth. The study established that indeed high-interest rates discouraged access to credit facilities as shown by 92% of the respondents. However, the study only carried out descriptive statistics and not inferential statistics to indicate coefficient correlation, a case which will be achieved by this study.

Table 2.1: Summary of Literature Review and Gaps

Author	Focus of study	Major Findings	Knowledge Gaps
Green, Kirkpatrick, and Murinde (2006)	The role of microcredit on the financial growth of small and medium enterprises in Uganda. .	95 % of the respondents revealed that interest costs affected accessibility to credit facilities	The study failed to use correlation well as regression analysis to test the strength of the relationship between the interest costs on growth as well as its level of significance
Aryeetey, Hettige, Nissanke, and Steel (2007).	Access to finance and growth among rural small businesses in Malawi	Small business holders are being left out in formal financing sector due to their fear for exploitative interests charged on borrowed capital.	The study only used descriptive statistics therefore not being conclusive on the level of significance as well as the coefficient of correlation.
Ochanda (2014)	Factors affecting financial growth among small businesses in Nairobi, Kenya.	92% of respondents noted that high-interest rates discouraged access to credit facilities	The study only used descriptive statistics therefore not being conclusive on the level of significance as well as the coefficient of correlation.

Source: Researcher (2019)

2.4 Conceptual Framework

The following figure is a diagrammatic representation of the relationship between loan interest and the financial growth of small and medium enterprises in Nyandarua County and the measures/ indicators relating to the variables.

Independent variable **Dependent Variable**

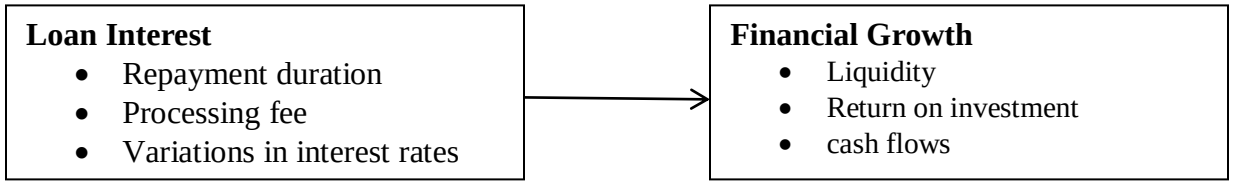

Figure 2.1: Conceptual Framework

Source: Researcher (2019)

The conceptual framework above illustrates that loan interest being measured through: repayment duration, loan processing fee and variations in interest rates whereas financial growth is measured through liquidity of business and return on investment

3.0 RESEARCH METHODOLOGY

3.1 Research Design

The study adopted a descriptive research design as well as case effect design. This research design method was used because it enhanced the reporting of facts as they happened without alterations done on the data. Also case effect shows how independent cases impact on dependent cases.

3.2 Target Population

456 SMEs in manufacturing, trade, and provision of services in Nyandarua County was targeted for the study. Therefore the study will target 456 owners and managers of these SMEs.

Table 3.1: Population for the study

Category	Size
Manufacturing	304
Trading	100
Service provision	52
Total	**456**

3.3 Sampling Design

The study applied a probabilistic sampling design where 30% of the stratum size was considered for the study. From the sampling done 137 respondents were included to provide data as justified by Mugenda and Mugenda (2008), to be adequate and representative of the targeted population.

Table 3.2: Sampling Technique

Category	size	Percentage	Sample size
Manufacturing	304	30%	91
Trade	100	30%	30
Services providers	52	30%	16
Total	**456**		**137**

Source Author (2019)

3.4 Data Collection Instrument

Primary data was used in the study and collected using a questionnaire. The questionnaire consisted of closed and open questions. The closed questions had likerts, open questions were to give more in-depth on the matter of inquiry.

3.5 Validity and Reliability of Research Instrument

3.5.1 Validity of Research Instrument

Validity of research instrument relates to how the research instruments captures what the research aimed at achieving in terms of the questions asked and their relevance to the current study. The study consulted research experts experienced in the same field as well as the university supervisors to ensure that the questions that were asked specifically addressed the concern of the study.

3.5.2 Reliability of Research Instrument

Reliability of research instrument shows the extent to which if similar research instrument and procedures followed remains constant as to whether they would yield consistent results. The study ensured achieving of this consistence by testing the results of the constructs through Cronbach α at 0.8, where the Cronbach α obtained was less that 0.8 on an indicator it was dropped and vice-versa.

Factor	Number of indicators	Cronbach α
Loan interest	3	0.8

Source :Researcher (2019)

3.6 Data Collection Procedure

The data in the study was collected with the assistant of two research assistants. Before data collection, a letter was sent to the financial managers of the institution requesting them to help in providing data required for the study. The research assistants dropped questionnaires and picked them later after they were filled by the respondents selected. Where there were challenges in filling them the respondents was to be called and offered needed support.

3.7 Data Analysis and Presentation

Data collected was analyzed through descriptive, content analysis as well as inferential statistics. Through descriptive analysis, data was analyzed with the help of SPSS version 21 to generate mean, frequency and percentages. Content analysis was also carried out through a thematic approach whereby key concepts from the open questions that required the respondents to give their own view were noted. Finally through inferential analysis relationship between independent and dependent variable and levels of significance was established. To carry out inferential analysis a regression model was considered as shown below.

$$Y=\beta_0+\beta_1 X_1+\epsilon$$

Where: Y represented Financial Growth, β_1 represented coefficient for independent variables, X_1 represented interest rate cost whereas ϵ was the error term.

4.0 RESEARCH FINDING AND DISCUSSIONS

4. 1 Gender

The study aimed at establishing the gender of the respondents. The results are as shown in table 4.2 below.

Table 4.1: Gender of the Respondents

Gender	Frequency	Percent (%)
Male	74	61
Female	47	39
Total	**121**	**100**

Source: Researcher (2019)

Results of the study in table 4.1 revealed that the majority of the small businesses were owned by men as indicated by 61% on the above table, only 31% of the businesses were owned by women. Similar studies Davidoff and Hall, (2013), indicated that slowly the culture of male dominance in businesses with women left to do domestic chores is soon fading away

4. 2 Age bracket

The study aimed at establishing the age bracket of the respondents. Table 4.3 below shows the age bracket of the respondents.

Table 4.2: Age bracket

Age bracket	Frequency	Percentage (%)
Under 20 years	8	7
21-35yrs	39	32
36-50	50	41
Above 50years	24	20
Total	**121**	**100**

Source: Researcher (2019)

It was revealed from the study in table 4.2 that people of the age between 36 and 50 years were the major owners of the small businesses in Nyandarua county as indicated by 41%, ownership of the businesses among the small businesses was followed by owners aged 21 and 35 years as indicated by 32%, others of above 50 years owned only 20% of the small businesses. This study shows that many people start their businesses when they are energetic an innovative enough mainly when they are below 50 years of age. Barney (2001), concurs with the findings of this study when he opined that adults in the middle age are innovative and creative enough to start-up businesses, unlike old people.

4.3 Level of Education

In this section, the study sought to find out the levels of education of its respondents. Table 4.4 below shows the level of education of the respondents.

Table 4.3: Level of Education

Level of education	Frequency	Percent (%)
Primary school	46	38
Secondary school	50	41
college\university	25	21
Total	**121**	**100**

Source: Researcher (2019)

The results of the study in table 4.3 revealed that majority of the small business owners had secondary school education as indicated by 41%, this was followed by 38% of the respondents who had primary school education and finally only 21% of the respondents had university/college level of education. This result indicates that most of the small and medium enterprises owners in Nyandarua County had limited levels of education to make key financial decisions in their businesses. Nassimbeni (2001) opined that individual education level is a key ingredient in making entrepreneur decisions in businesses and thus have a huge impact on society as a whole.

4. 4 Source of Money Used To Start Business

In this section, the study sought to find out the different sources of funds that the owners of the small businesses in Nyandarua County used to start-up their businesses. The study revealed that the business owners got their start-up capital from Personal saving, Friends and relatives, Group lending (Chama), Bank loan and Trade credit. Cassar (2014), concurs with the study findings when he postulated that capital for starting businesses can be gotten from friends, banking institutions, personal savings or credits.

4.5 Interest Rates

This section sought to find out how the interest rate charged affect the accessibility of credit in the financial growth of small and medium enterprises in Nyandarua County. In this case, the following areas were covered.

4.6 Credit period for Loans

In this section, the study sought to find out whether the credit period given on the loan is enough to pay back the principal and the earned interest. The results are shown in table 4.5 below.

Table 4.4: Credit period given

Time	Frequency	Percent (%)
Yes	24	20
No	97	80
Total	**121**	**100**

Source: Researcher (2019)

The table 4.4 showed that majority of the respondents felt that the financial institutions were not giving borrowers enough time to make-up the payments as shown by 80%, whereas only 20% felt that the period they are given is

enough. Similarly, Williamson (2017), noted that the loans contracts drown by financial institutions on long-term basis attracts high monitoring costs and therefore rationing on the amount of credit given as well as time.

4.7 Compounding Costs

This part of the study sought out if compounding costs or interest charges on the borrowed money was affecting their access to credit. Table 4.6 presents the findings.

Table 4.5: Compounding Costs

Time	Frequency	Percent(%)
No	30	25
Yes	91	75
Total	**121**	**100**

Source: Researcher (2019)

The table 4.5 above show that may financial institution giving loans were discouraging borrowing by charging too high interest on money borrowed as shown by 75% of the respondents, only 25% felt that the interest charged were fair. Similar studies by Bottomley (2013), noted that the cost charged on borrowed capital is high enough to cover for administration costs, especially in rural areas.

4.8 Hidden Charges

This part of the study sought to find whether there were other hidden costs including processing fees on loans that affected borrowing. The results are shown in table 4.7 below.

Table 4.6: Hidden Charges

Time	Frequency	Percent
Yes	103	85
No	18	15
Total	**121**	**100**

Source: Researcher (2019)

The table 4.6 above shows that there were other hidden costs discouraging borrowing as they made the costs of borrowing to go high as shown by 85% of the study only 15% felt okay with other processing costs. Similar studies by Bottomley (2013), noted that the cost charged on borrowed capital is high enough to cover for administration costs especially in rural areas, therefore other costs are hidden by the banks as administration costs.

4.9 Factors of Interest Rates Influence on Borrowing Ability

The study aimed at determining the extent to which respondents agreed on statements regarding interest cost charges on borrowing ability. Table 4.8 below shows the extent to which interest rate factors influence accessibility to credit from financial institutions.

Table 4.7: Factors of Interest Rates Influence on Borrowing Ability

Statement	Mean	Std Dev

Credit period given was enough	1.32	.846
Compounding costs are high or vary	4.83	.654
Hidden costs are there	4.03	.754

Source: Author (2019)

Results of the study in table 4.7 as indicated on the table above shown a disagreement that 'credit period given was enough' from a mean of 1.32; it was agreed compounding costs were high as shown by a mean of 4.83; finally they agreed that there are hidden costs that have an effect on borrowing as shown by a mean of 4.03. Similar studies by Aryeetey, Hettige, Nissanke, and Steel (2007) in Malawi to find out the challenges faced by small business to access credit facilities found from 92% of the respondents that high-interest cost was a major hindrance to accessing credit facilities.

4.10 Coefficients

The strength and direction of the relationship between the independent variable interest costs and the dependent variable (financial growth) was tested using Pearson's correlation coefficient. Table 4.16 below shows the correlation coefficient.

Table 4.8: Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	Sig.
	B	**Std. Error**	**Beta**	
(Constant)	12.371	6.686		.0359
Interest cost	-.195	.388	.255	.0239

a. Dependent Variable: Financial Growth

b. predictors : (interest rates, literacy levels, the location of business and demand of collateral)

Proposed regression model was: $Y= a + B_1 X_1 + \epsilon$

Therefore after the determination of the coefficient the model becomes

$12.371 - 0.195 X_1 + \epsilon$

From the above model results in table 4.8, putting interest cost at constant the financial growth was 12.371. However, with a 1% increase in interest charges, this leads to a decline in financial growth by .195% this relationship was negative in nature and significant at 0.0239. This result concurs with ones carried out by Ochanda (2014) when he posited that indeed high-interest rates discouraged access to credit facilities.

4.11 Hypothesis Testing

The study aimed at testing the following hypothesis**: *There is no relationship between interest cost and the financial growth of small and medium enterprises in Nyandarua County.*** However, from the coefficients obtained from regression analysis, it was established that interest cost charged on loan had a negative significant relationship

on the financial growth of small and medium enterprises in Nyandarua County. The strength of the relationship was 0.195 which was significant at 0.0239 through a 95% confidence interval.

5.0 SUMMARY OF FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

5.1 Summary of the Study

It was established that interest rate discourages borrowing among businesses in Nyandarua County. It was also found that financial institutions are not giving borrows enough time to make repayment which results in low financial growth.

5.2 Conclusions of the Study

It was concluded that the high-interest rate has a negative relationship with access to financial growth among firms in Nyandarua County. With high compounded charges and the short-repayment period the borrowers were unable to make repayments for borrowed capital, therefore, shying away from taking such facilities.

5.3 Recommendations of the Study

The study recommends financial institutions to charge low-interest rates on their credit facilities so that many small businesses take up loans. Also the small businesses source from other sources of financing that have low costs charged on loans such as SACCO, that are normally lowly charged and therefore increasing their ability to access credit.

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LOAN INTEREST COST AND THE FINANCIAL GROWTH OF SMALL AND MEDIUM ENTERPRISES IN NYANDARUA COUNTY, KENYA

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ABSTRACT
Credit plays an important role in economic development and it is therefore believed that the expansion of credit programs will have a positive effect on income increase among small businesses of any economy. It helps in the diversification of livelihood, elimination of poverty and increases the skills of entrepreneurs. In Kenya, many small businesses source their credit from the informal sector and therefore their access to formal credit remains low. The focus of this study was to analyze the preference and perception of small scale business owners on the access to credit facilities so that their accessibility can be improved and that their needs for credit can be met adequately. The specific objective of this study was to determine the effect of loan interest costs on the financial growth of small and medium enterprises in Nyandarua County. The target population for the study was all the SMEs in Nyandarua County in the sectors of manufacturing, trade and service provisions which are 456 in number. The study applied stratified sampling design in coming up with a sample size of 137 respondents for the study which was a probabilistic sample of 30% among the three strata of manufacturing, trade, and service provision. Questionnaires were used as instruments for the study to collect data from financial managers and owners of these enterprises. Data collected was analyzed through descriptive analysis, content analysis, and regression analysis and emerging results presented in tables. The study found that there is a negative and significant relationship between loan interest costs and financial growth. The study recommends for the financial institutions to charge low-interest rates on their credit facilities so that many small businesses take up loans. Also, the businesses can take up other alternatives of financing that have low costs charged on loans such as SACCOs therefore increasing their ability to access credit.
Keywords: Small And Medium Enterprises, Credit Facility, Interest charge, Financial Growth

1.1 Background to the study

Small and medium enterprises (SMEs) form the backbone of every economy. However, the natures of these businesses majorly being startups are faced with the challenge of sustaining their growth due to the lack of working capital. The financial institution, on the other hand, perceives small startup business as risk enterprises and therefore remains skeptical on offering them financial support through loans (Rogaly, 2010).

Small and medium enterprises across the world almost face similar challenges on their growth paths despite their big role in social stability, contribution to gross domestic product and creation of employment. For instance, small businesses in the European Union (EU) privately owned have created about 90% of employment and contributed up to 61% on the gross domestic product (GDP). Similarly, in China privately owned enterprises have been key players in employment creation as well as significant contributors to economic development. Small businesses in Malaysia have been reported to face a major blow through the limitations of accessing loans from financial institutions (Huppi & Feder, 2015).

In the developing countries there exists asymmetry of information on the financial markets with the formal credit institutions deliberately ignoring the informal lenders. It is therefore common to find the informal businesses getting their loans from close friends, relatives, neighbors as well as people whom they are in the same profession. This in itself reduces on the transaction as well as enforcement costs leading to low default rates. On the other hand, these loans are usually small and limit the growth of these enterprises. Small businesses also face another problem of collateral and interest rates challenges. Whereas some assets that can be accessed by small businesses are highly valued they fail to have property rights to be used as collateral to secure huge loans with the formal institution (Gichuki, Njeru & Tirimba, 2014).

In developing countries, small businesses are run by mainly people who have failed to secure formal employment leading to starting these businesses in manufacturing and in retail businesses. The entrepreneur's also running these ventures lacks the knowledge of how they can borrow to finance different undertakings of the business and projects. Others cited the lack for collateral by the struggling new enterprises to secure loans with financial institutions. The financial institutions have themselves being accused of giving loans in skewed to businesses and at very high interest rates (Morduch, 2010).

In Kenya, small businesses have also gone through the same turmoil on the financial institutions' bureaucracy on assisting them in obtaining credit facilities. They have reported that big loans to them have declined as a result of being generally described as risky enterprises (Atieno, 2011).

1.1.1 Credit Accessibility and Growth

Small and medium enterprises have been noted to require capital to enable them to run daily operations, venture into new products, venture into new markets as well as funding research and development for creativity and innovativeness. Studies carried out have revealed that small businesses that have been able to obtain loans from the formal institutions are able to register higher sales, report higher profits, better returns on equity, and better returns on investments etc., their businesses and even able to raise their productivity from economies of scale realized. Studies also carried out by Kimuyu and Omiti (2017) have revealed that an increase to access to credit facilities by small businesses results to about 20% increase in sales and profits and also an improvement on the cash flows.

1.2 Statement of the Problem

Small and medium enterprises need capital for working capital, entry into new markets and development of new products as well as sustenance. With increased access to credit facilities of about 10% of firms have registered a growth of about 20% according to a survey done by Tybout (2012). This means therefore that access to capital is at the center of every venture growth.

Many small businesses have collapsed in their first five years as a result of limited access to capital that would otherwise sustain such ventures during difficult times where innovations of new products, as well as diversification into new markets, would sustain them. The challenges on accessibility resulting from high-interest rates on loans borrowed (Poutziouris, Wang, & Chan, 2016; Desai, Foley & Forbes, 2017). Studies carried out in the past have shown non-consistencies on the effect of interest charges on the accessibility of credit facilities, with some showing little effect while others showing no relationship at all between interest charged on loan and financial growth of SMEs calling for a more in-depth study.

1.4 Objective of the Study

To determine the effect of loan interest cost on the financial growth of small and medium enterprises in Nyandarua County

1.4 Research Hypothesis

H_{01}. There is no relationship between interest cost charges and the financial growth of small and medium enterprises in Nyandarua County.

2.2 Theoretical Review

The study was guided by pecking order theory

2.2.1 Pecking Order theory

This theory was pioneered by Donaldson in 1961. This theory stipulated that when a firm need to finance its project there is an order or ranking on different financial sources at its disposal. The order is in such a way that reduces risks to the firm and also reduces exposure to control (Frank & Goyal, 2013).

In the informal borrowing, a firm obtains its funds from either personal before saving or its retained earnings (Sánchez-Vidal, & Martín-Ugedo, 2015). In the formal borrowing, however, a firm would first consider internal financing first before going for external financing. In the internal financing retained earnings as well as internal equity is given priority because of its risk-free. For external borrowing debts that attract low interests are considered before other external financing options such as external equity that can expose the firm to high risk of control (Zoppa, & McMahon, 2012). This theory plays an important role in this study by explaining how firms with adequate and reliable information make informed choices on different sources of financing, therefore, reducing the burden of the cost of loan.

2.2.2 Imperfect Information Theory

This theory was pioneered by George Akerlof in 2002. This theory is guided by the unequal distribution of information between the managers of the organization and the investors. This inequality acts as a guide in making key decisions concerns the raising of capital in the organization to do business. According to this theory finance

managers of organization prefer to utilize internally generated capital, later would go for debt in the form of loans and finally would go for equity capital (Rothschild & Stiglitz, 2010).

Two major risks are involved in pecking order theory which involves adverse selection and moral hazard. The adverse selection comes in because the firm has more information about the project than the bank itself. Therefore it is necessary for the two parties to be at par in the disclosure of key information relating to the project in order to make a solid judgment by the bank in giving the loan. That is to inform the bank about the purpose of the loan and how it shall be paid back (Stiglitz & Weiss, 2011).

According to Bhattacharya (2009), moral hazard, on the other hand, is the risk that the borrower may divert the many given to other uses other than the intended ones. In this case, the bank may guard against the case by having someone on the board that follows through board meeting to avowing diverting money. This theory is important to the study by explaining the importance of information among borrowers in accessing credit facilities.

2.2.3 Resource Based theory

The theory on resource base was pioneered by Barney in 1991. The proposition of the theory is that a firm uses the resource it has in its disposal to achieve strategic competitiveness. A firm which has more resource in its disposal is, therefore, able to meet both its short term as well as long term objective. A firm would therefore easily develop new products or enter the new market niche if it has adequate and appropriate resources at its disposal (Grant, 1991).

According to Das and Teng (2010) for small business to grow they need to have resources and capital at its disposal that would enable them to an alternative means of capital for growth. Likewise, an institution that has an adequate and reliable source of information about the financial market is able to borrow at the best interest rates and also get best credit facilities. This theory is important to this current study by explaining how resources enables organizations to access the best information and therefore getting best credit facilities for its growth.

2.3 Empirical Review

2.3.1 Interest Cost

Green, Kirkpatrick, and Murinde (2006) covered agribusiness firms in Uganda where 512 small firms were tested on the relationship between interest cost and financial performance. The descriptive results of the study established that 89% of the respondents were of the view that indeed interest costs affected accessibility to credit facilities only 11% found it not a hindrance. Small business does require small capital compared to bigger firms, therefore due to economies of scale small firms get their loans at higher interests because they are also considered risky ventures. The study concluded for a firm to grow steadily, they have to access finances to the formal sector which is considered riskier. The study, however, failed to use correlation well as regression analysis to test the strength of the relationship between the interest costs on financial growth as well as its level of significance. Therefore this study had the objective of establishing such levels of significance as the strength of the relationship.

In a study carried out by Aryeetey, Hettige, Nissanke, and Steel (2007) in Malawi to find out the effect of interest charges on accessing credit facilities, the results of the study from 415 business owners found that 92% of the respondents believed the high-interest cost was a major hindrance to accessing credit facilities. The reason associated with the small business holder being left out is their fear for exploitative interests charged on borrowed capital. The study, in this case, was studied in a country with a different financial regulatory system and therefore necessitating a study to be carried out in a country like Kenya with the different regulatory framework.

Grace and Tomola (2008) carried out a study on the role of access to finance on financial performance in Lagos consultancy firms. The study adopted a casual research design where 423 questionnaires collected data from the owners of these firms. The study established that access to finance had a weak positive relationship with financial performance. The study, however, carried out in an urban setup with different macro as well as the macro environment to a rural setup. Therefore this study aim at establishing the effect of interest cost on the growth of firms in the rural setup

A study by Ochanda (2014) sought to find out the factors affecting financial growth among small businesses in Nairobi, Kenya. The study sampled 97 Small firms in the retail business. The study carried out descriptive statistics on the data collected from questions seeking to find out if interest charges had an effect on financial access and growth. The study established that indeed high-interest rates discouraged access to credit facilities as shown by 92% of the respondents. However, the study only carried out descriptive statistics and not inferential statistics to indicate coefficient correlation, a case which will be achieved by this study.

Table 2.1: Summary of Literature Review and Gaps

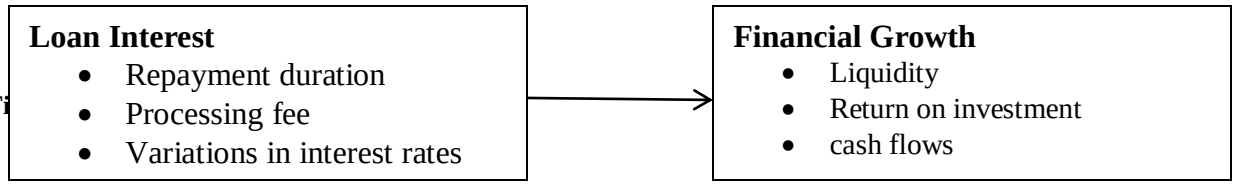
Author	Focus of study	Major Findings	Knowledge Gaps
Green, Kirkpatrick, and Murinde (2006)	The role of microcredit on the financial growth of small and medium enterprises in Uganda. .	95 % of the respondents revealed that interest costs affected accessibility to credit facilities	The study failed to use correlation well as regression analysis to test the strength of the relationship between the interest costs on growth as well as its level of significance
Aryeetey, Hettige, Nissanke, and Steel (2007).	Access to finance and growth among rural small businesses in Malawi	Small business holders are being left out in formal financing sector due to their fear for exploitative interests charged on borrowed capital.	The study only used descriptive statistics therefore not being conclusive on the level of significance as well as the coefficient of correlation.
Ochanda (2014)	Factors affecting financial growth among small businesses in Nairobi, Kenya.	92% of respondents noted that high-interest rates discouraged access to credit facilities	The study only used descriptive statistics therefore not being conclusive on the level of significance as well as the coefficient of correlation.

Source: Researcher (2019)

2.4 Conceptual Framework

The following figure is a diagrammatic representation of the relationship between loan interest and the financial growth of small and medium enterprises in Nyandarua County and the measures/ indicators relating to the variables.

Independent variable **Dependent Variable**



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Source: Researcher (2019)

The conceptual framework above illustrates that loan interest being measured through: repayment duration, loan processing fee and variations in interest rates whereas financial growth is measured through liquidity of business and return on investment.

3.0 RESEARCH METHODOLOGY

3.1 Research Design

The study adopted a descriptive research design as well as case effect design. This research design method was used because it enhanced the reporting of facts as they happened without alterations done on the data. Also case effect shows how independent cases impact on dependent cases.

3.2 Target Population

456 SMEs in manufacturing, trade, and provision of services in Nyandarua County was targeted for the study. Therefore the study will target 456 owners and managers of these SMEs.

Table 3.1: Population for the study

Category	Size
Manufacturing	304
Trading	100
Service provision	52
Total	**456**

3.3 Sampling Design

The study applied a probabilistic sampling design where 30% of the stratum size was considered for the study. From the sampling done 137 respondents were included to provide data as justified by Mugenda and Mugenda (2008), to be adequate and representative of the targeted population.

Table 3.2: Sampling Technique

Category	size	Percentage	Sample size
Manufacturing	304	30%	91
Trade	100	30%	30
Services providers	52	30%	16
Total	**456**		**137**

Source Author (2019)

3.4 Data Collection Instrument

Primary data was used in the study and collected using a questionnaire. The questionnaire consisted of closed and open questions. The closed questions had likerts, open questions were to give more in-depth on the matter of inquiry.

3.5 Validity and Reliability of Research Instrument

3.5.1 Validity of Research Instrument

Validity of research instrument relates to how the research instruments captures what the research aimed at achieving in terms of the questions asked and their relevance to the current study. The study consulted research experts experienced in the same field as well as the university supervisors to ensure that the questions that were asked specifically addressed the concern of the study.

3.5.2 Reliability of Research Instrument

Reliability of research instrument shows the extent to which if similar research instrument and procedures followed remains constant as to whether they would yield consistent results. The study ensured achieving of this consistence by testing the results of the constructs through Cronbach α at 0.8, where the Cronbach α obtained was less that 0.8 on an indicator it was dropped and vice-versa.

Factor	Number of indicators	Cronbach α
Loan interest	3	0.8

Source :Researcher (2019)

3.6 Data Collection Procedure

The data in the study was collected with the assistant of two research assistants. Before data collection, a letter was sent to the financial managers of the institution requesting them to help in providing data required for the study. The research assistants dropped questionnaires and picked them later after they were filled by the respondents selected. Where there were challenges in filling them the respondents was to be called and offered needed support.

3.7 Data Analysis and Presentation

Data collected was analyzed through descriptive, content analysis as well as inferential statistics. Through descriptive analysis, data was analyzed with the help of SPSS version 21 to generate mean, frequency and percentages. Content analysis was also carried out through a thematic approach whereby key concepts from the open questions that required the respondents to give their own view were noted. Finally through inferential analysis relationship between independent and dependent variable and levels of significance was established. To carry out inferential analysis a regression model was considered as shown below.

$$Y=\beta_0 + \beta_1 X_1 + \epsilon$$

Where: Y represented Financial Growth, β_1 represented coefficient for independent variables, X_1 represented interest rate cost whereas ϵ was the error term.

4.0 RESEARCH FINDING AND DISCUSSIONS

4. 1 Gender

The study aimed at establishing the gender of the respondents. The results are as shown in table 4.1 below.

Table 4.1: Gender of the Respondents

Gender	Frequency	Percent (%)
Male	74	61
Female	47	39
Total	**121**	**100**

Source: Researcher (2019)

Results of the study in table 4.1 revealed that the majority of the small businesses were owned by men as indicated by 61% on the above table, only 31% of the businesses were owned by women. Similar studies Davidoff and Hall, (2013), indicated that slowly the culture of male dominance in businesses with women left to do domestic chores is soon fading away

4. 2 Age bracket

The study aimed at establishing the age bracket of the respondents. Table 4.2 below shows the age bracket of the respondents.

Table 4.2: Age bracket

Age bracket	Frequency	Percentage (%)
Under 20 years	8	7
21-35yrs	39	32
36-50	50	41
Above 50years	24	20
Total	**121**	**100**

Source: Researcher (2019)

It was revealed from the study in table 4.2 that people of the age between 36 and 50 years were the major owners of the small businesses in Nyandarua county as indicated by 41%, ownership of the businesses among the small businesses was followed by owners aged 21 and 35 years as indicated by 32%, others of above 50 years owned only 20% of the small businesses. This study shows that many people start their businesses when they are energetic an

innovative enough mainly when they are below 50 years of age. Barney (2001), concurs with the findings of this study when he opined that adults in the middle age are innovative and creative enough to start-up businesses, unlike old people.

4.3 Level of Education

In this section, the study sought to find out the levels of education of its respondents. Table 4.3 below shows the level of education of the respondents.

Table 4.3: Level of Education

Level of education	Frequency	Percent (%)
Primary school	46	38
Secondary school	50	41
college\university	25	21
Total	**121**	**100**

Source: Researcher (2019)

The results of the study in table 4.3 revealed that majority of the small business owners had secondary school education as indicated by 41%, this was followed by 38% of the respondents who had primary school education and finally only 21% of the respondents had university/college level of education. This result indicates that most of the small and medium enterprises owners in Nyandarua County had limited levels of education to make key financial decisions in their businesses. Nassimbeni (2001) opined that individual education level is a key ingredient in making entrepreneur decisions in businesses and thus have a huge impact on society as a whole.

4. 4 Source of Money Used To Start Business

In this section, the study sought to find out the different sources of funds that the owners of the small businesses in Nyandarua County used to start-up their businesses. The study revealed that the business owners got their start-up capital from Personal saving, Friends and relatives, Group lending (Chama), Bank loan and Trade credit. Cassar (2014), concurs with the study findings when he postulated that capital for starting businesses can be gotten from friends, banking institutions, personal savings or credits.

4.5 Interest Rates

This section sought to find out how the interest rate charged affect the accessibility of credit in the financial growth of small and medium enterprises in Nyandarua County. In this case, the following areas were covered.

4.6 Credit period for Loans

In this section, the study sought to find out whether the credit period given on the loan is enough to pay back the principal and the earned interest. The results are shown in table 4.5 below.

Table 4.5: Credit period given

Time	Frequency	Percent (%)
Yes	24	20
No	97	80
Total	**121**	**100**

Source: Researcher (2019)

The table 4.5 showed that majority of the respondents felt that the financial institutions were not giving borrowers enough time to make-up the payments as shown by 80%, whereas only 20% felt that the period they are given is enough. Similarly, Williamson (2017), noted that the loans contracts drown by financial institutions on long-term basis attracts high monitoring costs and therefore rationing on the amount of credit given as well as time.

4.7 Compounding Costs

This part of the study sought out if compounding costs or interest charges on the borrowed money was affecting their access to credit. Table 4.6 presents the findings.

Table 4.6: Compounding Costs

Time	Frequency	Percent(%)
No	30	25
Yes	91	75
Total	**121**	**100**

Source: Researcher (2019)

The table 4.6 above show that may financial institution giving loans were discouraging borrowing by charging too high interest on money borrowed as shown by 75% of the respondents, only 25% felt that the interest charged were fair. Similar studies by Bottomley (2013), noted that the cost charged on borrowed capital is high enough to cover for administration costs, especially in rural areas.

4.8 Hidden Charges

This part of the study sought to find whether there were other hidden costs including processing fees on loans that affected borrowing. The results are shown in table 4.7 below.

Table 4.7: Hidden Charges

Time	Frequency	Percent
Yes	103	85
No	18	15
Total	**121**	**100**

Source: Researcher (2019)

The table 4.7 above shows that there were other hidden costs discouraging borrowing as they made the costs of borrowing to go high as shown by 85% of the study only 15% felt okay with other processing costs. Similar studies by Bottomley (2013), noted that the cost charged on borrowed capital is high enough to cover for administration costs especially in rural areas, therefore other costs are hidden by the banks as administration costs.

4.9 Factors of Interest Rates Influence on Borrowing Ability

The study aimed at determining the extent to which respondents agreed on statements regarding interest cost charges on borrowing ability. Table 4.8 below shows the extent to which interest rate factors influence accessibility to credit from financial institutions.

Table 4.8: Factors of Interest Rates Influence on Borrowing Ability

Statement	Mean	Std Dev
Credit period given was enough	1.32	.846
Compounding costs are high or vary	4.83	.654
Hidden costs are there	4.03	.754

Source: Author (2019)

Results of the study in table 4.8 as indicated on the table above shown a disagreement that 'credit period given was enough' from a mean of 1.32; it was agreed compounding costs were high as shown by a mean of 4.83; finally they agreed that there are hidden costs that have an effect on borrowing as shown by a mean of 4.03. Similar studies by Aryeetey, Hettige, Nissanke, and Steel (2007) in Malawi to find out the challenges faced by small business to access credit facilities found from 92% of the respondents that high-interest cost was a major hindrance to accessing credit facilities.

4.10 Coefficients

The strength and direction of the relationship between the independent variable interest costs and the dependent variable (financial growth) was tested using Pearson's correlation coefficient. Table 4.9 below shows the correlation coefficient.

Table 4.9: Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	Sig.
	B	Std. Error	Beta	
(Constant)	12.371	6.686		.0359
Interest cost	-.195	.388	.255	.0239

a. Dependent Variable: Financial Growth
b. predictors : (interest rates, literacy levels, the location of business and demand of collateral)
Proposed regression model was: $Y= a + B_1 X_1 + \epsilon$
Therefore after the determination of the coefficient the model becomes
$12.371 - 0.195 X_1 + \epsilon$
From the above model results in table 4.8, putting interest cost at constant the financial growth was 12.371. However, with a 1% increase in interest charges, this leads to a decline in financial growth by .195% this relationship was negative in nature and significant at 0.0239. This result concurs with ones carried out by Ochanda (2014) when he posited that indeed high-interest rates discouraged access to credit facilities.

4.11 Hypothesis Testing

The study aimed at testing the following hypothesis**: *There is no relationship between interest cost and the financial growth of small and medium enterprises in Nyandarua County.*** However, from the coefficients obtained from regression analysis, it was established that interest cost charged on loan had a negative significant relationship on the financial growth of small and medium enterprises in Nyandarua County. The strength of the relationship was 0.195 which was significant at 0.0239 through a 95% confidence interval.

5.0 SUMMARY OF FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

5.1 Summary of the Study

It was established that interest rate discourages borrowing among businesses in Nyandarua County. It was also found that financial institutions are not giving borrows enough time to make repayment which results in low financial growth.

5.2 Conclusions of the Study

It was concluded that the high-interest rate has a negative relationship with access to financial growth among firms in Nyandarua County. With high compounded charges and the short-repayment period the borrowers were unable to make repayments for borrowed capital, therefore, shying away from taking such facilities.

5.3 Recommendations of the Study

The study recommends financial institutions to charge low-interest rates on their credit facilities so that many small businesses take up loans. Also the small businesses source from other sources of financing that have low costs charged on loans such as SACCO, that are normally lowly charged and therefore increasing their ability to access credit.

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KNOWLEDGE MANAGEMENT PRACTICES AND PERFORMANCE OF PUBLIC SECTOR INSTITUTIONS

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ABSTRACT

There has been raging debate on the effect of knowledge management in performance of government institutions. Knowledge management provides a strong basis for gaining competitive advantage in today's business environment, hence organizations have been forced to review the importance of knowledge in organizations. The current study explored the effect of practices associated to knowledge management in public sector institutions focusing on the Kenya School of Government (KSG). The study sought to find out the effect of knowledge creation, sharing and application on performance of KSG. The study adopted a descriptive research design whereby a survey was carried out on the study population. The target population was the KSG management, staff at supervisory level and faculty. The sample size of109 respondents, out of the population of 109, 55 respondents was selected through stratified sampling. Primary data was obtained through structured questionnaires. Study findings indicated that knowledge management practices had a significant effect on performance of KSG. The correlation analysis carried out indicated that knowledge creation had the strongest correlation with performance at KSG. Knowledge storage had an equally stronger relationship with KSG performance. Knowledge application and sharing had insignificant relationship with KSG performance. The coefficient correlation between knowledge storage and performance was significant. This implies that there was a direct relationship between knowledge storage and KSG performance. The findings of the study benefited KSG as it highlighted the gap to effective knowledge management for enhanced performance. The findings will be beneficial to policy makers as the findings will guide in enhancing areas of improvement in knowledge management for improved institutional performance. Academicians will rely on the gaps identified in the study to further interrogate knowledge management and organizational performance.

Key Words

Knowledge Management, Knowledge Creation, Knowledge Sharing, Knowledge Storage, Knowledge Application, Organization Performance

Background of the Study

In a study, Cranfield (2011) observed that globally, organizations are in the knowledge phase. Accordingly, knowledge is identified crucial resource towards effective performance of organizations. This is because knowledge enhances organizations capacity to prioritize effective actions. There is tacit knowledge that entails the knowledge of a person, gained through experience shaped by belief and values. Contrary, explicit knowledge is a representation of tacit knowledge either in a document, image or video (Wu and Chen, 2014).

According to this study, knowledge management is characterized by a range of practices including creation, capturing, collection, transfer and application of knowledge (Suraj and Bontis, 2014). Knowledge management

influences performance through increased innovative practices, improvement of the growth process, increased productivity using fewer resources, and evident customer satisfaction due to improved services. Moreover, there is evidence of increased employees efficiency and retention (Cranfield (2011).

Knowledge management is extensively adopted in government owned corporations due to the associated benefits (Tseng, 2014). Yang *et al.* (2014) observed that knowledge management impacts significantly on performance of these corporations. However, Tseng (2014) laments the inadequate research into knowledge management, the challenges and opportunities, and in particular, the effect to performance of these corporations.

Knowledge Management Practices

Knowledge management involves the process of acquisition and inducement of crucial knowledge from both internal and external sources (Mugambi and Kwasira, 2015). Among the knowledge management practices include knowledge creation, storage, sharing and application. Knowledge creation involves acquisition of new knowledge and information. New knowledge is handed down from older employees to new ones. Moreover, knowledge is also acquired through experience and association with other affiliated organizations (Ondari and Smith, 2014).

Knowledge storage is the process through which acquired information is recorded and retained for future retrieval. Knowledge storage involves both soft and hard means of storage (Mugambi and Kwasira, 2015). The process incorporates appropriate technology and human capacity to enable coding and indexing the knowledge for easier retrieval of the stored knowledge. Knowledge sharing is the process of distributing the acquired and stored knowledge (Maganga and Guyo, 2014). Knowledge sharing involves two processes which include dissemination of knowledge through individuals and knowledge received through individuals to share what they know.

The other vital practice in management of knowledge is application of knowledge. Application of knowledge involves use of created, stored and shared knowledge. Application of knowledge enhances performance as it involves applying knowledge in decision making, improved performance and goals achievement (Mugambi and Kwasira, 2014).

Performance of the Public Sector

Performance is an important component of any public institution anywhere in the world. According to Ondari and Smith (2014), performance in government institutions is measured by growth in market share and profitability, customer satisfaction, decreased annual employee turnover, and enhanced continuous organizational learning. In order to actualize these parameters of performance, the government of Kenya introduced the Result Based Management (RBM) geared towards enhanced public service delivery.

The Government of Kenya realized that creating an enabling environment for effective implementation of knowledge management practices was a key component in successful knowledge management (RoK, 2014). According to Chifallu (2011), the government of Kenya acknowledges that for government institutions to gain competitive edge in the continent, knowledge economy must be fully exploited. Therefore, the government enhanced mechanisms geared towards full utilization of knowledge by state corporations/institutions. Accordingly, Vision 2030 is knowledge-based and creation and adoption of knowledge are key factors in the achievement of the

same. The current study explores the performance of government institutions as from a knowledge management point of view (Rok, 2014).

The Kenya School of Government (KSG), which came to existence after enactment of the Kenya School of Government Act No. 9 of 2012 as from 1st July 2012. Kenya School of Government replaced Kenya Institute of Administration (KIA) and the Kenya Development Learning Centre (KDLC). KSG is a flagship project identified in the vision 2030 development roadmap; the project is under Enablers and Macro pillar. Vision 2030 envisages that KSG is a center for research and training geared towards producing transformational leaders conforming to international standards.

KSG was selected as a case study due this central role is plays among other public sector capacity building institutions.

Statement of the Problem

Organizations are negatively affected when employees who possess immense knowledge leave, either voluntary or involuntarily. This is especially devastating when organizations do not get the opportunity to tap into the knowledge of these employees before they leave. The challenge, therefore, is for these organizations to develop mechanisms of taping this knowledge and storing it for future use.

According to Suraj and Bontis (2014), performing organizations prioritize knowledge management. These organizations invest in people and systems that have the ability to enhance knowledge management for the betterment of these organizations. In this context, knowledge entails human capital inform of competence, expertise, and know-how and market experience of people working in an organization. Knowledge management enables organizations transform this capital to intellectual capital that is valuable (Kasim, *et al*., 2014).

Problems emanating from challenges of organization adaptation, survival in harsh environments and competencies required to overcome these challenges can be solved through knowledge management. This is because knowledge management is a key source of necessary elements for solving organizational challenges. As Suraj and Bontis (2014) observed, knowledge management helps in identification of processes geared towards achievement of synergy between data processing capacity of information technologies and human capacity meant for creativity and innovation.

Different organizations have different approaches to knowledge management, however, whatever approach taken results in maximization of organization returns and generation of value from intellectual and knowledge-based assets (Wu and chen, 2014). Management of knowledge is not only related to documents' storage, nor is it a purely technology process whose responsibility lies with information technology. Technology is used to facilitate knowledge management, but the real component of KM is people, organizational culture and strategies put in place. Knowledge management involves enhancing people skills and expertise through sharing.

To enhance organizational performance, organizations need generate value from human capital. Therefore, it is important to capture and share employees' knowledge (Gagne, 2009). Against this background, the importance of knowledge management is evident. Existing literature reveals that organizations that embrace knowledge management enjoy sustainable growth and development.

Consequently, organizations focusing on future growth and sustainability ensure that knowledgeable employees share experience and expertise which is documented for future use. Kenya School of Government is a haven of knowledge. Employees, from every department, possess vast knowledge. However, vast knowledge does not automatically equate to performance. This is especially so if employees leave the organization willingly, creating a knowledge gap. The Kenya School of Government offers source of information for research since most employees working in this institution are knowledge workers (Ann, *et al*, 2013).

The Objectives of the Study

The major study objective is to explore the impact of management of practices related to knowledge on performance of public sector institutions basing the study on Kenya School of Government as a case in point.

The Specific objectives for this study are:

i. To determine the effects of knowledge creation on the performance of the Kenya School of Government.
ii. To find out the influence of knowledge storage on the performance of the Kenya School of Government.
iii. To examine the link between knowledge sharing and the performance of the Kenya School of Government.
iv. To bring out how knowledge application affects the performance of the Kenya School of Government.

Research Questions

The study seeks to answer these study questions:

i. Does knowledge creation affect performance of the Kenya School of Government?
ii. How does knowledge storage influence performance of the Kenya School of Government?
iii. Is there a link between knowledge sharing and the performance of the Kenya School of Government?
iv. How does knowledge application affect the performance of the Kenya School of Government?

Significance of the Study

The study seeks to bring out the connection between the four practices incorporated in knowledge management and performance of the KSG. The study will be beneficial to the KSG as the management will establish the degree to which the knowledge management practices carried in the institution impact on its performance.

Scope of the Study

This study covers the KSG, which has its headquarters in Nairobi and has campuses in Mombasa, Matuga, Baringo and Embu.

LITERATURE REVIEW

This section reviews literature on effect of knowledge management on performance of Kenya School of Government. The section discusses the theories related to knowledge management practices and performance of public sector institutions. Moreover, the empirical review on the relationship between the practices and performance is done. This chapter depicts a conceptual framework linking the dependent variable to independent variable.

Theoretical Review

Knowledge –Based View Theory

According to the Knowledge Based View Theory (KBV) an organization's performance is determined by its ability to innovate and create unique knowledge-based assets resulting to creation of core competencies. Significantly, this theory assumes that knowledge is a crucial component and primary source of value in production (Grant, 1996). According to proponents of knowledge-based view theory, human, social and organizational resources are integrated with economic and technical resources.

Similarly, organizations that enjoy sustained quality performance have adequate unique valuable organizational knowledge (Raft and Lord, 2014). This implies that the distinctiveness of an organization's capabilities is pegged on the ability of its staff to create, acquire, store, share and deploy knowledge. Therefore, longevity of quality performance lies within an organization's capability to exploit the knowledge within its reach.

Resource-Based View Theory

This theory was first proposed by Penrose (1959) and later advanced by others (Alavi and Leidner 2001). The theory features the processes of combining knowledge with other organizational factors to enhance organizational performance. According to the proponents of the theory, enhanced organization performance emanate from an organization's internal resources and capabilities. Therefore, organizations ought to strategically align themselves to unique, valuable, and inimitable resources and capabilities. Due to its ability to offer dynamic capabilities, knowledge management enhances an organization's drive to achieve congruency with the changing business environment (Turner and Makhija, 2014).

Resource-based theory considers organizations as a hub of value-added abilities, and the underlying firm's expertise includes looking at the resources and assets of the organization from a knowledge-based perspective. This perspective lessens the vulnerability of organizations as origins of investment returns and the means to attain competitive advantage and quality performance.

In relation to the effect of knowledge management to performance of Kenya School of government, resource-based theorists argue that resources that are not tangible contribute significantly to organization performance more than those that are tangible. Actually, intangible resources such as knowledge allow organizations to boost the value of services. According to (Turner and Makhija, 2014), knowledge based theories recognizes the necessity of knowledge management on performance of organizations.

Empirical Review on Knowledge Management Practices and Performance

Knowledge Creation

In Egypt, Gawater and Mohamed (2012) studied the knowledge management and its contribution to performance of Egyptian organizations. Study results indicated that knowledge creation as a management capability significantly contributed to all indicators of performance at 1 performance level of significance. This implied a substantive connection between knowledge management creation and performance of organizations. These results are in tandem with Martin (2012) who found that knowledge creation strategies were positively related to firms' performance in Germany.

In a study, Imran (2014) studied the relationship between infrastructural aspect of management of knowledge and success of banks in Pakistan. The study investigated how knowledge management infrastructure namely technology

and culture influenced knowledge creation resulting to better organizational performance. The results indicated that favourable organizational culture and technology enhanced knowledge creation which in turn impact on organizational performance.

In Kenya, Aminga (2013) focused on knowledge management practices and sustainability of campuses affiliated to Kisii University. The study looked creation, sharing and retrieval of knowledge on performance of these campuses. According to the study, knowledge management practices significantly affected the performance of these campuses. The current study seeks to establish the specific impact of knowledge creation, as one component of knowledge management, on sustainability of Kenya School of Government.

Knowledge Storage

In a study, Centobelli, Cerchione and Esposito (2017) reviewed literature on knowledge management in startups. Findings revealed that there was a well detailed taxonomic knowledge management system supporting the process of creation, acquisition, storage, transfer, shared and applied knowledge. However, the study identified knowledge gap on impact of knowledge management to startups' performances as compared economically, financially, in terms of market, technically, technologically, organizationally and relational performance. The current study seeks to bridge this knowledge gap.

In Kenya, Sawe (2017) studied how knowledge management affected service delivery in the anti-counterfeit agency. The study explored the how acquiring and storing knowledge impacted on service delivery at the Anti-Counterfeit Agency. According to the study findings, knowledge was stored on digital form but had an insignificant effect on service delivery. Service delivery was indicated by customer satisfaction, successful prosecution of individuals or groups accused of counterfeiting, and reduction of incidences related to counterfeits. On the other hand, knowledge acquisition significantly affected service delivery.

The current study observes that these findings (Sawe, 2017) are contrary to previous studies on contribution of knowledge storage on performance of firms (Awan, 2015; Mohamad and Abu, 2012; Hegazy and Gharab, 2014). Despite the contrary findings, this study is significant because it touches on a government institution in Kenya, an area of focus in the current study. It will be interesting to find out whether knowledge storage has an effect on organizational performance at the Kenya School of Governance.

Knowledge Sharing

In a study, Samina *et al.* (2015) looked at knowledge management, innovation and performance of banks. The study established creating, organizing, storing, sharing and utilizing knowledge indirectly affected bank's performance. The study established that knowledge processes contributed to improved innovation in the industry. However, the focus was on function of middle management on implementation of knowledge management through knowledge management processes. As such, the impact of knowledge sharing has not been clearly brought out. The current study seeks to bridge this knowledge gap.

In Kenya, Kangongo (2015) studied practices associated with knowledge management and success of commercial banks in Kenya. The study acknowledged that the major challenge affecting knowledge management as capturing and sharing knowledge among other employees. Results revealed a significant relationship between sharing of knowledge and delivery of services in commercial banks. This study was carried out among commercial banks. However, the current study focuses on a government institution which has a different set up. The findings, therefore, cannot be aid to represent those of government institutions.

In Nakuru, Kenya, Nguthari and Kwasira (2015) studied knowledge management practices and sustainability of firms practicing law in Nakuru, Town, Kenya. Findings showed that among knowledge sharing, application, creation and storage, knowledge sharing had the most influence on sustainability of these firms in Nakuru.

The study (Nguthari and Kwasira, 2015) is significant because it brings out the level of influence of knowledge sharing on performance of organization. This study though carried out in law firms, gives good foundation on knowledge related to management of knowledge and its impact on performance of organizations. The current study will use the theoretical and research methodology generated in this study to build its argument on how knowledge sharing affects performance of the Kenya School of Government.

Knowledge Application

In Malaysia, Zahidul et al. (2007) investigated knowledge management practices and effectiveness of organizations. The study examined the role of cultural and structural characteristics on organizational effectiveness. Analyzed results indicated that knowledge management application played the mediation role between organizational context and organization effectiveness.

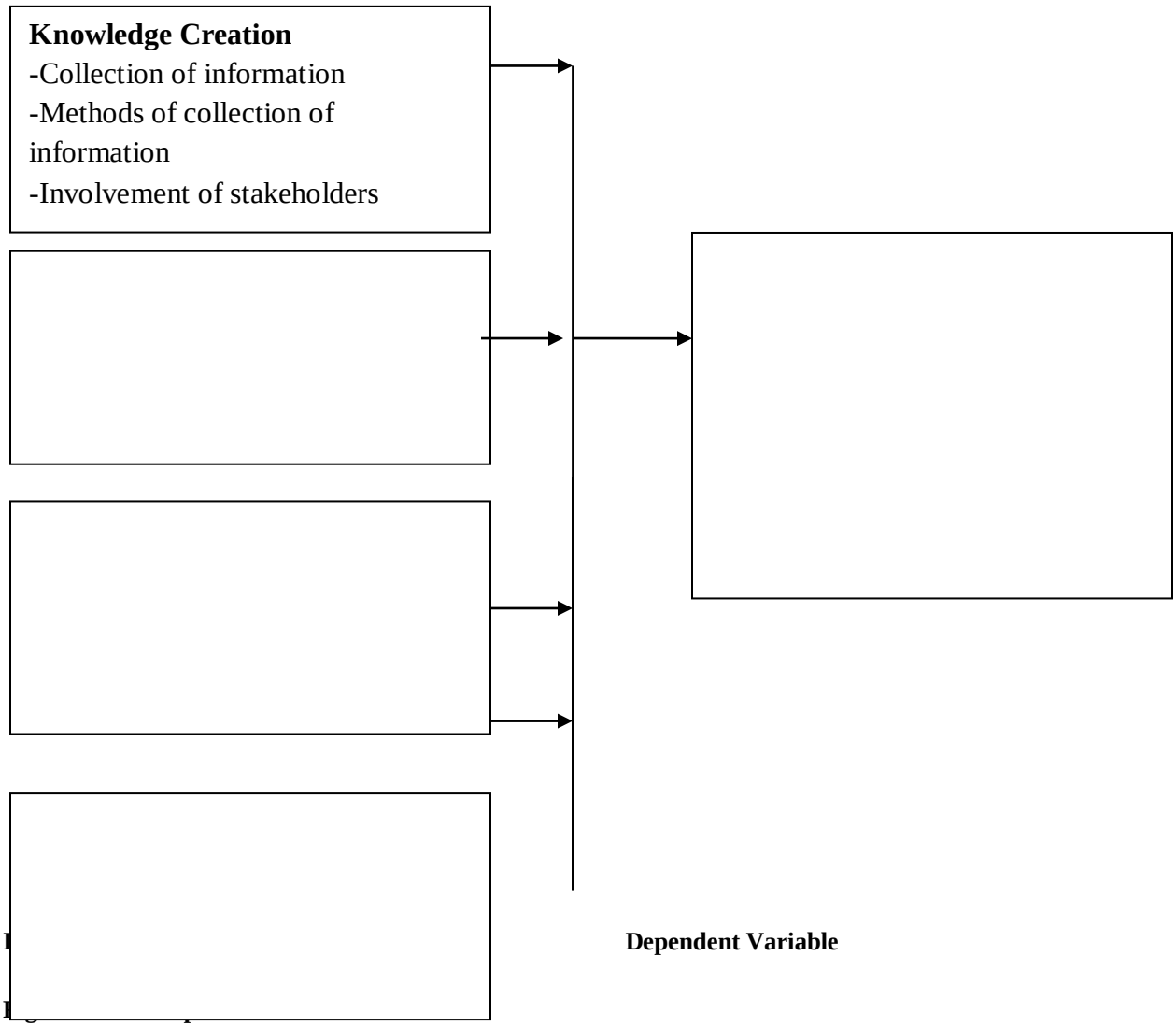
The above study findings point out to a likelihood of knowledge application on performance of organizations. Therefore, it is possible that knowledge application has an effect of performance in Kenya School of Government, if the current study was to go by these findings. However, the study is not clear on the effect of cultural, structural and knowledge application on organizational performance. The current study seeks to bridge this knowledge gap.

From the literature reviewed, it is evident that knowledge management significantly influences prosperity of organizations. In the Kenyan context, the practices and their effect on sustainability of the public sector institutions has not been explored. For example, in a study (Mugambi and Kwasira, 2015) did 'the impact of management of knowledge on performance', which used law firms in Nakuru, Kenya as a case study revealed a substantive effect of knowledge management practices on performance. This study focused on the private sector. The changing operating environment in the public sector requires a comprehensive analysis on knowledge management practices and their effect on institutions' performance.

This study focuses on provision of empirical knowledge by exploring how knowledge management practices affect performance of Kenya School of Government, in a context of a public institution whose sole mandate is training.

Conceptual Framework

A conceptual framework can be described as a straightforward demonstration of relationship between the objectives and outcome of the study (Mugenda, 2008). To conceptualized ideas presented, a graphic representation of the objectives is done. This is diagrammatically done and it reveals how dependent and independent variables are related (Young, 2009). Following the literature review, the link between knowledge management and organizational success can be conceptualized and depicted in Figure 2.1 below. The conceptualized framework defines a number of determinants of organizational growth (creation, storage, sharing and knowledge application).



RESEARCH METHODOLOGY

Research Design

Descriptive research design was employed in this study. The design helped in addressing major objectives and answered adequately proposed research questions. Bryman and Bell (2007) pointed out that descriptive research design is ideal in instances where a study seeks to describe people, organizations, setting or phenomenon without interfering with information available. The study sought to observe and describe the behavior of the respondents without external influence and therefore considered the descriptive research design as relevant for this study.

Target Population

The target population in this study was the KSG management team, KSG faculty, KSG and administrative supervisors of the Kenya School of Government. The table below depicts the targeted population. Target population was 109 in total.

Sampling and Sampling Procedures

Stratified random sampling was appropriate for this study. The target population was subdivided into strata. These strata included KSG Management Team (Directors and Section Managers), KSG Faculty, and KSG administrative supervisors. The study employed the use of stratified sampling because the study intended to observe the existing relationship between these three strata. Moreover, the study sampled all available strata included the least and inaccessible.

Sample Size

A sample is made up of a group representing the targeted population. According to Bryman and Bell (2011), a sample must be at least 10% of the target population. Using this as a benchmark a sample of 50% was used in this study. 50% sample ensured that all the strata had an equal chance of representation. The sample ratio was 50/100=0.5. As a result of the sampling formula 55 respondents was used for the study to represent the population.

Data Sources and Instruments

Primary data, which was collected by use of questionnaires, formed the main source of data. A questionnaire was used for the purpose of allowing the respondents to display certain feelings about a topic. The advantage of using a questionnaire is that it can be used to collect data from many respondents in a short time. Moreover they are not time consuming and are relatively cheap. The respondents are also given time to think through the questions and come up with relevant answers (Ibid).

Majorly, closed questions were used. However, few open-ended questions were included. The questionnaire was divided into six parts: part one, which gathered general and demographic data on the respondents while the other parts contained open and closed type of questions to depict how knowledge management practices impacted on performance of Kenya School of Government.

Secondary data was collected from reports availed by the companies.

Validity of Research Instrument

The validity of research instruments in this study was done through discussing the questionnaire with the project supervisor, there after carrying out the necessary adjustments, then submitting the questionnaire to the supervisor for

face validation. The instruments was them pre-tested after which the content validity was measured (Paton, 2002). This was important in order to establish if constructed sentences, comprehension of instruments and language used are appropriate.

Reliability of Research Instrument

Reliability was enhanced by ensuring internal instrument consistency and through a pilot study. This study was done among 3 respondents and reliability tested using a Cronbach's alpha. 3 respondents were 10% of the population. This is an appropriate representative of the entire population (Bryman and Bell, 2011). The test yielded a reliability of 0.79, this was considered appropriate because the desirable reliability is set at a coefficient greater than or equal to 0.7 (Zikmund and Barin, 2012).

Data Analysis and Presentation

Data was converted to codes and entered into the Statistical Package for Social Sciences (SPSS Version 21). Description analysis methods were applied. Study findings were described through statistics and presented in terms of frequencies and percentages. The study also measured means and standard deviation to show extent to which knowledge management practices influenced performance of Kenya School of government.

Ethical Considerations

Before data collection, permission from the relevant departments was sought. The KSG management was consulted and date for appointments set. Respondents were assured that data collected was for academic purposes only and personal identification was not necessary.

RESULTS FINDINGS AND DISCUSSIONS

Knowledge Creation and Performance of KSG

According to Mugambu and Kwasira (2015) knowledge creation has a significant impact on performance of organizations. Study findings showed that majority, as indicated by a mean of 1.85, agreed that KSG acquired information from stakeholders. This is in tandem with Parker (2012) enhancement of relationships and partnerships had a significant influence on an organization's ability to easy acquisition of knowledge.

Moreover, respondents agreed that KSG held brainstorming sessions on business ideas as indicated by a mean of 2.08. These findings are supported by Aminga (2013) who found that brainstorming in knowledge management entailed development of ideas and deciphering their meaning in a group within an organization. Consequently, new ideas are formulated, captured, documented, stored and later retrieved for future utilization.

Respondents agreed that KSG knowledge management system created new knowledge from existing one as indicated by a mean of 2.25. According to Ahmed (2015), new knowledge generated from existing one enhances knowledge acquisition and organizational learning. Respondents also agreed that KSG searched for information on

services offered by other state corporations as shown by mean of 2.25. Kim and Lee (2010) pointed out that acquisition of knowledge can be carried out internally or externally.

Nnaibuife, Onwuka and Ojukwu (2015) observed that knowledge was acquired by organizations through research and learning. Research was achieved by scanning, focused research and monitored performance. Contrary to Kim and Lee (2010) findings on the importance of acquiring information from employees, majority of the respondents as indicated by a mean of 4.25 disagreed that KSG acquired information from employees.

A correlation analysis carried out on the relationship between creation of knowledge and performance of KSG demonstrated a rather significant positive link of knowledge acquisition to performance of KSG (r=0.731). Coefficient measurements range between -1 to +1. +1 depicts a strong positive correlation while -1 depicts a strong negative relationship (Bonnet, 2008). This implies that knowledge acquisition is positively correlated to knowledge management. This positive correlation is an indication that knowledge acquisition impacted on performance of KSG. Against these findings, the study found a substantial relationship between acquiring knowledge and KSG performance.

Knowledge Storage and Performance

Knowledge storage is a key component of an effective knowledge management system (Gonzalez and Manoel, 2017). Study findings revealed that majority of the respondents agreed that at KSG, knowledge was organized in databases that could be easily retrieved as indicated by a mean of 2.47. Similarly, respondents agreed that information was stored in comprehensive data bases as indicated by a mean of 2.30. In other findings, respondents agreed that KSG's storage system allowed easy retrieval of information or knowledge and that the institution had several tools for storing knowledge such as computerized system. These findings are in tandem with Patterson and Ambrosini (2015) who pointed out that effective storage enhances value of acquired knowledge through retention and easy retrieval.

In addition, Gonzalez and Manoel (2017) observed that computerized technology enhance storage and accessibility on knowledge. Computerized technology is indicated by features such as shared electronic data bases and electronic bulletin boards. Moreover, respondents agreed that knowledge was categorized according to administration operations and functional use as shown by a mean of 2.41.

A correlation analysis carried out on the relationship between storage of knowledge and performance of KSG depicted a fairy substantial positive linkage of knowledge storage to performance of KSG (r=0.571). The correlation was significant at the level of 0.03. This positive correlation is an indication that knowledge storage had a substantive effect on performance of KSG. The study indicated a strong influence of storage of knowledge on KSG performance.

Knowledge Storage and Performance

Data findings indicated that majority of the respondents, as indicated by a mean of 4.36 disagreed that KSG employees/faculty had mechanisms for sharing knowledge amongst themselves. Finding revealed that respondents neither agreed nor disagreed as to whether KSQ knowledge management system effectively disseminated knowledge to the faculty/employees as indicated by mean of 3.40. Similarly, respondents disagreed that the institution had adequate and effective mechanisms for distribution of reports/results shown by a mean of 4.30. In other findings, respondents agreed that KSG system facilitated transfer of knowledge among departments as shown by a mean of 2.46. Further findings indicated that respondents nether neither agreed nor disagreed on the eased of information retrieval at KSG as indicated by a mean of 2.59.

Ineffective knowledge sharing is detrimental to performance of organizations. Tseng (2014) observed that knowledge management should provide employees with the right information in the right time. According to Mehregan *et al* (2012), knowledge should be elaborately shared and challenges hindering effective dissemination dealt with. Tseng (2014) notes that information that acquired and stored appropriately is of no use to an organization if not shared and applied in the right manner.

From the correlation analysis it was established that there was a fairly weak positive relationship between knowledge sharing and knowledge management performance (r = 0.213). The weak positive relationship implies that performance of KSG can be associated to some extent to knowledge sharing. According to research data acquired, there is a tangible influence of knowledge sharing on performance of KSG.

Knowledge Application and Performance

Results finding indicated that many of the participants, as seen by a mean of 4.57 felt that employees did not systematically apply acquired knowledge with ease. Moreover, most of the respondents, as shown by a mean of 4.34 disagreed that KSG created and innovated new administration operations. These findings are contrary to Nawab et al. (2015) who pointed out that knowledge management not only facilitates the collaboration in the innovation process but also include identifying the gaps between knowledge base and remedies to fill gaps.

Other findings revealed that KSG used knowledge management in problem as indicated by a mean of 2.49. Moreover, respondents agreed that KSG used knowledge to improve efficiency of its services and efficiency as shown by a mean of 2.38. These findings are in tandem with those of Jokar *et al.* (2012) who found that knowledge management gives organizations a source of competitive advantage by producing the solutions for existing and new problems and then stores it in the knowledge repositories for future use and problem solving.

From the correlation analysis it was established that there was a fairly weak positive relationship between knowledge application and performance of KSG (r = 0.425). The weak positive relationship implies that performance of KSG can be related to some extent to the knowledge application offered by KSG. According to findings, there is a link between knowledge sharing to performance of KSG.

Performance of Kenya School of Government

Results findings on effect of knowledge management indicated that respondents strongly disagreed that knowledge management increased turnover as shown by a mean of 7.43. These findings are supported by Saini (2013) who found that stored knowledge had ability to effectively safeguard the organization from distracting effect of turnover. Other findings revealed knowledge management increased market share and enhanced quality of service as indicated by a mean 2.45 and 2.49 respectively. According to Ahmed, Fiaz and Shoaib (2015), knowledge acquisition, knowledge conversion, knowledge application and knowledge protection resulted in provision of quality services to customers, high customer satisfaction, efficiency in resource utilization, more profits and overall improved organizational performance.

Moreover, respondents disagreed that knowledge management helped in innovation of new operations. Further, respondents disagreed that knowledge management had an effect of improvement of the learning process. These findings are contrary to those of Wasimu, Nabila and Khalil (2015) who found that knowledge management processes had a positive correlation with organization's business process capabilities and organizational learning. This was emphasized by Singh and Sharma (2011) who found that knowledge management had a positive relation with organizational earning and culture and as a result, employee's satisfaction.

Further findings indicated that respondents disagreed that KSG innovated new operations as a result of knowledge acquisition, storage, sharing and application. These findings are contrary to those of Aminga (2013) who found that the outcome of knowledge sharing was the creation of new knowledge and innovation that would improve organizational performance.

The correlation analysis carried out indicate that knowledge creation had the strongest correlation with KSG performance (r=0731). Knowledge storage had an equally stronger relationship with KSG performance (0.571). Knowledge application and knowledge sharing had a strong significant relationship but not as strong as knowledge creation and storage. According to Bonnet (2008), relationship weakens as it approaches zero (r=0.425 and r=0.213 respectively).

SUMMARY, CONCLUSION AND RECOMMENDATIONS

Conclusion

From the study findings, the study concluded that knowledge management had a significant effect on performance of KSG. This is because Knowledge creation was effectively carried out at the institution. Acquiring information from stakeholders and holding meetings to brainstorm on business ideas improved the general performance of KSG. However, the study concluded that KSG had weak mechanisms of collecting information from employees.

The study concluded that knowledge storage had a significant impact on performance of KSG, Though not as strongly as knowledge acquisition. The study concluded that KSG used effective methods of knowledge storage. Moreover, the knowledge management systems allowed easy retrieval of stored information. Knowledge was stored in comprehensive data bases and categorized according to administration operations and functional use.

The study concluded that KSG was experience challenges in knowledge sharing. There was a general feeling that the mechanisms of knowledge sharing among employees were not effective. The effectiveness of knowledge dissemination was also questionable. There was dissatisfaction on the effectiveness of mechanisms of distribution of reports/ results.

The study concluded that KSG was facing challenges on knowledge application. Employees were dissatisfied with the ease of knowledge application. KSG did not use acquired and stored knowledge to innovate new administration operations. However, the study concluded that KSG used knowledge management in problem solving and improvement of efficiency of its services.

The study concluded that knowledge management process at KSG enhance employee retention. Knowledge management had an impact on market share and enhanced quality of services. Study concluded that knowledge management did not contribute to innovation of new operations. This is as indicated by the study findings.

Recommendations

Among the four variables of the study, the regression coefficient of knowledge storage was significant hence the variable had important effect on performance of KSG. As such, the study recommended that KSG enhances its knowledge storage mechanisms in order to increase efficiency.

Recommendation for Further Studies

The study recommends that further studies be carried out on:

The ineffectiveness of knowledge application, creation and sharing on performance at Kenya School of Government. These independent variables did not have a significant effect on KSG performance. This is contrary to findings from other studies. It is important to understand why the 3 variables posted insignificant relationship with performance.

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An Empirical Investigation of the Role of Corporate Communication on Performance of Equity Bank Limited in Nairobi City County, Kenya

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ABSTRACT

The study sought to investigate the role of corporate communication on performance of Equity Bank limited in Nairobi City County, Kenya. Corporate communication measures comprised of staff communication, shareholders communication, and communication to the general public. Learning organization theory anchored this study. This research adopted explanatory and cross-sectional research design. This study targeted a population of 130 employees encompassing senior level management, middle-level management, and functional-level management. Proportionate stratified random sampling technique was applied to sample 65 staff as the target population. The research instruments used in this study were semi-structured questionnaires and interviews guide. They were used collect both quantitative and qualitative primary data while secondary information was retrieved from published records. The response rate was 92% which was above 50% threshold of the recommended response rate by Mugenda and Mugenda. Descriptive statistics were used in analyzing quantitative data by use of SPSS version 22 and results were presented in the form of standard deviations, percentages, frequencies, and frequencies mean. Correlation test (α=0.05) was performed to ascertain the level of association between the predictor and the response variable. Qualitative data was tested using content scrutiny and was presented in a prose form. The study found out that corporate communication positively affects the performance of Equity bank limited in Nairobi City County, Kenya. Statistical analysis results illustrated that corporate communication and performance were significantly related. The study recommended the management to incorporate effective and efficient channels of communication to ensure timely and full disclosures of relevant information to the stakeholders.

Keywords: Change management, corporate communication, and performance

1.0 Introduction

Organization performance is basically how well an organization is operating towards the accomplishment of its objectives, mission, and vision (Windermere, 2013). The turbulent environment in which organizations function exposes such organizations to various challenges hence there is a need for quick response to enhance their performance (Kiliko, Atandi, & Awino, 2013). Performance can be based on the coherence of action stages from the intention of acting to the actual output. This is seen through effective service delivery, meeting customer demands improved productivity among others (Henri, 2014). The going concern of any organization can be measured through performance measurements. These may include financial measurements such as profit or return on assets and non-financial aspects like market share, advanced technology and customer satisfaction (Luliana & Criveanu, 2016). According to Milost (2013), various researchers encourage adoption of non-financial measures due to the limitations of purely measuring performance through financial measures.

Institute of International Finance shows that the entire economy has considered various adjustments to discern banks performance (Institute of International Finance, 2013). From the various researches conducted on financial services companies, it was identified that many such companies were dissatisfied with their performance measurement systems. They further argued that financial measures such as return on investments and accounting returns put more emphasis on profit outcome (Banker, Rajiv, Cummins, & Klumpes, 2014). There are other important drivers such as customer satisfaction, employee welfare, innovation, and quality were overlooked. This research will apply the non-financial aspects of the balanced scorecard approach to analyze the performance of the organization under the study. The non-financial perspectives of the balanced scorecard include;internal business procedures which evaluate the effectiveness of the business processes, The learning and growth which evaluate the usefulness of effective communication and training on the workforce and finally the customer aspects which identify if customer expectations are achieved (Abdallah & Alnamri, 2015).

Corporate Communication concentrates on building confidence between company stakeholders by providing adequate information relating to the organization (Valackiene, 2013). Corporate communication enables organizations to remain informed in the ever-changing industry and contributes to a good public image of such organizations to the general public and other players in the market (Mohamad, Bakar, Halim, & Ismail 2014). Communication strategies integrate decisions of various organization parts and influence the change participants (Matos & Esposito, 2014). Effective communication clarifies the stakeholder's expectations and allows creative thinking within the context of change , hence resulting in improved organizational performance like job performance and employee efficiency (Shonubi & Akintaro, 2016).

Organizations are viewed as open systems which interrelate with both the internal and external environment in which they operate (Berglund & Sandstrom, 2013). The performance of Equity Bank Limited in Nairobi City County, Kenya has been affected by changes which are happening in the environment in which it operates. For instance, the loan interest rate capping by Central Bank of Kenya in the year 2016 has led to the reduction of total interest income to 37.79 billion for the year 2017 from 43.07 billion for the year 2016 (Kibobo, 2017). Equity Bank limited Kenya interest income declined by 15 percent to 27.9 billion from 32.3 billion in the final quarter of 2017 (Haret & Simiyu, 2017). Equity Bank group financial results indicate a decrease in the liquidity ratio of Kenya subsidiary to 29.1% from 30.4% in 2014. Financial results for the year 2016 indicate that Equity bank limited Kenya profit before tax for the year ended 2016 went down to 15.22 billion from 16.18 billion for the year 2015. There are numerous changes brought by the emerging advanced technology systems, ever-changing customer demands in the marketplace, workforce demographics, social-cultural values, political environment and high competition (Rizescu & Tuleaga, 2013). These changes expose Equity bank limited at risks of high operational cost which is a threat to its performance level

The findings from some of the previous studies conducted on corporate communication and performance include Atieno & Kyongo, (2017) who found out that strategic change affects the Kenya Wildlife Service performance. Nyandaro, (2015) found out that communication to stakeholders committed leadership and strategic planning influence performance of commercial banks. Ndahiro, Shukla & Oduor, (2015 established that the majority of employees in the institution have accepted the changes and this has led to enhanced organizational performance. Irawanto, (2015, established that the more employees participate in the discussions on emerging issues, the more they are informed on the decision-making. However, these researchers focused mostly on measuring the financial performance and have overlooked the non-financial performance measurement. Therefore, the current study focused

on applying non-financial aspects of BSC to analyze how corporate communication affects the performance of Equity bank limited Nairobi City County.

2.0 Theoretical Literature Review

The learning organization theory was developed by Peter Senge and it demonstrates how the organizations continually pursue the planned changes through learning and research (Senge, 1990). The learning organization approach entails developing ability of people in the organization to create the desired results to ensure survival in the ever-changing operating environment (Palos & Stancovici, 2016). The learning organizational theory is used as a method to change the approaches and behavior of the participants and it minimizes resistance to change as well as increasing the level of understanding through effective communication (Al-Harrasi, 2014). In learning organizations employee are involved in knowledge sharing through communication to achieve the set goals (Albinsson & Arnesson, 2013).

There are five principles of the learning organization that were developed by Senge which are fundamental for creativity and innovation by developing the required capacity (Senge, 2014). The first principle is the system thinking which integrates other principles and enables an approach to issues as events which are interconnected parts and have the interrelationship with each other. Collective learning occurs within the entire organization, however individual consciousness of creative thinking is very critical and Senge refer this as personal mastery which is the second principle (Ghahramanifar, Pashaei, & Mehmandoust, 2013). The third principle is mental models which are images of how individual interpret the reality to understand the situations to undertake corrective actions hence contributing to personal growth (Menon & Yao, 2017). Building shared visions is the fourth principle which enable the individuals to see the future outlook while team learning is the fifth principle which aligns the team capabilities to achieve the desired results (Rahman & Anuar, 2018). In summary, Senge five principles describe the learning process from the personnel to the entire organization system.

The learning organization theory is associated with learning being a top management initiative and this inhibits democratic approaches towards learning (Ortenblad, 2017). The five principles of learning organizations concentrate on the organization long-term growth hence the organization will be in a place to identify any emerging complications and opportunities (Senge, 2014). Implementation through effective communication of the learning organizations principles will enable continuous learning process hence creating a competitive edge for the organization (Helfat & Peteraf, 2015). The learning organization assumptions are that learning is continuous, valuable and very effective if shared through communication (Ohlsson, 2014).

The organizations of today face complexity and ambiguity but Senge's five disciplines may guide such organizations on how to successfully manage change through enhancing participation, creating customer loyalty and improving product and services through continuous communication. Learning organizational is applicable for constant development and enable adaptability to the ever-changing operating environment. Since the suitability of the learning organization theory is dependent on the organization's culture, it is important for organizations to nurture a learning culture through continuous communication (Retna & Tee 2016). Therefore, the learning organization theory was applicable in this study to underpin the independent and dependent variables.

2.1 Empirical Literature Review

Pirnes (2015) carried out a study on the role of internal corporate communication in supporting better workplace safety. The findings of the study showed that communication plays a big part in contributing to workplace safety. However, the study failed to meet the 50% threshold of the recommended response rate by Mugenda and Mugenda (2003) which necessitated the current study.

Cheruiyot (2014) carried out a study on integrated marketing communication and performance of Kenya post and savings bank. The study conclusions were that communication enhanced the performance of the company as it leads to customer loyalty, increases in sales and organization expansions. The findings of this study were based on descriptive statistics; therefore, drawing inferences to the population is limited. The current study applied the explanatory and cross-sectional research design to draw inferences.

Kaime (2013) surveyed integrated corporate communications practices in organizations. The study concluded that integrated corporate and marketing communications are behind the success of the organization. The study also found that the inclusion of organizations workforce in communication practices enhanced the organization performance. Drawing inference on the population of this study is limited because the study findings were based on descriptive

statistics. Hence the current study is anchored on an explanatory and cross-sectional research design that allows drawing inferences

Aura (2012) investigated the factors influencing the application of corporate communication among public relation in Kenya. The study concluded that organizational structure, technology, market demand, and management style influenced the use of corporate communication in the firm. However, this study was centered on the public relation therefore; the concepts were different from the current study. The current study will focus on corporate communication and the theoretical and empirical literature therefore for the basis for hypothesized relationship presented in figure 1 regarding corporate communication and performance.

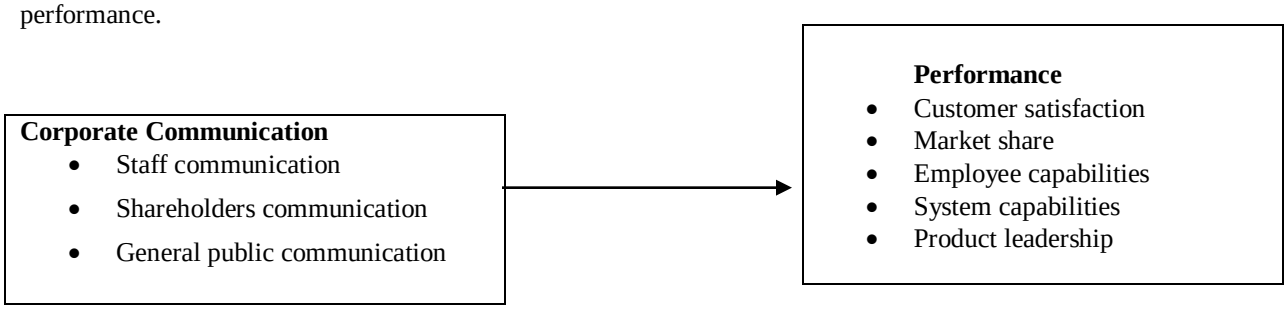

Figure 1: Conceptual Framework

Source: Researcher (2018)

The research hypotheses for this study were as follows;
Ho: Corporate communication does not affect the performance of Equity bank limited in NaioCity County Kenya, Kenya

3.0 Research Methodology

This research adopted explanatory and cross-sectional research design. According to Manerikar and Manerikar (2014), explanatory research design tries to establish the relationship between the cause and the effect between research variables. A cross-sectional study on the other side measures the relationship of variables at a particular time to explain how the variables are related (Kothari, 2004). This study population encompasses management employees based at the headquarters of Equity Bank limited in Nairobi City County, Kenya. The target population was employees at the managerial level who included senior managers, middle-level managers and functional level managers based at Equity bank limited headquarters in Nairobi City County, Kenya as shown in Table 1

Table 1: Distribution of Sample Size

Strata	Target population	SamplingFactor %	Sample Size	Percentage
Top level management	20	0.5	10	15.4
Middle level management	40	0.5	20	53.8
Functional level Management	70	0.5	35	30.8
Total	**130**		**65**	**100**

Source: Researcher (2018)

A sample size of 65 respondents was selected from the population using stratified proportionate sampling. The sampling factor of 0.5 was used according to Mugenda and Mugenda (2003) recommendations. The top-level management had the smallest input of 15.4% and middle-level managers had the greatest input of 53.8%.

Primary and secondary sources of data were utilized in this study. The primary research instruments included a semi-structured questionnaire with open and closed-ended questions and key informant interview guide. The questionnaires were thoughtfully structured and tested with a few people from the target population to improve the accuracy and validity of data gathered. The closed-ended questionnaires enabled to gather more structured responses for quantitative data analysis while open-ended questionnaires provided more qualitative data. Secondary data was collected from published records of Equity Bank Annual Reports and CBK Bank Supervision Annual Reports, published books, newspapers, and magazines as well as other sources such as journals

The researcher sought face validity from the expert's thoughts in the field of research especially the study's supervisor and lecturers to establish the validity of the research instrument. Content and construct validity were authenticated through a wide review of the appropriate theoretical and empirical literature,Pilot test on the questionnaire was done for reliability and the identified inconsistencies were rectified. Questionnaires reliability was evaluated by Cronbach's Alpha index. Cronbach`s alpha coefficient was computed to show how reliable the data was and a threshold of at least 0.70 established as shown in Table 2

Table 2: Results of Reliability Test

Research variable	Cronbach alpha index	Number of items	Comments
Corporate communication	0.825	4	Reliable
Performance	0.797	4	Reliable
Aggregate	**0.811**	**16**	

Source: Pilot Data (2018)

Findings in Table 2 show Cronbach alpha values for corporate communication and performance has of (α= 0.825) and (α=0.797) respectively. The aggregate score of Cronbach alpha associated with 16 items related to the two variables is (α=0.811)

The filled in questionnaires were checked for comprehensiveness and consistence. The data analysis process involved several stages to sort the data for order such as data clean-up which entailed editing, coding, and tabulation to identify any errors. Specific numerical values were also assigned to the responses for further analysis. The assigned codes during editing ensured that errors were minimized during data entry and data processing to enable result interpretations. Quantitative data were analyzed using descriptive statistics and inferential statistics computed in Statistical Package for Social Sciences (Version, 22). Descriptive statistics included percentages, frequencies, mean, standard deviation and coefficient of variation and the results were presented using figures and tables. Inferential statistics applied simple linear regression analysis model 1 presented below.

$$\mathbf{Y = \beta_0 + \beta_1 X_1 + \varepsilon \ldots\ldots\ldots Model\ 1}$$

Where;
Y =Performance
$\mathbf{X_1}$ = Corporate Communication
$\mathbf{\beta_0}$, $\mathbf{\beta 1}$, = beta coefficients
$\boldsymbol{\varepsilon}$ = Error term

Simple linear regression analysis was conducted to establish the relationship between corporate communication and performance of Equity Bank Limited, Nairobi City County, Kenya .The output was analyzed using the Statistical Package for Social Sciences (Version, 22. Analysis of Variance (ANOVA) was used to test the statistical significance of the model by indicating the probability of the occurrence of R^2. The F-statistic in the ANOVA table was used to measure the fitness of the estimated regression model at 95% level of confidence where a p-value of at most 0.05 was used as the threshold for making the inference. The t-static for the research variables and corresponding p-values was used to ascertain the statistical significance of the beta coefficients generated in the regression analysis. In this case, a p-value of at most 0.05 was considered as the threshold for establishing if the corresponding beta coefficient was statistically significant at a 95% level of confidence. The statistical analysis was

presented in the form of tables. Content analysis of qualitative data gathered from open-ended questions was performed and presented in a prose form.

4.0 Research Findings and Discussion

60 respondents out of 65 employees responded to the questions in questionnaires. Therefore, the response rate was 92% and a non- response rate was 8%. Mugenda and Mugenda (2003) recommend a response rate of 50% to carry out analysis and make a report; a response rate of 60% is good and a rate of 70% and above is considered excellent. Therefore the response rate was very satisfactory to conclude on the study.

4.1 Descriptive Statistics

Descriptive statistics were performed on the data collected. This data was summarized by computing mean, standard deviations and coefficients of the variables. The foundations for quantitative data analysis were formed for this study through the observed sample. The descriptive statistics results for corporate communication and the independent variable were presented in Table 3.

Table 3: Descriptive Statistics for Corporate Communication

Statement	Strongly Disagree	Disagree	Moderate	Agree	Strongly Agree	Mean	Std. Dev.	CV
There is frequent communication to the stakeholders	7	5	8	26	14	3.58	1.27	0.35
The staff are always updated about the company progress	3	5	15	30	7	3.55	0.98	0.28
The company information is readily available to the general public	6	3	13	24	14	3.62	1.19	0.33
The company information is frequently updated	2	8	21	13	16	3.55	1.13	0.32
Aggregate scores						**3.58**	**1.14**	**0.32**

The descriptive analysis results for corporate communication show that the aggregate mean score was 3.58 almost similar to the Likert scale. The aggregate mean score for standard deviation and coefficient of variation was1.14 and 0.32 respectively approximating to agree on the Likert scale. The mean values of items under consideration range from 3.55 on the lower side and 3.62 on the upper side. In the same way, the coefficient of variation for responses on each item is between 28% and 35% hence showing narrow variability across corporate communication measures. The narrow variability points out that the mean sample is steady hence can be relied upon as an estimator of the population mean and can, therefore, be applicable to generalize. The low variability of responses prove that corporate communication measures are practiced at Equity bank limited in Nairobi City County, Kenya and are thus established to be essential for the organization performance.

Table 4: Descriptive Statistics for Performance

Statement	Strongly Disagree	Disagree	Moderate	Agree	Strongly agree	Mean	Std. Dev.	Cov.
Equity bank limited, Nairobi City County has diverse products to meet customers' demands.	1	4	10	22	23	4.03	0.99	0.25
The company products are distinct in the industry	5	4	11	22	18	3.73	1.21	0.32
The company improves processes regularly to enhance services delivery	4	8	15	18	15	3.53	1.20	0.34
Equity bank products have unique features	0	3	12	23	22	4.07	0.88	0.22

Aggregate scores	**3.84**	**1.07**	**0.27**

Source: Field Data (2019)

Table 4 shows that the aggregate mean score for the five measures of performance of Equity bank limited, Nairobi City County is 3.84. This cumulative mean score tends to agree on the five-point Likert scale. As noted from the results, the variability of responses from the aggregate mean score is low as revealed by the coefficient of variation of 27%. The results prove that performance measures opted for this research is exercised in Equity bank limited, Nairobi City County. The narrow variability implies that the feedback from the management of Equity bank limited in Nairobi City County, Kenya is intense and around the aggregate mean score. Therefore, it is evident the sample mean is a stable evaluator of the true mean in this study.

4.2 Inferential Statistics

Simple linear regression analysis was applied to scrutinize corporate communication and performance of Equity bank limited, Nairobi City County, Kenya. In this case, corporate communication was regressed on performance. Table 5 present regression analysis results.

Table 5: Results of Regression Analysis

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	Beta	**Std. Error**	**Beta**		
(Constant)	1.387	0.596		2.326	0.024
Corporate Communication	0.645	0.132	0.625	4.900	0.000

R	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
.651[a]	0.423	0.413	0.651

	Sum of Squares	**Df**	**Mean Square**	**F**	**Sig.**
Regression	18.046	1	18.046	42.590	.001[b]
Residual	24.575	58	0.424		
Total	42.621	59			

a. Predictors: (Constant), Corporate Communication

b. Dependent Variable: Performance

Source: Field Data (2019)

The regression model 2 below was estimated through the results of regression analysis as shown in Table 5.

Performance = 1.387+ 0.645**Corporate communication……Model 2**

The coefficient of multiple determinations is shown as 0.413 in Table 5. This means that corporate communication can explain 41.3% of performance variation experienced at Equity bank limited in Nairobi City County, Kenya. The ANOVA results show that the regression model fitted the observed data since the model was ascertained to be statistically significant at F (1, 59) =42.590. The computed probability value was 0.001 which was lower than the adopted threshold of 0.05. In conclusion; the regression analysis proves that when corporate communication is held at a constant zero, performance would be at 1.387.

This study aimed to determine the influence of corporate communication on performance. The regression analysis result in Table 5 established that corporate communication is significant at β=0.645; t=4.900; p=0.000.This implies that at 95% confidence level, corporate communication positively affects the performance of Equity bank limited in Nairobi City County, Kenya. It also is evidenced that a single unit increase in corporate communication will result in 0.645 increases in organizational performance. Therefore, this study concludes that corporate communication affects the performance of Equity bank limited headquarters, Nairobi City County.

The findings of this study are in agreement with the findings of Kaime (2013) that integrated corporate Communications practices involving the workforce are behind the success of the organization. Also, the findings support the learning organization theory that recommends the application of the learning organization principles through continuous effective communication to nurture a learning culture. The five principles of learning organizations concentrate on the organization long-term growth, therefore, should be communicated to enable its implementation in the organization.

5.0 Conclusion and Recommendations

This study aimed to determine the effect of corporate communication on performance of Equity Bank Limited in Nairobi City County, Kenya. Corporate communication measures comprised of staff communication, shareholders communication, and communication to the general public. Statistical analysis revealed that corporate communication has a statistically significant effect on organization performance and hence the anticipations of this study were met. Statistical analysis results also illustrated that corporate communication and performance were significantly related.

Therefore, the researcher concluded that corporate communication influences the performance of Equity Bank Limited in Nairobi City County, Kenya in a positive manner. For this reason, the top and middle level managements of Equity Bank Limited in Nairobi City County, Kenya should strive to enhance effective corporate communication. The management should incorporate effective and efficient channels of communication to ensure stakeholders are frequently updated on all the relevant activities. Also, relevant department tasked on information and data upkeep should update such information frequently. The management should ensure timely and full disclosures to the general public as per the regulatory requirements.

5.1 Recommendations for Further Research

The findings and inferences of this study were constrained to corporate communication and performance of Equity bank limited in Nairobi City County. Future and further researchers should conduct researches in other banks and industries as this would ensure that the findings and conclusions of this study are validated.

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FINANCIAL PLANNING PRACTICES AND PERFORMANCE OF PRIVATE SECURITY FIRMS IN NAIROBI CITY COUNTY, KENYA

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Abstract

Security companies have been operating in a dynamic business environment due to the security threats and rapid increase of new entrants in the market. Failures of these companies have been attributed to poor or ineffective financial practices. The aim of the study was to determine the impact of financial planning practices on the financial output of private security companies in Nairobi city county Kenya. This study was based on the Modigliani-Miller dividend irrelevance theory, agency theory and portfolio theory. A descriptive survey methodology was applied for this study and it targeted 41 staffs of private security firms in Nairobi City County. The study collected both secondary and primary data. A questionnaire was utilized for primary data gathering while secondary data was retrieved from the annual financial reports of the security firms. The study found that there was a significant and positive effect of dividend policy, investment practices and risk management on financial performance of the private security companies in Nairobi City County. Based on the findings that dividend policies have a significant influence on ROA it can be concluded that organizations should always ensure that the dividend policies are sound and facilitate participation of the employees as well as contribute to greater returns. Investment practices have a significant influence on ROA it can be concluded that firms should always ensure that the investment practices are sound and facilitate participation of the employees as well as contribute to greater returns. On risk management, the findings indicated that risk management have a significant influence on ROA it can be concluded that firms should always ensure that the proper risk measures are put into place to facilitate greater returns hence earning profits .It is thus recommended that private security firms should always develop appropriate dividend policy and should implement appropriate investment practices which are informed by the changes in the environment and that accommodate environmental dynamism and should both locally and internationally. The firms should develop appropriate dividend policy which are informed by the changes in the environment and that accommodate environmental dynamism. They should always develop and implement appropriate risk management measures which can protect the firms from rapid environmental changes to allow them thrive in the competitive world.

Keywords: *financial planning practices, performance, private security firms*

Introduction

In Africa, the increase in transgression and the improvement of the private security sector are related with the rot of administration and state limits that began in the late 1980s and continued all through the 1990s (Abrahamsen & Williams, 2005). According to Kathama (2012), there have been unlawful acts in countries; taking Kenya as an example, and especially in the Nairobi city County, crime has risen strongly in the previous decades. These scenarios have led to the expanded development and mushrooming of private security organizations (PSCs) to aid the law authorization process in protecting the wellbeing and security.

Financial planning practices include; dividend policy, investment practices and risk management. Financial planning process comprises of three main elements; budgeting practice, risk management, and Long-term investment which helps transform an association's vision or mission into concrete achievable decision and key execution. Dividend policy according to Pandey (1999), is a choice by the financial director that manages whether the firm ought to appropriate all profits or hold them or to circulate a segment and hold the adjustment. Ibrahim, (2011), defines investment practices as the focusing on ventures that effectively influence long-lasting budgetary and operational implications of organizations, which have an effect on the profitability of firms and have a big change on the firm's ability to compete. Risk Management is the process of articulating an opportunity or threat that significantly affects the capability of a firm to survive. According to (Bugalla & Lauria, 2016).

Locally, it is also evident that private security organizations embrace financial planning practices by clearly defining their mission and undertaking a financial evaluation of their competitive landscape and current state in order to realize good financial performance. However, these firms have realized very low outputs in terms of financial performance, sales, market share, return on assets, and return on investments and total shareholder return among others. In addition, private security firms locally have engaged in financial planning practices considering it as a well-thought-out strategy for appropriate allocation of time, financial resources and human capital. Therefore, the study sought to explore and examine the conceptual framework elements: dividend policy, investment practices, and risk management. Additionally, the study examined the effect of dividend policy, investment practices, and risk management and performance of private security firms in Nairobi city County Kenya.

Private Security Industry (PSI) in Kenya

The entire concept PSC originated in the developed countries and later spread into the third world countries (Dempsey, 2008). In Kenya, Private Security Industry (PSI) division is at present to some degree managed yet at the same time not palatable, and principles of administration and polished skill change extensively. The decades have been uniquely testing to those into private security companies (Muturia, 2009).

The presentation of control for the private security area came as an issue of earnestness prompting the establishment of the Private Security Industry Regulatory Authority (PSIRA) under 2010 act of Private Security Industry Regulation Bill. Nevertheless, the Private Security Industry Regulation Bill, 2010 has some limitations since it does not cover all the aspects entangling the security industries in Kenya. The bill does not have an unmistakable enactment to set up least necessities for the straightforwardness and responsibility of PSC tasks (Wairagu et al., 2004).

Kaguru and Ombui (2014), featured that a considerable measure of it needs to do with joblessness in light of the fact that where there is more grounded weight on business, individuals will work for not as much as the administration least. They additionally affirmed that keeping up a steadfast customer base inside, Security Companies in Kenya could be accomplished through a financial planning practices and execution to increase upper hand. Since 2013, revenues from core businesses have grown by 17% and Adjusted EPS by 48% while generating operating cash flow of Ksh 2.5 billion. The private security firms in Kenya recorded revenues at Ksh 2.45 billion in 2017. Strong cash generation has enabled firms to invest in growth, pay dividends of more than Ksh 700 million and at the same time strengthen their financial position. Revenues rose by 3.2% to Ksh 7.4 billion. The combination of growing revenues and improved productivity saw the firm's adjusted earnings per share rise by 5.9% to 17.9 pence per share. The firms generated operating cash flow of Ksh 527 million, equivalent to 106% (PSI,2018).

Literature Review

Theoretically, Miller and Modigliani (1961) attested that dividend policy is not relevant for the cost of capital and the company worth. This world avoids taxes and transaction costs. At this point investors can build an income pattern by trading shares, the expected return required would be inconsistent to the way the

company receives its dividend policy and new matters regarding offers. Since the company's ventures openings, expected future net money streams and cost of capital are not influenced by the decisions of guidelines, its market value is unaffected by any adjustment in the association's payout design. Therefore, guidelines are not essential, and a company can pick any payout design without influencing its net worth. Miller and Modigliani theory implies that guidelines are influenced by the firm's speculations and financing choices. Miller and Modigliani theory (1961) contended that the company's net worth is resolved just by its fundamental acquiring force and its business risk.

On the other hand, Agency theory elaborates company investigation to consider proprietorship division and control and the inspiration of the administration. In organization risk, management matters seem to influence administrative thinking on hedging and taking risks (Smith & Stulz, 1985). Agency costs showed an upward trend from detachment of possession and control of circumstances, which are not reconcilable between agents and principals. Modern Portfolio Theory by Harry Markowitz's phenomenon of portfolio choice is seen when the future in not predictable. In this theory, he evaluated the line of distinction in the portfolio assets and the overall chance of the portfolio (Amenc & Le Sourd, 2003). The conjecture gives an answer to the issue of portfolio decision for risk opposed financial specialist: the ideal portfolios, from the risk adverse investor perspective, are characterized as those that have the least risk for a given return.

The theory is relevant to the study because it suggests that it is practical for money related masters to fabricate a capable front line of perfect portfolios, which offers the most extraordinary and possible expected financial returns in consideration to a specific risk level. It gives powers and suggests that, for speculators it is not adequate just to focus at the ordinary dangers and stock return of one stock. By placing assets into various stocks, a money related authority can win in the event of expanding, by lessening the dangers in the portfolio given. 'This theory thus tries to quantify the benefits of enhancement and spreading risk.

Conceptual Framework for the Study

Conceptual framework portrays the relationship between dependent and independent variables. The conceptual framework for this study was as illustrated in Figure 1

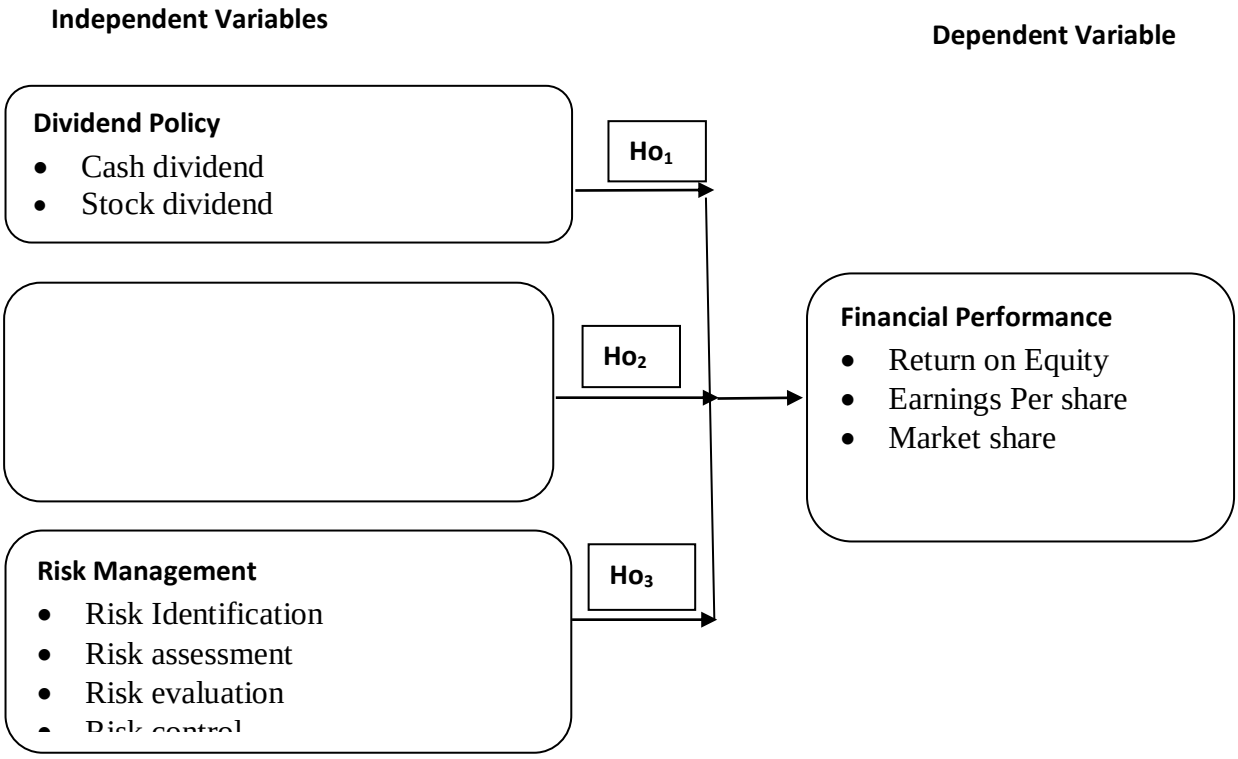

Figure 1 Conceptual Framework

Source: Researcher (2018)

The conceptual framework relates dependent and independent variables. The independent variables are dividend policy, investment practices and risk management while the dependent variable is financial performance. The study aimed at testing the hypothesis that financial planning practices have no significant effect on performance of private security firms in nairobi city county, Kenya

Methodology

The study adopted a descriptive research design. It targeted all the forty-one licensed private security companies that are registered by KSIA in Nairobi County city-Kenya (KSIA, 2018). The research applied the census method and sampled all 41 licensed private security companies. To select the respondents, stratified random sampling was utilized

The study used both primary and secondary data. Primary data was gathered from the respondents in the sample using semi-structured questionnaires. A 5-point Likert scale was also adopted and used for measuring the responses. Secondary data was sought from annual financial reports of the respective private security firms in Nairobi available on their websites. Content validity was used to assess the quality of the questionnaire. The average content validity Index (CVI) formula used to capture adequate and representative sets of items which were used to tap the content was;

Content Validity Index = Number of items declared valid

Total number of items

A total of 10 respondents was used for pilot study and were picked at random. The instruments were self-administered and re-administered to respondents within a one-week interval. The researcher used the Cronbach's alpha to assess the interior consistency of the questionnaire. Acceptable reliability coefficient is expected to be 0.7 and above (Nunnaly, 1978). All the variables had a reliability of more than 0.7.

The data collected was analyzed through using inferential and descriptive statistics and regression analysis

The study applied the following regression model

$\mathbf{Y=\beta_0+\beta_1X_{1+}\beta X_2+\beta_3X_3+\varepsilon}$

Y= Financial Performance $X_{1=}$ Dividend policy

$X_{2=}$ Investing practices $X_{3=}$ Risk management

$\beta_{0=}$Constant

β_1 -β_3 are the regression co-efficient or change introduced in Y by every independent variable

ε is the random error term taking care for all other variables that influence financial performance process but not captured in the model.

ANOVA test was carried to find the level of significance of the variance by the use of a one-Way ANOVA with aim of determining the existence of significant variations between the variables.

Findings

Reliability analysis

The validity and reliability of the study measurements were assessed before survey data was analysed. The instrument was subjected to a panel of experts to determine the content validity. All the measures were above the 0.7 threshold as recommended by Nunnaly (2010). Pilot test discoveries showed that dividend policy scale had a Cronbach's reliability alpha of 0.834, investing practices scale had an Alpha value of 0.921, risk management had Alpha value of 0. 895. The pilot test showed that the scales measuring the objectives had a very high reliability after a few amendments.

Descriptive Analysis

This section addresses the first research question of the study. The participants were asked to indicate using a set of statements their level of agreement to statement focusing on assessment of the impact of dividend policy on performance on the security firms.

Table 1: Dividend Policy

Dividend Policy	**Mean**	**SD**
Dividend policy is reexamined oftenly	4.34	1.04
The organization involves personnel in setting the dividend policy	4.32	1.11
Market prices are more influential in determining stock prices than dividend policy.	4.25	1.33
The organization has an explicit target payout ratio	4.21	0.76
Changes in dividends payout affect the firm value.	4.20	0.68
The management is most influential in developing the dividend policy	4.19	0.98
Dividends have an effect on the value of the firm.	4.17	1.06

An optimal dividend policy strikes a balance between current dividends and future growth that maximizes firm value	4.09	0.34

Source: Author (2018)

Table 1 shows that a majority of respondents agreed that the dividend policies in their firms are reexamined often (mean = 4.34, std dev = 1.04), the firms include personnel in developing the dividend policies (mean = 4.32, std dev = 1.11), Similarly, a large fraction of respondents strongly agreed that; market prices are more influential in determining stock prices than dividend policy (mean = 4.25, std dev = 1.33), changes in dividends payout affect the firm value (mean = 4.2, std dev = 0.68), their firms have explicit target payout ratios (mean = 4.19, std dev = 0.98),

The study further found that dividends have an effect on the value of a firm (mean = 4.17, std dev = 1.06) Comparably, respondents agreed that an optimal dividend policy strikes a balance between current dividends and future growth that maximizes firm values (mean = 4.09, std dev = 0.34). The findings are in line with Maladjian and El Khoury (2014), who observed that there was a proportional difference in the degree of the company, level of risk and earlier annual dividend pay-outs policy provoked a proportionate difference in profit pay-out proportion.

Table 2: Invesment Practices

Statements	**Mean**	**SD**
The organization's investments have significantly improved its overall financial performance	4.64	0.29
There is a link between investment and performance and organizational survival with regards to its financial performance	4.56	0.44
The firm always achieve its key goals, strategies, and objectives and this can be attributed to its superior investment practices	4.35	1.22
The organization's only makes major acquisition after proper research is conducted	4.46	0.42
The capital structure can be said to have improved performance	4.42	1.02
All managers participate in research and development process	4.36	0.98
There is an active research and development department present	4.18	0.21

Source: Author (2018)

Table 2 shows that majority of respondents strongly agreed that; their firms' investments have significantly improved the firms' overall financial performance (mean = 4.64, std dev = 0.29), there is a link between investment and financial performance, as well as, organizational survival (mean = 4.64, std dev = 0.29), and their firms always achieve key goals, strategies and objectives due to superior investment practices (mean = 4.56, std dev = 0.44). The findings are in line with Patra (2008), that there is a correlation between decisions of investment, remittances, and choices of the cash dividend distribution.

In the same light, the respondents expressed strong agreement with the statements that; their firms' only make major acquisitions after proper research is conducted (mean = 4.35, std dev = 1.22), the capital structure of their firms have improved organizational performance (mean = 4.46, std dev = 0.42), and that their firms have an active research and development department (mean = 4.42, std dev = 1.02). The results also show that respondents agreed that all managers in their firms take part in the researcher and development processes geared towards investment (mean = 4.36, std dev = 0.98). The findings concur with Ayman (2011) that investment practices have a considerable level of impact on the financial and operation execution of these firms in the long run and hence an influence on their competitive and extremely hard for new firms to cope with the situation concentrates here pointed out the significance of information in an effective internationalization.

Table 3: Risk Management

Statements	Mean	SD
Risks faced by the organization significantly affect performance	4.50	0.23
Risk management policy is often reviewed.	4.49	1.02
The most significant risk faced by the organization is security risk.	4.49	0.11
Risk management policy is well documented	4.47	1.04
Private security companies face a lot of risk	4.45	0.91
The most significant risk faced by the organization is organization faces financial risk	4.43	1.02
Do you have some degree of control of the risk you have identified	4.13	0.51
In your opinion, has the Risk Management process reduced the prevalent risk you have identified in your department faces and improved performance in that area?	4.42	0.65
The organization has a risk management policy in place.	4.41	0.24
Risk management is an organization wide initiative	4.38	1.11
The most significant risk faced by the organization is organization faces Market risk	4.34	0.87

Source: Author (2018)

As evident in Table 3, that the respondents strongly agreed that risks faced by their firms significantly affect performance (mean = 4.50, std dev = 0.23). With reference to the different risks the firms are subject to (mean = 4.49, std dev = 1.02), majority of the respondents claimed their firms respond by reviewing risk management policies regularly (mean = 4.47, std dev = 1.04). In terms of the kind of risk faced by private security firms, a large fraction of the respondents strongly agreed that the most significant risk is related to security uncertainties (mean = 4.45, std dev = 0.91). In the same note, majority of the respondents agreed that the most significant risk facing their security firms involved financial uncertainties (mean = 4.43, std dev = 1.02). Respondents further agreed that the most significant risk was associated with market uncertainties (mean = 4.13, std dev = 0.51).

The results also indicate that majority of the respondents expressed agreement with the statements that; risk management policies for their firms are well documented (mean = 4.42, std dev = 0.65), their firms have risk management policies in place (mean = 4.41, std dev = 0.24), and risk management in their firms is an organization wide initiative (mean = 4.38, std dev = 0.11), Moreover, respondents reported that they strongly agreed with the fact that their firms faced a lot of risks (mean = 4.34, std dev = 0.87),. When asked about whether their firms have any control on risks, a majority of respondents expressed strong opinion that they did (mean = 4.64, std dev = 0.29). The findings are in line with Njoroge (2013), who found that board should keep going out on a limb proprietorship and driving the risk policy over the business. Njoroge (2013) further noted that the association should centre around new rising danger composes, for example, notoriety, operational dangers and IT security while not losing centre around the customary dangers.

Test of Hypotheses

To achieve objectives of the study, the following hypotheses were tested.

HO_1: Dividend policy has no significant influence on financial performance of private security firms in Nairobi City County.

This section presents the results of testing the hypothesis that predicted there is no significant influence of dividend policy on financial performance of private security firms in Nairobi City County. A simple linear

regression analysis was employed in testing the hypothesis. Table 4.11 shows the overall summary of the regression model.

Table 4: Overall Summary of the Model

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.721[a]	.519	.658	.432

a. Predictors: (Constant), dividend policy

Source: Author (2018)

The findings presented in Table 4 shows that the R-square for the model was 0.519. This implies that dividend-pay out ration or dividend polices could account for 51.9% of the variation in financial performance of private security firms in Nairobi County. Additionally, the coefficient suggests that other factors account for 48.01% of the variation in the financial performance of the security firms. The findings are in line with Uwuigbe (2013), that there is a correlation between size of firms and dividend policy, financial performance and autonomy of the board was corresponding and measurably important for recorded companies at the Nigerian bourse.

The ANOVA was generated to help evaluate whether the model was statistically significant in explaining the link between dividend policy (dividend-pay out-ratio) and financial performance (ROA) of private security firms in Nairobi County. Table 4.14 displays the results of the ANOVA.

Source: Author (2018)

Table 5: ANOVA Results

ANOVA[a]						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	124.11	1	124.11	16.95	.000[b]
	Residual	65.89	9	7.321		
	Total	190	10			

a. Dependent Variable: financial performance b. Predictors: (Constant), dividend policy)

Table 5 indicates that the regression model fitted was statistically significant at 5% in explaining the link between dividend policy and financial performance of private security firms in Nairobi City County. The next output displayed in Table 4.14 shows the coefficients associated with the regression model.

Table 6: Regression Coefficienets

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	0.64	.025		2.56	.000
	Dividend payout ratio	1.501	.834	.512	1.80	.000

a. Dependent Variable: financial performance b. Predictors: (Constant), dividend policy)

Source: Author (2018)

From the results presented in Table 6, the following regression equation was generated:

ROA=1.64+ 1.501* dividend policy

The findings imply that holding the dividend policy at constant, the financial performance (ROA) of private security firms in Nairobi County would remain at 0.64. Additionally, the results indicate that unit change in the dividend policies (dividend-policy ratio) would produce a corresponding increase in the financial performance of private security firms in Nairobi County by a factor of 1.501. Moreover, the results show that there is a positive correlation between dividend policy (dividend-payout-ratio) and financial performance of the Nairobi County private security firms as indicated by t=1.80, $p < .05$. Consequently, the null hypothesis that dividend policy has zero significant influence on the financial performance of private

security firms in Nairobi County was rejected. The study findings are in line with Bunyasi (2007), that dividend pay-out in the Exchange signals investors' wealth thus resulting to price changes due to the confidence gains.

HO_2: Investment practices has no significant influence on financial performance of private security firms in Nairobi City County.

This section presents the results of testing the hypothesis that predicted there is no significant influence of Investment practices on financial performance of private security firms in Nairobi City County. A simple linear regression analysis was employed in testing the hypothesis. Table 7 shows the overall summary of the regression model.

Table 7: Overall Summary of the Model

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.783[a]	.613	.0565	.213

a. Predictors: (Constant), Investment practices

Source: Author (2018)

The findings presented in table 7 shows that the R-square for the model was 0.613. This means that investment practices explain 61.3% of the variation in financial performance of private security firms in Nairobi City County. Additionally, the coefficient suggests that other factors account for 38.7 of the variation in the financial performance of the security firms.

The ANOVA was generated to help evaluate whether the model was statistically significant in explaining the link between investment practices and financial performance (ROA) of private security firms in Nairobi City County. Table 8 presents the results of the ANOVA.

Table 8: ANOVA Results

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	121.26	1	121.26	16.75	.000[b]
	Residual	65.17	9	7.241		
	Total	186.43	10			

Source: Author (2018)

a**. Dependent Variable: financial performance**

b. Predictors: (Constant), investment practices

Table 9 indicates that the regression model fitted was statistically significant in explaining the link between investment practices and financial performance of private security firms in Nairobi City County at 5% significance level in other words. Table 9 shows the coefficients related to the regression model.

Table 9: Regression Coefficients

Based the results presented in Table 9, the following regression equation was generated:

ROA=0.71+ 0.098* Investment Practices

The findings imply that holding the investment practices at constant, the financial performance (ROA) of

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	0.71	.135		5.26	.000
	Investment Practices	0.98	.834	.621	1.175	.000

private security firms in Nairobi County would remain at 0.71 Additionally, the results indicate that unit change in the investment practices would produce a corresponding increase in the financial performance of private security firms in Nairobi City County by 98%. Moreover, the results show that there is a large positive correlation between investment practices and financial performance of thee private security firms in Nairobi City County as indicated by t=1.175, $p < .05$. Consequently, the null hypothesis that investment practices do not have significant effect on the financial performance of private security firms in Nairobi City County was rejected. The findings concur with Ayman (2011), that investment practices have a considerable level of impact on the financial and operation execution of these firms in the long run and hence an influence on their competitive and extremely hard for new firms to cope with the situation concentrates here pointed out the significance of information in an effective internationalization.

HO_3: Risk management has no significant influence on financial performance of private security firms in Nairobi City County.

This section presents the results of testing the hypothesis that predicted there is no significant influence of risk management on financial performance of private security firms in Nairobi City County. A simple linear regression analysis was employed in testing the hypothesis displayed is shown in Table 10.

The findings presented in table 11 shows that the R-square for the model was 0.374. This implies that risk management practices could account for 37.4% of the variation in financial performance of private security

Table 10: Overall Summary of the Model

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.612[a]	.374	.0599	.191

Source: Author (2018)

a. Predictors: (Constant), risk management

firms in Nairobi City County. This also implies that other factors account for 62.6% of variability in the financial performance of private security firms.

a. Dependent Variable: financial performance

b. Predictors (Constant), investment practices

Source: Author (2018)

The ANOVA was generated to help evaluate whether the model was statistically significant in explaining the link between risk management and financial performance (ROA) of private security firms in Nairobi County. Table 11 displays the results of the ANOVA.

Table 11: ANOVA Results

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	126.30	1	126.30	18.33	.000[b]
	Residual	62.03	9	6.89		
	Total	188.33	10			

a. Dependent Variable: financial performance b. Predictors: risk management

Source: Author (2018)

Table 11 indicates that the regression model fitted was statistically significant at 5% in explaining the link between risk management and financial performance of private security firms in Nairobi City County. The next output displayed in Table 12 shows the coefficients associated with the regression model.

Table 12: Regression Coefficients

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	T	Sig.
1	(Constant)	1.02	.12		8.5	.000
	risk management	1.35	.942	.428	1.43	.000

a. Dependent Variable: financial performance

b. Predictors (Constant), risk management

Source: Author (2018)

Based the results presented in Table 12, the following regression equation was generated:

Financial performance =1.02+ 1.35* risk management

The findings imply that holding the risk management at constant, the financial performance (ROA) of private security firms in Nairobi County would remain at 1.02. Additionally, the results indicate that unit change in risk management would generate a corresponding increase in the financial performance of private security firms in Nairobi City County by a factor of 1.35. Moreover, the results show that there is a significant and positive correlation between risk management practices and financial performance of thee private security firms in Nairobi City County as indicated by t=1.143, $p < .05$. Consequently, the null hypothesis that risk management practices do not have significant effect on the financial performance of private security firms in Nairobi City County was rejected. The findings are in line with Hameeda and Al Ajmi (2012), who found that organizations have a deep understanding of risk management. Moreover, it was discovered that it had effective hazard recognizable proof, chance appraisal examination, and chance checking and credit chance investigation.

Discussion and Conclusion

The objective of this study was to investigate on the effect financial planning practices on performance of private security firms in nairobi city county, Kenya. The study established that dividend policies have a significant influence on ROA it can be concluded that organizations should always ensure that the dividend policies are sound and facilitate participation of the employees as well as contribute to greater returns.

Based on the findings that investment practices have a significant influence on ROA it can be concluded that firms should always ensure that the investment practices are sound and facilitate participation of the employees as well as contribute to greater returns. On risk management, based on the findings that risk

management have a significant influence on ROA it can be concluded that firms should always ensure that the proper risk measures are put into place to facilitate greater returns, hence earning profits.

Implications to Theory and Practice

The study contributes to empirical literature on effect of effect financial planning practices on performance. Specifically, the study found that dividend policies greatly influence financial performance of private security firms in nairobi city county, Kenya. Therefore, the study findings contribute to the knowledge of dividend policies by providing empirical evidence on effect of dividend policies on financial performance.

The study contributes to the theoretical literature by supporting the proposition of the agency theory that agency costs showed an upward trend from detachment of possession and control of circumstances, which are not reconcilable between agents and principals. On Modern Portfolio Theory, the study supports the theory that it is practical for money related masters to fabricate a capable front line of perfect portfolios, which offers the most extraordinary and possible expected financial returns in consideration to a specific risk level.

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Integrating Entrepreneurial Education through Online platforms in Kenyan Higher Education Institutions: A case of Kenyatta University

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Abstract

In as much as entrepreneurial education is fast growing and viewed as the avenue for development and economic growth by various government and policy makers, there is little consensus on the goals to be achieved by entrepreneurial education, its classroom pedagogy, and its evaluation in terms of how the results, outcomes, and efficiency of that education can be attained. Hence, there have been calls from entrepreneurship scholars for action as regards to the construction of a public policy to facilitate entrepreneurship through developing theories around entrepreneurial education. This paper addresses the effectiveness of delivering entrepreneurship curriculum through a blended approach that involves regular face to face teaching and online delivery through video tapes and case studies. The paper is anchored on three main research objectives: to establish the vocational choices of youth after completing the undergraduate degree; the societal influence on attitudes towards the entrepreneurship among the youth and to establish the effectiveness of the blended curriculum in entrepreneurship among university students in Kenyatta University. The study employs a descriptive survey research design; a target sample of 361 Kenyatta University, entrepreneurship first year students was used. The study adopted both quantitative and qualitative research designs and both primary and secondary data sources were used. Open and closed ended questionnaires were used to collect primary data and data set from the National Entrepreneurship Network was used for secondary data. From the study findings, at least 43% of the respondents stated starting a small business to be their most preferred vocational choice after completing the undergraduate degree compared to 24% who stated working for a private business corporation. The study also revealed that at least 50% of the respondents agreed to a great extent that the blended curriculum complements the face to face classroom experiences; with at least 69.5% agreeing to a great extent that the blended entrepreneurship unit changed their attitudes positively towards entrepreneurship. However, following the qualitative analysis, the lack of adequate resources such as smart phones, reliable and accessible internet, inadequate facilities in the lecture halls and computer laboratory hindered the implementation of the blended curriculum. This implies that although the attitude towards entrepreneurship is changing positively among the youth, the institutions of higher learning should provide the enabling environment through provision of resources that will enhance the delivery of the entrepreneurship curriculum among the students.

Key Words: Blended curriculum, entrepreneurship education, national entrepreneurship network

Introduction:

Argidius, (2015) argues that 80% of the Kenyan population is below 35 years old with unemployment rate of 40% with the young people seeking to join the labor force at the age of 15-16 years old. The highest unemployment rate is between the age cohort of 20-24 at 19.2%, (Omondi, 2018). With these kind of statistics it is not possible for Kenya to reach its goal of Vision 2030 which envisions Kenya as middle income country. The increasing unemployment is driving more youths to consider self employment and

entrepreneurship as viable career options (Njoroge & Gathungu, 2013). Entrepreneurship education has been established as one of the ways in which entrepreneurial culture can be inculcated among the young people. Whereas entrepreneurship education is important, the way it is delivered is mostly superficial and is delivered through rational oriented education systems which focus mostly on course content matter that do not foster creativity, opportunity recognition and problem solving abilities among learners ((Ongwae, n.d)

Problem Statement

Potapchuk and Bureau, (2015) argue that whereas entrepreneurial education is fast growing and is seen by various governments and policy makers as key to development and economic growth, there has been little agreement as regards to the goals of entrepreneurship education, its delivery in terms of how it is to be taught, and eventually its evaluation in terms of how the results and efficiency of that kind of education is evaluated.

According to Gichana (2015), on the study on the effectiveness of entrepreneurship education programs in Kenya, it was found that there were two main dimensions of entrepreneurial education: awareness and skill set. From the study, it was established that the supply of potential entrepreneurs was limited in Kenya and the youth had a negative attitude towards entrepreneurship. The study also found that entrepreneurship was linked to science, technology and innovation and hence the need to encourage those disciplines into the curriculum. The study also revealed that despite the increased training of entrepreneurship education programs in Kenya, the delivery of the course was primarily tradition-bound with great emphasis placed on course content matter rather than experiential learning that is required for one to gain entrepreneurial skills; there is also the underlying assumption by the course facilitators that the students have pre-existing entrepreneurship characteristics and attitudes, with most of them holding the view that entrepreneurs are born rather than made.

His study also revealed a general confusion between the conceptualization of small business management and entrepreneurship with the two terms used interchangeably, this is compounded by the fact that most instructors teaching entrepreneurship unit were not actively involved in entrepreneurial settings and were not specialist in the field. From his assessment, he argues that the goals and objectives of entrepreneurship cannot therefore be attained in the Kenyan set-up. In countries like the United States, students who specialize in entrepreneurship in the MBA program were three times more likely to be involved in the creation and ownership of new ventures than MBA graduates from other specializations (Charney & Liebcap, 2000). This finding is supported by other scholars who found similar results Upton, Sexton & Moore, 1995;Kolvereid and Moen, 1997; Mc Mullan & Gillin, 1998) In all these studies, students who had attended entrepreneurial education were significantly more likely to begin their own ventures or work as entrepreneurs in family businesses or intrapreneurs in large corporations.

Reviewing the differences between the two contexts: the Kenyan context and the American context; it is clear that although entrepreneurial education has positive outcomes as regards to motivation together with

knowledge and skills in launching a new business venture, the way the entrepreneurship curriculum is delivered may result to ambivalent outcomes. Hence, this study intends to fill the gap by establishing the extent to which the pedagogy in which entrepreneurship education is delivered influences entrepreneurship attitudes and outcomes among the youth. More specifically the study aims to establish the attitudes of the youth towards entrepreneurship, the vocational choices of youth upon completing the undergraduate degree and the effectiveness of the blended curriculum in influencing entrepreneurial outcomes.

Research Objectives:

i. To establish the vocational choices of the youth after completing undergraduate degree
ii. To establish the societal influence on attitudes toward entrepreneurship among the youth
iii. To evaluate the effectiveness of the blended curriculum in delivering entrepreneurship education among students.

Entrepreneurial Education

Entrepreneurship education can be defined as the mechanism through which entrepreneurial skills and content is delivered through a structured education system. According to Lee, *et al*., (2005) entrepreneurship education provides students the motivation, knowledge and skills for launching a new business venture, however, the delivery and content of entrepreneurship education may vary across countries. This is compounded by the fact that there has been an argument in both sides of the paradigm evaluating the extent to which entrepreneurship is an inborn trait or an acquired skill. According to Katz, (2007) the question on "can entrepreneurship be taught" receives different responses depending on whom you ask. To the self-made entrepreneurs, the classical response is "No, entrepreneurs are born", however, when the same question is asked to thousands of entrepreneurship professors worldwide and consultants of small and business development and micro enterprise development, the response is that entrepreneurship is a skill that can be acquired.

These differences in schools of thought have led to entrepreneurship scholars calling for action as regards to the construction of public policy to facilitate entrepreneurship education through developing theories around the areas of personality characteristics of entrepreneurs, psychopathology of entrepreneurs, entrepreneurial cognition, entrepreneurial education and international entrepreneurship, so as to solve the mystery on the extent to which entrepreneurial skills are inborn traits or acquired traits. In response to this call, various theorists have come up with different methodologies on how entrepreneurial education can be delivered (Hisrich, *et al*, 2007).

According to Katz, (2007) entrepreneurship education is delivered in four main structures: traditional academic programs, conventional training program, peer network programs, and individual coaching. In situations where it is delivered within an academic program, it consists of mainly two introductory courses that provide an overview of the functional areas of business (accounting, finance, marketing, and

management) with a refocus on the needs of small enterprises. The introductory course is delivered through the traditional means of textbooks that include case studies and accompanied by outside speakers, the course may also involve the use of experiential learning and a capstone project. The second introductory course, focuses on the completion of the business plan which is often presented to an impartial judge for evaluation. The academic program further initiates the support of student entrepreneur groups, most of whom are alumni entrepreneurial group or a university based entrepreneurship center; who provide the social support by connecting the entrepreneurship students to individuals who can offer advice, support and contacts.

Societal influence on attitude towards entrepreneurship

Entrepreneurship is the pillar on which economic health of societies is built on. Its role has been highlighted in opportunity creation through new ventures and maintenance of existing ones (Evans, 1942; Leibenstein, 1968).Entrepreneurship has been identified as the fourth factor of production that helps discover new frontiers leading to all round economic growth (Leff, 1979 ;Harper, 1991),and a resource that needs to be tapped by developing countries to enable them to compete in a globalizing market economy (Kanungo, 1998; Khandwalla, 1998). More recently, the Commission of European Communities (2005) reported that entrepreneurship is very important for further social development through increased job opportunities and consequent economic prosperity. Several developing countries have identified promotion of entrepreneurship as a focus area for governments, financial institutions, and academic institutions.

Attitude is defined as a mental and neural state of exerting readiness, organized through experience, exerting a directive or dynamic influence upon the individuals regards to all objectives and situations with which it is related (Allport, 1935)**.** An increase in a person's attitude towards entrepreneurship influences the person's desire to establish his own business and to realize entrepreneurial desire positively (Schlaegel & Koenig, 2013). It is possible that if the family and society at large view entrepreneurship as valuable and positive, youth will be encouraged to opt for entrepreneurship as a career. As most policy making attempts are based on anecdotes, success stories and prescriptions documented elsewhere (Thomas & Mueller, 2000), a better understanding of societal attitudes would give insights for policy making towards promotion of entrepreneurship. In case there is a positive attitude towards entrepreneurs and entrepreneurship, it would be easier for policy makers to encourage entrepreneurship. They only need to offer programs that would encourage entrepreneurial activity in the society. On the other hand, if the attitude is negative, policies would only be successful once the society is willing to accept entrepreneurial activity as something that is positive. In such cases wide-spread attitude change programs would have to be initiated.

Social life influences an individual’s attitude towards entrepreneurship (Brockhaus & Horwitz, 1986; Jackson & Rodkey, 1994). An individual’s social life takes place at home, at the place of education, and in other spheres of interaction. Social life includes messages about what is good and positive, what lends status and what is valued by others. Family background and parental role-modeling has been found to be

the most prominent factor that affects early social life and hence formation of attitude towards entrepreneurship (Scott & Twomey, 1988; Matthews & Moser, 1995;). Early communication received and imbibed by an individual from the family would influence career choices by inducing individuals to choose a career in which they are viewed positively by society. In Singapore, Lee and Wong (2003a, b) assert that those who show more interest during programs on entrepreneurship are more likely to engage in entrepreneurial activity.

Effectiveness of the Blended Curriculum in Entrepreneurship

The proliferation of Entrepreneurship Education (EE) in African universities calls for an investigation on the suitability of the pedagogies being used, (Gachanja, Nganga & Maina, 2016). Valliere, (2015) concurs with this and argues that entrepreneurship in Africa has emerged as a new tool to fight poverty, has a multiplier effect of expanding productive activities and creating employment opportunities which lead to economic growth. Micro and Small ventures created out of entrepreneurship act as feeder industry for the larger enterprises and contribute to the increase in export in countries. The Kenya National Bureau of Statistics, (2015) indicates that the informal sector that constitutes micro and small entrepreneurs has the largest share of employment accounting for 82.7 percent of the total jobs. However, according to Mutai, (2011), it is clear that despite entrepreneurship providing substantial employment opportunities in Kenya, it is unable to generate competitive job opportunities since most of the opportunities are created in the informal sector, small and medium enterprises that have a limited life span. Advancing Entrepreneurship Education (EE) is therefore paramount in improving the potential of entrepreneurs to accelerate economic growth and development.

Teaching of entrepreneurship is on the increase across many countries including Kenya where the government is supporting this effort given the high rates of unemployment. For instance, many countries, including the United States, have begun looking to entrepreneurship models for solutions that would lead to a sustainable economic recovery (Ewing Marion Kauffman Foundation, 2011). Paralleled with the increasing interest in entrepreneurship, specifically the development of entrepreneurship education programs as a viable springboard for economic growth has become a great priority in curriculum development (Rauch & Hulsink, 2015; McGuigan, 2016). In the U.S. for instance, entrepreneurship education has become one of the fastest growing fields of study in higher education institutions. Scholars in American entrepreneurship education have reported that university entrepreneurship courses have grown in both the number and diversity of course offerings in recent decades (The George Washington Center for Entrepreneurial Excellence, 2015).

Urassa, (2015) contends that pedagogy in EE is defined as training methods and approaches used in the learning process that emphasizes holistic, integrative learning through practical and creative learning strategies where the learners are participative and are empowered to adapt to the dynamic environment with an intention of grooming their productivity towards self-sustainability and success. Maritz and Brown, (2013) point out that the major training approaches in entrepreneurship include traditional and non-

traditional or experimental methods. Traditional methods involve use of lectures, case studies and group discussions. This is supported by Mwasalwiba, (2010) who adds that even though the traditional methods have the advantage of being the most common used form of delivering EE, they are ineffective in instilling the requisite skills, knowledge, traits, attitude and competency to engage in entrepreneurship as they are passive.

Heinze, (2004) on the other hand, define blended learning as learning that combines several approaches and models of teaching styles. The reasons for choosing the blended learning approach according to Graham, (2004) include pedagogical richness, increased access or flexibility and cost effectiveness. Content delivery tends to improve when it includes varied teaching techniques. Zepke and Leach (2010), suggested several different actions that foster student engagement to improve their success in learning. These include active and collaborative learning, educational experiences, mentoring and enabling students to become active citizens. Rejab, (2010) complements this by arguing that technology application is also found to support positively students' entrepreneurial self-efficacy while Viljamaa, (2015) cautions that the way entrepreneurship is taught could affect the participants and their entrepreneurial potential.

Prior studies on entrepreneurship education can be grouped into two general categories. One category of studies as undertaken by (Piperopoulos & Dimov, 2014); Elert, Andersson & Wennberg, 2015); Zimbroff, Taylor & Houser, 2016) focused on students' perceptions of their participation in business-focused entrepreneurship education programs. Entrepreneurial initiatives in the non- business fields such as the humanities were overlooked or even discarded. Hence, the importance of their research findings is limited in value to the university studied in the present research. It is because the program has been expanded to the university as a whole. The other category attempted to evaluate entrepreneurship education programs, but did not do it through examining both students' and instructors' perceptions (Mwasalwiba, 2010; Arasti, Falavarjani & Imanipour, 2012; Nani, 2016) assessed entrepreneurship education programs through investigating instructors' experiences or perceptions of teaching entrepreneurship. Though the importance of instructors' perceptions was addressed, that of students' perceptions was largely ignored.

Blended Curriculum through the National Entrepreneurship Network

According to (USAID, 2015) Kenya is recognized as the center for innovation and entrepreneurship in Africa as it is the world leader in mobile money a platform that allows people to transact through a platform called M-Pesa; as a result of this maiden innovation, other secondary generation money mobile driven innovations such as M-Kopa, M-Shwari, Pay- As-You-Go home solar systems have been developed to enhance businesses in Kenya. Kenya is also at the fore front in developing entrepreneurship incubation centers such as the i-hub which are supported by companies like Google, IBM and Intel, all point to the growing need for entrepreneurship and innovation in the country. In order for the country to tap into the Kenyan youth talent, drive and willingness, universities in Kenya have began offering entrepreneurship programs in their higher education programs, although the delivery of the entrepreneurship curriculum in

Kenyan higher education has faced sharp criticisms for failing to nurture the entrepreneurial spirit and innovation among the youth, various institutions of higher learning have resulted to delivering the entrepreneurship curriculum through a blended approach to ensure that the learners not only have entrepreneurial content but are also provided with opportunities for experiential learning.

The National Entrepreneurship Network is a foundation developed by Dr. Romesh Wadhwani in 2000 that was formed with a primary mission of accelerating economic development in emerging economies through large scale job creation in Asia, Africa, and Latin America. The foundation operates in association with governments, corporations, mentors, investors, and education institutions to drive job creation through entrepreneurship skills development and innovations. The entrepreneurship program which is delivered through an online platform called LearnWise aims to inspire, educate, and provide entrepreneurial skills to young entrepreneurs through a cloud-based learn wise platform, entrepreneurial clubs also referred to as E-Cells within campuses, developing of campus companies that are formed by groups of entrepreneurial students within the campus and provision of mentorship networks through the Wadhwani Foundation National Entrepreneurship Network organization. Currently, the network inspires student entrepreneurs, start up's and small and micro enterprises (SME's) to create high-value jobs in India, Malaysia, Phillipines, Kenya and Mexico (Wadhwani Foundation, 2018).

Kenyatta University, through the School of Business, initiated a partnership with the National Entrepreneurship Network-Wadhwani foundation in 2017 in delivering the first- year university wide core entrepreneurship unit through a blended approach. The blended approach involved attending to the regular entrepreneurship course contents program and engaging with the online platform entrepreneurship program through being registered in the LearnWise program. It was envisioned that the learners would engage with the online content which was delivered through video clips, online assessments, and case studies. The course is divided into three main modules: Orientation program in entrepreneurship (WFNEN 100); Basic Program in Entrepreneurship (WFNEN 101) and Intermediate program in Entrepreneurship (WFNEN 102). The introductory program includes six lessons that introduce the learner to entrepreneurship, provides an exploration to Entrepreneurial clubs also known as E-Cells within the campus, success stories of successful entrepreneurs in the country, characteristics of successful entrepreneurs, communicating effectively, and design thinking. Once the students complete the first program, they enroll in the subsequent programs upon enrolling into the E-Cells.

The program was rolled out for piloting in September 2017, during the university's first semester of the academic year 2017/2018. Despite the challenges of industrial action that affected the students' learning in that semester, most students were able to access the university entrepreneurship course through the university modules and were also able to access the online platform through their private mobile phones and through the university computer laboratories. Prior to the rolling out of the program, the Wadhwani Foundation team provided a week-long training on the course contents of the entrepreneurship program to the faculty members to enable them implement the facilitation of the course to the students at the main

campus and satellite campuses. An official inauguration of the blended curriculum was also initiated and spearheaded by the university management to ensure that the learners in the university wide entrepreneurship unit (UCU 104- University Common Unit 104) were informed about the changes in delivering the entrepreneurship curriculum. Students' online registration was also initiated and 1,090 students registered through the LearnWise platform for that semester.

THEORETICAL REVIEW

The study was anchored on the postulates of two theories drawn from management studies: The theory of entrepreneurial motivation and theory of career anchors.

Theory of Entrepreneurial Motivation

The theory was adopted in entrepreneurial studies amidst debates on the factors that affect industrial activity in any country including social, economic, institutional, cultural and political structures. The theory is attributed to the work of David McClelland. The theory begins by considering the nature of motivation. Motivation may be defined as the set of forces that cause people to engage in one behavior rather than some alternative behavior and considered as the willingness to do something. The approach adopted by Scott took the view that motivation is a process of stimulating people to action to accomplish desired goals. This depicts motivated behavioral goal oriented and is directed to complete a task.

The second aspect of the theory is that focusing on motivating factors suitable to inspire entrepreneurs. According to McClelland, of the three types of needs identified in his studies, the one that research has associated with entrepreneurship is that of need for achievement which has been supported by both advocates of sociological and psychological factors influencing entrepreneurs. Accordingly, entrepreneurship is most likely to emerge either under a specific set of social conditions or when society has a sufficient supply of individuals possessing particular psychological characteristics. The characteristics of high achievers suitable for entrepreneurship development include:

- Search for areas of greater personal responsibility and they readily accept it
- Take calculated risk
- Set challenging yet achievable goals
- Make detailed and comprehensive planning to achieve the goals
- Ready to receive measurable feedback
- Show an attitude of sticking to the work even in unfavorable conditions
- Tend to do something new
- Show certain interpersonal competence
- They are adventurous
- Have an attitude of bearing uncertainties
- Are ready to migrate and start business at any place

Separate studies by Sharma (1980) and Mishra (1986) in India on the factors motivating individuals into Entrepreneurship using McClelland's theory classified the factors into two categories:

- Internal factors: desire to do something new, education and background, occupational background/experiences, desire to work independently, desire to launch out, family background.
- External factors: government assistance and support, availability of labor and raw materials, encouragement from big business houses, promising demand for the products.

According to McClelland, achievement is an inspiration factor which can be developed by training and experience. Based on studies done in several countries on the different types of needs, McClelland observed further that in order to cultivate this need for achievement in a nation, entrepreneurship is to be developed from a very young age and this raises implications for the role of curriculum.

Career Anchor Theory

The theory is attributed to the work of Edgar Schein who introduced the concept of career anchors into management studies. The concept of career anchor is something that develops over time and evolves into a self-concept shaping an individual's personal identity or self-image and includes:

- Talents, skills and abilities. This includes the things we believe we are good at and not so good at
- Motives and needs. what is important to us and takes the form of goals
- Attitudes and values. The kind of organizations we feel comfortable with, one that matches our own values

The proponent developed a career orientations inventory that can be used to classify individuals into different categories based on career orientations. The orientations and suitable career paths are:

- Technical and functional: suitable in careers facilitating exercise of skills and managing others
- General management: high managerial level
- Autonomy and independence: consulting and teaching
- Security and stability: white-collar employment
- Entrepreneurial activity: launch new ventures
- Service and dedication on a cause
- Pure challenge: intellectual work
- Lifestyle: flexible work

Research Methodology

The context of the study

The study was done in Kenyatta University, Kenya among first year students admitted in the cohort of September, 2017. Kenyatta University operates in several campuses spread across the country and runs programs in diverse fields in both applied and social sciences. The structure of the academic programs requires all undergraduate students to take a compulsory unit in entrepreneurship, UCU 104. During the first semester of 2017/2018 academic year that commenced in September 2017, a new blended curriculum for UCU 104 was rolled out that included a practical component allowing students to form entrepreneurial clubs through which ideas generated are nurtured to realize formation of new companies. The questionnaire was administered to students in the 2017/2018 first year intake cohort who were the first beneficiaries of this blended curriculum. The questionnaire was administered just before the students sat for their end of semester one examination.

The Research Design

This study adopted the descriptive survey method. The descriptive survey design was selected because it is suitable according to Mugenda and Mugenda (2003) for gathering of data and describes the characteristics of the population. It is also concerned with the description of existing phenomena by asking individuals about their perceptions, attitudes, behaviors and values.

Population and sampling

The population of the study was made up of all Kenyatta University first year students admitted in the cohort of 2017/ 2018 academic year. The total population students admitted was 6000 and were distributed to various schools. The choice of this category of students' region was considered appropriate since the students had just completed their high schools' education and are at a critical stage of determining the careers they would like to pursue. Besides, since the university had adopted a new curriculum for entrepreneurship, it was considered suitable to obtain their entrepreneurial attitudes after exposure to the blended curriculum and establish whether the results may be of value in mentoring the students towards building entrepreneurial ventures alongside pursuit of academic degree programs admitted into.

Purposive sampling technique was used in this research to select the categories of the respondents who participated in the study. Because of the huge population of students and limited capacity of space and facilitators, the university clustered the schools into two categories: those to be offered UCU 104 in semester 1 as one cluster and those to be offered in semester II as another cluster. The sample was drawn from first year students in cluster one since the students enrolled in programs offered by these schools registered for the unit UCU 104 between September 2017 and February 2018. The target sample size was 361 computed using the approach suggested by Krejcie *et.al* (1970) for a population of 6000 units. Proportionate stratified sampling method was used to distribute respondents to the various schools that constituted the strata. Respondents were randomly identified during the last lecture session for the course

by the respective lecturer handling each group. The distribution of the population and the sample are summarized in table 1.

Table 1: Sampling Frame

Strata	School										
	Business	**Humanities**	**Agric**	**Hospitality**	**Applied H/Sc**	**Education**	**Law**	**Public Health**	**Nursing**	**SPAS**	**Total**
Number of Students admitted 2017/2018	1022	433	632	546	611	433	521	512	687	603	6000
No. of Students registered for the blended curriculum	186	79	115	100	111	80	95	93	125	108	1092
Target sample	36	16	22	19	22	15	19	18	24	22	361

Source: Survey Data, (2018)

4.5. Data Collection Instrument and Procedures

A self-administered structured questionnaire was used to collect data with respect to the objectives and variables of the study from the sample size of 361 as shown in table 1. A semi-structured questionnaire was with simple statements on the variables measured in the study was adopted. The questionnaire was explained to the students in class for them to understand its purpose and contents. The selected sample students in each class were then allowed sometime to interact with the contents and respond as required and handed over to the course lecturer.

4.6. Data Analysis

Data was analyzed using Statistical Package for Social Sciences (SPSS Version 24.0). After data cleaning which entailed checking for errors in entry, descriptive statistics such as frequencies, percentages, mean score and standard deviation were estimated for all the quantitative variables and information presented inform of tables. The qualitative data from the open-ended questions was analyzed using conceptual content analysis. Regression analysis and Chi-Square were conducted to establish the level of association between the study variables at 95% confidence level.

FINDINGS

Descriptive Analysis

4.6.1 Demographic Information

The respondents were requested to indicate their gender, their campus, age bracket as well as their area of study.

Response Rate:

The response rate was 59%

Strata	**School**										
	Business	**Humanities**	**Agric**	**Hospitality**	**Applied H/Sc**	**Education**	**Law**	**Public Health**	**Nursing**	**SPAS**	**Total**
Target Sample	61	26	38	33	37	26	37	31	41	36	361
Response Rate	36	16	22	19	22	15	19	18	24	22	213

Respondents Campus

The respondents were asked to indicate the campus to which they belong to. Their replies were as shown in Table 2.

Table 2: Respondents Campus

	Frequency	**Percent**
Main campus	131	61.5
Parklands	36	16.9
City campus	39	18.3
Missing	7	3.3
Total	**213**	**100**

The target respondents that participated in this question were those form main campus, parklands and city campus. The most frequent respondents were from main campus (61.5%) while the least frequent were from city campus (18.3%). However, 3.3% of the respondents did not participate in this question. This shows that the respondents were accessible to participate in data collection.

Respondents Gender

The respondents were asked to indicate the gender to ascertain the gender distribution of all the respondents who participated in the study. Their replies were as shown in Table 3.

Table 3: Respondents Gender

Gender		Frequency	Percent
	Male	91	42.7
	Female	95	44.6
	Total	186	87.3
	System	27	12.7
Total		**213**	**100.0**

The study respondents consisted of both male and female where by most frequent respondents were male at 42.7%.A total of 27 respondents did not participate to this question. This shows that students of all gender participated in the study making the information they provided to be more reliable.

Age group

The respondents were further required to provide information on their age group. They gave and the information was illustrated in Table 4.

Table 4: Respondents Age Group

Age group		Frequency	Percent
	Below 20 years	115	54.0
	Between 21 and 25 years	71	33.3
	Between 26 and 30 years	9	4.2
	Above 30 years	11	5.2
	Total	206	96.7
	System	7	3.3
Total		**213**	**100.0**

The study was composed of respondents aged 18 years and above. The most frequent respondents (55.8%) were aged below 20 years whereas the least frequent respondents (5.3%) were aged above 30 years. However, 7.6% of the respondents did not participate in this question.

Area of study

The respondents were further asked to indicate their area of study. Their responses were as shown in Table 5.

Table 5: Area of study

Area of study		Frequency	Percent
Valid	School of Business	71	31.8
	School of Education	2	.9
	School of Law	35	15.7
	School of Public Health	29	13.0
	School of Humanities	8	3.6
	School of Nursing	1	.4
	School of Applied human sciences	26	11.7
	School of Hospitality and Tourism	2	.9
	School of Agriculture	29	13.0
	School of Pure and Applied Sciences	8	3.6

	Total	**211**	**94.6**
Missing	System	12	5.4
Total		**223**	**100.0**

The study sought to include students undertaking UCU104, which was comprised of first years across all schools of Kenyatta university. The most frequent respondents were from the school of business (31.8%) while the least frequent school was school of nursing, just one respondent.

		Frequency	**Percent**
Valid	Yes	103	46.2
	No	77	34.5
	Total	**180**	**80.7**
Missing	System	43	19.3
Total		**223**	**100.0**

Based on the question on entrepreneurial background, 46.2% of the respondents agreed to have come from entrepreneurial families while 34.5% of the respondents came from families with no entrepreneurship background. However, the 19.3% of the respondents did not participate in the question on entrepreneurial background.

Findings on Objective One:

Descriptive Analysis: (Linda improve on the content)

The first objectives aimed to establish the vocational choices of the youth after completing undergraduate degree

\Starting small business as career choice		Frequency	Percent
Valid	most preferred	90	42.3
	2nd choice	18	8.5
	3rd choice	17	8.0
	4th choice	13	6.1
	5th choice	1	.5
	6th choice	6	2.8
	7th choice	1	.5
	8th choice	2	.9
	9th choice	2	.9
	least preferred	7	3.3

	Total	157	73.7
Missing	System	56	26.3
Total		213	100.0

Based on starting small business, respondents ranked the responses on a scale of 1 to 10. Where most preferred choice was ranked one whereas the least preferred choice was ranked 10. the most frequent respondents(42.3%) preferred starting small business as career option. However 56 respondents did not participate in this question.

Developing products and programs	Frequency	Percent
most preferred	40	18.8
2nd choice	7	3.3
3rd choice	10	4.7
4th choice	5	2.3
5th choice	11	5.2
6th choice	7	3.3
7th choice	9	4.2
8th choice	9	4.2
9th choice	6	2.8
least preferred	9	4.2
Total	113	53.1
Non-response	100	46.9
Total	213	100.0

On the question of developing products and programs most frequent respondents (18.8%) chose this as their preferred career option. However, 46.9 % of the respondents did not participate in this question

		Frequency	Percent
	most preferred	50	23.5
	2nd choice	13	6.1
	3rd choice	12	5.6
	4th choice	9	4.2
Valid	5th choice	10	4.7
	6th choice	13	6.1
	7th choice	3	1.4
	8th choice	7	3.3
	9th choice	4	1.9

	least preferred	12	5.6
	Total	133	62.4
Missing	System	80	37.6
Total		213	100.0

On the question of building companies as a career choice ,23.5% of the respondents chose this as their most preferred career choice. However, 37.6% of respondents did not participate in this question

Research Objective 2: To establish the societal influence on attitudes toward entrepreneurship among the youth

Descriptive Analysis

	Mean	Std. Dev.
Volunteering enhances the students attitudes toward entrepreneurship	4.252	.876
Internship and job seeking helps the students to develop a positive attitude toward entrepreneurship	3.831	.672
Preferred choice of employer	3.367	.985
Assisting parents in their business plays a major role on the students' attitude toward entrepreneurship	3.712	.683

The study found that volunteering enhances the students' attitudes toward entrepreneurship as shown by a mean of 4.252, internship and job seeking helps the students to develop a positive attitude toward entrepreneurship as indicated by a mean of 3.867 and assisting parents in their business plays a major role on the students' attitude toward entrepreneurship as shown by a mean of 3.712 influence greatly the attitudes toward entrepreneurship among the youth. However, the preferred choice as shown by a mean of 3.367 had a moderate influence on attitudes toward entrepreneurship among the youth.

Inferential Analysis

The study conducted a regression analysis to analyse the relationship societal influence and youths' attitudes toward entrepreneurship.

Table: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error
1	0.808	0.654	0.652	1.285

From the results, the adjusted R square for the regression was 0.652 which mean that societal influence could only explain 65.2% of variation in youths' attitude towards entrepreneurship.

Table: Analysis of Variance (ANOVA)

Model		Sum of Squares	Df	Mean Square	F	Sig
1	Regression	657.922	1	657.922	398.233	.000
	Residual	348.594	211	1.652		
	Total	**1006.516**	**212**			

The ANOVA results shows that the F-calculated=398.233 and the p-value was 0.000. Since F-calculated=398.233 was greater than F-critical (3.886) and the p-value=0.000 was less than 0.05, then the overall model was significant in predicting the outcome of the relationship societal influence and the youths' attitudes toward entrepreneurship.

Table: Regression Coefficients

	Un standardized Coefficients		Standardized Coefficients	t	Sig
	B	**Std. Error**	**Beta**		
(Constant)	2.189	0.217		10.088	0.000
Societal Influence	0.867	0.046	0.816	18.848	0.000

b. Dependent: variable: Youths' attitudes toward entrepreneurship

The regression equation obtained from this output was: -

Performance =-2.189 + 0.867 Societal Influence**……Equation (1)**

From the findings the coefficient for societal influenceis 0.867 which is significant since p=0.000 is less than 0.05, meaning that a unit change in societal influencechange leads to 0.867 units change in Youths' attitudes toward entrepreneurship. Further the study found that if societal influence was held constant at zero, then youths' attitudes toward entrepreneurship would be 2.189.

The second objective of the study sought to measure the effect of Societal Influence on attitudes towards entrepreneurship among the youth. The construct of societal influence was operationalized as ones' exposure to entrepreneurship background in their upbringing. In this study it was measured using the fact as to whether the respondent came from an entrepreneurial family as well as prior opportunity to study entrepreneurship before they enrolled into the university. The construct of entrepreneurial attitude was measured in terms of three dimensions: developing new products, building a new company and assisting parents in managing their family business. The analysis was done using two steps: first a cross tabulation of the indicators of entrepreneurial attitude against the indicators of societal influence; secondly chi-square tests of association to establish the extent to which entrepreneurial attitudes among students are

dependent on societal influences.

		Choice to develop New Products		Total
		NO	**YES**	
Coming from entrepreneurial family	Count	43	50	93
	Expected Count	33.7	59.3	93.0
	% within Social influence	46.2%	53.8%	100.0%
	% within choice	58.1%	38.5%	45.6%
	% of Total	21.1%	24.5%	45.6%
	Std. Residual	1.6	-1.2	
prior study of ucu104	Count	31	80	111
	Expected Count	40.3	70.7	111.0
	% within Social influence	27.9%	72.1%	100.0%
	% within choice	41.9%	61.5%	54.4%
	% of Total	15.2%	39.2%	54.4%
	Std. Residual	-1.5	1.1	
Total	Count	74	130	204
	Expected Count	74.0	130.0	204.0
	% within Social influence	36.3%	63.7%	100.0%
	% within choice	100.0%	100.0%	100.0%
	% of Total	36.3%	63.7%	100.0%

1.Test of association between social influence and development of products and programs

Symmetric Measures

		Value	Approx. Sig.	Exact Sig.
Nominal by Nominal	Phi	.190	.007	.008
	Cramer's V	.190	.007	.008
	Contingency Coefficient	.186	.007	.008
N of Valid Cases		204		

a. Not assuming the null hypothesis.

b. Using the asymptotic standard error assuming the null hypothesis.

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
Social influence * choice	204	100.0%	0	0.0%	204	100.0%

A total of 204 respondents answered the questionnaire items. 93 responded to statements on societal influence and development of new products while 111 responded to statement on societal influence and prior study of entrepreneurship and choice to develop new products. According to the cross tabulated results, 59.3 % of those from entrepreneurial family chose to develop new products while 72.1% of those with prior exposure to UCU 104 chose to develop new products. The Chi square test indicates that

Chi-Square Tests

	Value	Df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	7.338[a]	1	.007	.008	.005
Continuity Correction[b]	6.567	1	.010		
Likelihood Ratio	7.350	1	.007	.008	.005
Fisher's Exact Test				.008	.005
N of Valid Cases	204				

a. 0 cells (0.0%) have expected count less than 5. The minimum expected count is 33.74.

b. Computed only for a 2x2 table

$\chi^2=7.338$ at $p=0.005$ which implies that there is strong statistical association between societal influence and development of new products by youth in university as an attribute of entrepreneurial attitude.

2. Test of association between social influence and building company

Social influence * choice Cross tabulation

		Choice to build company		Total
		NO	**YES**	
coming from entrepreneurial family	Count	51	61	112
	Expected Count	40.6	71.4	112.0
	% within Social influence	45.5%	54.5%	100.0%
	% within choice	58.0%	39.4%	46.1%
	% of Total	21.0%	25.1%	46.1%
	Std. Residual	1.6	-1.2	
prior study of ucu104	Count	37	94	131
	Expected Count	47.4	83.6	131.0
	% within Social influence	28.2%	71.8%	100.0%
	% within choice	42.0%	60.6%	53.9%
	% of Total	15.2%	38.7%	53.9%
	Std. Residual	-1.5	1.1	
Total	Count	88	155	243
	Expected Count	88.0	155.0	243.0
	% within Social influence	36.2%	63.8%	100.0%
	% within choice	100.0%	100.0%	100.0%
	% of Total	36.2%	63.8%	100.0%

Chi-Square Tests

	Value	Df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	7.815[a]	1	.005	.007	.004
Continuity Correction[b]	7.085	1	.008		
Likelihood Ratio	7.830	1	.005	.007	.004
Fisher's Exact Test				.007	.004

N of Valid Cases	243				

a. 0 cells (0.0%) have expected count less than 5. The minimum expected count is 40.56.

b. Computed only for a 2x2 table

Symmetric Measures

		Value	Approx. Sig.	Exact Sig.
Nominal by Nominal	Phi	.179	.005	.007
	Cramer's V	.179	.005	.007
	Contingency Coefficient	.177	.005	.007
N of Valid Cases		243		

a. Not assuming the null hypothesis.

b. Using the asymptotic standard error assuming the null hypothesis.

A total of 203 respondents answered the questionnaire items focusing on the association between societal influence and building of a new company by the youth. A total of 112 and 131 respondents answered the statements on choice to build a company based on coming from an entrepreneurial family and prior exposure to UCU 104 respectively. 71.4% and 60.6% of those answering for entrepreneurial background and prior exposure to UCU 104 respectively chose to build a new company. The Chi square test indicates that $\chi^2=7.815$ at $p=0.004$ which implies that there is strong statistical association between societal influence and development of new companies by youth in university as an attribute of entrepreneurial attitude.

3. Test of association between social influence and assisting parents in family business

Social influence * choice Cross tabulation

		Choice to assist parents in business		Total
		NO	**YES**	
coming from entreprenuerial family	Count	40	56	96
	Expected Count	32.2	63.8	96.0
	% within Social influence	41.7%	58.3%	100.0%
	% within choice	58.0%	40.9%	46.6%
	% of Total	19.4%	27.2%	46.6%
	Std. Residual	1.4	-1.0	
prior study of ucu104	Count	29	81	110
	Expected Count	36.8	73.2	110.0
	% within Social influence	26.4%	73.6%	100.0%
	% within choice	42.0%	59.1%	53.4%
	% of Total	14.1%	39.3%	53.4%
	Std. Residual	-1.3	.9	
Total	Count	69	137	206
	Expected Count	69.0	137.0	206.0
	% within Social influence	33.5%	66.5%	100.0%
	% within choice	100.0%	100.0%	100.0%
	% of Total	33.5%	66.5%	100.0%

Chi-Square Tests

	Value	Df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	5.389[a]	1	.020	.026	.015
Continuity Correction[b]	4.724	1	.030		
Likelihood Ratio	5.397	1	.020	.026	.015
Fisher's Exact Test				.026	.015
N of Valid Cases	206				

a. 0 cells (0.0%) have expected count less than 5. The minimum expected count is 32.16.

b. Computed only for a 2x2 table

Symmetric Measures

			Value	Approx. Sig.	Exact Sig.
Nominal	by	Phi	.162	.020	.026
		Cramer's V	.162	.020	.026
Nominal		Contingency Coefficient	.160	.020	.026
N of Valid Cases			206		

a. Not assuming the null hypothesis.

b. Using the asymptotic standard error assuming the null hypothesis.

A total of 206 respondents answered the questionnaire items focusing on the association between societal influence and building of a new company by the youth. A total of 96 and 110 respondents answered the statements on choice to build a company based on coming from an entrepreneurial family and prior exposure to UCU 104 respectively. 68.3% and 73.2% of those answering for entrepreneurial background and prior exposure to UCU 104 respectively chose to build a new company. The Chi square test indicates that $\chi^2=5.389$ at $p=0.015$ which implies that there is strong statistical association between societal influence and development of new companies by youth in university as an attribute of entrepreneurial attitude.

Research Objective 3: effectiveness of the blended curriculum in delivering entrepreneurship education among students

Descriptive Analysis:

	N	Min.	Max.	Mean	Std. Dev.
Communication of blended curriculum goals during launch	206	1.00	5.00	4.015	1.349
Communication of blended curriculum goals during class sessions	205	1.00	5.00	4.259	1.046
Preparation to partcipate in the UCU104 blended curriculum	202	1.00	5.00	4.253	.978
Questions regarding UCU104 blended curriculum answered satisfactorily	201	1.00	5.00	4.015	1.079
Interaction with content through Learn Wise platform	203	1.00	5.00	3.867	1.246
Entrepreneurship content	203	1.00	5.00	3.911	1.248

Link between UCU104 andentrepreneurship content on Learn Wise platform	203	1.00	5.00	3.902	1.223
Having required resources for access of online content	204	1.00	5.00	3.976	1.176
Blended curriculum a good alternative to the face-face classroom learning	202	1.00	45.00	4.342	3.108
Attempt on online assessment on Learn-Wise platform	203	1.00	5.00	3.749	1.271
Listening to video clips presented through Learn-Wise platform	205	1.00	5.00	3.522	1.349
Blended UCU104 exceeding expectations	204	1.00	5.00	3.853	1.144
Blended entrepreneurship unit changing attitude positively towards entrepreneurship	205	1.00	5.00	4.322	.946
Attendance of blended UCU104 course resulting to entrepreneurship as career option	207	1.00	5.00	4.604	.749

From the findings, the respondents indicated that attendance of blended UCU104 course very greatly results to entrepreneurship as career option as shown by a mean of 4.604, that Blended curriculum is a good alternative to the face-face classroom learning as indicated by a mean of 4.342 and that Blended entrepreneurship unit changes attitude positively towards entrepreneurship as illustrated by a mean of 4.322.

Further the respondents indicated that communication of blended curriculum goals during class sessions as expressed by a mean of 4.259 and preparation to participate in the UCU104 blended curriculum as shown by a mean of 4.253 greatly influence their attitude towards entrepreneurship. Moreover, the respondents indicated that communication of blended curriculum goals during launch as shown by a mean of 4.015, questions regarding UCU104 blended curriculum answered satisfactorily as expressed by a mean of 4.015 and having required resources for access of online content as illustrated by a mean of 3.976 greatly influence their attitude towards entrepreneurship.

In addition, the respondents indicated that entrepreneurship content as expressed by a mean of 3.911, Link between UCU104 and entrepreneurship content on Learn Wise platform as illustrated by a mean of 3.902, Interaction with content through Learn Wise platform as expressed by a mean of 3.867 and Blended UCU104 exceeding expectations as shown by a mean of 3.853 greatly influence their attitude towards entrepreneurship. The respondents also indicated that attempt on online assessment on Learn-Wise platform as shown by a mean of 3.749 and Listening to videoclips presented through Learn-Wise platform as expressed by a mean of 3.522 greatly influence their attitude towards entrepreneurship

Conclusions and recommendation

The findings of the study have revealed that being a volunteer, internship and job seeking among the youths influences their attitudes toward entrepreneurship. Also assisting parents in their work have a great influence on the youths' attitudes toward entrepreneurship. Moreover, it was clear that the fact that

entrepreneurship may be one of the youths preferred choices, as it moderately influences their entrepreneurial attitudes.

The notable trend from this study is that those who had high entrepreneurial intention had played an active role in the business or had an active relationship with the entrepreneurial reference group. This in essence is part of a wider mentoring process, within socialization. By actively experiencing and, therefore, being able to envisage better what one can be, is a powerful tool in transforming lives. Sharing in the lifestyle of the successful entrepreneur even through discussions enhances entrepreneurial intention. Most of the time the mentors may have been unaware of the process that they were playing and the untested hypothesis here is that the effect could have been more if the mentors knew a little bit more about their role. This is an implication for developing college courses.

Colleges and schools need to offer more practical evidence on entrepreneurial success and perhaps practical attachments in the offices of successful entrepreneurs. While this is not a new suggestion, a simple analysis of basic entrepreneurial courses through the textbooks used or the allocation of hours shows that there is not much importance attached to practical experience. Yet, practical experience could play a bigger role in influencing the youth, especially in the Kenyan situation where unemployment rates are high.

The results of this study provide managerial implications that may be useful to those interested in facilitating interest in entrepreneurship. University professors could, for example, include course material on the role of mentoring in encouraging interest in entrepreneurship. University programs could also incorporate mentoring opportunities to generate greater interest in business ownership among students. Business owners can provide a great influence on student interest in business ownership by becoming actively involved with students through mentoring and internship programs. Economic development and entrepreneurship center professionals may also facilitate interaction between business owners and students. Extending the knowledge of the impact of reference groups may be of interest to entrepreneurship programs in colleges and universities, especially as part of their curriculum (e.g., entrepreneurship internships).

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PERFORMANCE MANAGEMENT PRACTICES AND EMPLOYEE PERFORMANCE IN SELECTED PUBLIC SCHOOLS IN KIAMBU COUNTY, KENYA

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ABSTRACT
Inappropriate performance practices in organizations have impacted negatively on employees' performance which in turn has a negative effect on the output. The challenges that are experienced include inappropriate channel of feedback, improper competency evaluation and career planning. The purpose of this study is to assess the link between performance practices and employees performance. The study specifically focused on establishing the effect of goal setting on employee performance in selected public schools in Kiambu County, Kenya; determining the effect of continuous feedback on employee performance in selected public schools in Kiambu County, Kenya; establishing the effect of competency-based evaluation on employee performance in selected public schools in Kiambu County, Kenya; and establishing the effect of career planning on employee performance in selected public schools in Kiambu County, Kenya. The study was based on Goal Setting Theory; ***Performance Feedback;*** *Competency-Based; and Career Planning theory. The study adopted a descriptive research design on a target population of 90 public schools within Kiambu County registered by the county education statistics. From the target population consisted of 50 principals, 67 school accountants, 70 senior teachers and 47 subordinate staff of the schools. The sample size therefore was 234 public school staff. Validity and reliability tests were conducted to ensure that the questionnaires are reliable and valid. The study established that goal setting, continuous feedback, competency-based evaluation and career planning significantly and positively influenced the performance of employees among public schools in Kiambu County*.

INTRODUCTION
During the independence in 1964, the Kenyan government inherited the British system of education which was later modified by the current constitution in 2010. In Kenya teachers are employed by the Teacher's Service Commission. Regardless of the race, class or ethnic background the Public Service gives every Kenyan a clear cut right for education and equal employment opportunity (Constitution 2010). The guidelines of promotion of employees are clearly done on merit. The guidelines of promotion are derived from the annual reports provided by Public Service Commission. During the early stages the service was working efficiently and the employees were paid considerably well but as a result of political instability, the economic status also declined which has directly affected the public service by eroding its principles. There are a number of factors that were responsible for the deterioration in performance of employees in public schools. These factors include creation of amorphous structures, administrative inexperience, political interference and sectarianism (Riyanto, Ustrina, & Ali, 2017)
There are changes that are linked with the structural growth that is experienced among the public schools. These changes are designed by the Kenya Constitution of 2010, the Teacher's Service Commission guidelines and Public Service commission work ethics. These changes were as a result of ever growing economic crisis and imbalanced financial problems faced by developing countries. According to Mayne (2017), there are new and substantial reforms that must be followed for effective performance of an organization.

The current changes that are in the public schools in Kenya are as a result of structural changes that that have been laid down by the ministry of education in conjunction with the government public sector policy makers Olmedo, and Wilkins, (2017). The formulation of monetary funds in 1970s was to ensure that there is effectiveness in service delivery. Its formulation was to curb economic growth crisis that was rapidly and consistently growing each day (Hill, 2017; Basheka & Tshombe, 2017). Motivation of workers through initiative helps organization to attain set goals. This initiative may include paying the employees in

accordance with the experience acquired, setting up reward system and improvement of the work environment. According to World Bank Report (2018), incentives also involve clear terms of employment and work procedure. Public schools therefore need to offer transparency and adequate value for money to the employees and client.

The Kenyan government started the implementation of public schools reforms in the year 2010. This was aimed at maximizing the output of the public schools Bett (2016). However intervention has been formulated to increase the output even more. The intervention was to be carried out in three phases (Riddell & Niño-Zarazúa 2016). This was aimed at increasing the work management and efficiency. According to World Bank (2018) report implementation of these reforms was to take place in several phases. For example the republic of Botswana introduced public reform three decades ago. According to Nkwe (2016) the main reason was to enhance the modernization and efficiency of school performance. The reforms were formulated around new performance management. Botswana government report revealed that reforms were largely integrated on performance management system and human resource development (Clair & Mhlauli, 2018).

The current study will seek to determine performance management practices and employees performance in selected public schools in Kiambu County, Kenya. Public schools are under the Ministry of Education, Science and Technology. Public schools in Kiambu County are picked at random to represent the other public schools and their efficiency measured in terms of performance output. The ministry has the largest number of employees, which consist of institution of higher learning and schools (which the study concentrates on) Ministry of (Education and Sports Databank, 2017).

STATEMENT OF THE PROBLEM

Inappropriate performance practices have impacted negatively on the employees performance which in turn have a negative effect on the performance output. The challenges that are experienced include inappropriate channel of feedback, improper competency evaluation and career planning. Onywera, Muthuri, Hayker, Wachira, Kyallo, Mang'eni, and Mireri, (2016) conducted a study on public schools in Nairobi County and revealed that improper management system is the root cause of decimal performance. Otieno (2016) also conducted a similar study in Kisii County and revealed the factors that majorly affect performance are quality of feedback, career planning and competency evaluation. Munge, Kimani, and Ngugi, (2016) revealed that public schools had many advantages as compared with private schools. This is due to subsidized fees and availability of resources which are basically provide by the government.

Reports of Kenya national examination counsel indicate that more than 70% of students admitted to higher learning institution come from public schools. However, they are hit by mismanagement of funds, poor task execution, uncommitted teachers and higher percentage of teacher student ratio (Gachoka, 2016). It is important to note that public schools remain ineffective as they are mismanaged. This contributes heavily on the underperformance of public schools. It is due to this problem identified by other scholars that the researcher is determined to solve the performance management practices and employee's performance that is applied in public schools in Kiambu County.

GENERAL OBJECTIVE

The main objective of the study was to investigate performance management practices and employees performance in selected public schools in Kiambu County.

SPECIFIC OBJECTIVES

1. To establish the effect of goal setting on employee performance in selected public schools in Kiambu County, Kenya
2. To determine the effect of continuous feedback on employee performance in selected public schools in Kiambu County, Kenya
3. To establish the effect of competency-based evaluation on employee performance in selected public schools in Kiambu County, Kenya
4. To establish the effect of career planning on employee performance in selected public schools in Kiambu County, Kenya

RESEARCH HYPOTHESIS

H_{01}: Goal setting has no significant effect on the employee performance in selected public schools in Kiambu County, Kenya

H_{02}: Feedback has no significant effect on employee performance in selected public schools in Kiambu County, Kenya

H_{03}: Competency-based evaluation has no significant effect on employee performance in selected public schools in Kiambu County, Kenya

H_{04}: Career planning has no significant effect on employee performance in selected public schools in Kiambu County, Kenya

LITERATURE REVIEW

Goal Setting Theory

This theory was developed by Locke in 1960s. According to Locke goal setting involves procedures, duration and plans to guide an organizations set up. There are several assumptions as indicated by Landers, Bauer and Callan, (2017) study on performance management and employees relationship. The study revealed that there is a direct link between goal specification, measurable goal and the organization performance. Similarly, he identified that emphasis should be made on goal setting and employees encouragement to increase their performance. Each individual should be given the right to do their work independently ,free interaction to take action on the outcome (Thompson 2017). According to Brüggen, Feichter and Williamson, (2017) freedom gives employees greater opportunity to involve themselves in the organization growth and issues that affect their work environment. The main short coming of sharing responsibility is that some of them go unfulfilled. Therefore, the organization must work in line with employees to make sure that the responsibility is fulfilled. To meet organization vision, it must be accountable for its action and finances. The employees are a source of growth for the organization and must be viewed as such rather than viewing them as an organizational cost reduction. Each and every employee must be ready to individually or collectively work as a team to contribute to the growth of the organization (Bryson&White, 2017). This theory is therefore relevant to support performance management practices and employees performance in the study.

Performance Feedback Theory

This theory was developed by Ashford (1986); he argued that knowledge has a direct link to the behavior of organization performance. Feedback is the center of measurement of organization performance. The analysis of organization behavior helps the employees to evaluate and adjust performance to achieve the organization goals *(*Sharma, Kong & Kingshott, 2016). An organization which seeks to provide and listen to the feedback is stronger and can cope with a harsh environment to reap from it maximally and the employee's performance increases as a result of committed management which motivates them (Cappelli & Tavis, 2016*)*.

The perception that the employees have on feedback influence their performance. The output of the employees is influenced by several perceptions. The more the employees perceive that they are getting relevant and positive feedback from the employers, the more they perceive they are secure they will have a good opportunity to improve their skills. The employees will also be eager to learn new skills and technology which positively influence the organizational internal growth (Patiar& Wang, 2016).

Career Development Theory

This theory was developed by Valentich and Gripton (1978). They argued that it consists of a well stipulated design and patterns to control the employees careers development. Similarly according to Allmendinge (2017), career planning entails a proper procedure for organizational self-assessment and formulation of goals to achieve the laid down organizational objective. Employees and employers must be connected to each other to ensure they identify the correct goals for the firm and find ways of fulfilling the identified goals. career planning according to Leigh and Blakely, (2016) is the process of goal identification and formulation of the path to follow to ensure every goal is fulfilled. Similarly its main role is to effectively assist the employees of an organization to archive a specific goal. Mone and London (2018) revealed that assessing employees and correct career planning effectively motivate the employee's ability to perform their work. Career planning is a day to day activity on how individual can deliver on their mandate at their work station (Kerzner & Kerzner, (2017). It also influences employee's motivation to

perform set tasks. The other function of career planning is for assessment of the performance output ratio which always targets the employee's career development (Kiruja & Mukuru 2018).

Goal Setting on Employee Performance

Goal setting allows the employees a right to contribute to the firm's decision. Therefore, staff contributes to the KPIs (Mone & London, 2018). According to Landers, Bauer and Callan (2017), emphasis should be made on goal setting and employees' encouragement to increase their performance. Each individual should be given the right to do their work independently for free interaction to take action on the outcome. Audia and Tams, (2017) indicated that when employees are given the mandate to engage themselves in the decision making, they have a higher degree of exceeding their performance goals. This finding is supported by Cappelli and Tavis, (2016) who indicated that for firms to grow, there must me individual contribution towards the objective of the study. Decisions made by the management affect the output of the organization and each and every member the company (Clair, & Milliman, 2017).

Roderick (2016) noted that most of the public-school servants are employed with an aim that they achieve a given set of objectives and vision. He concluded his argument by clearly stating that this assumption must not be applied on any public offices. The public firms should therefor hold the public interest at hand (Rosenbloom, 2016).

Employee's participation in decision making is inappropriate whenever there is a complexity in the choices made which can be resolved by definition of tasks to each staff (McIlwraith2016). Similarly, Ezennaya (2017) noted that the process of definition of tasks for each staff can be done through giving the subordinate control and freedom to make decision that bridge the gap of communication that exists between the staff and the management. Employee's involvement in the decision making is their opportunity to also contribute to the strategic planning activities (Payne & Calton, 2017). The organizations continuity is directly associated with formulation of well thought directions for future activities. Involvement of employees in such directives provides employees involvement on goal achievement and improves their commitment (Shafii, Rafiei, Abooee, Bahrami, Nouhi, Lotfi & Khanjankhani, 2016).

Gessler (2017) revealed that public schools goals are formulated by the government and passed to the relevant authority to implement them. In other words it's on the respective public organization to identify the correct strategic development mechanism to follow for the achievement of company vision. But the most effective approach is to bring in employees to participate in strategic planning (Bryson, 2018). This is done for motivation of staff because they are directly involved in implementing their own decision (Bryson, 2018).

The employee's diction incorporation also facilitates decentralization of various decisions that require swift action (Sahito, Khawaja, Panhwar, Siddiqui, & Saeed, 2016). Similarly Gan, Sellar&Lingard, (2016) established that the process of decentralization relieves the management of some work load. Doss (2016) revealed that centralization of decision makes certain important employees to be ignored. According to Grissom, Viano and Selin (2016), the frontline employees are more important to an organization because they are directly in contact with the customers. They also have knowledge of the needs that market requires and the gaps the product does not satisfy. Giving employees a right to make decision improves the organization performance and level at which objectives are achieved (Mayne, 2017). This argument is in line with Lee and Steers (2017) who indicated that employee's involvement on the organization decision flow improve the communication flow and improve on the task performance. By so doing increases objective achievement

Continuous Feedback on Employee Performance

Feedback facilitates employees effectiveness by changing their behavior positively towards achievement of laid down objectives. Therefore, the way each employee receives feedback affect the determination of the firm's success (Gong, Wang, Huang and Cheung, 2017). One on one confrontation of one's mistake is painful. Feedback therefore shifts the employee's personal belief to make him realize the fault and mistake rendered for correction (Mone & London, 2018). If the available condition is acceptable there is a higher degree changes will occur in the organization. According to Bradler, Dur, Neckermann and Non (2016), confidentiality of the feedback is a major contributor to the firm's growth to protect the employees from mental disagreement.

In a favorable environment the discrepancies can be resolved through discussions to reduce its effect (Harper, Harper and Snowden, 2017). Mone and London (2018) reveled that constant and effective communication between the management and the staff is more effective in the process of performance appraisal. Supervisors and the subordinate communication should be performed frequently and less formal for them to achieve regular updates on good and bad outcomes that affect the success of the organization (Harper, Harper& Snowden 2017). For feedback to be effective it must be from a credible source (Brehaut, Colquhoun, Eva, Carroll, Sales, Michie, & Grimshaw, 2016). Roberts (2003) also concluded that feedback should be frequently administered and any wrong doing to be pointed out and corrected. A timely and precise feedback contributes positively to the success of the firm and behavior changes (Landers, et al 2017). Cappelli and Tavis (2016) noted that adequate time should be given for counseling to improve on supervisory support and satisfaction.

Clair and Milliman (2017) further explained that to improve on the work station satisfactions and commitment the firm must have compatible feedback procedure. Furthermore, it contributes more strongly when goal-setting and performance feedback is combined together. Similarly, Roderick (2016) revealed that objective and work unity is given a broader background when goal-setting is appraised. McIlwraith (2016) also talked about goal-setting. She revealed that it positively has an effect on the firms' growth. In her recommendation she pointed out that a proper evaluation interview provide procedures of solving problems and increases employee's interventions.

Competency-Based Evaluation on Employee Performance

Task completion should not be an indicator of effective achievement of a firm's objective (Rekman, Gofton, Dudek, & Hamstra, 2016). Van and Kirschner (2017) on the other hand revealed that transactional and transformational aspects of a firm acknowledged on competency-based view. Therefore, several scholars have explained the core principle of competency-based view which defined a well stipulated strategic advantage of the firm (Marchington, 2016).

The style of the management is a key ingredient in increasing the employee's performance according to Sanghi, (2016). Similarly, Gervais (2016) supported the Sanghi (2016) argument by revealing that employee's contribution is a key element in increasing the performance and its measurement. This finding is also in line with Marchington (2016) who identified that staff' behavior must be included in designing the system of measuring performance. Cate, Hart, Ankel, Busari, Englander, Glasgow and Touchie, (2016) revealed that whenever there is proper human resource management then there is success in performance management tool.

Sanghi (2016) on the competence of management revealed that the management tries to set desirable measures to control performance appraisal. According to Cate et al. (2016), the study on HR management concluded that performance of a firm increases when the employees are rewarded and trained according to the job requirement.

The study conducted by Gervais, (2016) to determine the effect of competency on performance revealed that competency-based systems has a positive impact on the organization performance. Nasriyah, Arham, and Aini, (2016) conducted the study on profile matching and competency based human resources management approaches for employee placement decision support system. The study revealed that to archive sustainable results it is important to incorporate the competency-based systems which is in line with the organization objectives.

Career Planning on Employee Performance

Career planning involves roles that human resources play in organization management. The employees are always concerned with how their career could improve each and every day (Mon&London, 2018). Allmendinge (2017) continued to identify that the employees abilities should be maintained by relevant procedural guidelines. This can be done through coaching, mentoring and counseling. By so doing the management is able to identify the training needs that the staff needs to increase their productivity and the work station that employees need to be situated. Similarly its main role is to effectively assist the employees of an organization to archive a specific goal. Leigh and Blakely, (2016) revealed that assessing employees and correct career planning effectively motivate the employee's ability to perform their work. Career planning is a day to day activity on how individual can deliver on their mandate at their work station (Kerzner&Kerzner, 2017). It also influences employee's motivation to perform set tasks. The other

function of career planning is for assessment of the performance output ratio which always targets the employee's career development (Kiruja&Mukuru 2018).

According to Hassan (2016) career planning is effective when the organization fully utilizes the skills and knowledge of their employees and they are motivated to achieve maximum performance and be satisfied with their work. This helps the organization to achieve its objectives and their employees are motivated to achieve maximum performance. Therefore she recommended that it is important to introduce guiding and counseling to employees to increase their efficiency (Friedman, 2017). According to Wilensky (2017), the most pronounced and effective way to motivate employees is by conducting seminars, workshops and developing career centers. This finding is in line with Chandani, Mehta, Mall, and Khokhar (2016) who established that counseling helps in identification of career paths. He also revealed that the paths that are followed should be progressive, flexible and structured in a way that they are in line with the organization mission.

METHODOLOGY

Descriptive research design is employed because it creates a collect of events and problems that are association with the study and enable the study to generalize findings on the study. This design also enhances the analysis process and comparison of the variables in question.

The study employed census survey to collect data since the schools are few. The study therefore targeted 90 public schools with Kiambu County registered by the county education statistics (2018).

Purposive sampling was employed on the 90 targeted public-school staff. From the target population the accessible population consisted of 50 principals, 67 school accountant, 70 senior teachers and 47 subordinate staff of the schools. The sample size therefore was 234 public school staff.

This study used primary data collected by structured questionnaire to determine the research objectives. The researcher dropped questionnaires to the relevant respondent. This data was therefore picked later.

Findings

Data analysis of the findings was done through descriptive and inferential statistics. The questionnaire was grouped and coded on SPSS software. The grouping was done to show information's on the issues under investigation to make sure they are clearly understood. Both qualitative and quantitative techniques were used to analyze the data. Descriptive statistics were used to analyze the quantitative data. This data was presented in terms of tables, percentages, pie charts, frequencies, measures of central tendency and measures of dispersion. Inferential statistics was analyzed using ANOVA and regressions at 5% significance level. Multiple linear regressions were used to test for the relationship that variables have on each other. The following analytical model was used.

$$\mathbf{Y= \beta_0+ \beta_1X_1+\beta_2X_2+ \beta_3X_3+ \beta_4X_4+\varepsilon}$$

Where: $\mathbf{Y}$ = Performance; $\boldsymbol{\beta_0}$ = Constant; $\boldsymbol{\beta_1}$, $\boldsymbol{\beta_2}$, $\boldsymbol{\beta_3}$ and $\boldsymbol{\beta_4}$ = the slopes of the regression equation; $\mathbf{X_1}$ = Goal setting; $\mathbf{X_2}$ = Continuous Feedback; $\mathbf{X_3}$ = Competency based Evaluation; $\mathbf{X_4}$ = Career Planning; $\boldsymbol{\varepsilon}$ = Error term

The main objective of the study was to establish the effect of performance management practices on the performance of employees among public schools in Kiambu County. The study sought to establish the effect of goal setting, continuous feedback, competency-based evaluation and career planning on the performance of employees among the schools. Both descriptive and inferential statistics were used to analyze and present data.

Goal Setting and Employee Performance

The study established that goal setting positively and significantly influenced employee performance among public schools in Kiambu County. The respondents were neutral on whether employees in their institutions were given the right to do their work independently, were allowed to contribute to decision making, their schools had clearly defined tasks for each member and whether their policies were in line with government policies on performance management respectively indicating that a significant number were for and against the statements. The study further established that the respondents disagreed that their policies were formulated torwards public interest and that their institutions give all the stakeholders opportunity to contribute to future directives.

Continuous Feedback and Employee Performance

The study found out that continuous feedback significantly influenced performance of employees among public schools in Kiambu County. The respondents significantly disagreed that their institutions have laid down feedback procedures, the available policy in their schools is acceptable to information flow, their institutions solve discrepancies in an open manner, there is constant communication between management and staff in their organization, their schools have a timely and precise feedback mechanisms and that their institutions have combined both goal setting and performance feedback as performance management mechanisms. The respondents on the other hand indicated agreed that the information received among the schools is confidential and is used only for management purposes in our institution, management formulates policy which is easily understood by each employee and regular updates on the institution are always available for every employee.

Competency-based Evaluation and Employee Performance

The study pointed out that competency-based evaluation positively influenced employee performance among public schools in Kiambu County. The respondents were neutral on whether their schools acknowledge competence-based practices or evaluate competency by task complication. The respondents disagreed that there is a well stipulated system for measuring performance, the schools have adequate human resource management tool, there is desirable measure for performance appraisal and that competency-based systems in the institutions are in line with organizational objectives. The respondents however strongly disagreed that the schools conduct training according to job requirement and that the schools have a well laid down reward system.

Career Planning and Employee Performance

The study established that career planning significantly influenced performance of employees among public schools in Kiambu County. The study respondents significantly disagreed that the institutions have development plans for target career improvement, the available policy in the schools is acceptable to information flow, the schools carry out mentoring and coaching for their employees, the employees' ability, strength and weakness are supported in the schools, the institutions have long term employees' interest, the institutions mold employees' personal values to be in line with institutional objective, the employees' task in the schools is in line with the employees' talent, career planning is used to assess performance output in the institutions and that counseling is done to identify career path among the institutions.

Inferential Statistics

The study used inferential statistics to establish the correlation between the independent and dependent variables of the study. The findings of Model Summary, ANOVA and Coefficient of Regression were as indicated in the following sections. The findings of coefficient of correlation and coefficient of determination are as shown in Table 1.

Table 1: Model summary

Model	R	R square	Adjusted r square	Std. Error of the estimate
1	.859[a]	.766	.811	1.23641

a. Predictors: (constant), Goal setting, continuous feedback, competency-based evaluation, career planning

The study shows that coefficient of correlation R of 0.859 an indication of strong of correlation between the variables. Coefficient of adjusted R^2 was 0.811 which translates to 81.1%. This show that changes in dependent variable can significantly and sufficiently be explained by independent variables (Goal setting, continuous feedback, competency-based evaluation and career planning). The residual of 18.9% can be explained by other variables not incorporated in the current study.

An ANOVA was conducted at 95% level of significance. The findings of $F_{Calculated}$ and $F_{Critical}$ are as shown in Table 2.

Table 2: ANOVA

Model	Sum of squares	Df	Mean square	F	Sig.
Regression	396.260	9	44.029	18.315	.000[b]
Residual	411.131	171	2.404		
Total	807.391	180			

a. Dependent variable: Employee performance

b. Predictors: (constant), Goal setting, continuous feedback, competency-based evaluation, and career planning)

It was established that the study had $F_{Calculated}$ of 18.315 and $F_{Critical}$ was 3.471, this show that of $F_{Calculated} > F_{Critical}$ an indication that the overall regression model was significant for the study. The p value was 0.00<0.05 an indication that at least one independent variable significantly influenced the performance of employees among the public schools in Kiambu County, Kenya.

The study used a regression coefficient to establish the effect of individual variables of performance management practices on performance of employees among public schools in Kiambu County. The findings are indicated in Table 3.

Table 3: Regression Coefficient

	Unstandardized coefficients		Standardized coefficients		
Model	**B**	**Std. Error**	**Beta**	**T**	**Sig.**
(constant)	5.618	1.311		2.120	.000
Goal Setting	0.655	.076	.515	2.652	.000
Continuous feedback	0.698	.067	.165	3.833	.000
Competency-based evaluation	0.569	.087	.492	2.556	.000
Career planning	0.557	.079	.438	3.796	.000

a. Dependent variable: Employee Performance

$$\mathbf{Y = 5.618 + 0.655X_1 + 0.698X_2 + 0.569X_3 + 0.557X_4}$$

Where: Y = Performance of employees among public schools in Kiambu County; X_1 = Goal setting; X_2 = Continuous feedback; X_3 = Competency-based evaluation; X_4 = Career planning

Table 3 indicates that all variables held constant, employee performance would be at 5.618. A unit increase in goal setting while holding other variables constant, employee performance would be at 0.655. A unit increase in continuous feedback while holding other factors constant, employee performance would be at 0.698. A unit increase in competency-based evaluation while holding other factors constant, employee performance would be at 0.569. A unit increase in career planning while holding other factors constant, employee performance would be at 0.557.

The p values of all the independent variables which include Goal setting, continuous feedback, competency-based evaluation, and career planning were 0.000<0.05 an indication that the variables significantly influenced employee performance among public schools in Kiambu County. This is supported Gessler (2017) who in his study on performance management practices and employee performance concluded that performance management practices are critical for optimizing employee performance.

CONCLUSIONS

The study concluded that goal setting, continuous feedback, competency-based evaluation and career planning significantly and positively influenced the performance of employees among public schools in Kiambu County. The study concluded that the schools were keen on setting goals for employees but were not consultative and sufficiently compliant. The study further concludes that feedback was significantly

embraced among the schools however it was not timely, precise, procedural and open. Additionally, competency-based evaluation was employed to a little extent as a performance management practice among public schools in Kiambu County but it had a positive effect on the performance of employees. It was also concluded that career planning was not sufficiently employed among public schools in Kiambu County but it had a positive relationship with performance.

RECOMMENDATIONS

The study recommends that there is need to for the schools to set realistic goals for employees, be consultative and compliant with the laid down government policies on employee performance.

The study recommends continuous, timely, precise, procedural and open feedback to promote employee performance and improvement.

It is further recommended that the schools need to embrace career planning, development and mobility among the members of staff to enhance their capacity to perform.

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DETERMINANTS OF INTERNATIONAL TOURISM DEMAND FOR KENYA

By Lucy Wanjiru Kamau Ngugi

ABSTRACT

Tourism sector in Kenya plays an important role in the national economy and has been identified as one of the six priority sectors in vision 2030 meant to drive the economy to attain 10 percent economic growth. International tourism demand for Kenya lags behind other African countries like Egypt, Morocco, Tunisia and South Africa. Furthermore, the number of tourists' arrivals to Kenya from different world regions does not increase constantly but have experienced cyclical fluctuations over the years. Moreover, the Kenya tourism product offered is becoming increasingly non-competitive. There is need therefore, for Kenya to offer demand driven tourism products that ensure visitors come to Kenya and stays longer. GOK, tourism planners and marketers therefore need to clearly understand which important factors influence international tourists' decision to visit Kenya as their destination. Motivated by this need, the study sought to investigate the determinants of international tourism demand for Kenya. Specifically the study established the effect of tourist socio-demographic characteristics, political factors and destination characteristics on international tourism demand for Kenya. The study used descriptive research design. Data were collected from individual tourists leaving the country through Jomo Kenyatta International Airport using questionnaires. The study used a count data regression model to determine the effect of socio-demographic characteristics, political factors and destination characteristics on international tourism demand. The study results indicated that the tourist's socio-demographic characteristics such as annual household income, age and occupational status were found to significantly influence international tourism demand. The political factors composite index and destination characteristics composite index were also important determinants of international tourism demand. Taking into consideration of all these factors affecting tourism demand, the government and all the tourism stakeholders should work towards making Kenya tourism product competitive by ensuring that the prices remain competitive, diversifying tourism by creating tourism products which meets the needs of specific groups. The existing tourism products should also be improved in order to remain competitive, the tourism infrastructure and services should be well established and of good quality. Therefore, all the tourism stakeholders should work towards making Kenya a destination of choice.

Key words: International tourism demand, socio-demographic characteristics, political factors, destination characteristics

1. INTRODUCTION

The World Tourism Organization (WTO) has recognized tourism as one of the largest and fastest growing industries in the world (WTO, 2012). According to World travel and tourism council (WTTC, 2012) travel and tourism in 2011 globally employed about 8.7 percent of total employment, generated 9.1percent of total gross domestic product and visitor exports generated US$1,170.6 billion (5.3 percent of total exports). In Africa tourism has been identified as a key sector for the achievement of shared economic growth and poverty alleviation (Mitchell & Ashley, 2006; World Bank, 2006). International tourism plays an important role of promoting world peace, both by providing an incentive for peace keeping and by building a bridge between cultures (Eilat & Einav, 2004). Given the importance and magnitude of tourism sector in most developed and developing economies, knowledge concerning the nature of the demand upon which it is based is of both theoretical and practical relevance.

According to UNWTO Tourism Towards 2030, the number of international tourist arrivals worldwide is expected to reach 1.8 billion by the year 2030 (WTO, 2012). Table 1.1 shows the projected international tourist arrivals by region in millions.

Table 1.1: International Tourist Arrivals by Region of Destination

	International tourist arrivals received					Average annual growth (percent)	Share (percent)	
	Actual data			Projections				
	1980	1995	2010	2020	2030	2010-2030	2010	2030
Total	277	528	940	1360	1809	3.3	100	100
Africa	7.2	18.9	50.3	85	134	5.0	5.3	7.4
Americas	62.3	109.0	149.7	199	248	2.6	15.9	13.7
Asia/Pacific	22.8	82.0	204.0	355	535	4.9	21.7	29.6
Europe	177.3	304.1	475.3	620	744	2.3	50.6	41.1
Middle East	7.1	13.7	60.9	101	149	4.6	6.5	8.2

Source: World Tourism Organisation (2012)

From table 1.1, the number of international tourist arrivals worldwide is expected to increase by an average 3.3 percent a year over the period 2010 to 2030. Asia and the Pacific arrivals are forecast to increase by

331 million to reach 535 million in 2030 (4.9 percent growth per year). The Middle East and Africa are also expected to more than double their arrivals in this period, from 61 million to 149 million and from 50 million to 134 million respectively. Arrivals in Europe will grow from 475 million to 744 million and the Americas will grow from 150 million to 248 million. The global market shares of Asia and the Pacific will increase to 30 percent in 2030 up from 22 percent in 2010, the Middle East to 8 percent from 6 percent and Africa to 7 percent from 5 percent. Global market shares for Europe will decline to 41 percent from 51 percent while for the Americas will decline to 14 percent from 16 percent.

Though world tourism has experienced continued expansion and diversification over the past six decades, Africa's tourism market share remains small compared to other world regions. This is despite the fact that Africa has a lot to offer that cannot be found elsewhere as it holds a rich history as the continent of the explorers and as a place for adventures. In Africa there are unique places, some of the greatest views in the world and natural attractions that few other regions can match. This is true not only for the natural resources, but also for its culture, traditions and customs (Christie & Crompton, 2001).

International Tourism Demand

Pearce (1995) referred to tourism demand as the relationship between individual's motivation to travel and their ability to do so. Song and Witt (2000) considered tourism demand as the amount of a set of tourist products that the consumers are willing to acquire during a specific period of time and under certain conditions which are controlled by the explanatory factors used in the demand equation. The total demand for tourism is considered to consist of three basic components which include actual demand, suppressed demand and no demand (Cooper, Fletcher, Fyall, Gilbert & Wanhill, 2008; Page & Connell, 2006).

Page and Connell (2006) noted that actual demand depended on the specific features and characteristics of those product and service alternatives that the customer evaluates to make the final purchase decision. This includes choosing the destination, the time and duration of travel, the activities undertaken at the destination, and the amount of money spent for the holiday. The study focused on actual demand.

Tourism demand can be analyzed for groups of countries, individual countries, regions or local areas. Demand can also be disaggregated by categories as types of visits and types of tourists. Tourism visits can

take place for various reasons including holidays, business trips, visits to friends and relatives (VFR), conferences, and religious purposes among others (WTO, 2010). International tourism demand is usually measured in terms of the number of tourist visits from an origin country to a destination country, in terms of tourist nights spent in the destination country or in terms of tourist expenditures by visitors from an origin country in the destination country. The number of tourist arrivals is most frequently used as the measure of demand, followed by tourist expenditure or tourist receipts (Crouch, 1994, 1995; Lim, 1999 Song & Li 2008; Witt & Witt, 1995).

Determinants of International Tourism Demand

To determine the explanatory variables influencing tourism demand, the empirical models borrow heavily from the consumer theory (Song & Witt, 2008). Cooper et al., (2008) noted that at the individual level the factors that influence demand for tourism are closely linked to models of consumer behaviour and that no two individuals are alike and differences in attitudes, perceptions, images and motivation have an important influence on travel decisions. Goeldner and Ritchie (2003) stated that the demand for travel to a particular destination is a function of the person's propensity to travel and the reciprocal of the resistance of the link between origin and destination areas. A person's propensity to travel is determined largely by his/her psychographic profile, socio economic status and marketing effectiveness. Resistance relates to the relative attractiveness of various destinations and depends on the economic distance, cultural distance, cost of tourist services, quality of service and seasonality.

Page and Connell (2006) considered a range of exogenous factors to influence tourism demand in both the tourist generating and destination areas. The factors influencing demand in the tourist generating area were grouped as economic determinants, social determinants and political determinants. Those influencing demand in the tourist destination area were grouped as economic factors, supply-related factors and political factors. Other factors like promotional efforts of the destination; health, safety and security issues; time and cost considerations and seasonal variations were considered to also influence demand.

International Tourism in Kenya

Kenya offers foreign visitors a variety of travel experience as it is bestowed with diverse tourist attractions. Tourist attractions comprise tropical beaches, abundant wildlife in their natural habitats, vibrant bird and wildlife migration patterns, world heritage sites, and various cultural attractions from the various tribes. The three major tourism product lines in Kenya are safari tourism, coastal tourism and business/conference travel. Kenya is also strategically located, making it the region's main commercial centre. Nairobi, Kenya's capital city with good hotels and conference facilities is well positioned to attract the business markets such as meetings, incentives, conferences and exhibitions. Nairobi is the headquarters for many international organizations such as United Nations and its governing bodies. A large proportion of Kenya's tourism centres on safaris and tours of its great National Parks and Game Reserves. Thus, Kenya has great tourism potential.

Tourism in Kenya has for many years played a vital role in the economy of the country. In 2011, travel and tourism in Kenya contributed to 13.7 percent of the Gross Domestic Product (GDP) and 11.9 percent of the total employment (WTTC, 2012). Furthermore, tourism has led to growth of industries such as hospitality, transport, accommodation, entertainment, travel agencies and related services, administration, finance and health, among others, that are directly linked to it. Through its multiplier effect, tourism has stimulated growth in several other industries like construction, agriculture, hand crafts, manufacturing and processing. Tourism development has led to economic growth of the country through creation of indirect and direct job opportunities and park entry fees. The tourism sector has thus been identified as one of the six priority sectors in vision 2030 meant to drive the economy to attain 10 percent economic growth (GOK, 2007).

The Ministry of Tourism and Wildlife conducts the overall management and policy formulation for the tourism sector and works together with other four government organizations, each mandated to manage a specific aspect of the tourism sector. These are Kenya Tourism Development Corporation (KTDC), Kenya Utalii College, Kenya Wildlife Service (KWS) and Kenya Tourism Board (KTB. There are also key associations which includes Kenya Association of Tour Operators (KATO), Kenya Association of Travel Agents (KATA), Eco-Tourism Society of Kenya (ESOK) and Kenya Association of Hotelkeepers and Caterers (KAHC).

Kenya receives tourism from various source markets and the Ministry of Tourism works closely with each individual source market to develop a deep understanding of the consumers of Kenya tourism. KTB (2010) divided the Kenya tourism source markets into six regions namely Europe, Americas, Asia, Middle East, Oceania and Africa. Figure 1.2 shows the average tourist arrivals to Kenya by the various regions calculated for the years 2010 to 2012.

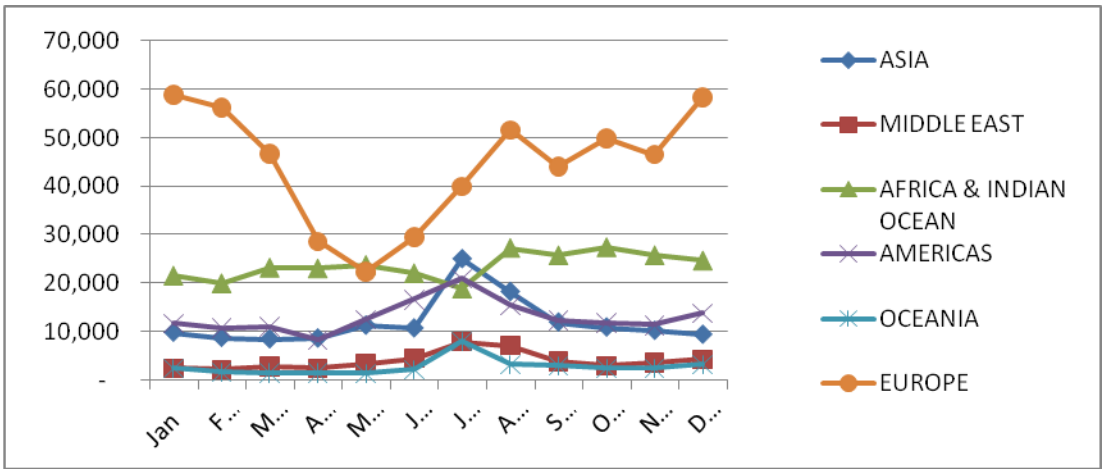

Figure 1.2 : Average Tourists Arrivals by Region

Source: Kenya Tourism Board (2010, 2011, 2012)

According to Figure 1.2, Europe contributes the largest number of tourists visiting Kenya and is the key tourist source market. The number of tourist arriving from Europe is at its lowest during the months of April to June and then increases though with some small fluctuations up to January when number of tourists is the highest. Peak demand for Asia, Middle East, Americas and Oceania occurs during the month of July. Tourist arrivals from Africa are at the lowest in the month of July. Kenyan tourism demand from the Middle East and Oceania is the least and tourism demand from these two regions does not vary much throughout the year.

The total tourist air arrivals to Kenya by purpose of visit in 2009 were grouped into nine categories namely business, conference, holiday, transit, study, sport, visiting friends and relatives and purpose not stated (KTB, 2009). The number of tourists visiting Kenya by air for different purposes from various regions is as shown in Figure 1.3.

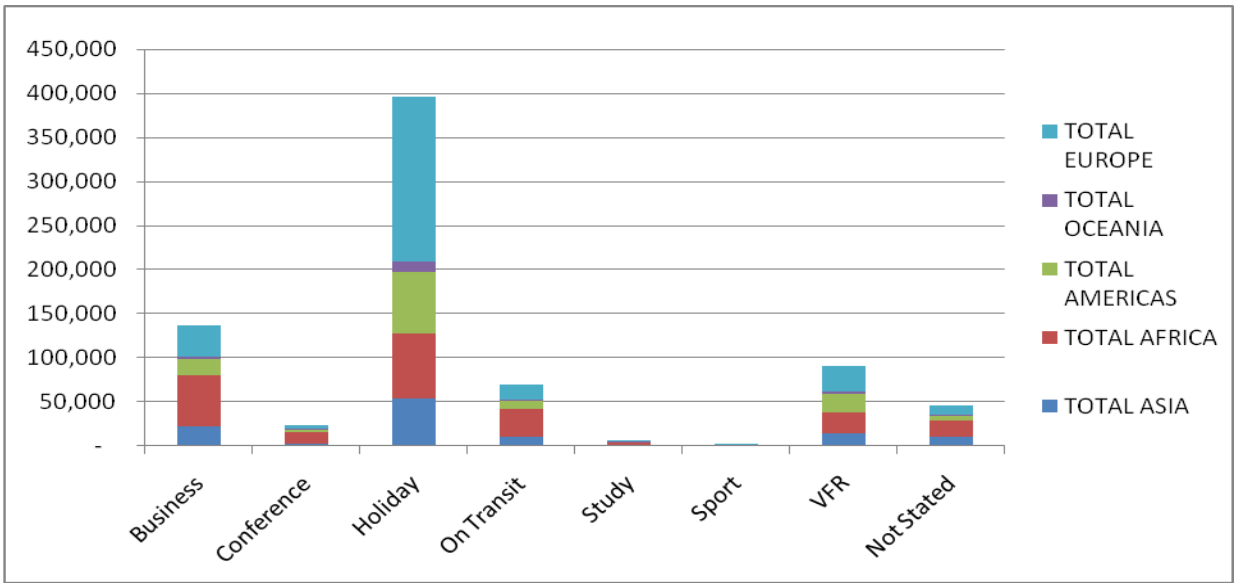

Figure 1.3: Tourist Air Arrivals by Purpose of Visit

Source: Kenya Tourism Board (2009)

Figure 1.3 shows that most of the tourists who came to Kenya by air were on a holiday, followed by those who came for business purposes and then by those visiting friends and relatives. Majority of the holiday tourists were from Europe while most of those who came for business purposes were from Africa. Those who came for study and sports purposes were very few. This shows that there is need to diversify Kenya tourism in order to capture a greater tourism market.

Competition for tourist market shares globally and in Africa has intensified as many countries have now realized the importance of tourism and have invested heavily in it (WTTC, 2012). Kenya aims to be one of the popular tourists' destinations in the world as stipulated in its vision 2030 (GOK, 2007). Currently, Kenya ranks 10th as a tourist destination in Africa (WTO, 2012) with Egypt, Morocco and South Africa receiving the highest number of tourists in that order (Appendix 4). To be ranked among the top ten, Kenya must expand her global and African market share by offering new products, expanding tourist expenditure per capita and by improving her international marketing strategies.

In recent years Botswana, South Africa, Tanzania, Zambia, and Namibia, among others, have increased competitive pressure on Kenya in the area of safari and wildlife viewing. For beach tourism, Kenya,

competes with countries such as Zanzibar, Mozambique, Maldives, Mauritius, and Seychelles who have focused on developing mid-to high-end products that combine access to exclusive beaches and recreational experiences, such as diving and sport fishing, which increase the tourist‘s perception of value for money (World Bank, 2010).

Previously, Kenyan tourism has been based on beach and wildlife attractions. Recently, the government has started exploring other forms of tourism like business, culture and sports (GOK, 2011). There is need for Kenya to offer demand driven tourism products that ensure visitors come to Kenya and stays longer. GOK, tourism planners and marketers need to clearly understand which important factors influence international tourists' decision to visit Kenya as their destination. Song and Li (2008) noted that identifying the determinants of tourism demand and estimating magnitudes of their influence on tourism demand are of great interest to decision makers in tourist destinations. An understanding of tourism demand is a starting point for the analysis of why tourism develops, who patronizes specific destinations and what appeals to the client market (Hall & Page, 2002). As Kenya gears up its efforts to make itself a tourism premier destination in Africa, it becomes more important to understand the factors that influence international tourism demand for Kenya among others things.

Objectives of the Study

The purpose of the study was to investigate the determinants of international tourism demand for Kenya. Specifically the study sought to:

i. Establish the effect of tourist socio-demographic characteristics on international tourism demand for Kenya.
ii. Determine the effect of political factors on international tourism demand for Kenya.
iii. Establish the effect of destination characteristics on international tourism demand for Kenya.

Theoretical Review

Fundamentals of Consumer Behaviour and Tourism

The study of consumer behaviour focuses on how individuals make decisions to spend their available resources on consumption-related items. An understanding of consumer decision processes is essential in order are to understand and predict demand for tourism. Hall and Page (cited in Page & Connell, 2006, p.

63) asserts that the factors which shape the tourist decision-making process to select and participate in specific forms of tourism lies within the field of consumer behaviour and motivation. Further, Cooper et al. (2008) explains that the tourism consumer decision process can be viewed as a system made up of four basic elements namely energisers of demand, effectors of demand, roles and decision-making process and determinants of demand. The energisers of demand include forces such as motivation which lead the tourist to carry out action. Even though motivation may exist, demand is filtered through economic, sociological or other psychological factors. Moreover, the individual's decisions are affected by the image of a destination and information collected. The family members involved in the different stages of the purchase process also play an important role.

Theories of Motivation

Page and Connell (2006) stated that motivation acts as trigger which stimulates the chain of events in the tourism process. Understanding motivation enhances understanding of tourist behaviour thus helping understand why people travel.

The Maslow's hierarchy of needs theory developed in 1943 is the best known theory of motivation. Maslow (1943) grouped individual needs hierarchically into five categories as physiological needs, safety needs, social needs, esteem needs and self-actualization needs. According to Maslow theory a person has different needs which he wants to satisfy and these needs motivate person to act. As each of these needs is significantly satisfied, it drives and forces the next need in the next level to emerge.

Maslow's hierarchy of needs provides insight into ways in which a trip may satisfy disparate needs (Goeldner & Ritchie, 2003). According to Page and Connell (2006), Maslow's hierarchy of needs can be used to explain the source of the tourist's initial needs and wants, where the satisfaction of these needs may lead to purchase of a holiday. Horner and Swarbrooke (2001) noted that when the tourist needs are satisfied it may lead to positive word of mouth recommendation of a destination tourism products to friends and families, which in turn brings in new tourists.

Dann (1977) described motivation as push and pull factors. The push factors produces a desire to travel in order to satisfy a need such as a value or belief while the pull factors such as a destination price influence a destination choice. A destination's attributes can impact on tourists' decision on destination selection. Dann (1981) identified seven elements within the overall approach to motivation. The elements identified as noted by Page and Connell (2006, p. 68) include travel as a response to what is lacking yet desired implying that tourists are motivated by the desire to explore new and different experiences from those experienced before; destination pull in response to motivational push; motivation as a fantasy implying, a tourist may be motivated to travel to engage in behaviour not acceptable at home; motivation as classified by purpose of visit such as visiting friends and relatives, leisure, study or health; motivational typologies implying the type of tourist may influence the motivation to travel ; motivation and tourist experiences implying tourism often involves travel to places not visited previously and finally motivation as auto-definition and meaning implying the ways in which tourists define their situations and respond to them may provide a better understanding of tourist motivation.

Plog (1974) developed a theory based on the United States (US) population which he used to classify the US population into a series of interrelated psychographic types. Plog then identified two opposite types of tourist, that is, allocentric type and psychocentric type each at the end of a continuum. According to Plog, majority of the people fall in between these two extreme categories and are referred to as midcentrics. Page and Connell (2006) referred to the allocentrics as the type of individuals who enjoy travelling independently, are adventurous and who rarely return to the same place twice, hence they are labelled as wanderers by market researchers. Copper et al., (2008) noted that the psychocentrics are conservative in their travel patterns, prefer safe destinations and often take many return trips. They are referred to as repeaters by tourist marketers.

Utility Maximization Theory

The choice of where to allocate scarce resources among competing choices depends upon an individual's underlying utility function. Utility refers to the perceived value of a good and the central assumption on which the theory of consumer behaviour and demand is built is that an individual makes choices so as to

maximize his utility. The consumer attempts to allocate his limited money income among available goods and services so as to maximize his satisfaction. In order to attain this objective, the consumer must be able to compare the utility of the various 'baskets of goods' which he can buy with his income (Koutsoyiannis, 1991; Varian, 1990)

The utility functions take different forms depending on whether the goods are perfect substitutes, perfect complements or imperfect substitutes. The fact that one good is substitutable for another has immediate economic consequences in that as one good can be substituted for another, the demands for the two kinds of good are bound together by the fact that customers can trade off one good for the other if it becomes advantageous to do so. An increase in price (ceteris paribus) will result in an increase in demand for its substitute goods. A complementary good is a good with a negative cross elasticity of demand, in contrast to a substitute good. This means a good's demand is increased when the price of another good is decreased. According to consumer maximization theory, individuals will choose destinations based on optimization of utility. Faced with income and budgetary limitations, consumers choose between competing destinations (Smeral, 1988).

Conceptual Framework

The study conceptual framework was developed by the researcher using variables derived from the theoretical and empirical literature on tourism demand reviewed. The main (dependent) variable for the study was international tourism demand for Kenya. The factors that were considered in the study were grouped into socio-demographic characteristics, political factors and destination characteristics. The conceptual framework for the study is presented in Figure 2.1.

Independent variables **Dependent variables**

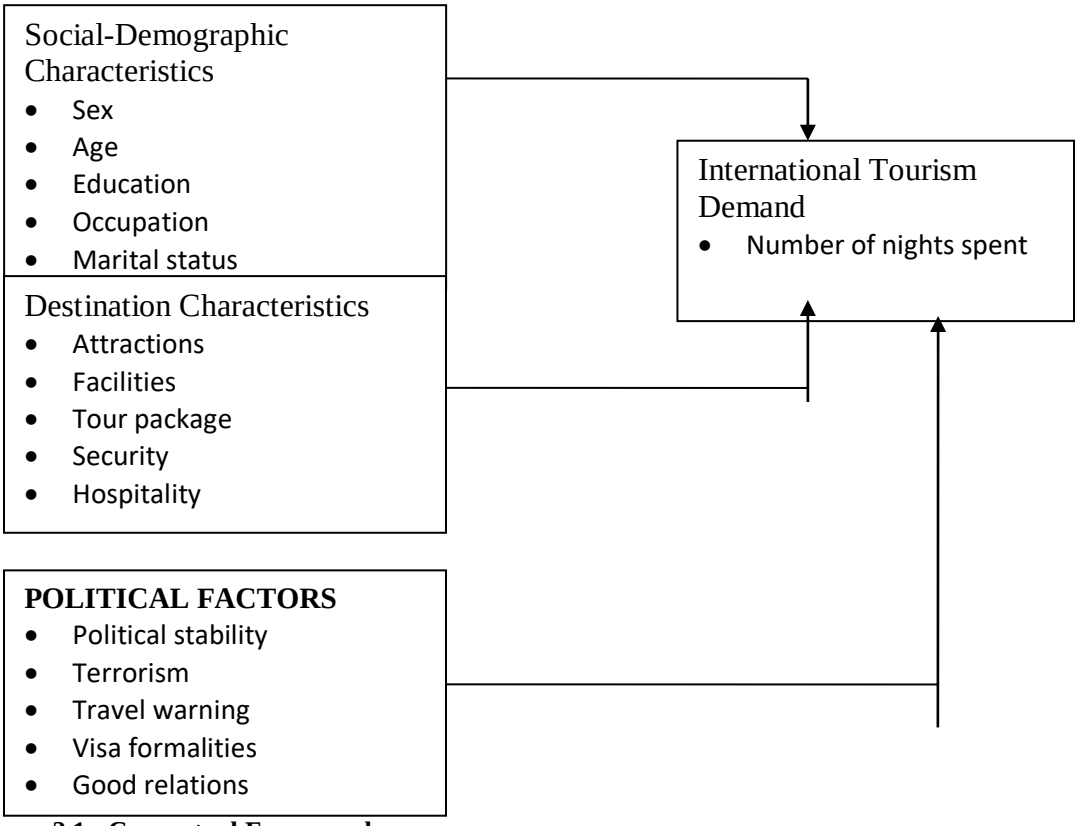

Figure 2.1: Conceptual Framework

Source: Author (2012)

RESEARCH METHODOLOGY

The study used a descriptive survey research design. The target population for the study was 82, 317 tourists leaving Kenya by air (GOK, statistical abstract, 2011). The accessible population was those tourists leaving the country through JKIA during the data collection period (15th October 2012and 15th November 2012). The researcher used number of tourists' departures through JKIA since it is the largest airport in the country where big international carriers lands and departs.

A sample size of 400 tourists was considered appropriate for the study. This was calculated at a 95 percent level of confidence and an error margin of 5 percent, using sample size determination table (Research Advisors, 2006). Three days out of seven days were sampled using simple random sampling technique every week. This was repeated for four weeks the time it took to access 400 tourists. The researcher

sampled the days instead of the tourists since it is not possible to have a sampling frame of the tourists as the keep on changing. All the tourists leaving the country through JKIA during the sampled days were included in the study. Data was collected using questionnaires.

Empirical Model

Since the study dependent variable (international tourism demand) was measured using count data, a count data regression model was used to model the data. The negative binomial regression model was used. The loglinear for of the model used is given in equation 3.1.

$$\ln\left[E(y_i/x_i)\right] = \beta_0 + \beta_1 \text{Expenditure} + \beta_2 \text{Income}_i + \beta_3 \text{Age}_i + \beta_4 DE_i + \beta_5 DO_i + \beta_6 DG_i + \beta_7 DM_i + \beta_8 DC_i + \beta_9 DT_i + \beta_{10} DR_i + \beta_{11} \text{Pol}_i + \beta_{12} \text{Dest}_i + \varepsilon_i \quad (3.1)$$

where:

Y_i = Number of nights spent by a tourist in Kenya

Expenditure_i = Total amount of money a tourist spent in Kenya in US dollars

Income_i = Annual household income of the tourist in US dollars

Age_i = Age of the tourist in years. The mid-point of grouped data was used instead of age categories.

DE_i = Level of education dummy of the tourist with no college education = 0 and at least college level education = 1

DO_i = Occupation status dummy of the tourist with unemployed = 0 and employed = 1

DG_i = Gender dummy of the tourist where male = 0 and female = 1

DM_i = Marital status dummy of the tourist with single = 0 and married = 1

DC_i = Children dummy of the tourist with have no child = 0 and with children = 1

DT_i = Trip companion dummy of the tourist with travelled alone = 0 and travelled with companions = 1

DR_i = Repeat visit dummy of the tourist with first time = 0 and repeat visit = 1

Pol_i = The composite index representing the political factors influencing the i_{th} tourist

$Dest_i$ = The composite index representing the destination characteristics influencing the i_{th} tourist

ε_i = The random error term

$E(y_i/x_i)$ = Conditional mean of the dependent variable given the value of the independent variables of the i_{th} individual.

Since count data regression techniques model the log of incident counts, the coefficients can be interpreted as follows, for a one unit change in the independent variable, the log of dependent variable is expected to change by the value of the regression coefficient. Rather than reporting negative binomial results as a regression coefficient, there is the option of measuring the effect of the independent variable on the dependent variable through the Incidence Rate Ratio (IRR). The IRR represents the change in the dependent variable in terms of a percentage increase or decrease, with the precise percentage determined by the amount IRR is either above or below 1.

RESEARCH FINDINGS AND DISCUSSIONS

Descriptive Statistics

The study response rate was 76 percent for the study which was found to be acceptable for analysis.

International Tourism Demand

The descriptive statistics for international tourism demand measured by the number of nights spent by tourist in Kenya were as presented in figure 4.1.

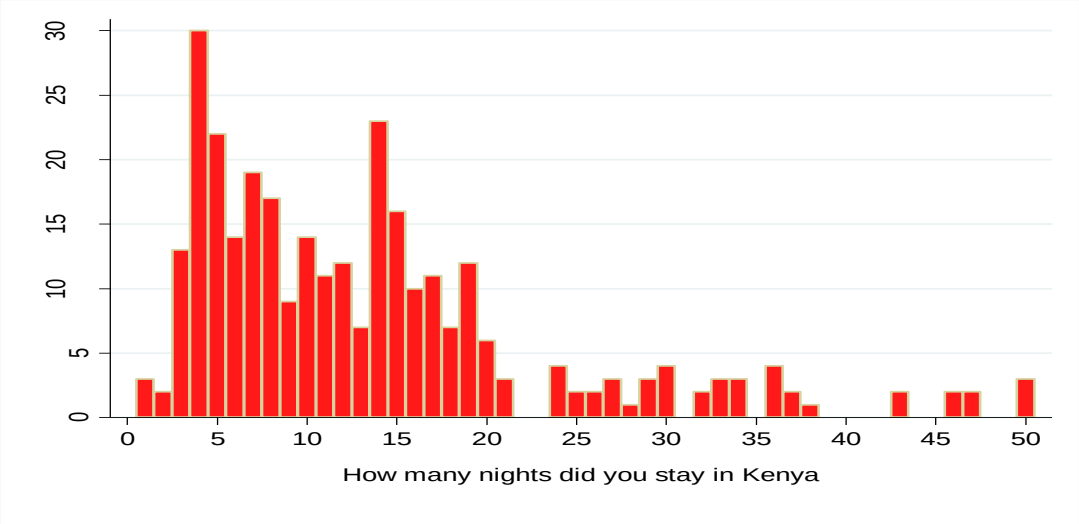

Figure 4.1: Number of Tourist Nights

Source: Study Data (2012)

Figure 4.1 shows that most of the tourists stayed in Kenya for only two weeks. There was great variability in the number of tourist nights spent as reflected in the minimum (1 night) and maximum (50 nights) values of the data.

Socio-Demographic Factors

The study sought to determine the tourists' socio-demographic characteristics in terms of sex, marital status, region of origin, age of respondents, annual household income, level of education and occupation status. Table 4.1 presents the descriptive statistics for the tourist's socio-demographic characteristics.

Table 4.1: Tourists' Socio-demographic Characteristics

Variable	Description	Percentage
Sex	Male	57.6
	Female	42.4
Marital status	Single	32.9
	Married	60.9
	Windowed	5.6
	Divorced	0.7
Region of origin	Europe	58.2
	America	18.4
	Asia	12.5
	Africa	6.9
	Australia	3.6
Age	18-24	10.2
	25-34	46.4
	35-46	20.4
	47-66	18.4
	Over 66	4.6
Family size	No children	43.3
	one child	20.9
	Two children	25.7
	Three children	5.2
	More than three children	4.9

Source: Study Data (2012)

Table 4.1 shows that 57.6 percent of respondents were males, while the remaining 42.4 percent were females. In terms of marital status, 32.9 percent of the tourists visiting Kenya were single, 60.9 percent were married, 5.6 percent were widowed and 0.7 percent was divorced. As for the age distribution, 10.2 percent of them were 18 to 24 years, 46.4 percent were 25 to 34 years, 20.4 percent were 35 to 46 years, 18.4 percent were 47 to 66 years, and 4.6 percent were over 66 years. Tourists from Europe constituted the biggest percentage (58.2 percent), followed by America at 18.4 percent, Asia with 12.5 percent, Africa with 6.9 percent, and lastly Australia with 3.9 percent. The tourists having no children were 43.3 percent, those with one child were 20.9 percent, those with two children were 25.7 percent those with three children were 5.2 percent and those with more than three were 4.9 percent. These results implied that the majority of the tourists who came to Kenya were males, married, aged between 24 to 46 years and did not have children.

The distribution of the tourists' annual household income in US dollars was as presented in Figure 4.2.

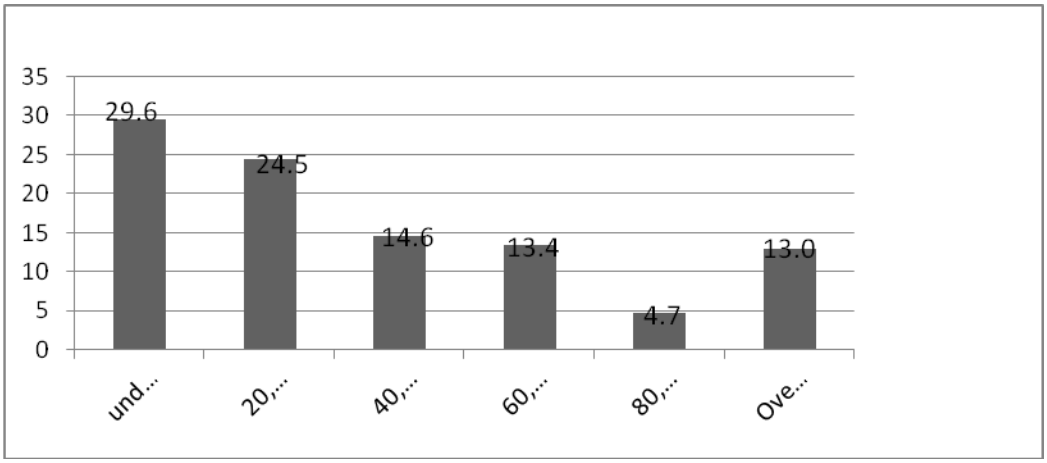

Figure 4.2: Annual Household Income in Dollars

Source: Study Data (2012)

Figure 4.2 shows that 29.6 percent of the respondents had an annual income of less than 20,000 US dollars, 24.5 percent had an annual household income of 20,000 to 39,000 dollars, 14.6 percent had annual household income of 40,000 to 59,000 US dollars, 13.4 percent had annual household income of 60,000 to 79,000 US dollars, 4.7 percent had an annual income of 80,000 to 99,000 US dollars, while 13 percent had an annual income of over 100,000 US dollars. This indicates that more than half of the tourists visiting Kenya had an annual household income of 39,000 US dollars and below.

The level of education of the respondents consisting of elementary, secondary, college and university education was as presented in Figure 4.3.

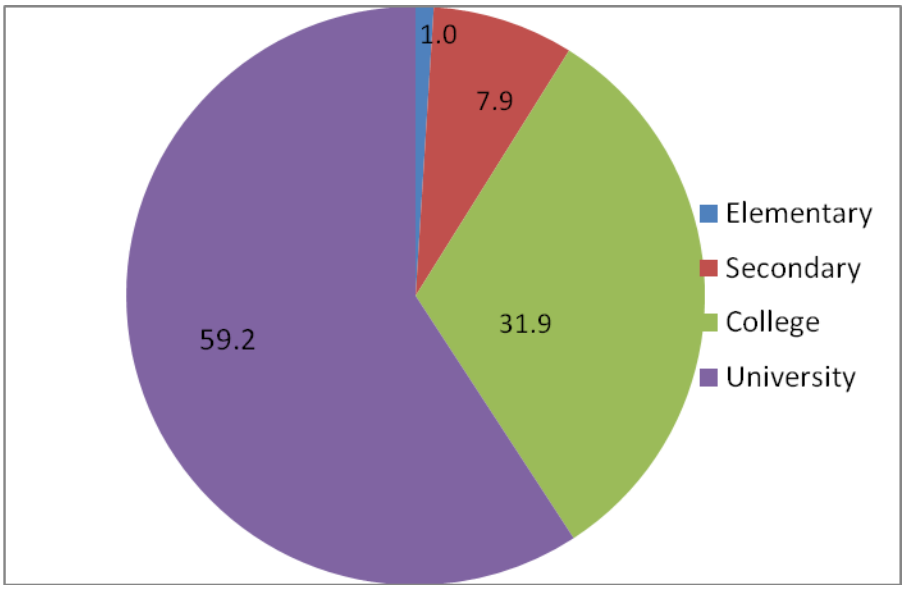

Figure 4.3: Level of Education

Source: Study Data (2012)

As Figure 4.3 shows, 59.2 percent of the respondents were university graduates, 31.9 percent were college graduates, 7.9 percent were secondary school graduates, and only 1 percent of the respondents had elementary education. The results indicate that over 90 percent of the tourists visiting Kenya had college education.

The percentages of respondents by their occupational status are presented in Figure 4.4.

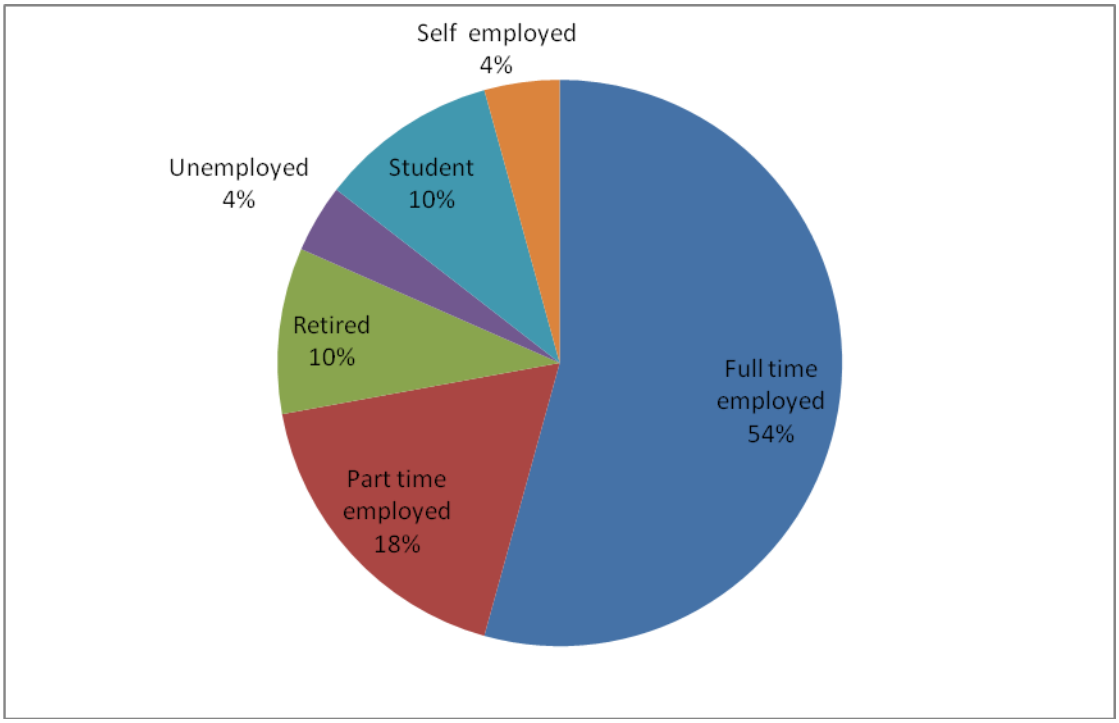

Figure 4.4 : Occupational Status

Source: Study Data (2012)

As summarized in Figure 4.4, the study found out that 54.3 percent of the respondents were full-time employees, 17.8 percent were part-time employees, 9.5 percent were retired, 3.0 percent were unemployed, 10.2 percent were students and 4.3 percent were self-employed. The results indicates that most of the tourists were professionals implying that most were only able to travel they got an annual leave or were in Kenya partly to offer their professional services.

The tourists' trip characteristics were given in terms of purpose of visit, number of travel companions and whether it was a repeat visit. The study results are presented in Table 4.2.

Table 4.2: Trip characteristics

Variable	Description	Percentage
Purpose of visit	Holiday	64.8
	Business	20.9
	Visiting friends/ relatives	8.9
Travel companions	Alone	31.8
	Spouse	26.2
	Spouse & children	9.6
	Colleagues	12.6
	Friends	17.2
	Relatives	1.7
	Children	1.0
Repeat visits	1	56.9
	2	20.7
	3	9.5
	4	5.6
	5	1.6
	6	1.0
	7	1.3
	10	1.3
	11	0.7
	12	0.7
	13	0.7

Source: Study Data (2012)

Most of the tourists (64.8 percent) had come for holiday, 26.3 percent came for business and 8.9 percent had come to visit friends and relatives. The percentage of the tourists travelling alone was 31.8, while the remaining percentage was for those travelling either with a spouse (26.2 percent), with a spouse and children (9.6 percent), with colleagues (12.6 percent), with friends (17.2 percent), with relatives (1.7 percent) and with children (1 percent). From the study results, majority of the tourists were in Kenya for the first time (56.9 percent) while others had visited several times before. In addition, the results indicated that most tourists (68.2 percent) had visited Kenya for a holiday experience and had travelled with others (spouse, children, friends, relatives or colleagues).

Destination Characteristics

Table 4.3 shows the descriptive statistics for destination characteristics considered to influence tourists' decision to visit Kenya.

Table 4.3: Destination Characteristics

Factors	Observations	Mean	Standard deviation
Information availability	260	2.14	0.612

Advertisement and promotion	261	2.66	0.616
Availability of Tour packages	256	2.52	0.697
Inexpensive tourism product	252	2.42	0.570
Availability of direct flights	259	2.43	0.686
Nearness of destination	255	2.56	0.718
Kenya's wildlife	268	1.62	0.832
Kenya's scenery	264	1.67	0.837
Kenya's Beaches	259	2.01	0.944
Kenya's diverse culture	266	1.90	0.868
Kenya's museums	256	2.55	0.712
Kenya's sports facilities	255	2.02	0.612
Good weather in Kenya	260	2.06	0.774
Fear of insecurity/crime level	257	2.51	0.740
Fear of attack by disease	252	2.61	0.643
Hospitability of Kenyan people	257	2.40	0.729
Shopping facilities	250	2.73	0.528
Good transport/ communication	254	2.52	0.675
Sharing of a common language	256	2.52	0.638

Source: Study data (2012)

Table 4.3 shows that each of the destination factors considered influenced tourist decision to visit Kenya to some extent. Availability of shopping facilities, advertisement and promotion of Kenya tourism, fear of attack by disease, museums in Kenya, nearness of destination, insecurity and crime level in Kenya, availability of safe and good transport/ communication facilities and sharing of a common language were the most important factors (had a mean of 2.50 and above) the tourists considered when making a decision to come to Kenya. The other factors such as availability of direct flights, inexpensive tourism product, hospitability of Kenyan people, information availability, good weather in Kenya, Kenya's sports facilities Kenya's Beaches, Kenya's diverse culture, Kenya's scenery and Kenya's wildlife were also found to influence the tourist decisions to visit Kenya to some extent.

In order to establish the level of satisfaction of the tourists, rating of the quality of tourist attractions, facilities and services utilized during the tourists visit was done. The study results are presented in Table 4.4.

Table 4.4: Rating of Attractions, Facilities and Services

Attractions/facility/service	Observations	Mean	Standard deviation
Wildlife	252	1.7738	.95748
Sceneries	255	1.8588	.93261
Beaches	202	2.2079	1.10013
Cultural	232	2.3836	.99535
Historical sites	208	2.7788	1.08531

Tour guidance	223	2.8430	1.20342
Transport/communication	254	3.3386	1.07960
Accommodation	252	3.1746	1.15410
Meals/drinks	258	3.3062	1.25814
Entertainment & recreation	225	3.5467	1.14127
Airport facilities/services	254	3.5157	1.04340
Souvenirs & other purchases	237	3.5105	.97255
Tour company services	237	3.3882	1.21830

Source: Study Data (2012)

The study results indicated that the tourists found wildlife; sceneries, beaches and cultural attractions to be very good (had a mean of approximately 2). Historical sites, tour guidance services, accommodation facilities, meals and drinks, transport and communication facilities and tour company services were rated as good with a mean of approximately 3. Souvenirs and other commodities purchased airport facilities and services and entertainment and recreation were rated as average with a mean of approximately 4. The results implies that tourists attractions in Kenya rates highly but the tourism infrastructure had a lower rating.

The tourists were also told to rank Kenya in terms of total costs as a tourist destination. Further they were requested to describe their tourism experience. The study results are presented in table 4.5

Table 4.5: Rating in terms of Total cost and Holiday Experience

Rating	Observations	Mean	Standard deviation
Total holiday costs	263	2.6350	.74382
Holiday experience	254	1.8858	.62139

Source: Study Data (2012)

As the results in Table 4.5 shows, tourists found a holiday in Kenya to be fairly expensive and their holiday experience was very good. The results indicate that the tourists were satisfied with their visit to Kenya.

Political Factors

Five political factors were considered in the study namely political stability in Kenya, fear of terrorists' attacks, travel warnings by your government, visa Formalities, and good relations between Kenya and tourists' countries. Table 4.6 shows their descriptive statistics.

Table 4.6: Political Factors

Factors	Observations	Mean	Standard deviation
Political stability in Kenya	269	2.67	1.02
Fear of terrorists attacks	266	2.70	.885
Travel warnings by your government	257	3.45	.918
Visa Formalities	253	3.53	0.852
Good relations between Kenya and tourist's country	265	3.09	1.068

Source: Study Data (2002)

Table 4.6 shows the tourists were highly influenced by visa formalities (mean =3.53) followed by government travel warning (mean = 3.45), good relations between Kenya and their countries (mean = 3.09), fear of terrorists' attacks (2.70) and lastly political stability (2.67) when making decision on whether to visit Kenya. This shows that political factors influence tourists' decision to visit Kenya.

Inferential Statistics

The number of tourist nights spent in Kenya can differ by the individual socio-demographic characteristics such as sex, marital status, annual household income, level of education and age. Thus the study data for the dependent variable was first tested for normality using the Shapiro-Wilk's normality test. It was found it was not normally distributed (test statistic value =0.854; p-value = 0.000). Therefore non parametric tests which are distribution free were used for testing instead of the parametric ones.

Number of Nights Spent By Gender

In order to evaluate whether the number of nights spent in Kenya differ by sex on the average a Mann-Whitney U test was conducted and the results are presented in Table 4.7.

Table 4.7: Mann-Whitney U test Results on Tourist Nights by Gender

Factor	Categories	Mean Rank	Test Statistic	P-value
Gender	Male	147.34	U = 10384.5 Z=-1.194	0.233
	Female	159.50		

Source: Study Data (2012)

Since the p-value of 0.233 is greater than 0.05 the null hypothesis that the average number of nights spent was the same for both groups was not rejected. This means that there was no significant difference between the number of nights spent by male and female respondents. Hence the gender of the tourist does not influence the number of nights they spend in Kenya. This study finding is in line with those from a study by Jonsson and Devonish (2008).

Number of Nights Spent by Marital Status

To test whether the number of nights spent by a tourist in Kenya differed by their marital status, the Kruskal-Wallis test was used and the results are presented in Table 4.8.

Table 4.8: Kruskal-Wallis test Results on Tourist Nights by Marital Status

Variable	Categories	Mean Rank	Test Statistic	P-value
Marital status	Single	143.56	$\chi^2 = 5.764$ Degrees of freedom =3	0.124
	Married	154.67		
	Widowed	190.29		
	Divorced	77.50		

Source: Study Data (2012)

The results in Table 4.14 indicate that the p-value of 0.124 was greater than the level of significance of 0.05. Hence, the null hypothesis that the number of tourist nights spent in Kenya was the same for all groups was not rejected. This implied that there was no significant difference in the number of nights spent by tourists in Kenya whether single, married, divorced or widowed. This study finding contradicts the results obtained by Menezes et al. (2008) where there was significant difference between those married and those not married on the number of nights spent and the married respondents were found to spend less number of nights than those not married.

Number of Nights Spent by Annual Household Income

To examine whether the number of nights spent by a tourist in Kenya differs significantly by their annual household income, the Kruskal-Wallis test was used. The results of the test are presented in Table 4.9.

Table 4.9: Kruskal-Wallis Test on Tourist Nights by Annual Household Income

Factor	Categories	Mean Tourist Nights	Mean Rank	Test Statistic	P-value
Annual household income in US dollars	Under 20,000	16.69	146.04	$\chi^2 = 18.06$ Degrees of freedom = 5	0.003
	20,000-39,000	12.56	126.55		
	40,000-59,000	15.38	137.23		
	60,000-79,000	11.97	122.00		
	80,000-99,000	10.33	112.00		
	100,000 and over	9.91	83.71		

Source: Study Data (2012)

The results in Table 4.15 show a p-value of 0.003 which was less than 0.05, the level of significance; hence the null hypothesis of equal group mean ranks was rejected. This means that there was a statistically significant difference on the number of nights spent by the respondents in the different annual household income groups at 5 percent level of significance. Those with an annual household income of less than 20,000 US dollars spent 17 nights on the average; those with an annual household income between 20,000 US dollars and 39000 US dollars spent an average of 13 nights; those with annual household income between 40,000 US dollars and 59,000 US dollars spent an average of 15 nights; those with annual household income between 60,000 US dollars and 79,000 US dollars spent an average of 12 nights; those with annual household income between 80,000 US dollars and 99,000 US dollars spent an average of 10 nights while those with an annual household income of 100,000 US dollars and over spent an average of 10 nights. The study findings contradict those found by Chaiboonsri and Chaitip (2012) where the income group differences were found not to be significant. The study finding implies that those with higher annual household income spent fewer nights than those with lower annual household income.

Number of Nights Spent by Level of Education

The Kruskal-Wallis test was used to establish whether the number of nights spent by a tourist in Kenya differs by the level of education. The results are presented in Table 4.10.

Table 4.10: Kruskal-Wallis Test on Tourist Nights by Education Level

Variable	Categories (Level)	Mean Tourist Nights	Mean Rank	Test Statistic	P-value
Level of education	Elementary	3.00	12.00	$\chi^2 = 15.043$ Degrees of freedom = 3	0.002
	Secondary	11.42	138.15		
	College	15.64	178.49		
	University	12.83	145.44		

Source: Study Data (2012)

The results in the Table 4.10 show that the test statistic, $\chi^2 = 15.043$, was significant at 5 percent level since the p-value of 0.002 was less than 0.5. Thus the null hypothesis of equal mean ranks among the various groups was rejected implying that the number of nights spent by a tourist in Kenya differ by their level of education. Those respondents having only elementary education spent on average 3 nights, those with secondary education spent 11 nights on average; those with college education spent an average of 16 nights while those with university education spent an average of 13 nights. These results are in line with those by Cakici and Harman (2007) and Menezes et al. (2008).

Number of Nights Spent in Kenya Differ by Level of Age?

To find out whether there tourist-nights differed significantly by age the Kruskal-Wallis test was used and the results are given in Table 4.11.

Table 4.11: Kruskal-Wallis Test on Tourist Nights by Age

Variable	Categories	Mean Tourist Nights	Mean Rank	Test Statistic	P-value
Age in years	18-24	13.87	171.77	$\chi^2 = 7.872$ Degrees of freedom = 4	0.096
	25-34	13.12	146.11		
	35-46	13.21	136.01		
	47-66	14.77	173.67		
	Over 66	13.07	162.54		

Source: Study Data (2012)

Table 4.11 results indicate that the null hypothesis of equal mean ranks among the different groups was not rejected at 5 percent level of significance since the p-value of 0.096 was greater than 0.05. However, if a 10 percent level of significance was used the null hypothesis would be rejected. Thus the tourist-nights could be considered to differ significantly in the various age groups at 10 percent level of significance

though it does not differ at 5 percent level. On average, the respondents between 18 and 24 years spent 14 nights; those between 25 and 34 years spent 13 nights; those between 35 and 46 spent 13 nights; those between 47 and 66 years spent 15 nights while those over 66 years spent 13 nights. These results are in line with those by Jonsson and Devonish (2008) but contradict those by Menezes et al. (2008) where length of stay was not significantly different by age categories.

Number of Nights Spent by Purpose of Visit

The Kruskal-Wallis test was used to test whether the number of nights spent by a tourist in Kenya differs by their purpose of visit and Table 4.12 shows the results.

Table 4.12: Kruskal-Wallis Test Results for Purpose of Visit Groups' Differences

Variable	Categories	Mean Tourist Nights	Mean Rank	Test Statistic	P-value
Purpose of visit	Holiday	14.01	162.70	$\chi^2 = 11.80$ Degrees of freedom = 2	0.003
	Business	11.19	123.57		
	Visiting friends/relatives	16.81	163.81		

Source: Study Data (2012)

The results in Table 4.12 indicate that the test statistic is significant at 5 percent level of significance hence, the null hypothesis of equality of mean ranks was rejected. This means that the number of nights spent by a tourist in Kenya differ by purpose of visit. The respondents who had come on holiday spent an average of 14 nights; those who had come for business purpose spent 11 nights on average while those who had come to visit their friends/relatives spent 17 nights on average. The study findings are in line with those by Jonsson and Devonish (2008), Menezes et al. (2008) and Cespedes et al. (2012).

REGRESSION ANALYSIS

A count data regression model was used to determine the effect of tourist socio-demographic characteristics, destination characteristics and political factors on international tourism demand for Kenya.

The study used the Pearson Chi-Square goodness-of-fit test to test the hypothesis that the dependent variable followed a Poisson distribution. The regression model diagnostics results are presented in table 4.14.

Table 4.14: Regression Model Diagnostic Results

Test Statistic	Degrees of Freedom	P-value
Pearson Chi-square (χ^2) = 621.3348	172	0.0000
Likelihood-ratio test (of alpha = 0) = 202.37	1	0.0000
Alpha	0.1735217	
Mean	13.51645	
Variance	101.25391	

Source: Study Data (2012)

The Pearson test statistic is significant at 5 percent level, thus the null hypothesis that the data fits the Poisson distribution is rejected. Thus the negative binomial model was used instead.

Negative Binomial Regression Results

The negative binomial regression model was used to determine the effect of tourist socio-demographic characteristics, destination characteristics and political factors on the number of nights spent by international tourists in Kenya. Table 4.15 presents the results of the negative binomial regression model.

Table 4.15: Negative Binomial Regression Results

Variable	Coefficient	IRR	Standard Error	Z-Statistic	P-value
Expenditure	0.0001094*	1.000109	0.0000293	3.74	0.000
Income	-0.0000115*	0.999985	0.00270184	-10.52	0.000
Age	0.0071775**	1.007203	0.0031095	2.31	0.021
Education dummy	-0.2166887	0.8051806	0.249181	-0.870	0.387
Occupation dummy	0.4847904*	1.623835	0.1095877	4.42	0.000
Female dummy	0.0965974	1.101417	0.0808405	1.19	0.232
Married dummy	-0.146501	0.8637248	0.098315	-1.49	0.136
Children dummy	0.1335843	1.142918	0.91677	1.46	0.145
Trip attribute	-0.2196762***	0.8027787	0.1199412	-1.83	0.067
Repeat visit	-0.2073308**	0.8127507	0.093681	-2.21	0.027
Political factors index	-0.1459322**	0.86421163	0.0660987	-2.21	0.027
Destination attractiveness	0.4389932*	1.551145	0.1378551	3.18	0.001
Constant	1.9282*	-	0.512828	3.76	0.000
Waldi-chi square = 180.14 Degrees of freedom = 12			P- value = 0.0000		
Number of observations			184		

Note: * significant at 1% level; ** significant at 5% level and *** significant at 10% level.

Source: Study Data (2012)

Table 4.15 shows that the number of observations used in the count data regression analysis were 184. Wald chi-square test statistic had a value of 180.14. The null hypothesis that all the estimated regression coefficients were equal to zero was rejected at 5 percent level of significance since the p-value of 0.000 was less than 0.05. This means that some of the regression coefficients were different from zero. Rather than reporting the negative binomial regression results using regression coefficients, the effect of the independent variable on the dependent variable was reported in terms of the IRR.

The findings were reported according to the study objectives.

The coefficient of the expenditure variable had the expected positive sign and was significant at 5 percent level (p-value of 0.000 was less than 0.05). The IRR value of 1.000109 for the expenditure variable suggested that the number of nights spent increased by approximately 0.011 percent with every one US dollar increase in expenditure. The annual household income variable had a negative coefficient which is contrary to what was expected. This coefficient was statistically significant at 5 percent level since the p-value of 0.000 was below 0.05. The IRR value of 0.99999 implied that if the annual household income increased by one US dollar, the number of nights spent would decrease by 0.001 percent. Further investigation into the data to find out the cause of the unexpected negative coefficient revealed that the respondents who had higher annual household income spent fewer nights compared to those with lower annual household income. The implication of this is that tourist with high annual income may not be willing to stay for a longer period in Kenya but will probably prefer to visit other destinations as well. These results are in line with those from a study done by Chaiboonsri and Chaitip (2012).

Age coefficient had a positive sign and was significant at 5 percent level (p-value of 0.021 which is less than 0.05). The implication was that when the tourist's age increased by one year, the number of nights spent increased by 0.72 percent. This means that older tourists spent more nights in Kenya compared to the younger ones.

Occupation dummy coefficient had a positive sign and was significant at 5 percent level since the p-value of 0.000 was less than 0.05. This meant that the respondents who were employed spent 1.62 times the incident rate for those not employed. This implies that the respondents who were employed spent more nights in Kenya compared to those who were not working.

The coefficient of the trip companion dummy was negative and not significant at 5 percent but was significant at 10 percent level (p-value of 0.067 was less than 0.1 but greater than 0.5) with an IRR value of 0.803. This implies that those respondents who travelled accompanied by others spent 0.803 times the number of nights less than those who travelled alone. This means that those who travelled alone spent more nights in Kenya than those travelling with others or those travelling in groups.

The coefficient of repeat visit dummy had a negative sign and was significant at 5 percent level of significance (p-value of 0.27 was less than 0.5). The IRR value for this variable was 0.813 implying that those who had visited Kenya before spent 0.813 times the number of nights less compared to those who had not visited before. This means that the tourists who were on their first visit to Kenya spent more nights than those who were on a repeat visit. This is contrary to results obtained by Menezes and Vieira (2008) and Chaiboonsri and Chaitip (2012) who found out that repeat tourist stayed longer.

The coefficient for the level of education dummy was negative but was not significant at 5 percent level. The insignificance could have arisen due to the reduction of categories in the regression equation. The reduction of categories was necessary in order to reduce the number of variables in the regression equation to avoid losing many degrees of freedom because of too many dummy variables being included.

The coefficient of the female dummy was negative but not significant at 5 percent level implying that gender is not a major determinant of international tourism demand. The coefficient for the married dummy variable was negative but was not significant at 5 percent level. This means that marital status was not a significant factor influencing tourism demand in Kenya. The coefficient for the children dummy was also not significant at 5 percent level of significance and had a positive sign. The coefficients for education,

gender and marital status dummies had the same signs as those in the study by Menezes et al. (2008) though in this study they were not significant.

For regression analysis purposes, the destination characteristics composite index was constructed by calculating the summed scores per respondent and then dividing it by the number of items. The coefficient for destination characteristics index was significant at 5 percent level (p-value of 0.01 was lower than 0.05. The coefficient was positive as expected and the IRR value was 1.55 implying that if the destination characteristics index increased by one unit, the number of nights spent would increase by 55 percent. These results agree with those for the study by Menezes et al. (2008).

The political factors' composite index used in the regression model was constructed by calculating the summed scores per respondent and then dividing it by the number of items. The political composite index had the expected negative coefficient and was significant at 5 percent level since the p-value of 0.027 was less than 0.05, with IRR value was 0.864. This means that if the political factors index decreased by one unit, the number of nights spent in Kenya will decrease by 13.6 percent, that is, if the political situation in the country deteriorates tourism demand will decrease as not many people will be willing to come to Kenya. This is in line with the study findings by (Eilat and Einav 2004; Naude and Saayman, 2005) who also found political instability to be an important determinant of international tourism demand affecting demand negatively.

CONCLUSIONS

The main objective of the study was to determine the determinants of international tourism for Kenya. The tourist's socio-demographic characteristics (that is, expenditure, annual household income, age, occupation, travelling companions and repeat visits) were found to have an effect on international tourism demand for Kenya. The study finding suggested that those with higher annual household income spent fewer nights than those with lower annual household income implying that those with high income prefer short visits and then probably move on to other destinations. The findings further showed that the tourists who were employed (either part time or full time) spent more nights in Kenya compared to those who were not working. The older tourists were found to spend more nights in Kenya compared to the younger ones. Those visiting Kenya for the first visit time spent more nights than those who were on a repeat visit. The

tourists travelling alone were found to spend more nights in Kenya than those travelling with others or those travelling in groups. Political factors were found to affect demand negatively while destination factors were found to influence demand positively.

Policy Recomendations

Based on the study findings, the following are some of policy implications and strategies that can be proposed for the development of tourism industry in terms of sustaining the growth of tourists' arrivals and attracting more tourists into the country. Since international tourism demand was found to be affected by tourist socio-demographic characteristics, the government, KTB, ministry of wildlife and ministry of finance and planning should facilitate creation of new products catering for different age groups, professionals and people of different socio-economic groups. In addition the existing tourism products, facilities and services should be improved in order to encourage repeat visits as well as attract new tourists. The tourism sector and other stakeholders should come up with tourism products, activities and services which encourage much spending. Political factors and destination characteristics were also found to be significant determinants of demand. The government should therefore enhance political stability in the country. Furthermore, the tourism sector stakeholders and other related industries as well as every kenyan citizen, should work towards creating a positive image through a conducive friendly and peaceful environment, high quality tourism products and good tourism infrastructure which will make those tourists visiting the country come back and also tell others about the goodness of Kenya as a tourist destination. This will ensure Kenya becomes the tourists' destination of choice.

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STRATEGIC REWARD AND COMPENSATION ON PERFORMANCE OF LEVEL FIVE PUBLIC HOSPITALS IN COUNTY GOVERNMENTS IN KENYA

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ABSTRACT

The Health Sector in Kenya is ranked as one of the major basic needs and as one of the pillars of vision 2030 as well as the constitution, high priority is placed on the provision of health services and service delivery. The determination of priorities in public hospitals systems, include resource allocations, expenditure and human resource in areas of recruitment, selection, training and development, retention, welfare, participation and reward systems. The main objective of the study was to investigate the influence of strategic reward and compensation on employee performance in the health sector in Kenya. Two theories guided the study; Human Capital theory, Contingency theory. The study used descriptive research survey and adopted cross-sectional survey research design. The study targeted all permanent employees of ranks of senior management, middle management, lower management and general staff in the health sector (hospitals). A target population of 1428 from which a sample of 146 was taken was used. A simple random sampling was used in selecting the public hospitals for the study. Proportionate sampling was used in selecting the permanent employees from the hospitals which ensured that the hospital with higher population had more members in the sample which also represented 10% of the accessible population. Purposive sampling was used in selecting the hospitals for pilot study where employees from two hospitals outside the ones selected for the study were used. A pilot study was conducted for the data collection instrument which was pretested before data collection for validity and reliability. Both primary and secondary data methods were used. Data was collected using questionnaires and interview schedules. Data was analyzed using The Statistical Package for Social Sciences (SPSS) version 22 and presented in tables. The study also adopted correlation and multiple regression analysis at 0.05% level of significance that determined the strength and direction of the relationship of the variables. Findings of the study indicated that the five strategic employee voice influenced employee performance in the health sector in Kenya. In conclusion the study revealed that the said variable highly, averagely or lowly influenced employee performance. From the study findings, the researcher recommends the use, implementation and sensitization of strategic reward and compensation contingent to the health sector that will steer up employee performance..

***Key Words**: Strategic reward and compensation ,health sector, devolved county governments, Level Five Public hospitals, Employee Performance*

1.0 INTRODUCTION

People are a firm's most valuable resource. Labour productivity has been of concern to organizations in the current competitive environment. It is now commonly accepted that employees create an important source of competitive advantage for firms (Goel, 2013).There is ongoing debate on how HRM strategies affect the performance of banks. Efforts have been made by human resources management theorists to try to establish a causal link between human resource management and performance (Cook, 2000). While there is a growing body of theory and empirical research demonstrating positive relationships between HRM policies, collective employee attributes, and firm outcomes. Furthermore, there is a great need for additional evidence to support the HRM-performance relationship and show exactly how the different strategies affect each other. The present study is therefore, an attempt to fill part of this gap using the public hospitals in county governments

1.1 Background of the study

According to Barney, (2000) firms that use resources and capabilities to exploit opportunities and neutralize threats will see an increase in their net revenue or a decrease in their net costs or both and vice versa. However it may not be very easy to establish the contribution of each resource to performance of employees and the organization. This is because performance is affected by how you utilize each resource and thus the various resources (human, financial, physical and technological) support each other and it may not be easy to single out one resource and give credit to it. There is need for a theoretical link on how specific human resources management strategies and performance are related. Cook (2000) argues that there is a symbiotic relationship between human resources strategy and performance. Other scholars such as Armstrong (2010) argue that human resources management practices can improve productivity by: increasing employee skills and abilities, promoting positive attitudes and increasing motivation and, providing employees with expanded responsibilities so that they can make full use of their skills and abilities. However still much has not been done to establish the role of specific human resource strategies on employee performance in the public hospitals.

There is need to understand the effect of specific HR strategies on employee performance in health sector since currently there is a lot of interest in this area. This study seeks to fill this gap by investigating the effect of Strategic reward and compensation on employee performance of public hospitals in county governments in Kenya.

The purpose of Strategic reward is to develop policies and practices which will attract, retain and motivate high quality people to the organization (Armstrong, 2005), and support the achievement of business goals and provide fair and equitable pay for employees in the organization (Armstrong, 2012). This is because employees want their performance to be appreciated and providing appropriate rewards and benefits package is an effective medium not only to achieve organizational goals but also to ensure the continuation of relationship with talented employees in the organization (Sabo, 2011). Silbert (2005) concludes that it is important that rewards have a lasting impression on the employee and it will continue to substantiate the employees' perception that they are valued in the organization. This assertion is amplified by the views of Olakunle and Ehi (2008), that if reward plan is perceived to be unfair and unrealistic, it may pose a negative effect as a motivator.

1.1.1 Health Sector in devolved governments in Kenya

The Public hospitals of today are operating in a competitive environment and to remain relevant in the fast market, it needed to respond quickly to the ever-changing customer demands. The hospitals emphasized on a broadly accepted means of measured performance, continuous improvement and responsiveness to the needs of patients, physicians, community and stakeholders. Hospitals were mainly the focal points of service delivery to the public, education for the health professionals and clinical research that was key for those that wanted to get into the field of medicine.

A hospital was a complex institution to manage administratively and it therefore needed thorough knowledge of the set-up, peculiar conditions contingent to its administration and environs. The complexity was brought about by the offering of complex functions, recruitment and selection of highly skilled staff, the provision of better facilities and the changeover from centralized to devolved system of healthcare. Kenya's Health Sector was guided by a Health Policy. The Kenya Health Policy 2012/2030 provided roadmaps to guarantee significant progress in the health status in Kenya. This was in concomitant with the prerequisite of the Kenya's Constitution of 2010. Health Sector in devolved governments had put in place their Medium term county fiscal strategy papers where they have highlighted key priority areas which helped them move forward, perform better, and improve the performance of their counties, their workforce and livelihood of their people. Highlighted in the MT were participation, welfare issues, employment and development, (MTCFSP, 2014-2016, also cited in Ministry of Devolution strategic Plan 2013/2014-2017/2018). It is only through Strategic reward and compensation that counties would be able to realize their goals and objectives.

(HRH) Strategy was one of the steps the national and county governments in collaboration with partners had that could strengthen the employees in the health sector in order to deliver quality health services more efficiently. There were myriads of challenges facing the Kenya's Health sector which included severe shortages of essential cadres, persistent inability to attract and retain health workers, poor and uneven remuneration among cadres, poor working conditions, inadequate or lack of essential tools and medical and non-medical supplies, the unequal distribution of staff, diminishing productivity among the health workforce, and poor leadership and governance, (HRH Report, 2012-2030). A study by Orsborne (2011) indicated that the health sector management faced several challenges that included; human resource capacity, lack of organizational support, too many systems and processes that were inadequate, outdated, complex and inconsistent with their responsibilities. Other issues also noted were lack of preparation for managerial roles, balancing priorities, work pressures, lack of recognition, role conflict, lack of involvements in decision making and not forgetting role ambiguity, job security and lastly conflicting government directives especially.

1.1.2 County Governments in Kenya

The County Governments in Kenya are geographical units envisioned by the 2010 Constitution of Kenya as the units of devolved government. The powers are provided in Articles 191 and 192, and in the Fourth schedule of the Constitution of Kenya and the County Governments Act of 2012. They constitute of a county assembly and county executive. Their major functions include Agriculture, county health services, control of air pollution, noise cultural activities, public entertainment and public amenities; county transport, animal control and welfare, trade development and regulations, county planning and development, pre-primary education, and implementation of specific national government policies on natural resources and environmental conservation, county public works and services, fire station and control of drugs and pornography.

1.1.5 Employee Performance

Employee performance is a core concept within work and organizational psychology. It was a multidimensional and dynamic concept. It was a term synonymous with human resources and it was all about performance of employees in a given organization and the level at which the employees performed their work. It has to do with all the job activities expected of an employee and how well those activities were carried out, (Kavoo-Linge *et al*., 2013). Employee performance has also been viewed at in terms of outcomes, as well as in terms of behaviour. It could also be based on individual factors; personality, skills, knowledge, experience and abilities. According to Armstrong (2009), different indicators are used to measure performance. Quality could be measured by percentage of work output that must be redone or rejected, customer satisfaction that is measured by the number of customers that are faithful and customer feedback; timeliness of efficiency; that is measured in terms of how fast work is performed by the employee when given a particular task.

According to (Kenney *et al*., 2003) employee's performance was measured against the performance standards set by the organization. These could be productivity, efficiency, effectiveness, quality, profitability measures and customer feedback be it positive or developmental feedback.

Effectiveness was the ability of employees to meet the desired objectives or target (Stoner, 2006). Quality was the characteristic of products or services that bear an ability to satisfy the stated or implied needs (Armstrong, 2009). According to (Dessler, 2013), employee performance is an individual measurable behaviour which was relevant for organizational goal achievement. It consists of an aspect of both behaviour and an outcome. Organizations usually assessed an employee's performance on an annual or quarterly basis in order to assist them in the identification of suggested areas of improvement and determined as to whether the employee was performing or not.

1.2 Statement of the Problem

Human resource for health has long been recognized as the cornerstone of the hospitals and thus the Health Sector to produce, deliver and manager services (WHO, 2013). Health in Kenya is ranked as one of the major basic needs and plays a big role in the realization of vision 2030, public service reforms and the Millennium Development goals (Health Sector, Human Resource Strategy, 2014-2018). Inadequate number of skilled health workforce, health worker's persistent unrest, high human resource turnover, unsatisfied staff, lack of promotions, skill mismatch unfairness, low staffing levels, lack of HR development, poor infrastructure, lack of drug/equipment are critical challenges that are hampering employee performance in hospitals. (HRH Strategic plan 2014-2017).

WHO report, 2012 indicates that the performance of the health workforce in Kenya is below 50%. It also ranks Kenya as one of the 57 countries in the world with a critical crisis in health workforce. This shortage of the health workforce compromises service delivery and ultimately the health and development of a nation. The level five hospitals have inadequate crucial health staff like doctors, nurses, laboratory scientists, clinical officers in addition there are regional disparities in the distribution of the existing health professionals and hardship areas get disadvantaged with less staff. WHO recommends 23 doctors, nurses, and midwives to 10,000 peop0le but Kenya has one doctor, 12 nurses and midwives to 10,000. The hospitals are stretched dangerously thin as they deal with high patient load and increasing complex cases (KMPPDU Report, 2014). This challenge can be attributed to failure to completely not delinking the county governments from the national government. A study carried out by Ministry of Health (MOH, 2015) found out that 61% of health managers in hospitals were inadequately skilled, lacked knowledge and expertise for the management roles and this further affected service delivery as they led to unconsciously mismanaging health facilities, financial mess and loss of lives.

Accordingly, Muchomba (2013) investigated the influence of devolved governance on performance of the health sector specifically, Mombasa General Hospital and Kenyatta National Hospital, where he looked at leadership style, technology, devolved procurement and regulatory framework as variables . The study recommended that the success of devolution of healthcare would require strategic approach in order to realize the benefit of new governance dispensation . The literature from these studies failed to address strategic reward and compensation issues that influence employee performance in the level five public hospitals in the County governments in Kenya. It is against this background that the study was ideal and it aimed to fill the gap.

1.3 Objective

To Determine the influence of strategic reward and compensation on employee performance in level five public hospitals in Kenya.

1.4 Hypothesis

H_0 : Strategic reward and compensation has a positive significant influence on employee performance in level five public hospitals in Kenya

1.5 Significance of the study

The results of the study will assist the management of public hospitals to establish the effects of strategic reward and compensation on employee performance, hence identify the areas where improvements can be done. It will also enable the management in planning for the development and implementation of effective and efficient reward and compensation strategies that will lead to improved performance of the hospitals. This will in turn help in ensuring economic growth and stability of the health sector and the country at large. Other researchers who may need reference to information on role of strategic reward and compensation on employees' performance will also benefit by being able to assess previous approaches used to solve similar management questions and revise their research on the same.

1.6 Scope of the Study

The scope of the research was limited to Influence of strategic human resource management practices on the employee performance in Health Sector in Kenya. The study focused on four (4) randomly sampled major county hospitals within Kenyan health sector and in selected county governments in Kenya. A descriptive research design was used. The target population was 146. The study was carried in 2017.

1.7 Limitation of the Study

In the process of collecting data, the researcher encountered some problems whereby the hospitals being government institutions the release of information by respondents was difficult. Some respondents were apprehensive on what the study intended to do with the information. The other limitation was encountered where some respondents were reluctant to provide information and return the questionnaires due to the sensitivity of the information given. The researcher however had sensitized the research assistants on how to explain the issues that were being asked in the instruments. The respondents were also assured of the confidentiality which included the guarding of their identity. Another limitation was the one of bias in the county hospitals. Some respondents showed outright cultural biasness after discovering the gender and cultural background of the researcher. The researcher once again sensitized the research assistants on ways and methods to use in handling such instances before going out to the field. Another limitation was experienced at the interview level. The respondents being interviewed who were senior hospital administrators tried to evade

some questions posed to them for fear of victimization. The researcher however reframed the questions in a manner that enabled the respondents respond in a comfortable way.

2.0 LITERATURE REVIEW

2.1 Introduction

Human resources are a significant organizational asset if properly used and managed. The application of appropriate strategies for the development of human resources can lead to improvement of corporate performance both in the short and long term. This chapter describes available literature in the topic. It also offers a critical analysis of previous studies that have been done by other scholars in the area. It finally presents the research gap which the research intends to explore.

2.2 Theoretical Framework

According to Ulrich (2005) cited by Sabwani (2014) attempts to link human resource management and employee performance rely on a belief that improving the way people are managed inevitably leads to enhanced performance. This study explained the link between using Strategic reward and compensation and employee performance in level five public hospitals in. This study focused on the following theories: Human Capital theory,, Contingency theory also known as best fit.

2.3 Human Capital Theory (HCT)

This theory states that people posses innate abilities, behaviours and personal energy which are elements that make up the human capital. (Davenport, 1999). In HC theory it is the knowledge, skills and abilities of individuals that create value. As a result, focus has to be on the means of attracting, retaining and developing human capital. According to Armstrong (2010), individuals generate, retain and use knowledge that creates intellectual capital. The individual's knowledge is then enhanced by the interactions between them i.e. social capital which generates institutionalized knowledge that organizations has. According to Armstrong (2010), human capital theory sees people as assets and that organizations that invest in. In linking this theory to the health sector in Kenya, the study notes that the Human resource for Health (HRH) is a key resource for the health sector. The theory confirmed that knowledge, skills and abilities of individuals created value. As a result, focus had to be on the means of attracting, selection, retaining and developing human capital. Doctors, Nurses, Clinical Officers, laboratory technicians, information technology and in general the health workers and administrators have the knowledge and skills that needed to be developed because these abilities and skills added value to the entire health sector.

2.4 Contingency model (Best fit model)

This model asserts that there exist no universal or unique HRM practices and or policies, but rather they are contingent to an organization's context, business strategy, and culture **(**Storey & Sisson, 2000). Proponents of this school of thought assert that HR practices are more effective when properly integrated with a given environmental and or organizational situation. Contingency theory emphasizes best fit, which requires that HR practices are suitable for organization's situation, such as the culture, internal and external environments, and operational procedures. When applied HR practices should then consider the mutual needs of the people and the organization in question.

The main tenet of best fit theory is an exploration of the connection between HRM and strategic management through an examination of the vertical integration between an organization's operation strategies and the drafted HRM processes and policies (Ulrich & Brockbank, 2005). Vertical integration is the fit that gives leverage by means of policies, processes, and procedures that are largely known to be the core of the strategic approaches in managing human capital (Schuler *et al.*, 2007). Therefore, best fit facilitates a clear and strong connection between internal HRM practices and policies and the external strategies concerned with the business market. This creates competence and ultimately led to superior employee performance that is reflected in organizational success **(**Marchington & Grugulis, 2006).

Linking contingency theory to health sector and specifically County Hospitals, the researcher noted that all the Four County Hospitals selected for the study had different styles of managing their employees, they had different structures, facilities and they were located in different environments or locations. This meant that the hospitals in these counties operated contingent to their structures, leadership style, physical facilities, resources and cultures that was why we had best performing governors and worst performing governors. Training as a HR strategy and practice that was used had to be in line with the county hospital's way of doing things, i.e , the leadership style, the culture, and even the location and environment. The views of this theory are also applicable in designing organizational structure, in deciding the degree of centralization and decentralization, in planning information, decision systems, in motivational and leadership approaches, in establishing communication and control systems, in resolving conflicts and managing change in employee development and training programmes.

2.5 Conceptual Framework

Conceptual framework gives a diagrammatic representation of linkages or relationships between study variables, (Robson, 2011). The dependent variable in this study was employee performance in Level five public hospitals in Kenya. Independent variable was strategic rewards and compensation.

Strategic reward and Compensation ⟶ **Employee performance in level five public hospitals**

Incentives **in County Governments in Kenya**

Bonuses

salaries

2.6 Literature review of variables

2.6.1 Strategic Reward System and Employee Performance

The strategy for reward is an affirmation of resolve that described what the business purposes to execute, cultivate and enforce policies, patterns and procedures that advanced the realization of its corporate objectives and conformed to the shareholders needs. According to Katua *et al.* (2014), behaviour in employees needed to be motivated in an organization through strategic reward and compensation. According to (Oluoch *et al.*, 2013), a strategic reward system is comprised of four components which include; rewards that needed to fulfil the fundamental needs of all employees. These rewards ought to be systemically incorporated and correspond to the others provided by a private enterprise in a similar sector. These rewards ought to be accessible to people in similar status and the distribution conducted in a fair and equitable manner. The scholar went on to state that organizations which upheld certain behaviours and performance in employees, usually used rewards and compensation to reinforce them for continuity.

To motivate behavior, the organization needs to provide an effective reward and compensation system. This is a declaration of intent that defines what the organization wants to do in the longer term to develop and implement reward policies, practices and processes that will further the achievement of its business goals and meet the needs of the stakeholders (Ngui, 2015). An effective reward system has four elements: rewards need to satisfy the basic needs of all employees; rewards need to be included in the system and be comparable to ones offered by a competitive organization in the same area; rewards need to be available to people in the same positions and be distributed fairly and equitably (Goel, 2008). Managers often use rewards to reinforce employee behavior that they want to continue. According to Perce and Robinson (2007) reward power is available when the manager confers rewards in return for desired actions and outcomes. Reward and compensation is a work outcome of positive value to the individual (Armstrong, 2006). Motivated employees are very productive (William & Kinicki, 2008); and hence help to improve performance. However according to scholars motivation is one of the very complex roles of a manager (Dessler, 2008). This is because it is difficult to actually see it or know it in another person; it has to be inferred from ones behavior (William & Kinicki, 2008). Scholars have also based their arguments on the complexity of motivation from the fact that what motivates employees changes constantly (Bowen & Radhakrishna, 1991,) and also that what motivates one employee may not motivate others (William & Kinicki, 2008). To some extent, a high level of employee motivation is derived from effective reward and compensation management practices.

According to scholars (Dessler, 2010), motivating employees through reward and compensation was one of the complex areas of a human resource officer. This was attributed to the fact that, motivation was intricately complex to be seen or known in a different individual; rather it had to be anecdotal in one's behaviour (William *et al.*, 2008). Another area was that, staff motivation was dynamic and changed continuously. According to Armstrong (2010), reward and compensation practices increase employee skills and attitudes, promoted positive attitude and increased motivation. When this happens, improvement in employee performance was realised. Benardian (2008) argued that an organization's policy and patterns for rewards workers was imperative in enforcing a scheme. A firm that espoused a policy for rewarding staff that was reliable and one that underpinned its approaches was most probably to enforce those schemes than an organization that embraced reward policies that were discrepant with its overall strategies.

According to Zakaria, (2011), a reward strategy enhanced commitment, retention and employee engagement that eventually translated into employee performance. Paying for performance was a huge concern in current HRM. Establishments had long thought that efficiency improved after pay was connected to performance. While payment by outcomes schemes and inducements are established to back the belief. Researchers have also established a positive nexus between performance-related pay and staff productivity. According to Armstrong (2009), rewards proved to employees that the behaviour they exhibited was fitting and must be replicated. An empirical study by (Hall *et al.,* 2013), proved that incentives increased the value people attached to work goals. Rewarding people for exceeding targets motivated them to spend more time on the rewarded tasks which lead to heightened interest and satisfaction. It also appeared to strengthen self-confidence and employee loyalty. Well-designed and implemented reward systems increased employee motivation, commitment, cost effectiveness and congruence (Snelgar *et al.,* 2013). In support of the above findings, empirical evidence adduced by Uzman, (2010), on categories of rewards those employees consider to be most important of South African employees, found that 95% of the workers who participated in his study confirmed that adequate .and improved their effectiveness

Employees are bound to be much more productive when they work in a positive, supportive environment. Managers must strive to maintain an enjoyable, family-oriented atmosphere in which all employees focus on achieving team goals. According to Dessler (2008) recognition has a positive impact on performance either alone or in conjunction with financial rewards. Praising employees for achieving their goals is important in maintaining an enjoyable work environment. Recognizing success is critical, and equally important is inspiring employees to work toward achievements. Employees will be inspired by knowing their contributions are valued and that management is confident in their capabilities.

2.6.2 Employee Performance

According to Armstrong (2010), performance was both behaviours and results. Behaviours emanated from the performer and transformed performance from abstraction to action. Not just the instruments for results, but behaviours were also outcomes in their own right, the product of mental and physical effort applied to tasks. Employee performance comprised of actual results of an employee as measured against its intended goal (Cheruiyot *et al*, 2013). According to Armstrong, (2009), in human resource management discipline, different views were given on indicators used for measuring performance.

These were; quality that could be measured by percentage of work output that were to be redone or could be rejected; customer satisfaction that could be measured by the number of loyal customers and customer feedback. Another indicator was timeliness which was measured in terms of how fast work was performed by the employee when given a particular job; achievement of objectives measured when an employee had surpassed their set targets and were considered to have performed well. In every organization there were some expectations from the employees with respect to their performance. And when they performed up to the set standards and goals and met organizational expectations, they were believed to be good performers. This meant that effective administration and presentation of employee's task which reflected on the quality desired by the organization could also be termed as performance. According to (Dessler 2011), employee performance was an individual measurable behaviour which was relevant for organizational goal achievement.

The study by Baloch *et al.* (2010), measured the impact of three HR Practices which were Reward and compensation practices, training practises and performance evaluation practice on perceived employee performance. The results of correlation indicated a significant relationship between these practices and employee performance. This study established that county hospitals needed employees who were equipped with skills, knowledge and competencies coupled with right qualifications for the execution of their planning strategies. Their survival were contingent upon highly productive employees, and the County Hospital's ability to fore-know their hospital needs, health worker's needs. The high performing employees could gain the hospitals a competitive advantage. This was supported by (Ismail *et al.,* 2014 & Majid, 2015) who indicated that high performing workers who were handsomely rewarded steered the success of their organizations

3.0 RESEARCH DESIGN AND METHODOLOGY

3.1 Research Design

The study adopted descriptive research design which is a procedure in research whereby investigators administer a survey to a sample or to the entire population of people to describe the attitudes, opinions behaviours, or characteristics of the population.

3.2 Research Philosophy

The philosophy that guided the research was *positivism philosophy*. This is a philosophy that allows the researcher to make various assumptions. Such assumptions may include operating within agreed norms and practices as well as the idea that is possible to distinguish between more and less plausible claims that science may not provide all the answers, (Kothari, 2009 cited by Midida, 2014).

3.3 Target Population

According to Cooper and Schindler (2009) target population is a group of individual's objects or items from which samples are taken for measurements. The target population for the study comprised of 1428 permanent employees of the four level five (5) hospitals in county governments. They were Bungoma referral hospital, Kajiado referal hospital, Kangundo referral hospital, and Kakamega referral hospital. These were initially called District Hospitals. The respondents consisted of the senior management that included the hospital superintendents, Middle management, lower management and general members of staff.

3.4 Sampling Frame

The researcher sampled the respondents from four county public hospitals. The total number of respondents that were the source of sampling frame was 1428.

Table 3.1: Sampling Frame

Population category	**Kakamega General Hospital**	**Bungoma hospital**	**Kangundo District Hospital**	**Kajiado District Hospital**	**Total Sampled**
Permanent Senior management	1	1	1	1	4
Permanent Middle Management	2	3	2	3	10

Permanent Lower Management	4	4	2	2	12
Permanent General members of staff	30	26	34	30	120
Totals	37	34	39	36	146

Source: The Kenya Health Workforce Information System (KHWIS), *(2015)*

3.5 Sample Size and Sampling Technique

3.5.1 Sample Size

The sample size was drawn from the four (4) county public hospitals selected for the study. To arrive at the four (4) public hospitals from the selected counties, the researcher used simple random sampling in picking the four counties. Purposive sampling was used in picking the public hospitals from the four counties for the study.

3.5.2 Sampling technique

The study used a sample of 146 respondents. Both simple random sampling and stratified techniques were used. This meant that every individual within each stratum in the target population had an equal chance of being selected. The population in the study area was stratified into various categories to enable the gathering of data. Simple random sampling was adopted because the population constituted a homogeneous group (Kothari, 2009). The sample size was divided into four strata i.e. senior management, middle management, lower management and general staff.

3.6 Research Instruments

Primary data was collected through a standardized questionnaire was developed that captured the variables under study, and for the independent variables, a modified questionnaire of Boxall, Woods and Huselid (2007) cited by Sabwami,(2014) was adopted. The main type of data used in the research was primary data which was collected by use of questionnaires. Both closed-ended and open-ended structured questionnaire were used in line with the study objectives. The study also used interview schedules for the senior hospital managers. The interview instrument for the study consisted of a topical agenda that guided the researcher to cover broad concerns of the study in depth. Secondary data was obtained from the library and by reading books, reports from key stakeholders (NGOs, CIC, SRC, and Auditor Generals HRMP Act, 2012 etc), dissertations, Journals, Periodicals, Seminars papers, public documents, bulletins.

3.7 Data Collection Procedure

The researcher obtained permission from JKUAT on approval of the proposal to proceed on data collection. And in conformity with the government policy, the researcher obtained a permit from The National Council for Science and Technology (NACOSTI Kenya), and also from the relevant county hospitals where the study was carried out. An introductory letter was also prepared before proceeding to the field for data collection.

3.8 Pilot study

A pilot test was carried out with fourteen conveniently selected respondents from two hospitals that did not form part of the sample. Seven from each hospital. Of the seven respondents two senior officers were also taken through interviews to test the officer's interview schedule. The main purpose of the pilot study was to ascertain whether the instruments would yield the required data, and to further improve on the data collection instruments.

3.9 Validity of the Instruments

Validity is concerned with the study's success at measuring what it seeks to measure. Three types of validity were applicable to this study i.e. content validity, construct validity and face validity. To enhance the content validity, expert opinion from Professionals in this field, researcher's thesis supervisors were sought. Their comments were incorporated to improve the instrument. The face validity was enhanced by the instruments review. According to Bless *et* al (2006), face validity is concerned with the way the instrument appears to the participant. i.e. an instrument may appear insultingly simplistic, far too difficult, or too repetitive. In the case of construct validity, a five point Likert scale was used. The Likert scale is where respondents gave their opinions or views that enabled the researcher collect data that was objective.

3.10 Reliability of Research

Reliability of an instrument being the consistency of an instrument in measuring what it is intended to measure was established by first ensuring internal constancy approach followed by carrying out a pilot study. A questionnaire is considered reliable if the Cronbach's Alpha coefficient is greater than 0.70 (Katou, 2008). The independent variable and the dependent variable were subjected to reliability test using SPSS and the results obtained are shown in table 3.3. The results indicated that all the variables obtained had Cronbach's Alpha greater than 0.7 thereby achieving the recommended 0.7 for internal consistence of data (Mugenda & Mugenda, 2008). The reliability test shown in Table 3.3 produced Cronbach alpha (α) of greater than 0.70 making the questionnaire highly reliable as recommended by Mugenda and Mugenda (2003). The research used the extraction method of principle components for the factor analysis for all the above items.

3.11 Data Analysis and Presentation

Both descriptive and inferential statistical techniques were used to analyse the data. Descriptive statistics such as mean, percentages and standard deviation were employed to present the responses obtained from the respondents. The collected raw data from the field which was qualitative was coded and transcribed and translated into quantitative data and then analyzed and tabulated using Statistical Package for Social Sciences (SPSS version 21). The researcher used tables for data presentation. Correlations were used to test the strength of the relationship between the variables; independent variables and the dependent variable. Inferential data analysis was carried out by the use of factor analysis and correlation analysis to determine the strength and the direction of the relationship between the dependent variable and the independent variables. Regression models were fitted and hypothesis testing carried using multiple regression analysis. Results from quantitative data were presented in tables. The tables have the advantage of accommodating large amounts of information in a limited space

DATA ANALYSIS AND PRESENTATION OF FINDINGS

4.1.1 Response Rate

In this study, out of a total of 146 questionnaires that were distributed to the sampled respondents, 131 of them were filled and returned. Of the returned questionnaires, 11 were incorrectly filled and therefore were not used in the final analysis. Therefore, 120 were correctly filled and these were the once used for the analysis, which made up a response rate of 82.5%.

4.1.2 Gender of the Respondents

According to the study findings, majority of the respondents were male 52.3% while female respondents were 47.5%. The study attributed this to the existing gender gap in the employment in the public sector in Kenya which is predominantly dominated by the male gender,

4.1.3 Distribution of Respondents by Age Group

The findings indicate that majority of the respondents in the hospitals were between ages 30-40 year bracket representing a 55.0 %; 28.3% were below 30 years of age; 11.7% were more than 60 years of age and 5% were between age bracket of 50-60 years of age. Thus the highest were 55% while the least were 5%. This meant that the sample used by the study was well distributed in terms of age and could therefore give reliable information. The study established that the highest respondents were mainly young adults (ages 30-40).

4.1.4 Distribution of respondent by Level of Education

The findings indicated that majority of the respondents had a university degree i.e. 85.8%; 10.0% had attained middle level college education and 4.2% had attained secondary. This showed that most of the respondents were knowledgeable and gave valid, reliable and more accurate response in regard to research questions asked.

4.1.5 Distribution of respondents by their working experience

According to the findings majority of the respondents 56.7% had worked for the county hospital for between 5-10 years. Ideally when combined, more than 85.2% had worked for the county hospital for more than 5 years and only 14.8 % had worked with the county hospital for less than 5 years. From the findings, the researcher concluded that majority of the respondents had enough experience.

4.1.6Respondents job title in the County Government Hospital

From the study majority of the respondents 14.4% worked as nurses at the hospitals while the least were IT 2% officers. This indicates the importance of nurses as they cut across all the departments or sections.

4.2 Descriptive Statistics

4.2.1 Strategic Reward and Compensation System

According to study findings; majority of the respondents 97% indicated that the hospital has a reward and compensation system policy in place while 3% indicated that the hospital does not have a reward and compensation system policy in place. Further from the findings; 75% indicated that Reward and Compensation affected productivity of employees; 25% indicated that R&CS did not affect productivity. On the implementation of the R&SC policy and production level, the respondents indicated that the production level was at 30.6% before the implementation of RCS policy; and it improved greatly to 68.69% after the implementation of the RCS

Policy. Parameters used were; 5=Strongly Agree, 4=Agree, 3 = Neither agree nor disagree, 2= Disagree and 1=Strongly Disagree.

Table 4.1: Responses on Strategic Reward System

Statements	5 (%)	4 (%)	3 (%)	2 (%)	1 (%)	Mean	Std. Deviation
The county hospital's salary scales are comparable to other counties	91(75.8)	3(2.5)	2(1.7)	19(15.8)	3(2.5)	4.36	1.244
Incentives given to the employees motivates employees performance	19(15.8)	13(10.8)	7(5.8)	77(64.2)	2(1.7)	2.75	1.192
The county hospital has a competitive reward system	20(16.7)	12(10.0)	4(3.3)	78(65.0)	4(3.3)	2.71	1.227
In the hospital, compensation for employees is directly linked to his/her performance	14(11.7)	6(5.0)	3(2.5)	85(70.8)	10(8.3)	2.40	1.110
Rewards offered by	15(12.5)	11(9.2)	5(4.2)	83(69.2)	4(3.3)	2.58	1.128

the hospital have an effect on employee performance								
Good rewards have a positive effect on the employee performance of the hospital	98(83.1)	5(4.2)	0(0.0)	13(11.0)	2(1.7)	4.56	1.058	
N=120								

According to study findings in table 4.1; the respondents strongly agreed that the county hospital's salary scales are comparable to other county hospitals as indicated by a mean of 4.36 and standard deviation of 1.244; the respondents were undecided if Incentives given to the employees motivated employees and enhanced performance as indicated by a mean of 2.75 and standard deviation of 1.192. The respondents were undecided whether the county hospital had a competitive reward and compensation system as indicated by a mean of 2.71 and standard deviation of 1.227; they disagreed that in the hospital, compensation for employees is directly linked to their performance as indicated by a mean of 2.40 and standard deviation of 1.110. The respondents were undecided whether Rewards offered by the hospital had an effect on employee performance as indicated by a mean of 2.58 and standard deviation of 1.128; the respondents strongly agreed that Good rewards have a positive effect on the employee performance of the hospital as indicated by a mean of 4.56 and standard deviation of 1.058. The researcher used various parameters were; Where: 5=Strongly Agree, 4=Agree, 3 = neither agree nor disagree, 2= Disagree and 1=Strongly Disagree. Overall, from the above measurements in Table 4.10, we can conclude that indicators used to operationalize the variables had an approximate average mean of 3.00. This meant that most respondents were neutral.

4.2.3 Employee Performance

Table 4.2: Responses on Employee Performance

Statements	**5 (%)**	**4 (%)**	**3 (%)**	**2 (%)**	**1 %)**	**Mean**	**Std. Deviation**
Staff turnover has	21(17.5)	2(1.7)	0(0.0)	0(0.0)	95(80.5)	1.60	1.234

decreased in this hospital due to efficient use of human resource practices that motivate, us in this hospital.						
Employees in this hospital are leaving their jobs to look for greener pastures elsewhere	83(70.3)	0(0.0)	0(0.0)	3(2.5)	32(27.1)	3.14	1.346
The customer feedback reports indicates positive results about the employee's services	33(28.0)	0(0.0)	0(0.0)	2(1.7)	83(70.3)	1.86	1.348
The employees in this hospital are satisfied with their day to day responsibilities and activities	32(27.1)	0(0.0)	0(0.0)	4(3.4)	82(69.5)	1.85	1.331
The employees attitude towards work has improved	29(24.6)	0(0.0)	0(0.0)	6(5.1)	83(70.3)	1.79	1.287
The quality of work provided by the employees in this hospital is exceptional	34(28.8)	0(0.0)	0(0.0)	5(4.2)	79(66.9)	1.91	1.352
Employees in this hospital provide efficient services to their	32(27.1)	0(0.0)	0(0.0)	7(5.9)	79(66.9)	1.87	1.324

customers and the customers are very happy about this exemplary service						
I am satisfied with my job position and the responsibilities that I perform in this hospital	32(27.1)	0(0.0)	0(0.0)	0(0.0)	86(72.9)	1.81	1.339
N=120							

As depicted in Table 4.2; majority of respondents with a mean of 1.60 disagreed that Staff turnover has decreased in their county hospital due to efficient use of human resource practices that motivate, attract and retain them in the hospital this was indicated by a mean of 1.60 and standard deviation 1.234; 0% respondents were undecided on if Employees in the hospital were leaving their jobs to look for greener pastures elsewhere as indicated by a mean of 3.14 and standard deviation 1.346. A total of 83% of respondents disagreed that the customer feedback reports indicated positive results about the employee's services this was indicated by a mean of 1.86 and standard deviation 1.348; while 82% of respondents disagreed that employees in the county hospital were satisfied with their day to day responsibilities and activities this was indicated by a mean of 1.85 and standard deviation 1.331. From the above measurements in Table 4.2, we can conclude that indicators used to operationalize the variables had an approximate average mean of 1.50. This meant that most respondents strongly disagreed.

4.4 Testing of hypotheses

The hypotheses are tested at 5% level of significance.

Hypothesis : Strategic Reward and Compensation System and Employee Performance

H_o Strategic Reward and Compensation System has apositive significant influence on employee performance in the health sector in Kenya

Table 4.3: Model Summary for Strategic Reward and Compensation System

Model	R	R Square	Std. Error of the Estimate
1	.911	.829	1.79663

From findings in Table 4.26, the value of R-Square is 0.829. This implies that, 82.9% of variation of Employee Performance was explained by: Strategic Reward and Compensation System.

Table 4.4: ANOVA Table Strategic Reward and Compensation System

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1802.403	1	1802.403	558.384	.000
	Residual	371.208	115	3.228		
	Total	2173.611	116			

a. Dependent Variable: EP

b. Predictors: SRCS

From the findings in table 4.4, at 0.05 level of significance the ANOVA test indicated that in this model the independent variable namely; Strategic Employee Voice is important in predicting of Employee Performance as indicated by significance value=0.000 which is less than 0.05 level of significance (p=0.000<0.05). From Table 4.4; the study revealed that Strategic Reward and Compensation System had a significant influence on employee performance in County Hospitals in Kenya (t-statistic=24.344, p-value=0.031<0.05). Therefore at 5% level of significance the null hypothesis was not rejected, indicating that Strategic Employee Voice had a positive influence on employee performance in the health sector in Kenya. This means for every unit increase in Strategic Reward and Compensation System there was a corresponding increase in employee performance by 1.266.

Table 4.5: Coefficients for Strategic Reward and compensation System

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.432	.406		10.907	.000
	SRC	1.266	.052	.913	24.344	.031

a. Dependent Variable: Employee Performance

From Table 4.5; the study revealed that Strategic Reward and Compensation System had a significant influence on employee performance in County Hospitals in Kenya (t-statistic=24.344, p-value=0.031<0.05). Therefore at 5% level of significance the null hypothesis was not rejected, indicating that Strategic Employee Voice had a positive influence on employee performance in the health sector in Kenya. This means for every unit increase in Strategic Reward and Compensation System there was a corresponding increase in employee performance by 1.266.

Table 4.6: Model coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	3.239	.886		3.657	.000
SRC	.199	.133	.140	1.494	.138

From the findings in table 4.6 above; at 5% level of significance, Strategic Reward and Compensation System was not a significant predictor of Employee Performance at County Hospitals in Kenya where (p=0.138<0.05).

Multiple Linear Regression for all variables

Table 4.7: ANOVA Table

Model		Sum of Squares	df	Mean Square	F	Sig.	R-Squared
1	Regression	26.481	5	5.296	3.649	.004	0.379
	Residual	158.217	109	1.452			
	Total	184.698	114				

a. Dependent Variable: Employee Performance

The ANOVA test is used to determine whether the model is important in predicting the Employee Performance. At 0.05 level of significance the ANOVA test indicated that in this model the independent variables namely; Strategic Reward and Compensation System variable is a predictor of Employee Performance as indicated by significance value=0.005 which is less than 0.05 level of significance (p=0.001<0.05.

4.5 Discussion on Variables

Strategic Reward and compensation System on Employee Performance

From Table 4.13; the study revealed that Strategic Reward and Compensation System had a strong positive influence on employee performance in health sector in Kenya. With a Pearson correlation coefficient r=0.569, p-value <0.05 which was significant at 0.05 level of significance. This implies that improved Strategic Reward and Compensation results in improved Employee Performance.

Majority of the respondents agreed that their salary scales were comparable across the units/sections in the health sector and attractive allowance, rewards and or incentives had a positive influence on employee performance. Most of the interviewed respondents in Bungoma county hospital and Kangundo revealed that when the health workers were rewarded of paid allowances especially hardship allowanced, their performance

increased and they were enthusiastic when working. The quality of work and services were excellent and some even opted to work beyond their normal shifts. This is also supported by (Ngui, 2014), who indicated that performance related pay is an effective motivator and conveys a clear message that high levels of an employee performance is expected and will be rewarded. An empirical study by (Hall *et al.,* 2013), proved that incentives increased the value people attached to work goal.

4.5.1 Employee Performance

Devolved medical services were to act as a further booster in strengthening health care services across the country allowing each county to address its unique challenges. However, from the respondents interviewed, this has failed as the counties are unable meet the demand for better remuneration and improved terms of service which eventually leads to strikes that cause deaths in level five hospitals. The respondents interviewed revealed that there was a problem in the county hospitals that need to be addressed urgently in order to improve employee performance. Some respondents mentioned were, lack of medical stores, poor staff and working condition, poor remuneration, poor internal promotions that are skewed, theft of drugs. There are machines but with no trained staff to manage them. The respondents revealed that there is need for the county governments and the national government resolves these challenges that are impeding service delivery as they are impacting negatively on the economy of the county.

5.0 SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of major Findings

From this study it was found that strategic reward and compensation was ranked high at influencing employee performance in level five public hospitals in Kenya. When these strategies like bonuses, incentives, salary were used, the performance of employees improved by 67%. However, the study also established that incentives being given by the county hospital had not motivated employees. There were no bonuses and allowances especially to those employees worked in risky sections and environments/areas like laboratories. The hardship allowances for employees who were working in very risky areas. It was also established that if the hospital had good rewards and compensation, and if they paid allowances for concerned employees, it could positively influence the performance of the employees. The study established that this was one reason why the unions were insisting on the implementation of the 2013/2017 CBA.

5.2 Conclusion

It was therefore concluded that having a strong reward system retained talented staff. It was also concluded that bonus payments and incentives were based on individual employee performance but they were lacking at the health sector. Though the salaries were comparable to other hospitals, there were staff like the doctors and nurses who worked long hours and yet they were never compensated, rewarded nor given any bonuses. It was concluded that the hospital could ensure that bonus payments were made to individual employees and that they could be proportionate to their work performance. It was also concluded that the health sector could have well structured and effective employee reward and compensation systems that could be all inclusive.

Based on results of the study, it is clear that using only financial or non-financial rewards is not sufficient to motivate employees to increase employee performance. If level five public hospitals in Kenya keep both types of rewards and compensation for the employees then they will increase their employees' performance because there is a strong correlation between financial and non financial rewards. Incentives also had a positive and statistically

significant relationship with hospital performance**.** From the study it was found that private hospitals that use incentives reported 84% improvement in performance. These results are consistent with the results of the study by Adegoroye, Oladejo and Moruf (2012) which found that the compensation practices influenced the employee performance in private hospitals very highly.

5.6 Recommendations

Based on the findings and conclusions of the study the researcher provides the following recommendations aimed at ensuring that the reward and compensation adopted by level five hospital and health sector in general in Kenya play a positive role in ensuring the improved employee performance and competitive advantage of the hospitals that adopt them. Public hospitals in Kenya and specifically level five public hospitals in Kenya may need to reevaluate their compensation programs within the context of their corporate strategy and specific HR strategy to ensure that they are consistent with the necessary performance measures required by the health sector. The strategic reward and compensation strategy used by the public hospitals should align the performance of the hospitals with the way it rewards its human resource, in order to provide the necessary incentives and motivation required for the employees to deliver the goals of the hospital. In the same line, level five hospitals should use both financial and non financial rewards in addition to providing other incentives bonuses that will help motivate employees.

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Asset Quality and Efficiency of Deposit Taking Savings and Credit Cooperative Societies in Kenya

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ABSTRACT

The deposits taking Savings and Credit Cooperative Societies have continued to play a critical role in Kenya's financial sector in terms of access, savings mobilization and wealth creation. According to the Kenya's economic blueprint Vision 2030, the sector under study is a key player to achieving the 10% annual economic growth target. Given the importance of the sector in economic growth, there has been considerable interest in their efficiency. In Kenya, DTS have been reported to have low efficiency, with the average efficiency being less than one. There is limited empirical literature to explain the inefficiency of Deposit Taking Savings and credit Cooperative Societies in Kenya. In view of this, the study sought to establish the effect of asset quality on efficiency. The study was anchored on Asymmetric Information Theory. The study adopted positivist philosophy and explanatory research design. The target population comprised 110 Deposit Taking Savings and credit Cooperative Societies as per Savings and Credit Cooperative Societies Regulatory Authority report for the year 2017.The study used secondary data that was collected from the audited financial statements for the period 2012-2016.Data was collected using a document review guide. Data Envelopment Analysis methodology was used to generate efficiency scores. Both descriptive analysis which included mean and standard deviation and inferential statistics which included panel Tobit regression was done and was aided by stata version 11. Descriptive analysis indicates that the mean of asset quality is above the required maximum by the regulator. In addition, asset quality had a statistically significant effect on efficiency. The study concluded that: increase in asset quality reduces efficiency. The study recommends that Deposit Taking Savings and credit Cooperative Societies should develop credit administration strategies that reduce the amount of non-performing loans; a policy for credit information sharing to make it compulsory for Deposit Taking Savings and credit Cooperative Societies to share credit information.

Keywords: Efficiency, Asset quality, Financial Innovations, Efficiency, non-performing loans

1.1 Background of the Study

To maximize shareholders' value, all profit making enterprises seek to be efficient. Notwithstanding that Deposit taking Savings and credit cooperative (DTS) societies while not being purely profit making businesses, they seek to maximize the economic wellbeing of their members. They do so mostly through provision of loans for provident and development purposes (Ochola, 2016). DTS are also keen to pay interest on members' deposits as well as dividends on shares; hence their efficiency becomes a key issue. Society's welfare and the economic growth slows down if DTS operate with waste and inefficiency (Adegbaju & Olokoyo, 2008). According to Beck and Polit (2003), DTS that are efficient in resource generation and allocation contributes more to productivity and economic growth.

From both micro and macro level, it is vital to study efficiency of financial institutions. According to Pessarossi and Weill (2013), the issue of inefficient financial system is critical from the microeconomic perspective. This is due to the developments in the supervisory, institutional and regulatory framework and growing competition. From the macroeconomic perspective, the stability of financial market is influenced by efficiency as well as the cost of financial intermediation (Berger & Mester 1997). Efficiency entails how well a DTS is allocating inputs to produce

maximum output (Bassem, 2008). Knowledge about efficiency is key in assessing continuity of financial services (Burki & Niazi, 2010).

Given that DTS work mainly with high risk and poor clients, it is vital to know their efficiency in order to ensure effective management and responsive policy decisions. During intermediation process efficient DTS are expected to mobilize savings and provide loans to members by decreasing unnecessary expenditures (Marwa & Aziakpono, 2014).In particular, DTS particularly have continued to play an indispensable role in financial intermediation; they have continuously grown to compete with commercial banks. DTS differ from commercial banks in two key ways. First, they seek to collect savings to provide loans to members; on their part commercial banks seek to maximize shareholder's wealth (Owen, 2007). Secondly, the owners of DTS are the customers; customers are predominantly non-owners in commercial banks.

Asset quality indicates the risk exposure from loans granted by a financial institution (Dardac & Barbu, 2005). According to Grier (2007), the major cause of failure in financial institutions failure is poor asset quality. In the financial sector, asset quality is considered extremely important. There are twenty-five core principles according to the Basle Committee on banking supervision which regulators of the banking industry use. Out of these, seven are tailored towards addressing the asset quality and credit risk management of the institution (Pan, 2010). Therefore, the financial supervisory authorities worldwide are concerned with the asset quality of financial institutions because it is one of the key areas in establishing the overall condition of the financial institutions (Ochola, 2016).

A sizeable amount of non-performing loans (NPL) must exist before a financial institution can be declared bankrupt; hence asset quality is a key issue in financial sector (Cole & Wu, 2009). The primary factor affecting overall asset quality is the loan portfolio and the credit administration program (De Bock & Demyanets, 2012). According to Mishkin (2006), a financial institution's rating downgrades and it becomes difficult to earn depositors' trust as a result of bad asset quality. Therefore, such institution can only get more deposits by rewarding depositors or attaching a higher deposit rate on deposits.

1.2 Statement of the Problem

Efficiency is important to members of DTS; efficient DTS offer better quality services, better loan and deposit rates and have lower service charges (Limam, 2001). Efficiency is also important for promoting access to financial services as well as soundness of the DTS as an integral component of the financial system (Kamau, 2011; Nasieku, 2014). Given that there is increase in competition in the industry, there has been considerable interest in their efficiency. DTS in Kenya have reportedly registered low efficiency. Mwangi (2014) found that the average efficiency score was 0.775 for the period 2009-2013. Ochola (2016) indicated that the average efficiency score in Kenya was 0.683 for the period 2011-2013. Kariuki (2017) observed that the industry efficiency score in Kenya was 0.677 for the period 2011-2014, an indicator of inefficiency. From the statistics of efficiency it is evident that there is declining efficiency of DTS in Kenya. In view of the above, there is limited empirical literature to explain the declining efficiency among DTS in Kenya.

Abdi Karim, Sok and Hassan (2010) investigated the relationship between NPL and efficiency of banks in Malaysia and Singapore and concluded that asset quality has a negative relationship with efficiency.

Burki and Niazi (2010) studied the impact of financial reforms on efficiency of state-owned, private and foreign banks in Pakistan. They found that NPL adversely affected efficiency. The study by Harris, Huerta and Ngo (2013) was based on the impact of troubled asset relief program on bank efficiency. The study findings attributed the decrease in the operating efficiency of troubled asset relief .Most of the aforementioned studies have reported mixed results; they are from developed countries and different contexts, hence their findings cannot be generalized in Kenya, a developing country. Similarly, the studies did not focus on the relationship between financial soundness and efficiency in regulated SACCOS, hence the need to address the conceptual gap.

2.1 Theoretical Review

2.1.1 Asymmetric Information Theory

The proponents of Asymmetric Information Theory (AIT) are Akerlof 1970; Spence 1973; Rothschild and stiglitz 1976. The theory explains that in an economic transaction, the party that has more information on the specific product to be transacted is in a position to negotiate optimal terms for the transaction than the other party (Auronen, 2003). According to Wangai (2004), a right or a wrong decision concerning a transaction can be made by the party that knows less about the same specific item to be transacted. In a lending transaction, asymmetry information makes it difficult to differentiate between a good and a bad borrower (Bofondi and Gobbi, 2003), hence leading to accumulation of NPL as a result of adverse selection and moral hazard (Ochola, 2016). Adverse selection problem can be reduced through information sharing, whereby DTS share credit information of applicants with other financial institutions.

Moral hazard refers to the risk in which a party to a transaction provides misleading information about its assets liabilities or credit capacity (Wangai,2014).Moral hazard occurs when a borrower takes unusual risk in order to gather profits (Mishkin & Eakins, 2006). DTS with low capital may respond to moral hazard by increasing the riskiness in the loan portfolio resulting in turn to NPL. This theory underpins the study because it explains the relationship between asset quality and efficiency. The DTS with high NPL spends more resources in collecting NPL. The net effect is increased operating costs, hence decreasing efficiency.

2.1.1 Economic Efficiency Theory

The Economic Efficiency Theory (EET) is attributed to Debreu (1951). It states that firms ought to use the lowest cost possible per unit in order to achieve their output. Fixed costs are shared out among the number of units produced, while the variable costs are relative. In a business, there is a combination of fixed and variable costs and the fixed costs are always shared out across small number of units, leading to low levels of output which are inefficient (Leibenstein, 1978). Economies of scale can be enjoyed above optimal production. However, since the existing system is overworked, the additional cost is offset by the benefits. Maximum operational efficiency is achieved in the short run if all available economies of scale are exploited at the level of output; inefficiency is not achieved in the short run, when the existing systems are overstrained by diseconomies of scale (Murillo-Zamorano, 2004). However, in the long run, the efficiency can be raised by increasing the capacity of existing systems (Teece, 1982).

Tripe (2003) contends that with less than proportionate increases in quantities of inputs, increased volumes of output should be produced. This means that with less input, more output is achieved; this improves the firm's efficiency. Because economies of scale will be exhausted in due course, then, increased output requires a more than proportionate increases in outputs, this would lead to diseconomies of scale (Nadiri, 1970). Economies of scale form another type of efficiency. Here, firms should be able to produce multiple outputs from the same group of inputs at lower costs than if they specialized in producing only one type of output (Alchian & Demsetz, 1972. This theory was applicable in this study by underscoring the importance of the principle of economies of scale in efficiency measurement.

2.2 Empirical Review

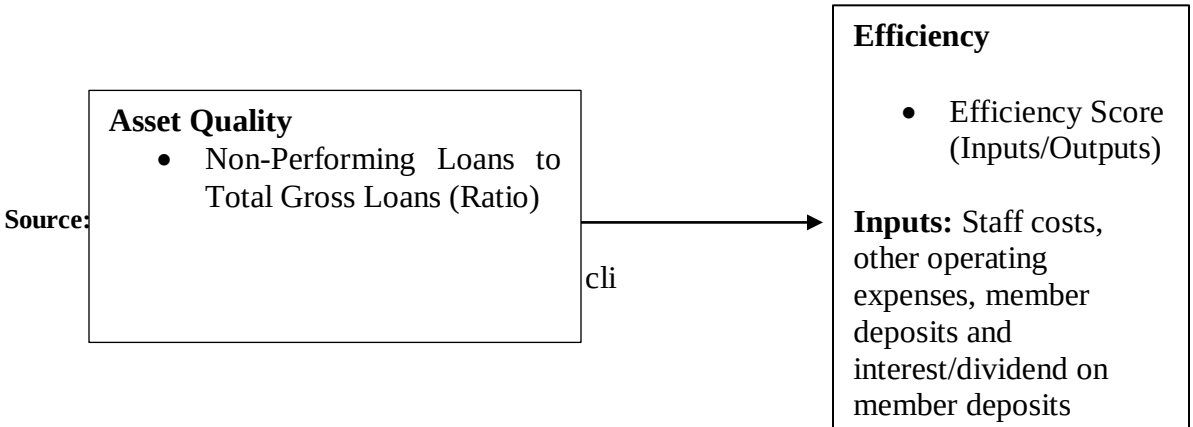
Karim, Sok and Hassan (2010) investigated the relationship between NPL and efficiency of banks in Malaysia and Singapore. This study focused on the cost efficiency and used the Stochastic Frontier Approach (SFA) to generate the efficiency scores. The study found that the banks in Singapore had high efficiency scores compared to the ones in Malaysia. However, the difference was not significant. In addition, the study found that the relationship between NPL and efficiency was negative and significant. This study used the SFA to generate the efficiency scores and only focused on one dimension of efficiency that is cost efficiency. The current study used DEA to generate the efficiency scores and focused on the technical efficiency.

Khalid (2012) investigated the relationship between asset quality and profitability of private banks in India. The study used ROA to measure profitability. Panel data for the period 2006-2007 to 2010-2011 was used. Multiple Regression models were used to analyze data. The study found that a bad asset ratio has a negative relationship with bank performance. This study focused on NPL and left out other measures of asset quality and also focused on commercial banks. The results of this study contradicts what Adeolu (2014) observed hence forming basis of the current study.

Ochola (2016) studied the relationship between loans, deposits and advances and efficiency of SACCOS in Kenya. The study found that SACCOS in Kenya have not achieved efficiency. Further, loan and advances had a negative relationship with efficiency, and the relationship is statistically significant, indicating that an increase in loans and advances is obstructed efficiency. This study did not focus on indicators of financial soundness. Rather it focused on the relationship between loans and efficiency. The current study investigated the effect of financial soundness on efficiency of DTS in Kenya.

2.3 Conceptual Framework

The conceptual framework is the researcher's conceptualization of the relationship between the variables under study



3.0 Research design

In this study explanatory non-experimental design was found to be most suitable. Kerlinger and Lee (2000) supports this design especially when the variables to be studied are not manipulated during the research. The choice of this design is justifiable since the study sought to explain factors that cause change and explicitly clarify how some phenomenon operates. This design is further suitable to establishing the causal relationship between study variables against the occurrence of a problem. The study sought give description of certain groups, without manipulation of independent variables and hence the adoption of explanatory non-experimental designs (Were & Wambua, 2014).

3.1 Target Population

According to Borg *et al.,* (2007), the whole set of individuals, events or a thing that the researcher anticipates to investigate is the target population. The target population for the study comprised one hundred and ten DTS societies in Kenya that were in existence from period 2012-2016

3.1.1 Research Hypotheses

The study sought to test the following null hypothesis:

Asset quality does not have a significant effect on efficiency of Deposit Taking SACCOs in Kenya.

3.2 Empirical Model

In this study Data Envelopment Analysis (DEA) was used in the first stage analysis.DEA yields efficiency scores that vary from 0 to 1 which implies that the dependent variable is limited hence in the second stage of analysis Tobit regression analysis was considered appropriate.

$$E_{it} = \beta_0 + \beta_1 AQ_{it} + \varepsilon_{it}$$

Where:

E_{it} = Efficiency of SACCO *i* at time *t*

β's=are coefficients of explanatory variables

AQ_{it}= Asset Quality of DTS *i* at time *t*

ε_{it}- Error Term

3.3 Data Collection Instrument

This study predominantly relied on quantitative secondary data. The data was obtained from DTS financial statements, DTS supervision reports from SASRA. The duration for this study was between 2012 and 2016 and the document review guide.

4.0 Results and Discussion

This section provides the descriptive results, DEA results and the Tobit results

4.1 Efficiency

This section presents the technical and scale efficiency of DTS generated from the DEA model and the bias corrected efficiency scores generated after curing the inherent dependency of the scores generated by DEA model.

4.1.1 Technical and Scale Efficiency

Table 4.4 summarizes results per year from the DEA model on technical efficiency as measured by constant return to scale (CRSTE) and variable return to scale (VRSTE) and scale efficiency for period 2012 to 2016 as shown in Appendix IV. If a unit operates under constant return to scale, it indicates that an increase in inputs results in a proportionate increase in the output levels. If a DMU operates under variable return to scale, it indicates that an increase in output does not reflect a proportionate increase in input. This study adopted the variable return to scale because of its assumption which applies to the DTS. However, it is important to calculate the efficiency scores under CRSTE and VRSTE because it helps in explaining the efficiency level.

Table 4.1 Technical and Scale Efficiency

YEAR	**VRSTE**	**CRSTE**	**SCALE**
2012	0.579	0.770	0.753
2013	0.766	0.833	0.916
2014	0.676	0.789	0.865
2015	0.788	0.860	0.917
2016	0.803	0.868	0.927
MEAN	**0.722**	**0.824**	**0.876**

Source: Study Data, 2018

Table 4.4 indicates the technical efficiency as measured under constant and variable returns to scale. On average, the mean efficiency scores for five year period were 72.2% for VRSTE and 82.4% for CRSTE reflecting that the firms are inefficient since they have not achieved a score of 1.VRSTE the DTS are required to decrease inputs (Staff cost, other operating expenses, total deposits and interest on deposit) by 27.8% in order to achieve efficiency or increase outputs (total loans, interest income and other income) by 27.8% without any additional increase in input to achieve efficiency. The minimum score over the same period were 57.9% in the year 2012 for VRSTE and 77.0 % for CRSTE, the same year.

There has been improvement in efficiency over the five-year period. This can be attributed to regulatory compliance; as more and more DTS becomes compliant the efficiency is improved. This corroborates the study of Mwangi

(2014) which found that the average efficiency score for DTS was 0.775 for the period 2009-2013 .Ochola (2016) established that the average efficiency score in Kenya was 0.683 for the period 2011-2013. Kariuki (2017) observed that industry efficiency score in Kenya was 0.677 for the period 2011-2014.The technical efficiency divergence from the efficient point is 22.8% and 17.6% respectively under the VRSTE and CRSTE. This indicates that they could produce the same amount of outputs with approximately 22.8% fewer resources under variable returns and 17.6% fewer resources under constant returns than they actually employed. This finding reveals that the overall inefficiency would be attributed to the technical inefficiency rather than scale inefficiency.

4.1.2 Bias Corrected Efficiency Scores

In the second stage of analysis, efficiency scores are regressed on the financial soundness. Scores generated by DEA model are dependent on each other (Simar & Wilson 1998).The presence of dependency among the efficiency scores implies that assumption of independence within the sample is violated. To cure this inherent dependency, bootstrap is done. Bootstrap is a procedure of drawing with replacement, producing multiple estimates which can be used for statistical inference. Simar and Wilson (1998) proposed a homogenous bootstrap algorithm. The algorithm based on the bootstrap approach and attributed to Efron (1979), stresses on repeatedly simulating the data generating process and applying the original estimator in each simulated sample. Then the empirical distribution of resampled estimates can be used to generate the bootstrap confidence interval to give the bias corrected efficiency scores. In this study, the efficiency estimation process was implemented in R version 3.1 using the FEAR programme. Table 4.6 below presents a summary of the bias corrected efficiency scores for year 2012 to 2016.

Table 4.2 Bias Corrected Efficiency Scores

Year	VRSTE	Mean of Bias Corrected VRSTE
2012	0.579	0.468
2013	0.766	0.609
2014	0.676	0.523
2015	0.788	0.675
2016	0.803	0.631
Mean	0.722	0.581

Source: Study Data, 2018

4.2 Descriptive Analysis

	N	Minimum	Maximum	Mean	Std. Deviation
Bias corrected efficiency scores	485	.00	1.00	.5819	.21281
Asset quality	485	.01	2.84	.1125	.18747
Valid N (list wise)	485				

Source: Study Data, 2018

Table 4.7 indicates that the mean of bias corrected efficiency scores was 0.5819, with a standard deviation of 0.21281 and a minimum of 0 and a maximum of 1 respectively, an indication that the dependent variable is censored. The mean of bias corrected efficiency scores demonstrates that the DTS have not achieved efficiency; they need to increase inputs by 32% in order to achieve the same. The mean of asset quality is 0.1125. This ratio is above the 5% recommended maximum by the World Council of Credit Unions (WOCCU) and far much higher than 3% SASRA recommends. Loans remain the key asset hence emphasis should be on how to improve the credit strategies to reduce the ratio to below 3 %.

4.3 Tobit regression results

Variable	Coefficient.	Std. Err.	P -Value
Asset Quality	0.1251659	0.0629762	0.047
LR Chi square(5) 14.39			
Prob>Chi square 0.0062			

Source: Study Data, 2018

The findings in Table 4.15 indicate that the likelihood ratio chi square is 14.39 (d.f 4) with a p-value of 0.0062 .This is less than the significance level of 0.05. It demonstrates that the Tobit Model was fit to the dependent variable, using a constant term and all the four variables. To establish the relationship between asset quality and efficiency, a null hypothesis that asset quality has no significant effect on efficiency was tested. Table 4.15 indicates that the p-value of asset quality was 0.047 .This is less than the significance level of 0.05.This indicates a statistically significant relationship between asset quality and efficiency. Therefore, the null hypothesis that asset quality does not have a significant effect on efficiency was rejected and concluded that asset quality affect efficiency. The

findings are consistent with empirical work by Ocholla (2016) and Karim, Hassan and Sok (2010). Further, the finding contradicts with the empirical studies by Khalid (2012) whose findings were asset quality have a negative insignificant relationship with efficiency.

4.3.1 Marginal effects after Tobit

Variable	dy/dx	Std.Error	P-Value
Asset quality	-0.1046883	0.05269	0.047
Cons	0.72866481		

Source: Study Data, 2018

The coefficient of asset quality was at β= -0.1046883 which indicates a negative and statistically significant relationship between asset quality measured by non- performing loans and efficiency. The regression coefficient indicates that a unit increase in non-performing loans leads to a decrease in efficiency by 0.1046883 units all else held constant. This indicates that as asset quality improves efficiency improves. These findings are consistent with the Asymmetric information theory (1970) which argues that asset quality has a negative relationship with efficiency. As pointed out by Berger and Young (1997), the negative relationship exists because the DTS will incur additional operating costs such as costs of collecting non-performing loans. The efficient DTS are better at managing their credit risk which leads to lower NPL.

CONCLUSION

The study found that asset quality has a negative and significant effect on efficiency. This finding is supported by several empirical studies though it also contradicts other studies. Hence, the study concludes that as non-performing loans increases more costs are incurred in collecting the debts, resulting in higher costs hence reducing efficiency. Further, the increase in asset quality increases the provisions. In so doing it limits the DTS from making investments. This in turn decreases the revenue translating into decreased efficiency.

RECOMMENDATIONS

Based on the findings of the study, SASRA should come up with credit administration strategies that will help reduce the amount of NPL .This includes amendment of the Sacco Societies Act (SSA) making it compulsory for DTS to share credit information of their members with other credit service providers.

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Asset Quality and Efficiency of Deposit Taking Savings and Credit Cooperative Societies in Kenya

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ABSTRACT

The deposits taking Savings and Credit Cooperative Societies have continued to play a critical role in Kenya's financial sector in terms of access, savings mobilization and wealth creation. According to the Kenya's economic blueprint Vision 2030, the sector under study is a key player to achieving the 10% annual economic growth target. Given the importance of the sector in economic growth, there has been considerable interest in their efficiency. In Kenya, DTS have been reported to have low efficiency, with the average efficiency being less than one. There is limited empirical literature to explain the inefficiency of Deposit Taking Savings and credit Cooperative Societies in Kenya. In view of this, the study sought to establish the effect of asset quality on efficiency. The study was anchored on Asymmetric Information Theory. The study adopted positivist philosophy and explanatory research design. The target population comprised 110 Deposit Taking Savings and credit Cooperative Societies as per Savings and Credit Cooperative Societies Regulatory Authority report for the year 2017.The study used secondary data that was collected from the audited financial statements for the period 2012-2016.Data was collected using a document review guide. Data Envelopment Analysis methodology was used to generate efficiency scores. Both descriptive analysis which included mean and standard deviation and inferential statistics which included panel Tobit regression was done and was aided by stata version 11. Descriptive analysis indicates that the mean of asset quality is above the required maximum by the regulator. In addition, asset quality had a statistically significant effect on efficiency. The study concluded that: increase in asset quality reduces efficiency. The study recommends that Deposit Taking Savings and credit Cooperative Societies should develop credit administration strategies that reduce the amount of non-performing loans; a policy for credit information sharing to make it compulsory for Deposit Taking Savings and credit Cooperative Societies to share credit information.

Keywords: Efficiency, Asset quality, Financial Innovations, Efficiency, non-performing loans

Background of the Study

To maximize shareholders' value, all profit making enterprises seek to be efficient. Notwithstanding that Deposit taking Savings and credit cooperative (DTS) societies while not being purely profit making businesses, they seek to maximize the economic wellbeing of their members. They do so mostly through provision of loans for provident and development purposes (Ochola, 2016). DTS are also keen to pay interest on members' deposits as well as dividends on shares; hence their efficiency becomes a key issue. Society's welfare and the economic growth slows down if DTS operate with waste and inefficiency (Adegbaju & Olokoyo, 2008). According to Beck and Polit (2003), DTS that are efficient in resource generation and allocation contributes more to productivity and economic growth.

From both micro and macro level, it is vital to study efficiency of financial institutions. According to Pessarossi and Weill (2013), the issue of inefficient financial system is critical from the microeconomic perspective. This is due to the developments in the supervisory, institutional and regulatory framework and growing competition. From the macroeconomic perspective, the stability of financial market is influenced by efficiency as well as the cost of financial intermediation (Berger & Mester 1997). Efficiency entails how well a DTS is allocating inputs to produce

maximum output (Bassem, 2008). Knowledge about efficiency is key in assessing continuity of financial services (Burki & Niazi, 2010).

Given that DTS work mainly with high risk and poor clients, it is vital to know their efficiency in order to ensure effective management and responsive policy decisions. During intermediation process efficient DTS are expected to mobilize savings and provide loans to members by decreasing unnecessary expenditures (Marwa & Aziakpono, 2014).In particular, DTS particularly have continued to play an indispensable role in financial intermediation; they have continuously grown to compete with commercial banks. DTS differ from commercial banks in two key ways. First, they seek to collect savings to provide loans to members; on their part commercial banks seek to maximize shareholder's wealth (Owen, 2007). Secondly, the owners of DTS are the customers; customers are predominantly non-owners in commercial banks.

Asset quality indicates the risk exposure from loans granted by a financial institution (Dardac & Barbu, 2005). According to Grier (2007), the major cause of failure in financial institutions failure is poor asset quality. In the financial sector, asset quality is considered extremely important. There are twenty-five core principles according to the Basle Committee on banking supervision which regulators of the banking industry use. Out of these, seven are tailored towards addressing the asset quality and credit risk management of the institution (Pan, 2010). Therefore, the financial supervisory authorities worldwide are concerned with the asset quality of financial institutions because it is one of the key areas in establishing the overall condition of the financial institutions (Ochola, 2016).

A sizeable amount of non-performing loans (NPL) must exist before a financial institution can be declared bankrupt; hence asset quality is a key issue in financial sector (Cole & Wu, 2009). The primary factor affecting overall asset quality is the loan portfolio and the credit administration program (De Bock & Demyanets, 2012). According to Mishkin (2006), a financial institution's rating downgrades and it becomes difficult to earn depositors' trust as a result of bad asset quality. Therefore, such institution can only get more deposits by rewarding depositors or attaching a higher deposit rate on deposits.

Statement of the Problem

Efficiency is important to members of DTS; efficient DTS offer better quality services, better loan and deposit rates and have lower service charges (Limam, 2001). Efficiency is also important for promoting access to financial services as well as soundness of the DTS as an integral component of the financial system (Kamau, 2011; Nasieku, 2014). Given that there is increase in competition in the industry, there has been considerable interest in their efficiency. DTS in Kenya have reportedly registered low efficiency. Mwangi (2014) found that the average efficiency score was 0.775 for the period 2009-2013. Ochola (2016) indicated that the average efficiency score in Kenya was 0.683 for the period 2011-2013. Kariuki (2017) observed that the industry efficiency score in Kenya was 0.677 for the period 2011-2014, an indicator of inefficiency. From the statistics of efficiency it is evident that there is declining efficiency of DTS in Kenya. In view of the above, there is limited empirical literature to explain the declining efficiency among DTS in Kenya.

Abdi Karim, Sok and Hassan (2010) investigated the relationship between NPL and efficiency of banks in Malaysia and Singapore and concluded that asset quality has a negative relationship with efficiency.

Burki and Niazi (2010) studied the impact of financial reforms on efficiency of state-owned, private and foreign banks in Pakistan. They found that NPL adversely affected efficiency. The study by Harris, Huerta and Ngo (2013) was based on the impact of troubled asset relief program on bank efficiency. The study findings attributed the decrease in the operating efficiency of troubled asset relief .Most of the aforementioned studies have reported mixed results; they are from developed countries and different contexts, hence their findings cannot be generalized in Kenya, a developing country. Similarly, the studies did not focus on the relationship between financial soundness and efficiency in regulated SACCOS, hence the need to address the conceptual gap.

Theoretical Review

Asymmetric Information Theory

The proponents of Asymmetric Information Theory (AIT) are Akerlof 1970; Spence 1973; Rothschild and stiglitz 1976. The theory explains that in an economic transaction, the party that has more information on the specific product to be transacted is in a position to negotiate optimal terms for the transaction than the other party (Auronen, 2003). According to Wangai (2004), a right or a wrong decision concerning a transaction can be made by the party that knows less about the same specific item to be transacted. In a lending transaction, asymmetry information makes it difficult to differentiate between a good and a bad borrower (Bofondi and Gobbi, 2003), hence leading to accumulation of NPL as a result of adverse selection and moral hazard (Ochola, 2016). Adverse selection problem can be reduced through information sharing, whereby DTS share credit information of applicants with other financial institutions.

Moral hazard refers to the risk in which a party to a transaction provides misleading information about its assets liabilities or credit capacity (Wangai,2014).Moral hazard occurs when a borrower takes unusual risk in order to gather profits (Mishkin & Eakins, 2006). DTS with low capital may respond to moral hazard by increasing the riskiness in the loan portfolio resulting in turn to NPL. This theory underpins the study because it explains the relationship between asset quality and efficiency. The DTS with high NPL spends more resources in collecting NPL. The net effect is increased operating costs, hence decreasing efficiency.

Economic Efficiency Theory

The Economic Efficiency Theory (EET) is attributed to Debreu (1951). It states that firms ought to use the lowest cost possible per unit in order to achieve their output. Fixed costs are shared out among the number of units produced, while the variable costs are relative. In a business, there is a combination of fixed and variable costs and the fixed costs are always shared out across small number of units, leading to low levels of output which are inefficient (Leibenstein, 1978). Economies of scale can be enjoyed above optimal production. However, since the existing system is overworked, the additional cost is offset by the benefits. Maximum operational efficiency is achieved in the short run if all available economies of scale are exploited at the level of output; inefficiency is not achieved in the short run, when the existing systems are overstrained by diseconomies of scale (Murillo-Zamorano, 2004). However, in the long run, the efficiency can be raised by increasing the capacity of existing systems (Teece, 1982).

Tripe (2003) contends that with less than proportionate increases in quantities of inputs, increased volumes of output should be produced. This means that with less input, more output is achieved; this improves the firm's efficiency. Because economies of scale will be exhausted in due course, then, increased output requires a more than proportionate increases in outputs, this would lead to diseconomies of scale (Nadiri, 1970). Economies of scale form another type of efficiency. Here, firms should be able to produce multiple outputs from the same group of inputs at lower costs than if they specialized in producing only one type of output (Alchian & Demsetz, 1972. This theory was applicable in this study by underscoring the importance of the principle of economies of scale in efficiency measurement.

Empirical Review

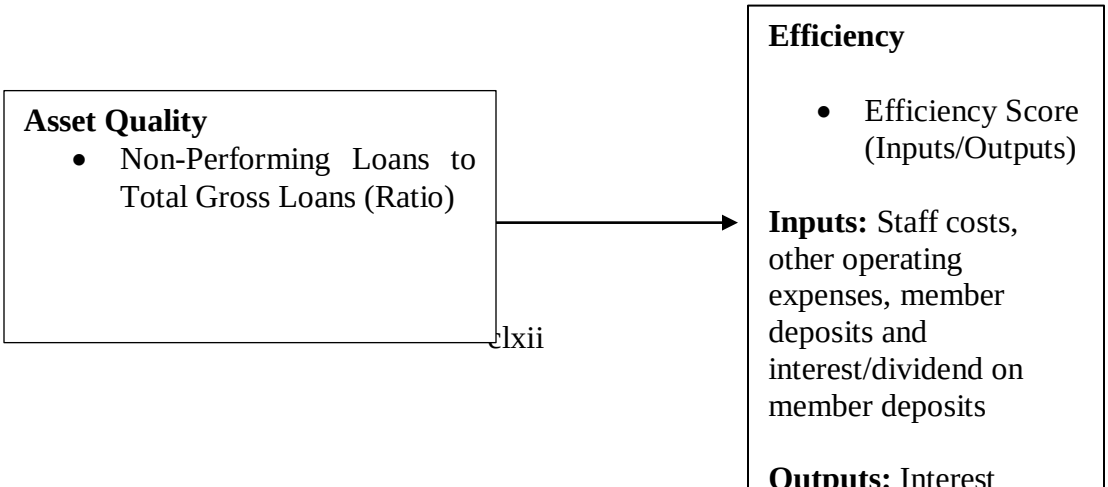
Karim, Sok and Hassan (2010) investigated the relationship between NPL and efficiency of banks in Malaysia and Singapore. This study focused on the cost efficiency and used the Stochastic Frontier Approach (SFA) to generate the efficiency scores. The study found that the banks in Singapore had high efficiency scores compared to the ones in Malaysia. However, the difference was not significant. In addition, the study found that the relationship between NPL and efficiency was negative and significant. This study used the SFA to generate the efficiency scores and only focused on one dimension of efficiency that is cost efficiency. The current study used DEA to generate the efficiency scores and focused on the technical efficiency.

Khalid (2012) investigated the relationship between asset quality and profitability of private banks in India. The study used ROA to measure profitability. Panel data for the period 2006-2007 to 2010-2011 was used. Multiple Regression models were used to analyze data. The study found that a bad asset ratio has a negative relationship with bank performance. This study focused on NPL and left out other measures of asset quality and also focused on commercial banks. The results of this study contradicts what Adeolu (2014) observed hence forming basis of the current study.

Ochola (2016) studied the relationship between loans, deposits and advances and efficiency of SACCOS in Kenya. The study found that SACCOS in Kenya have not achieved efficiency. Further, loan and advances had a negative relationship with efficiency, and the relationship is statistically significant, indicating that an increase in loans and advances is obstructed efficiency. This study did not focus on indicators of financial soundness. Rather it focused on the relationship between loans and efficiency. The current study investigated the effect of financial soundness on efficiency of DTS in Kenya.

Conceptual Framework

The conceptual framework is the researcher's conceptualization of the relationship between the variables under study



Source: Study Data, 2018

Research design

In this study explanatory non-experimental design was found to be most suitable. Kerlinger and Lee (2000) supports this design especially when the variables to be studied are not manipulated during the research. The choice of this design is justifiable since the study sought to explain factors that cause change and explicitly clarify how some phenomenon operates. This design is further suitable to establishing the causal relationship between study variables against the occurrence of a problem. The study sought give description of certain groups, without manipulation of independent variables and hence the adoption of explanatory non-experimental designs (Were & Wambua, 2014).

Target Population

According to Borg *et al.,* (2007), the whole set of individuals, events or a thing that the researcher anticipates to investigate is the target population. The target population for the study comprised one hundred and ten DTS societies in Kenya that were in existence from period 2012-2016

Research Hypotheses

The study sought to test the following null hypothesis:

Asset quality does not have a significant effect on efficiency of Deposit Taking SACCOs in Kenya.

Empirical Model

In this study Data Envelopment Analysis (DEA) was used in the first stage analysis.DEA yields efficiency scores that vary from 0 to 1 which implies that the dependent variable is limited hence in the second stage of analysis Tobit regression analysis was considered appropriate.

$$E_{it} = \beta_0 + \beta_1 AQ_{it} + \varepsilon_{it}$$

Where:

E_{it} = Efficiency of SACCO *i* at time *t*

β's=are coefficients of explanatory variables

AQ_{it}= Asset Quality of DTS *i* at time *t*

ε_{it}- Error Term

Data Collection Instrument

This study predominantly relied on quantitative secondary data. The data was obtained from DTS financial statements, DTS supervision reports from SASRA. The duration for this study was between 2012 and 2016 and the document review guide.

Results and Discussion

This section provides the descriptive results, DEA results and the Tobit results

Efficiency

This section presents the technical and scale efficiency of DTS generated from the DEA model and the bias corrected efficiency scores generated after curing the inherent dependency of the scores generated by DEA model.

Technical and Scale Efficiency

Table 4.4 summarizes results per year from the DEA model on technical efficiency as measured by constant return to scale (CRSTE) and variable return to scale (VRSTE) and scale efficiency for period 2012 to 2016 as shown in Appendix IV. If a unit operates under constant return to scale, it indicates that an increase in inputs results in a proportionate increase in the output levels. If a DMU operates under variable return to scale, it indicates that an increase in output does not reflect a proportionate increase in input. This study adopted the variable return to scale because of its assumption which applies to the DTS. However, it is important to calculate the efficiency scores under CRSTE and VRSTE because it helps in explaining the efficiency level.

Table 4.1 Technical and Scale Efficiency

YEAR	**VRSTE**	**CRSTE**	**SCALE**
2012	0.579	0.770	0.753
2013	0.766	0.833	0.916
2014	0.676	0.789	0.865
2015	0.788	0.860	0.917
2016	0.803	0.868	0.927
MEAN	**0.722**	**0.824**	**0.876**

Source: Study Data, 2018

Table 4.4 indicates the technical efficiency as measured under constant and variable returns to scale. On average, the mean efficiency scores for five year period were 72.2% for VRSTE and 82.4% for CRSTE reflecting that the firms are inefficient since they have not achieved a score of 1.VRSTE the DTS are required to decrease inputs (Staff cost,

other operating expenses, total deposits and interest on deposit) by 27.8% in order to achieve efficiency or increase outputs (total loans, interest income and other income) by 27.8% without any additional increase in input to achieve efficiency. The minimum score over the same period were 57.9% in the year 2012 for VRSTE and 77.0 % for CRSTE, the same year.

There has been improvement in efficiency over the five-year period. This can be attributed to regulatory compliance; as more and more DTS becomes compliant the efficiency is improved. This corroborates the study of Mwangi (2014) which found that the average efficiency score for DTS was 0.775 for the period 2009-2013 .Ochola (2016) established that the average efficiency score in Kenya was 0.683 for the period 2011-2013. Kariuki (2017) observed that industry efficiency score in Kenya was 0.677 for the period 2011-2014.The technical efficiency divergence from the efficient point is 22.8% and 17.6% respectively under the VRSTE and CRSTE. This indicates that they could produce the same amount of outputs with approximately 22.8% fewer resources under variable returns and 17.6% fewer resources under constant returns than they actually employed. This finding reveals that the overall inefficiency would be attributed to the technical inefficiency rather than scale inefficiency.

Bias Corrected Efficiency Scores

In the second stage of analysis, efficiency scores are regressed on the financial soundness. Scores generated by DEA model are dependent on each other (Simar & Wilson 1998).The presence of dependency among the efficiency scores implies that assumption of independence within the sample is violated. To cure this inherent dependency, bootstrap is done. Bootstrap is a procedure of drawing with replacement, producing multiple estimates which can be used for statistical inference. Simar and Wilson (1998) proposed a homogenous bootstrap algorithm. The algorithm based on the bootstrap approach and attributed to Efron (1979), stresses on repeatedly simulating the data generating process and applying the original estimator in each simulated sample. Then the empirical distribution of resampled estimates can be used to generate the bootstrap confidence interval to give the bias corrected efficiency scores. In this study, the efficiency estimation process was implemented in R version 3.1 using the FEAR programme. Table 4.6 below presents a summary of the bias corrected efficiency scores for year 2012 to 2016.

Table 4.2 Bias Corrected Efficiency Scores

Year	VRSTE	Mean of Bias Corrected VRSTE
2012	0.579	0.468
2013	0.766	0.609
2014	0.676	0.523
2015	0.788	0.675
2016	0.803	0.631
Mean	0.722	0.581

Source: Study Data, 2018

4.2 Descriptive Analysis

	N	Minimum	Maximum	Mean	Std. Deviation
Bias corrected efficiency scores	485	.00	1.00	.5819	.21281
Asset quality	485	.01	2.84	.1125	.18747
Valid N (list wise)	485				

Source: Study Data, 2018

Table 4.7 indicates that the mean of bias corrected efficiency scores was 0.5819, with a standard deviation of 0.21281 and a minimum of 0 and a maximum of 1 respectively, an indication that the dependent variable is censored. The mean of bias corrected efficiency scores demonstrates that the DTS have not achieved efficiency; they need to increase inputs by 32% in order to achieve the same. The mean of asset quality is 0.1125. This ratio is above the 5% recommended maximum by the World Council of Credit Unions (WOCCU) and far much higher than 3% SASRA recommends. Loans remain the key asset hence emphasis should be on how to improve the credit strategies to reduce the ratio to below 3 %.

4.3 Tobit regression results

Variable	Coefficient.	Std. Err.	P -Value
Asset Quality	0.1251659	0.0629762	0.047
LR Chi square(5) 14.39			
Prob>Chi square 0.0062			

Source: Study Data, 2018

The findings in Table 4.15 indicate that the likelihood ratio chi square is 14.39 (d.f 4) with a p-value of 0.0062 .This is less than the significance level of 0.05. It demonstrates that the Tobit Model was fit to the dependent variable, using a constant term and all the four variables. To establish the relationship between asset quality and efficiency, a null hypothesis that asset quality has no significant effect on efficiency was tested. Table 4.15 indicates that the p-value of asset quality was 0.047 .This is less than the significance level of 0.05.This indicates a statistically

significant relationship between asset quality and efficiency. Therefore, the null hypothesis that asset quality does not have a significant effect on efficiency was rejected and concluded that asset quality affect efficiency. The findings are consistent with empirical work by Ocholla (2016) and Karim, Hassan and Sok (2010). Further, the finding contradicts with the empirical studies by Khalid (2012) whose findings were asset quality have a negative insignificant relationship with efficiency.

4.3.1 Marginal effects after Tobit

Variable	**dy/dx**	**Std.Error**	**P-Value**
Asset quality	-0.1046883	0.05269	0.047
Cons	0.72866481		

Source: Study Data, 2018

The coefficient of asset quality was at β= -0.1046883 which indicates a negative and statistically significant relationship between asset quality measured by non- performing loans and efficiency. The regression coefficient indicates that a unit increase in non-performing loans leads to a decrease in efficiency by 0.1046883 units all else held constant. This indicates that as asset quality improves efficiency improves. These findings are consistent with the Asymmetric information theory (1970) which argues that asset quality has a negative relationship with efficiency. As pointed out by Berger and Young (1997), the negative relationship exists because the DTS will incur additional operating costs such as costs of collecting non-performing loans. The efficient DTS are better at managing their credit risk which leads to lower NPL.

CONCLUSION

The study found that asset quality has a negative and significant effect on efficiency. This finding is supported by several empirical studies though it also contradicts other studies. Hence, the study concludes that as non-performing loans increases more costs are incurred in collecting the debts, resulting in higher costs hence reducing efficiency. Further, the increase in asset quality increases the provisions. In so doing it limits the DTS from making investments. This in turn decreases the revenue translating into decreased efficiency.

RECOMMENDATIONS

Based on the findings of the study, SASRA should come up with credit administration strategies that will help reduce the amount of NPL .This includes amendment of the Sacco Societies Act (SSA) making it compulsory for DTS to share credit information of their members with other credit service providers.

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Efficiency is important to members of DTS; efficient DTS offer better quality services, better loan and deposit rates and have lower service charges (Limam, 2001). Efficiency is also important for promoting access to financial services as well as soundness of the DTS as an integral component of the financial system (Kamau, 2011; Nasieku, 2014). Given that there is increase in competition in the industry, there has been considerable interest in their efficiency. DTS in Kenya have reportedly registered low efficiency. Mwangi (2014) found that the average efficiency score was 0.775 for the period 2009-2013. Ochola (2016) indicated that the average efficiency score in Kenya was 0.683 for the period 2011-2013. Kariuki (2017) observed that the industry efficiency score in Kenya was 0.677 for the period 2011-2014, an indicator of inefficiency. From the statistics of efficiency it is evident that there is declining efficiency of DTS in Kenya. In view of the above, there is limited empirical literature to explain the declining efficiency among DTS in Kenya.

Abdi Karim, Sok and Hassan (2010) investigated the relationship between NPL and efficiency of banks in Malaysia and Singapore and concluded that asset quality has a negative relationship with efficiency.

Burki and Niazi (2010) studied the impact of financial reforms on efficiency of state-owned, private and foreign banks in Pakistan. They found that NPL adversely affected efficiency. The study by Harris, Huerta and Ngo (2013) was based on the impact of troubled asset relief program on bank efficiency. The study findings attributed the decrease in the operating efficiency of troubled asset relief .Most of the aforementioned studies have reported mixed results; they are from developed countries and different contexts, hence their findings cannot be generalized in Kenya, a developing country. Similarly, the studies did not focus on the relationship between financial soundness and efficiency in regulated SACCOS, hence the need to address the conceptual gap.

Theoretical Review

2.1.0 Asymmetric Information Theory

The proponents of Asymmetric Information Theory (AIT) are Akerlof 1970; Spence 1973; Rothschild and stiglitz 1976. The theory explains that in an economic transaction, the party that has more information on the specific product to be transacted is in a position to negotiate optimal terms for the transaction than the other party (Auronen, 2003). According to Wangai (2004), a right or a wrong decision concerning a transaction can be made by the party that knows less about the same specific item to be transacted. In a lending transaction, asymmetry information makes it difficult to differentiate between a good and a bad borrower (Bofondi and Gobbi, 2003), hence leading to accumulation of NPL as a result of adverse selection and moral hazard (Ochola, 2016). Adverse selection problem can be reduced through information sharing, whereby DTS share credit information of applicants with other financial institutions.

Moral hazard refers to the risk in which a party to a transaction provides misleading information about its assets liabilities or credit capacity (Wangai,2014).Moral hazard occurs when a borrower takes unusual risk in order to gather profits (Mishkin & Eakins, 2006). DTS with low capital may respond to moral hazard by increasing the riskiness in the loan portfolio resulting in turn to NPL. This theory underpins the study because it explains the relationship between asset quality and efficiency. The DTS with high NPL spends more resources in collecting NPL. The net effect is increased operating costs, hence decreasing efficiency.

2.1.1 Economic Efficiency Theory

The Economic Efficiency Theory (EET) is attributed to Debreu (1951). It states that firms ought to use the lowest cost possible per unit in order to achieve their output. Fixed costs are shared out among the number of units produced, while the variable costs are relative. In a business, there is a combination of fixed and variable costs and the fixed costs are always shared out across small number of units, leading to low levels of output which are inefficient (Leibenstein, 1978). Economies of scale can be enjoyed above optimal production. However, since the existing system is overworked, the additional cost is offset by the benefits. Maximum operational efficiency is achieved in the short run if all available economies of scale are exploited at the level of output; inefficiency is not achieved in the short run, when the existing systems are overstrained by diseconomies of scale (Murillo-Zamorano, 2004). However, in the long run, the efficiency can be raised by increasing the capacity of existing systems (Teece, 1982).

Tripe (2003) contends that with less than proportionate increases in quantities of inputs, increased volumes of output should be produced. This means that with less input, more output is achieved; this improves the firm's efficiency.

Because economies of scale will be exhausted in due course, then, increased output requires a more than proportionate increases in outputs, this would lead to diseconomies of scale (Nadiri, 1970). Economies of scale form another type of efficiency. Here, firms should be able to produce multiple outputs from the same group of inputs at lower costs than if they specialized in producing only one type of output (Alchian & Demsetz, 1972. This theory was applicable in this study by underscoring the importance of the principle of economies of scale in efficiency measurement.

2.2 Empirical Review

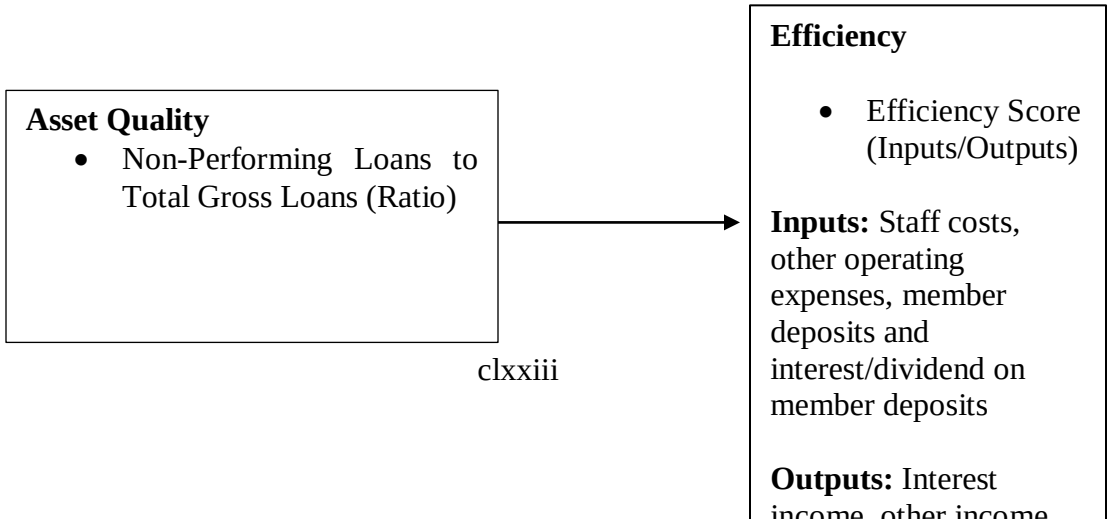
Karim, Sok and Hassan (2010) investigated the relationship between NPL and efficiency of banks in Malaysia and Singapore. This study focused on the cost efficiency and used the Stochastic Frontier Approach (SFA) to generate the efficiency scores. The study found that the banks in Singapore had high efficiency scores compared to the ones in Malaysia. However, the difference was not significant. In addition, the study found that the relationship between NPL and efficiency was negative and significant. This study used the SFA to generate the efficiency scores and only focused on one dimension of efficiency that is cost efficiency. The current study used DEA to generate the efficiency scores and focused on the technical efficiency.

Khalid (2012) investigated the relationship between asset quality and profitability of private banks in India. The study used ROA to measure profitability. Panel data for the period 2006-2007 to 2010-2011 was used. Multiple Regression models were used to analyze data. The study found that a bad asset ratio has a negative relationship with bank performance. This study focused on NPL and left out other measures of asset quality and also focused on commercial banks. The results of this study contradicts what Adeolu (2014) observed hence forming basis of the current study.

Ochola (2016) studied the relationship between loans, deposits and advances and efficiency of SACCOS in Kenya. The study found that SACCOS in Kenya have not achieved efficiency. Further, loan and advances had a negative relationship with efficiency, and the relationship is statistically significant, indicating that an increase in loans and advances is obstructed efficiency. This study did not focus on indicators of financial soundness. Rather it focused on the relationship between loans and efficiency. The current study investigated the effect of financial soundness on efficiency of DTS in Kenya.

2.3 Conceptual Framework

The conceptual framework is the researcher's conceptualization of the relationship between the variables under study



clxxiii

Source: Study Data, 2018

3.0 Research design

In this study explanatory non-experimental design was found to be most suitable. Kerlinger and Lee (2000) supports this design especially when the variables to be studied are not manipulated during the research. The choice of this design is justifiable since the study sought to explain factors that cause change and explicitly clarify how some phenomenon operates. This design is further suitable to establishing the causal relationship between study variables against the occurrence of a problem. The study sought give description of certain groups, without manipulation of independent variables and hence the adoption of explanatory non-experimental designs (Were & Wambua, 2014).

3.1 Target Population

According to Borg *et al.*, (2007), the whole set of individuals, events or a thing that the researcher anticipates to investigate is the target population. The target population for the study comprised one hundred and ten DTS societies in Kenya that were in existence from period 2012-2016

3.1.1 Research Hypotheses

The study sought to test the following null hypothesis:

Asset quality does not have a significant effect on efficiency of Deposit Taking SACCOs in Kenya.

3.2 Empirical Model

In this study Data Envelopment Analysis (DEA) was used in the first stage analysis.DEA yields efficiency scores that vary from 0 to 1 which implies that the dependent variable is limited hence in the second stage of analysis Tobit regression analysis was considered appropriate.

$$E_{it} = \beta_0 + \beta_1 AQ_{it} + \varepsilon_{it}$$

Where:

E_{it} = Efficiency of SACCO *i* at time *t*

β's=are coefficients of explanatory variables

AQ_{it}= Asset Quality of DTS *i* at time *t*

ε_{it}- Error Term

3.3 Data Collection Instrument

This study predominantly relied on quantitative secondary data. The data was obtained from DTS financial statements, DTS supervision reports from SASRA. The duration for this study was between 2012 and 2016 and the document review guide.

4.0 Results and Discussion

This section provides the descriptive results, DEA results and the Tobit results

4.1 Efficiency

This section presents the technical and scale efficiency of DTS generated from the DEA model and the bias corrected efficiency scores generated after curing the inherent dependency of the scores generated by DEA model.

4.1.1 Technical and Scale Efficiency

Table 4.4 summarizes results per year from the DEA model on technical efficiency as measured by constant return to scale (CRSTE) and variable return to scale (VRSTE) and scale efficiency for period 2012 to 2016 as shown in Appendix IV. If a unit operates under constant return to scale, it indicates that an increase in inputs results in a proportionate increase in the output levels. If a DMU operates under variable return to scale, it indicates that an increase in output does not reflect a proportionate increase in input. This study adopted the variable return to scale because of its assumption which applies to the DTS. However, it is important to calculate the efficiency scores under CRSTE and VRSTE because it helps in explaining the efficiency level.

Table 4.1 Technical and Scale Efficiency

YEAR	VRSTE	CRSTE	SCALE
2012	0.579	0.770	0.753
2013	0.766	0.833	0.916
2014	0.676	0.789	0.865
2015	0.788	0.860	0.917
2016	0.803	0.868	0.927
MEAN	**0.722**	**0.824**	**0.876**

Source: Study Data, 2018

Table 4.4 indicates the technical efficiency as measured under constant and variable returns to scale. On average, the mean efficiency scores for five year period were 72.2% for VRSTE and 82.4% for CRSTE reflecting that the firms are inefficient since they have not achieved a score of 1.VRSTE the DTS are required to decrease inputs (Staff cost, other operating expenses, total deposits and interest on deposit) by 27.8% in order to achieve efficiency or increase outputs (total loans, interest income and other income) by 27.8% without any additional increase in input to achieve efficiency. The minimum score over the same period were 57.9% in the year 2012 for VRSTE and 77.0 % for CRSTE, the same year.

There has been improvement in efficiency over the five-year period. This can be attributed to regulatory compliance; as more and more DTS becomes compliant the efficiency is improved. This corroborates the study of Mwangi

(2014) which found that the average efficiency score for DTS was 0.775 for the period 2009-2013 .Ochola (2016) established that the average efficiency score in Kenya was 0.683 for the period 2011-2013. Kariuki (2017) observed that industry efficiency score in Kenya was 0.677 for the period 2011-2014.The technical efficiency divergence from the efficient point is 22.8% and 17.6% respectively under the VRSTE and CRSTE. This indicates that they could produce the same amount of outputs with approximately 22.8% fewer resources under variable returns and 17.6% fewer resources under constant returns than they actually employed. This finding reveals that the overall inefficiency would be attributed to the technical inefficiency rather than scale inefficiency.

4.1.2 Bias Corrected Efficiency Scores

In the second stage of analysis, efficiency scores are regressed on the financial soundness. Scores generated by DEA model are dependent on each other (Simar & Wilson 1998).The presence of dependency among the efficiency scores implies that assumption of independence within the sample is violated. To cure this inherent dependency, bootstrap is done. Bootstrap is a procedure of drawing with replacement, producing multiple estimates which can be used for statistical inference. Simar and Wilson (1998) proposed a homogenous bootstrap algorithm. The algorithm based on the bootstrap approach and attributed to Efron (1979), stresses on repeatedly simulating the data generating process and applying the original estimator in each simulated sample. Then the empirical distribution of resampled estimates can be used to generate the bootstrap confidence interval to give the bias corrected efficiency scores. In this study, the efficiency estimation process was implemented in R version 3.1 using the FEAR programme. Table 4.6 below presents a summary of the bias corrected efficiency scores for year 2012 to 2016.

Table 4.2 Bias Corrected Efficiency Scores

Year	VRSTE	Mean of Bias Corrected VRSTE
2012	0.579	0.468
2013	0.766	0.609
2014	0.676	0.523
2015	0.788	0.675
2016	0.803	0.631
Mean	0.722	0.581

Source: Study Data, 2018

4.2 Descriptive Analysis

	N	Minimum	Maximum	Mean	Std. Deviation
Bias corrected efficiency scores	485	.00	1.00	.5819	.21281
Asset quality	485	.01	2.84	.1125	.18747
Valid N (list wise)	485				

Source: Study Data, 2018

Table 4.7 indicates that the mean of bias corrected efficiency scores was 0.5819, with a standard deviation of 0.21281 and a minimum of 0 and a maximum of 1 respectively, an indication that the dependent variable is censored. The mean of bias corrected efficiency scores demonstrates that the DTS have not achieved efficiency; they need to increase inputs by 32% in order to achieve the same. The mean of asset quality is 0.1125. This ratio is above the 5% recommended maximum by the World Council of Credit Unions (WOCCU) and far much higher than 3% SASRA recommends. Loans remain the key asset hence emphasis should be on how to improve the credit strategies to reduce the ratio to below 3 %.

4.3 Tobit regression results

Variable	Coefficient.	Std. Err.	P -Value
Asset Quality	0.1251659	0.0629762	0.047
LR Chi square(5) 14.39			
Prob>Chi square 0.0062			

Source: Study Data, 2018

The findings in Table 4.15 indicate that the likelihood ratio chi square is 14.39 (d.f 4) with a p-value of 0.0062 .This is less than the significance level of 0.05. It demonstrates that the Tobit Model was fit to the dependent variable, using a constant term and all the four variables. To establish the relationship between asset quality and efficiency, a null hypothesis that asset quality has no significant effect on efficiency was tested. Table 4.15 indicates that the p-value of asset quality was 0.047 .This is less than the significance level of 0.05.This indicates a statistically significant relationship between asset quality and efficiency. Therefore, the null hypothesis that asset quality does not have a significant effect on efficiency was rejected and concluded that asset quality affect efficiency. The

findings are consistent with empirical work by Ocholla (2016) and Karim, Hassan and Sok (2010). Further, the finding contradicts with the empirical studies by Khalid (2012) whose findings were asset quality have a negative insignificant relationship with efficiency.

4.3.1 Marginal effects after Tobit

Variable	dy/dx	Std.Error	P-Value
Asset quality	-0.1046883	0.05269	0.047
Cons	0.72866481		

Source: Study Data, 2018

The coefficient of asset quality was at β= -0.1046883 which indicates a negative and statistically significant relationship between asset quality measured by non- performing loans and efficiency. The regression coefficient indicates that a unit increase in non-performing loans leads to a decrease in efficiency by 0.1046883 units all else held constant. This indicates that as asset quality improves efficiency improves. These findings are consistent with the Asymmetric information theory (1970) which argues that asset quality has a negative relationship with efficiency. As pointed out by Berger and Young (1997), the negative relationship exists because the DTS will incur additional operating costs such as costs of collecting non-performing loans. The efficient DTS are better at managing their credit risk which leads to lower NPL.

4.4 CONCLUSION

The study found that asset quality has a negative and significant effect on efficiency. This finding is supported by several empirical studies though it also contradicts other studies. Hence, the study concludes that as non-performing loans increases more costs are incurred in collecting the debts, resulting in higher costs hence reducing efficiency. Further, the increase in asset quality increases the provisions. In so doing it limits the DTS from making investments. This in turn decreases the revenue translating into decreased efficiency.

4.5 RECOMMENDATIONS

Based on the findings of the study, SASRA should come up with credit administration strategies that will help reduce the amount of NPL .This includes amendment of the Sacco Societies Act (SSA) making it compulsory for DTS to share credit information of their members with other credit service providers.

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Effects of Marketing Strategies on the Performance of Telecommunication Companies in Kenya

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ABSTRACT

There has been an increasing growth in telecommunication industry in the recent years. In order to build a strong business which is profitable and that has a wider market base, it is necessary to develop a well-structured plan that gives a company a competitive edge over the rivals. This study aimedat establishing the effects of marketing plans on the performance of telecommunication companies in Kenya. The data was collected from twenty-four telecommunication companies in Kenya that are currently members of Telecommunication Service Providers Association of Kenya. The study employed a stratified random sampling to select the twenty-four firms out of a target population of forty-seven companies. The main device for collecting data was questionnaire as a primary source. Data wasgathered together using questionnaires and tested in detail through descriptive statistics on quantitative data and content analysis on qualitative data. The study recognized and generally accepted that telecommunication companies choose to take up different strategies such as segmentation, targeting, placement and pricing plans to increase their financial performance. The study concluded that the pricing strategy was commonly practiced in the organizations and they kept on reviewing this strategy from time to time when it was no longer delivering the desired results. The study recommends that the companies should continue investing in unique products so that they can set themselves apart and at the same time continue innovating products which will compete with other companies' products. They should also drive aggressive marketing campaigns in order to change the concept created in the minds of both their existing and potential customers regarding the pricing of their products.It further recommends that although the organizations have managed to segment their markets, improve on target, placement, and pricing, these alone without aggressive creation of awareness of the products will not attract sufficient customers and it is recommended therefore that the company markets their products so that they can increase their market share and growth in revenue and income. This study will go a long way in helping the telecoms to put in place better plans and patterns that shall spur performance.

INTRODUCTION

1.1 Background of the Study

In order to build a strong business which is profitable and that has a wider market base, it is necessary to develop a well-structured strategy. A business strategy is a channel through which an organization takes up the responsibilities of decision making concerning the direction, activities of the business, investments and the return of all these. A business strategy is the overall term which denotes a series of activities and options available and open for the firm.These could include both functional management strategies, organizational, branding strategies and product diversification strategies (Bell et al., 2004).

The outcomes of business decisions made so as to influence the environment in which a business operates and even organizational performance is business strategy. According to Hambrick et al. (2005), the approaches to finding business strategies are either multivariate, typological or textual. The results of these strategies on the financial performance has been analyzed in series of studies.In their study, Lorenz&Lützkendorf, (2008) observed that the world was complex with many chaos, hence there is need to come up with various strategies to align this environment. An important aspect to consider in business strategies is their effects on the overall performance on the firm, additionally, the correlation that exists between business strategies and organizational performance is one of the key issues in the field of strategic management and in evaluating firm's financial performance.

Telecommunication industry is one amongst the most influential and driving factors of the Kenyan economy, the industry also, according to Kenya National Bureau of Statistics (2017), has been reporting high financial performance in terms of reported profits. One of the reasons behind this performance is due to the business strategies employed by these telecommunication companies.It is through this that I am motivated in this study to look at the determinants of such marketing strategies and their contributions towards the performance. Business strategies in this case; a focus on marketing strategies, are viewed as enablers of organizational growth since they both streamline internal operations. Furthermore, they raise levels of access to business opportunities, markets, and further increase the quality of business related efficiencies thereby increasing productivity and firm's profitability (Manketelove, 2014).

The core objective of telecommunication companies is the provision of communication services to customers and subscriber's development and growth which leads to profitability and growth after some time. This paper therefore makes an effort to test the knowledge which the determinants of business strategies and their influence have on performance but with specific reference to marketing strategies.

1.1.1 Concept of Marketing Strategies

According to Mills & Morris (2015). Business strategy refers to a long-term plan of action that a company employs in order to influence its performance and to achieve the long-term goals.In addition, Adler (1988), views the business strategy as an umbrella of all activities the business intends to undertake and which defines the firm's competitiveness.It defines where the business intends to go, the steps involved, the intention that will see the

achievements of all these. Hsu (2012)argues that a business strategy should enable the organization to have a clear understanding of the business both presently and in the future understand its and be able to determine the industry or where to compete. Marketing strategies are undertaken with a view of improving customer service, efficiency, channel expansion and meeting the demands of the public.

Most of the marketing strategies are aimed at understanding the market, customer needs and performance improvementwhile keeping in mind the main objective of the company (Baguley, 1994). Marketing strategies are put into practice in most major operationalsectors in marketing, human resource management, and in research and development. Additionally, they focus mainly on production and finance and are aimed at enhancing the activities of each of the functional units.

According to (Ikonya, 2013), marketing strategies are concerned with choices hence the countless variations that individual institutions employ due to strategic approach customer needs to fit their own circumstances and the industry needs. The effectiveness of the marketing strategy depends more on how such marketing activities are integrated to form a pattern and the ability to lead and outperform other players in the same industry.

One of the most common and widely welcomed concepts of marketing in the business world is the market segmentation (Hunt &Arnett, 2004).It isfundamentally important for a firm to divide its market into segments and then tailor their products in a manner such as to meet the demands of individual segments. The market is often segmented by characteristics such into demographics, lifestyle, behavior, business industry, and geographic areas.

Product placement, is another important marketing technique that businesses employ in order to spur growth and hence increase performance. (Balasubramanian (1994), refers to it as an embedded marketing;a skillful approach of incorporating specific brands into another business entity such asmedia with an intention of promoting its consumption. Telecommunication firms can place their products through advertisement their products on radio and television so as to increase their customer base. Through product placement, telecommunication companies are able to reach a larger market and therefore, improve their profitability.

Targeting is yet another marketing strategy that is used in marketing to spur improve performance. It involved the breaking of a market into various smaller components so as to align the market towards a particular audience. According to Levens (2012), business divide the market into target groups based on their unique characteristics which specifically aims at offering them a service. Through the use of this technique, the brand is concentrated into these specific groups as opposed to the entire market which reduces the energy and maximizes the profits.

A pricing strategy which is effective can help the organization to establish the price point fromwhich maximum profits can be realized from the sales (Spann et al., 2015). IN order to set prices, businesses must consider various factors such as competitor prices, costs of production and distribution, and the target customers among others. White (2014) argues that despite the fact that customers would not purchase goods whose prices are too high; it is not

appropriate for the business to set low prices that makes it difficult for the business costs to be met. In addition to product, place and promotion, the price of a product or service also has a significant effect on price the success of the telecommunication companies (Kotler, 1999).

1.1.2 Financial performance

Performance in telecommunication companies can be measured by financials and non-financial measures. The most commonly used financial measure for telecommunications is the Average Return per User (ARPU). Rouse (2007), defines average revenue per user as an expression of the income generated by subscriber or a device per unit time in a telecommunication network. This measure is very significant in the telecommunication business since it reflects the operational performance ofthe company. Servicing each of the end user is key to these companies and hence the ability to maximize on profits while minimizing the costs. Since telecommunication companies are concentrate more in service provision opposed to product manufacturing, most investors always consider measuring the marginal profits and cost per unit, which reveals how the organization utilizes its resources. Therefore, the higher the average return the better for investors, in general, telecommunications companies who offer good services enjoy higher returns. However, the Average Return per User is nowadays irrelevant as a result of the increasing growth in customer needs to own multiple SIMs. Ikonya(2013), argues that as device and SIM ownership grows, telecommunication companies discuss in detail innovative new ways of capturing and delivering customer needs as per the average revenue per account (ARPA).

Growth in customer base is an important aspect in assessing financial performance of telecommunication firms. A steady growth rate in subscriber activities is an indication of competitiveness of the company thus keeping up with technology trends, this makes the customers happy and also help in attracting new customers. Hunger &Wheelen (2008), argue that marketing strategies are just a set of managerial decisions and actions which are implemented in form of mobilizing the market so as to achieve the long-term performance of an organization.

1.1.3 Telecommunication Companies in Kenya

These are companies which are engaged in the sharing of information and even financial resources through the means of technology. Telecommunication companies in Kenya are categorized under the Network Facilities Providers (NFP), this is according to the Kenya Information and Communication Act (1998), Kenya Communication Amendment Act (2009) and the Kenya Communication Regulation (2001). In this category, telecommunications operate any form of communications infrastructure within the country for example terrestrial, mobile fixed, satellite. It could also include the mobile operators, data carrier network operators and local loop providers among others since communication technology uses channels to transmit information.

Applications Service Providers (ASP) covers only authorized operators to make available for use all types of services and or applications to consumers via deploying networks of NFPs which includes internet service providers, internet exchange points and GMPCS service providers among others. This group of telecommunications operators is mandated to deploy all types of customer experience such as, information services and data processing services. This is not limited to making available services at a slightly higher cost, credit card validation, audio text services

and other web based public commercial information. Those operators who are composite are anticipated to be permitted to secure the relevant operating licenses from the regulator for all the business types they are involved in.

In Kenya, the Communications Authority (CA) is authorized by Law to have the ability to deal with the development and in the best possible way and most probably be in a position to oversight the execution of policies and even those strategies with respect to sector's services within the entire Country. The authority has an obligation for licensing telecommunication operators, service provides and even monitor how they perform from time to time with a view to ensuring that they discharge their duties as is envisioned by Law while also complying with the tenets of the Kenya Information and Communications Act, 1998 and the Kenya Communications Regulations, 2001.

Telecoms is seen as a hub for economic development of the country. For this study, the researcher will concentrate on mobile operators, internet provides and data carriers network. Since 1999, Kenya has experienced developments in this industry with spontaneous changes due to liberalization process of this sector. This saw the growth of large-scale telecommunications infrastructure in Kenya which are able to deliver their services more efficiently.

Kenya has become among other countries one of the most flourishing ecosystem where most of the software applications, services and even the social habits have emerged with greater appetite for mobile transaction platforms. This is as a result the growth in information technology that is making the industry to take different course in in terms of functions that enhances the growth in technology and creation of better services which are also essential for a growing nation (Sultana et al., 2012).

1.2 Statement of Problem

The business environment in telecommunication industry has become more volatile in the recent past(Pearce & Robinson, 2015). Macroeconomic and microeconomic factors such aspolitical anxieties, threat from new entrants, legal and social reforms, rapid growth in technology and the world becoming one big village (globalized) are some of the justifying reasons to its great impact on the growth of this sector. Competitive strategy is concerned with being unique in product and service delivery (Porter, 2000). In a competitive market environment, customers make consumption or purchase decisions guided by their ability to see, hear and become aware of the value for money which is a combination of price and the benefits accrued from the product or service and other value prepositions offered by an organization.

Several researches have been conducted on various marketing strategies and the performance of firms in Kenya. Akingbade (2014) conducted a study on the relationship between competitive strategies and the performance of selected telecommunication firms in Nigeria. The findings of this study established that there exists a relationship between competitive strategies and customer satisfaction, retention and loyalty. Nyaega et al. (2015) investigated the determinants of financial performance in ISPs. The findings of this study established a negative correlation between performance and various strategies such as parent shareholding, network coverage, customer service, andproduct pricing.

Kyengo et al. (2016) carried out a study based on the impact that long-term plan of particular companies (competitive strategies)have on the productivity of the Telecoms in Kenya and found out that there were some correlations between the marketing strategies and performance of the firms. In a recent research Ngogoyo& Okello (2017), investigated the influence of strategic decision making on performance of telecommunication industry in Kenya. From the findings of the study, strategic decision making was found to enhance the performance of telecommunication companies.

Despite a wide range of research being carried out to investigate the relationship between marketing strategies and performance of telecommunication companies, majority have only concentrated on mobile telecommunication firms with little emphasis on companies that offer data services. There is a need to conduct an inclusive research that cuts across all telecommunication companies in order to give a clear reflection of the effects of marketing strategies on their performance. Therefore, this study sought to assess the effects of marketing strategieson the performance of telecommunication companies in Kenya.

1.3 Research Objectives

1.3.1 Main Objective

This paper was objectively meant to establish the effects of Marketing Strategies on the performance of telecommunication companies in Kenya

1.3.2 Specific Objectives

i. To assess the effect of segmentation strategy on the performance of telecommunication companies in Kenya
ii. To establish the effect of placement strategy on the performance of telecommunication companies in Kenya.
iii. To examine the effect of targeting strategy on the performance of telecommunication companies in Kenya
iv. To assess the effect of pricing strategy on the performance of telecommunication companies in Kenya.

1.3.3 Research Questions

i. To what extent does segmentation marketing strategy affect performance in telecommunication companies in Kenya?
ii. To what extent does placement market strategy affect the performance in telecommunication companies in Kenya?
iii. To what extent does targeting market strategy affect the performance in telecommunication companies in Kenya?
iv. To what extent does pricing market strategy affect the performance in telecommunication companies in Kenya?

1.4 Scope of the Study

The scope of this study will be on Telecomsoperating in Kenya as either mobile or network providers or both. The study will be limited to those companies whose head offices are based in Nairobi County.

1.5 Significance of the Study

a) Academicians and researchers

This paper will be of use as a reference material for researchers and academicians on marketing strategies and telecom companies in Kenya. The findings, apart from being reference materials, will also build on other studies done prior to this on the same subject matter to show the relationship between marketing strategies and firm financial performance.

b) Government agencies

Government agencies may also use this information to make policies and also in a deeper understanding of the financials so as to determine ways of developing the sector.

c) Telecommunication Companies

Telecommunication companies may also refer to this research to enhance their business strategies for effective achievement of good financial performance. It may also be used by telecommunication companies as a guide towards identifying the best opportunities worth as well as the threats to be avoided. Business managers can also use the findings in this research in the implementation of strategies for their respective companies.

LITERATURE REVIEW

2.1 Introduction

In this chapter, various literature relating to this study are reviewed. It covers the theoretical foundation which discusses four theories of marketing strategies including the segmentation theory, game theory, theory of market mix, and market share theory. It then proceeds to discuss the empirical review of the past studies that relates to marketing strategies and performance of companies. Furthermore, this section discusses the correlation between the marketing strategies such as segmentation, placement, targeting, and pricing strategies and performance. Finally, it designs a conceptual framework which shows the relationship between the dependent and the independent variables.

2.2 Theoretical Foundation

The theory of market strategy uses the economic theory to develop concepts of market strategy that involve the use of the variations in potential consumers and products. There are several marketing theories. However, this research considers four theories which include market segmentation theory, game theory, market mix theory, and market share theory.

2.2.1Market Segmentation Theory

Market segmentation refers to the division of the market into separate parts based on the homogeneity of different segments. Market segmentation theory states that there exists similarity of groups of people in a similar market but with different purchasing patterns. Therefore, there is need to produce products that fits well and that satisfies the needs of these groups. Not all customers will purchase the same product as different consumers have their own tastes and preferences. Market segmentation therefore ensures production of services and goods that meets the wants of each individual segment and presenting it to each group in accordance to its needs, and purchasing ability. A market mix strategy is then necessary in order to ensure that all these segments in the market are reached with the products and services in such a way that will enable the company to increase its profits.

Hunt and Morgan (2001) advances a resource advantage theory of competitive advantage which provides a foundation for normative marketing strategies like market segmentation and relationship marketing. Many markets today are diverse following the dynamic market of different consumer's specific and special requirements where goods and services are required into smaller homogeneous segments affordable by the consumers. A product being offered in the market is designed to meet the needs, wants, taste and preferences having factored the price, promotion, and distribution channels. To be competitive in the present market and attain better financial performance, many firms are employing the strategy of targeting specific segments within the markets.

2.2.2 Game Theory

This theory supposes to be the case without truth thatcompanies are maximizersof hyper-rational utility. According to (Dominici, 2011), rationality hints at the ability of these companies tomake effort towards achieving the most desirable of resultdue to the constraint that their competitors behave similarly.

Because of the unpredictability of the actions and expectations of the competing companies, a rational company can only deal with the uncertainty through the formation of subjective probability estimates of the rival firm's expectations and behavior. The game-theoretic model assumes intelligent firm should look at issues according to the perspective of their competitors and reason from that perspective.

Since this analysis requires making assumptions about the behaviors intended by the players, the most useful information incorporated in the strategies and counterstrategies of the playerscan only be achieved when the rules and the results of the game-matrix solution includes some basic information about the behavior of the industry that come from other sources (Benedetto, 1986).

According to Winer (2002), game theory can theoretically be applied to decisions about that involve introduction of new products into the market such as common with the telecommunication services. It is useful in understanding if there is a fast mover advantage, the possible moves of the competing companies as well as in making decisions involving defensive strategies. Game theory is a useful tool in making marketing decisions which include advertising, pricing and distribution (Dominici, 2011).

2.2.3 Marketing Mix Theory

Marketing mix involves the organization of all marketing comprehensive documents (marketing plan) which outline advertising and marketing efforts thedisposition, needs, and practiceof the target market. This inclination considers marketing as it pertains to the "4 Ps" of the marketing mix. The first P is product, which takes into account product features and design of the products offered. This is followed by price, a factor that can easily be modified to control the changes in demand, as well as determining the profit margin and driving market share. The third aspect is promotion which seeks to come up with the right form of media that can be utilized by a business entity in order to create awareness among a large number of potential customers. The last P is the placement which deals with where and how the product can be accessed by the potential customers. In the case where the employees of a brand are not involved in its marketing or do not understand it, there is a possibility of any new sale suffering (Kotler et al., 2009)

2.2.4 Market Share Theory

The structure conduct performance model makes a statement which assumes that it will prove to be true that there exists a positive correlation between industry close gathering of people and the degree to which the organization yields financial gain. In addition, the connection between market share and profitability is quite varied in definitions of market within different sampling frames, and regulations for the changes in the method of accounting. The quality explanation states that in uncertain markets where prices of products cannot be predicted or determined the customers tend to be loyal to brands that have a high market share. Consequently, this makes it possible for companies commanding high market share brands to have a better price premium compared to other weaker brands in the market and as such increases its profits.

According to market power explanation, the application of the market power ability, in the control of a price premium, companies with large market share reduce costs by brokering for terms that that tend to favor them compared to their competitors with the vendors and marketing intermediaries (Vitiero, 2009).This makes it possible for them to easily acquire shelf placements from retailers which promotes their profitability. Additionally, the efficiency explanation on the other hand affirms that the experiences received from the market share may lead to reduction in costs which makes it possible for companies with large market share to generate higher profits compared to competing companies with lower market share (Whiteley& Diane, 1996). The last explanation is the third-factor explanation which states that unobservable factors such as luck, uncertainty may play a significant role in ensuring that a company increases its market share.

2.3 Empirical Review

The role of marketing strategies in determining the financial performance of companies continue to receive significant recognition throughout the field of marketing discipline. According to (Zehir, 2005), the urge to relate the marketing strategies with the firm’s performance is becoming increasingly necessary to the marketers. Laitinen (2000) argues that shifts in political and economic atmospheres, results to a change in consumer demand, market structures, and competition in the foreign market. Such variations put pressure on the companies to implement adjustable strategies and plans of action. In their study, Beaver & Ross (1999) found that firms respond to changes

in the marketplace during economic crisis and take necessary plans to adjust their corporate behavior, as the consumers embrace their new behavior. Some of the usual practices may include cost and investment reduction, cutting production, increasing sale volume, penetration into the foreign market, and debt restructuring. Furthermore, Pearce & Michael (1997) argue that for an improved performance to be achieved by a particular company a change in the marketing strategies is inevitable.

2.4 Marketing Strategies and Performance

2.4.1 Segmentation strategy and performance

Segmentation is a marketing way of carrying out a particular task by an organization to set up a firm on a permanent basis with a competitive advantage in a given market. Hunt and Arnett (2004), argue thatin using this strategy, an organization introduces a variety of a single product within the same name in a specific category of a product in order to increase the product coverage. Division of the market into groups based on similarities and differences in spending habits can also be defined as conceptualizing a brand in the mind of the consumer in a manner that differentiates it from other similar products offered by other companies within the same industry (Davidow and Uttal, 2009).

2.4.2 Placement Strategy and Performance

Product placement utilizes the strategy of distribution and ensures that the products of a firm reaches the target group. According to Balasubramanian (1994), the distribution channel is one of the significant components of themarketing as it enables products and services to reach specific markets. According to Slater & Narver (1994), placement, therefore, ensures that various target markets get the products and services both regionally and internationally. This model considers the fact that even though a particular channel of distribution may be appropriate the market conditions. According to Rosenbloom (2004), distribution strategy critically serves an important role of ensuring that products and services reach the target market within the appropriate time which impacts greatly on the financial performance of the company.

In overseas markets, an efficient delivery of a particular product is a major contributor to the performance of the company(Caspedes, F., & Piercy, 1996). From the findings of the study by Vorhies& Morgan (2003) there is a positive correlation between sales performance and the distribution channel.

2.4.3 Target Strategy and Performance

Targeting strategy is the technique of selecting potential customers to whom a business desires to make sale of its products and services. According to Kotler (1999), it involves market segmentation, choice of the appropriate market segment and determining the products necessary to be offered to each one of the selected segments. Levens (2012) gives three different types of market coverage strategies that can be applied by a business. These include undifferentiated, differentiated marketing and concentrated marketing. In undifferentiated marketing, a business develops only a particular brand to offer to the market. However, in the present age, discerning customers are growing with changing demands (Camilleri, 2018). In his research, Camilleri further argues that with such a shift in demand, it is difficult to develop a common brand product that satisfies the need of all customers. Leven (2012)

argues that in such a case differentiated marketing strategy is necessary. Finally, concentrated marketing strategy involves targeting one of a few sub-markets. A business is likely to earn high returns from this form of targeting strategy. However, in the case of failure of the selected market segment, the business can experience very big loses (Dibb&Simkin, 1991).

2.4.4 Pricing Strategy and Performance

Price is defined as the cost of production, delivery and promotion of charged by a business (Kotler, 2007). Zeithaml (1988) argues that monetary cost has impact on the perception of the consumer on the products value. The price value of a product plays a major role in determining its marketability and as a result the profitability of the business. According to Jones (2007), pricing for products or services that are common among different firms in the market is more elastic, which means that the unit sales fluctuates responsively in response to price changes.

RESEARCH METHODOLOGY

3.1 Introduction

In this chapter, the methodology of the study is outlined. The aim of the research was to examine how important the marketing strategies are in contributing to the performance of the telecommunication companies in Kenya. This chapter is composed of the research design, target population, sample description and procedures. It also covers research instruments and data analysis.

3.2 Research Design

A research design is defined as the blue print and a detailed plan of how a research study is to be conducted (Neuman, 2006). The study employed a descriptive research to help it describe the characteristics of the population. This study was carried out based on cross-sectional survey. The survey was used to collect qualitative and quantitative data from the respondents. Mugenda & Mugenda (2003) argue that a survey is utilized in the collection of data from a group of participants in a population and describes phenomenon by asking individuals about their perceptions, attitudes, behavior or values. According to Gall (1996), field survey encompasses obtaining of information on a specific phenomenon, without the use of the population in its entirety. In their part Kotler and Keller (2012), acknowledges the use of field survey collecting primary data. This method of data collection is not only time conscious but also relatively cheaper.

3.3 Target Population

As defined by Mugenda & Mugenda (2003), a target population is a group of individuals from which the results obtained are representative of the larger population. Owing to the large number of Telecoms in Kenya, the target population consisted of the mobile phone, data carrier network operators and internet providers. The study took a target population of 47 telecommunication organizations in Kenya that are currently members of Telecommunication Service Providers Association of Kenya (TESPOK) as per attached appendix II.

3.4 Sampling Design

Sampling is a statistical method through which a particular number of individuals within a population are chosen to represent a larger or the entire population in question. The study employed a stratified simple random sampling technique to choose a small group out of the entire population for investigation because of the homogeneity of the population. A total of 24 telecommunication providers were selected from which both top and middle level managers were taken as respondents. This represented 51.06% which was representative enough since over a half of the companies provided respondents for the study. This fulfils the requirements of the law of statistical regularity, which requires that any randomly chosen sample should averagely possess features and compositions similar to that of the population (Kothari, 2009).

Furthermore, it shows that every individual of the subset had an equal chance of selection, therefore, helping in collecting accurate data and minimizing bias. The responses facilitated the establishment of the connection between the variables, making it easier to not only understand but also expound on the inference of the study.

3.5 Research Instruments

The tool used in this study was questionnaire. The study on the change as a result of marketing plans of action (strategies) on the performance being a survey on telecommunication companies in Kenya, questionnaires was the most appropriate tool to collect the required data from the respondents. Questionnaires were used because they are relatively cheaper and could reach a wider range of respondents through both soft and hard copy compared to other tools such as interviews.

3.5.1 Questionnaires

In the questionnaire used in this survey consisted only closed-ended questions were used to obtain data from the selected respondents. This was also chosen so as to minimize the time taken in filling the survey. In addition, it was meant to elicit qualitative data as well as quantitative data. The qualitative data was obtained through ordinal measure using rated questions.

Before conducting the survey, a pre-survey was carried out to test whether the proposed method used was effective. Two questionnaires were issued to two people, a male and a female who filled them and returned. From the feedback and recommendations obtained from the pre-survey study, the questionnaire was modified by deleting, changing and addition of some questions that were appropriate for the effectiveness of the data obtained.

3.6 Data Collection

According to Kotler et al. (1999), the primary data is always acquired through direct contact with the respondents either through interview or questionnaires. This study employed the use of field survey was used to obtain the primary data on the views of the respondents on the effects of marketing strategies on performance of telecommunication companies in Kenya. The respondents will be managers and employees working for these telecommunication companies.

The primary data was augmented with secondary data obtained by reviewing the literature of past research in periodicals and print materials. The secondary data strengthened the primary data through achieving most of the research objective.

3.6 Data Analysis

The data obtained was arranged in a particular order to conform to the questionnaire to ensure that the accurate information was recorded for the right variable. The researcher therefore analyzed the quantitative data using statistical software SPSS. The data was represented using charts, tables and frequency distribution. The study also used the measures of central tendency such as mean and standard deviation to analyze the data in the frequency distribution table. The researcher was able to describe the data and variables using few statistics which was easy to read and understand. The significance of each independent variable was determined using the correlation model.

DATA ANALYSIS AND RESEARCH FINDINGS

4.1 Introduction

This chapter presents a detailed explanation of the findings of the study.The findings of all the four strategies including segmentation, placement, targeting and pricing strategies are analyzed.

4.1.1 Response Rate

The number of questionnaires distributed for the study was 48 of which 45 representing 93.75 % were returned while 3 questionnaires representing 6.25 % of the total number distributed were not returned. This was a good response rate that confirms reliability of the data due to its representativeness way above 70% response rate proposed by Mugenda & Mugenda (2003).

4.2 General Information

4.2.1 Duration of Operation

The respondents were required to state the duration in terms of years that the organization had been in operation. The findings were illustrated in table 4.1.

Table 4.1: Operational duration of the organization

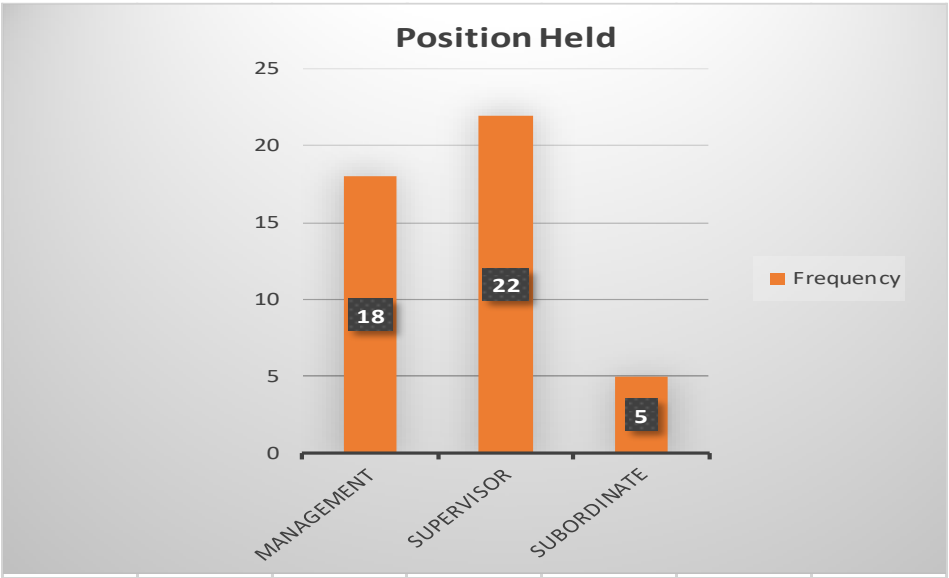
Years	Frequency	Percentage (%)
Under 5 Years	8	17.8
6 – 10 years	11	21.2
11 – 15 years	15	33.3
16 – 20 years	5	13.3
21 – 25 years	4	9.0
Over 26 years	2	4.4
Total	45	100

From the findings in table 4.1 above, the firms which had been operation for between 11-15 years accounted for the highest proportion of 33.3 % followed by those that had been in operation between 6-10 years (22.2 %), less than 5 years (17.8 %), 16-20 years and (13.3 %). Firms which had operated longer accounted for the least proportions with those in operation for 21-25 years (9 %) and over 26 years (4.4 %). These findings show that the respondent firms had been in operation for long enough to develop different strategies to improve their competitiveness.

4.2.2 Position Held in the Organization

When asked the position held in the firm, the feedback was represented in Figure 4.1.

Figure 4.1. The graph of the occurrence over a period of time (frequency) against the position held by the respondents



As shown in figure 4.1, supervisors accounted for the highest number of respondents at 22 followed by those in the management level at 22. Subordinates accounted for the least with only 5 being interviewed. The findings show that a greater number of those who returned their questionnaires were working at supervisory level who had a better understanding of the performance at different levels within the organization.

4.2.3 Duration worked in the Telecommunications Industry

In an attempt to determine the number of years in which the respondents had worked in the company, the findings were recorded in Table 4.2:

Table 4.2: Duration worked in the Telecommunications Industry

Years	Frequency	Cumulative %
Below 5 years	8	18
6-10 years	12	44
11-15 years	15	78
Above 15 years	10	100
Total	45	

From the findings in Table 4.2, a major part of the respondents agreed to have worked for more than 11-15years at 34%, followed by 6-10 years at 26% and above 15 years at 22% and the least below 5 years 18%. In total, 82% of the respondents had more than five years' experience, therefore, hence they were more acquainted with the competition levels in the industry and the performance enhancing strategies within the industry. Therefore, this is an indication of the reliability of the data collected.

4.3 Marketing Strategies

Different marketing strategies were identified in ordinals within the range little extent to very large extent using numbers 1 to 4. Below are the results that were obtained from the findings.

4.3.1 Segmentation strategies

On asking the respondents the extent to which some or all of these strategies applied to their companies, the results were recorded in Table 4.3 below.

Table 4.3: Extent of fact of taking up of Segmentation plan of action in the Company (Adoption).

Segmentation strategy	Mean	Std Dev.
Demographic market segmentation (age, gender, occupation etc.)	4.023	0.214
Geographic market segmentation (community, region, city etc.)	4.119	0.560
Lifestyle market segmentation (interests, tastes, preferences etc.)	4.285	0.708
Behavioral market segmentation (brand loyalty, benefits sought etc.)	4.123	0.301
Business segmentation (customer type, geographic, behavior-based)	4.125	0.302
Techno graphic market segmentation (software, mobile devices)	4.309	0.737

From Table 4.3, the company focusing on techno graphic market segmentation had a mean of 4.309 with a standard deviation of 0.737. These shows that technology to a great extent had influence on organization segmentation strategy. On lifestyle market segmentation the mean was 4.285 with a standard deviation of 0.708. These mean that the chosen specific segments had an influence on the organizations segmentation strategy to a large extent. On business segmentation, the mean was 4.125 with a standard deviation of 0.302 indicating that innovations had a greater impact on organization segmentation strategy.

On the low scores, geographic market segmentation had a mean of 4.119 with a standard deviation of 0.560, these indicates that community, region, and city to a large extent had an influence on organization segmentation strategy. Demographic market segmentation had a mean of 4.023 with a standard deviation of 0.214. These show that demographic patterns had influenced the organizations segmentation strategy with a larger margin.

4.3.2 Placement strategies

The respondents were asked to indicate the rating of the following placement strategies as applied by their respective companies. The findings are captured here below in Table 4.4:

Table 4.4: Extent of Adoption of Placement Strategy in the Company

Placement strategy	Mean	Std Dev.
Specifying geographic region and how environment affect sales	4.190	0.642
Specifying market segment (teenagers, adults, business people)	4.285	0.906
Choosing the distribution channel	4.238	0.932

Offering free gifts	4.112	0.508
Publication on websites	4.023	0.419
Advertising on televisions and radios	4.404	0.857

From Table 4.4, it is evident that advertising on television and radios had a greater extent of influence on placement as can be seen from the mean of order 4.404 and standard deviation of order 0.857. Specifying mass marketing had a mean of 4.285 and a standard deviation of 0.906. These causes to be visible that market segment specification influenced placement to a great extent. The mean of choosing the distribution channel was 4.238 while 0.932 was its corresponding standard deviation indicating a greater extent of influence on placement. The mean and standard deviation of specifying geographic region and how environment affect sales 4.190 and 0.642 respectively. This is indicative of the influence on placement to a greater extent by specification of geographic region. Offering free gifts had a mean and a standard deviation of 4.112 and 0.508 while that of website publications 4.023 and 0.419 respectively. These indicate that both offering of free gifts and website publications influenced placement to a great extent.

4.3.3 Targeting strategies

The respondents were asked to indicate the rating of the following targeting strategies as applied by their organization. Table 4.5 summarizes the outcome of the information discovered.

Table 4.5: Extent of Adoption of Targeting Strategy in the Company

Targeting strategy	Mean	Std Dev.
Using mass marketing to reach everybody everywhere	4.429	0.667
Using differentiating marketing to reach large groups within the total market	4.166	0.572
Using niche marketing for high penetration to reach small specialized segments	4.111	0.651
Using micromarketing strategies to reach individual customers	4.024	0.435

As shown in Table 4.5, using mass marketing to reach everybody everywhere had a mean and standard deviation of 4.429 and 0.667 showing that it influenced targeting strategy to a greater extent. This was followed closely by using differentiating marketing to reach larger groups within the total market at a mean of 4.166 and standard deviation of 0.651 indicating a great extent of influence on the targeting strategy. Using niche marketing for high penetration to reach small specialized segments had a mean and standard deviation of 4.111 and 0.651 respectively while that of micromarketing to reach individual customers was 4.024 and 0.435 respectively. These show that both niche marketing and micromarketing influenced targeting strategy to a large extent.

4.3.4 Pricing strategies

On asking the respondents the rate at which their organizations apply different pricing strategies, the consequences were recorded in Table 4.6.

Table 4.6: Extent of Adoption of Pricing Strategy in the Company

Pricing strategy	Mean	Std Dev.
Premium pricing (high prices for unique brand)	4.306	0.716
Product line pricing (price reflects benefits of a range of products)	4.509	0.602
Psychological pricing (Kshs 99 and not Kshs 100)	4.046	0.567
Bundle pricing (pricing multiple products as a package)	3.528	1.036
Pricing for market penetration (Low prices to attract customers)	4.315	0.790
Economy pricing (low prices to attract price-conscious customers)	3.944	0.863
Price skimming (High prices for new products)	4.194	0.790

From Table 4.6, product line pricing scored highly as supported by a mean and standard deviation of 4.509and 0.602 respectively which predicts that to a very large extent product line pricing had influence on pricing strategy. Pricing for market penetration had a mean of 4.315 with a standard deviation of 0.790 thus had an influence on pricing strategy to a great extent. On premium pricing the mean was 4.306 with a standard deviation of 0.716 depicting that setting high prices for unique brands had influenced to a great extent the organizations pricing strategy.

Low scores were on economy pricing at a mean and standard deviation of 3.944and 0.863. These mean that economy pricing had influenced differentiation strategy to a great extent. Bundle pricing had a mean of 3.528 with a standard deviation of 1.036showing that it had influenced pricing strategy to a moderate extent.

4.3.5 Organizational Marketing Strategies

On asking the respondents the extent to which the competitive marketing strategies affected their organizational performance, the results in Table 4.7 were obtained.

Table 4.7: Effect of Competitive Strategies on Performance of Telecoms in Kenya

Performance Measures	Mean	Standard Dev.
Segmentation strategy	4.389	0.703
Placement strategy	4.281	0.584

Targeting strategy	4.509	0.612
Pricing strategy	4.167	0.511

As shown in Table 4.7, high scores were recorded in targeting strategy with a mean of 4.509 and standard deviation of 0.612 indicating that targeting market strategy had a greater influence on the organization performance. Segmentation strategy came second with a mean of 4.389 and standard deviation of 0.703 which shows that segmentation market strategy influenced performance to a greater extent. This was followed by placement and pricing strategies with means of 4.281 and 4.167 and standard deviation of 0.584 and 0.511 respectively. This shows that both placement and pricing market strategies influenced performance of telecoms in Kenya.

4.3.6 Organization Performance

The respondents were asked the extent to which the identified competitive strategies affect the performance of their organization. Table 4.8 gives a summary of the findings.

Table 4.8: Measurement of Performance of Telecoms in Kenya

Performance Measures	Mean	Standard Dev.
Improved customer satisfaction	4.168	0.914
Improved customer retention	4.452	0.964
Improved customer loyalty	4.011	0.936
Increased operational efficiency	4.266	0.982
Increased profitability	4.338	0.994
Increased market share	4.342	0.987

As shown in the Table 4.8, high scores of mean were on improved customer retention; the mean was 4.452 with a standard deviation of 0.964 indicating that customer retention to a large extent had an influence on organization performance. This was followed by increased market share with a mean and standard deviation of 4.342 and0.987 respectively showing that market share to a very large extent influence the organization performance. The mean and standard deviation of improved profitability for the Company had was 4.338 and 0.994 respectively. This indicates that profitability had influenced the organization performance to a very large extent.

Low scores were recorded on improved customer loyalty which registered a mean and standard deviations of 4.011 and 0.936 respectively depicting that customer loyalty had influenced the organization performance to a moderate extent. On whether competitive strategies affect the performance of the organization, improved customer satisfaction had a mean and standard deviation of 4.168 and 0.914 respectively. These shows that customer satisfaction impacted on the performance by a larger margin.

4.4 Correlation Analysis

The study analysis was conducted using Pearson's correlations analysis at 95% confidence level so as to establish the relationship between the competitive strategies that have been adopted by the Telecoms in Kenya to increase performance.

Table 4.9: Correlation matrix on Effect of Marketing plans as a function of Performance of Telecoms in Kenya

		Performance of Telcoms	Segmentation strategy	Placement strategy	Targeting strategy	Pricing strategy
Performance of Telcoms	Pearson correlation	1				
	Sig. (2-tailed)					
Segmentation strategy	Pearson correlation	0.593	1			
	Sig. (2-tailed)	0.017				
Placement strategy	Pearson correlation	0.645	0.684	1		
	Sig. (2-tailed)	0.013	0.044 0.004			
Targeting strategy	Pearson correlation	0.607	0.687	0.833	1	
	Sig. (2-tailed)	0.011	0.032	0.033		
Pricing strategy	Pearson correlation	0.691	0.687	0.833	0.891	1
	Sig. (2-tailed)	0.006	0.004	0.030	0.046	

Correlation is significant at 0.05 level (2-tailed).

From Table 4.9 above, segmentation strategy had a correlation coefficient of 0.593, targeting strategy with 0.607, placement strategy with 0.645, and pricing strategy with 0.691. All the marketing strategies (segmentation, placement, targeting and pricing strategy) had correlation coefficients greater than 0.5 showing large positive correlation with financial performance. The independent variables also had a positive significant correlation relationship with P-values of 0.017,0.013, 0.011, and 0.006 respectively.

4.6 Summary of the Findings

The findings on the segmentation strategies were that telecommunication companies greatly segment the market using various determinants such as technology, lifestyle, and business. In addition, they also segment the market geographically, and in terms of demographic patterns.

The study also established that Telecoms drive their performance using placement strategies in terms of various determinants including television and radio advertisements, mass market specification, specification of market segment, and choosing the distribution channel. In addition, other determinants of placement such as specifying of geographic region, offering of free gifts, and website publications are also used to drive performance.

Furthermore, the study also established that targeting strategies had been adopted to a large extent especially in the use of mass marketing to reach everybody everywhere, differentiating marketing to reach large groups within the total market, niche marketing for high penetration to reach small specialized segments, and micromarketing strategies to reach individual customers.

Moreover, it was established that pricing strategies bundle pricing, product line pricing, and premium pricing largely affected pricing strategy. In addition, setting low prices to attract customers as well as high prices for new products also affected pricing to a large extent.

The respondents agreed that segmentation and targeting strategies were extremely important for the performance of an organization, with pricing strategy being very important and placement strategy being important. On the performance of the organization, improved customer retention, increased profitability, increased market share, and increased operational efficiency affect financial performance to a great extent.

4.7 Chapter Summary

The findings were arranged in thematic areas to enable adequate response to the research question. The specific sections covered here include: general information, competitive strategies and organizational performance. The chapter then presented the relationship between competitive strategies and organizational performance using correlation analysis. Finally, the findings of the study were summarized.

DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

In this chapter, the key findings of the study are discussed and conclusions drawn from them based on the research objectives. In addition, it presents the recommendations made from the findings, limitations and proposals for further research.

5.2 Discussion of the Findings

Innovation, market orientation and task-oriented approaches are some of the main categories of marketing practices that most telecommunication companies in Kenya have adopted in the recent past. The study established that Telecoms in Kenya utilizes targeting, segmentation, placement and pricing market strategies as a means to improve organizational performance. This finding adds strength to the research conducted by Akingbade (2014), which depicted a correlation between brand loyalty and customer service with the performance of the Telecoms.

On innovation, the study findings show that Telecoms in Kenya use technology as a major factor in segmenting their market and this has resulted to an increased performance in times of customer service. This is quite contrary to the findings of the study by Nyaega et al. (2015) in whose investigation, no significant relationship was noted between the performance of Telecoms and some of the marketing strategies such as pricing and network coverage among others who did not find any significant relationship between product pricing, customer service, parent shareholding, network coverage, and service uptime which do not have a significant effect on firm's performance. Furthermore, their findings also contradict the findings of this research on the use of pricing strategy which revealed a correlation between the adoption of pricing market strategy and the financial performance of telecommunication firms.

Moreover, the study findings show that marketing strategies such as segmentation, targeting, placement, and pricing serves as better strategies that most organizations utilize as competitive advantages over competing firms. This complements research by Kyengo et al. (2016) who sought to determine the impact that competitive strategies have on the performance Telecomsin Kenya and found out that there were some correlations between the marketing two variables.

According to the study improved customer retention, increased profitability, increased market share, and increased operational efficiency were found to affect performance to a great extent. This finding supports the argument of (Vickery, Droge & Markeland, 1993) that there are those activities that are concerned with high performance and include new market discover and improved service delivery.

Telecom companies are rapidly changing in the way they do things and must therefore remain to be responsive so as to keep up. Increasing demand, competitive market, security threats such as cybercrimes among others are the key issues facing this industry. One of differentiating factors that make one company to outfit others is in the business strategies which also incorporates the marketing strategies.

As argued by Craven & Piercy (2003), business is a war and only the one with the best strategy wins, this concept has proved to be correct in as far as telecommunication companies are concerned. A good example is that of

Safaricom and the recent developments in brandings form Telcom Kenya not forgetting the great marketing strategy used by Airtel Networks Kenya Limited. Business strategies, specifically marketing strategies play an important function in the performance of Telecoms, however, this assertion can only be justified best through an in-depth research on the determinants of marketing strategies of the telecommunication companies while assessing their impacts on financials of telecommunication companies.

5.3 Conclusion

The study established that the operating environment in the telecommunications sector is competitive following entry of other players. The study concludes that formulation of competitive strategies is therefore relevant if a firm is to have a good financial performance. The study therefore concludes that the firms in the telecommunication sector adopt various strategies including: segmentation, placement, targeting and pricing so as to acquire and maintain sustainable financial performance.

The analysis of the organizations is that they are attempting to apply differentiating strategies in order to continue improving their profitability. The use of price strategy was very effective and common among the Telecoms and it was evident that it was being varied each and every time because of price elasticity. Thus in order to improve financial performance, the organizations haveto employ different strategies in order to realize improved performance. The study recommends that they choose a mix of strategies that would help them beat the price fluctuations and the increasing competition in the telecommunication market.

5.4 Recommendations

This research established that most companies had developed unique positions within this industry and as such it is recommended that they continue developing new products through improved technological innovations. Furthermore, it is recommended that the organizations invest in strategies that would give them a competitive edge in the market.

This research also found out that the organizations do not consider the prices of other competing companies when coming up with their product prices and as such the researcher recommends that price comparison be taken into consideration. Although the organizations have managed to segment their markets, improve on target, placement, and pricing, the study recommends that they also continue devising ways to create awareness of their products to the potential customers.

5.5 Limitations of Study

One of the challenges faced by the researcher in the research was the difficulty in acquiring the data. This is because performance of Telecoms is impacted by several other factors such as the marketing strategy, quality of management staff, cost management and technology strategies. Failure to disclose information by the organization management posed great limitation. This challenge was handled through letters of identification from the university.

The other challenge was imposed by respondents who did not want to disclose some important information. Some respondents failed to give adequate information. Nevertheless, with the assurance of confidentiality, the researcher

was able to get the better of them. Time is always a factor in any study and without early planning in the part of the researcher the study would have not been successful.

5.6Suggestions for Further Research

The current study only examined only four marketing strategies that affect the performance of Telecoms in Kenya. However, there are other strategies such as competitive strategies, technology strategies, and customer service strategies among others which also contribute to the performance of telecommunication companies. Therefore, further research is recommended on identifying and examining other marketing strategies that affect the performance of these companies not only in Kenya but in other companies regionally and internationally.

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Determinants of Public Funds Internal Control Systems

And Service Delivery in Nairobi City Water and Sewerage Company Kenya.

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Abstract
With water being an essential element for sustenance of life its scarcity is one aspect that should not feature, if a must then at the most minimal levels. The constitution of Kenya (article 43 (1)), places provision of water and sanitation services as a basic right that should be attained. Yet most parts of the country both arid, semi-arid, highlands and urban areas suffer the same fate. Management of public funds is the biggest obstacle to achieving the millennium development goals in developing countries if not handled with extreme caution, discipline and integrity. The general objective of this study to determine how internal control systems of public funds management affected service delivery at Nairobi city water and Sewerage Company. Specifically; the study focused on; examining how internal control systems, resource mobilization, budgeting, existing regulatory framework and auditing affected service delivered by the Nairobi city water and Sewerage Company employees. On theoretical review, the resource based theory, systems theory management plus 7 gap service quality delivery theories were focused. Studies were conducted on internal control systems, revenue mobilization, budgeting practices, and auditing featured in empirical review. The conceptual framework highlighted on the objectives. This research project adopted survey descriptive research design. The researcher targeted 180 workers organized in strata's to achieve the researcher's goal. The study adopted stratified probability-sampling procedure whereby out of the total number of the targeted population units, the study identified 30% of the target population to have a total sample of 54 staff respondents. The study used primary data that obtained by use of a self-made questionnaire. The validity and reliability tested in the study. Statistical package for social sciences (SPSS version 22) used to draw inferences from the coded data. These included descriptive, relational and inferential statistics. The descriptive statistics included frequency distribution tables; pie charts and percentages relational statistics that encompassed the regression analysis while the inferential statistics included the chi square test. The research indicated that water shortage in Nairobi is a resultant of inadequate internal controls of public funds due to poor planning, lack of infrastructure, and inadequate water harvesting techniques in catchment areas, illegal connections and limited technological innovations. The research concluded that an ineffective internal control system affects public funds in terms of service delivery at Nairobi city water and Sewerage Company significantly. Thereby the institution should work towards enhancing the policies that exist. The research recommended that the organization should invest in technology to reduce loopholes for funds pilferages. Funds raised should be geared more towards infrastructural developments and expansion plans while recurrent expenditure be reduced. The organization is encouraged to venture into other business areas that generate income like water bottling. The study suggested further research to be done on how system automations on public funds affect service delivery in the organization.

Keywords: Internal control systems and Millennium development goals,

Background of the study

The N.C.W.S.C is charged with the responsibility of "providing quality water and sewerage services that meet the needs and expectations of its customers" according to its policy statement, within its area of jurisdiction. In the past several years many county governments in Kenya have restructured their public sectors in an attempt to deal with the twin problems of indebtedness and growing citizen disenchantment with government. Thus, making it difficult to guarantee good and quality services resulting into : increased cost of operations due to inefficiencies, public search for alternative service providers and spread of negative vibes which affects potential clients. Hence, the poor performance of the county governments (Mutisya, 2014)

In a study which was conducted in Nigeria, Demirel, Yoldas and Divanoglu (2009) found a positive and significant relationship between customer's perception of service quality and their willingness to recommend the company. They also recorded that; a well-functioning public sector that delivers quality public services consistent with citizen preferences and that fosters private market-led growth while managing fiscal resources prudently is considered critical to the World Bank's mission of poverty alleviation and the achievement of Millennium Development Goals. The performance of public sector development indicators has been a major concern to the Kenyan national government, stakeholders, civil society, development partners and the people of Kenya. The performance evaluation for the year 2015/2017 Show poor indicators on the performance of service delivery measured by state of the roads, school infrastructure, availability of quality of drinking water and Sewerage management.

Osmond (2011) indicated that organizations implement internal controls based on the nature of their business and regularly audit them to ensure their adequacy. The study further relates safety of financial transactions and information to an organization's internal controls. An internal control system is usually responsible for organizations' failure to achieve efficiency and effectiveness, reliability of financial reporting and compliance with relevant laws and regulations.In a study done by Kabiru (2009), embezzlement and mismanagement of public funds is the biggest obstacle to achieving the millennium development goals in developing countries. The study indicated that managing public funds should focus on public expectations.

Nairobi has been experiencing shortage of water for more than a decade. This prompted the operations department to re-structure, implement, maintain and supervise the rationing program for water supply branded as Water equitable distribution program. Recently this brought about a lot of political debate due to the fact that the rains were bountiful yet the water supply for domestic use still ration. It's evident that this shortage is not only due to the fact that water is not a manufactured product here but management problems might be a contributing factor, not forgetting that Nairobi population is still at growth levels. N.C.W.S.C *Strategic plan for the year 2018/2019*, the rationale for the strategic theme broad plan is to use skills and resources objectively putting into consideration the demand for services are increasing.

The following has been the resultant effect: Low production for manufacturing companies that require water as a key ingredient, Loss of business growth opportunity such as setting up of water bottling commercial sector, Reduced revenue collection for the company, with only a 60% customer base instead of 100%, of which Kshs 9 billion is held as debt, Sanitation problems explode, Health diseases associated with sanitation like rise in cholera, Loss of life especially on fire emergencies and arson, Reduced staff motivation, with about 65% productivity level according to the firms documents, Reduced level of employee satisfaction that as at the yr2017/2018 at a staggering figure of 79%, Sky rocketing disputes on erroneous water bills and bad debts write offs. Rise of illegal water connection, Constant sewer bursts as a result of improper management methodologies, Negative environmental impact due to poor management of environmental practices and Resource shortage on politicized debut e.g. holding of press conferences and media charges.

Based on MDG, Kenya is far below set target of halving the population that is surviving without sustainable access to affordable, safe drinking water and basic sanitation by the year 2015 by only 48% of household are connected main sewer lines. The water demand is estimated at 782,000m3 per day compared 553,000m3 per day according to N.C.W.S.C strategic plan year 2018/2019. In Nairobi city, only 10% of solid waste generated is collected. Inadequate drinking water supply and solid waste disposal services has resulted in widespread pollution of the environment.

Review of existing literature

Internal Control System and Service Delivery

Policy framework for effective financial controls includes the maintenance of proper accounting, M & E tools, optimal utilization of monies available, equitable distribution of finances, and setting of strategic planning framework. Therefore, ensuring that the institution is not unnecessarily exposed to financial risks. Khoove (2012) studied "the effects of Financial Controls on Financial Management in Kenya's Public Sector: A Case of N.C.P.B". The research used qualitative research design to collect data using observation and interview methods. The findings

revealed that; financial controls and decisions covering are established by the administration in order to ensure that the activities are carried out in compliance with the purpose of the administration and the determined policies and the legislation. The researcher also notes that proper keeping of financial documents is important because it prevents corruption and reduces lose within the organization. While the forgoing study qualitative in nature, the current study will be quantitative and has delimited itself to using questionnaires as opposed to interviews and observation techniques.

Karanja and Ng'ang'a, (2015) studied the "Factors that influence implementation of integrated management information system in Kenya government ministry". They used descriptive research design to collect data using a questionnaire and interview schedules. The sample derived from 47 respondents using stratified and simple random sampling techniques. Data was analyzed using both qualitative and quantitative techniques. The findings of this research revealed that; there is a direct positive correlation between proper financial control systems in government ministries and quality of service delivered to their clients. They also note that lack of proper of proper financial control systems leads to great losses because there is lack of accountability among the managers. the current study has delimited itself to using only a questionnaire as the instrument for data collection and only quantitative approaches will be used.

Revenue Mobilization Practices and Service Delivery

Revenue mobilization is classified as one of the sub-systems of public funds management which is linked to service delivery in government run institutions units. N.C.W.S.C cannot survive without adequate revenue of which can be mobilized in the form of sales revenue, license fee, surcharges, penalties paid, customer deposits, grants, P.P.P and development partners like NGO's. According to Bird (2010), sound revenue mobilization practices for government units are vital pre-condition for the success of public service delivery. This is because, apart from raising revenues, local revenue mobilization has the potential to foster political and administrative accountability by empowering communities.

A study from Uganda shows that small, informal non-farm enterprises pay local taxes in a regressive way. While the majority of the micro enterprises in the Ugandan sample were poor enough to be exempted from national business taxes including the small business tax and VAT, they ended up paying a large share of their profits to local authorities – with the poorest paying the highest share of profits. This is mainly due to the basic design of the local revenue system and the way revenues are collected. Thus, a top-down drive towards more taxation of this sector could be counterproductive, and would increase the

Otieno, (2015) studied the relationship between revenue mobilization and service delivery in local authorities in Kenya. The research used descriptive research design and sampled 35 local authorities. Secondary data was used on revenue collection and service delivery of local authorities. The study considered performance ranking for 10 years since inception of performance contracting ranking in Kenya. Multiple regression and correlation analysis carried out to determine the relationship between revenue mobilization and performance. The study revealed that there had been increase in revenue mobilization in the local authorities and that the higher the level of mobilized revenue the better the performance of local authorities, it also established that the Local authorities with low levels of mobilized revenue performed poorly. Lack of adequate finances to N.C.W.S.C remains a major challenge to the success of growing a highly lucrative service in Nairobi. Finances will facilitate projects that are worthwhile and value adding to the firm to which effective service provision will be offered, adequate supplies maintained and employee motivation handled extensively thus the company will attain its blue ocean strategic point.

Budgeting Practices and Service Delivery

Budgets allow for resources to be released to various spending agencies so as to enable those implements their expenditure programs. Nayak and Samanta (2014) conducted a study in rural West Bengal, India which had the purpose of understanding the role of community participation in budgeting on public service delivery. Primary data collected using structured questionnaires and analyzed by the use of qualitative and quantitative methods. The study noted that in India, like many other developing countries, governments spend a sizeable portion of their budget toward creating public utilities and providing host of public services. They record that application of participatory budgetary plays a big role in creating a good working relationship between the government and the people. This in turn is followed by improved efficiency in service delivery and good prioritization of what the citizens wanted. The

research findings also revealed that resources in India are available, but ironically, there is inability and unwillingness to plan and utilize them optimally.

Maina (2016) studied the role of public financial management practice of service delivery in selected counties. Descriptive study design was applied .The population targeted was 248 MCAs in the three counties of Nairobi, Kiambu and Kajiado. Questionnaire method utilized to collect data in this study. Results showed that budgeting and stakeholder participation practices and regulatory practices had a positive effect on service delivery in the counties. More political affiliation by locals has seen to have a more powerful impact on the citizens' likelihood of participating in budgets and hence contributing to better service delivery. They indicated that a budget acts as a framework and control mechanism for organizations' finances and cash flow

Auditing Practices and Service Delivery

A study in Brunei by Athmay (2008) sought to establish the role of performance auditing and public sector management in Darussalam. A case study of Ministry of health. The study conducted a qualitative research and used both purposive and stratified sampling. The findings revealed, that auditing is important in an organization and that it correlates positively to quality of service delivered to the 'clients'. It was noted that auditing which is prevalent in Brunei is the traditional regularity and financial audits which focus on compliance with laid down procedures. This form of auditing does not have any effect on service delivery because it does not focus on outcomes but rather focuses on conformance with laid down rules and regulations.

In Edo state Nigeria, effective management and improved service delivery by local government agencies in the state was achieved through the role played by internal audit. This study was conducted by Enofe *et al.*, (2015). They used a self made questionnaires to collect data from manufacturing and service organizations from a sample of 150 respondents. The findings for this research revealed that; internal audit plays key role in ensuring effective management in public sector. However, the study established there is need for today's auditors to acquire the requisite technique and skills in computer operations and electronic data processing in order to carry out their work effectively to continually support internal audit effectiveness.

Regulatory Framework and Public Service Delivery.

Prakash (2015) investigated the influence of regulatory framework and policy in steering healthcare service delivery. The purpose of this study was to explore regulation in the devolved Pakistan healthcare sector and make recommendations needed for enhancing the healthcare services. The study established that statutory regulation and governance standards are formulated by the national parliament and state legislatures, which have their own political economy and are influenced by international bodies, political, economic and social factors. The findings also indicted that existence of regulatory framework correlates positively to quality of service offered by workers in any organization. Another study on the effect of regulations on public service delivery was conducted in Wales' local governments by Andrews *et al.*, (2008). The study revealed that inspection had no effect on public service performance and that regulatory authorities also played an advisory role by seeking to promote good practice and supporting the home-grown improvement strategies of local authority service providers. However, they noted that policy regulatory framework has a significant impact on integrity, accountability, fairness and professionalism. The findings also showed that policy regulatory framework maximizes the level of service provision within the organization hence leading to improved organizational performance.

A similar study by Karunguni (2017) on effect of policy and regulatory framework on organizational performance: A case of Nairobi County Assembly used quantitative research design and delimited to written survey. Purposive sampling was used to select 87 employees from procurement department. Questionnaires used and data analyzed using descriptive and regression analysis. The findings indicated that policy and regulatory framework within the procurement sector plays an important role in improving organizational performance by creating a level of playing field for organization engaged in procurement field. Policy and regulatory frame work also leads to improvement in transparency, ethical standard, openness, impartiality as well as improving decision making.

Objective of study
This study has the following specific objectives;-

i. To what extent does resource mobilization affect service delivery by N.C.W.S.C.?
ii. How auditing practices does affects service delivery in N.C.W.S.C.?
iii. How does regulatory frame work affect service delivery in N.C.W.S.C.?
iv. How budgeting practices does affects service delivery by N.C.W.S.C.?

Hypothesis of the study
***Hypothesis 1*:** There is no significant relationship between resource mobilization and service delivery by N.C.W.S.C.

Rejection of the null hypothesis point towards a statistically significant relationship between resource mobilization and service delivery by N.C.W.S.C

Hypothesis 2: There is no significant association between auditing practices and service delivery by N.C.W.S.C.

Rejection of the null hypothesis indicates a statistically significant association between auditing practices and service delivery by N.C.W.S.C

Hypothesis 3: Regulatory frame work has no influence on service delivery by N.C.W.S.C.

Rejection of the null hypothesis indicates a significant influence Regulatory frame on service delivery by N.C.W.S.C

Hypothesis 4: There is no significant relationship between budgeting practices and service delivery by N.C.W.S.C

Rejection of the null hypothesis indicates a statistically significant relationship between budgeting practices and service delivery by N.C.W.S.C

Database and methodology of the study

The research design for the study was descriptive research design. It was delimited to written survey. This design was appropriate because it was relatively cheap and employs the use of questionnaire which can be used to collect information from a large sample over a short period of time (Kothari, 2004). The target population for this study is at 180 workers of N.C.W.S.C, who are employees of the organization. According to Mugenda & Mugenda (2009) a sample size of between 10 and 30 % is a good representation of the target population and hence the 30% was considered adequate for analysis. Thus, a sample size of 54 was appropriate.
The research used probability sampling techniques and in particular stratified the strata's were set in a systematic form in order to ensure that employees of all job categories that work in funds department are represented. Main target was employees in departments of finance and accounts, auditing and risk, human resource, procurement, legal and quality management systems.

The researcher used questionnaires to gather quantitative data which was distributed mainly at N.C.W.S.C headquarters to the intended target population as the premise has the most concentration of the staff. The filling of questionnaire commenced thereon after which the coded results were assessed are fed to SPSS 2.0 to come up with the data to be analyzed. A self-administered structured questionnaire was administered. The questionnaire for this study contained both open and closed ended items based on a Likert scale. The utilization of structured questionnaires enhanced the objectivity and supported the statistical analysis. It enabled the respondents respond to a series of pre-developed questions posed by the researcher (Cooper & Schindler, (2010).In this study, the researcher pre-tested the questionnaire prior to data collection with a section of workers in Kiambu Water and Sewerage Company which was purposefully selected because it has almost similar characteristics as Nairobi County given its proximity and interaction. Piloting also assisted in determining the reliability and validity of a research instrument.

This research evaluated the research instruments for face and content validity. Researcher and peers in the subject areas established the content validity of questionnaire.

An instrument can be said to be reliable if its measurement accurately reflects the true scores of the attribute under investigation (Orodho & Kombo, 2002). The instrument was submitted to reliability testing after completion of data collection through test-retest method to ascertain the likelihood of obtaining the same results when the researcher will measure the same variable more than once. The researcher determined that using Cronbach's Coefficient Alpha scores. The Cronbach's Coefficient Alpha score was set at 0.7 and any item in the questionnaire below 0.7 was eliminated, as it was considered not achieving internal consistency.

Qualitative data was analyzed using descriptive, cross tabulation and referential statistics. It was then organized according to the study objectives and categorized after scrutiny of the content. The analyzed data was generated through tables, graphs and percentages. Findings were given leading to discussions, recommendations and finally suggestions. The following analytical model was used in analyzing the relationship between the dependent and independent variables: $Y=\alpha+\beta1\chi1+\beta2\chi2+\beta3\chi3+\beta4\chi4+e$

The items, which were measured on the ordinal level, were subjected to calculating the frequencies, medians and means. Chi-square was used to test association between predictor and criterion variables. Predictor variable which includes determinants of public funds internal controls systems, while criterion variable included efficiency in services delivery that was measured by satisfaction of services offered by the N.C.W.S.C.

Major findings of the study

The response rate was stated at a target sample size of 30% was considered adequate for analysis which translated to 54 was appropriate. And a total of 54 questioners were filled. The study sought to determine the demographic characteristics of the respondents .This information aimed at testing the appropriateness of the respondents in answering the questions.

Demographic information results

The age of the respondents from the various departments was sought and the findings are presented in the table 4.1. On the age distribution of the respondents, it was found that 5.5 % of the respondents were between age 26-35; 35.2 % were between ages of 36-40 while 40.7 % of the respondents were between age 41-50. This class had the majority of the respondents. It was also realized that workers who were above 50 years old amounted to 18.5 % of the respondents. Thirty three respondents, (61.1%) were males while 21 respondents (38.9%) of the respondents were females. Giving clear indications that financial, economic and mathematics career are highly dominated by the male gender.

Descriptive statistics

This section provides the summary of descriptive statistics of the study variables. Descriptive statistics are a collection of measurements which determine the location and variability of the variables used in a study (Torres, 2009). The study results were grounded on mean, standard deviation, maximum and minimum of the values obtained from analysis of the study data. Specifically, the mean was used to show the central value of the study variable while the standard deviation provided the variability or spread of the study data from the centre value. The maximum and minimum were used to give the highest and lowest values respectively.

Table 1; Budgeting practices and service delivery

Items	SD	D	N	A	**SA**	
		(%)	**(%)**	**(%)**	**(%)**	**(%)**
The budgeting process in this organization is inclusive and wide consultations take place.		**48.1**	**38.5**	**9.6**	**3.8**	
Citizens participate in the budgeting process to ensure that important issues are given priority		46.2	30.8	19.2	3.8	
Enough resources are allocated to various projects based on clear criteria understood by stakeholders		48.1	15.4	30.8	5.7	
The budgeting and planning process is realistic and Practical		46.2	44.2	7.7	1.9	
Budgets are adhered to when it comes to spending		46.2	30.8	19.2	3.8	
Value for money is a key concern in budgeting process in the		38.5	36.5	11.5	9.6	3.8

county					
Addressing marginalization and inequalities are key concerns in the budgeting process	30.8	15.4	48.1	5.7	
Budgets for previous years and their actualizations informs the future years budgets	73.2	23.0	3.8		

Source: *Survey data (2019)***.**

The table shows majority of the respondents 25 (48 %) strongly disagreed that the budgeting process in N.C.W.S.C is inclusive and within consultation takes place during the budgeting process. Twenty four respondents (46.2) strongly disagreed that citizens participate in budget making process. Majority of the respondents (48.1%) also indicated that enough resources are not allocated to various projects by stake holders. Slightly less than a half of the respondents indicated that budgeting and planning was unrealistic and impractical. When it comes to implementing budgets, majority of them indicated that budgets are not adhered to. Most respondents (38.5%) strongly disagreed that value for money is a key concern in budgeting process. Sixteen respondents (30.8%) indicated that addressing marginalization and inequalities were not key concerns in the budgeting process. More than half of the respondents (73.2%) reported that budgets for previous years and their actualizations did not inform budgets for future years.

Table 2; Resource Mobilization Practices and service delivery

Items	**SD**	**D (%)**	**N (%)**	**(%)**	**A (%)**	**SA (%)**
Revenues generated by this organization are adequate for both recurrent expenditure and development projects.		**57.6**	**36.5**	**3.8**		
Revenue collection practices adopted by NCWSC are cost effective and efficient.					38.4	48.0
Revenue collection practices in NCWSC. transparent and there is no corruption involved.		23	19.2	30.7	23	3.8
Residents and businesses do not complain of tariffs obtained from them.		38.4	48.0	13.6		
There are no conflicts between national government and NCWSC in revenue mobilization.				3.8	23.0	73.0
The NCWSC collects revenues from clients on time.		34.6	28.9	23	3.8	9.6
The NCWSC has been able to supplement the revenues it gets from the national government through local revenue sources.		34.6	23	28.9	9.6	3.8

Source: *Survey data (2019)*

The findings revealed that; more than half of the respondents strongly disagreed that revenue generated by the organization are adequate for both recurrent expenditure and development projects. Most of the respondents (48.0 %) indicated that revenue collection practices by N.C.W.S.C were cost effective and efficient. Sixteen respondents (30.7 %) were neutral about revenue collection practices being transparent and corruption free. Slightly less than half of the respondents disagreed that residents and businesses do not complain of tarrifs obtained from them. More than half of the respondents (73.05%) strongly agreed that there was no conflict between national government and NCWSC in revenue mobilization. Less than half of the respondents (34.6%) strongly disagreed that the company collects revenue from clients on time. Eighteen respondents, (34.6%) strongly disagreed that NCWSC has been able to supplement the revenue it gets from the national government through local revenue resources.

Table 3; Auditing Practices and service delivery

Audit practices indicators	**SD (%)**	**D (%)**	**N (%)**	**A (%)**	**SA (%)**

There are annual audits on how public finances are utilized.		13.5	19.2	11.5	55.8
The audit reports are made public.	38.5	23.1	23.1	11.5	3.8
Audit reports are utilized and lessons learnt are applied in subsequent years.	59.6	17.3	15.4	7.7	
Any public official who is found to have misappropriated public finances through audit is punished.	53.8	7.7	15.4	7.7	15.4
Auditing helps the organization by pushing the management into action on areas that are reported to have issues.	78.8	17.3	3.8		
Auditing draws authorities' attention to specific problems which they take remedial action upon.	34.6	34.6	17.3	9.6	3.8
Auditing in the organization is performance based and seeks to establish whether funds are used optimally.	44.2	26.9	25.0	1.9	1.9
The organization has internal auditors who continuously perform audits on financial documents.	15.4	7.7	15.4	7.7	53.8
The organization hires auditors with requisite skills and experience.		13.5	19.2	11.5	55.8

Source: *Survey data (2019)*

Slightly more than half of the respondents (55.8%) strongly agree that there are annual audits on how public finances are utilized. Less than half of them (38.5%) strongly disagreed than the company's audit re are made public. More than half strongly disagreed that audited reports were utilized and lessons learnt were applied in subsequent years. Slightly more than half (53.8%) strongly disagreed that any public official who is found to have misappropriated public finances through audit is punished. Majority of the respondents (78.8%) strongly disagreed that auditing helps the organization by pushing the management into action on areas that are reported to have issues. The number of respondents who strongly disagreed that auditing draws authorities' attention to specific problems which they may take action was 18 respondents, (34.6%). Another 34.6% of the respondents also disagreed with the statement. Less than 50 % of the respondents strongly disagreed that auditing in the organization is performance based and seeks to establish whether funds are used optimally. With regard to whether the organization has internal auditors who continuously perform audits on financial documents, 53.8 % of the respondents agreed with the statement. More than half of the respondents (53.8%) strongly disagreed that the organization has internal auditors who continuously perform audits on financial documents. Majority of the respondents (55.8%) strongly agree that the organization hires auditors with prerequisite skills and experience.

Table 4; Regulatory Practice and service delivery

Items	**SD (%)**	**D (%)**	**N (%)**	**A (%)**	**SA (%)**
There are rules and regulations that help curb wastages and corruption in managing public finances within the firm.	57.6	8.6	20.9	12.3	0.6
The rules and regulations are adhered to and those who break them are punished accordingly.	48.1	36.5	11.5	3.8	0.1

There are clear regulatory framework that clarifies how the public funds are to be utilized for better service delivery.	26.5	28.8	30.7	7.5	6.5
The laws on governance are strict which ensures that punitive action is taken against officials who misuse public funds.	53.8	13.5	21.2	11.5	
Officials who misuse public funds lose their status and are prosecuted.	83.2	11.7	5.1		

Source: Survey data (2019)

Most of the respondents (57.6%) strongly disagreed that there were rules and regulations that help curb wastages and corruption in managing public finances. However, slightly less than half (48.0%) strongly disagreed that the rules and regulations are adhered to and those who break them are punished accordingly. Sixteen respondents, (30.7%) were neutral about clear regulatory framework that clarifies how public funds are utilized were there. More than half (67.3%) disagreed that laws on governance are strict and they ensure that punitive action is taken against officials who misuse public funds. A big percentage representing those who strongly disagreed those officials who misuse public funds lose their status and are prosecuted standing at 83.2%.

Correlation Analysis

In order to effectively assess relationship between determinants of public funds, internal control systems and quality of service by N.C.W.S.C. the Pearson correlation analysis symbolized by ŕ was considered. It shows both the strength and direction of the relationship using the SPSS Version 22 to internalize the relational existing.

Table 5; Pearson Correlation Analysis

		Service delivery
Internal Control System	Pearson Correlation	.580**
	Sig. (2-tailed)	.001
	N	54
Auditing Practices	Pearson Correlation	.533**
	Sig. (2-tailed)	0.003
	N	54
Resource Mobilization	Pearson Correlation	.756**
	Sig. (2-tailed)	.021
	N	54
Regulatory Framework	Pearson Correlation	.533**
	Sig. (2-tailed)	.001
	N	54
Budgeting Practices	Pearson Correlation	.865**
	Sig. (2-tailed)	.001
	N	54

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

Source: *Survey data (2019)*

All the five variables showed a positive and statistically significant relationship with quality of service rendered.

The ŕ for internal control system (0.580) shows a positive and statistically significant relationship with service provision. The relationship meet the statistical significance threshold as the P-value or Sig. (2-tailed) value of 0.001 is less than 0.05 or 5% significance level. The results agree with past empirical foundations by Shagvaliyeva and Yazdanifard (2014) who indicated that internal control systems correlates positively with quality or service rendered by an organization. The ŕ for auditing practices (0.533) demonstrates a strong, positive and statistically significant link with service provision. Level of association is strong as the coefficient is greater than 0.5 and statistically significant because the P-value or Sig. (2-tailed) value of 0.003 falls below the 5% level of significance. The study agrees with past findings by Kotteeswari and Sharief (2014) who indicated that auditing practices were positively associated with service.

The ŕ for resource mobilization (0.756) indicates a very strong, positive, and statistically significant association The association is considered strong as the Pearson Correlation coefficient is greater than 0.50. The statistical significance threshold is met as the P value or sig (2-tailed) value of 0.021 falls below the 5% level of significance. The results agree with Muli, Muathe, &Muchiri, 2014, who indicated that it was necessary for organizations to mobilize all the resources needed so as to ensure they provide quality services to their clients as resource mobilization correlates positively to service provision. The strength of association between proper regulatory framework and service delivery is considered strong as the co-efficient is above 0.50. The relationship meets the statistical significance threshold as the P-value or Sig. (2-tailed) value of 0.001. These attribute of positive association is not a new phenomena as it resembles that of Apiyo, & Mburu (2014). Thereby indicating that adequate and effective policies and procedures ensure there is high standard of service delivery.

Linear Regression Analysis

Multiple regression analysis was then computed considering all the assumptions of normality, linearity and collinearity diagnostics were fulfilled. To be exact, multiple regression analysis was computed and this was represented by a regression equation below

$$Y=54+ \beta 1\chi 1 + \beta 2\chi 2 + \beta 3\chi 3 + \beta 4\chi 4+0.14$$

Where: Y = Internal control systems and service delivery, β= Co-efficient of independent variable, $\chi 1$ = Resource mobilization, $\chi 2$ = Auditing Practices, $\chi 3$ = Regulatory framework, $\chi 4$ = Budgeting practices, e = error term, α= constant factors that are retained like number of employees. Regression analysis shows how dependent variable is influenced with independent variables.

Model Summary
Model 1
R 0.8600
R Squared.7390
Adjusted R.0.7180
Standard Error of the estimate .0146

Conclusions

This study makes the following conclusions based on the study findings: - research clearly indicates that there is a positive and significant relation between internal control systems and public fund management. The better the I.C.S, the better the utilization of public fund within this organization that eventually translates to improved service provision. Services being offered by N.C.W.S.C are averaged due to factors that can be avoided with proper utilization of the available resources, especially the expansion of the available infrastructure to cater for the increasing population in Nairobi. There are laid down procedures to guide the budgeting and planning process. Budgets for previous years and their actualizations informed the future year's budgets. The existing revenue mobilization practices were inefficient. There are weaknesses that prevented auditing from playing its rightful role in ensuring prudent use of public resources to enhance service delivery .Regulations governing public funds management had significant effect on service delivery but compliance to laid down was the issue.

N.C.W.S.C has invented techniques that are in the process of being implemented to help on revenue collections like prepaid water meters, water kiosks, automated meter readers, water chambers etc. as an initiative to help on revenue collection. The firm though is experiencing challenges on the same as there are resistances from employees. Debt and credit management policies are not strictly adhered to.

Auditing Practices and Public Service Delivery

The study results revealed that auditing practices had a significant effect on service delivery. N.C.W.S.C had internal auditors who continuously performed audits on the firm's finances. Both internal and external auditors are available and they are taking their work seriously. However not much is being done to follow up and implement on the audit recommendations and audit reports were not acted upon and lessons learnt were not applied in subsequent years.

Regulatory Practices and Public Service Delivery

Regulatory practices in regard to public funds management have a positive effect on service delivery. The researcher also established that policies, procedures and manuals are available. The area with the greatest gap is on enhancement and sensitization of the existence, usage, adherence and applicability of the policies, procedures and manuals while conducting the institutes business. The results indicate that there were rules and regulations that were designed to curb wastages and corruption .clear regulatory framework that clarified how the public funds were to be utilized for better service delivery exists. Laws on public finance management were strict which prescribed punitive action against officials who misused public funds. However, implementation was the issue. Budget performance evaluation reports should be periodically generated, discussed and any variance therein dealt with.

Recommendations

For N.C.W.S.C to create a blue ocean strategy position for itself, an automated financial system that has been customized to meet the needs of the institution and also ensuring that checks and balances are closely monitored should be a key area of innovation. This will promote transparency and accountability thus eliminating any loop-holes for funds pilferages not forgetting the budgeting software application. Proper training and induction on this financial applications should to be taken to reduce resistance of the employees. Customer enquiries and requisitions for water supply and sewerage service should be done using an online application and proper queuing system established.

Leverage technology should be implemented. Though the company's mandate is to provide water and sewerage services, creation of a business portfolio will be of the highest benefit to the institution. Business diversification will improve the firm's consumer market base. Venturing into water related revenue generating activities should be highly considered like water recycling stations, extraction of sewage by products for sale to fuel and fertilizer manufacturing companies, water bottling products, recreational centre for water gaming, that will in turn ensure its sustainability.

Also the organization must exert deliberate effort towards implementation of the strategic plan documentation into actual and realizable value adding activities.

Suggestions for Further Research.

Issues of fiscal, leverage and financial integration management systems are related to service delivery in decentralized systems that are multifaceted and complicated. Empirical literature reveals that sometimes it is even difficult to separate or isolate the influence of funds management practices from other ongoing reform agenda on service delivery. It is therefore recommended that research in these areas should adopt multi thronged frameworks that are capable of perceiving and analyzing the issues from critical diverse angles in order to derive useful conclusions. Research should be done on how system automations on public funds affect service delivery in the organization.

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Determinants of Public Funds Internal Control Systems and Service Delivery in Nairobi City Water and Sewerage Company Kenya.

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Abstract
With water being an essential element for sustenance of life its scarcity is one aspect that should not feature, if a must then at the most minimal levels. The constitution of Kenya (article 43 (1)), places provision of water and sanitation services as a basic right that should be attained. Yet most parts of the country both arid, semi-arid, highlands and urban areas suffer the same fate. Management of public funds is the biggest obstacle to achieving the millennium development goals in developing countries if not handled with extreme caution, discipline and integrity. The general objective of this study to determine how internal control systems of public funds management affected service delivery at Nairobi city water and Sewerage Company. Specifically; the study focused on; examining how internal control systems, resource mobilization, budgeting, existing regulatory framework and auditing affected service delivered by the Nairobi city water and Sewerage Company employees. On theoretical review, the resource based theory, systems theory management plus 7 gap service quality delivery theories were focused. Studies were conducted on internal control systems, revenue mobilization, budgeting practices, and auditing featured in empirical review. The conceptual framework highlighted on the objectives. This research project adopted survey descriptive research design. The researcher targeted 180 workers organized in strata's to achieve the researcher's goal. The study adopted stratified probability-sampling procedure whereby out of the total number of the targeted population units, the study identified 30% of the target population to have a total sample of 54 staff respondents. The study used primary data that obtained by use of a self-made questionnaire. The validity and reliability tested in the study. Statistical package for social sciences (SPSS version 22) used to draw inferences from the coded data. These included descriptive, relational and inferential statistics. The descriptive statistics included frequency distribution tables; pie charts and percentages relational statistics that encompassed the regression analysis while the inferential statistics included the chi square test. The research indicated that water shortage in Nairobi is a resultant of inadequate internal controls of public funds due to poor planning, lack of infrastructure, and inadequate water harvesting techniques in catchment areas, illegal connections and limited technological innovations. The research concluded that an ineffective internal control system affects public funds in terms of service delivery at Nairobi city water and Sewerage Company significantly. Thereby the institution should work towards enhancing the policies that exist. The research recommended that the organization should invest in technology to reduce loopholes for funds pilferages. Funds raised should be geared more towards infrastructural developments and expansion plans. The study suggested further research on system automations on public funds and service delivery in the organization.

Keywords: Internal control systems, Public Funds, Service delivery

Background of the study

The N.C.W.S.C is charged with the responsibility of "providing quality water and sewerage services that meet the needs and expectations of its customers" according to its policy statement, within its area of jurisdiction. In the past several years many county governments in Kenya have restructured their public sectors in an attempt to deal with the twin problems of indebtedness and growing citizen disenchantment with government. Thus, making it difficult to guarantee good and quality services resulting into : increased cost of operations due to inefficiencies, public search for alternative service providers and spread of negative vibes which affects potential clients. Hence, the poor performance of the county governments (Mutisya, 2014)

In a study which was conducted in Nigeria, Demirel, Yoldas and Divanoglu (2009) found a positive and significant relationship between customer's perception of service quality and their willingness to recommend the company. They also recorded that; a well-functioning public sector that delivers quality public services consistent with citizen preferences and that fosters private market-led growth while managing fiscal resources prudently is considered critical to the World Bank's mission of poverty alleviation and the achievement of Millennium Development Goals. The performance of public sector development indicators has been a major concern to the Kenyan national government, stakeholders, civil society, development partners and the people of Kenya. The performance evaluation for the year 2015/2017 Show poor indicators on the performance of service delivery measured by state of the roads, school infrastructure, availability of quality of drinking water and Sewerage management.

Osmond (2011) indicated that organizations implement internal controls based on the nature of their business and regularly audit them to ensure their adequacy. The study further relates safety of financial transactions and information to an organization's internal controls. An internal control system is usually responsible for organizations' failure to achieve efficiency and effectiveness, reliability of financial reporting and compliance with relevant laws and regulations.In a study done by Kabiru (2009), embezzlement and mismanagement of public funds is the biggest obstacle to achieving the millennium development goals in developing countries. The study indicated that managing public funds should focus on public expectations.

Nairobi has been experiencing shortage of water for more than a decade. This prompted the operations department to re-structure, implement, maintain and supervise the rationing program for water supply branded as Water equitable distribution program. Recently this brought about a lot of political debate due to the fact that the rains were bountiful yet the water supply for domestic use still ration. It's evident that this shortage is not only due to the fact that water is not a manufactured product here but management problems might be a contributing factor, not forgetting that Nairobi population is still at growth levels. N.C.W.S.C *Strategic plan for the year 2018/2019,* the rationale for the strategic theme broad plan is to use skills and resources objectively putting into consideration the demand for services are increasing.

The following has been the resultant effect: Low production for manufacturing companies that require water as a key ingredient, Loss of business growth opportunity such as setting up of water bottling commercial sector, Reduced revenue collection for the company, with only a 60% customer base instead of 100%, of which Kshs 9 billion is held as debt, Sanitation problems explode, Health diseases associated with sanitation like rise in cholera, Loss of life especially on fire emergencies and arson, Reduced staff motivation, with about 65% productivity level according to the firms documents, Reduced level of employee satisfaction that as at the yr2017/2018 at a staggering figure of 79%, Sky rocketing disputes on erroneous water bills and bad debts write offs. Rise of illegal water connection, Constant sewer bursts as a result of improper management methodologies, Negative environmental impact due to poor management of environmental practices and Resource shortage on politicized debut e.g. holding of press conferences and media charges.

Based on MDG, Kenya is far below set target of halving the population that is surviving without sustainable access to affordable, safe drinking water and basic sanitation by the year 2015 by only 48% of household are connected main sewer lines. The water demand is estimated at 782,000m3 per day compared 553,000m3 per day according to N.C.W.S.C strategic plan year 2018/2019. In Nairobi city, only 10% of solid waste generated is collected. Inadequate drinking water supply and solid waste disposal services has resulted in widespread pollution of the environment.

Objective of study

This study has the following specific objectives;-

i. To what extent does resource mobilization affect service delivery by N.C.W.S.C.?
ii. How auditing practices does affects service delivery in N.C.W.S.C.?
iii. How does regulatory frame work affect service delivery in N.C.W.S.C.?
iv. How budgeting practices does affects service delivery by N.C.W.S.C.?

Hypothesis of the study

***Hypothesis 1*:** There is no significant relationship between resource mobilization and service delivery by N.C.W.S.C.

Hypothesis 2: There is no significant association between auditing practices and service delivery by N.C.W.S.C.

Hypothesis 3: Regulatory frame work has no influence on service delivery by N.C.W.S.C.

Hypothesis 4: There is no significant relationship between budgeting practices and service delivery by N.C.W.S.C

Literature Review

Internal Control System and Service Delivery

Policy framework for effective financial controls includes the maintenance of proper accounting, M & E tools, optimal utilization of monies available, equitable distribution of finances, and setting of strategic planning framework therefore, ensuring that the institution is not unnecessarily exposed to financial risks. Khoove (2012) studied "the effects of Financial Controls on Financial Management in Kenya's Public Sector: A Case of N.C.P.B". The research used qualitative research design to collect data using observation and interview methods. The findings revealed that; financial controls and decisions covering are established by the administration in order to ensure that the activities are carried out in compliance with the purpose of the administration and the determined policies and the legislation. The researcher also notes that proper keeping of financial documents is important because it prevents corruption and reduces lose within the organization. While the forgoing study qualitative in nature, the current study will be quantitative and has delimited itself to using questionnaires as opposed to interviews and observation techniques.

Karanja and Ng'ang'a, (2015) studied the "Factors that influence implementation of integrated management information system in Kenya government ministry". They used descriptive research design to collect data using a questionnaire and interview schedules. The sample derived from 47 respondents using stratified and simple random sampling techniques. Data was analyzed using both qualitative and quantitative techniques. The findings of this research revealed that; there is a direct positive correlation between proper financial control systems in government ministries and quality of service delivered to their clients. They also note that lack of proper of proper financial control systems leads to great losses because there is lack of accountability among the managers. the current study has delimited itself to using only a questionnaire as the instrument for data collection and only quantitative approaches will be used.

Revenue Mobilization Practices and Service Delivery

Revenue mobilization is classified as one of the sub-systems of public funds management which is linked to service delivery in government run institutions units. N.C.W.S.C cannot survive without adequate revenue of which can be mobilized in the form of sales revenue, license fee, surcharges, penalties paid, customer deposits, grants, P.P.P and development partners like NGO's. According to Bird (2010), sound revenue mobilization practices for government units are vital pre-condition for the success of public service delivery. This is because, apart from raising revenues,

local revenue mobilization has the potential to foster political and administrative accountability by empowering communities.

A study from Uganda shows that small, informal non-farm enterprises pay local taxes in a regressive way. While the majority of the micro enterprises in the Ugandan sample were poor enough to be exempted from national business taxes including the small business tax and VAT, they ended up paying a large share of their profits to local authorities – with the poorest paying the highest share of profits. This is mainly due to the basic design of the local revenue system and the way revenues are collected. Thus, a top-down drive towards more taxation of this sector could be counterproductive, and would increase the

Otieno, (2015) studied the relationship between revenue mobilization and service delivery in local authorities in Kenya. The research used descriptive research design and sampled 35 local authorities. Secondary data was used on revenue collection and service delivery of local authorities. The study considered performance ranking for 10 years since inception of performance contracting ranking in Kenya. Multiple regression and correlation analysis carried out to determine the relationship between revenue mobilization and performance. The study revealed that there had been increase in revenue mobilization in the local authorities and that the higher the level of mobilized revenue the better the performance of local authorities, it also established that the Local authorities with low levels of mobilized revenue performed poorly. Lack of adequate finances to N.C.W.S.C remains a major challenge to the success of growing a highly lucrative service in Nairobi. Finances will facilitate projects that are worthwhile and value adding to the firm to which effective service provision will be offered, adequate supplies maintained and employee motivation handled extensively thus the company will attain its blue ocean strategic point.

Budgeting Practices and Service Delivery

Budgets allow for resources to be released to various spending agencies so as to enable those implements their expenditure programs. Nayak and Samanta (2014) conducted a study in rural West Bengal, India which had the purpose of understanding the role of community participation in budgeting on public service delivery. Primary data collected using structured questionnaires and analyzed by the use of qualitative and quantitative methods. The study noted that in India, like many other developing countries, governments spend a sizeable portion of their budget toward creating public utilities and providing host of public services. They record that application of participatory budgetary plays a big role in creating a good working relationship between the government and the people. This in turn is followed by improved efficiency in service delivery and good prioritization of what the citizens wanted. The research findings also revealed that resources in India are available, but ironically, there is inability and unwillingness to plan and utilize them optimally.

Maina (2016) studied the role of public financial management practice of service delivery in selected counties. Descriptive study design was applied .The population targeted was 248 MCAs in the three counties of Nairobi, Kiambu and Kajiado. Questionnaire method utilized to collect data in this study. Results showed that budgeting and stakeholder participation practices and regulatory practices had a positive effect on service delivery in the counties. More political affiliation by locals has seen to have a more powerful impact on the citizens' likelihood of participating in budgets and hence contributing to better service delivery. They indicated that a budget acts as a framework and control mechanism for organizations' finances and cash flow

Auditing Practices and Service Delivery

A study in Brunei by Athmay (2008) sought to establish the role of performance auditing and public sector management in Darussalam. A case study of Ministry of health. The study conducted a qualitative research and used both purposive and stratified sampling. The findings revealed, that auditing is important in an organization and that it correlates positively to quality of service delivered to the 'clients'. It was noted that auditing which is prevalent in Brunei is the traditional regularity and financial audits which focus on compliance with laid down procedures. This form of auditing does not have any effect on service delivery because it does not focus on outcomes but rather focuses on conformance with laid down rules and regulations.

In Edo state Nigeria, effective management and improved service delivery by local government agencies in the state was achieved through the role played by internal audit. This study was conducted by Enofe *et al.*, (2015). They used a self made questionnaires to collect data from manufacturing and service organizations from a sample of 150 respondents. The findings for this research revealed that; internal audit plays key role in ensuring effective

management in public sector. However, the study established there is need for today's auditors to acquire the requisite technique and skills in computer operations and electronic data processing in order to carry out their work effectively to continually support internal audit effectiveness.

Regulatory Framework and Public Service Delivery.

Prakash (2015) investigated the influence of regulatory framework and policy in steering healthcare service delivery. The purpose of this study was to explore regulation in the devolved Pakistan healthcare sector and make recommendations needed for enhancing the healthcare services. The study established that statutory regulation and governance standards are formulated by the national parliament and state legislatures, which have their own political economy and are influenced by international bodies, political, economic and social factors. The findings also indicted that existence of regulatory framework correlates positively to quality of service offered by workers in any organization. Another study on the effect of regulations on public service delivery was conducted in Wales' local governments by Andrews *et al.,* (2008). The study revealed that inspection had no effect on public service performance and that regulatory authorities also played an advisory role by seeking to promote good practice and supporting the home-grown improvement strategies of local authority service providers. However, they noted that policy regulatory framework has a significant impact on integrity, accountability, fairness and professionalism. The findings also showed that policy regulatory framework maximizes the level of service provision within the organization hence leading to improved organizational performance.

A similar study by Karunguni (2017) on effect of policy and regulatory framework on organizational performance: A case of Nairobi County Assembly used quantitative research design and delimited to written survey. Purposive sampling was used to select 87 employees from procurement department. Questionnaires used and data analyzed using descriptive and regression analysis. The findings indicated that policy and regulatory framework within the procurement sector plays an important role in improving organizational performance by creating a level of playing field for organization engaged in procurement field. Policy and regulatory frame work also leads to improvement in transparency, ethical standard, openness, impartiality as well as improving decision making.

Methodology of the study

The research design for the study was descriptive research design. It was delimited to written survey. This design was appropriate because it was relatively cheap and employs the use of questionnaire which can be used to collect information from a large sample over a short period of time (Kothari, 2004). The target population for this study is at 180 workers of N.C.W.S.C, who are employees of the organization. According to Mugenda & Mugenda (2009) a sample size of between 10 and 30 % is a good representation of the target population and hence the 30% was considered adequate for analysis. Thus, a sample size of 54 was appropriate.

The research used probability sampling techniques and in particular stratified the strata's were set in a systematic form in order to ensure that employees of all job categories that work in funds department are represented. Main target was employees in departments of finance and accounts, auditing and risk, human resource, procurement, legal and quality management systems.

The researcher used questionnaires to gather quantitative data which was distributed mainly at N.C.W.S.C headquarters to the intended target population as the premise has the most concentration of the staff. The filling of questionnaire commenced thereon after which the coded results were assessed are fed to SPSS 2.0 to come up with the data to be analyzed. A self-administered structured questionnaire was administered. The questionnaire for this study contained both open and closed ended items based on a Likert scale. The utilization of structured questionnaires enhanced the objectivity and supported the statistical analysis. It enabled the respondents respond to a series of pre-developed questions posed by the researcher (Cooper & Schindler, (2010).In this study, the researcher pre-tested the questionnaire prior to data collection with a section of workers in Kiambu Water and Sewerage Company which was purposefully selected because it has almost similar characteristics as Nairobi County given its proximity and interaction. Piloting also assisted in determining the reliability and validity of a research instrument. This research evaluated the research instruments for face and content validity. Researcher and peers in the subject areas established the content validity of questionnaire.

An instrument can be said to be reliable if its measurement accurately reflects the true scores of the attribute under investigation (Orodho & Kombo, 2002). The instrument was submitted to reliability testing after completion of data collection through test-retest method to ascertain the likelihood of obtaining the same results when the researcher will measure the same variable more than once. The researcher determined that using Cronbach's Coefficient Alpha

scores. The Cronbach's Coefficient Alpha score was set at 0.7 and any item in the questionnaire below 0.7 was eliminated, as it was considered not achieving internal consistency.

Qualitative data was analyzed using descriptive, cross tabulation and referential statistics. It was then organized according to the study objectives and categorized after scrutiny of the content. The analyzed data was generated through tables, graphs and percentages. Findings were given leading to discussions, recommendations and finally suggestions. The following analytical model was used in analyzing the relationship between the dependent and independent variables: $Y=\alpha+\beta1\chi1+\beta2\chi2+\beta3\chi3+\beta4\chi4+e$

The items, which were measured on the ordinal level, were subjected to calculating the frequencies, medians and means. Chi-square was used to test association between predictor and criterion variables. Predictor variable which includes determinants of public funds internal controls systems, while criterion variable included efficiency in services delivery that was measured by satisfaction of services offered by the N.C.W.S.C.

Findings of the study

The response rate was stated at a target sample size of 30% was considered adequate for analysis which translated to 54 was appropriate. And a total of 54 questioners were filled. The study sought to determine the demographic characteristics of the respondents .This information aimed at testing the appropriateness of the respondents in answering the questions.

Demographic information results

The age of the respondents from the various departments was sought and the findings are presented in the table 4.1. On the age distribution of the respondents, it was found that 5.5 % of the respondents were between age 26-35; 35.2 % were between ages of 36-40 while 40.7 % of the respondents were between age 41-50. This class had the majority of the respondents. It was also realized that workers who were above 50 years old amounted to 18.5 % of the respondents. Thirty three respondents, (61.1%) were males while 21 respondents (38.9%) of the respondents were females. Giving clear indications that financial, economic and mathematics career are highly dominated by the male gender.

Descriptive statistics

This section provides the summary of descriptive statistics of the study variables. Descriptive statistics are a collection of measurements which determine the location and variability of the variables used in a study (Torres, 2009). The study results were grounded on mean, standard deviation, maximum and minimum of the values obtained from analysis of the study data. Specifically, the mean was used to show the central value of the study variable while the standard deviation provided the variability or spread of the study data from the centre value. The maximum and minimum were used to give the highest and lowest values respectively.

Table 1; Budgeting practices and service delivery

Items	SD	D	N	A	**SA**	
		(%)	**(%)**	**(%)**	**(%)**	**(%)**
The budgeting process in this organization is inclusive and wide consultations take place.		**48.1**	**38.5**	**9.6**	**3.8**	
Citizens participate in the budgeting process to ensure that important issues are given priority		46.2	30.8	19.2	3.8	
Enough resources are allocated to various projects based on clear criteria understood by stakeholders		48.1	15.4	30.8	5.7	
The budgeting and planning process is realistic and Practical		46.2	44.2	7.7	1.9	
Budgets are adhered to when it comes to spending		46.2	30.8	19.2	3.8	
Value for money is a key concern in budgeting process in the county		38.5	36.5	11.5	9.6	3.8
Addressing marginalization and inequalities are key concerns in the budgeting process		30.8	15.4	48.1	5.7	
Budgets for previous years and their actualizations informs the future years budgets		73.2	23.0	3.8		

Source: *Survey data (2019)***.**

The table shows majority of the respondents 25 (48 %) strongly disagreed that the budgeting process in N.C.W.S.C is inclusive and within consultation takes place during the budgeting process. Twenty four respondents (46.2) strongly disagreed that citizens participate in budget making process. Majority of the respondents (48.1%) also indicated that enough resources are not allocated to various projects by stake holders. Slightly less than a half of the respondents indicated that budgeting and planning was unrealistic and impractical. When it comes to implementing budgets, majority of them indicated that budgets are not adhered to. Most respondents (38.5%) strongly disagreed that value for money is a key concern in budgeting process. Sixteen respondents (30.8%) indicated that addressing marginalization and inequalities were not key concerns in the budgeting process. More than half of the respondents (73.2%) reported that budgets for previous years and their actualizations did not inform budgets for future years.

Table 2; Resource Mobilization Practices and service delivery

Items	**SD**	**D (%)**	**N (%)**	**(%)**	**A (%)**	**SA (%)**
Revenues generated by this organization are adequate for both recurrent expenditure and development projects.		**57.6**		**36.5**	**3.8**	
Revenue collection practices adopted by NCWSC are cost effective and efficient.					38.4	48.0
Revenue collection practices in NCWSC. transparent and there is no corruption involved.		23		19.2	30.7	23	3.8
Residents and businesses do not complain of tariffs obtained from them.		38.4		48.0	13.6		
There are no conflicts between national government and NCWSC in revenue mobilization.					3.8	23.0	73.0
The NCWSC collects revenues from clients on time.		34.6		28.9	23	3.8	9.6
The NCWSC has been able to supplement the revenues it gets from the national government through local revenue sources.		34.6		23	28.9	9.6	3.8

Source: *Survey data (2019)*

The findings revealed that; more than half of the respondents strongly disagreed that revenue generated by the organization are adequate for both recurrent expenditure and development projects. Most of the respondents (48.0 %) indicated that revenue collection practices by N.C.W.S.C were cost effective and efficient. Sixteen respondents (30.7 %) were neutral about revenue collection practices being transparent and corruption free. Slightly less than half of the respondents disagreed that residents and businesses do not complain of tarrifs obtained from them. More than half of the respondents (73.05%) strongly agreed that there was no conflict between national government and NCWSC in revenue mobilization. Less than half of the respondents (34.6%) strongly disagreed that the company collects revenue from clients on time. Eighteen respondents, (34.6%) strongly disagreed that NCWSC has been able to supplement the revenue it gets from the national government through local revenue resources.

Table 3; Auditing Practices and service delivery

Audit practices indicators	**SD (%)**	**D (%)**	**N (%)**	**A (%)**	**SA (%)**
There are annual audits on how public finances are utilized.		13.5	19.2	11.5	55.8
The audit reports are made public.	38.5	23.1	23.1	11.5	3.8
Audit reports are utilized and lessons learnt are applied in subsequent years.	59.6	17.3	15.4	7.7	
Any public official who is found to have misappropriated public finances through audit is punished.	53.8	7.7	15.4	7.7	15.4

Auditing helps the organization by pushing the management into action on areas that are reported to have issues.	78.8	17.3	3.8		
Auditing draws authorities' attention to specific problems which they take remedial action upon.	34.6	34.6	17.3	9.6	3.8
Auditing in the organization is performance based and seeks to establish whether funds are used optimally.	44.2	26.9	25.0	1.9	1.9
The organization has internal auditors who continuously perform audits on financial documents.	15.4	7.7	15.4	7.7	53.8
The organization hires auditors with requisite skills and experience.		13.5	19.2	11.5	55.8

Source: *Survey data (2019)*

Slightly more than half of the respondents (55.8%) strongly agree that there are annual audits on how public finances are utilized. Less than half of them (38.5%) strongly disagreed than the company's audit re are made public. More than half strongly disagreed that audited reports were utilized and lessons learnt were applied in subsequent years. Slightly more than half (53.8%) strongly disagreed that any public official who is found to have misappropriated public finances through audit is punished. Majority of the respondents (78.8%) strongly disagreed that auditing helps the organization by pushing the management into action on areas that are reported to have issues. The number of respondents who strongly disagreed that auditing draws authorities' attention to specific problems which they may take action was 18 respondents, (34.6%). Another 34.6% of the respondents also disagreed with the statement. Less than 50 % of the respondents strongly disagreed that auditing in the organization is performance based and seeks to establish whether funds are used optimally. With regard to whether the organization has internal auditors who continuously perform audits on financial documents, 53.8 % of the respondents agreed with the statement. More than half of the respondents (53.8%) strongly disagreed that the organization has internal auditors who continuously perform audits on financial documents. Majority of the respondents (55.8%) strongly agree that the organization hires auditors with prerequisite skills and experience.

Table 4; Regulatory Practice and service delivery

Items	**SD (%)**	**D (%)**	**N (%)**	**A (%)**	**SA (%)**
There are rules and regulations that help curb wastages and corruption in managing public finances within the firm.	57.6	8.6	20.9	12.3	0.6
The rules and regulations are adhered to and those who break them are punished accordingly.	48.1	36.5	11.5	3.8	0.1
There are clear regulatory framework that clarifies how the public funds are to be utilized for better service delivery.	26.5	28.8	30.7	7.5	6.5
The laws on governance are strict which ensures that punitive action is taken against officials who misuse public funds.	53.8	13.5	21.2	11.5	

Officials who misuse public funds lose their status and are prosecuted.	83.2	11.7	5.1

Source: Survey data (2019)

Most of the respondents (57.6%) strongly disagreed that there were rules and regulations that help curb wastages and corruption in managing public finances. However, slightly less than half (48.0%) strongly disagreed that the rules and regulations are adhered to and those who break them are punished accordingly. Sixteen respondents, (30.7%) were neutral about clear regulatory framework that clarifies how public funds are utilized were there. More than half (67.3%) disagreed that laws on governance are strict and they ensure that punitive action is taken against officials who misuse public funds. A big percentage representing those who strongly disagreed those officials who misuse public funds lose their status and are prosecuted standing at 83.2%.

Correlation Analysis

In order to effectively assess relationship between determinants of public funds, internal control systems and quality of service by N.C.W.S.C. the Pearson correlation analysis symbolized by ŕ was considered. It shows both the strength and direction of the relationship using the SPSS Version 22 to internalize the relational existing.

Table 5; Pearson Correlation Analysis

		Service delivery
Internal Control System	Pearson Correlation	.580**
	Sig. (2-tailed)	.001
	N	54
Auditing Practices	Pearson Correlation	.533**
	Sig. (2-tailed)	0.003
	N	54
Resource Mobilization	Pearson Correlation	.756**
	Sig. (2-tailed)	.021
	N	54
Regulatory Framework	Pearson Correlation	.533**
	Sig. (2-tailed)	.001
	N	54
Budgeting Practices	Pearson Correlation	.865**
	Sig. (2-tailed)	.001
	N	54

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

Source: *Survey data (2019)*

All the five variables showed a positive and statistically significant relationship with quality of service rendered.

The ŕ for internal control system (0.580) shows a positive and statistically significant relationship with service provision. The relationship meet the statistical significance threshold as the P-value or Sig. (2-tailed) value of 0.001 is less than 0.05 or 5% significance level. The results agree with past empirical foundations by Shagvaliyeva and Yazdanifard (2014) who indicated that internal control systems correlates positively with quality or service rendered by an organization. The ŕ for auditing practices (0.533) demonstrates a strong, positive and statistically significant link with service provision. Level of association is strong as the coefficient is greater than 0.5 and statistically significant because the P-value or Sig. (2-tailed) value of 0.003 falls below the 5% level of significance.

The study agrees with past findings by Kotteeswari and Sharief (2014) who indicated that auditing practices were positively associated with service.
The ŕ for resource mobilization (0.756) indicates a very strong, positive, and statistically significant association The association is considered strong as the Pearson Correlation coefficient is greater than 0.50. The statistical significance threshold is met as the P value or sig (2-tailed) value of 0.021 falls below the 5% level of significance. The results agree with Muli, Muathe, &Muchiri, 2014, who indicated that it was necessary for organizations to mobilize all the resources needed so as to ensure they provide quality services to their clients as resource mobilization correlates positively to service provision. The strength of association between proper regulatory framework and service delivery is considered strong as the co-efficient is above 0.50. The relationship meets the statistical significance threshold as the P-value or Sig. (2-tailed) value of 0.001. These attribute of positive association is not a new phenomena as it resembles that of Apiyo, & Mburu (2014). Thereby indicating that adequate and effective policies and procedures ensure there is high standard of service delivery.

Multiple Regression Analysis

Multiple regression analysis was then computed considering all the assumptions of normality, linearity and collinearity diagnostics were fulfilled. To be exact, multiple regression analysis was computed and this was represented by a regression equation below

$$Y=54+ \beta 1\chi 1 + \beta 2\chi 2 + \beta 3\chi 3 + \beta 4\chi 4+0.14$$

Where: Y = Internal control systems and service delivery, β= Co-efficient of independent variable, χ1 = Resource mobilization, χ2 = Auditing Practices, χ3 = Regulatory framework, χ4 = Budgeting practices, e = error term, α= constant factors that are retained like number of employees. Regression analysis shows how dependent variable is influenced with independent variables.

Model Summary
Model 1
R 0.8600
R Squared.7390
Adjusted R.0.7180
Standard Error of the estimate .0146

Conclusions

This study makes the following conclusions based on the study findings: - research clearly indicates that there is a positive and significant relation between internal control systems and public fund management. The better the I.C.S, the better the utilization of public fund within this organization that eventually translates to improved service provision. Services being offered by N.C.W.S.C are averaged due to factors that can be avoided with proper utilization of the available resources, especially the expansion of the available infrastructure to cater for the increasing population in Nairobi. There are laid down procedures to guide the budgeting and planning process. Budgets for previous years and their actualizations informed the future year's budgets. The existing revenue mobilization practices were inefficient. There are weaknesses that prevented auditing from playing its rightful role in ensuring prudent use of public resources to enhance service delivery .Regulations governing public funds management had significant effect on service delivery but compliance to laid down was the issue.
N.C.W.S.C has invented techniques that are in the process of being implemented to help on revenue collections like prepaid water meters, water kiosks, automated meter readers, water chambers etc. as an initiative to help on revenue collection. The firm though is experiencing challenges on the same as there are resistances from employees. Debt and credit management policies are not strictly adhered to.

Auditing Practices and Public Service Delivery

The study results revealed that auditing practices had a significant effect on service delivery. N.C.W.S.C had internal auditors who continuously performed audits on the firm's finances. Both internal and external auditors are available and they are taking their work seriously. However not much is being done to follow up and implement on the audit recommendations and audit reports were not acted upon and lessons learnt were not applied in subsequent years.

Regulatory Practices and Public Service Delivery

Regulatory practices in regard to public funds management have a positive effect on service delivery. The researcher also established that policies, procedures and manuals are available. The area with the greatest gap is on enhancement and sensitization of the existence, usage, adherence and applicability of the policies, procedures and manuals while conducting the institutes business. The results indicate that there were rules and regulations that were designed to curb wastages and corruption .clear regulatory framework that clarified how the public funds were to be utilized for better service delivery exists. Laws on public finance management were strict which prescribed punitive action against officials who misused public funds. However, implementation was the issue. Budget performance evaluation reports should be periodically generated, discussed and any variance therein dealt with.

Suggestions for Further Research.

Issues of fiscal, leverage and financial integration management systems are related to service delivery in decentralized systems that are multifaceted and complicated. Empirical literature reveals that sometimes it is even difficult to separate or isolate the influence of funds management practices from other ongoing reform agenda on service delivery. It is therefore recommended that research in these areas should adopt multi thronged frameworks that are capable of perceiving and analyzing the issues from critical diverse angles in order to derive useful conclusions. Research should be done on how system automations on public funds affect service delivery in the organization.

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TRAINING AND EMPLOYEEPERFORMANCE IN NYERI COUNTY GOVERNMENT, KENYA.

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Abstract

Employee performance in the County has been deteriorating with majority of the employees not achieving the set individual and departmental targets, some of the employees don't report to work in the right time and others leaving early for their personal activities. Employees should be the most valued and critical asset in any county as they individually and collectively contribute to achievement of County objectives. This has not been so in County Government of Nyeri with less training and at times several employees lacking a single training in a year. Therefore, this study aimed at investigating the effect of training on employee's performance in County Government of Nyeri. The specific objectives of the study were; to identify the effect of job rotations, coaching, orientations and role playing on the employee performance in County Government of Nyeri. The study was carried out in Nyeri County and the study included data for 2013 to 2017 on employee performance. The study was anchored on Human Capital Theory. Other theories supporting the study were Reinforcement Theory and Social Learning Theory. Descriptive and exploratory research design were used. The target population focused on all the employees working in the County Government of Nyeri. The sample size was 97 employees. Questionnaire was used to collect primary data. Validity was sought from experts and reliability was tested using Cronbach alpha. The data collected was analyzed by inferential Statistics and descriptive statistics.The findings presented that job rotation was rarely practiced in Nyeri County Government. The study also found that job rotation is necessary to decipher the needs of the individuals and groups within the organization in order to utilize maximize experience which translates to high performance workplace.The findings presented that knowledge was shared during orientation in Nyeri County government. The findings indicated that employees in the county government normally attend Kenya school of government for training or are trained internally by their senior employees. Adherence to policies and leadership programs had moderately improved due to introduction of role playing in many departments in Nyeri County Government. The study concluded that the relationship between job rotation and employee performance was positive and significant. The study concluded that relationship between orientation and employee performance was negative and significant. The study concluded that the relationship between coaching and employee performance was negative and significant.

1.0 Background of the Study

According to Sousa, Aspinwall, Sampaioand Rodrigues (2014) employee performance in an institution is measured by the efficiency and effectiveness in which and goals are performed. They argued that companies that do not identify and reward the employees performance end up losing them to the competing organisation. These affects the growth and profitability of the organisation in the long run, it increases the cost of recruiting new staff, training and development. If organisations want to be successful they should treat employees equally and competitively for the purposes of retaining them. Luis (2015) arguedthat organisation should practice retaining the best employees by acknowledging their roles and their influence to the success of organisation.

Very few organisations consider employees assets which are capable of delivering positive results in the organisation if managed well. Majority of the organisation have failed basically because they don't see employees as the main asset. If employees are not satisfied there's no way an organisation can achieve its success (Lalli, 2015). Organisation all over the world are facing increased competition, changes in technology, mobilization, political and changes in the economic environment (Evans, Pusik & Barsoux, 2015) and therefore it is important for these organisation to train their employees well in order to compete globally. Organisation who ignore changes in technology, globalization and have failed to train their employees well are deemed to fail. The growth of business has been brought by the combination of many factors, the main factors being ability to embrace technology and globalisation, changes in the economic environment and training employees well.

Burney (2012) argued that due to globalisation, changes in political and economical environments and technological change, organisations are facing a lot of competition. Therefore many organisation have been left with one competitive advantage of training their employees well in order to cope with the changes highlighted above. Effective and efficient training of employees has become the current shed and many organisation in the world have benefited from the same. Important to know that training improves organisational performance but also motivate the employees to perform beyond expected. According Desimone (2012) it is averaged that in United States 26% increase in production was associated with proper training and education of employees. A close look on the organisational performance in most of the Global firms in the world,the critical contribution of the organisational success has been attributed to successful training education of employees.

1.1 Statement of the Problem

Employee performance in the County has been deteriorating since devolution in 2013 with majority of the employees not achieving the set individual and departmental targets, some of the employees don't report to work in the right time and others leaving early for their personal activities (KIPPRA, 2015).Increase in the employees asking for sick leave, unaccomplished tasks, too much time taken to accomplish a task and increase in employee's job turnover are some of the major challenges facing the county government. The effects of training on employee performance indicator has been scarcely established.

Mattare and Lyons (2010) studied training and its impact on employee performance. The study found that observation, mentoring and job rotation schemes address the training needs of organizations, as these approaches are inexpensive, flexible and can be used on-site. The study presents an empirical gap in failing to clearly indicate whether job training is positive or negatively correlated with employee performance. Tuei and Saina (2015) studied job rotation and its effect on employee performance at KCB branches in the North Rift Region, Kenya. The study found that KCB management needs to restructure and redesign their job rotation framework as non-financial motivator to improve employee performance in their organization. The conceptual, methodological and contextual gaps are identified that the current study will fill. The study targeted commercial banks while the current study will target the county government, the study independent variable was on job rotation while the current study independent variable will be training. There is a relative scarcity of studies on effects of training on the performance of the devolved government. The focus of training in the public service has majorly been for promotion purposes with little emphasis on its effect on employee performance (Institute of Economic Affairs, 2016).

There is dearth of studies regarding the impact of staff training on employee performance in the Kenyan Public Service and more specifically focusing on the County Public Service of Nyeri County. The rate at which employees have left the Nyeri County government, the level of employee absconding duties and absenteeism is alarming between the year 2014 to 2017. Several employees have not achieved their yearly individual targets since 2014 and hence failure of the county to achieve its yearly revenue targets (Kabiru,2016). Because of this, it the practice of the county to employ works every year without consideration to train them effectively for better improved services. The purpose of this study was therefore to establishthe effects of job rotation and employee performance in Nyeri County Government.

1.2 Objectives of the Study

i) To assess the effect of job rotation on employee performance in Nyeri County Government.
ii) To examine the effect of orientation on employee performance in Nyeri County Government.

iii) To establish the effects of coaching on performance of employees in Nyeri County Government.
iv) To assess the effect of role playing on employee performance in Nyeri County Government.

1.3 Research Questions

i) What is the effect of job rotation on employee performance in Nyeri County Government?
ii) What is the effect of orientation on employee performance in Nyeri County Government?
iii) What are the effects of coaching on employee performance in Nyeri County Government?
iv) To what extent do role playing affect employee performance in Nyeri County Government?

1.4 Significance of the Study

The study will be of benefit to the County Governments in helping them come up with numerous strategies to enable employees appreciate and work efficiently in the County in promoting retention level of employees and enable quality service delivery. The study will be of benefit to the county public service board in finding the causes of employees dissatisfaction for better training in the future. The board will get to understand the demographic characteristics of different employees in the employment and try to match their demands with the available resources. The study will be of benefit to the policy makers in gathering information through consultation and research to reduce the redundancy of employees which serve to promote improved service delivery in the County. This study will help future researchers and scholars in trying to identify the gaps which available for future researchers.

1.5 Scope of the study

Nyeri County was the area where the study was carried out. Nyeri County Government offices are located in Nyeri town. It covered 10 departments in this county namely, Finance and Economic Planning, Agriculture and Fisheries, Water, Energy and Natural Resources, Trade and Industrialization, Information and E-government, Health Services, Public Works, Road and Transport, Education, Youth and Social Services, Land, Housing and Physical Planning and Public Service Management. It involved97 respondents who were picked from the above departments. The study investigated job rotation, role playing, coaching and orientation on employee performance. The research focused on training and employee performance in the County of Nyeri between the year 2013 to 2017. This wasthe period the devolution started in Kenya.

1.6Limitations of the Study

The study anticipated some of the challenges and limitations that was faced;the respondentswere reluctant in givinginformation which were important in this study and employee performance in the past. To overcome this challenge the study used the introduction letter from the University to confirm to the respondents that what was to becollected was for education purposes only. The study was limited to the current employees bearing in mind that the some employees may have left the County. Data was collected during the working hours between Monday and Friday with clear consultation with the available employees in the county.

2.0 Literature Review

2.1Theoretical Literature

2.1.1 Human Capital Theory

Human Capital Theory was proposed by Smith in 1960s. This theory proposes that people as the greatest investment in any organisation. Smith argued that people must be invested and added that proper training carried out in order to achieve the the highest return on investment. The theory explains the importance of training in order to achieve the highest level of investment. Sen (1997) argued that human capital is the greatest asset in any organisation for it enables proper utilisation of other form of capital and therefore organisation must invest in the skill and knowledge of every employee to increase in order to make increase in production a possibility. Training bridges the gap of employees trying to achieve the set target with lot of them surpassing the expectations and standards that are desired (Marsick & Waltkins, 2007).Human capital is therefore relevant to the study for it informs the variables on job rotation, role-playing and coaching which organisation are supposed to fund for the purposes of improving employees skills.

2.2.2 Reinforcement Theory

Behaviorist Skinner (1948) proposed the theory of Reinforcement Theory. This theory proposes that employees are supposed to be motivated to improve their conduct in handling tasks in the organisation. When a certain job is properly compensated and employees are well recognised then these results to the achievement of set targets since the employees are motivated (Vroom,1964). Motivation is an element that connects the prizes with the ability of the employees to achieve the target (Smith & Regan, 2015). McKenna (2006) argued that in most cases employees are said to respond to stimuli when competition matches their expectations. To improve the employee's performance, Beech (2006) argued that motivation will affect the tendency of the employees to respond to certain requests. This can only be achieved when employees are given responses or feedback regarding their progress and prizes attached to the achievements.

2.2.3 Social Learning Theory

Social learning theory was developed by Braton in the year 2007. It proposes that attitude and emotional reaction are important for the success of any organisation. Alkelabi, Jehanzaeb and Ahamad (2012) argued that people see the consequences of and from that people gain ideas of what might happen acts are put in place. They argued that social

learning theory is influenced mostly by self-efficacy and this is the ability of a person to learn new skills and knowledge of a particular job. Therefore important to determine one's self efficacy in an attempt to develop a training program.

2.2 Empirical Review

2.2.1 Job Rotation and Employee Performance

Blackburn (1997) studied job training and its impact on employee performance. The study found that it is easy to incorporate training practices in an organization day today activities for it involves little loss of outputs and low teamwork interruptions. The findings are supported by Matttare and Lyons (2010) which found that limited financial resources and personnel are used in on the job training through mentoring and observation. The study also found that training is flexible inexpensive and can be used on site.It is not clear the whether job training is positive or negatively correlated with employee performance in the above reviewed study. The current study will bridge the gap by indicating the correlation between variables.

2.2.2 Orientation and Employees Performance

Onyango and Wanyoike (2014) studied the effects of training on employee performance: a survey of health workers in Siaya county, Kenya. The study found that there is a strong positive relationship between training through orientation and development of employees and performance. The study established that almost everyone recognizes the significance of orientation on the success and growth of organizations. Employees are however a very crucial and expensive resource to every organization. There are significant changes today in terms of the value of the employee. Orientation is therefore necessary to enhance the knowledge, skills and attitude of employees. It will also make it easier for employees to acquire further knowledge based on the foundation gained from the training and further effect changes in other co-workers. The study concentrated on one type of training (orientation). This study will concentrate on four independent variables which are the four main types of job training.

2.2.3 Coaching and Employee Performance

Robinson, Dilys and Hayday (2013) studied the impact of training on performance of employees. The variables used in the study were coaching and on job training. The study found that training through the process of coaching influences the employees performance positively through a process of engagement of employees. The study found that employee engagement helps employees to feel loved and well utilised which in turn helps them improve their productivity level through lower absenteeism. The study established that there is a positive and significant relationship between employee's coaching and performance of the employee in the long run.

An investigation by Ombogo (2016) on the effects of employees training on performance in the water boards in Kenya established that the boards continue to experience many problems of customers dissatisfaction. This was identified by the fact that there is lack of quality water, increasing complaints from the customer, delay in giving feedbacks, employees lacking customer focus, unreliable water supply, reduced revenues and low billing. Despite job coaching and job rotation the water boards have shown the possibilities of failure. The study was supported by Selby (1995) who argued that recommendations are done and postmortems on projects have been delivered despite meaningful rotation done in the employees. The study left a gap in that there was no correlation analysis done and the research design was not clear.

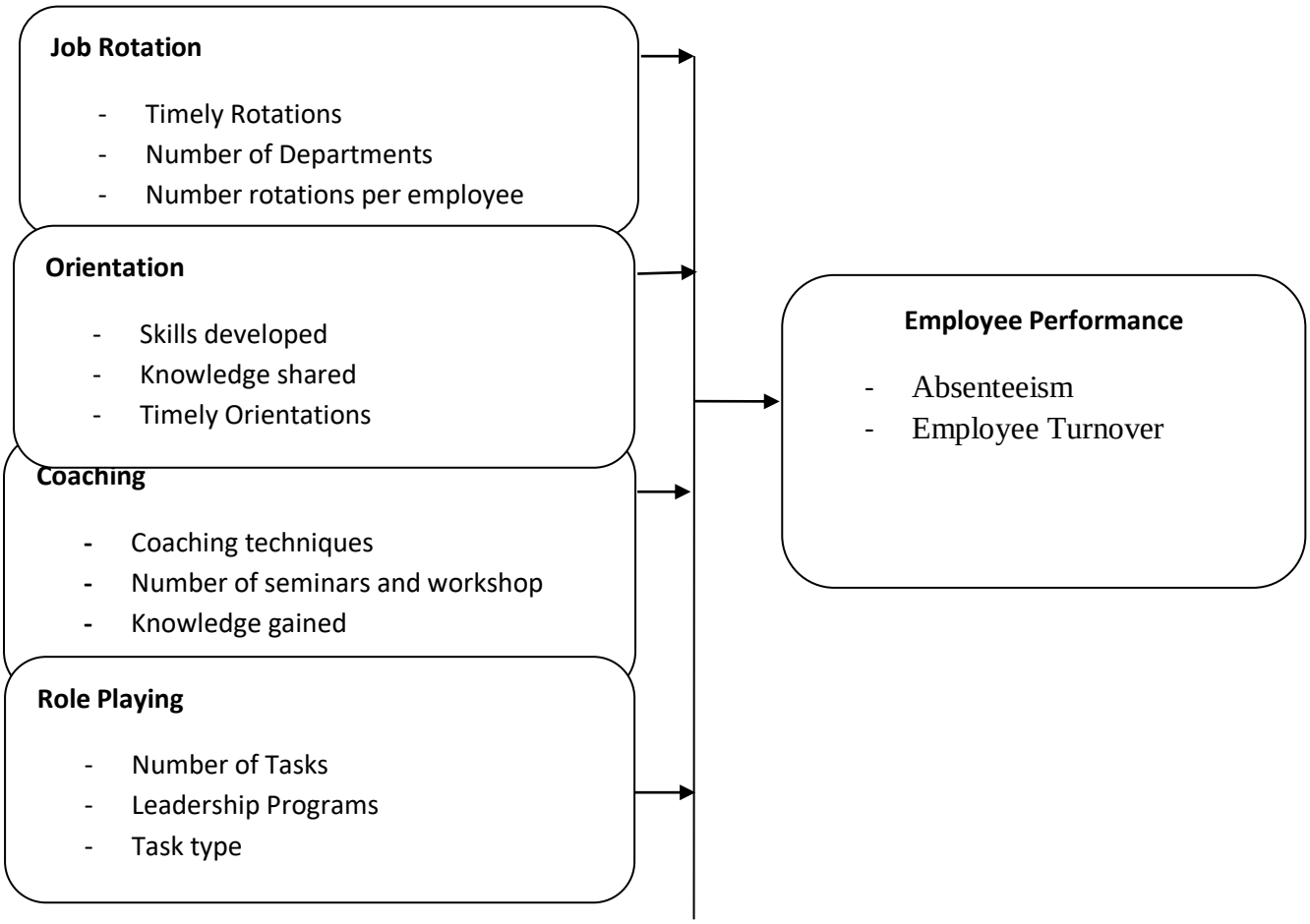
2.2.4 Role Playing and Employee Performance

Shaheen and Khan (2013) assessed the impact of training and coaching on knowledge and skills. The study found that coaching improves the knowledge of the employees in a certain field and also improves the organisational performance in general. The study also found that increase of the employee's performance, employees are inspired satisfied and through the improvement of their morale which is done by reputable training. Coaching employees develops them which transforms the worker to a well-mannered and organised that will ultimately affect the organizational performance in the long run.The study also found that training affects the performance positively only and when right person for the right job is selected. It also found that if the right person for the right job is not selected then training will be having no effect on the performance of the employees. The correlation analysis was not done and the methodology in this study is not clear therefore the current study will bridge the gap by investigating the relationship between training and employee’s performance in the County.

2.3 Conceptual Framework

The conceptual framework below shows the interrelationship between variables.

Independent Variables **Dependent Variable**



3.0 Research Methodology

3.1 Research Design

Descriptive research design and exploratory research design was used in this study. The research design is a method which is used in collection, measurement and analysing of data(Schindler & Cooper, 2008). Sekran (2003) posited that descriptive analysis is aimed at reporting the way things are and interests by the use of questionnaire. On the other hand exploratory research design is conducted for elements not studied more clearly in the past to establish priorities by developing operational research findings.

3.2 Target Population

Population is a group of people or persons having similar characteristics or interest to the researcher (Saunders, 2008). The studies target population was the employees in Nyeri County Governmet. The study's respondents were the employees within Nyeri County government.

3.3 Sampling Techniques

Stratified sampling method was used in this study. The reason for choosing stratified sampling technique is to enable different categories of employees to be included in the study. By the use of stratified sampling officials from various departments in the county were included in the sample. This ensured that a comprehensive and complete data on the effects of employees training on performance was obtained and that employees from all the department were equally represented.

3.3.1 Sampling Frame and Sample Size

Sampling frame consisted of representation of all the ten department targeted and a sample was drawn from it. Sampling frame is defined as a set of all the elements which the study selects to be included in the study (Kothari, 2004). Sample size of this study was 97 respondents which was sampled from 3611 employees targeted. Strattrek (2015) formula was used to determine the sample size.

3.4 Data Analysis and Presentation

Analysis of data occurs immediately after data collection is done.Data analysis reports what the research has found in the field. Data analysis involved coding of the data into the SPSS and interpreting the data by the use of the coefficients from the system(Kutner, Nachtsheim & Neter, 2004). Descriptive and inferential analysis were used to interpret the data. Descriptive statistics used mean and standard deviation. While the inferential statistics used the coefficient of correlation, the coefficient of determination and regression coefficients. A regression analysis indicates the nature of relationship and directional change between variables. Data was presented in tables and figures.

4.0 Research Findings and Discussion

4.1. Response Rate

The study targeted 97 respondents. 91 complete questionnaires were received and this represented 94% of the sampled population. According to Mugenda and Mugenda (2003) more than 70% of the response rate is an excellent response and the study's response of 94 percent was an excellent response. This enabled the researcher to carry out the research effective. This also indicates the desire of the respondents to convey information on training and data related to their performance in Nyeri County government. The results were presented in figure 4.1 below.

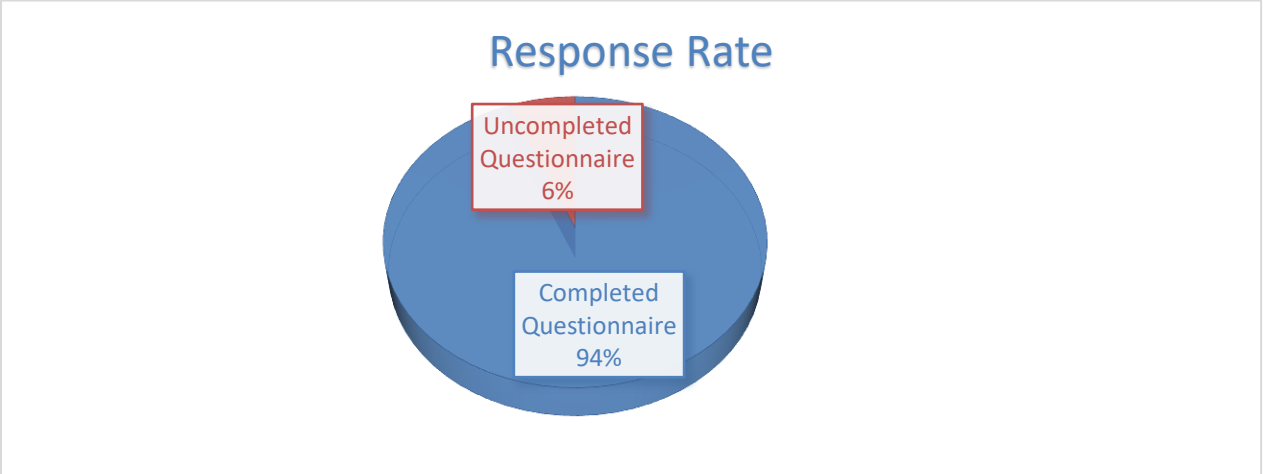


Figure 4.1 Response rate
Source: Field Data (2019)

4.2 Demographic Characteristics

4.2.1 Gender of the Respondents

The study sought to establish the gender of the respondents in Nyeri County government. The results were presented in figure 4.2 below. The study found that 53.67 percent of response respondents were male on 46.33 percent for female. This indicated that there was a fair gender representation in the number of employees working Nyeri County government. There was indication that the findings and the views presented in this document represented the majority of women and the majority of men represented in the County.

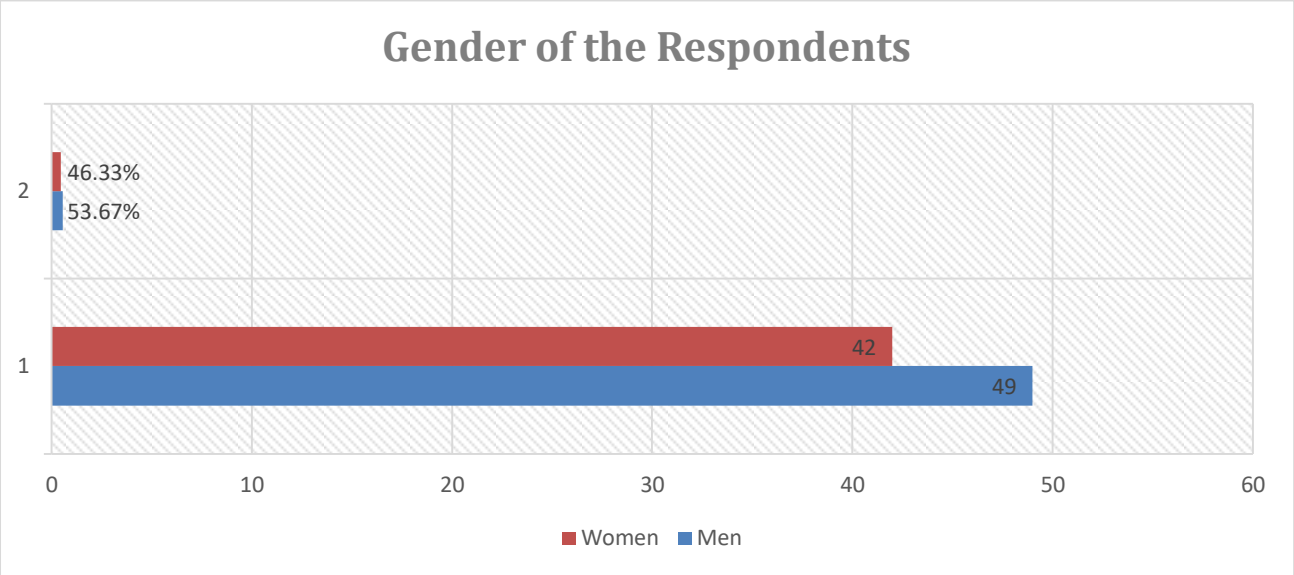


Figure 4.2 Gender of the Respondents
Source: Field Data (2019)

4.2.2 Working Experience

The researcher requested the respondents to indicate the number of years worked in Nyeri County and presented the following responses as reflected in Table 4.1 below;

Table 4.1: Working Experience

	Frequency	Percentage
Less than 2 year	7	7.70%
3-5 Years	25	30.80%
6-8 Years	42	46.10%
More than 8 years	14	15.40%

Source: Field Data (2019)

The findings in table 4.1 presents that majority of the respondents (46.1 percent) had worked in the county for 6 to 8 years. 30.8% of the respondents had worked in the County for 3 to 5 years. 7.7% of respondents and worked in the county for less than two years and 15.4% of the respondents had worked in the county of Nyeri for more than eight years. The findings indicated that there was a clear representation what exactly was happening on the ground since the targeted employees had the information helpful in achieving the study's objectives.It was possible to achieve the objective set for the study since the number of employees used in this study had relevant experience and knowledge regarding the information sought.

4.3 Descriptive Analysis

This section sought to establish the relationship between variable through the descriptions analysis. Mean and standard deviation were the descriptive measures used to describe the relationship between variables as indicated by the statements presented to the respondents.

4.3.1 Job Rotation

This section reflect the job rotation indicators as presented to the respondents in the study. The table below presents the summarised results on the level of agreement based on statements presented to them. Table 4.2 indicates the result summary.

Table 4.2 Effects of Job Rotation

Statements	**Mean**	**Stdev.**
Rate of extent to which job rotation of administration has been practiced	1.9772	1.123
Rotations between department is done frequently	2.1630	.9317
There is ease of flow information between department	3.1760	1.1001
The County managers are active in ensuring there is minimum rotations per employee	2.1710	.8117
Harmony and work relationship amongst department is enhanced	3.9878	.9679

Source: Field Data, (2019)

Table 4.2 findings presented that job rotation had been inactive in the county and the state of job rotation is alarming as indicated by a low mean of 1.9773 and a standard deviation of 1.123. A mean of 2.163 and a standard deviation of 0.9317 indicated that job rotations between department in Nyeri county is not done frequently. However, it was moderately agreed that there is a flow of information between departments in the County(a moderate mean of 3.176 and a standard deviation of 1.1001). The findings on the active participation of County managers in ensuring that there is a minimum rotation of every employee in the county indicated that, this was not practised as indicated by a low mean of 2.1710 and a standard deviation of 0.8117. The working relationship and harmony between departments was found to be enhanced by the County managers as evidenced by a mean of 3.987 and a standard deviation of 0.9679.The findings agrees with Tarus (2014) who assessed the effects of job rotation strategy on high performance workplace, in Lake Victoria North Water Services Board, Kenya. The findings showed that job rotation as a strategy had a significant effect on high performance workplace. This means that organizations had enhance job rotation, they are more likely to perform highly. The study also found that job rotation is necessary to decipher the needs of the individuals and groups within the organization in order to utilize maximize experience which translates to high performance workplace.

The findings concurs with Metin (2012) findings that job rotation is important in two aspects namely; an employee who rotates without changing the portfolio accumulates experience more than the one who does not hence, it is an effective tool for career development. However, the study disagrees with Senge (2013) findings that systematic movement of employees from one job to the other does not affect the overall organization performance. The study found that the portfolio remains constant but employees performing them move from one portfolio to the other.

4.3. Effect of Orientation

The study sought to establish the effect of orientation on employee performance in Nyeri county government. Measures of orientation such as understanding the County policies, skills development, proper management of staff during orientation and improvement of coordination were used. The table 4.3 below presents the summarized results.

Table 4.3 Effects of Orientation

Statements	Mean	Stdev.
There was knowledge shared during orientation	3.8111	1.2322
There was understanding of policies through the skills developed	4.1710	1.1211
There is proper management of employees during orientation	3.9230	.9317
There is coordination improvement of resources after orientation	3.6212	1.031

Source: Field Data, (2019)

Table 4.3 presents that knowledge was shared during orientation in Nyeri County government as shown by a high mean of 3.8111 and a standard deviation of 1.2322. The study indicated that there was understanding of policies by the employees through the developed skills during the orientation as evidenced by a mean of 4.1710 and a standard deviation of 1.1211. A mean of 3.9330 and a standard deviation of 0.9317 indicated that there was proper management of employees during their orientation in the county. It was evident that there was improvement of coordination of County resources after proper orientation in Nyeri County as indicated by by a mean of 3.6212 and a standard deviation of 1.031. On average from the findings shown, it is clear that orientation improves performance and skills, knowledge. Proper management of resources was evidenced as a result of proper orientation.The study agrees with Onyango and Wanyoike (2014) who studied the effects of training on employee performance: a survey of health workers in Siaya county, Kenya. The study established that almost everyone recognizes the significance of orientation on the success and growth of organizations. Employees are however a very crucial and expensive resource to every organization. Orientation is therefore necessary to enhance the knowledge, skills and attitude of employees. It will also make it easier for employees to acquire further knowledge based on the foundation gained from the training and further effect changes in other co-workers.

4.3.3 Effect of Coaching

The respondents were requested to indicate the level with which coaching affects employee performance in Nyeri County, Kenya. The respondents were presented with different statements based on various coaching methods . Table 4.4 below present the results of the findings.

Table 4.4 Effects of Coaching

Statements	Mean	Stdev.
Training by consultants	2.1813	1.2231
Training by Kenya School of Government	3.7162	.8731

Training by senior employees within the organization	4.2181	.9932
Use of Benchmarking Strategies	3.1139	1.032

Source: Field Data, (2019)

The findings indicated that training by consultation was not well practiced in the county as presented by a low mean of 2.1813 and a standard deviation of 1.2231. Majority of employees indicated that they attended training in Kenya school of government as presented by a mean of 3.7100 and a standard deviation of 0.8731. Majority of the employees indicated that training by their senior employees was well-practised as indicated by a high mean of 4.2181 and a standard deviation of 0.9932. It was clear that benchmarking in the County was moderately used as a form of coaching as indicated by a moderate mean of 3.1139 and a standard deviation of 1.032. On average it was evident that employees in the county normally attend Kenya school of government for training or are trained internally by their senior employees.Robinson, Dilys and Hayday (2013) study agrees with the current findings that training through the process of coaching influences the employees performance positively through a process of engagement of employees. The study found that employee engagement helps employees to feel loved and well utilised which in turn helps them improve their productivity level through lower absenteeism. However, the study disagrees with Ombogo (2016) on the effects of employees training on performance in the water boards in Kenya. The study found that there is lack of quality water, increasing complaints from the customer, delay in giving feedbacks, employees lacking customer focus, unreliable water supply, reduced revenues and low billing. Despite job coaching and job rotation, the water boards have shown the possibilities of failure.

4.3.4 Effects of Role Playing

The study sought to establish whether role-playing has resulted to employee's performance in Nyeri County, Kenya. The results were presented in table 4.5

Table 4.5 Effects of Role Playing

Statements	**Mean**	**Stdev.**
Handling more than one tasks at a time	4.0131	1.1081
Adherence to policies and leadership program	3.0180	1.2511
Compliance of service charter	2.8188	.8371
Responsiveness to the needs of the members of public	4.2173	1.0331

Source: Field Data, (2019)

The study found that handling more than one task has improved since the introduction of role-playing in the County as reflected by a mean of 4.0131 and a standard deviation of 1.1081. Adherence to policies and leadership programs had moderately improved due to introduction of role playing in many departments in Nyeri County Government (Mean=3.0180, Stdev=1.2511). Compliance to service charter was found to be low as indicated by mean of 2.8188 and a standard deviation of 0.8371. A mean 4.2173 and a standard deviation of 1.0331 indicated that role playing had improved the responsiveness of employees to the members of the society. It was evident from the study that role playing had improved how employees handle tasks, time taken to handle a task and the responsiveness of each member of the Staff to the society's needs.Asghar and Saeed (2012) assessed the effect of training on employee's recognition. The finding established that role playing improves employee's recognition in the workplace and that training through role-playing workouts to become skilled in their jobs and be able to deliver better results than their competitors. The support findings by Asghar and Saeed (2012) established that role playing encourages employees to become interested in the job and more knowledgeable about the tasks being handled which eventually helps them in getting noticed among their employees thus improvement in satisfaction.

Shaheen (2013) study findings agrees with the current study findings in that that role-playing improves leadership traits in the organisations. The study was supported by Bartel (1995) in the evaluation of the supervisor's use of information. The study noted that through formal training, organisation will be positively affected in its performance and formal training. The study concurs with Asim (2013) findings in that there is a direct and indirect correlation between employee's performance and training of employees. The study also found that meaningful employee development creates good results to the work.

4.5 Employees Performance in Nyeri County

This study sought to establish the employee performance in Nyeri County. The measures of employee performance in the county was indicated by employees reporting in time, increase in the number of turnover, time taken to accomplish a task, sick leave and the number of an unaccomplished task. Table 4.6 below presents the findings of the study.

Table 4.6 Employees Performance

Statements	Mean	Stdev.
Majority of employees report to work at the right time	3.7864	1.1190
There has been an increase in the number employee turnover	4.7571	.9871
The employees take a lot of time to accomplish a task	3.5426	.8974
The number of employees requesting for sick leave has increased	4.1211	1.2312
There is an increase in the number of unaccomplished tasks	4.5454	1.001

Source: Field Data, (2019)

The findings in table 4.6 indicates that majority of the employees reported to work a right time is indicated by a mean of 3.7864 and a standard deviation of 1.1190. There has been an increase in the number of employee's turnover in Nyeri county government as indicated by a mean of 4.7571 and a standard deviation of 0.879. The number of the employees requesting for sick leave were on the increase as indicated by a mean of 4.1211 and a standard deviation of 1.2312. A mean of 4.5454 and a standard deviation of 1.001 indicated that there was an increase in the number of an accomplished task in the County. Generally the findings indicates that the number of employees turnover has increased, the number of unattained targets has also increased. There's an increase in the number of employees asking for the sick leave.

4.6 Inferential Statistics

Inferential statistics presented the parameters on sampled data regarding the interrelationship between variables in the study. It indicates the degree of change of variable as a result of changing the other variable. Inferential statistics presented in this section includes the coefficients of correlation, the coefficient of determination, the correlation level of variables and the coefficients of regression analysis.

4.6.1 Correlation Analysis

Section presented the autocorrelation of various variables. The correlation measures the degree to which the variables under consideration had similar observation. Significant values of more than 0.8 indicates a possibility of autocorrelation. Table 4.7 below presents data correlation values as presented by the significant values.

Table 4.7: Correlation Analysis

		Job Rotation	**Orientation**	**Coaching**	**Role Playing**	**Employee Performance**
Job Rotation	Pearson Correlation Sig. (2-tailed)	**1**				
Orientation	Pearson Correlation	.583	1			
	Sig. (2-tailed)	.0062				
Coaching	Pearson Correlation Sig. (2-tailed)	.6340 .0221	.3521 .0414	1		
Role Playing	Pearson Correlation	.7560	.1280	.0641	1	
	Sig. (2-tailed)	.4511	.3201	.2431		
Employee Performance	Pearson Correlation	.6210	.4420	.0000	.2660	1
	Sig. (2-tailed)	.2372	.0311	.1001	.0131	

Source: Field Data, (2019)

The findings in the table above on the correlation coefficients and the significant values between variables indicated that there was no possibilities of autocorrelation since the significant values were less than 0.8. This was a clear indication that there was no similarities on observation between variables. It was evident that regression analysis may be carried out to show the relationship between variables considered.

4.6.2.1 Model Summary

The model summary presented the coefficient of determination and coefficient of correlation which explained the degree to which the independent variables is determined by the independent variables in the study. Coefficient of determination which is represented by R squared indicates the degree to which the changes of the dependent variable is determined by the changes of the independent variable (job rotation, coaching, orientation and role play). The coefficient of correlation is also used to present nature of relationship and the strength of the relationship (weak or

strong).

Table 4.8: Model Summary

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.711[a]	.506	.486	.386

a. Predictors: (Constant), Job Rotation, Orientation, Coaching, Role Playing

Source: Field Data, (2019)

Table 4.8 above indicates that the four variables (role playing, coaching, orientation and job rotation) determined the changes in employee performance to an extent of 50.6 percent. This indicates that other factors not considered in the study affected performance of the employees in the County up to 49.4 percent. The relationship between variables was found to be very strong as indicated by a coefficient of correlation of 0.711. This indicated that there was a strong positive correlation between variables.

4.6.2.2Regression Coefficients

The study's regression coefficients of independent variables are presented in table 4.9 below. The coefficients indicate the direction and the change of the dependent variable as a result of changes in the specific independent variable.

Table 4.9: Regression Coefficients

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.651	.301		15.457	.000
	Job Rotation	.117	.046	.268	2.566	.012
	Orientation	-.037	.035	-.125	-1.066	.000
	Coaching	-.133	.050	-.310	-2.680	.000
	Role Playing	.042	.028	.146	1.484	.001

a. Dependent Variable: Employee Performance

Source: Field Data, (2019)

As per the SPSS generated table 4.9, the equation

$\mathbf{Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon}$ becomes:

$Y = 4.651 + .117X_1 + -0.037X_2 + -0.133X_3 + 0.042X_4 + \varepsilon$

The findings in table 4.9 above indicates that holding other factors (job rotation, orientation, coaching and role-playing)constant the employee performance in County was 4.651 units. The findings indicated that the relationship between job rotation and employee performance was positive and significant as indicated by a coefficient of 0.1 17 and a significant value which is less than 0.05 (B1=.117, Sig=.012). This indicates that there was a positive relationship between the job rotation and employee's performance and that one unit change in job rotation resulted to 0.117 units changes in employees performance in Nyeri County.The study agrees with Tuei and Saina (2015) study findings that job rotation had positive regression coefficient. Akbar and Hafeez (2015) studied the impact of training on employee's performance (Evidence from Pharmaceutical Companies in Pakistan). The study established that job rotation hadpositive significant impact and relationship with employee performance.

The findings indicated that relationship between orientation and employee performance was negative and significant as indicated by the negative coefficient of 0.37 and the significant value which is less than 0.005 (B2=-.037, P=.000). This indicates that the relationship between orientation and employee performance was negative and significant. A unit increase in orientation resulted to a decrease in employee performance. The results indicated also that a unit increase in orientation resulted to a decrease in 0.37 units in employee performance.The study disagrees with Onyango and Wanyoike (2014) who studied the effects of training on employee performance: a survey of health workers in Siaya county, Kenya. The study found that there is a strong positive relationship between training through orientation and development of employees and performance.

The relationship between coaching and employee performance was established as shown in table 4.9. The findings indicated that the relationshipbetween coaching and employee performance was negative and significant. According to the results an increase in coaching by one unit resulted to a decrease in the employee's performance by 0.113 units. It was clear from the results that when coaching is increased employee performance decreases.The relationship between role playing was established in table 4.9. The study indicated that the relationship between role playing and employee performance was positive and significant. It was clear that an increase in role-playing resulted to an increase in employee performance in Nyeri County. An increase in role-playing by one unit resulted to an increase in employee performance by 0.042 units (B=.042, Sig=.001). The findings concurs with Asim (2013) study on the effects of training and employees performance. The findings were that there is a direct and indirect correlation between employee's performance and role plays within organizations. This study was supported by sahinidis and Bouris (2008) who found that training practices in an organisation improves its performance, motivating the employees and making them more committed to the organisational goals.

5.0 Summary Conclusions and Recommendations

5.1 Summary of the Study

The results indicated that job rotations between department in Nyeri county was not done frequently. However, it was moderately agreed that there is a flow of information between departments in the County. The findings indicated that there was inactive participation of county managers in ensuring that there is a minimum rotation of every employee in the county.The study also found that job rotation is necessary to decipher the needs of the individuals and groups within the organization in order to utilize maximize experience which translates to high performance workplace. The study indicated that there was understanding of policies by the employees through the developed skills during the orientation. There was proper management of employees during their orientation in the county. Majority of employees indicated that they attended training in Kenya school of government. Majority of the employees indicated that training by their senior employees was well-practised. It was clear that benchmarking in the County was moderately used as a form of coaching. Adherence to policies and leadership programs had moderately improved due to introduction of role playing in many departments in Nyeri County Government. Compliance to service charter was found to be low.

5.2 Conclusions

The study concluded that the relationship between job rotation and employee performance was positive and significant. The study established that job rotation hadpositive significant impact and relationship with employee performance.The study concluded that relationship between orientation and employee performance was negative and significant. The study concluded that orientation is therefore not necessary to enhance the knowledge, skills and attitude of employees.
The study concluded that the relationship between coaching and employee performance was was negative and significant. The study concluded that employees training by their senior employees does not result to improved performance.

5.3 Recommendation of the Study

The study recommends that the counties should encourage job rotations and role playing as the best training practices since they impact positively on employee performance.The study recommends the county employees to Adhere to policies and leadership programs and that the county directors should encourage role playing in many departments. There need for the head of certain departments to ensure there is improved responsiveness of employees to the members of the society. The senior County officials should ensure that employees are handling tasks well, and utilizing the required time.

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BANK SIZE AND FINANCIAL RISK EXPOSURE ON FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN KENYA

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Abstract

In Kenya, the banking industry has experienced major transformations over the past decades of deregulation and the globalization of financial markets. The performance of banks has become a major concern for economics and policy makers due to the fact that the role of banks remains central in financing economic activities. The study sought to establish the effect of bank size and financial risk exposure on financial performance of commercial banks in Kenya. The descriptive research design and a positivist approach were adopted. The Berger and Hannan approach was used establish the relationship between bank size, financial risk exposure and the moderating effect of macroeconomic variable on the financial performance of commercial banks in Kenya. All the 43 commercial banks were used during the study. Various diagnostic tests were carried out to and the study data structure was panel hence Stata was employed to determine the relationship between the variables. In conclusion, banks need to grow bank sizes where they enjoy both economies of scale and scope. Treasury should design policies that will increase the capital size, liquidity requirements and deposit insurance premiums; this may assist in enlarging the size of banks to a level where they are fairly equal with none having relative market power to drive the market. Areas of further research may include and not limited to considering other variables besides the financial risk exposure and bank size in determining their effect on the financial performance of commercial banks in Kenya. The research may as well be done in the East African or African context. The further studies should seek to leverage on mixed research approaches that utilize both quantitative and qualitative research.

Key Words: Bank Size, Financial Risk Exposure, Financial Performance, Commercial Banks, Berger and Hannan Approach

OVERVIEW AND PROBLEM STATEMENT

1.1 Introduction

The financial performance analysis of commercial banks has been of great interest to academic research since the Great Depression Intern in the 1940's. In the last two decades, studies have shown that commercial banks in Sub-Saharan Africa (SSA) are more profitable than the rest of the world with an average Return on Assets of 2 percent (Flamini, Valentina, McDonald, & Liliana, 2009). One of the major reasons behind high return in the region is the investment in risky ventures. The other possible reason for the high profitability in commercial banking business in SSA is the existence of a huge gap between the demand for bank service and the supply thereof. That means, in SSA the number of banks are few compared to the demand for the services; as a result, there is less competition and banks charge high interest rates. This is especially true in East Africa where the few government owned banks take the lion's share of the market. In Kenya, the banking industry has experienced major transformations over the past decades of deregulation and the globalization of financial markets. Consequently, as a rational response to the financial sector liberalization, the banking system seems to have become a more concentrated sector. The performance of banks has become a major concern for economics and policy makers due to the fact that the role of banks remains central in financing economic activities (Arif, Khan & Iqbal, 2013). Banks are the major source of debt financing for business and non-business enterprises in Kenya. Therefore, the stability of the banking industry is of paramount importance to the financial system as it plays an imperative role in the operation of an economy.

The relationship between market structure and performance has been treated within the framework of Structure-Conduct-Performance (SCP) paradigm. The original SCP interprets performance as a result of the exogenous structure of the market which influences banks' conduct. The SCP paradigm assumes that a higher bank concentration allows a higher degree of cooperation between them. According to SCP approach, the level of concentration in the banking market gives rise to potential market power by banks, which may raise their profitability. Banks in more concentrated markets are most likely to make 'abnormal profits' by their ability to lower deposit rates and charge higher loan rates as a result of collusive (explicit or tacit) or monopolistic reasons, than firms operating in less concentrated markets irrespective of their efficiency (Tregenna, 2009). Most studies on the problem of bank diversification and performance have been discussed in many papers. Majority of the studies highlight the positive effect of diversification on the performance and on the decrease of risks. Acharya, Saunders, and Hasan (2002) argue that diversification, based on traditional portfolio theory wisdom, leads to greater safety for financial institutions. Chatti, Kablan, and Yousfi (2010) analysed the performance and the choice of portfolio in banks and the results showed that corporate and investment activity increases significantly return on assets. However, retail and commercial activity improves the results and performance of these banks.

1.2 Statement of the Problem

Owing to the importance of the banking industry performance in influencing the macroeconomic stability, a number of country specific studies on the banking industry have been undertaken, for example, Kamau (2011); Ncube (2009); Aikaeli, (2008); Ikhide (2008); and Adongo *et-al.*, (2005). However, these studies presented mixed results and they were not conclusive on how bank size affects performance.

Various changes in the commercial banking industry such as bank restructuring, privatization and bank prudential regulations by CBK have been done to improve the performance in the commercial banking industry (Deloitte Kenya, 2012). Past studies (Fiordelisi *et.al.*, 2010; Berger & DeYoung, 1997; Ikhide, 2009; Turati, 2003; Hussein, 2000; Blocher, 2009; Kiweu & Ndulu, 2012) were concerned with financial performance. Studies on financial performance, such as Heremans, (2007), Al-Tamimi & Hassan (2010), Aburime (2005), Demirguc-Kunt and Huizinga (2000) and Goddard *et al.*, (2004) used linear models to estimate the impact of various factors that may be important in explaining performance. Despite the empirical evidence cited demonstrating that it is possible to conduct a

meaningful analysis of financial performance (Bikker & Bos, 2005), the major conclusion is that all models focus on a single variable instead of a set of variables as theory prescribes.

Some of the previous studies shows contradicting findings on the relationship between bank characteristics and financial performance of banks. For example, Isik and Hassan (2002) and Isik, Omran and Hassan (2016) showed that average financial performance decrease with increase in bank size. In contrast, Berger and Mester (2003) and Isik and Topuz (2016) noted a slight increase in financial performance with bank size which may have been induced by competitive pressures; they concluded that as banks grew larger, they were equally able to control costs but it became harder to create revenue efficiently. The study by Kraft *et al.,* (2002) revealed that financial performance did not vary much across bank size.

From the foregoing literature, the study factored in bank size and financial risk exposure variables. Also, the study was done in Kenyan context since most studies have been done in the African context and the developing economies so as to determine the effect of bank size and financial risk exposure on financial performance of commercial banks in Kenya in attempt to fill the existing gap of knowledge body.

1.3 Objectives

The general objective of the study was to determine the effect of bank size and financial risk exposure on financial performance of Commercial Banks in Kenya.

Specifically, the study sought to achieve the following specific objectives:

i. To determine the effect of bank size on financial performance of Commercial Banks in Kenya.
ii. To establish the effect of financial risk exposure on financial performance of Commercial Banks in Kenya.
iii. To determine the moderating effect of macroeconomic variable on bank size and financial performance of Commercial Banks in Kenya.
iv. To determine the moderating effect of macroeconomic variable on financial risk exposure and financial performance of Commercial Banks in Kenya.

1.4. Research Hypotheses

The study was guided by the following null hypotheses:

H_{01}: Bank size does not have a significant effect on financial performance of Commercial Banks in Kenya.

H_{02}: Financial risk exposure does not have a significant effect on financial performance of Commercial Banks in Kenya.

H_{03}: Macroeconomic variable does not have significant effect on bank size and financial performance of Commercial Banks in Kenya.

H_{04}: Macroeconomic variable does not have significant effect on financial risk exposure and financial performance of Commercial Banks in Kenya.

1.4 Conceptual Framework

This study focused on assessing functional relationship between the bank size, financial risk exposure and resultant financial performance and it was guided by the Market Power and the Efficiency Structure Theories which has been treated within the framework of Structure-Conduct-Performance paradigm. The independent variables were bank size the financial risk exposure. The dependent variable was the financial performance while the moderating variable was the macroeconomic variable.

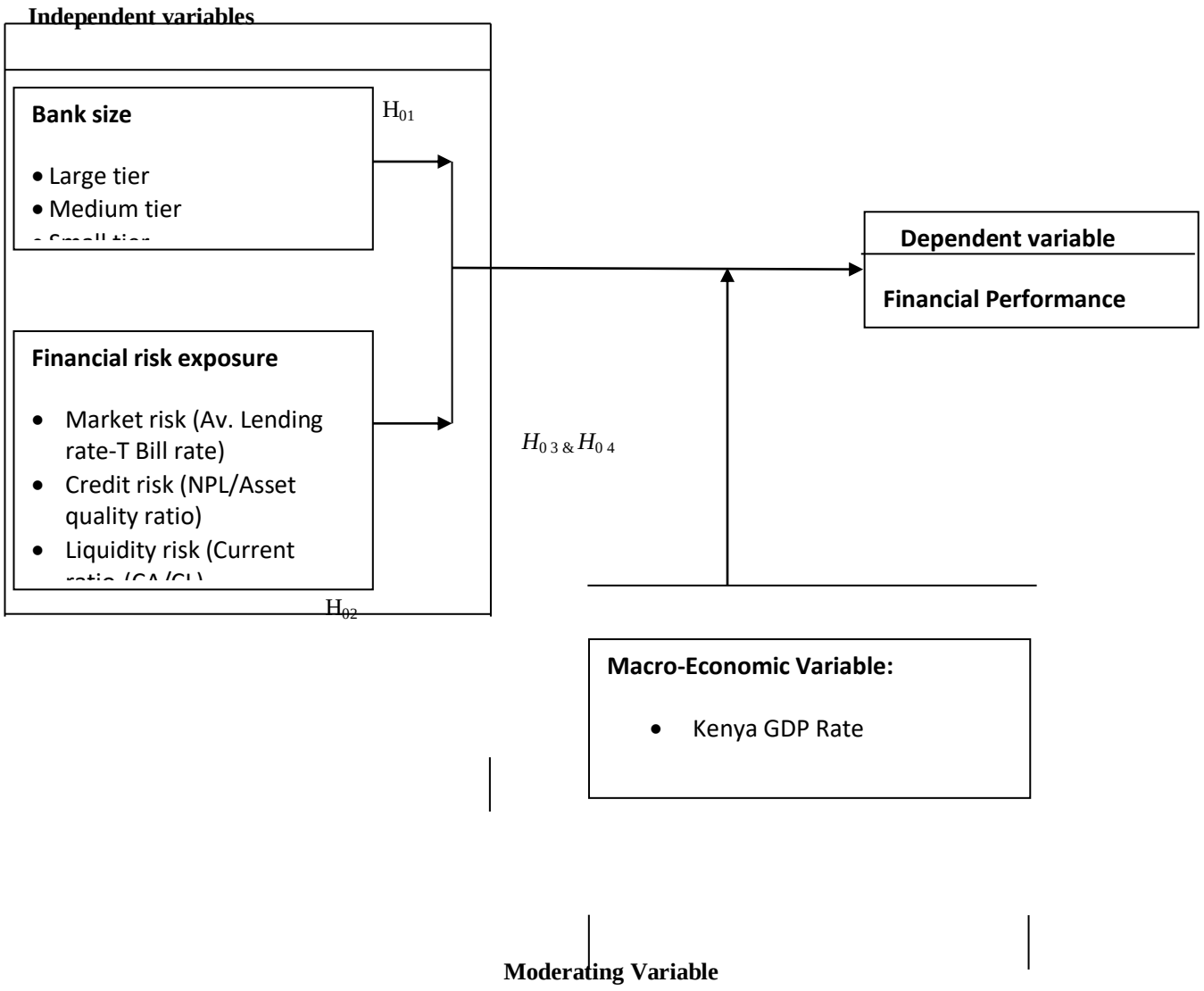

Figure 2.1 Conceptual Framework

Source: Author (2018)

METHODOLOGY

The research adopted a positivist approach because of the use of quantitative tools and techniques that emphasize measuring and counting (Saunders, *et.al.,* 2009). Also, the research used hypotheses in designing the findings which was be taken from past studies. The study adopted descriptive research design intended to establish the effect of bank size, financial risk exposure, and the moderating effect of macroeconomic variable on financial performance of commercial banks in Kenya which were of interest to the researcher data (Creswell, 2007). The research was conducted to provide a better understanding of the effect of bank size on financial performance of commercial banks in in Kenya. The process and ultimate result was pegged on data obtained from archives of KBA and CBK's financial.

Descriptive research design was adopted since the major emphasis was to gain ideas and insights on the causal – effect relationship between bank size, financial risk exposure, and the moderating effect of macroeconomic variable on the financial performance of banks (Bordens & Abboth, 2002). Using statistical analysis tools, the researcher carried out panel econometric analysis mainly pooled regressions since the study was dealing with panel data (McManus, 2011). Correlation matrix on all variables aided in analyzing the statistical interaction of the variables hence capable of concluding the correlation among them.

Based on the model specified by the Berger and Hannan (1993), the study developed a model studying the relationship between the bank size, financial risk exposure, macroeconomic variable, and financial performance. In order to determine the relationship, the following model was estimated:

$$\pi_{it} = \alpha_0 + \alpha_1 NA_{it} + \alpha_2 LA_{it} + \alpha_3 CD_{it} + \alpha_4 MR_{it} + \alpha_5 CR_{it} + \alpha_6 LR_{it} + \alpha_7 DG_{it} + \varepsilon_{it} \quad \ldots\ldots(1)$$

In order to test the moderation effect of macroeconomic variable (DG) on bank size and financial risk exposure on financial performance of Commercial Banks in Kenya, interaction variable between macroeconomic variable (DG) and bank size indicators (NA, LA, CD) is generated and the moderation model is estimated with the following multiple panel regression equations which are added to the model as indicated in equations (2) to equation (4);

$$\pi_{it} = \alpha_0 + \alpha_1 NA_{it} + \alpha_2 MR_{it} + \alpha_3 CR_{it} + \alpha_4 LR_{it} + \alpha_5 DG_{it} + \alpha_6 NA_{it}.DG_{it} + \alpha_7 MR_{it}.DG_{it} + \alpha_8 CR_{it}.DG_{it} + \alpha_9 LR_{it}.DG_{it} + \varepsilon_{it} \quad \ldots\ldots(2)$$

$$\pi_{it} = \alpha_0 + \alpha_1 LA_{it} + \alpha_2 MR_{it} + \alpha_3 CR_{it} + \alpha_4 LR_{it} + \alpha_5 DG_{it} + \alpha_6 LA_{it}.DG_{it} + \alpha_7 MR_{it}.DG_{it} + \alpha_8 CR_{it}.DG_{it} + \alpha_9 LR_{it}.DG_{it} + \varepsilon_{it} \quad \ldots\ldots(3)$$

$$\pi_{it} = \alpha_0 + \alpha_1 CD_{it} + \alpha_2 MR_{it} + \alpha_3 CR_{it} + \alpha_4 LR_{it} + \alpha_5 DG_{it} + \alpha_6 CD_{it}.DG_{it} + \alpha_7 MR_{it}.DG_{it} + \alpha_8 CR_{it}.DG_{it} + \alpha_9 LR_{it}.DG_{it} + \varepsilon_{it} \quad \ldots\ldots(4)$$

Where: Equation 2 is model 1 in which bank size is measured by net assets of the bank

Equation 3 is model 2 in which bank size is measured by number of loan accounts

Equation 4 is model 3 in which bank size is measured by amounts of customer deposits

π – Financial performance

α_0 – Intercept

α_1- α_9 – Coefficient parameters

NA – Net assets (bank size)

LA – Loan accounts (bank size)

CD – Customer deposits (bank size)

MR - Market risk

CR – Credit risk

LR – Liquidity risk

DG – Kenya GDP growth rate

ε_{it} – Error term where *i* is cross sectional and *t* time identifier

Note that $i = 1, 2, 3 \ldots 43$ since the researcher was analysing 43 commercial banks while

$t = 1, 2, \ldots, 7$ since the analysis captured seven years. Therefore, the total observations were: NT = 301.

The target population in this study was all the 43 commercial banks in Kenya. A census study was conducted because the entire population was taken as sample. The choice of the population was informed by the availability of data on the key variables hence the consideration of the 43 commercial banks in the Kenyan banking industry. Sampling did not apply to the study since a census study was undertaken. Since the population was small, census was adopted for this study (McLennan, 1999). The study used secondary data. The secondary data was obtained from KBA's comprehensive archive of the 43 commercial banks and from CBK, Banking Division for the period of study 2009 to 2015. The period was informed by the global financial crisis of 2007/2009 whose effects spilled over to the country up to early 2013. The data from KBA was on profitability, while data from CBK was on bank size, financial risk exposure and the macroeconomic variables from 2009 to 2015. The 43 commercial banks comprised of 26 locally-private owned commercial banks, 14 commercial banks were foreign owned, and 3 local public owned commercial banks.

The study used secondary panel data from secondary sources, that is, data not directly compiled by the researcher obtained from the published results of the banks and central bank industry supervision reports. According to Frees (2004), panel data refers to data that is obtained by studying a group of individuals repeated for a period of time and is also commonly referred to as longitudinal data in natural sciences and pooled cross-sectional time series data in social sciences. The data extracted from the financial statements of commercial banks were from the income statements, statement of financial position and this related for bank-level information such as net assets, number of loans accounts, deposits, market risk, liquidity risk and credit risk. Information on Kenya's real GDP growth rate was obtained from various statistical bulletins for the period 2009-2015. Document reviews were used to collect the financial data for the period 2009-2015.

Diagnostics tests were used to addresses the various forms of bias that may occur in research aiming to evaluate the accuracy of diagnostic tests (Feinstein, 2002). The study carried out various diagnostic tests to investigate whether the assumptions of linear regression analysis were satisfied by running statistical and econometric tests. The statistical tests involved t-test and F-tests. The test was necessary in determining the statistical significance of individual parameters and joint significance with the aid of the relevant distribution tables. The econometric tests included; autocorrelation, multicollinearity, heteroscedasticity, unit root test, and the normality test (Gujarati, 2003). Also, the analysis endowed regression analysis with both a spatial and temporal dimension. Therefore, to ensure the validity and reliability of the estimated model parameters, the study applied the Hausman test in choosing on whether to run the fixed effects or the random effects model.

EMPIRICAL RESULTS, INTERPRETATION AND DISCUSSIONS

4.1 Introduction

The study presents research findings of the study on the effect of bank size and financial risk exposure on financial performance of commercial banks in Kenya. The data was collected from secondary sources and it was extracted from the annual bank supervision reports published by Central Bank of Kenya and the Kenya Bankers Association' archives.

4.2 Data Analysis and Interpretation

The following is the data analysis and interpretation:

Variables	Min	Max	Mean	Variance	Std. Dev.	Skewness	Kurtosis
ROA	-261.290	23.199	2.464	386.780	19.667	-14.974	187.586
Bank size (assets)	0.040	14.000	3.859	9.953	3.155	2.008	1.026
Bank size (loan acc)	0.010	37.400	2.630	34.741	5.894	4.407	21.843
Bank size (deposits)	0.010	14.100	2.905	9.682	3.112	2.830	6.853
Credit risk	0.010	76.760	9.351	113.820	10.669	3.075	13.972
Liquidity risk	3.310	107.700	44.629	357.945	18.919	1.808	4.937
Market risk	1.740	11.580	8.532	11.831	3.440	-1.866	2.672
Kenya GDP Growth Rate	3.300	8.400	5.810	3.906	1.976	0.690	2.480

Table 4.1 Descriptive statistics

Source: Research Data (2018)

Based on 4.1, the results show ROA has a minimum of -261.29 and a maximum of 23.199 of the extent to which the variable deviates from its main value. 19.667 is the extent to which ROA deviates from the mean value of 2.464. Compared to other countries financial performances as expressed by the mean score of 2.464 for ROA, the results imply that Kenya's financial performance is average. This is consistent with the findings of Flamini *et al.,* (2009) who states that the average ROA in Sub-Saharan Africa (SSA) is about 2% thus the average ROA of Kenyan banks is about average of the SSA.

Also, the market share of banks (bank size) is positive and this implies that market share plays a significant role in impacting on the financial performance of Kenyan commercial banks. This finding is in support of both the Structure Conduct Performance (SCP) and Relative Market Power (RMP) hypothesis. Banks in high concentration markets are able to earn higher profits while banks with relative high market power in terms of net asset share earn higher profits through the high interest margins (Kamau & Were, 2013). The bank size (net assets), bank size (loan accounts) and bank size (customer deposits) had a mean of 3.859, 2.630 and 2.905 respectively. This implies that the Kenyan banking industry market is highly concentrated and this has highly influenced financial performance. The study supports the RMP and SCP hypothesis that market power enjoyed by individual banks and collusive power enjoyed by large banks have a significant influence on financial performance in Kenya.

The bank size (loan accounts) has a maximum of 37.4 of the extent to which it deviates from its main value of 5.894. 5.894 is the extent to which bank size (loan accounts) deviates from the mean value of 2.630. This shows that banks have a high loan book that may lead to high non-performing loans thereby negatively impacting on their financial performance. This also indicates that most banks' source of income is interest earned on bank loans. It also implies that most of the banks' products and services are tailor made to suite their clientele who are interested in loans. It also indicates that most people open bank accounts with the intention of applying for loan facilities from the banking industry.

Under the bank size variable, the net assets have the highest minimum of 0.040 and the lowest maximum of 14.0 as compared to the loan account and customer deposits. This could imply that most banks are highly liquid and have few assets owned by them. This is risky because when a bank is bankrupt, they lack assets as a backup to their financial crisis. On the other hand, this may imply that banks are able to settle obligations with immediacy (Drehmann & Nikolaou, 2013). Efficient liquidity management requires maintaining sufficient cash reserves on hand while also investing as many funds as possible to maximise earnings. The results also imply that banks do not need to be worried about the maturity transformation if they have assets that can be sold without bearing any loss. Whereas, banks having assets that are going to be matured in a shorter period may have a less need to keep the liquid assets (Ahmed *et.al.*, 2015).

The bank size (loans) mean is 2.630 and the bank size (customer deposits) is 2.905. This could imply that banks use customer deposits to lend; customer deposits are one of the cheapest sources of fund due to the high margin between deposit and lending rate that banks utilise to generate income (Ongore & Kusa, 2013). This also implies that Kenyan banks target domestic resources mainly customer deposits for their banking business. It also implies that banks keep more than the statutory liquidity requirement. It also implies that besides bank customers investing in fixed deposits, they at the same time apply for loan facilities from the same banks.

Liquidity risk has the highest standard deviation measure of dispersion from its main value of 18.919 as compared to the credit risk and market risk. Also, liquidity risk has the highest maximum of 107.700 of the extent to which it deviates from its main value of 18.919. In addition, 18.919 is the extent to which liquidity risk deviates from the mean value of 44.629. Liquidity risk has a variance of 357.945 indicating the deviation from its value of 18.919. This implies that banks are unable to easily liquidate or offset a particular position at or near the last traded market price due to inadequate market depth or market disruptions prompting them to engage in interbank lending to meet their daily transactions (Mohan, 2003). The liquidity risk may arise due to liquidity mismatch which is measured in terms of liquidity gap (Plochan, 2007).

There is a possibility of the risk arising due to recessionary economic conditions, causing less resource generation thereby increasing the demand of depositors. This may cause the failure of a given bank or even the entire banking system due to contagion effect (Brunnermeier & Yogo, 2009). The results may also imply that there is a breakdown or delay in cash flows from borrowers or early termination of the projects (Diamond & Rajan, 2005). Also, disruptions in financial markets as well as entry and exit of major market makers or large institutional investors can affect liquidity because funding is no longer readily available and if it is available, it is expensive (BCBS, 2009). Available liquidity at any point is also a function of the size of trades a bank transacts at relative to the market (Marrison, 2005). As banks strive to transform their short-term deposits into long-term assets, they are always going to be at risk. The banks should therefore have a good understanding of the market in order to be able to measure and manage the risk exposure to them. They should also create mismatches between asset and liability maturity; to ensure that the mismatches keep enough funds flowing; the banks should both increase assets and meet obligations when customers ask for their money.

The credit risk has a minimum of 0.010 and a maximum of 76.76 of the extent to which it deviates from its main value. 10.669 is the extent to which credit risk deviates from the mean value of 9.351. This indicates the potential of a bank borrower failing to meet their obligations in accordance to agreed terms. Credit risk is most likely caused by loans, acceptances, interbank transactions, trade financing, foreign exchange transactions, financial futures, swaps, bonds, credit cards, equities, options and in the extension of commitments and guarantees, and settlement transactions. Factors like unsteady income by bank customers, low credit score, employment type, collateral assets, and others determine the credit risk associated with the borrower (Sharma, 2003). Credit risk is also as a result of macro forces affecting the economy or specific markets or even specific individuals.

Market risk has the lowest standard deviation measure of dispersion from its main value of 3.440 as compared to the credit risk and liquidity risk. The market risk has a minimum of 1.74 and a maximum of 11.58 of the extent to which it deviates from its main value. 3.440 is the extent to which market risk deviates from the mean value of 8.532. This implies that few banks are at risk of losses due to changes in equity prices, credit spreads, foreign exchange rates, commodity prices, interest rates and other indicators whose values are set in the market. This is because the market risk is prevalent amongst banks that are into investment banking since they are active in the capital markets (Kumar *et al.,* 2005). In Kenya, thirty-nine commercial banks have investment in the capital market.

In table 4.1, ROA and market risk are negatively skewed with values of -14.974, -2.979, and -1.866 respectively. The bank size (assets, loan accounts, and deposits), credit risk, liquidity risk, and Kenya GDP growth rate growth rate are positively skewed. The results show a non-normal distribution for all the variables. This implies that the variables are non-normally distributed. A distribution is leptokurtic when the kurtosis value is a large positive. The ROA, bank size (loan accounts), and credit risk are suffering from leptokurtic. ROA, bank size (loan accounts), credit risk, bank size (assets), bank size (deposits), and liquidity risk have fat tails because their kurtosis is greater than 3.0. A distribution is platykurtic when the kurtosis is negative. Market risk, and Kenya GDP growth rate have narrow tails because their kurtosis is less than 3.0; this implies that they have negative kurtosis hence narrow tails.

4.2. Summary of Hypothesis Testing

Below is a summary of the hypothesis testing:

Hypotheses Testing Summary for ROA		
Model 1		
Objectives	**H_0**	**Decision at 5 percent level**
To determine effect of bank size on financial performance of commercial banks in Kenya	Bank size does not have a significant effect on financial performance of commercial banks in Kenya	Reject H_0
To establish the effect of financial risk exposure on financial performance of commercial banks in Kenya	Financial risk exposure does not have a significant effect on financial performance of commercial banks in Kenya	Reject H_0 for Credit risk. Reject H_0 for Liquidity risk Reject H_0 for market risk

To determine the moderating effect of macroeconomic variable on the relationship among bank size, financial risk exposure and performance of commercial banks in Kenya	Macroeconomic variable does not have a significant effect on the relationship bank size, financial risk exposure and performance of commercial banks in Kenya	Fail to reject H_0
Model 2		
Objectives	**H_0**	**Decision at 5 percent level**
To determine effect of bank size on financial performance of commercial banks in Kenya	Bank size does not have a significant effect on financial performance of commercial banks in Kenya	Reject H_0
To establish the effect of financial risk exposure on financial performance of commercial banks in Kenya	Financial risk exposure does not have a significant effect on financial performance of commercial banks in Kenya	Reject H_0 for Credit risk Fail to reject H_0 for Liquidity risk Fail to reject H_0 for market risk
To determine the moderating effect of macroeconomic variable on the relationship among bank size, financial risk exposure and performance of commercial banks in Kenya	Macroeconomic variable does not have a significant effect on the relationship bank size, financial risk exposure and performance of commercial banks in Kenya.	Reject H_0
Model 3		
Objectives	**H_0**	**Decision at 5 percent level**
To determine effect of bank size on financial performance of commercial banks in Kenya	Bank size does not have a significant effect on financial performance of commercial banks in Kenya	Reject H_0
To establish the effect of financial risk exposure on financial performance of commercial banks in Kenya	Financial risk exposure does not have a significant effect on financial performance of commercial banks in Kenya	Reject H_0 for Credit risk Reject H_0 for Liquidity risk Reject H_0 for market risk

To determine the moderating effect of macroeconomic variable on the relationship among bank size, financial risk exposure and performance of commercial banks in Kenya	Macroeconomic variable does not have a significant effect on the relationship bank size, financial risk exposure and performance of commercial banks in Kenya	Fail to reject H_0

Table 4.3 Hypotheses testing summary for ROA

Source: Research Data (2018)

CONCLUSION AND RECOMMENDATIONS

5.1 Summary of the study findings

The study strived to establish the effect of bank size and financial risk exposure on financial performance of commercial banks in Kenya. In order to achieve this, the following research hypotheses guided the study: Bank size does not have a significant effect on financial performance of commercial banks in Kenya; Financial risk exposure does not have significant effect on financial performance of commercial Banks in Kenya; and Macroeconomic variable does not significantly moderate the relationship between bank size, financial risk exposure and financial performance of commercial banks in Kenya.

Objective one sought to determine the effect of bank size on financial performance of Commercial Banks in Kenya by analyzing the structural performance relationship existing in the banking industry using the Structure-Conduct-Performance literature. Bank size was measured by the market share based on net assets, loan accounts and deposits. The results indicate that bank size (i.e. assets, loan accounts, and deposits) is positive; this implies that bank size plays a major role in impacting on the financial performance of commercial banks in Kenya. The results also imply that the main source of financial performance in the Kenyan banking industry is as a result of structure or collusive power and not efficiency (Beck & Fuchs, 2004). The findings support the Structure-Conduct-Performance and the Relative Market Power hypothesis enjoyed by the small tier, medium tier and large tier banks as evidenced in Kenya where the bank sizes (net assets) significantly affect the financial performance of commercial banks in Kenya (Kamau & Were, 2013).

On the other hand, following the introduction of the interest rate cap in August 2016, the interest margins are lower and this has resulted in slower credit growth. Consequently, the industry' valuations have gone down significantly with industry' performance declining from 1.9x as at end of 2014 to 0.8x as at end of January 2017. According to CBK report, as at end of March 2016, the total net assets grew by 5.9% from Ksh.3.4trillion in March 2015 to Ksh.3.6 trillion in March 2016, and this was mainly attributed to increased loans and advances of Ksh.170.6 billion and investment in government securities of Ksh.48.2billion. The increased investment in government securities was as a result of large banks investing surplus liquidity in risk free instruments (CBK, 2016). In addition, the capital levels increased by 5.1% from Ksh.530.1 billion in March 2015 to Ksh.557.1 billion in March 2016. The core capital increased by 6.3% from Ksh.447 billion to Ksh.475 billion. Despite the increased capital levels, the capital ratios decreased marginally by 0.2% while the total capital to total risk weighted assets marginally decreased by 0.4%.

In addition, the findings indicate that net assets affect ROA by 0.001. The p-value of 0.001 is less than 5% implying that the net assets have significant effect on the financial performance of commercial banks in Kenya. Also, the results indicate that average ROA in Kenya is low and this means that it is important to grow bank sizes where they enjoy both economies of scale and scope. This evidence supports and is in line with the Structure-Conduct-Performance theory which states that structure and efficiency play a role in determining performance. Currently, only twenty-one commercial banks have met the Ksh.5billion core capital requirement by CBK as stipulated in the Banking Act. To meet this requirement, the banking industry has experienced mergers and acquisitions and the latest one saw Diamond Trust Bank Kenya Ltd acquiring Habib Bank Ltd in August 2017. The National Treasury has been pushing for increased capitalization of banks by proposing twice the minimum core capital to be increased from the current Ksh.1 billion to Ksh.5 billion. This has necessitated consolidation through mergers and acquisitions. In 2016, Mwalimu National Sacco acquired the stake in Equatorial Commercial Bank Ltd and rebranded to Spire Bank Ltd. Also, in 2016, K-Rep Bank Ltd rebranded to Sidian Bank Ltd in a restructuring process that costed the bank Ksh.500 million (CBK, 2016). Consequently, Bank M Tanzania acquired 51% stake in Oriental Commercial Bank Ltd that saw the bank rebrand to M Oriental Bank Ltd. The Chase Bank in Receivership is expected to be acquired and there a proposal of consolidating all state-owned banks (National bank of Kenya Ltd, Consolidated Commercial Bank Ltd and Development Bank of Kenya Ltd) in the near future. In July 2017, Diamond Trust Bank Kenya Ltd acquired Habib Bank Ltd. The expectation from consolidation in the banking industry is for banks to be more competitive and offer favourable products to their clients.

Under bank size (loan accounts), the results indicate a high loan book that may lead to increased non-performing loans thereby negatively impacting on the financial performance of commercial banks in Kenya. As at March 2016, the banking sector's gross loans and advances increased from Ksh.2.0 trillion in March 2015 to Ksh.2.2 trillion in March 2016 translating to an increase of 20%. The increment in the loan book was contributed by increased demand for credit from all the economic sectors (CBK, 2016). Policy directions by Treasury such as increasing capital size, liquidity requirements, and deposit insurance premiums may aid in enlarging the size of all banks to a level where they are fairly equal with none having relative market power to drive process in the market, thereby ensuring an ideal environment for competitive pricing and operational efficiency.

Objective two was to establish the effect of financial risk exposure on financial performance of Commercial Banks in Kenya. Financial risk exposure has been considered to have impact on the financial performance of commercial banks in Kenya. The financial risk exposure was measured by the market risk, credit risk and liquidity risk. There are mixed regression results in Model 1, Model 2 and Model 3. Kasman *et al.,* (2011) in their study found the negative and significant effect of credit risk and market risk on bank performance. Under ROA in Model 1, 2 and 3, the regression analysis results indicate that market risk has minimal effect on financial performance of commercial banks in Kenya. This means that the overall market movement in the financial market has minimal impact on the financial performance in the banking industry. This is somehow true because during the global financial crisis in 2007/2009, there was minimal impact on the financial performance of commercial banks in Kenya because banks had positive results/growth (CBK, 2013).

The findings also indicate that liquidity risk affects ROA as the p-value is less than 5% except in the case where bank size is measured by the number of loan accounts implying that liquidity risk has significant effect on the financial performance of commercial banks in Kenya. This further implies that financial risk exposure can have minimal or major effect on the financial performance of banks in Kenya depending on the risk policies that are in place. The market risk is the most preferred by banks to liquidity risk and credit risk because it has the lowest standard deviation measure of dispersion. This implies that few banks in Kenya are at a risk of losses due to the changes in equity, credit, etc. However, more emphasis should be on the liquidity risk because it significantly impacts on the performance of banks irrespective of the bank size (Tier 1, 2 or 3). Treasury and CBK should review the risk policies often to guide in mitigation of risk in the industry; the same applies to all commercial banks irrespective of the tier. According to CBK, (2016), as at end of Q1 of 2016, the banking sector's average liquid assets were at 39.9% which was the same as it was in Q1 of 2015.

However, in Models 1, 2 and 3, the regression results for credit risk and liquidity risk are varied. The results indicate that both credit risk and liquidity risk can have minimal effect as well as significant effect on the financial performance of banks. This means that financial performance is not about the banks keeping high liquid assets, issuing loans, engaging in foreign exchange transactions or trade financing; it is about net assets quality and others. It also doesn't mean that liquidity and credit status have no effect at all; it implies that the banks' financial performance is less affected by the liquidity and credit risks. Kenyan banks are known to grow their loan accounts at tremendous rates. Between 2011 and 2015, the banking industry' loan book grew by 16%. Risk management is now emerging as a key priority area for the industry after the interest capping rate law came into force in August 2016. Banks are taking conservative approach to conducting their business because asset allocation is shifting in favor of less risky assets like cash and government securities. As at September 2016, the government securities contributed 24% of the industry' balance sheet compared to an 18% average between 2011 and 2015. The impact of the interest cap has led to loan books grow at a much slower pace than in the past. Banks have experienced declined growth in earnings per share in the first quarter of 2017, with a slight compression in net margins, and this has adversely affected the profitability of banks.

The Banking Amendment Act, 2016 came into force in August 2016 capping the maximum interest rate chargeable by banks at 4% above the prevailing base rate set by CBK. The capping is causing a great risk because most banks are shying away from issuing personal loans and lending to small and medium sized enterprises making credit inaccessible to borrowers because the banks prefer investing in government securities. There is increased liquidity in the economy where some banks are no longer accepting fixed deposits as a form of investment. This may lead to contraction of the economy as businesses and individuals find it hard to access credit and this will affect the country' productivity in the long run. Banks are merging their operations to the extent to staff being retrenched due to redundancy and also to cut costs.

In 2016, the banking industry as a whole remained liquid and the short-term liquidity challenges faced by small and some medium banks was a sign of skewed distribution of liquidity. Most depositors migrated their deposits to selected medium-sized banks and large-sized banks while most large banks rationed lines of credit affecting mainly banks in small peer group and some in the medium peer group. Despite the migration, CBK provided liquidity support to the banking sector to mitigate these challenges. In addition, the recent development in the banking sector in terms of interest rate caps is expected to constrain the access to finance for SME's in the coming years and already in 2016, the interest rates declined tremendously. As a result of non-compliance CBK placed two banks under receivership in 2015 (i.e. Dubai Bank Ltd and Imperial Bank Ltd) and one more in 2016 (i.e. Chase Bank Ltd). In 2017, the CBK lifted the moratorium on licensing new banks and seen has led to two foreign entities being licensed i.e. Dubai Islamic Bank Ltd and Mayfair Bank Ltd.

During the global financial crisis of 2008/2009, the delayed recognition of credit losses on loans was identified as weakness in the existing accounting standard for banks. This prompted the International Accounting Standards Board (IASB) to issue International Financial Reporting Standard (IFRS) 9 Financial Instrument that replaces International Accounting Standards (IAS) 39 and it will come into effect from January 2018. The new standard requires entities to account for expected credit losses from when financial instruments are first recognized and to recognize full lifetime expected losses on a timelier basis. The standard is viewed as a positive move that will see banks increase their level of provisioning and this will increase shareholders' confidence in the operations of the banks.

Lastly, objective three and four determined the moderating effect of macroeconomic variable on the relationship between bank size, financial risk exposure and financial performance of Commercial Banks in Kenya. The macroeconomic variable was measured by Kenya GDP growth rate. The results of the Kenya GDP growth rate in models 1, 2, and 3 shows a minimal effect on the relationship between bank size and financial risk exposure on the financial performance of commercial banks in Kenya. This is inconsistent with the findings of Rao & Lakew (2012), Ramadan *et al.,* (2011) and Ongore & Kusa (2013). The relationship between bank size and financial risk exposure on financial performance is mixed because it is negatively related to ROA. This relationship supports that Kenya GDP growth rate is neutral towards financial performance (Flamini *et al.,* 2009).

The Kenyan economy continues to register macroeconomic stability with low and stable interest rates and competitive exchange rate to support exports. The short-term interests have remained fairly stable and low oscillating around the Central Bank Rate (10%), reflecting sufficient liquidity in the market. Kenya's external position has so far strengthened supported by a narrower current account deficit. The current account deficit narrowed to 6.18% of GDP in March 2017, supported by improved export earnings and diaspora remittances. The government' prudent economic policies have helped the National Treasury anchor the conditions for strong and stable growth. According to the Economic Intelligence Unit (EIU), investment in infrastructure, strong household consumption, closer integration with East Africa Community and recovery in tourism numbers led to the increase in the country' GDP from 5.6% in 2015 to 5.8% in 2016.

The EIU expects the country' GDP growth to decline to 5.5% in 2017 largely due to a slowdown in investments as the country heads towards the general elections. Reduced lending to the private sector, the result of the enactment of the Banking (Amendment) Act that caps lending rates, will also contribute to a decline in GDP. On the other hand, IMF's report indicates that Kenya's economy has continued to perform well. The real GDP growth increased in 2016, inflation remain within the target range, and the current account deficit has narrowed. The overall macroeconomic outlook is overall positive, including robust growth and reduced external imbalances. However, interest rate controls are likely to reduce access to credit, weighing on growth. They also complicate monetary policy and adversely affect banking sector profitability, especially for small banks. Although the adverse effects of the controls are manageable in the near term, if maintained, they could potentially pose a risk to financial stability. Therefore, it is essential to remove these controls, while taking steps to prevent predatory lending and increase competition and transparency of the banking sector.

5.2 Conclusion

Under financial performance, average ROA in Kenya is consistent with average ROA in Sub-Saharan Africa (SSA) implying that Commercial Banks' ROA in Kenya is about average of SSA. The bank size (i.e. assets, loan accounts, and deposits) is positive implying that bank size plays a major role in impacting on the financial performance of commercial banks in Kenya; this finding supports the Structure Conduct Performance and the Relative Market Power hypothesis. Under bank size (loan accounts), the results indicate a high loan book that may lead to increased non-performing loans thereby negatively impacting on the financial performance of commercial banks in Kenya.

Objective one sought to determine the effect of bank size on financial performance of Commercial Banks in Kenya by analyzing the structural performance relationship existing in the banking industry using the Structure-Conduct-Performance literature. Bank size was measured by the bank size based on net assets, loan accounts and deposits. The results indicate that bank size is positive; this implies that bank size plays a major role in impacting on the financial performance of commercial banks in Kenya. The results also imply that the main source of financial performance in the Kenyan banking industry is as a result of structure or collusive power and not efficiency.

Objective two was to establish the effect of financial risk exposure on financial performance of Commercial Banks in Kenya. The financial risk exposure was measured by the market risk, credit risk and liquidity risk. There are mixed regression results in Model 1, Model 2 and Model 3. In Model 1, 2 and 3, the regression analysis results indicate that market risk has minimal effect on financial performance of commercial banks in Kenya. This means that the overall market movement in the financial market has minimal impact on the financial performance in the banking industry. This is somehow true because during the global financial crisis in 2007/2009, there was minimal impact on the financial performance of commercial banks in Kenya because banks had positive results/growth. This further implies that financial risk exposure can have minimal or major effect on the financial performance of banks in Kenya depending on the risk policies that are in place.

Objectives three and four determined the moderating effect of macroeconomic variable on the relationship between bank size, financial risk exposure and financial performance of Commercial Banks in Kenya. The macroeconomic variable was measured by Kenya GDP growth rate. The results of the Kenya GDP growth rate in models 1, 2, and 3 shows a minimal effect on the relationship between bank size and financial risk exposure on the financial performance of commercial banks in Kenya. The relationship between bank size and financial risk exposure on financial performance is mixed because it is negatively related to ROA.

5.3 Contribution of the study to the existing body of knowledge

This study makes several contributions to the existing body of knowledge. The study finds that bank size and financial risk exposure have significant impact on the financial performance of commercial banks in Kenya. Also, the review of the theoretical and empirical literature made in the study and contributes to past reviews made by past scholars on the financial performance of commercial banks in Kenya. The descriptive statistics can be integrated with other econometric models to determine the effect of bank size and financial risk exposure on financial performance of commercial banks in Kenya. Finally, the scope, limitations and findings of this study presents room for conduct of more empirical researches within the S-C-P framework.

5.4 Recommendations for policy

From the study findings and conclusions, the study makes several recommendations:

Objective one sought to determine the effect of bank size on financial performance of Commercial Banks in Kenya: Policy directions should be made by Treasury or Central Bank of Kenya such as increasing capital size, liquidity requirements, and deposit insurance premiums may aid in enlarging the size of all banks to a level where they are fairly equal with none having relative market power to drive process in the market, thereby ensuring an ideal environment for competitive pricing and operational efficiency. So far only twenty-one banks have complied with the capital requirement as stipulated in the Banking Act. Central Bank of Kenya, Bank Supervision should ensure the remaining banks comply so as to minimize cases of non-compliance that may lead to banks being put under receivership or statutory management. CBK should also encourage mergers and acquisitions so as to have few banks offering quality services and the shareholders earning a better return on their investments. This can be achieved by CBK emphasizing commercial banks to comply with the Basel III requirements and the Prudential Guidelines.

Objective two was to establish the effect of financial risk exposure on financial performance of Commercial Banks in Kenya: The Central Bank of Kenya in conjunction with Treasury should review the risk policies with emphasis on the liquidity risk so as to guide the mitigation of risk in the banking industry. Generally, this will aid in fostering the liquidity, solvency and proper functioning of a stable banking industry in Kenya. This will also minimize cases of banks being put under receivership or statutory management due to noncompliance e.g. the case Dubai Bank Ltd. The interest cap is posing a great risk to Kenya' financial stability and this will slow the country's target of being the regional leader in financial inclusion. The National Treasury, KBA and CBK are currently undertaking a comprehensive assessment of the impact of the interest rate capping law on credit expansion to the private sector which has slowed down and on the economic growth. Banks should be innovative and source for other avenues of revenue creation because the government is unlikely to repeal the rate cap.

Objective three and four determined the moderating effect of macroeconomic variable on the relationship between bank size, financial risk exposure and financial performance of Commercial Banks in Kenya: The stability of banking industry in Kenya is supported by the stability of the macroeconomic environment. The Treasury and CBK should revise macroeconomic policies that will stabilize the economy to ensure a resilient environment for banking industry to operate in e.g. coming up with prudent economic policies that will help reduce public debt, strengthen banking industry supervision to ensure the banking industry is well capitalized, among others. The government should consider reviewing the interest controls so as to encourage capital flows and new security incidents. Other avenues to be reviewed by the National Treasury is the inflation rate especially the domestic fuel prices and the balance

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FACTORS CONTRIBUTING TO FRAUD INCIDENCES IN THE BANKING INDUSTRY IN KENYA

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ABSTRACT

There are various frauds experienced in the Kenyan banking industry. These are fraud typologies; and actual losses. This has contributed to the upsurge in frauds as banks would be able to learn from others on the *modus operendi* used in the perpetration of frauds. The main objective of the study was to analyse factors contributing to fraud incidences in the banking industry in Kenya. Specifically, the study sought: to establish the technological advancement that contributes to incidences of fraud in the banking industry; to establish the control issues that contributes to incidences of fraud; to establish whether policies and procedures contribute to incidences of fraud; to establish whether information sharing by the banks contribute to incidences of fraud. The study adopted a descriptive research design intended to analyse the factors influencing increased fraud by bank employees in the banking industry which were of interest to the researcher. The target population was the management staff from the banks' Operations and Technical department in various banks' headquarter in Nairobi. A representative of 42 respondents was interviewed and the study used both primary and secondary data from the year 2006 to 2009. In conclusion, the study shed adequate light to draw pertinent conclusions about the factors contributing to fraud incidences in the banking industry. Despite the fraud incidences being moderate in occurrence and the rating good, the banking management have to train their staff aside from proper recruitment and vetting when carried out. There should also be frequent update of policies and procedures used in the industry by the concerned bodies.

Key Words: Fraud incidences, Fraud typologies, Banking Industry, Policies and Procedures, Technological advancement,

OVERVIEW AND PROBLEM STATEMENT

1.1 Introduction

There are various frauds experienced in the Kenyan banking industry. These are fraud typologies; and actual losses. The common fraud typologies being experienced in the industry are frauds through staff complicity and collusion; frauds through EFT; IT frauds; identity frauds; forgery; cheques frauds; card frauds; clearing frauds (KRA frauds); fraudulent letters of instructions; recruitment fraud; false claims by staff; procurement fraud; advance fee fraud; diversion of commissions; and cash suppression. The actual industry losses cannot be ascertained as banks are reluctant to share information citing legal issues. This has contributed to the upsurge in frauds as banks would be able to learn from others on the *modus operendi* used in the perpetration of frauds. The figures obtained from the Banking Fraud Investigation Department (BFID) indicate loss in terms of Ksh. Between year 2006 and 2009 as follows:

Year	Kshs Stolen	Kshs Attempted
2006	85,110,264	222,154,024
2007	44,742,235	44,276,819
2008	913,154,010	83,042,194
2009	643,000,000	1,332,000

Table 1.1: Fraud Cases (2006-2009)

(Source; BFID, 2009)

Coined by Fraud expert Donald Cressey in 1950, the "Fraud Triangle" highlights the three elements that need to be in place for Fraud to occur. The Fraud Triangle describes three factors that are present in every situation of fraud: Motive (or pressure) – the need for committing fraud (need for money, etc.); Rationalization – the mindset of the fraudster that justifies them to commit fraud; and Opportunity – the situation that enables fraud to occur (often when internal controls are weak or nonexistent). Breaking the Fraud Triangle is the key to fraud deterrence. Breaking the Fraud Triangle implies that an organization must remove one of the elements in the fraud triangle in order to reduce the likelihood of fraudulent activities. "Of the three elements, removal of Opportunity is most directly affected by the system of internal controls and generally provides the most actionable route to deterrence of fraud" (Cendrowski *et. al*, 2006). In order for fraud to occur, all three elements have to be present. The figure below shows fraud triangle.

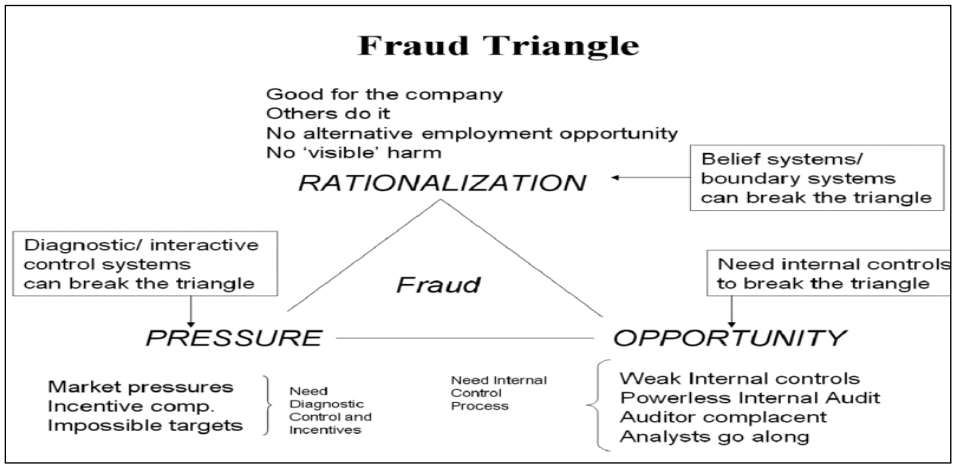


Figure 1.1: Fraud triangle
(Source: Cressey, 1950)

The study was underpinned by: Hyper motivation Theory of Fraud; Theory of Differential Association; and the Social Control Theory. The hyper motivation theory of fraud is concerned with balancing two competing desires when

deciding whether to behave dishonestly: the motivation for personal gain and the desire to maintain a positive self-concept (Mar, Amir, & Ariely, 2008). Differential association theory was Sutherland's major sociological contribution to criminology; similar in importance to strain theory and social control theory. His search for an alternative understanding of crime led to the development of differential association theory. In contrast to both classical and biological theories, differential association theory poses no obvious threats to the humane treatment of those identified as criminals." (Gaylord, 1988).

The principle of differential association asserts that a person becomes delinquent because of an "excess" of definitions favorable to violation of law over definitions unfavorable to violation of law. Intrinsic to Hirschi's (1969, 1977) theory of social control is the assumption that persons will engage in delinquent behavior when their "social bond" to society is weakened. Social control theory refers to a perspective which predicts that when social constraints on antisocial behavior are weakened or absent, delinquent behavior emerges. Rather than stressing causative factors in criminal behavior, control theory asks why people actually obey rules instead of breaking them. This theory stresses the idea that people in a society commit delinquent or criminal acts because of the weakness of the forces restraining them, not because of the strength of forces driving them to do so. It asserts that social controls, like arrest, imprisonment, loss of income, etc. increase the costs of violent behaviors.

1.2. Statement of the problem

From the foregoing background, there appears to be increasing cases of increased fraud by bank employees in the Banking Industry in Kenya that go unpunished (BFSC, 2009). The issue of fraud in financial management is being considered as one of the worst issues that even banking industries are trying to combat. The main problem facing the banking industry is the rate at which fraud incidences are increasing (KBA, 2010).

Past studies (KBA, 2010, BFID, 2009, BFSC, 2009, Watanagase, 2008, Moyer, 2008, Cressey, 1950) were concerned with causes and preventive measures of fraud risk in financial institutions. For instance, BFSC (2009) studied the frauds in the banking industry that is the trends and preventive measures, while BFID (2009) studied the control measures of fraud. Watanagase (2008) studied the mitigating factors in fraud risk in financial institutions. As mentioned by Moyer (2008), global economic crisis has become an ongoing global economic issue which shows itself through the liquidity and fraud issues in the banking system that owes to foreclosures.

This is a problem because of the huge losses banks experience as many cases go unpunished or unnoticed and the reluctance to share information citing legal issues (BFSC, 2009). Also, the main cause of the unprecedented upsurge can be attributed to staff complicity and collusion with third parties (KBA, 2009). The other problem is the technological advancement being embraced by the industry poses a risk as system vulnerability is taken advantage of by fraudsters who gain insight of the weaknesses through collusion with dissident staff members (KBA, 2010). This study analyzed the factors that contribute to fraud incidences in the banking industry, as no study has so far been carried on this area.

1.3 Objectives

The broader objective analysed factors contributing to fraud incidences in the banking industry in Kenya.

The specific objectives were:

i. To establish the factors which are more influential in fraud incidences.
ii. To establish the growth rate of fraud incidences in the banking industry
iii. To suggest how these incidences of fraud can be mitigated.

1.4. Research Questions

In achieving the objectives of the study, the researcher was guided by the following research questions:

i. Which factors are more influential in fraud incidences?
ii. At what rate are fraud incidences increasing
iii. How can these incidences of fraud be mitigated?

Conceptual framework:

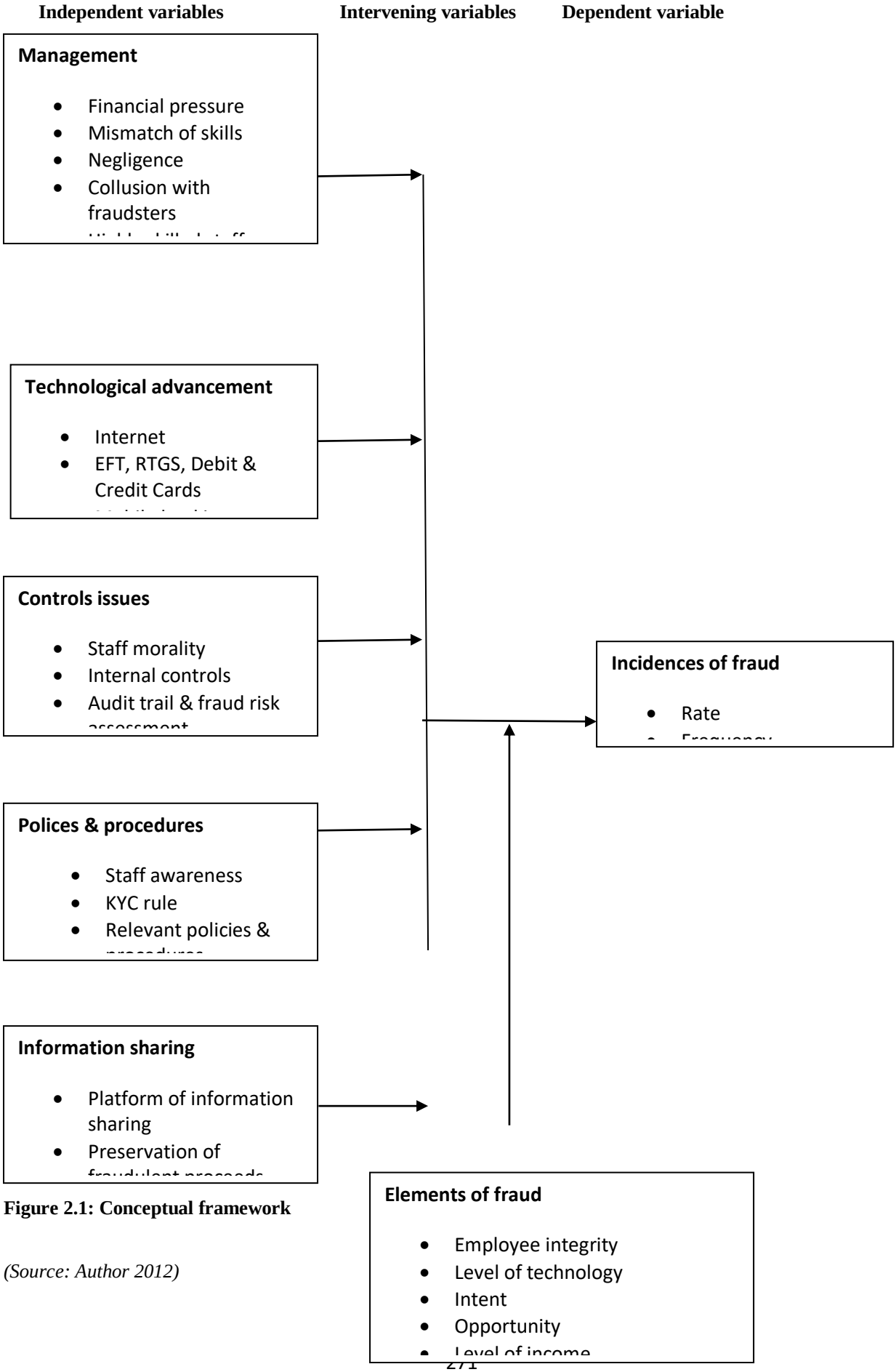


Figure 2.1: Conceptual framework

(Source: Author 2012)

METHODOLOGY

This study adopted a descriptive research design intended to analyse the factors influencing fraud incidences in the banking industry which were of interest to researcher. According to Saunders *et al.*, (2009), descriptive research design is a systematic method which involves collecting relevant data and subsequently describing the behaviour of a subject without influencing it in any way. The target population comprised of one manager from the Risk/Fraud department of the 42 commercial banks (appendix B) in Nairobi. A total of 42 bank staff were purposively targeted. A representative random sample of 30 Managers each from the Risk/Fraud Departments of Banks with 42 respondents were selected from the target population, using stratified sampling. The respondents were grouped according to ranking of Banks by CBK according to assets. By stratification, the study ensured that all the banks in Kenya are involved in the study.

Institution (Asset rating in billions)	Population	Sample %	Sample size	Respondents
Large (above ksh.15b)	17	75	13	13
Medium (above ksh.5 & below 15b)	14	70	10	10
Small (below ksh.5b)	11	64	7	7
Total	42		30	30

Table 3.1: Target Population and Sample

(Source: CBK, 2010)

The study used both primary and secondary data. The primary data was collected by the use of questionnaires from the 42 banks. The secondary data was obtained from KBA's comprehensive archive centre. The questionnaires were administered through drop/mail and pick from the respondents. Structured and unstructured questions were used to gather data from the respondents. The questionnaires were guided where necessary but remained open-ended (Saunders *et. al*, 2009). Pilot study was carried out to pretest the research instruments before actual administration to eighty four respondents. According to Mugenda and Mugenda (2003) a pretest sample of a two respondents with homogeneous characteristics should be selected for the pilot study. This assisted the researcher in correcting ambiguities in the questionnaires and to establish their validity and reliability. The study examined the collected data to make inferences through a series of operations involving editing to eliminate repetitions and inconsistencies, classification on the basis of response homogeneity and subsequent tabulation for the purpose of inter-relating the variables under study. The refined data was analyzed using descriptive statistics involving percentages and mean scores to determine concentrations and standard deviation so as to measure disparity for the likert-scale questions used in the questionnaires. Descriptive statistics was invaluable as a statistical tool for data analysis by describing data in such a way as to portray the typical respondents and to reveal the general pattern of responses so as to measure the analysis of factors contributing to fraud incidences in the banking industry. The statistics were generated with aid of computer software, statistics package for social sciences (SPSS). Finally for the purpose of communicating effectively to ultimate users, findings were presented using tabular.

DATA ANALYSIS AND INTERPRETATION

4.1. Interview guide Response Rate

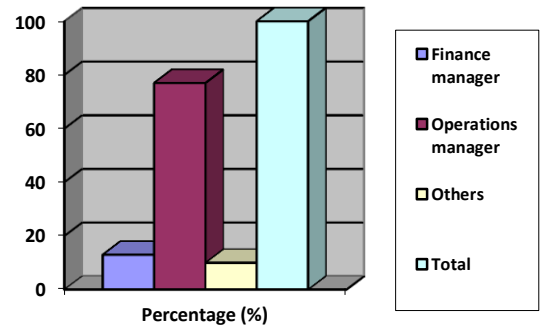
Interview guides were used to collect the data; the respondents' questionnaires were the main instrument of the study. The questionnaire was given to the respondents which were duly completed and returned constituting 95% return rate. All the questionnaires were administered by the researcher and all collected 95% return rate these were considered adequate for the study.

4.2. Data reporting

The data from the respondents was reported by looking at factors of the respondents and the area of the study.

Table 4.1: Respondent job category:

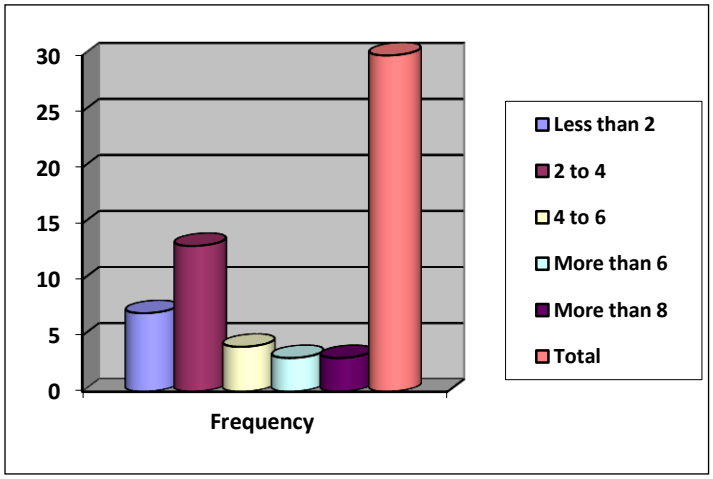
	Frequency	**Percentage (%)**	**Mean Score**	**Standard deviation**
Finance manager	4	13		
Operations manager	23	77		√254/3
Others	3	10	30/3=**10**	Standard deviation=**9.20**
Total	30	100		



The tables above shows that majority of the respondents are in the Operations Department of the bank which is the heart of the bank, hence are conversant with the day to day operations of the company with a mean score of ten and a standard deviation of nine point two.

Table 4.2: Work experience:

Years	Frequency	Percentage (%)	Mean Score	Standard deviation
Less than 2	7	23		
2 to 4	13	44		√72/5
4 to 6	4	13	30/5=**6**	
More than 6	3	10		Standard deviation=**3.8**
More than 8	3	10		
Total	30	100		

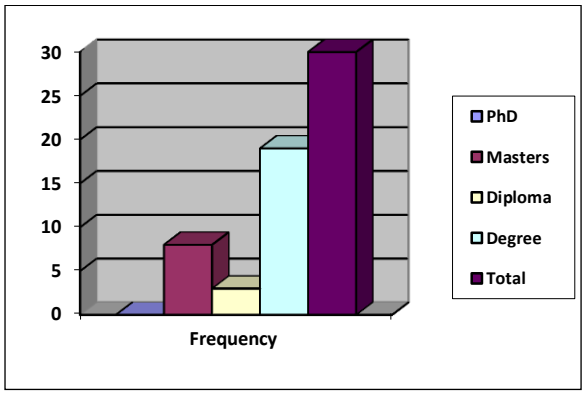


The study shows that majority of the respondents have between two to four years work hence are more skilled and experienced making them more conversant of the day to day operations of the bank.

Table 4.3: Level of education:

	Frequency	Percentage (%)	Mean Score	Standard deviation
PhD	0	0		
Masters	8	27	30/4=**7.5**	√209/4
Diploma	3	10		
Degree	19	63		Standard

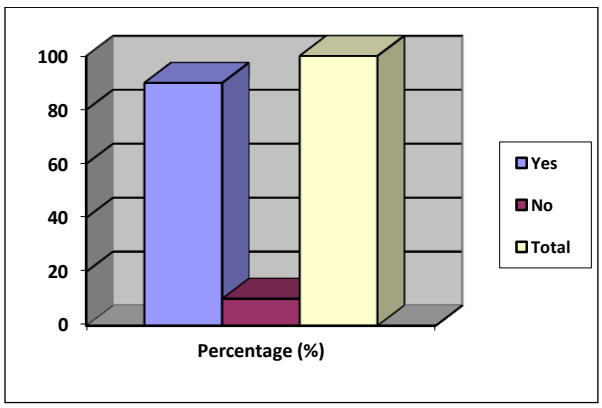
				deviation=**7.2**
Total	30	100		



The above study shows that majority of the respondents have a degree, hence are empowered in terms of knowledge and information about the banking industry and the public.

Table 4.4: Presence of fraud incidences in banks:

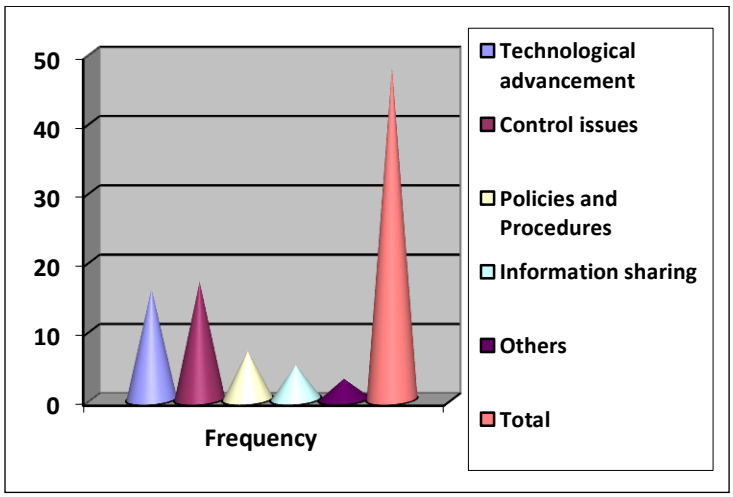
	Frequency	**Percentage (%)**	**Mean Score**	**Standard deviation**
Yes	27	90		√288/2
No	3	10	30/2=**15**	Std deviation=**12**
Total	30	100		



Majority of the respondents (90%) acknowledge presence of fraud incidences in the banking industry with a mean score of fifteen and a standard deviation of twelve.

Table 4.5: Factors contributing to fraud incidences in banks:

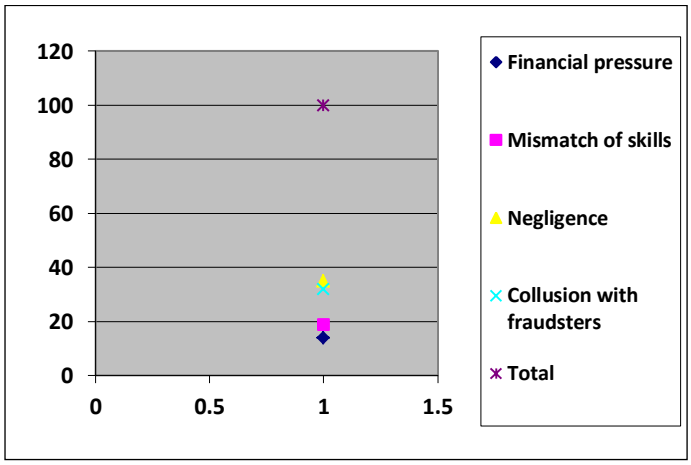
	Frequency	**Percentage (%)**	**Mean Score**	**Standard deviation**
Technological advancement	16	33	48/5=**9.6**	√167.2/5 Standard deviation=**5.8**
Control issues	17	35		
Policies and Procedures	7	15		
Information sharing	5	11		
Others	3	6		
Total	48	100		



Controls issues are the most contributing factors to fraud incidences followed by technological advancement, policies and procedures and information sharing as compared to a mean score of around nine and a standard deviation of five.

Table 4.6: Management factors contributing to fraud incidences:

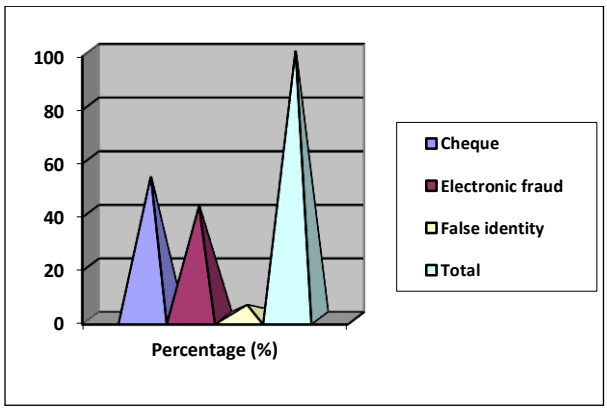
	Frequency	**Percentage (%)**	**Mean Score**	**Standard deviation**
Financial pressure	5	14	37/4=**9.25**	√44/4 Standard deviation=**3.3**
Mismatch of skills	7	19		
Negligence	13	35		
Collusion with fraudsters	12	32		
Total	37	100		



From the study, negligence is the major factor contributing to fraud incidences, followed by collusion of staff with fraudsters, mismatch of skills of staff and financial pressure respectively with a mean score of around nine and a standard deviation of three.

Table 4.7: Elements of fraud:

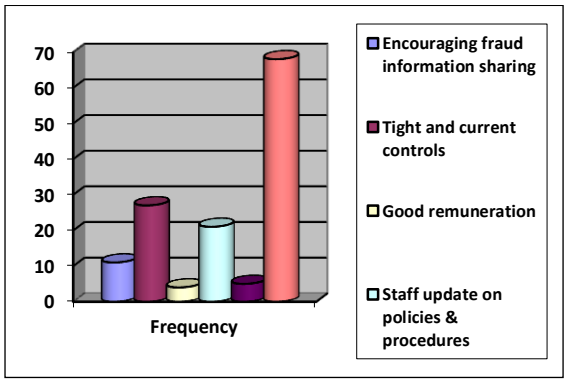
	Frequency	**Percentage (%)**	**Mean Score**	**Standard deviation**
Cheque	10	53	19/3=**6.3**	√44.67/3 Standard deviation=**3.9**
Electronic fraud	8	42		
False identity	1	5		
Total	19	100		



From the study, cheque is the major element of fraud followed by electronic fraud and false identity of customers with a mean score of six and standard deviation of three.

Table 4.8: Measures taken to curb fraud incidences

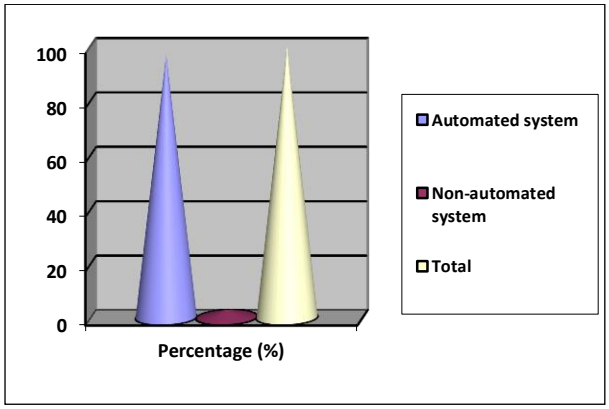
	Frequency	**Percentage (%)**	**Mean Score**	**Standard deviation**
Encouraging fraud information sharing	11	16	68/5=**13.6**	√407.2/5 Standard deviation=**9**
Tight and current controls	27	40		
Good remuneration	4	6		
Staff update on policies & procedures	21	31		
Others	5	7		
Total	68	100		



The study shows that tight and current controls are the major measures taken to curb fraud incidences followed by staff update on policies and procedures. Good remuneration of staff is the least measure taken to curb fraud incidences with a mean score of around thirteen and a standard deviation of nine.

Table 4.9: Banking system:

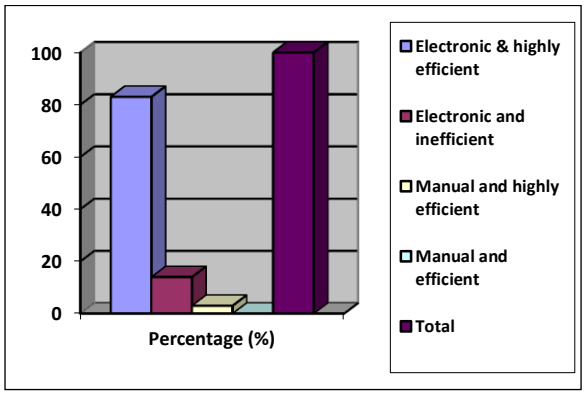
	Frequency	**Percentage (%)**	**Mean Score**	**Standard deviation**
Automated system	30	97	31/2=**15.5**	√420.5/2 Standard deviation=**14.5**
Non-automated system	1	3		
Total	31	100		



Majority of the respondents use the automated banking system by scoring a mean of around fifteen and a standard deviation of fourteen. Automated systems create loopholes for committing fraud due to the technological advancement.

Table 4.10: Rate of efficiency of technology advancement:

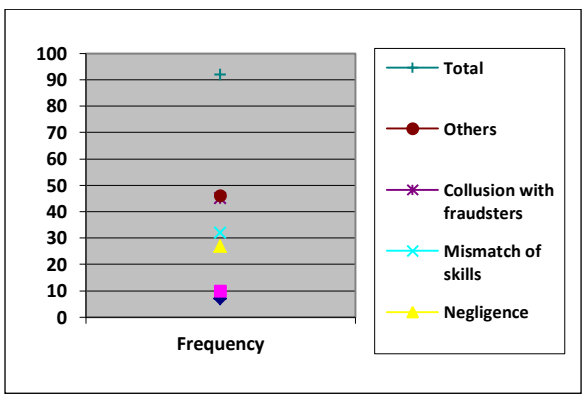
	Frequency	**Percentage (%)**	**Mean Score**	**Standard deviation**
Electronic & highly efficient	24	83	29/4=**7.25**	√382.75/4 Standard deviation=**9.78**
Electronic and inefficient	4	14		
Manual and highly efficient	1	3		
Manual and efficient	0	0		
Total	29	100		



From the study, majority of the respondents rate efficiency of technology advancement as electronic and highly efficient, others think that technology advancement is electronic and efficient while others use manual and it's efficient with a mean score of around seven and standard deviation of nine.

Table 4.11: More influential management factors:

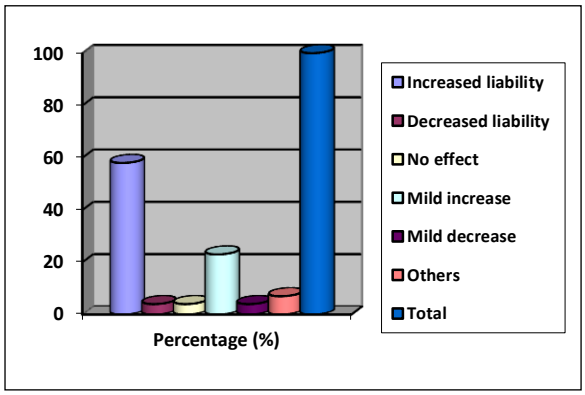
	Frequency	**Percentage (%)**	**Mean Score**	**Standard deviation**
Financial pressure	7	15		√161.25/6
Highly skilled staff	3	7	46/6=**7.7**	Standard deviation=**5.2**
Negligence	17	37		
Mismatch of skills	5	11		
Collusion with fraudsters	13	28		
Others	1	2		
Total	46	100		



Most of the respondents say that negligence is a more influential management factor followed by collusion with fraudsters and financial pressure. The other factors are mismatch of skills, highly skilled staff and others with a mean score of seven and standard deviation of five.

Table 4.12: Impact of fraud on bank's liability:

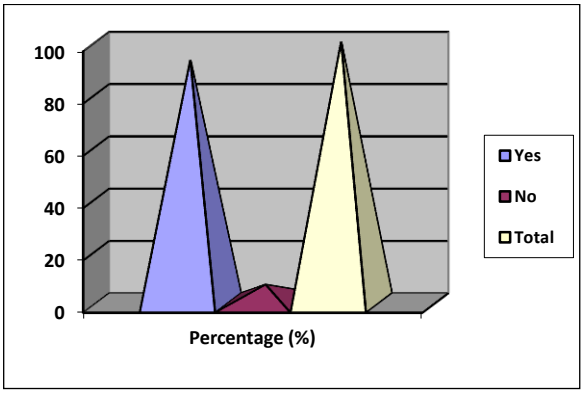
	Frequency	**Percentage (%)**	**Mean Score**	**Standard deviation**
Increased liability	15	58		√155.34/6
Decreased liability	1	4	26/6=**4.3**	Standard deviation=**5.1**
No effect	1	4		
Mild increase	6	23		
Mild decrease	1	4		
Others	2	7		
Total	26	100		



Majority of the respondents say that there is increased liability on the impact of fraud on banks liability while others say the impact is mild and others think otherwise.

Table 4.13: Preparedness and informed to curb fraud incidences:

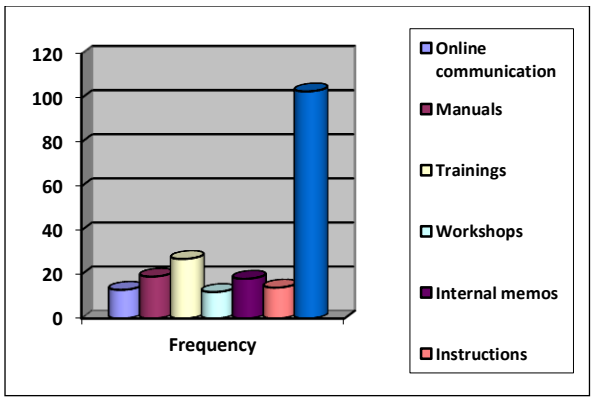
	Frequency	**Percentage (%)**	**Mean Score**	**Standard deviation**
Yes	28	93	30/2=**15**	√338/2
No	2	7		Standard deviation=**13**
Total	30	100		



Majority of the respondents are prepared and informed to curb fraud incidences in the industry with a mean score of fifteen and standard deviation of thirteen.

Table 4.14: If answer in (14) is yes, how do you prepare for implementation?

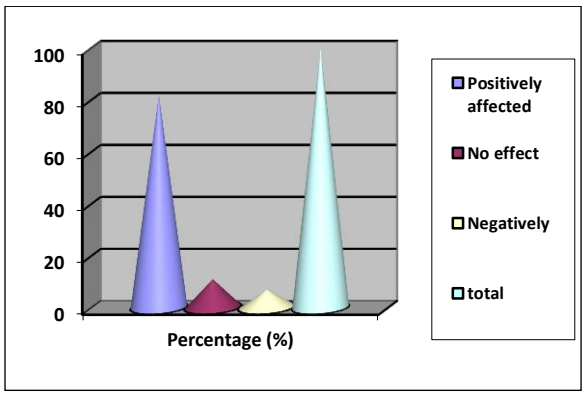
	Frequency	**Percentage (%)**	**Mean Score**	**Standard deviation**
Online communication	13	13	103/6=**17.2**	√143.44/6 Standard deviation=**4.9**
Manuals	19	18		
Trainings	27	26		
Workshops	12	12		
Internal memos	18	17		
Instructions	14	14		
Total	103	100		



Majority of banks use training as a tool to curb fraud incidences, followed by use of manuals, internal memos, instructions, online communication and workshops as a sensitisation tool.

Table 4.15: Level of fraud control in the last 5 years:

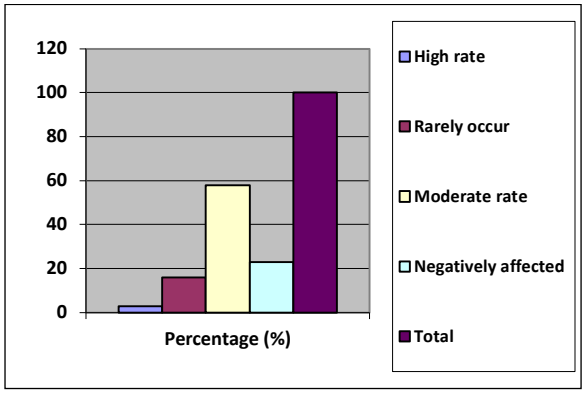
	Frequency	**Percentage (%)**	**Mean Score**	**Standard deviation**
Positively affected	23	82	28/3=**9.3**	√280.67/3 Standard deviation=**9.7**
No effect	3	11		
Negatively	2	7		
total	28	100		



From the study, majority of the respondents say that level of fraud control in the last 5 years has been positively affected, while others see no effect and some have been negatively affected with a mean score of nine and standard deviation of nine point seven.

Table 4.16: Rate of increase of fraud incidences

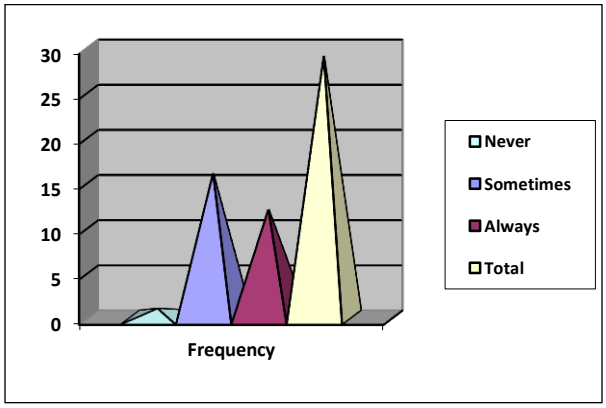
	Frequency	**Percentage (%)**	**Mean Score**	**Standard deviation**
High rate	1	3	30/4=**7.5**	√139/4 Standard deviation=**5.9**
Rarely occur	5	16		
Moderate rate	17	58		
Negatively affected	7	23		
Total	30	100		



From the study, fraud incidences are increasing at a moderate rate, followed by being negatively affected, while others rarely encounter fraud incidences and to a few the rate of fraud incidences occurs at a high rate with a mean score of seven and standard deviation of around six.

Table 4.17: Frequency of fraud incidences:

	Frequency	**Percentage (%)**	**Mean Score**	**Standard deviation**
Never	1	3	29/3=**9.67**	√120.67/3 Standard deviation=**6.3**
Sometimes	16	56		
Always	12	41		
Total	29	100		

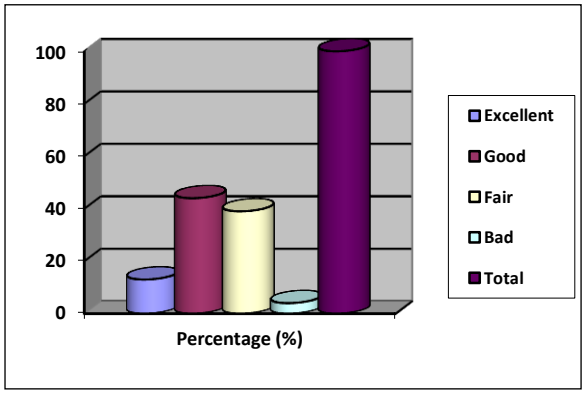


Majority of the respondents sometimes encounter frequency of fraud incidences, while other always encounter fraud incidences and the least never encounter fraud incidences in their banks.

Table 4.18: View on fraud rating:

	Frequency	**Percentage (%)**	**Mean Score**	**Standard deviation**

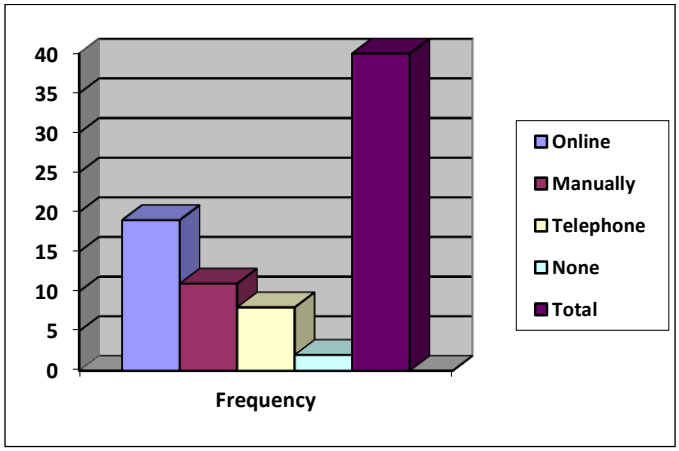
Excellent	3	13	23/4=**5.75**	√58.75/4 Standard deviation=**3.8**
Good	10	44		
Fair	9	39		
Bad	1	4		
Total	23	100		



From the study, majority of the respondents view fraud rating as good, followed by fair, excellent and the least as bad with a mean score of around six and a standard deviation of around four.

Table 4.19: Sharing of reports on frauds:

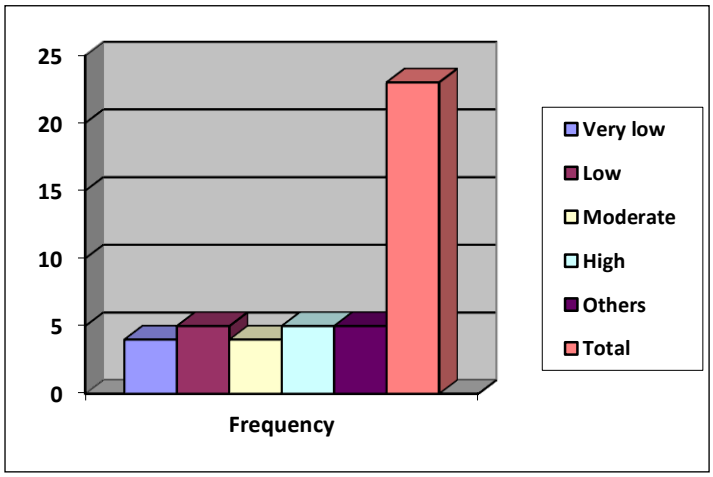
	Frequency	**Percentage (%)**	**Mean Score**	**Standard deviation**
Online	19	48	40/4=**10**	√150/4 Standard deviation=**6.1**
Manually	11	27		
Telephone	8	20		
None	2	5		
Total	40	100		



Most of the respondents share fraud reports online, others do it manually, followed by over the telephone and few apply none of the above with a mean score of ten and standard deviation of six.

Table 4.20: Rating of fraud

	Frequency	**Percentage (%)**	**Mean Score**	**Standard deviation**
Very low	4	17	23/5=**4.6**	√1.2/5 Standard deviation=**0.48**
Low	5	22		
Moderate	4	17		
High	5	22		
Others	5	22		
Total	23	100		

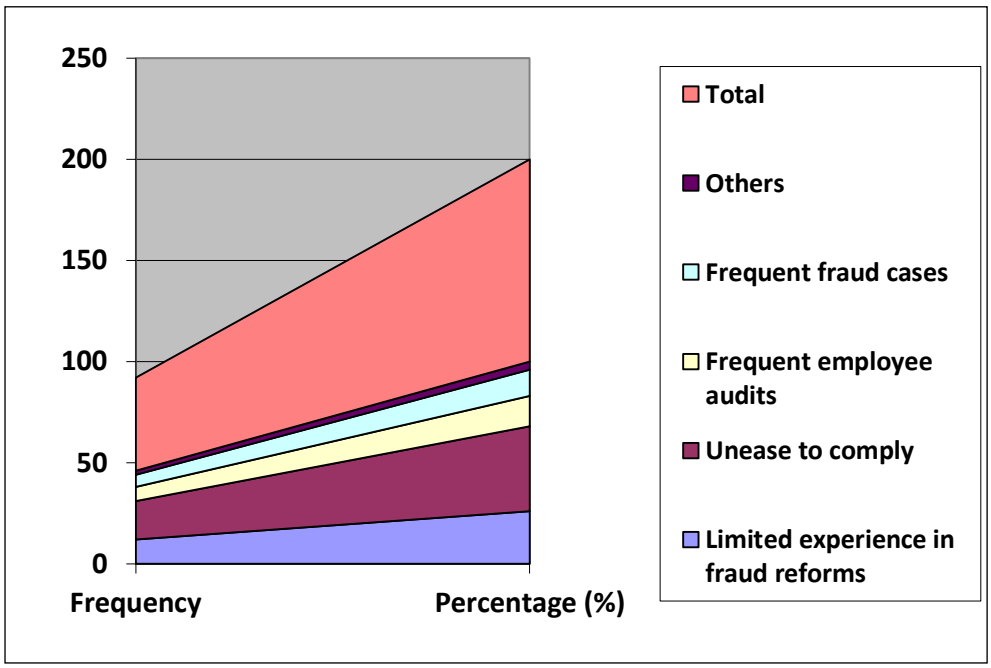


From the study, most of the respondents say that rating of fraud is low, followed by high and others rate it as moderate and the least very low with a mean score of four and standard deviation of point five.

Table 4.21: Challenges likely to be encountered by banks in regard to fraud reforms:

	Frequency	**Percentage (%)**	**Mean Score**	**Standard deviation**
Limited experience in fraud reforms	12	26	46/5=**9.2**	√170.8/5 Standard deviation=**5.8**
Unease to comply	19	42		
Frequent employee audits	7	15		
Frequent fraud cases	6	13		
Others	2	4		

Total	46	100		



The challenges likely to be encountered by banks in regard to fraud reforms is unease to comply, limited experience in the reforms, frequent employee audits, frequent fraud cases and others.

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

The objective of the study was to analyse the factors contributing to fraud incidences in the banking industry in Kenya. From the research findings, it was revealed that majority of the respondents were from operations department with over two years working experience hence they are more experienced and conversant with the day to day operations of the bank. There is high presence of fraud incidences in the banking industry. Technological advancement and control issues are the major factors that contribute to fraud incidences followed by policies and procedures and information sharing among banks. Under management factors, negligence and collusion with fraudsters are major factors followed by mismatch of skills during recruitment of staff and financial pressure experience by the staff living beyond their means. Also, it was noted that the major element of fraud is cheque and electronic fraud. Most banks apply tight and current controls as a measure to curb fraud incidences. The other preferred mechanism is encouraging information sharing amongst banks and staff being updated on policies and procedures. Currently, banks use automated banking system and electronic system because it is highly efficient. The most influential management factor is negligence by the staff followed by staff colluding with fraudsters and financial pressure experienced by the staff. There is increased liability on the impact of fraud on bank's liability while others experience mild increase. Most banks are prepared and informed to curb incidences by most of them using trainings, manuals and internal memos. The level of fraud control in the last five years has been positively affected. The rate of increase of fraud incidences is moderate and most sometimes banks experience fraud incidences while others always experience it. The view on fraud rating in the industry is good to most banks while to others it is fair. Most banks share fraud reports online while others manually and others through telephone. The challenges likely to be encountered by banks is limited fraud experience by staff in implementing fraud reforms, unease to comply with the set rules and policies, poor frequent employee audits and fraud cases.

5.2 Conclusions

The findings of the study have shed adequate light to draw pertinent conclusions about the factors contributing to fraud incidences in the banking industry. The control issues, policies and procedures used are weak and create loopholes to commit fraud. There is also poor employee recruitment and vetting leading to mismatch of skills. Staff training is poor as well as frequent employee and compliance enforcement by the banks. It is however worth noting that no such kind of changes can be fully implemented without challenges. The banking industry should put mechanisms in place when planning and implementing the control of the fraud incidences.

5.3. Recommendations

A number of issues arose from the study that calls for the following recommendations:

Despite the fraud incidences being moderate in occurrence and the rating good, the management have to train their staff aside from proper recruitment and vetting when carried out. There should also be frequent update of policies and procedures used in the industry by Kenya Bankers Association in consultation with Banking Fraud Investigation Unit. The control system should be strengthened and enforced. Finally, the current law should be revised to increase the penalties and fines in relation to fraud.

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Transformational Leadership and Management for Enhanced Industrial Capability

Abstract

Global technological and social alteration has promoted todays' managers to rethink on their leadership styles. Transformational leadership therefore becomes necessary for both private and public agencies, particularly for those in in turbulent industries where there is heightened competition. The importance of transformational leadership as a component of strategic management process toward high performance has been subject of a lot of discussion by scholars and practitioners. Studies quoted concluded in 57 public sectors in the United Kingdom revealed that transformational leaders could influence how followers perceive their work activities and that these perceptions resulted in an increase in the followers' job satisfaction, commitment, and performance. Whether called active, strong indications are that transformational leaders affect their subordinates' behavior and effectiveness more. The dominant role of transformational leadership, particularly in the context of any industry is the result of the fact that many Chief Executive Officers have transformational ventures, which gives them visionary decision-making guidelines. Most companies nowadays are characterized by flat hierarchies which imply a large span of control. Additionally, most companies tend to be managed in an informal way, which again opens up a large degree of discretion to decisions of top management. Leadership issues can cause an exodus of talent, tardiness, absenteeism, lower productivity, reduced customer satisfaction, less innovation and, ultimately, reduced economic benefits. Therefore, it is vital that managers become transformational leaders because leader effectiveness determines the success levels of organizations. Effective leaders and managers are vital to ensuring employees are fully engaged at work. There is a relationship between transformational leadership and organization's success. The relationship is central to business success and core to the way we structure and manage business organizations in the industry. Transformational leaders have been suggested to have an impact on institutions performance across the globe. The trade in services is growing enormously worldwide. World-class service providers like American Express alongside other small service firms are exporting information through advertisements, knowledge, creativity and innovation that the world badly needs. Key elements of Companies are that they are characterized by a dominant role of top management on the firm. The top management of a company has a considerable impact on the company's strategic orientations: "executives' experiences, values, and personalities affect their field of vision (the directions they look and listen), selective perception (what they actually see and hear) and the interpretation (how they attach meaning to what they see and hear)."

Key words; Transformational leadership, management, industrial capability, turbulent, competition, strategic management process

Background of the Study

Transformational leadership refers to an innovative style of leadership in which leaders promote individual attention, give empowerment to followers, have intellectual stimulation, exert idealized influence, stimulate growth and use inspirational motivation. It occurs when a leader inspires or changes his followers to trust the leader and to perform at a higher level to achieve the required organizational goals (Loon *et al*., 2012). Transformational Leadership is marked as an effective and influential leadership style to influence the behaviors and performance of followers (Chan & Mak, 2014). Transformational leaders uplift their co-workers and enhance the good of everyone in the organization. Those leaders are visionary having the ability to articulate a vision of the future one that is broadly shared by the followers. This futuristic vision sets clear the organizational goals and ultimate outcomes which subordinates are required to cooperate together and achieve (Tucker, 2004).

The significance of transformational leadership on followers' work attitudes and behaviors has been reported positively (Bartram & Casimir, 2007). Transformational leaders are able to transform and encourage their followers due to four unique but interrelated behavioral components idealized influence, individualized consideration, inspirational motivation, and intellectual stimulation (Jung et al., 2003). According to Loon et al., (2012) there are five dimensions of transformational leadership. These include;

First, Idealized influence attributed as transformational leaders exhibit confidence and embark emotions (such as dignity, integrity, and honor), a sense of selflessness, and respect in their followers. Second, Idealized influence behavior as transformational leaders are goal-oriented and they encourage the completion of work based on a collective sense of beliefs, values, purpose, and mission.

Inspirational Motivation - this entails of leaders who talk optimistically concerning the future and articulating a compelling mission and vision towards that future. Transformational leaders usually talk about what is needed to accomplish some of the goals in the future. The leaders maintain open and transparent communication as a way of ensuring openness and trust in various operations to achieve their core mandate in an organization (Bagilhole &White, 2008).

Intellectual Simulation - it is an attribute of transformational leaders to seek differing perspectives in solving problems as well as getting other into solving problems. The leaders look at problems from different angles and design an initiative that will make its solutions unique and successful. They discourage traditional ways of thinking to get certain problems solved and instead focus on new ways of looking at how various assignments can be accomplished (Hallinger, 2003). The strategy usually re-examines various assumptions to the most appropriate and accurate one to meet increased productivity as well as performance (Muller & Turner, 2010).

Individualized Consideration - transformational leaders usually show some of the individualized considerations in spending substantial time in coaching and teaching their followers thus promoting self-development. They ensure treatment of people as individuals and not the group of members in the effort of identifying various differing needs, aspirations as well as abilities to meet certain objectives in the market. Leaders must be able to recognize that employees need some motivation in the effort of keeping them focused on meeting certain objectives and goals in the market. They ensure one on one coaching as well as mentoring that will provide an opportunity to have customized training sessions for team members to enhance productivity and performance in an organization (Hallinger, 2003).

One of the most significant features of transformational leadership is the development of their followers in the effort of enriching their personality. The approach inspires and encourages followers to have a shared goal and vision of an

organization. Transformational leaders encourage their followers to become leaders through developing their skills and making aware of various challenges that confront them during assignments. The focus of these leaders is to motivate the followers to remain innovative in solving problems and developing their leadership qualities through mentoring coaching and commitment to restructuring systems (Hallinger, 2003). Transformational leaders are known for their ability to refine the vision and mission of followers through reviewing their commitment and restructuring of various systems to accomplish certain goals.

Statement of Problem

Transformational leaders encourage experimentation and risk-taking mainly through idealized influence and intellectual stimulation. Sun and Anderson (2012) suggest that they challenge their followers to question long-held assumptions, reframe problems, approach old situations with novel ways of thinking and be innovative in their approach to problem-solving. Garcia-Morales, Jiménez-Barrionuevo and Gutierrez-Gutierrez (2012) argue that leaders with idealized influence are more willing to involve their followers in risk-taking activities. The intellectual influence of transformational leaders fosters their followers' exploratory thinking.

In addition, the transformational leader's idealized influence and inspirational motivation result in followers desiring to emulate their leader, and in the development of a spirit of trust within the company (Sun & Anderson, 2012). This effect has also been connected to the generation of a common vision of the organization and the reduction of internal barriers to sharing information, which enable communication and dialogue among the employees (Garcia-Morales, Jiménez-Barrionuevo, and Gutierrez-Gutierrez, 2012). Participation in decision-making is another factor that is expected to be enhanced by TL. TL encourages employee's empowerment and autonomy, which are usually associated to participation in decision-making. Furthermore, Nemanich and Vera (2009) findings show a positive association between TL- and learning-oriented cultures, which they define as being open to diverse opinions and fostering participation in decision-making.

Challenges facing transformational leaders include; first to make a compelling case for change. For example, to save a failing company, a transformational leader must show workers that the status quo is unsustainable and that their long-term interests depend on systemic change. The second challenge for transformational leadership is to inspire workers with a compelling vision of the future. A transformational leader must give employees hope and show that their concerted efforts can create a future that benefits everyone in the entire organization. Leading the transition is the third challenge for transformational leaders. It's one thing to sell a dream but another to make it happen (Sun & Anderson, 2012).

Transformational leaders must empower workers to achieve change, motivate them during tough times and deal with resistance, which is inevitable. For example, some employees might not want to change or might have other ideas they'd rather implement. To bring the organization to the next level, transformational leaders must overcome this resistance, perhaps by working harder to get the dissenters on board. Finally, transformational leaders must make the change permanent. Old habits die hard, so transformational leaders must convince workers that former problems will recur if they drift back into negative behaviors. It also might be necessary to create a special task force to ensure progress continues and to design incentive programs to sustain motivation on a permanent basis. This study examined effects of transformational leadership and management for enhanced industrial capability.

Research Hypotheses

Transformational leadership and management do not have a significant relationship with enhanced industrial capability.

Literature Review

Theoretical Framework

Burns (1978, p. 20) defined transformational leadership as a process in which "leaders and followers raise one another to higher levels of morality and motivation". A chief element of transformation is the ability to cultivate the needs of the follower in a follower-centered manner. According to Burns, focusing on needs makes leaders accountable to the follower. First, Burns contended that followers are driven by a moral need, the need to champion a cause, or the need to take a higher moral stance on an issue. People like to feel that a higher organizational spiritual mission guides their motives. The second need is a paradoxical drive for consistency and conflict. Transforming

leaders must help followers make sense out of inconsistency. Conflict is necessary to create alternatives and to make change possible. The process of transformation is founded on empathy, understanding, insight, and consideration; not manipulation, power wielding, or coercion.

Wang and Howell's (2010) dual-level model of transformational leadership defines four individual-level dimensions. The first of these dimensions, communicating high expectations, is reflected in behaviors such as the articulation of demanding performance targets, which emboldens individuals to set challenging goals to meet the high expectations of the leader in terms of innovative performance. Follower development, the second dimension, encourages and enables the extension of individuals' capabilities and high-level skills, and motivates them to meet the challenges associated with complex tasks, through behaviors such as the pro-vision of constructive feedback (Bass, 1985). The third dimension of individual-level transformational leadership, intellectual stimulation, reflects the leader's encouragement of critical approaches to followers' ingrained perspectives and assumptions, and is reflected in behaviors such as prompting employees to think "outside the box" and develop novel solutions (Gumusluoglu & Ilsev, 2009; Nijstad, Berger-Selman, & De Dreu, 2014). Finally, personal recognition refers to the leader's acknowledgment of individuals' accomplishments through praise and other psychological rewards (Bass & Riggio, 2006).

Conceptual Framework

The study sought to determine the effects of transformational leadership and management for enhanced industrial capability.

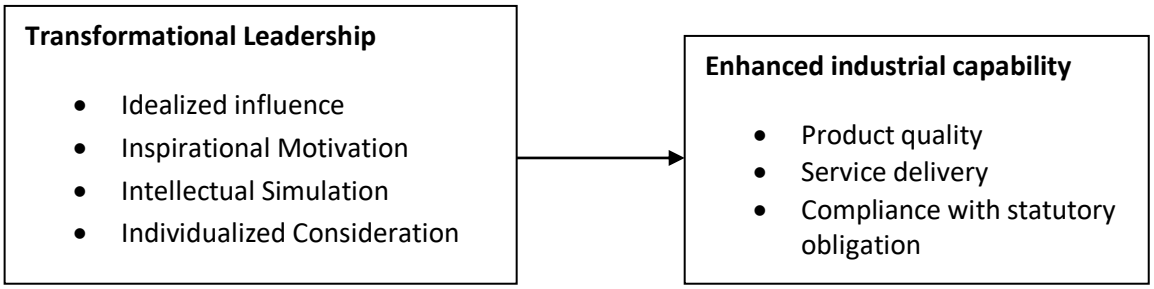

Figure 2: Conceptual Framework

According to bass and riggio (2006), transformational leaders can share the vision and ideas and encourage the followers to participate in the change process. This participation of employees results in developing sense of membership and identity in the social group. It also leads the followers to higher level of commitment. Geijsel, slaggers and liethwood and Jantzi (2003), the research conducted in Dutch and Canadian schools illustrates that in the education and non-educational contexts, the dimensions of transformational leadership i.e., vision building, individual consideration. Intellectual stimulation have positive impact on participation which directly effects the teachers extra efforts to the teachers commitment to change.

Jung and Sosik (2002) lead a study to examine whether transformational leadership enhance group effectiveness by empowering followers to perform their job independently from the leader, the authors highlight the importance of cohesiveness in performing collective tasks, and the realignment of followers' values to create a more cooperative group. Results revealed that transformational leadership was positively related to empowerment, group cohesiveness, and group effectiveness. Moreover, collective-efficacy was improved when workers were trusted to do their tasks independently, this, in turn, enhanced group members' perceived group effectiveness. Then, Nandal and Krishnan (2000) suggest that three of the five factors of charismatic leadership were positively related to lack of confusion of roles, which in turn was positively related to staffs individual confidence.

According to Bass and Riggio (2006), transformational leadership has proven effective in different work setting like military, business, government, education and health care and non- profit organizations. They also argued that it is practiced in different parts of the world. According to Zhu, Chew and Spangler (2005), the HRM practices play an important role in the effectiveness of the transformational leadership outcomes. According to Bass and Burns (2006), that there are certain moderators and contingencies influencing the effectiveness of transformational leadership. The study conducted by Zhu, Chew and Spangler (2005) proved that human resource management plays a mediating role in the relationship between CEO transformational leadership and organizational outcomes. According to Garcia, Montes and Jover (2006), the environment can provide a high level of personal mastery if the management is more transformational, encourage personal vision and share vision. Specific actions must be undertaken to eliminate the obstacles to share vision. In this way, the leadership plays an important role between organization, environment and increased level of pro activity.

Research Methodology

The study used a descriptive research design. A descriptive approach was used because it enables collection of accurate data and the provision of a clear picture of the phenomenon under study. The target population was 964 employees from 20 industrial firms in Nairobi County. The sample size was determined using Fisher *et al*. (2003) formula.

$$n = \frac{z^2 pq}{d^2}$$

Where, n = the desired sample size (if the target population is > 10,000); Z = is the standard normal deviate at the required confidence level; p = is the proportion in the target population estimated to have characteristics being studied (If unknown 50% should be used); q=1-p, d = the level of statistical significance (set at 0.05); and Z = Assuming 95% confidence interval Z = 1.96

$$n = \frac{1.96^2 0.5 * 0.5}{0.05^2}$$

$n = 384$staff

For a population that is less than 10000 an adjustment must be done using Cochran's correction formula (Cochran, 2011);

Nf = n/1+(n/N)

Where; *nf* = the final sample size, when population is less than 10,000; n=the sample for populations of 10,000 or more; and N=the size of the total population from which the sample is drawn

nf = 384/1+ (384/964)

nf = 275

According to Mugenda and Mugenda (2003) a sample size of between 10% and 30% is good representation of the total population. Simple random sampling method was used in the selection of the study sample size.

Primary data was collected by use of questionnaires. The questionnaire was structured into open ended and close ended questions. A pilot test was conducted with 10% of the sample size and results indicated that the research instrument was valid and reliable. The study collected both qualitative and quantitative data. Descriptive method of analysis was adopted in analyzing quantitative data. Content analysis was used in the analysis of data collected using open ended questions.

Research Findings and Discussion

The sample size of this study was 275 employees. Out of which, 234 responses were obtained, which gives a response rate of 86%. According to Kothari (2004) a response rate of 50% or more is adequate for analysis.

Idealized Influence

The study also sought to determine the extent to which the respondents agreed the statements on the aspects of idealized influence and how they affect industrial capacity.

The study found that, being a role model to subordinates improves industrial capacity to a great extent as shown by a mean score of (4.28) and standard deviation of (0.33). Subordinates are influenced by the actions of those they look up to in the organization, more often productivity will be embraced at lower level in the organization if it's been embraced right from the top management that offer the leadership of the organization. Inspiring visions influence industrial capacity to a moderate extent as shown by a mean score of (3.87) and standard deviation of (0.513). Earning of trust and confidence from subordinate's influences industrial capacity to a moderate extent as shown by a mean score of (3.77) and standard deviation of (0.502 Trust also in the organization tend to drive a degree of employee worth in the organization. Motivation and stimulation of employee intelligence has influenced industrial capacity to a low extent as shown by a mean score of 2.3108. The success of any endeavors in an organization will rely on the level of motivation in the organization.

Table 42: Idealized Influence

Statements	Mean	Standard Deviation
Inspiring Visions affects industrial capacity	3.87	0.513
Earning Trust and Confidence from Subordinates affects industrial capacity	3.77	0.502
Being a role model to my subordinates affects industrial capacity	4.28	0.328
Motivation and stimulation of employee intelligence affects industrial capacity	2.31	0.553

Inspirational Motivation

The study also sought to determine extent to which the respondents agreed the statements on the aspects of inspirational motivation and how they affect industrial capacity.

The study found that, leaders treat everybody with respect and dignity including third parties as shown by a mean score of4.0723 and standard deviation of (0.76). Studies have shown that employees in an organization value respectful leaders. Leaders who treat their subordinates with respect easily earn respect from them. This makes it easier for leader to influence employee's productivity. The respect employees get from their leaders will compel them to also respect the leaders. Leaders are ambassadors of the organization as shown by a mean score of 4.0723 and standard deviation (0.34). They represent the organization to the outside world. The leader's ambassador role involves representing the leader worker force to the other departments in the organization or outside the organization. The leader also as an ambassador has to ensure the needs of his workforce is champion for in the organization and will represent his subordinated across the organization.

Leaders are available for consultations as they practice open door policy as shown by a mean score of 3.9157 and standard deviation (0.28). The practice of open door policy makes it easier for employees to approach the leaders. The key values of open door policy are the communication between employees and leaders. This communication makes employee have sense significance in the organization. In addition, the study found that, leaders sacrifice for the common good of the organization as shown by a mean score of 3.7952. The results indicate that employees feel motivated by their leaders in their organization with a mean of 4.1398 and standard deviation (.24). The leadership of the organization is responsible for inspiring the employees of the organization. Leaders recognize others and celebrate their success as shown by a mean score of4.4145and standard deviation (.49). Jogulu, (2010) concluded that a team collaborates in their professional work in an enterprise or on some assignment, sharing accountability and responsibility for obtaining results.

Table 43: Inspirational Motivation

Statements	Mean	Standard Deviation
Our leaders sacrifice for the common good of all of us	3.795	0.462
I feel motivated by my leaders	4.139	0.239
Our leaders are ambassadors of the core values	4.072	0.342
Our leaders are available for consultations as they practice open door policy	3.916	0.2796
Our leaders treat everybody with respect and dignity including third parties	4.072	0.762
Our leaders recognize others and celebrate their success	4.415	0.4897

Intellectual Stimulation

The study also sought to determine extent to which the respondents agreed with the statements on the on the extent to which intellectual stimulation affect industry simulation.

The study found that, process improvement is embedded in the ways of working as shown by a mean score of 4.5361 and standard deviation (0.47). Job -rotations, cross -functional relations, creating connection and internal secondments are encouraged as shown by a mean score of 4.0361 and standard deviation (1.01). Leaders support subordinates to come up with new ways of doing their jobs as shown by a mean score of4.674 and standard deviation (.67). Leaders can lead their subordinates in the organization to demonstrate higher levels of creativity at work, coming up with new ways of performing tasks in the organization (Shin &Zhou, 2003). Cross-functional relations challenging followers' ideas and values for solving problems as shown by a mean score of 3.8675 and standard deviation (.98). On the question on whether leaders are perfect at determining team climate had a mean score of 3.7470 and standard deviation (.54).This is in line with Brown & Cregan, (2008) who were of the opinion that leaders/managers hold the choice on the type participative climate they establish i.e.an information sharing environment or a decision making environment.

Table 44: Intellectual Stimulation

Statements	Mean	Standard Deviation
Our leaders support us to come up with new ways of doing our jobs	4.675	0.672
Process improvement is embedded in our ways of working	4.536	0.471
Job -rotations, cross -functional relations and internal secondments are encouraged, creating connection	4.036	1.098
Cross functional relations Challenging Followers' Ideas and Values for Solving Problems	3.868	0.985
our leaders are perfect at determining team climate	3.747	0.537

Individual Consideration

The study sought to determine extent to which the respondents agreed the statements on the aspects of individual consideration and industrial capacity.

The study found that sharing and teamwork is encouraged by line managers as shown by a mean score of 4.0723 and standard deviation (.26). Line manager's care about personal life hence encourages work-life balance shown by a mean score of 3.9518. Line managers and employees jointly own employees 'development actions as shown by a mean score of3.9277 and standard deviation of (.60). The question on whether staff is provided with skills and tools for success had a mean score of 3.8313 and standard deviation (.62). The empowerment of an organizational workforce, by providing skills through training and necessary tools and equipment for work, will motivate workers. In addition, team leaders listen and adopts employees 'ideas and inputs as shown by a mean score of 3.7812 and standard deviation (.79). Leaders communicate the plan/target numbers clearly as shown by a mean score of 3.7711and standard deviation (.77).

Leaders keep employees updated on how their actual performance is tracking against plan and targets as shown by a mean score of 3.6627 and standard deviation (.79). Sarros & Santora (2011) also concluded that Leaders who use individual consideration show consideration for their workers' needs, and are prepared to encourage and coach the development of appropriate work place behavior. Transformational leaders do this through spending time teaching, coaching and developing their followers by listening attentively, recognizing and valuing each individual's contributions (Hogan & Curphy, 2014).

Table 45: Individual Consideration

Statements	Mean	Standard Deviation
My team leader listens and adopts my ideas and inputs	3.781	0.888
Sharing and teamwork is encouraged by my line manager	4.072	0.261
Our leaders communicate the plan/target numbers clearly	3.771	0.770
Our leaders keep us updated on how our actual performance is tracking against plan and targets	3.663	0.785
staff are provided with skills and tools for success	3.831	0.621
My line manager cares about my personal life hence encourages work-life balance	3.952	0.491
My line manager and I jointly own my development actions	3.923	0.600

Conclusions

From the findings, the study concludes that, idealized influence affect industrial capability to great extent. The study further concludes that, being a role model to subordinates affects industrial capability to a great extent, inspiring visions affect industrial capability to a moderate extent, and earning trust and confidence from subordinates affect industrial capability while motivation and stimulation of employee intelligence has effects on industrial capability.

The study also concludes that inspirational motivation affects industrial capability to great extent. In addition, leaders should treat everybody with respect and dignity including third parties, leaders should be ambassadors of their organization, leaders should be available for consultations and leaders should sacrifice for the common good of the organization. In addition, employees feel motivated by their leaders and leaders recognize others and celebrate their success.

The study also concludes that intellectual stimulation affect industrial capability to a great extent. Process improvement should be embedded in the ways of working, Job –rotations, cross -functional relations, creating connection and internal secondments are encouraged, leaders should support subordinates to come up with new ways of doing their jobs, Cross functional relations Challenging followers' ideas and values for solving problems are encouraged and leaders should be determining team climate

The study concludes that individual consideration influences affect industrial capability to very great extent. The study also concludes that sharing and teamwork should be encouraged by line managers, line managers should care about personal life of employees hence encouraging work-life balance, line managers and employees should jointly own employee's development actions and staff should be provided with skills and tools for success. In addition, team leaders should listen and adopts employees 'ideas and inputs, leaders communicate the plan/target numbers clearly and finally, leaders should keep employees updated on how their actual performance is tracking against plan and targets. Transformational leaders are therefore necessary in all organizations.

Recommendations

The study therefore, recommends that the management of industrial firms should be a role model to subordinates, inspire visions, treat everybody with respect and dignity including third parties and leaders should be ambassadors of their organization. Finally, leaders should be available for consultations by employees at all the time. This is because these factors have been found to affect industrial capability to a very great extent.

This study recommends that the management should ensure that they support subordinates to come up with new ways of doing their jobs, encourage cross-functional relations, challenge followers' ideas and encourage values for problems solving. In addition, leaders should be good in determining team climate. This study also recommends that the management should ensure that process improvement should be embedded in the ways of working Job –rotations, cross -functional relations, creating connection and internal secondments encouraged. Sharing and teamwork should be encouraged by line managers and, they should care about personal life of employees in order to encourage work-life balance. Line managers and employees should jointly own employee's development actions and the staff should be provided with skills and tools for success.

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Corporate Governance, Financial Characteristics, Macroeconomic Factors and Performance of Manufacturing Firms Listed at the Nairobi Securities Exchange

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ABSTRACT

Performance of manufacturing firms listed at the Nairobi securities exchange has been varied since the introduction of the corporate governance policies and practices in the year 2002. This has been blamed to a number of factors including financial characteristics and macroeconomic factors. The specific objectives were to establish the effect of corporate governance on performance of manufacturing firms listed at the Nairobi securities exchange; to determine the intervening effect of financial characteristics on corporate governance and performance of manufacturing firms; to establish the moderating effect of corporate governance and performance of firm; and to determine joint effect of corporate governance, financial characteristics, macroeconomic factors and performance of listed manufacturing firms listed at the Nairobi securities exchange. This study was anchored on, agency theory, stewardship theory, stakeholders' theory and positivism philosophy. The study used census approach and a target population of 10 manufacturing firms listed at the Nairobi Securities Exchange between 2002 and 2016 was incorporated. The study used panel data, corporate governance, financial characteristics and performance of firms' data were extracted from annual reports of the individuals firms from Capital Markets Authority of Kenya and macroeconomic factors data were extracted from Central Bank of Kenya and Kenya National Bureau of Statistics economic reports. This study employed longitudinal descriptive research design to determine relationships amongst independent, intervening, moderating and dependent variables. A panel data regression analysis was conducted using random effects model which allowed the companies to have a common mean value of the intercept to determine whether corporate governance influence performance of manufacturing firms. The study findings revealed that only leverage significantly affected returns on assets of listed manufacturing firms in Kenya. The results showed that corporate governance, investments, liquidity, growth domestic product rate, interest rate and inflation rate insignificantly affect returns on assets and Tobin's Q of listed manufacturing firms in Kenya. The study concluded that listed firms in Kenya strengthened their corporate governance due to poor performance, further the study concluded that corporate governance practices used by listed firms failed to impact on performance or had negative impact on performance.

Keywords: Firm performance, corporate governance, financial characteristics, macroeconomic factors, manufacturing firms

1.0 INTRODUCTION

Background Information

The relationship between corporate governance and performance of manufacturing firms, which is one of the most appealing and controversial issues, has received a lot of attention from many different countries over the world after great corporate failures (Dang & Nguyen, 2016). Manufacturing firms practicing good corporate governance normally have good firm performance, and this is further influenced by financial characteristics and macroeconomic factors (CMA, 2015). Financial characteristics usually intervene in relationship between corporate governance and performance of firms. Financial characteristics such as investments, leverage and liquidity are expected to have a positive impact on performance of firms. Increase in investment implies that firms have identified lucrative opportunities that they seek to exploit which plays a critical role in the use of leverage (Aivazian, Ge & Qiu, 2005). Macroeconomic factors universally influence performance of firms in an economy and have moderating effect on the relationship between corporate governance and performance of firms (Ghabayen, 2012).

The above conceptualization on the relationship between corporate governance, financial characteristics, macroeconomic factors and performance of firms is explained by agency theory by Jensen and Meckling (1976), stewardship theory by Donaldson and Davis (1981), stakeholders' theory by Freeman (1984). Resource Dependency theory by Preffer and Salanuk (1970). The agency theory is an agreement between principals and agents, in a firm it deals with various relationships between shareholders and various agents. These agents perform various activities on behalf of shareholders (Jensen & Meckling, 1976). The stewardship theory deals with directors as stewards of a business, with interest to protect and enhance shareholders' wealth through superior firm performance (Davis & Donaldson, 1997). The stakeholder theory proposes a network of relationship of all stakeholders of a firm (Freeman, 1999). The Resource Dependency theory focuses on the function of board of directors in providing resources needed by the firm to achieve an improved firm performance (Hillman, Canella & Paetzold, 2000).

According to Tricker (2015) corporate governance can be defined as the way power is exercised over corporate entities. It consists of the board activities of the enterprise and its relationships with shareholders, with the managers as well as with other legitimate stakeholders. Corporate governance is a mixture of policies and best practices used by firms to achieve their goals in relation to their shareholders (Millin, 2007). Corporate governance promotes efficient and transparent management of organizations to meet definite objectives through best practices and structures (Abu-Tapanje, 2005). Corporate governance policies and practices used in this study include board structures and board activities. The board structures include board composition which comprises both executive and non-executive directors, gender and ethnicity (Carter, Simkins, & Simpson, 2003); board skills and experience, are occupational expertise of board members (Kesner,1998); board age, is the average age of board members (Rose, 2007); and board size, is the number of directors instituting the board (Jensen, 1993; Khanchel, 2007). The board activities are responsibilities performed by the board and committees set up by board for specific duties. The board activities include board tenure which is the duration the directors take in a firm (Mathew, Paul, Kamel & Cherif, 2010); board ownership which is the holdings in a firm's stock by board members (Brickley, Lease & Smith, 1988); board tools which are necessary tools and aids in place to enable discharging of responsibilities of the board (CMA, 2015); board meetings including statutory and non-statutory meetings (Lipton & Lorch, 1992) and board committees for deliberations of board activities (Klein, 2002). Board compensation is the remuneration to board members (Murphy, 1984).

Financial characteristics are the internal factors of a firm that are expected to have effect on its efficiency and level of performance (Mwangi, 2014). Finance is the life blood of a firm; it is required to bring a firm into existence, to keep alive and to see it growing and prospering. The financial characteristics used in this study include: investment, leverage and liquidity because of their direct influence to performance of firms. Investment refers to the sacrifice of current cash flows for future cash flows. It involves time, risk and returns since the sacrifice takes place in the present, and is certain, while returns come later, and are uncertain (Sharp *et al.*, 2005). Investment measures the increase in capital spending such as buying new machines, building bigger factories. Investment in long term assets

makes firms to remain competitive and to survive given constant flow of ideas for new products, making existing products better and reducing the operating cost (Hillie, Jaffe, Jordan, Ross & Westerfield, 2010). Investment in tangible and intangible assets such as property, plant, equipment and securities also ensures a good firm's performance in profitability and value (Mudida & Ngene, 2010).

Macroeconomic factors are general economic factors having universal effect on a nation or a region and affect a large population (Deraso, 2012). Macroeconomic factors impact on performance of all firms in an economy. Macroeconomic factors affect macroeconomic environment and determines the level of performance of manufacturing firms due to cost of capital benefits arising from favorable interest rates prevailing in the country. The macroeconomic factors used in this study include: Gross Domestic Product (GDP) growth rate, interest rate and inflation rate. GDP is a measure for all finished goods and services produced in a country for a specific fiscal year. GDP is equal to total investment, consumption, government spending, and exports less value of imports (Maclennan & Pryce, 1996). The real GDP portrays economic performance in a country. During periods of economic boom, firms demand more external financing for investment to expand their business portfolios. Economic growth strengthens firms' alteration of their leverages. The growth in GDP affects the cost of finances and hence the future performance of manufacturing firms. Interest rate is the price that a borrower pays in order to be able to consume resources now. It represents the cost of borrowing capital for a given period of time. A high rate of interest significantly affects a firm's earnings and capital base; and increases the operating expenses (Keynes, 1936; Lazonick & O'Sullivan, 2000). Increase in interest rate drives cost of debt capital affecting investment, leverage, liquidity and performance of firms. Interest rate assists in mobilizing financial resources in the promotion of economic growth and development (Koori, 2015). Inflation refers to the change in the general level of prices in the economy over given period of time (Santoni, 1986). Inflation rates have effects on the value of money and it is measured by the changes in the consumer price index (Liow, Ibrahim & Huang, 2005). Pressures of inflation heavily impact on investment, leverage, liquidity and performance of firms. Higher rate of inflation has a negative impact on the cost debt which could increase debt to equity ratio and affect performance of firms (DeAngelo & Masulis, 1980).

Performance of a firm is a measure of overall well-being of a firm in terms of wealth creation over a given period of time. It measures how a firm can use investment in long and short term assets to create revenues (Iraya, 2014). Performance measurement is the process of assessing proficiency with which reporting entity succeeds by economic acquisition of resources and their efficient and effective deployment of resources, in achieving its objectives. Performance measure may be based on financial and non-financial information (Murby & Gould, 2005). Performance measurement refers to the process of measuring the actions, efficiency and effectiveness of a firm (Neely, Gregory and Platts, 2005). There are 10 listed manufacturing firms at the Nairobi securities exchange as at 31st December, 2016. The performance of listed firms have been varied since the introduction of corporate governance policies and practices. B.O.C Kenya Limited had increased operating profit from KES 154,990,000 in 2002 to KES 308,392,000 in 2013 and reduced to KES 190,682,000 in 2016. British America Tobacco Kenya Limited had operating profit of KES 1,310,423,000 in 2002 to KES 7,672,448,000 in 2015 and reduced to KES 5, 911,310,000. East African Breweries Limited had KES 2,300,794,000 in 2002 to KES 15,253,011,000 in 2012 to KES 13,618,504,000 in 2016. Unga Limited, CABAID Limited, Eveready Limited, Mumias Sugar Company limited, Flame Tree group and Kenyan Orchards Limited among others posted varied fluctuating results over the period.

2.0 LITERATURE REVIEW

2.1.1 Theoretical Review

Agency Theory

Agency theory was developed by Jensen and Meckling (1976). The theory is grounded on the separation of ownership and relationship between principals and agents. It is based on short term gains where principals delegate decision making authority to their agents; who are to use resources given by the principals to enhance principals'

benefits. Agents however, may commit moral hazard by substituting principals' interest with their own (Fama & Jensen, 1983). Principals normally monitor the activities of agents to ensure that they act on the interest of the firms. Monitoring costs are normally expensive and adversely affect the principals' income (Agrwal & Knoeber, 1996).Agency theory has been applied to today firms since shareholders have realized that firm performance depends crucially on having the right managers at the helm and incentivizing them properly (Anderson, Bustamante, Guibaud, & Zervos, 2018). Todays' firms have adopted various compensation structures to motivate the managers hence avoiding agency costs and conflicts as a result of principal-agency relationships.

Stewardship Theory

Stewardship theory was developed by Donaldson and Davis (1991). The theory was an innovative view in understanding relationship between ownership and management of a firm from the Agency theory. Directors are stewards making decisions for long term survival of firms as well as maximize shareholders' wealth. Directors normally perceive firms as an extension of them, rather than use their resources for own interest; the executives main interest is ensuring the sustained life and success of the firm. The theory is based on the duties of executives acting as stewards, integrating their goals as part of the firm and recognizes the importance of structures that empower the steward and offers maximum autonomy built on trust (Donaldson & Davis, 1991). The critics of steward theory argue that there is lack of conclusive evidence linking board to firm performance which have turned researchers' attention back to the black box of board process, and emphasized the element of firm context in determining the role and value of the corporate governance (Huse, 2003). This implies that board of directors which are components of corporate governance may act as stewards but they do not have direct impact on firm profitability.

Stakeholder Theory

Stakeholder theory was developed by Freeman (1984). The theory takes into account diverse intrinsic interest of all stakeholders of the firm. Stakeholders are individuals or groups who can affect or are affected by the achievement of the firm's objectives. The theory suggests that directors of a firm have interests of different stakeholders to serve. It is important for directors not to have preference in a group of network they serve in administering the activities of the firm and the moral perspective of the theory is that all stakeholders have a right to be treated fairly as this leads to a better firm performance (Freeman, 1999). The theory has also faced some criticism among corporate governance researchers. Critics of this theory argue that meeting all stakeholders' interest leads to corruption as it gives chances to divert wealth and directors may use stakeholders' reasons to justify poor performance and provide inadequate explanation of the firm's behavior with its environment (Okiro, 2014). Firms today apply the stakeholders' proposition to promote the vision of the company and the role of managers whose objective is mainly to maximize shareholder value in order to be sustainable. Roberts and Mahoney (2004) examined 125 accounting studies that used the stakeholder language and found that nearly 65 percent "use the term stakeholder without reference to any version of stakeholder theory.

Resource Dependency Theory

Resource dependency theory was developed by Pfeffer and Salancik (1978). The theory deals with the study of how external resources affect the behavior of the organization. The procurement of external resources is an important tenet for both the strategic and tactical management of any company. The theory concentrates on the role of board directors in providing access to resources needed by the firm. The theory emphases on the activities that directors play in finding resources required by the firm through connections to its external environment (Hillman, Canella & Paetzold, 2000). The theory further gives direction on recruitment of directors who assist in gaining access to vital resources of the company for survival (Johnson, Daily & Ellstrand, 1996). The critics of this theory have based their arguments concerning the boundary of space; Casciaro and Piskorski (2005) for instance argue that the RDT can be bounded to the boundaries of the organization concerning internal issues. Hillman *et al.,* (2000) on the other hand,

posit that the RDT is bounded to the environment of the organization and assumes that the organizational actions are constrained to the events in the organizational environment, leaving the environment as a space boundary.

2.1.2 Empirical Review

Wagana and Karanja (2015) examined the influence of corporate governance mechanisms such as board diversity, board duality, government ownership and management ownership and found significant positive relationship between corporate governance and performance of manufacturing firms in Kenya. The study however is not grounded on a specific research design. Lekaram (2014) studied corporate governance and performance of listed manufacturing firms in Kenya and found that board size is inversely related to ROA and ROE for listed manufacturing firms at the NSE, on contrary a larger proportion of outside directors led to a higher shareholders' value but does not explain why listed manufacturing firms exhibit a high market price to net assets value. The study concentrated on one sector of the market and used board size and outside directors as the only characteristics of corporate governance. Mbalwa,Kombo,Chepkoech,Koech and Shavulimo (2014) study effect of corporate governance on performance of sugar manufacturing firms in Kenya, a case study of sugar manufacturing firms in western Kenya using correlation survey design and found that corporate governance practices are positively related to the performance of sugar manufacturing firms in western Kenya. The study however used one sector of manufacturing firms in Kenya. Valnampy (2013) studied corporate governance and firm performance of Sri-Lanka manufacturing companies and found that corporate governance has no effect on firm performance as measured by return on equity and return on assets. The however concentrated on sectors of the economy that is the manufacturing firms.

3.0 RESEARCH METHODOLOGY

This study used a census approach and a target population of the study comprised of manufacturing firms listed at the NSE between years 2002 and 2016. A total of ten manufacturing companies were listed at the NSE as at 31st December 2016. Manufacturing companies listed at NSE were targeted because the NSE acts as a country's financial barometer and the market had received empirical studies and financial data that were used to support this study (Ongore & K'obonyo, 2011). The 10 companies were screened against various factors which included availability of data for the period under review and the integrity of data. Data was extracted from annual reports of listed firms from CMA; published financial statements from NSE; and economic reports from Central Bank of Kenya (CBK) and Kenya National Bureau of Statistics (KNBS). This study used descriptive research design and panel data regression in analyzing the relationship between corporate governance and performance of manufacturing firms listed at the NSE.

Descriptive analysis was carried out to measure dispersion of variables such as standard deviations and coefficient of variation which was used to disclose the volatility in relationships of the variables under study. A panel data regression analysis was conducted using random effects model which allowed the companies to have a common mean value of the intercept to determine whether corporate governance influence performance of manufacturing firms. Coefficient of Determination (R^2) and p-values were used to interpret the regression functions at a level of significance of 0.05 (Bryman & Cramer, 1997). The respective individual regression coefficients were also tested for their statistical significance using the t-test. Simple regression model was used to test hypothesis one: Relationship between Corporate Governance (CG) and Performance of Firms (FP). Panel data regression model of random effects was used to determine the relationship among Corporate Governance (CG), Financial Characteristics (FC), Macroeconomic Factors (MF) and Performance of Firms (FP). These models were used to test hypothesis four, the joint effect: Panel data regression model of random effects was used to determine the relationship among Corporate Governance (CG), Financial Characteristics (FC), Macroeconomic Factors (MF) and Performance of Firms (FP). These models were used to test hypothesis four, the joint effect:

$FP_{it} = \beta_0+\beta_1 CG_{it} +\beta_2 FC_{it-1} + \beta_3 MF_{it-1}+c_i +\acute{\varepsilon}_{it}$……..…Equation 1.

Where:

FP_{ij} is Performance of Firms;

CG is Corporate Governance;

FC is Financial Characteristics;

MF is Macroeconomic Factors;

c_i unobserved variable; β_0 is the intercept;

β_1, β_2, and β_3 are regression coefficients for Corporate Governance, Financial Characteristics and Macroeconomic Factors for firm i in time t

$\acute{\varepsilon}$ is error term.

The study's null hypotheses were rejected when calculated p-values exceeded 0.05 significance level adopted by the study

4.0 RESULTS AND DISCUSSIONS

4.1 Descriptive Analysis

The findings presented in this section include findings on descriptive statistics, and correlation test results. Tables and charts were used in presentation of the findings. The results presented in table 1 shows the descriptive statistics of the variables under the study.

Table 1: Descriptive Statistics of Study Variables

Variable	N	Mean	Std. Dev.	Min	Max
Board Independence	107	0.82	0.09	0.60	1.25
Gender Diversity	107	0.15	0.14	0.00	0.63
Occupational Expertise	107	6.12	1.79	2.00	9.00
Board age	107	57.64	5.83	47.60	74.00
Board size	107	8.55	2.44	3.00	12.00
Board tenure	107	2.02	0.93	1.00	3.00
Board ownership	107	0.10	0.13	0.00	0.48
Board tools	107	3.40	0.55	2.00	4.00
Board meetings	107	4.55	1.01	3.00	8.00
Number of board committees	107	2.90	1.00	0.00	6.00
Committees Meetings	105	8.36	4.74	0.00	24.00
Board remuneration	107	0.00	0.58	-5.73	0.99
Investments	107	0.52	0.16	0.15	0.93
Leverage	107	0.36	0.42	0.03	0.19
Liquidity	107	0.19	0.17	-0.37	0.51
GDP growth Rate	135	4.85	2.19	0.20	8.40
Interest Rate	135	15.07	2.26	12.25	9.85
Inflation Rate	135	7.43	3.50	0.90	15.20
ROA	107	0.29	0.27	-0.53	0.76
Tobin's q	107	1.83	1.25	0.11	0.19

4.2 Correlation Analysis

4.2.1 Board Structure and Financial Characteristics in Manufacturing Firms

Table 2 presents the correlation findings of board structure indicators and financial characteristics of manufacturing firms listed on NSE. The results showed that board independence had a negative correlation with investment while had a positive correlation with liquidity and leverage. Gender diversity on the other hand had a negative correlation

with both investments and liquidity while it had a positive correlation with Leverage. Occupational expertise had a negative correlation with leverage and liquidity while it had a positive correlation with investments. The findings showed that Board age had positive correlation with investments and liquidity while it had negative correlation with leverage. Finally, the findings showed that board size had negative correlation with leverage while it had positive correlation with investment and liquidity of manufacturing firms listed on NSE.

Table 2: Board Structure and Financial Characteristics in Manufacturing Listed Firms

		Board independence	Gender Diversity	Occupational Expertise	Board Age	Board Size	Investments	Leverage	Liquidity
Board independence	r	1							
Gender Diversity	r	.225*	1						
Occupational Expertise	r	-0.069	0.093	1					
Board Age	r	0.012	-.508**	-.277**	1				
Board Size	r	0.172	.207*	.499**	-.313**	1			
Investments	r	-0.025	-.208*	0.105	.375**	.235*	1		
Leverage	r	.251**	.359**	-0.124	-.204*	0.17	0.059	1	
Liquidity	r	0.047	-.317**	-0.175	.197*	-.412**	-.59**	-.49**	1
	N	107	107	107	107	107	107	107	107

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

4.2.2 Board Activities and Financial Characteristics in Manufacturing Firms

Table 3 presents the findings on correlation analysis between board activities indicators and financial characteristics of manufacturing firms listed on NSE. The findings showed that investments was positively correlated to board ownership, board tools, board meetings, number of board committees, committees meetings and board remuneration while it was negatively correlated with board tenure. The findings further revealed that leverage was positively correlated with board tenure, board ownership, number of board committees and committees meetings while it was negatively correlated with board tools, board meetings and board remuneration of manufacturing firms listed on NSE. Finally, the study findings showed that liquidity was positively correlated with board remuneration while negatively correlated with board tenure, board ownership, board tools, board meetings, number of board committees and committees meetings of manufacturing firms listed on NSE.

Table 3: Board Activities and Financial Characteristics in Manufacturing Firms

		Board Tenure	Board Ownership	Board Tools	Board Meetings	No Board Committees	Committees Meetings	Board Remuneration	Investments	Leverage	Liquidity
Board Tenure	r	1									
Board	r	.378**	1								

Ownership											
Board Tools	r	-.311**	-.415**	1							
Board Meetings	r	-0.111	-0.106	.363**	1						
Number of Board Committees	r	-0.069	-0.076	.283**	0.113	1					
Committees Meetings	r	0.009	0.119	0.005	0.025	.805**	1				
Board Remuneration	r	-0.059	-0.018	0.043	0.054	-0.06	-0.019	1			
Investments	r	-0.122	.195*	0.127	.278**	.256**	0.102	0.148	1		
Leverage	r	0.176	0.07	-0.126	-0.14	.307**	0.059	-0.137	0.059	1	
Liquidity	r	-0.146	-0.119	-0.018	-0.153	-.360**	-.228*	0.023	-.592**	-.496**	1
	N	107	107	107	107	107	105	107	107	107	107

* Correlation is significant at the 0.05 level (2-tailed).

4.2.3 Board Structure and Macroeconomic Variables in Manufacturing Firms

Table 4 presents the results for board structure indicators and macroeconomic variables for listed manufacturing firms in Kenya. The findings showed that GDP growth rate had a positive correlation with gender diversity and board age while it was negatively correlated with board independence, occupational expertise and board size. Interest rates were negatively correlated with board independence, occupational expertise, board age and board size while it was positively correlated with gender diversity. Inflation rates on the other hand, had a positive correlation with all the board structures.

Table 4: Board Structures and Macroeconomic Variables in Manufacturing Firms

		Board independence	Gender Diversity	Occupational Expertise	Board Age	Board Size	GDP	Interest Rate	Inflation Rate
Board independence	r	1							
Gender Diversity	r	.225*	1						
Occupational Expertise	r	-0.069	0.093	1					
Board Age	r	0.012	-.508**	-.277**	1				
Board Size	r	0.172	.207*	.499**	-.313**	1			
GDP	r	-0.009	0.153	-0.036	0.042	-0.032	1		
Interest Rate	r	-0.041	.305**	-0.103	-0.113	-0.119	-0.15	1	
Inflation Rate	r	0.059	0.061	0.061	0.056	0.082	-.262**	-0.126	1
	N	107	107	107	107	107	107	107	107

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

4.2.4 Board Activities and Macroeconomic Variables in Manufacturing Firms

Table 5 presents the findings of correlation analysis between board activities indicators and macroeconomic variables among manufacturing firms listed on NSE. The findings similarly showed that GDP growth rate, interest rate and inflation rate had weak association with board activities indicators for listed manufacturing firms in Kenya.

Table 5: Board Activities and Macroeconomic Variables in Manufacturing Firms

		Board Tenure	Board Ownership	Board Tools	Board Meetings	Number of Board Committees	Committees Meetings	Board Remuneration	GDP	Interest	Inflation
Board Tenure	r	1									
Board Ownership	r	.378**	1								
Board Tools	r	-.311**	-.415**	1							
Board Meetings	r	-0.111	-0.106	.363**	1						
No. of Board Committees	r	-0.069	-0.076	.283**	0.113	1					
Committees Meetings	r	0.009	0.119	0.005	0.025	.805**	1				
Board Remuneration	r	-0.059	-0.018	0.043	0.054	-0.06	-0.02	1			
GDP Growth Rate	r	0.047	0.051	0.132	0.044	0.074	0.03	-0.168	1		
Interest Rate	r	0.041	0.058	0.173	0.093	0.104	0.04	0.071	-0.151	1	
Inflation Rate	r	0.034	0.028	0.174	0.069	0.052	0.02	0.15	-.262**	-0.126	1
	N	107	107	107	107	107	107	107	107	107	107

*Correlation is significant at the 0.05 level (2-tailed).

4.2.5 Board Structure and Performance of Firms in Manufacturing Firms

Table 6 shows the correlation between board structure indicators and performance of listed manufacturing firms in Kenya. The results showed that board structure indicators had a weak correlation with performance of listed manufacturing firms in Kenya.

Table 6: Board Structure and Performance of listed Manufacturing Firms

		Board independence	Gender Diversity	Occupational Expertise	Board Age	Board Size	ROA	Tobin's Q
Board independence	r	1						
Gender Diversity	r	.225*	1					
Occupational Expertise	r	-0.069	0.093	1				
Board Age	r	0.012	-.508**	-.277**	1			
Board Size	r	0.172	.207*	.799**	-.313**	1		
ROA	r	-.386**	-.434**	.453**	.192*	0.113	1	

Tobin's Q	r	-.288**	-0.064	.514**	0.014	.286**	.617**	1
	N	107	107	107	107	107	107	107

*Correlation is significant at the 0.05 level (2-tailed).

4.2.6 Board Activities and Performance of Manufacturing Firms

Table 7 presents the findings of correlation analysis of board activities indicators and performance of manufacturing firms listed on NSE. The findings showed that board activities indicators had a weak correlation with both ROA and Tobin's Q of manufacturing firms listed on NSE.

Table 7: Board Activities and Performance of Manufacturing Firms

		Board Tenure	Board Ownership	Board Tools	Board Meetings	No. of Board Committees	Committees Meetings	Board Remuneration	ROA	Tobin's Q
Board Tenure	r	1								
Board Ownership	r	.378**	1							
Board Tools	r	-.311**	-.415**	1						
Board Meetings	r	-0.111	-0.106	.363**	1					
No. of Board Committees	r	-0.069	-0.076	.283**	0.113	1				
Committees Meetings	r	0.009	0.119	0.005	0.025	.805**	1			
Board Remuneration	r	-0.059	-0.018	0.043	0.054	-0.06	-0.019	1		
ROA	r	-.406**	-.318**	.302**	0.163	0.125	0.052	0.09	1	
Tobin's Q	r	-.281**	-0.175	0.184	0.147	.304**	.303**	0.04	.617**	1
	N	107	107	107	107	107	105	107	107	107

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

4.2.7 Financial Characteristics Variables and Performance of Manufacturing Firms

Table 8 presents the findings of correlation analysis between financial characteristics and performance of manufacturing firms listed on NSE. The findings showed that investments, leverage and liquidity had a weak positive correlation with both ROA and Tobin's Q of listed manufacturing firms on NSE.

Table 8: FC Variables and Performance of Firms in Manufacturing Firms

		Investments	Leverage	Liquidity	ROA	Tobin's Q
Investments	r	1				
Leverage	r	0.059	1			
Liquidity	r	-.592**	-.496**	1		
ROA	r	0.07	-.510**	.267**	1	
Tobin's Q	r	0.117	-.429**	-0.111	.617**	1
	N	107	107	107	107	107

**Correlation is significant at the 0.05 level (2-tailed).

4.2.8 Macroeconomic Variables and Performance in Manufacturing Firms

Table 9 presents the correlation analysis of macroeconomic variables and performance indicators of manufacturing firms listed on NSE. The results presented showed that GDP growth rates, interest rates and inflation rates had a weak correlation with both ROA and Tobin's Q of listed manufacturing firms in Kenya.

Table 9: Macroeconomic Variables and Performance in Manufacturing Sector

		GDP	Interest Rate	Inflation Rate	ROA	Tobin's Q
GDP	r	1				
Interest Rate	r	-0.151	1			
Inflation Rate	r	-.262**	-0.126	1		
ROA	r	0.043	-0.125	0.044	1	
Tobin's Q	r	0.141	-0.172	0.066	.617**	1
	N	107	107	107	107	107

*Correlation is significant at the 0.05 level (2-tailed).

4.3 Regression Analysis

4.3.1 Corporate Governance Variables and Performance of Manufacturing Firms

Table 10 presents the findings of effect of corporate governance variables on performance of listed firms in manufacturing sector in Kenya. The results revealed that models used to link corporate governance variables to ROA (Prob>Chi2 =0.0000) and Tobin's Q (Prob>Chi2 =0.0000) were statistically significant which also implied that corporate governance variables were significant predictor of performance of listed firms in manufacturing sector in Kenya.

Table 10: Corporate Governance Variables and Performance of Manufacturing Firms

	Model 1	**Model 2**
	ROA	**Tobin's Q**
Board Independence	-0.6373656 (P=0.004)	-4.693179 (p=0.000)
Gender Diversity	-0.997819 (p=0.000)	-0.4997657 (p=0.632)
Occupational Expertise	0.1106113 (p=0.000)	0.6096043 (p=0.000)
Board Age	-0.0023771 (p=0.616)	0.0201668 (p=0.471)
Board Size	-0.0596478 (p=0.000)	-0.249053 (p=0.005)
Board Tenure	0.0136688 (p=0.585)	-0.0372089 (p=0.801)
Board Ownership	0.3216916 (p=0.066)	1.977115 (p=0.055)
Board Tools	0.0323337 (p=0.467)	-0.2478888 (p=0.345)
Board Meetings	0.010943 (p=0.534)	0.0707392 (p=0.496)
Number of board committees	0.124365 (p=0.004)	0.1406143 (p=0.582)
Committees Meetings	-0.00291 (p=0.703)	0.0647393 (p=0.150)
Board Remuneration	-0.0029128 (p=0.919)	-0.1251772 (p=0.458)
_cons	0.3812627 (p=0.273)	2.445204 (p=0.234)

	Wald chi2(12)=162.13	Wald chi2(12)= 80.36
	Prob > chi2= 0.0000	Prob>chi2=0.0000
	R-sq: = 0.1488	R-sq:= 0.4662

The study findings revealed that occupational expertise, board tenure, board ownership, board tools, board meetings and number of board committees were positively related to ROA of listed manufacturing firms in Kenya while board independence, gender diversity, board age, board size, committees meetings and board remuneration had a negative effect on ROA of listed manufacturing firms in Kenya. The effect of board independence, gender diversity, occupational expertise, board size and number of board committees on ROA was significant.

The findings also shows that occupational expertise, board age, board ownership, board meetings, number of board committees and committees meetings were positively related to Tobin's Q of listed manufacturing firms while board independence, gender diversity, board size, board tenure, board tools and committees meetings had a negative effect on Tobin's Q of listed manufacturing firms in Kenya. The effect of board independence, occupational expertise and board size on Tobin's Q was significant. Table 11 presents the regression results of the models fitted to test the relationship between CG composite and performance of firms (ROA and Tobin's Q) of listed manufacturing firms in Kenya. The results also revealed that the models fitted were statistically insignificant which implied that CG composite was insignificant predictors of performance of firms on both (ROA and Tobin's Q) of listed manufacturing firms in Kenya.

Table 11: Model CG Composite and Performance of Firms in Manufacturing Sector

	Model 1	**Model 2**
	ROA	**Tobin's Q**
CG	0.00000041 (p=0.328)	0.000000763 (p=0.748)
_cons	0.2671508 (p=0.000)	1.759086 (p=0.000)
	Wald chi2(1) = 0.96	Wald chi2(1) = 0.10
	Prob > chi2 = 0.3284	Prob > chi2 = 0.7480
	R-sq:= 0.1792	R-sq: = 0.0011

4.3.2 Summary of the Intervening Effect of Financial Characteristics in Manufacturing Firms

Table 12 presents the summary of the intervening effect of financial characteristics on the relationship between corporate governance and performance of listed manufacturing firms. The results also revealed leverage and liquidity partially intervene the relationship between corporate governance and performance of listed manufacturing firms in Kenya. The results also revealed firm investments did not significantly and fully intervene the relationship between corporate governance and performance of listed manufacturing firms in Kenya.

Table 12: Summary of the Intervening Effect of Financial Characteristics in Manufacturing Firms

Steps	IV	DV	Result	Intervention
1	CG	ROA	Insignificant	Not Achieved
		Tobin's Q	Insignificant	Not Achieved
2	CG	Investment	insignificant	Not Achieved
		Leverage	insignificant	Not Achieved
		Liquidity	insignificant	Not Achieved

3	Investment	ROA	insignificant	Not Achieved
		Tobin's Q	significant	Achieved
	Leverage	ROA	significant	Achieved
		Tobin's Q	significant	Achieved
	Liquidity	ROA	significant	Achieved
		Tobin's Q	significant	Achieved
4	CG	ROA	significant	Achieved
		Tobin's Q	Insignificant	Not Achieved
	Investment	ROA	Insignificant	Not Achieved
		Tobin's Q	significant	Achieved
	Leverage	ROA	significant	Achieved
		Tobin's Q	significant	Achieved
	Liquidity	ROA	significant	Achieved
		Tobin's Q	significant	Achieved

4.3.3 Moderating effect of Macroeconomic Variables in Manufacturing Firms

This section presents for moderating effect of macroeconomic variables on the relationship between corporate governance variables and performance of manufacturing firms listed on NSE in Kenya.

Table 13: Step One: Models Fitting for Moderating effect of Macroeconomic Variables in Manufacturing Firms

	Model 1	Model 2
	ROA	Tobin's Q
CG	0.000000494 (p=0.239)	0.00000162 (p=0.479)
GDP growth rate	0.0150841 (p=0.049)	0.1110762 (p=0.008)
interest rate	-0.0091923 (p=0.188)	-0.0708646 (p=0.063)
inflation rate	0.0074342 (p=0.119)	0.041618 (p=0.110)
_cons	0.2752696 (p=0.070)	1.962707 (p=0.017)
	Wald chi2(4)= 9.26	Wald chi2(4)= 14.07
	Prob > chi2 = 0.0549	Prob > chi2 = 0.0071
	R-sq:= 0.0924	R-sq:= 0.1295

Table 14: Step Two: Models Fitting for Moderating effect of Macroeconomic Variables in Manufacturing Firms

	Model 1	Model 2
	ROA	Tobin's Q
CG	-0.00000861 (p=0.458)	0.00000883 (p=0.896)
GDP growth rate	0.015022 (p=0.055)	0.1092932 (p=0.017)
interest rate	-0.0122666 (p=0.088)	-0.065424 (p=0.119)
inflation rate	0.0078969 (p=0.101)	0.0384522 (p=0.170)
IT1	-0.0000000315 (p=0.976)	0.00000144 (p=0.240)

IT2	0.000000614 (p=0.084)	-0.00000143 (p=0.485)
IT3	0.000000109 (p=0.862)	0.000000801 (p=0.827)
_cons	0.3113936 (p=0.045)	1.947707 (p=0.020)
	Wald chi2(7)= 13.99	Wald chi2(7)= 13.08
	Prob > chi2 = 0.0513	Prob > chi2= 0.0701
	R-sq: = 0.1451	R-sq: = 0.1347

The findings in Table 13 and Table 14 revealed that R-squared increased from 0.0924 to 0.1451 in the first model while increased from 0.1295 to 0.1347 in the second model with the inclusion of the interaction variables. The findings also showed that none of the macroeconomic variables had insignificant moderating effects on the relationship between corporate governance and Tobin's Q of listed manufacturing firms in Kenya since all the interaction variables IT1, IT2 and IT3 were insignificant.

4.3.4 Joint Effect of Corporate Governance, Financial Characteristics, Macroeconomic Factors on Performance of Manufacturing Firms

This section presents findings of effect of corporate governance, financial characteristics, and macroeconomic factors on performance of firms listed in manufacturing sector in Kenya. During the period of the study NSE had listed 10 manufacturing firms hence the data for these firms was adequate in conducting analysis.

Table 15: Joint Effect of Corporate Governance, Financial Characteristics, Macroeconomic Factors on Performance of Manufacturing Firms

	Model 1	**Model 2**
	ROA	**Tobin's Q**
CG	0.0000002955 (p=0.644)	0.00000364 (p=0.886)
Investments	0.217 (p=0.289)	2.982 (**p=0.000**)
Leverage	0.353 (**p=0.000**)	3.384 (**p=0.000**)
Liquidity	0.185 (p=0.373)	5.130 (**p=0.000**)
GDP Growth rate	0.007 (p=0.513)	0.068 (p=0.139)
Interest Rate	0.002 (p=0.830)	0.052 (p=0.224)
Inflation Rate	0.003 (p=0.677)	0.017 (p=0.546)
_Cons	0.236 (p=0.376)	5.801 (p=0.000)
	Wald chi2 (7)=4.598	Wald chi2 (7) =13.838
	Prob > chi2= 0.000	Prob > chi2 = 0.000
	R-sq:within = 0.194	R-sq: within = 0.464

The results in Table 15 shows that both model 1 linking CG, FC, macroeconomic variables and ROA (Prob >chi2=0.000), and Model 2 linking CG, FC, macroeconomic variables and Tobin's Q (Prob >chi2=0.000) were statistically significant. These findings implied that CG, FC, macroeconomic variables were good predictors of listed manufacturing sector firms' performance. The study's findings revealed that only leverage significantly (β=0.353,

p=0.000) affected ROA of listed manufacturing firms in Kenya. The results showed that CG, investments, liquidity, GDP Growth rate, interest rate and inflation rate insignificantly affected ROA. On the other hand, investments (β=2.982, p=0.000), leverage (β=3.384, p=0.000) and liquidity (β=5.130, p=0.000) significantly affect Tobin's Q of listed manufacturing firms in Kenya. CG, GDP Growth rate, Interest Rate and Inflation Rate insignificantly affected Tobin's Q of listed manufacturing firms in Kenya.

Model 1

FP_{it} (ROA) = $0.236 + 0.353LE_{it-1} + c_i + \acute{\varepsilon}_{it}$

Model 2

FP_{it} (Tobin's Q) = $5.801 + 2.982IN_{it-1} + 3.384LE_{it-1} + 5.130LI_{it-1} + c_i + \acute{\varepsilon}_{it}$

Where;

IN = Firm Investments

LE= Firm Leverage

LI= Firm Liquidity

ε =Error Term

5.0 CONCLUSION AND RECOMMENDATIONS

The study concluded that manufacturing listed firms in Kenya strengthened their corporate governance due to poor performance, further the study concluded that corporate governance practices used by manufacturing listed firms failed to impact on performance. The study also concluded that manufacturing listed firms in Kenya continued to record poor performance despite corporate governance investments. The study further concluded that financial characteristics of the manufacturing firms are important component for better overall performance of firms. However, such characteristics do not provide the necessary environment for corporate governance to affect performance of the firms. Financial characteristics such as investments, leverage and liquidity provide the necessary vehicle to be used by management in combining other factors of production to fuel high performance of firms but do not impact on the activities and structure of the board.

On the moderating effect of macroeconomic factors, the study concluded that unfriendly macroeconomic conditions act as a catalyst that enhances board activities such as frequency of board meetings to approve some of the immediate actions the management may wish to undertake to mitigate the effect of volatility in the macroeconomic environment. The findings of this study revealed that macroeconomic factors enhanced the strength of the relationship between corporate governance and performance of manufacturing firms through enhancing the explanatory power of corporate governance variables on performance of firms. The study therefore concluded that the macroeconomic factors play a critical role in moderating the relationship between corporate governance and performance of firms. The study finally concluded that listed manufacturing firms that focused on enhancing their corporate governance, financial characteristics and operated in favourable macroeconomic environment are likely to increase their performance since jointly corporate governance, financial characteristics and favourable macroeconomic conditions were found to account for the highest variations in both ROA and Tobin's Q of the listed manufacturing firms in Kenya.

Based on the findings, the study recommended that listed manufacturing firms should revisit their corporate governance practices to ensure that they leverage on board structures and board activities that improve performance while obsolete corporate governance practices should be eradicated. The study also recommended that management and stakeholders of listed firms should not only focus on streamlining corporate governance practices, but also further enhance their level of investments, liquidity and use of leverage to significantly improve their firms' performance. The study further recommended that state authorities and policymakers should formulate policies to keep the economy afloat which will provide the necessary environment for operations of firms to enhance profitability

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INVESTIGATING THE TRANSMISSION OF SHOCKS AND VOLATILITY BETWEEN THE STOCK AND FOREIGN EXCHANGE MARKETS IN KENYA

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Abstract

This paper utilizes a bivariate GARCH model and weekly returns data for the 6th January 2006 to 28th December 2018 period to investigate the transmission linkages of shocks and volatility that exist between Kenya's stock and foreign currency markets. The study was necessitated by the fact that awareness on the extant intra-market patterns for transmission of shocks and volatility plays a key role in enhancing portfolio selection processes, hedging strategies, and regulatory action. Results of model fitting indicate that strong own transmission effects of both shocks and volatility are present in the two markets. Additionally, there is evidence of bidirectional shock transmission effects and unidirectional spillover of volatility – from the stock market to the foreign exchange market. In general, shocks are seen to have a relatively higher influence on the stock market's volatility as compared to the foreign exchange market's volatility whereas persistence of past volatility has a larger influence on volatility in the foreign exchange market in relation with the stock market. The study recommends that investors in Kenya's stock and foreign exchange markets should utilize the findings to enrich their portfolio allocation decisions and strategies, in line with their respective investment objectives.

Keywords*: Shocks, Volatility, Transmission, Stock Market, Forex Market, BEKK GARCH Model*

JEL Classification: C58, G19

INTRODUCTION

The stock and foreign exchange markets are crucial components of the financial system of any country (Bonga and Hoveni, 2013). These two markets account for most of the diversification opportunities that are available in any economy; and the motivation of most investors to seek such opportunities in these markets is the fact that they are apparently dissimilar (Ebrahim, 2000; Mishra, Swain, and Malhotra, 2007). This notwithstanding, Adi (2017) notes that contemporary stock and currency markets are intertwined with many financial and economic linkages and therefore, channels for transmission of returns, shocks and volatility between these two markets could actually be existent. Fasanya and Akinde (2019) posit that in addition to their preferred criteria for portfolio allocation, investors in these two markets should also take into account the possible existence of inter market transmission linkages for returns, shocks and volatility when choosing assets to be included in their portfolios from these two markets. Therefore, the persistence, significance and direction of transmission patterns for returns, shocks, and volatility between assets from different markets is now a crucial factor in contemporary portfolio selection.

Moreover, it is important to understand the inter-market linkages that exist between financial markets due to the implications of such effects on the regulatory actions of policy makers. For example, if a central bank wants to

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reduce the value of its domestic currency, while controlling for volatility in its stock exchange, a useful first step would be to evaluate whether a shock to the foreign currency market - such as currency devaluation – would result in a significant and persistent effect on the volatility of the stock market (Ebrahim, 2000). Bonga-Bonga and Hoveni (2013) posit that there is an emerging interest in understanding the shock and volatility transmission linkages that exist between stock markets and foreign exchange markets; ostensibly due to the financial crises that ravaged these two markets in several economies in the recent past. Moreover, Kanas (2000) states that the existence of volatility spillover linkages between stock and foreign exchange markets tends to elevate the level of residual idiosyncratic risk that international investors' portfolios are exposed to, thereby decimating the benefits of international diversification.

Stock markets in emerging economies, like Kenya, have witnessed a surge in interest from international equity investors (Ijumba, 2013). However, though inflows of foreign capital have yielded positive consequences, such as increased financial deepening and enhanced market liquidity, there have been concerns on how such inflows affect foreign exchange rates (Fasanya and Akinde, 2019).

The present study contemporaneously investigates the own and cross transmission linkages of shocks and volatility in Kenya's stock and foreign exchange markets. Using weekly returns data for the 6th January 2006 to 28th December 2018 period and the BEKK Bivariate GARCH model for empirical analysis, the study finds significant own transmission effects of shocks and volatility in both stock and foreign exchange markets. Moreover, there is bidirectional transmission of shocks between these two markets and unidirectional transmission of volatility from the stock market to the foreign exchange market. In addition to augmenting the literature, these findings have implications for portfolio selection, policy actions, and management of idiosyncratic and systematic risk in the stock and financial markets. The remaining part of the paper is structured viz: The next section presents a brief review of literature. Next, the methodology is articulated; after which the section on data analysis and empirical results is outlined. Finally, the conclusion and recommendations of the study are elucidated.

LITERATURE REVIEW

Theoretical Review

The theoretical underpinning of this paper is based on the Flow Oriented Model and the Stock Oriented Model.

Flow Oriented Model

Developed by Dornbusch and Fisher (1980), this model holds that when the exchange rate of a country changes, there is a corresponding shift in the level of competitiveness of this country's exports in the international markets: if the value of a country's currency goes up, its exports will be more expensive in global markets, and therefore the revenues of its exporting firms will be affected negatively. On the other hand, currency devaluation will make the exports of a country to be more affordable to global buyers, thereby boosting the revenues of its exporting firms. Ultimately, these changes in revenue will be reflected in the stock prices of the exporting firms. The implication is that exchange rates have a negative causal effect on stock prices: An increase in the value of the domestic currency results in lower stock prices while stock prices appreciate if there is a decrease in the value of the domestic currency.

Stock Oriented Model

The stock oriented model was posited by Frankel (1983). This model is in direct contrast with the flow oriented model in that it posits that the aggregate performance of a country's stock market(s) has a causal influence on the

value of its domestic currency. The gist of this model is that changes in the value of a country's stocks drive changes in the demand of these stocks by international investors. The resulting change in capital flows consequently affects the demand for this country's currency, thereby leading to an adjustment in its equilibrium value. For instance, if a stock market is experiencing a bull run, it will experience a surge in buy orders from international investors. This will lead to huge capital inflows of capital that is denominated in foreign currencies; thereby causing a spike in the demand for the domestic currency and hence its appreciation in value. Conversely, international investors have a tendency to exit declining stock markets. In such instances, the outflows of foreign capital lead to an increment in the demand for foreign currencies, thereby resulting in a corresponding weakening of the domestic currencies of such markets.

Empirical Review

Several previous authors have investigated the issue of transmission of shocks and volatilities between stock markets and foreign exchange markets. Using daily data for the 1990 to 2015 period and C-GARCH models, Zumaquero and Rivero (2016) investigated intra-spillovers and inter-spillovers of volatility between foreign exchange and stock markets in seven economies - United Kingdom, Euro area, Australia, Swiss, Canada, United Kingdom and Japan. The study found out that in all sampled economies, there was unidirectional transmission of long-run and short-run volatility from the stock market to the foreign exchange market before the global financial crisis. However, after the crisis, the trend was reversed and foreign exchange markets became the main triggers of long run volatility in stock markets.

Valls and Chulia (2014) used an asymmetric BEKK MGARCH model and weekly data for the 2003 to 2014 period to investigate shock and volatility transmission effects in the stock and foreign exchange markets of ten Asian countries. The study found evidence of bidirectional spillover of shocks and volatility between both markets in all sampled countries, irrespective of the level of development in the individual countries. Sharma and Mishra (2015) found that the Indian stock and foreign exchange markets move in tandem with each other and that they have a longrun bidirectional relationship with respect to the flow of volatility. They further suggested that investors in either of these two markets should be aware of the existent transmission linkages before taking any positions therein. Majumder and Nag (2015) investigated the transmission of shocks and volatility across India's stock and foreign exchange markets. Using a bivariate EGARCH model and daily data for the April 2003 to September 2013, this study found evidence of strong transmission effects of both shocks and volatility. Moreover, the paper yielded evidence of stronger volatility spillover effects in these two markets in the post crisis period (2008-2013) as compared to the pre-crisis period (2003-2007).

Using a BEKK MGARCH model and monthly secondary data for the January 1996 to March 2013 period, Kalu (2014) investigated shock and volatility transmission between the stock and currency markets of Nigeria. This study used the All-share index (ASI) of the Nigerian Stock Exchange as a proxy for the stock market and the Naira/USD exchange rate as the proxy for the currency market. Its results implied the existence of bidirectional shock transmission linkages, between the stock and foreign exchange markets, and unidirectional flows of conditional volatility from the foreign exchange market to the stock market. Jebran and Iqbal (2016) used an EGARCH model to evaluate spillover of conditional volatility between the stock and foreign exchange markets of Pakistan, India, Sri Lanka, China, Hong Kong and Japan. This paper's findings indicated the presence of bidirectional and asymmetric spillover of volatility between stock and foreign exchange markets of Pakistan, China, Hong Kong and Sri Lanka. Additionally, there was unidirectional transmission of volatility from the India's Stock market to its foreign exchange market. Finally, there was no evidence of any shock or volatility spillover patterns in Japan's stock and foreign exchange markets.

Adi (2017) investigated transmission patterns of shocks and conditional volatility in the foreign exchange and stock markets of Nigeria. Using a BEKK Asymmetric GARCH model, the results showed evidence of short

term persistence of own shocks and volatility in both markets. Moreover, there was strong evidence of bidirectional spillovers of volatility in both markets. Finally, shock transmission in these two markets was found to be unidirectional, from the stock to the currency market. Using a multistep VAR(1) EGARCH model and weekly data from 1 July 1995 to 31 October 2010, Bonga-Bonga and Hoveni (2013) evaluated volatility spillovers between the Equity Market and Foreign Exchange Market in South Africa. The study's findings indicated the existence of unidirectional volatility spillovers from the stock market to the foreign exchange market. The paper further concluded that this phenomenon could be attributed to inflows of capital that is denominated in foreign currencies into the Johannesburg Stock Exchange. Pertaining to the local scene, Kisaka and Mwasaru (2012) investigated the causal linkages between the stock market and the foreign exchange market in Kenya. Using monthly data for the NSE 20 share index and the USD/KES exchange rate for the November 1993 to May 1999 period, this study found out that these two time series indicators are cointegrated of order one and that the USD/KES exchange rate granger-causes the NSE 20 share index. Cheruiyot (2015) utilized weekly data for the January 2000 to April 2017 period and an EGARCH model to investigate the spillover of returns and volatility in Kenya's stock and foreign exchange markets. The findings of this research suggested that there were volatility transmission effects from the foreign exchange to the market stock market before the global financial crisis. Additionally, there was cross spillover of volatility from the stock market to the foreign exchange market before and even after the global financial crisis.

The current study seeks to augment the previous studies by undertaking a comprehensive evaluation of the own and cross linkages for transmission of shocks and volatility in Kenya's stock and foreign exchange markets.

METHODOLOGY

Data

The Kenyan stock market was proxied by the NSE 20 share index while the Kenya Shillings per US dollar exchange rate was used to represent the Kenyan foreign exchange market. Weekly closing values of these two indicators for the 6th January 2006 to 28th December 2018 period were utilized for empirical analysis. Data on the US dollar exchange rate was downloaded from the Central Bank of Kenya website (https://www.centralbank.go.ke/) while the NSE 20 share index data was procured from the Nairobi Securities Exchange (https://www.nse.co.ke/). Logarithmic returns of the weekly closing values were computed and then used for empirical analysis.

Empirical Model

The Baba, Engle, Kroner, Kraft (BEKK) bivariate GARCH model of Engle and Kroner (1995) was used in this study to investigate the shock and volatility transmission effects between the stock and foreign exchange markets in Kenya. The model is fitted in two stages:

In stage one, the mean equation, which is a VAR(*p*) model of order *p* for the conditional returns was fitted as per Equation 1 below:

$$R_t = \alpha + \theta_1 R_{t-1} + \theta_2 R_{t-2} + \theta_3 R_{t-3} + ...\theta_p R_{t-p} + \varepsilon_t \quad (1)$$

Where R_t is a *2X1* vector of the returns of both the stock market and the foreign exchange market for any given week *t*; α is a *2X1* vector of long term drift coefficients of the returns of both the stock market and the foreign

exchange market; θ_1 to θ_p are *2x2* matrices of own and cross return spillover coefficients; R_{t-1} to R_{t-p} are *2X1* vectors of the returns of both the stock market and the foreign exchange market for each of the *p* lags; ε_t is a *2X1* vector of residuals, which follows a bivariate normal distribution with a joint mean of 0 and a covariance-variance matrix H_t. Therefore, $\varepsilon_t \sim N(0, H_t)$.

In stage two, the variance-covariance matrix of the vector of residuals, ε_t, as at any given week *t* was estimated. This variance-covariance matrix, denoted, H_t, is modelled using the BEKK specification as a function of: (i) the matrix of residuals' squares and cross products for week *t-1* ($\varepsilon_{t-1}\varepsilon'_{t-1}$) and (ii) its first lag. This is as per Equation 2:

$$H_t = CC' + A'\varepsilon_{t-1}\varepsilon'_{t-1}A + B'H_{t-1}B \quad (2)$$

Where H_t is a *2x2* variance-covariance matrix; *C* is an upper triangular matrix of long term drift coefficients for the volatility and covolatility processes; *A* is a *2x2* matrix of shock transmission coefficients: The diagonal coefficients of matrix *A* quantify own shock transmission effects while its off-diagonal coefficients measure cross shock transmission effects; ε_{t-1} is a *2X1* vector of residuals at time *t-1*; *B* is a *2x2* matrix of volatility transmission coefficients: The diagonal coefficients of matrix *B* quantify the persistence of own volatility while its off diagonal coefficients evaluate the persistence of cross volatility; and H_{t-1} is the first lag of H_t.

The coefficients of matrices *C, A* and *B* of the BEKK bivariate GARCH model, together with their respective standard errors, were estimated using the Maximum Likelihood estimation method. This entailed maximization of the Log Likelihood function (Equation 3) under the assumption that the residuals follow a multivariate Gaussian distribution.

$$ln(L(\theta)) = -T\,ln(2\pi) - \frac{1}{2}\sum_{t=1}^{T}(ln|H_t| + \varepsilon'_t\ H_t^{-1}\varepsilon_t) \quad (3)$$

Where θ is the vector of the parameter estimates and *T* is the number of observations.

Following Engle and Kroner (1995), the Simplex algorithm was first used to attain the initial conditions. Thereafter, the Broyden–Fletcher–Goldfarb–Shanno (BFGS) optimization algorithm (*Broyden, 1970;* Fletcher, 1970; Goldfarb,1970; Shanno, 1970) was used to obtain the final parameter estimates.

DATA ANALYSIS AND EMPIRICAL RESULTS

Descriptive Statistics

The descriptive statistics for the weekly closing values and weekly returns of the USD/KES Exchange Rate and the NSE 20 Share Index are shown in Table 1. From the results, it can be seen that the mean of the weekly closing values of the USD/KES Exchange Rate is USD 0.0119/KES with a standard deviation of 0.0018. The maximum weekly closing value is USD 0.0162/KES while the least recorded weekly closing value is USD 0.0095/KES. On the other hand, the NSE 20 Share Index has a mean weekly closing value of 4156.329 with a standard deviation of 4156.329. This indicator has a maximum value of 6085.590 and a minimum of 2375.01. The findings further show that the USD/KES Exchange Rate's average weekly return is -0.0486%, with a maximum observation of 6.0612% and a minimum value of -7.0892%. For NSE 20 Share Index, the average weekly return is -0.059% with a maximum of 13.953% and a minimum of -14.680%. In can be seen that the weekly returns of the NSE 20 Share Index have higher variability (s.d= 2.434) than the weekly returns of the USD/KES Exchange Rate (0.9601). Moreover, it can be noticed that the weekly closing values of the USD/KES Exchange Rate and the NSE 20 Share Index have a positive skewness but the weekly returns series of both are negatively skewed. Additionally, the coefficients of kurtosis show that the level series are platykurtic while the returns series are leptokurtic. Finally, the significant Jarque Bera statistics imply that the null hypothesis of normality is rejected for all level and returns series.

Table 1: Descriptive Statistics

Statistics	USD/KES Exchange Rate	USD/KES Exchange Rate Returns (%)	NSE 20 Share Index	NSE 20 Share Index Returns (%)
Mean	0.0119	-0.0486	4156.329	-0.059
Max	0.0162	6.0612	6085.590	13.953
Min	0.0095	-7.0892	2375.010	-14.680
S Dev.	0.0018	0.9601	795.025	2.434
Skewness	0.4480	-0.1496	0.051	-0.112
Kurtosis	2.2533	14.8079	1.963	8.430
Jarque-Bera	38.3153	3929.6830	30.603	831.957
P value	0.0000	0.0000	0.000	0.000

Trend Analysis

Trend analysis was undertaken on the weekly closing values and weekly returns of the indicators of the stock and foreign exchange markets. Each time plot, as depicted in Figure 1, illustrates the temporal variability of its respective series for the data collection period. From the level series, it is evident that both Stock and Foreign Exchange markets experienced a spike in volatility in response to the two main crises of 2007/2008: the global financial crisis and the Kenyan post election violence. From the trend plots of the closing values, it can be noticed that both markets experienced wild swings in 2007 and early 2008. The NSE 20 Share Index continued on a downward trend, until the first quarter of 2009, when it hit a record low of 2375 points. This index started its

recovery path as from the second quarter of 2009 and it was on an upward trend until the third quarter of 2010 when it peaked and then it started declining again. For the whole of 2011, the NSE 20 share index was on a losing streak, which terminated in December 2011. It started recovering from the first quarter of 2012 and was in a general bull run until the first quarter of 2015 when it started declining again, upto end of 2018, albeit with a small period of recovery in the first seven months of 2017.

On the USD/KES Exchange Rate, it can be seen that this indicator was on a weakening trajectory as from the second quarter of 2008 as the Kenyan Shilling continued losing value relative to the US Dollar until the third quarter of 2011, when it hit a low of USD 0.0098/KES. In the first quarter of 2012, the Kenyan Shilling posted marginal gains with respect to the US Dollar, to close at a high of USD 0.0121/KES on 20th February 2012. This was followed by a deterministic trend of loses until the second quarter of 2015 when it attained considerable stability. For the remaining part of 2015 and years 2016 – 2018, the value of the KES relative to the USD was relatively steady, with the general exchange rate for this period being below USD 0.0099 per 1 Kenyan Shilling. It can be noticed that the returns of both stock and foreign exchange markets are mean reverting; to a mean of zero. Additionally, the variability of their returns over time is not constant, but time varying – an indication of the presence of conditional heteroscedasticity and there is also evidence of volatility clustering. For the stock market, the volatility clusters are uniformly distributed over the entire measurement period, while for the foreign exchange market, there are two major volatility clusters that are visible, and are characterized with extreme swings. The first one coincides with the 2007/2008 period when the global financial crisis and the post election violence were ravaging the Kenyan economy; while the second cluster coincides with the 2011-2012 period when all East African economies were systematically afflicted by an intensive drought.

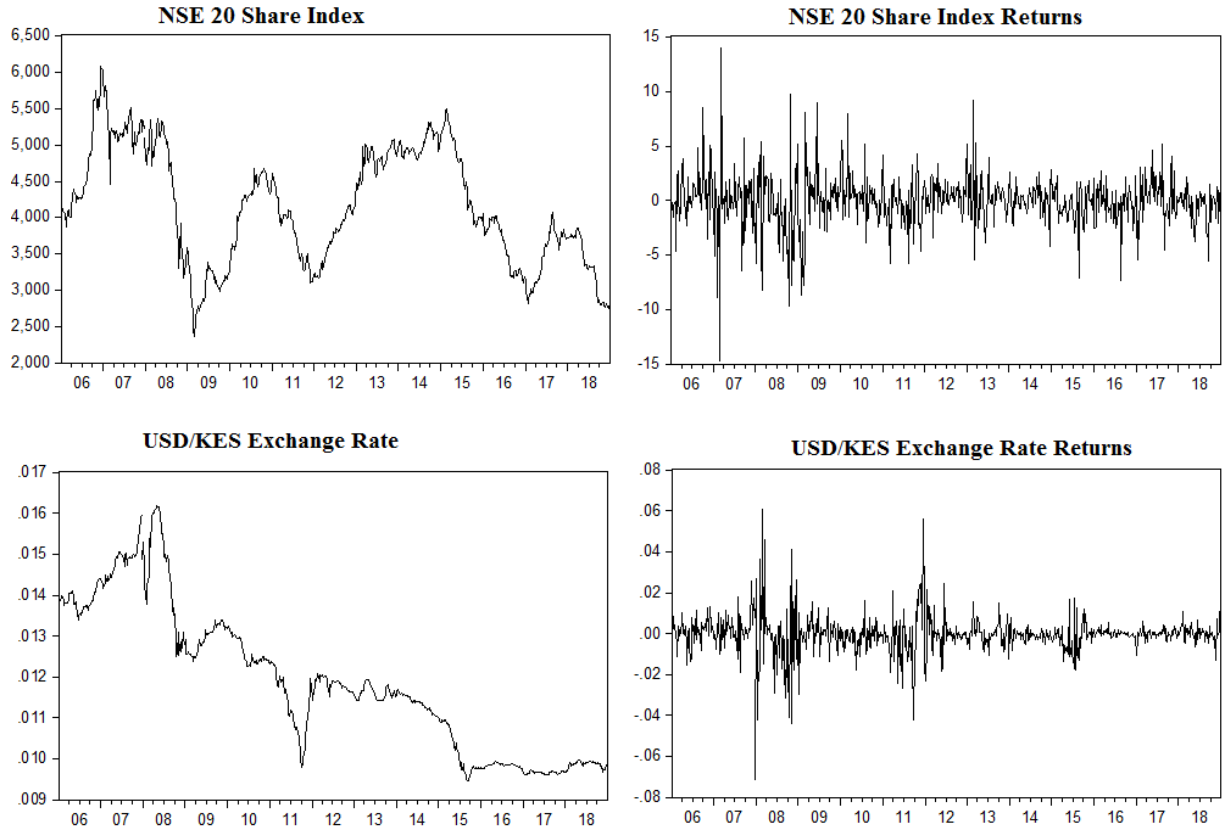

Figure 1: Trend Analysis

Unit Root Testing

Augmented Dickey Fuller (ADF) tests (Fuller, 1976) were used to test the weekly returns series for a unit root. Table 2 below shows the results of these tests. Since the ADF test statistics for both markets are less that their respective critical values at all levels of significance, the null hypothesis of a unit root was rejected in both instances. Therefore, it was deduced that the returns of both markets were stationary at levels.

Table 2: Augmented Dickey Fuller Tests for Stationarity

Indicators	Test Statistic	1% Critical Value	5% Critical Value	10% Critical Value
Stock Market	-23.099	-3.430	-2.860	-2.570
Foreign Exchange Market	-11.659	-3.430	-2.860	-2.570

Testing for Bivariate ARCH Effects

Table 3 shows that the Hacker and Hatemi-J LM Test for Multivariate ARCH effects by Hacker and Hatemi-J (2005) was statistically significant at the 1% level. Consequently, the null hypothesis that bivariate ARCH effects were not present was rejected in favor of the alternative hypothesis that bivariate ARCH effects were existent.

Table 3: Hacker and Hatemi-J LM Test for Multivariate ARCH effects

Test Statistic	Degrees of Freedom	Signif
76.32	36	0.0001

Optimal Lag Order Selection for the Bivariate Mean Equation

As manifest in Table 4, most criteria indicated that seven lags should be included in the VAR model in order to ensure optimality. Therefore, the mean equation was fitted as a VAR(7) model.

Table 4: Optimal Lag Order Selection

Lag	LogL	LR	FPE	AIC	SC	HQ
0	3690.985	NA	5.47e-08	-11.04487	-11.03138*	-11.03964

1	3702.259	22.44537	5.36e-08	-11.06664	-11.02619	-11.05097
2	3707.687	10.77591	5.33e-08	-11.07092	-11.00349	-11.04480
3	3719.550	23.47641	5.21e-08	-11.09446	-11.00006	-11.05789*
4	3720.527	1.928208	5.26e-08	-11.08541	-10.96404	-11.03839
5	3726.303	11.36219	5.23e-08	-11.09073	-10.94238	-11.03326
6	3735.104	17.25932	5.15e-08	-11.10510	-10.92979	-11.03719
7	3740.515	10.57907*	5.13e-08*	-11.10933*	-10.90704	-11.03096
8	3741.460	1.841213	5.18e-08	-11.10018	-10.87092	-11.01137

VAR(7)BEKK-MGARCH(1,1) Model Results

Results of fitting Equation 2 using the VAR(7)BEKK-MGARCH(1,1) are shown in Table 5. It can be noticed that the long term drift coefficient of the stock market's volatility ($C_{sm,sm}$ = 0.0110) is statistically significant at the 1% level. This implies that the stock market has a constant drift adjustment for each week, and this causes a shift in its volatility process from the unconditional mean of zero. Conversely, the covolatility process of the stock and foreign exchange markets and the volatility process of the foreign exchange market do not experience any significant drift, since their drift coefficients are not significant. Table 5 further shows that both diagonal coefficients of matrix *A* are statistically significant at the 1% level. Thereby implying the presence of own shock transmission effects in Kenya's stock and foreign exchange markets. The implication is that the shocks which impact each of the two markets in any given week have an incremental effect on their own volatilities in the succeeding week. The magnitude of own shock transmission coefficients indicates that own shock transmission effects are stronger in the stock market ($a_{sm,sm}$ = 0.6029) as compared to the foreign exchange market ($a_{fm,sm}$ = 0.4713).

Furthermore, the fact that matrix *A*'s off-diagonal coefficients are statistically significant implies the presence of bidirectional transmission of past cross shocks between the stock and foreign exchange markets. Therefore, a shock to the stock market in a particular week influences the volatility of the foreign exchange market in the following week. Likewise, the level of volatility in the stock market in any given week is affected, to some degree, by shocks that impacted the foreign exchange market in the previous week. However, the influence of cross shocks from the foreign exchange market on the stock market's volatility is more statistically significant and has a higher magnitude ($a_{fm,sm}$ = 0.3738) than the effect of lagged cross shocks from the stock market on the foreign exchange market's volatility ($a_{sm,fm}$ = 0.0237). This shows that in addition to having stronger own shock transmission effects, the stock market, as compared to the foreign exchange market, is also more susceptible to cross shock transmission effects.

Additionally, it is evident from Table 5 that both diagonal coefficients of matrix *B* are statistically significant at the 1% level. This shows that the stock and foreign exchange markets exhibit persistence of own volatility. The implication is that for both markets, the level of volatility in any given week is influenced by its level in the preceding week. Moreover, it can be noticed - from the magnitude of own volatility transmission coefficients -

that persistence of own volatility is more prevalent in the foreign exchange market ($b_{fm,fm}$ = 0.4713) *vis-à-vis* the stock market ($b_{sm,sm}$ = 0.6621).

The results further indicate the presence of unidirectional volatility spillover effects from the stock market to the foreign exchange market. This is because parameter ($b_{sm,fm}$ = 0.0334) is statistically significant at the 10% level of significance. These results imply that volatility of the stock market in any given week has a tendency to spillover, ostensibly through financial and economic linkages, thereby influencing the level of volatility in the foreign exchange market in the succeeding week. Conversely, since parameter ($b_{fm,sm}$ = 0.0946) is not statistically significant, the study finds out that volatility of the foreign exchange market does not have any temporal causal effect on the on the stock market's volatility.

Table 5: VAR(7)BEKK-MGARCH(1,1) Model Results

Coefficient	Coefficient Value	Standard Error	T-Statistic	P Value
$c_{sm,sm}$	0.0110***	0.0011	10.4612	0.0000
$c_{sm,fm}$	0.0005	0.0003	1.6317	0.1027
$c_{fm,fm}$	0.0007	0.0004	1.5896	0.1119
$a_{sm,sm}$	0.6029***	0.0670	8.9973	0.0000
$a_{sm,fm}$	0.0237*	0.0142	1.6626	0.0964
$a_{fm,sm}$	0.3738**	0.1304	2.8655	0.0042
$a_{fm,fm}$	0.4713***	0.0442	10.6620	0.0000
$b_{sm,sm}$	0.6621***	0.0469	14.1315	0.0000
$b_{sm,fm}$	0.0334*	0.0175	1.9086	0.0563
$b_{fm,sm}$	0.0946	0.0594	1.5929	0.1112
$b_{fm,fm}$	0.8896***	0.0136	65.5365	0.0000

(***), (**) and (*) denotes significance at the 1%, 5%, and 10% level respectively

Testing for Residual Autocorrelation

As a post estimation procedure, the Multivariate Ljung-Box Q Test of Ljung and Box (1978) was used to test the residuals of the VAR(7) BEKK-MGARCH(1,1) model for residual autocorrelation. Presence of autocorrelation in the residuals would imply that the just fitted empirical model has a poor goodness of fit for the study's data and it wasn't able to capture all ARCH effects in the raw data. Table 6 below shows that the Multivariate Ljung-Box Q Test is not statistically significant at the 5% level. Therefore, the null hypothesis that the residuals are not serially correlated is not rejected. This affirms that the empirical model is properly specified and its goodness of fit is acceptable.

Table 6: Multivariate Ljung-Box Q Test for Residual Autocorrelation

Test Run Over	Lags Tested	Degrees of Freedom	Q Statistic	P value
8 to 676	5	20	15.71776	0.73397

CONCLUSION

The findings of this study yield evidence of strong own shocks transmission effects in Kenya's stock and foreign exchange markets. As such, the volatility of these two markets is reactive to own shocks and a shock to each of these markets in any given week will lead to an elevation of own volatility in the succeeding week. Moreover, own shock transmission effects are noticed to be stronger in the stock market as compared to the foreign exchange market. The results additionally indicate that the level of volatility in each market is responsive to single lagged cross shocks from the other market. Moreover, volatility of the stock market has a higher responsiveness to the foreign exchange market's past shocks as compared to the receptiveness of the foreign exchange market's volatility to its lagged shocks. The findings further show that persistence of own volatility exists in both markets. However, this effect is seen to be stronger in the foreign exchange market as compared to the stock market. Finally, the study concludes that a unidirectional volatility spillover linkage - from the stock market to the foreign exchange market - is existent. In general, it can be inferred that the stock market's volatility is mainly driven by shocks while persistence of past volatility is the main determinant of volatility in the foreign exchange market. The study recommends that investors in Kenya's stock and foreign exchange markets should utilize the knowledge which has been generated by this study, on these two markets' extant shock and volatility transmission patterns, to enrich their portfolio allocation decisions and strategies in line with their respective investment objectives.

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BANK SUPERVISION AND PERFORMANCE OF COMMERCIAL BANKS IN KENYA

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Background of the study

1.1 Bank Supervision

Banking supervision is the right to snoop to an institution by a supervisory establishment in the management of banks, by virtue of binding laws, in order to ensure their lawful and safe execution, (Głuchowski, 2008). The provident supervision of banks and credit institutions is aimed at overseeing the soundness of the financial structure in the economy and at safeguarding the deposits of creditors of those commercial banks. The overall duty is to provide a regulatory and supervisory surveillance to promote stable banking system and protect interests of depositors. This supervision is tracked mostly through the Bank's investigation of the soundness and liquidness development of banking and credit lending institutions (Chauhan, 2012).

Bank of Namimbia (2013) supervision report indicate the responsibility of banking supervision to be; to provide mechanisms for continuing off site scrutiny of banking system of individual banking institution, secure information and data from banking institutions for analysis, to monitor conformity with the banking rules, directives and circulars and prudential requirements, to develop appropriate banking legislation and formulate prudential banking risk management, screening applicants to establish banking business, conduct on site examination of banking institutions and conduct ad-hock examinations on alleged disruption of banking institution. Report from the bank of Malawi (2018), indicates the needs to bank supervision to include to help maintain public confidence by ensuring fairness, efficiency and orderliness in the banking sector and trying to detect financial crimes in the banking sector and to monitor any unlicensed deposit taking activities.

Foreign owned banks according to a report from South African reserve bank (2017) ought be exposed to the same criterions of licensing and prudential supervision as the domestic banks are being subjected to. Branches should not be allowed to take retail deposits and representative's offices, the third form of foreign banking activity may not accept deposit at all. According to Mishkin (2001) the forms of prudential supervision that cut across to foreign banks includes restrictions on assets holding to ensure avoidance of investment in risky assets, separation of the banking services and other services including industry, securities insurance among others, restricting on competition, a lower franchise value as an outcome to increasing completion might tip the inducements of the bankers regarding taking superior risks in an effort to uphold former profit levels, to ensure disclosure requirement that ensure that there is better information for depositors and market price, to ensure adherence on capital requirement to ensure adequate banking resources, bank chartering is also ensured as overseeing who operate banks is crucial. Banks can be easily be used by dishonest people and to prevent this new bank investors need to be screened thoroughly to prevent undesirable people from controlling them. Bank examination will help to get information on the bank assets liabilities dividends and evaluate quality of bank loans.

1.1.2 Commercial Banks in Kenya

Kenyan is a vibrant economy with 44 commercial banks, of which one is a mortgage finance company, 9 banks are microfinance institutions, 7 are representative offices of foreign banks, 94 are foreign exchange bureaus, seven are money remittance providers and 2 are credit reference bureaus. Out of these, 13 of them have over 50% foreign ownership. By the end of 2014 quarter 3 , the number of bank customer deposit and loan accounts stood at 26,603,385 and 4,068,304, respectively (KPMG, 2015). Central Bank of Kenya (2014) report indicates that, the increase in assets was as a result of higher demand for credit in 2014 which was far much less than the 2013 results, while the rise in deposits emanated from enlarged deposit mobilization by various banks, as they tried to expand their outreach and service networks throughout the economy to tap un-served segments of the market.

1.1.3 Performance of Commercial Banks in Kenya

The Kenyan banking sector as compared to others in the neighboring region has remained stable and resilient over the years. From the financial reports, in year 2015 there was a 9.2 per cent growth results in the sector's balance sheet from Ksh. 3.2 trillion in December 2014 to Ksh. 3.5 trillion in December 2015. The total net assets grew again by 9.2 per cent from Ksh. 3.2 trillion, the Gross loans increased by 11.57 per cent from Ksh. 1,940.78 billion, the customers' deposits increased by 8.73 per cent from Ksh. 2.29 trillion, (Njoroge 2016), Nevertheless, the pre-tax profit for the sector declined by 5.03 per cent, from Ksh. 141.1 billion in December 2014, to Ksh. 134.0 billion in December 2015. The ratio of gross non-performing loans to gross loans enlarged from 5.6 per cent in December 2014 to 6.8 per cent in December 2015, (Nyaoma, 2016).

Figure 1 below shows that profitability of banks has been on a gradual rise with two major shocks in 2011 and 2015. The shocks in 2011 and 2015 may be attributed to regulation changes in the sector which affected interest rates thereby reducing income from lending. This is more pronounced in the period between 2014 and 2015 where the sector was affected by the 2015 Banking (Amendment) Bill which capped interest rates. The bank performance recorded a rise in profitability by 10% in 2016, and in 2017 there was a fall by 9.6% associated in reductions in income levels.

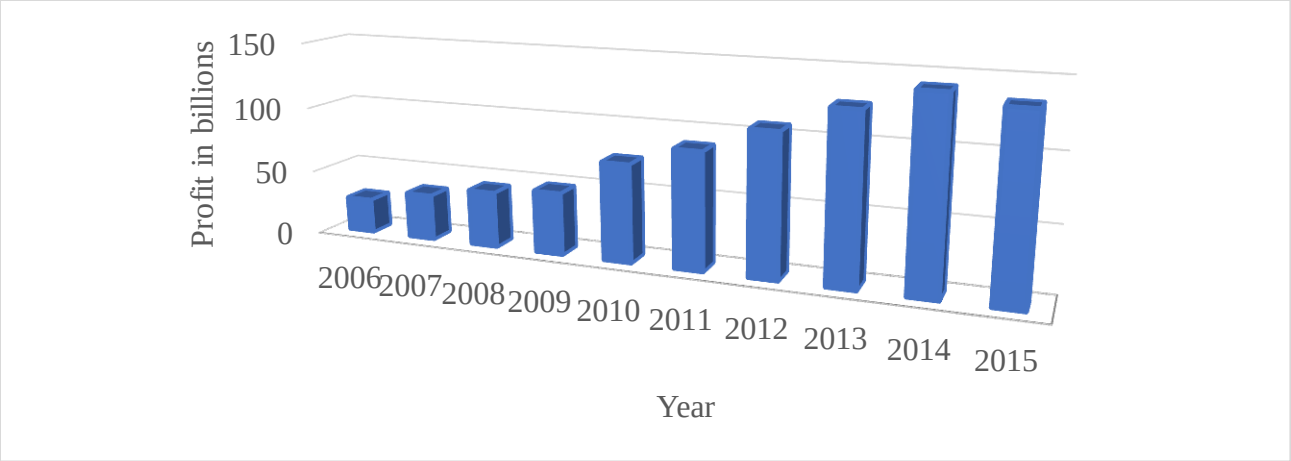

Figure 0.1: Bank Performance (2006-2015)

Source: Central Bank of Kenya annual supervision reports (2006-2015)

1.2 Statement of the Problem

The Basel committee on bank supervision issued the Basel core principles for effective bank supervision in 1997 has become a global standard for bank regulation in both developed and developing economies. The 2007-2009 financial crises severity and the perennial failure have cast doubt on the effectiveness of these global standards to foster bank stability and regulation. The initial crisis indicated assessment of regulatory failure is now giving way to a more complex regulatory dialogue and detailed evaluation of the principles underlying international regulator standards as well as the implications of their adoption in terms of bank's safety and soundness,(Ayadi *et al*., 2016). Performance of commercial has not been rosy in Kenya and some other countries of the world including Sweden Japan, Korea, Mexico, Chile, Thailand, India, Hungary, Russia, Ghana, Nigeria and United States of America among others. The commercial banks in these countries have one time faced sever banking crisis. They have been blamed at least to have had "bad" regulation and supervision that have affected the banking performance overtime, (Osano, & Gekara, 2018).

In Kenya, from years 1984 - 1991 there were a total of 29 bank failures reported many banks corpse. Between 2013-2017 some banks have been closed; others placed under receivership and others ceased operations. Going by the statistics on performance of commercial banks, local commercial banks are not performing well due to some degree of financial repression (Njoroge, 2016; Nyaoma, 2016). There has been a fall the pre-tax profit for the sector and income levels have decreased and the ratio of non-performing loans increasing overtime as reported above. Bank supervision key in all these, is implemented to ensure a sound and safe financial system in the economy. Researches on the root-course of the bank failures indicated that the matter at hand may be due to lapse of corporate governance, which the study seeks to ascertain. The critical role that all the central banks have in the world economic system, is to properly regulate and supervise banks to not only protect investors and customers interest but to ensure systematic stability and to safeguard the industry against risk, protect tariffs, to enhance social objective, which is now wanting. This study therefore sought the connection of financial supervision with performance of commercial banks.

1.3 Objective of the study

To examine the influence of bank supervision on the performance of commercial banks in Kenya

2.0 CHAPTER TWO

2.1 Interactional Supervision Theory

Interactional supervisory theory by Schulman (2010) is a relationship theory concentrated and built on the model that, there is a positive relationship between the supervisor and supervisee as a medium of supervisory influence. The theory emphases on supervisors assisting their supervisees develop real competence in managing key interactional context appropriate to enhance supervisory capability which includes; managing supervisory relationship, managing job performances which include converging clear expectation to the supervisee including compliance with requirements and providing professional development to the supervisee.

Supervision functions are understood through the various interactional contexts that the supervisee encounters in practice it focuses on supervision on helping their supervisee develop practical competences in managing key interactional context relevant to practice. Behavioral supervision utilizes cognitive behavioral strategies. Problem is identified and appropriate technology to resolve the problem selected. Supervisor models the technique and selectively reinforces the supervisee utilizing behavioral rehearsals with the supervisee; the primary issues are empathy, genuineness and unconditional positive regard (Smith, 2009).

According to Jana *et a.* (2011) supervisory duties is to educate supervisee to appreciate and treat his clients in a manner of guaranteeing best possible therapy results given to him, to support development of the therapist non-style requirements in order to increase the supervisee self-confidence, to aid the supervisee to better understand his/her work with the client in the biggest workable context. A healthy, robust and stable banking sector plays a vital role in supporting supervisory activity, without which will result negative results on performance and existence **of** the banks

2.2. Endogenous Growth Theory

Endogenous growth theory is attributed to the works of Romer (1986) and Lucas (1988). It is an economic theory which asserts that, economic growth is created from within an organization and as a direct result of internal processes. The theory further observes that, the improvement of a nation's human capital resource will result to economic growth by way of the improvement of modern systems of technology and efficient and effective means of production. Parente (2001) stipulates that the endogenous growth theory, as opposed to its direct counterpart the exogenous growth theory, believe that economic growth is largely a result of those endogenous variables like investment in human capital, knowledge, and innovation rather than external forces.

The endogenous growth theory was evolved as results of the omissions and deficiencies in the Solow- Swan neoclassical growth model. The theory and its models are usually believed to be in direct contrast with neoclassical economics (Ortigueira & Manuel, 1997). The failure of neoclassical growth model in rationalizing long run

economic growth is due to the presence of diminishing returns in capital necessitated the invention of the endogenous growth theory that show the long run economic growth through technological transfers demonstrated (Onyimadu, 2015).

One of the key pillars of the endogenous growth theory is that because internal variables drive economic growth, is economic policy that ultimately has the greatest effect on economic growth (Parente, 2001). Proponents of the endogenous growth theory put an emphasis on policy, which they consider govern the very incentives and opportunities that produce the technological knowledge and progress that drives growth. It is in this belief that builds this theory relevant to this study. In the current study, financial liberalization can be viewed as an internal process which affects bank performance.

2.3 Empirical Review

2.3.1 Bank Supervision and Bank Performance

Economic stability, effective bank supervision, stabilization, banking regulation and interest policies are categorized as the common characteristics of a successful financial sector liberation that has effect to banking outcome. It was found that the use of interest rate in a free market economy may fail short of clearing market risk levels. To prevent unwanted outcome economic stabilization and effective bank supervision should precede complete removal of control of interest rates, (Delah & Abbas, 1990). The lapse of corporate governance in the banking sectors includes illegal activities by bank executives and failure of the banks and companies to comply with banking regulations lead to financial distress among other problems in the banking sector (Osano, & Gekara 2018). According to Bounga (2013) corrupt environment with very little transparency democracy has effect on loan performance. There is massive amount of unaffordable loans being made to people who can't pay at all and the providers are almost aware of this.

The central bank as supervisor ensures commercial banks are adequately capitalized so that they remain solvent; it also ensures that they comply with risk management procedures that are set out so as to determine and manage various risks that the come across while doing business (Chauhan, 2012). According to Kupiec, Lee and Rosenfeld, (2015), the main reason for bank supervision lies in the various risks that banks take and the consequences for the whole economy should things goes against the expectation. The study stressed that supervision is a separate part of bank regulation that encompasses of more than monitoring conformity with minimum capital, liquidity or other quantitative regulations. According to Eichngreen and Dincar (2011) the central bank is looked upon to provide emergency liquidity but it cannot do so in the absence of up to date information from the commercial banks. The central bank is a guarantor of financial stability in the economy but cannot make this happen in the absence again on the true and right information emanating from full disclosure which can be obtained via hands-on supervision

Gamariel (2015) tested the hypothesis that liberalization policies have a negative influence on the levels of bank profitability. The study found that strengthening supervisory capacities and institutional frameworks has a positive effect on bank profitability. Using a sample of the ten largest European banks of France, Germany, UK and Greece over the period 2005-2011, Bouheni (2013) analyzed banking supervision effects on performance in banking

industry. Banking supervision seemed to have an impact on performance. The findings supported the view that the implementation of such banking supervision differs greatly depending on the institutional environment and the country's politics. Kupiec *et al.* (2015) found that supervisory limitations have a large negative effect on bank loan growth after adjusting for the control of monetary policy, bank capital and liquidity conditions of the economy and any voluntary reduction in lending, prompted by feeble legacy loan portfolio performance or other bank losses.

Raz, Irawan, Indra and Darisman (2014) study recommends that presence of a solitary bank supervisor, as it will heighten bank profitability. Meanwhile, there was a diverse result concerning the role of central bank independence in rising banks profitability. The study found that bank profitability tends to be larger in economies in which supervisors take legal action against external auditors for neglect, and in which the central bank is wholly responsive for supervision. Abdennour and Khediri, (2010) study found that on the contrary bank profitability is negatively related to the integration of financial supervision and the presence of Deposit Insurance (DI) contracts,

In many countries banking supervision has become the domain of the finance minister. Problem is that supervision is not wholly in the hands of the central bank, some supervisors have other duties such as supervising insurance institutions or consumer protection. It has been argued that the interest of the regulator (agent) deviate from those of the principal (the tax payer or society). The regulator may peruse private interest, incomplete information, insufficient accountability and lack of enforceability of compliance results in an incentive problem. There have been reports of insufficient monitoring of foreign branch, lack of exchange of information with other supervisors, delayed publication of reports on supervisory in the banks, (Thorsten and Daniel, 2013). Study by Osono and Gekera (2012) found that banking supervisory reforms are positively associated to the performance and stability of banks. The study asserts that powerful supervisors may exert a negative influence on bank performance. They may use their power to benefit favored constituents, attract company donations and extract bribes. Study by Karemera (2013) in Rwanda on bank regulation found no significance effect to performance of commercial banks.

Alan (1998) indicated that supervision and regulation in banks can never be a substitute for a bank's own internal security of its counterparties and for the market security of the bank. We should not abandon efforts to contain the scope of the safety net or to press for increase in the quantity and quality of financial disclosures by regulated institutions.

Table 0.1 Summary of Literature Review and Gaps

Authors	Title	Methodology	Findings	Recommendations	Gap	Gap to be Filled
Klomp *et al.* (2013)	Bank regulation, the quality of institutions and banking risk in emerging and	Time series data 70 non-industrial countries 400 banks	Stricter regulation and supervision reduces banking risk. Notably, capital regulations and	There should be stricter regulations and supervision of bank performance to reduce banking risk.	Study was a cross country study with countries with varying supervision requirements	Only commercial banks operating Kenya will be considered.

	developing countries: An empirical analysis		supervisory control reduce bank riskiness			
Bouheni (2014)	The Effects Of Regulation And Supervision On European Banking Profitability And Risk: A Panel Data Investigation	European banks over the period 2005 to 2011 Generalized Method of Moments (GMM) for dynamic panels	Strengthening regulations and supervision improves profitability and boosts the stability of European banking systems	Reinforcing supervisors' powers reduces risk-taking and promotes banking stability.	Study was carried out in Europe which is developed and has different supervisory requirements	Study will target performance of commercial in developing countries.
Raz *et al.* (2014)	Financial Supervision and Bank Profitability: Evidence from East Asia	Country-specific data for seven East-Asian countries (2006–2011) 39 individual banks	Strong evidence that the existence of a single bank supervisor, instead of multiple, will enhance bank profitability.	The empirical results presented in this paper could also provide some insights into policy decision-making, particularly to the extent of the effectiveness of the unification of supervisory agencies into one single Institution.	Analysis coverage is limited to emerging East Asian countries that have a relatively more stable political condition.	Only commercial banks in Kenya will be considered

Source: Researcher (2016)

2.5 Conceptual Framework

The conceptual framework shows the variables in the study along with the relevant indicators.

Independent variables **Dependent variable**

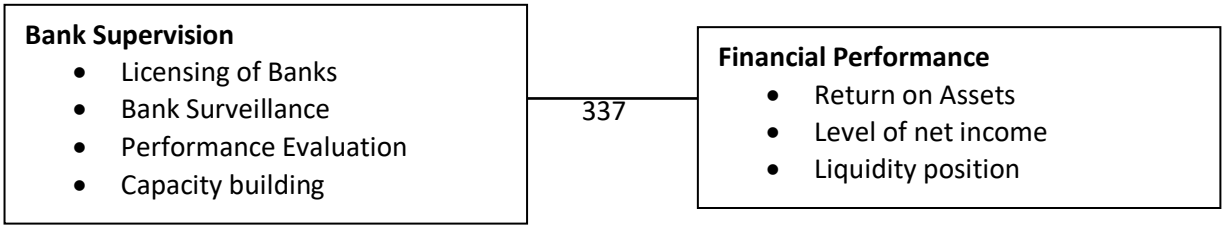

Figure 0.2 Conceptual framework

3.1RESEARCH METHODOLOGY

3.2 Research Design

This study adopted the descriptive survey research design. Draper (2004) describes research design as the overall plan of how the researcher intends to implement the project in practice. It is the blueprint on how to conduct the study with maximum control over factors that may interfere with the validity of the findings. Descriptive research design is deemed appropriate because it is able to collect accurate data and provide a clear picture of the phenomenon of the study as indicated by Mouton and Marais (1992).

3.3 Target Population

Target population refers to the group of individuals or units to which the researcher is captivated in generalizing the conclusions of the study (Dawson, 2009). This study targeted all the 44 commercial banks in Kenya registered by central bank as at December 2015. Three respondents per bank who included the bank manager, head of finance and credit section were targeted, making a target population of 132 respondents. According to central Bank of Kenya (2016), Kenya has 44 commercial banks that are categorized into three peer groups as shown in Table 3.1 below.

Table 0.2 Target Population

Category	Number of banks	Number of respondents per bank	Number of respondents
Large Peer Group (tier one banks)	6	3	18
Medium Peer Group(tier two banks)	15	3	45
Small Peer Group (tier three banks)	23	3	69
Total	44		132

Source: CBK (2016)

3.4 Sampling Design

The study adopted a stratified random sampling technique to sample banks for the study while purposive sampling was used to sample respondents of the study. Creswell (2009) asserts that, stratified random sampling is a technique which attempts to restrict the possible samples to those which are ``less extreme" by ensuring that all parts of the population are represented in the sample in order to increase the efficiency. With this technique, the study has a higher statistical precision compared to simple random sampling. In this study, the banks were divided into 3 strata based on their categorization by Central Bank of Kenya peer groups. From each strata, Mugenda and Mugenda (2012) recommend a sampling of 10-30%.In this study, 30% was used so as to get a large enough sample to justify generalization of the findings.

Table 0.3 Sampling Frame

Category	Number of banks	Sample (30% rate)	Number of sample respondents
Large Peer Group(tier one banks)	7	2	6
Medium Peer Group(tier two banks)	12	4	12
Small Peer Group (tier three banks)	25	9	27
Total	44	15	45

Purposive sampling was employed to draw respondents in the study. According to Silverman (2005), purposive sampling is where the researcher targets a particular group of people whose background expertise relates to the objective of the study. Therefore, from each of the sampled 15 banks three respondents including the manager, heads of finance and credit departments were recruited into the study. These persons are selected because they head two of the most critical departments in the bank and therefore are resourceful person on matters credit, interest rate and reserve requirements. The study therefore had a sample of 45 persons drawn from 15 commercial banks.

3.5 Data Collection Instruments

The study used both the primary and secondary data for analysis. The primary data was collected using structured questionnaires which were distributed to individual respondents to respond to similar set of questions as conceptualized by Saunders *et al.*, (2009). Questionnaire provides a competent way of collecting responses from a large group of respondents. Secondary data was sourced from participating banks' financial reports.

3.6 Data Collection Procedure

The researcher wrote to the bank managers of the participating banks to inform them of the study. On the material day, the researcher visited the individual banks to deliver the questionnaires. Respondents were given 7 working days to fill the questionnaires to ensure a high response rate. The researcher left his contacts for any clarification that the respondents may need. On the 8^{th} day, the researcher visited the banks to collect the questionnaires.

3.7 Data Analysis and Presentation

Data was collected and analyzed with respect to the objectives using both descriptive and inferential statistics. According to Mugenda & Mugenda (2012), data analysis is the process of ordering, structuring and giving meaning to the information. The information collected was checked for errors of omission and commission. Still, the Univariate analysis which is the distributional properties of a variable was carried out for each variable to describe the variable in order for preparation for multivariate analysis which was undertaken. The analysis is the first step of quantitative analysis for each variable that is to be analyzed independently and it provides a convenient way of producing valuable statistics. Frequencies and percentages were also used to interpret the reported data. With the help of SPSSS software, multiple regressions were also conducted to establish relationship between the independent and dependent variables. The multiple regression models applied for the study are shown below.

$$\mathbf{Y = B_0 + \beta_1 X + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e}$$

Where: **Y** = Financial performance

$\mathbf{B_0}$ = Constant $\mathbf{X_1}$= Credit controls

$\mathbf{X_2}$= Interest Rate Controls $\mathbf{X_3}$ = Reserve requirements

$\mathbf{X_4}$ = Bank supervision **t** = time

$\boldsymbol{\beta_1 - \beta_4}$ = Co-efficient **e** = error term

4.1RESEARCH FINDINGS AND DISCUSSION

4.2 Response Rate

Table 4.1 shows the response rate in the study

Category	Sampled banks	Number of questionnaires distributed	Number of questionnaires returned
Large Peer Group	2	6	5
Medium Peer Group	4	12	12
Small Peer Group	9	27	25
Total	15	45	42

Findings in Table 4.1 show that 42 out of the 45 questionnaires distributed were filled and returned fit for analysis. This represents a response rate of 93% which is higher than the 70% threshold recommended by Mugenda and Mugenda (2010). This response was extremely high and encouraging.

4.2 Socio-demographic characteristics of Respondents'

The study collected data on age, gender, level of education and working experience from the respondents. The findings are presented in Table 4.2.

Table 0.4 Respondents' Socio-demographic Profile

Characteristic	Categories	Frequency	Percentage
Gender	Male	31	74
	Female	11	26
	Total	**42**	**100**
Age	27-35	9	21
	35-43	22	52
	Over 43	11	26
	Total	**42**	**100**
Level of education	Bachelor's degree	35	83
	Postgraduate degree	7	17
	Total	**42**	**100**
Working experience	1-5	6	14
	5-10	28	67
	10-15	8	19
	Total	**42**	**100**

Findings in table 4.2 show that majority (74%) of the respondents in the study were male. This shows that women are greatly underrepresented in management positions in the banking industry which is consistent with findings of Naidu and Nair (2014) and Wangu (2014). The finding also shows that over half (52%) of the respondents were aged between 35 and 43 years while 26% were aged over 26 years. This shows that management staff positions in the banking industry comprised of middle aged people. This finding is in agreement with findings of Wanyama *et al.* (2014). The findings above indicate that most of the respondent (83%) had a bachelor's degree as their highest level of education. Education in this case gave preference before recruitment to work in the bank. Majority of the respondents, (67%) had a working experience of between 6 and 10 years. This shows that bank managers and departmental heads in the study were highly educated and had adequate experience to enable them give resourceful information on the effect of financial liberalization on the performance of commercial banks in Kenya.

4.3 Bank Supervision and Bank Performance

The study sought to establish qualities of central bank in supervision of banks. Findings are presented in Table 4.3

Table 0.3 Qualities of Central Bank in Supervision of Banks

	Very high	High	Fair	Low	Very low
Independence of central bank	63%	5%	5%	20%	7%

Scope of supervision	72%	18%		8%	2%
Authority of central bank	88%	10%	2%		

Results in table 4.3 indicate that most of the respondents (68%) indicated that independence of Central bank was high. Majority (90%) of the respondents also indicated that the scope of supervision was high. Similarly, an overwhelming number (98%) of respondents indicate that the authority of central bank was very high. This shows that Central Bank is independent, has a wide scope of supervision and high authority qualities which are important for effective supervision.

The study also sought to establish how supervision affected their performance. The findings are presented in Table 4.4

Table 0.4 Effect of Supervision on Bank Performance

	Strongly agree	Agree	Uncertain	Disagree	Strongly disagree
Stricter regulation and supervision reduces banking risk	73%	15%	2%	1%	9%
Strengthening supervisory capacities and institutional frameworks has a positive effect on bank profitability.	54%	18%	2%	10%	16%
Supervisors from the central bank of are not concerned on how we treat clients	40%	50%	5%	1%	4%
Supervisors help supervisee to understand their work	22%	17%	1%	4	56
There is little transparency democracy in most of the banks	74%	14%	3%	1%	18%
Failure to comply with banking regulations by banks is on the rise	65%	15%	5%	5%	10%
Banks are making massive unaffordable loans to people who cannot pay at all	14%	5%	8%	10%	63%
Most of the bank auditors are in negligence of their role in bank supervisory	15%	4%	50%	10%	21%
The central bank lacks enforceability of compliance of commercial banks in Kenya	16%	14%	5%	35%	30%
Corrupt banking environment has a crucial effect in banking supervision in Kenya	10%	64%	5%	1%	20%

Result in table 4.4 shows that (88%) of respondents indicated that stricter regulation and supervision reduces banking risk. Similarly, 72% of the respondents indicated that strengthening supervisory capacities and institutional frameworks has a positive effect on bank profitability. This shows that supervision regulation affected bank performance by reducing bank risk. The findings are therefore in agreement with Chauhan (2012) who indicated that

the central reason for bank supervision is due to various risks that banks undergoes and the end result for the entire economy should things goes sour. The findings further review that 90% of the respondents do not feel the supervisors concern for way the supervisee treat their client and do not help them understand their work. About 73% of the respondents felt that failure on government regulation is on the rise and the issuance on un-fordable loans on the rise due the rise in completion amongst the banks and other financial institutions. The findings also indicate that 65% of the respondents of the auditors are compromised hence have negligence on their role. On the issue of banking environment corruption, 74% of the respondents indicated that this vice is on the rise.

4.4 Financial performance

The study tried to find out the financial performance of banks by assessing net income and return on assets for the previous 5 years..

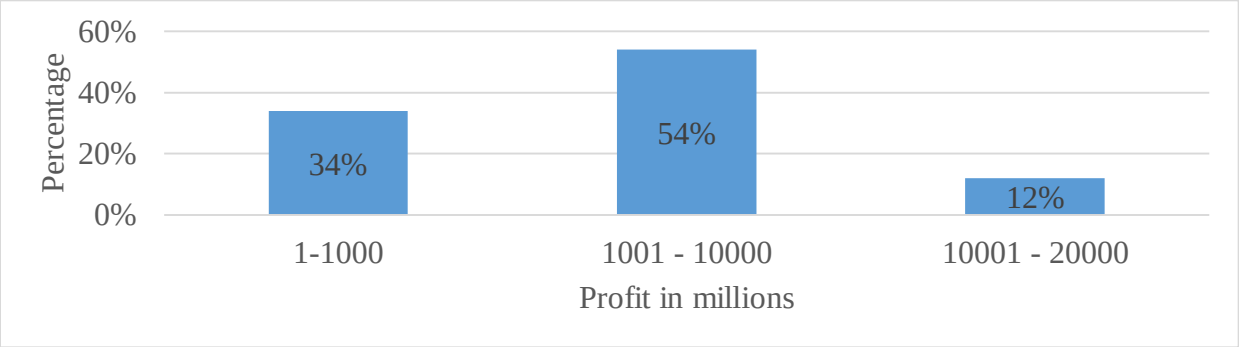

Figure 0.1 financial performances of banks

Findings in figure 4.5 the banking sector showed that over half (54%) of the banks in the study made an average profit of between Kshs 1B and 10B. The findings show that 34% made between 1B and 10B in the period under review. The findings therefore show that the banks in the study had high bank performance as they made the returns.

4.4.1Banks' Return on Assets

The study also sought to assess bank performance by Returns on Assets. The findings are shown in Table 4.5

Table 0.6 Results on Returns on Assets

ROA (%)	Frequency(banks)	Percentage
1% – 2.5%	4	27%
2.6 %– 5%	8	53%
Below 1%	3	20%
Total	15	100%

Source: Field data (2017)

The findings in table 4.5 show that majority (53%) of banks in the study had an average ROA of between 2.6% and 5%. This finding collaborate those in Figure 4.4 which show that banks in the study had a high financial performance. Banks that had ROA that was below 1% was 20% which is relatively high.

4.4.2 Ranking of Factors

Respondents in the study were asked to indicate the factor which influenced bank performance the most. Majority (58%) of respondents indicated that interest rates were the most important to bank performance. The findings show that 20% cited credit controls while an equal number (20%) cited reserve requirements as the most affecting factors on bank performance. About 2% of the respondents felt that bank supervision had the lowest influence in bank performance though very important

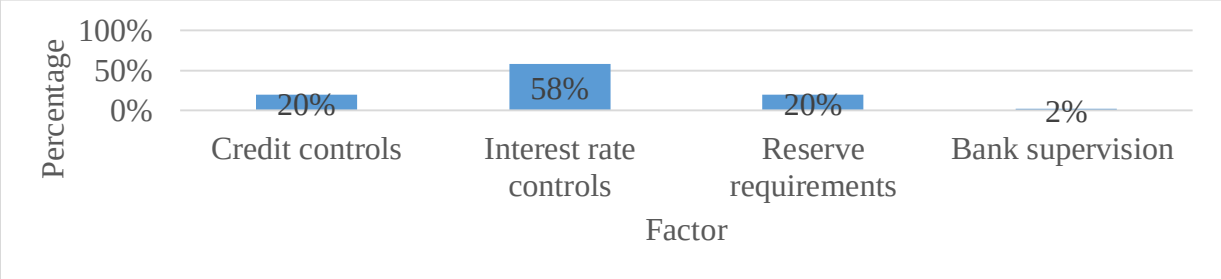

Figure 0.2 Ranking of Factors

4.5 Regression Analysis

The study applied multiple regression models to determine the statistical significance of the prediction between financial liberalization variables and performance among commercial banks. The regression output also helped determine the strength of association between performance among commercial banks and the multiple independent variables (credit controls, interest rate controls, reserve requirements and bank supervision). In addition, regression analysis helped identify the relative importance of each of the multiple independent variables in predicting the performance among commercial banks and predict the outcome of the dependent variable from the values of the multiple independent variables. The findings are presented below

Table 4.6 Coefficients table

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig
		B	Std. Error	Beta		
	(Constant)	.091	.147		.619	.537
	Credit control	-.137	.046	-.147	-2.953	.001
	Interest rate control	.927	.076	.839	12.186	.007
	Reserve requirement	-.310	.087	-.213	-3.545	.004
	Bank supervision	**.076**	**.042**	**.103**	**1.809**	**.073**

The beta values in the un-standardized coefficients can be used to solve the model of the study as shown below.

The regression model results in table 4.6 shows that the constant is 0.091; and significance level of all the variables except bank supervisor to be significant at 95% confidence interval. The significance level was found to be 7.3% which is greater than $\infty = (0.05)$. The findings shows that bank supervision have a positive effect at (0.076) but is not significant to performance at 95% confidence level. The results are in agreement with study done in Rwanda by Karemera (2013) in Rwanda on bank regulation that found no significance effect to performance of commercial banks.

Table 4.7 Model Summary

Model	R	R^2	Adjusted R^2	Std. Error of the Estimate
1	.840[a]	.706	.698	.611

The model summary in Table 4.7 shows the R, R^2 and adjusted R^2 for the model in the study. R provides the square root of R^2 and shows the correlation between the predicted and observed values of dependent variable. R^2 represent the percentage of variance in the dependent variable which can be supported by the independent variables; it indicates to us the goodness of fit of the study model. The R^2 value of 0.706 indicated above means that, 70.6% of the performance of commercial banks can be supported by financial liberalization. The adjusted R^2 is an adjustment of the R-squared that penalizes the addition of extraneous predictors to the model; it is intended to control for over estimates of the population R^2 resulting from small samples, high collinearity or small subject/variable ratios. The adjusted R^2 value of 0.698 in this study means that about 69.8% of the variability of performance of commercial banks is accounted for by the model; even after looking at the number of predictor variables in the model. The Standard error of the estimate is a measure of the accuracy of the regression predictions. It represents the error term which will be included in the model later on in the discussion.

The model summary therefore shows that the bank supervision as a variable in financial liberalization is important to bank performance as they contribute greatly to the variation of financial performance of commercial banks. Table 4.8 shows the ANOVA output of the regression model

Table 4.8 ANOVA Output

Model		Sum of Squares	Df	Mean Square	F	Sig.
	Regression	40.993	4	10.248	24.010	.000[b]
	Residual	15.793	37	.427		
	Total	56.786	41			

The ANOVA output in table 4.8 shows how well the regression equation fits the data. The results in the table was that the F value was 24.010 and a significant value of (p=0.00) at 95% confidence level. This means that overall the regression model statistically significantly predicts the outcome variables in the regression model.

Table 4.9 Hypotheses Decision Table

Variable	Significance (P-value)	Interpretation	Decision on H0	Conclusion
Bank supervision	0.073	Not Significant	Fail to reject the null hypothesis $H0_1$	Bank supervision does not affect the performance of commercial banks in Kenya.

Significant at 95% CI

Findings in Table 4.9 show that bank supervision (p=0.073) is not significant at 95% confidence level. There is therefore no empirical evidence this hypothesis and the study concludes that bank supervision does not affect the performance of commercial banks in Kenya.

5.0CHAPTER FIVE
5.1 RECOMMENDATIONS

Bank supervision enhances bank performance but to a very little extent. Strict bank supervision ensures that banks comply with other controls such as credit controls, interest rate controls and reserve requirements but does not in itself directly affect the performance of the bank. Independence of central bank should also be enhanced to promote transparency in supervision of banks.

There are ways of ensuring effective bank supervisory which includes; avoiding of the happenings of accounting information distortion from subjective consciousness; appointing a chief finance officer to oversee both the treasurer and the controller of work, ensuring financial director supervision system is continuously improved, establishing working internal audit systems, strengthening staff training and providing education to improve the professional quality of accountants so as to ensure the staffs are familiar with relevant globally acceptable accounting policies and regulations.

The players must also strengthen social supervision among the banks, establish a sound regulatory mechanism by the central bank, evaluate an entity's performance independently and deliver audit opinions objectively and in a fair manner. Separation commercial banks supervision from other institution's supervision could improve the central bank supervision mechanism. Some accounting firms have incentives to show false audit reports in order to increase their profits to which should be avoided as much as possible.

Education should help to fight against offences and crimes such as faked records, help build up appropriate personal morality and ensure truthful accurate complete and timely disclosures of financial information, improving quality accounting personnel against accounting information distortions. This should be intensified. Supervisors should be more concerned on how supervisee deals with their clients and how they ensure transparency democracy in the banking sector. Issues of corruption in the banking sector and issuance on unaffordable loans should be mitigated.

The government of Kenya should ensure anti-corruption reforms are intensified and re-establishing efficient adherence to the rule of law to rebuild the rapt process for reconciliation and maintenance of public confidence towards the commercial banks. The new IFMIS system brought about by the government of Kenya in 2013 should the relooked to seal all the lope holes where moneys are getting lost when transferred from the government institutions to the banks. Supervision at this level should be intensified.

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REGULATORY FRAMEWORK AND COMPETITIVENESS OF MEDIUM SCALE MANUFACTURING ENTERPRISES IN KENYA

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ABSTRACT

The development of the Small and Medium Enterprise sector is critical in the promotion of sustainable balanced development of national economies due to their ability to distribute incomes in both rural and urban areas. In Kenya, the SMEs are recognised as an important agent of economic development through the generation of employment for poverty reduction. Despite the role of SMEs towards Kenya's industrial and economic take-off, a review of literature reveals that most of the studies on firm performance examine large scale enterprises in relation to macro-economics and governmental-industrial policies. On the other hand, the MSE Act of 2012 in Kenya seeks to provide an institutional framework for the micro and small enterprises. This means that there is a missing middle with inadequate literature and absence of specific legal framework for medium scale enterprises that could take into account the unique nature of activities and challenges experienced by these types of firms. A major objective of this study was therefore to investigate the regulatory framework and its effect on the performance of medium scale enterprises in the manufacturing sector in Nairobi City County, Kenya. Questionnaires and interview schedules were used to collect data from a group of 56 Chief Executive Officers, General Managers or equivalent senior management staff of sampled enterprises with an employment level of between fifty one (51) and two hundred persons (200). The chosen manufacturing enterprises had to be registered with the Kenya Association of Manufacturers and licensed by the Nairobi City County government. The study established that the medium scale manufacturing enterprises face challenges brought about by a complicated regulatory regime, unfriendly customs and trade regulations, tight monetary and credit policies, corruption and excessive tax regimes, workforce and labour regulations, thus impacting negatively on their performance. The study concluded that governmental policies are important in providing an environment that is conducive to business development. Policy initiatives should therefore be directed at removing bottlenecks, lowering and reforming the tax systems, creation of flexible customs and port regulations, embraced information technology to reduce bureaucracy and increase transparency while maintaining transparency and accountability among public officials in charge of SMEs regulation. The government should also support infrastructure development to facilitate raw material sourcing, bulking, collection and cold storage, timely transport, upgrading access roads etc. This will help establish a level playing field to enable MSME competitiveness and support the realization of Kenya's vision 2030.

Key Words: Manufacturing, Medium scale, SMEs, Regulatory Framework, Competitiveness.

1. Introduction

It is generally accepted that the growth and development of Small and Medium Enterprise (SME) sector is critical in the promotion of a sustainable economic development of nations, wealth creation, employment and poverty alleviation (Baptista, Escaria, & Madruga 2005; Beck & Levin 2005). The Small and Medium Enterprises (SMEs) are also considered training grounds for entrepreneurship and act as channels for mobilizing local savings and ensuring a more equitable distribution of income (Kongmanila & Kimbara 2011). With their active industrial initiatives, the SMEs constitute a dynamic and critical part of the private sector whose entrepreneurial viability is essential in inducing responsiveness to fluctuations in the economic conditions of various countries.

In Kenya, Sessional paper No. 2 of 1996 on Industrial Transformation; Sessional paper no 2 of 2005 on Development of Micro and Small Enterprises for wealth and employment creation, and Sessionl paper No. 10 on Kenya Vision 2030 recognizes SMEs as an important agent of economic development through the generation of employment for poverty alleviation. With unemployment rapidly reaching new heights arising from harsh economic conditions, the SME sector development in Kenya has therefore been considered a counteracting force by creating productive employment and generating value added income, thus making a significant contribution towards the attempt to reach the poorest of the poor (Olawale & Garwe, 2010). Due to their size, the SMEs require a relatively small capital investment for start-up thereby offering a relatively high labour to capital ratio. However, it is in this era of liberalization of markets that large enterprises have witnessed a tremendous growth in terms of market penetration and geographical expansion (Omar, Arokiasamy & Ismail 2009). Business competition at both the local and international markets has become fierce thereby putting a supplementary strain on the competitiveness of firms in the SME sector since they have to compete in a globalised business environment that seems to favour larger firms (Krasniqi, 2010). Moreover,

SMEs have been structurally and institutionally marginalized as a result of many factors, one of which is the unsupportive regulatory framework (Schlogl, 2004; Omar, Arokiasamy & Ismail, 2009; Abor & Quartey, 2010; Bouazza *et al.,* 2015). As pointed out by Clement and Ang (2004), a good legal and regulatory framework by governments is critical for job creation, poverty reduction and national economic development. The legal and regulatory framework within which an enterprise operates influences its survival and growth potentials (Khan, 2014). Regulations by governments produces an atmosphere for businesses to grow or crumble (Luiz, 2011 Abor & Quartey, 2010; Bouazza *et al*., 2015). In the same vein, Chen *et al.* (2007) observed that when the legal and regulatory framework in a given economy are excessive, they may inhibit creativity and innovation, improved efficiency and enhanced productivity and growth of business enterprises. Likewise, Fonseca *et al.* (2007) pointed out that regulatory requirements that are in most cases not well streamlined cause a lot of stress to entrepreneurs in their desire to develop their business enterprises.

In Kenya, a recent World Bank report, ranked the country at number 61 out of the 190 economies sampled for the survey in terms of regulatory quality and efficiency for business start-up, getting credit, trade across the border, ease of doing business, paying taxes, among others (World Bank Report, 2018). Though this is an improvement compared to number 80 in year 2017, this ranking shows that there is still work to be done in enhancing the business climate in the country. The authorities therefore need to identify and address any regulatory constraints that are crucial in the successful performance of businesses, particularly the SMEs. Though SMEs are important towards Kenya's industrial and economic take-off, a review of literature reveals that most of the studies on firm performance have examined large scale enterprises in relation to macro-economics and governmental-industrial policies (Bouazza *et al*., 2015; Hayford, 2012; Aryeetey & Ahene, 2005; Abor & Quartey, 2010; Sarpong, 2012). On the other hand, the MSE Act of 2012 seeks to provide an institutional framework for the micro and small enterprises. This means that there is a missing middle without adequate literature and specific legal framework for medium scale enterprises that could take into account the unique nature of activities and challenges experienced by these types of firms. This lack of specific studies on legal and regulatory constraints to the competitiveness of medium scale enterprises counteracts sincere efforts in designing programmes to best facilitate and aid the growth of the sector.

As pointed out by the Parliamentary Budget Office (2018), the manufacturing value addition sector has had very minimal growth stagnating at about USD 5 billion for more than a decade. This shows that Kenya is losing its market share within the East African Community its competitiveness in the international trade. For instance, Kenya had held a dominant position in supplying the region with manufactured goods with Uganda as the largest trade partner, though lately, Kenya's manufactured exports to the region have shrunk considerably. According to Kenya's Parliamentary Budget Office (2018), Kenya's exports to Uganda and Tanzania dropped in year 2017 by 5.4 and 29.59 percent respectively as compared to 2013. To cement this view, many Manufacturing companies such as

Procter and Gamble and Reckitt Benckiser have in the recent past relocated from Kenya to other regions citing high cost of doing business. In view of this, the current study therefore sought to examine the regulatory framework and its effect on the performance of medium scale manufacturing enterprises in Nairobi City County, Kenya.

2. Methodology

The unit of analysis for this study were Medium Scale Manufacturing Enterprises (MSMEs) in Nairobi City County, with an employment level of between fifty one (51) and two hundred persons (200). The chosen MSMEs were from a cross section of the manufacturing or value addition sector, while the employment level of between 51 and 200 was arrived at considering the definition of micro and small enterprises provided in the MSE Act of 2012, and also the definition by the European Economic and Social Committee (GOK, 2012).

Nairobi City County was chosen because it is not only the regional business hub, but also because over 80 per cent of the manufacturing or value addition enterprises are based there (KAM, 2019). The manufacturing sector was chosen because its output is often traded in local, regional and international markets than service output. The manufacturing firms are also more likely to be in direct competition with foreign firms attempting to develop substitute technology using similar processes and targeting the same customers. Moreover, the industrial sector in Kenya comprises of the manufacturing, quarrying and mining and construction activities, out of which the manufacturing activities accounts for the greatest share. In addition, industrialization (which includes manufacturing), has been hailed as the "engine for growth" for newly emerging economies in the world and that is why the Kenya Government recognises this as a core goal to the attainment of vision 2030 (GOK, 2013; World Bank, 2001). The Chief Executive Officers, General Managers or Senior Management Executives of the MSMEs were identified because they would be in a better position to respond to questions touching on the overall competitiveness of their respective enterprises.

A Sampling Frame was prepared as per the list obtained from the Kenya Association of Manufacturers (KAM) and the licensing department of the Nairobi City County Government. This was done to ensure only the inclusion of legal business enterprises. It was also necessary to use both lists because not all MSMEs are members of KAM. The next step was to augment the list using the most recent data from the Kenya National Bureau of Statistics. As a result, 484 enterprises were identified from the various economic activities in the manufacturing sector as follows: Food Processing, Wood Workings, Fabricated Metal Products, Non-metallic products and Leather, Textiles and Garments.

Out of the 485 enterprises, 392 are located or have their offices within Nairobi City County which is the study's geographical setting. Of these 392 firms, only 90 fell within the required employment level of between 51 and 200 persons as per the study's definition of an MSME. The short-listed 90 enterprises were then classified into three (3) clusters based on employment level of 51-100, 101-150; and 151-200. In each of the clusters, the selected firms were further subdivided into five (5) substrata of Food Processing, Wood Workings, Fabricated Metal Products, and Leather, Textiles and Garments. This was done to ensure that the whole population was evenly covered to avoid biased representation (Hunter & Schmidt, 2004; Oslo Manual, 20057). In addition, this method was deemed useful in three ways. First, it was conceived that each stratum would be homogenous internally but heterogeneous with other strata of the population. Secondly, stratification would be useful if there was going to be a need to study the characteristics of certain sub-groups. Lastly, it was useful for the application of different methods of data collection where necessary in the different parts of the population (Saldana, 2011).

Using Krejcie and Morgan's (1970) table of determining sample size, 73 is the actual number of firms that is required to form a representative sample, out of a population of 90. The applicable formula is: $s = X^2 NP (1- P) \div d\ 2 (N -1) + X\ 2P (1- P)$, at a confidence level of 95% and a margin of error of plus or minus 5%, where:

s = required sample size.

$X2$ = the table value of chi-square for 1 degree of freedom at the desired confidence level (3.841).

N = the population size.

P = the population proportion (assumed to be .50 since this would provide the maximum sample size).

d = the degree of accuracy expressed as a proportion (.05).

Having determined the required sample size to be 73 MSMEs out of 90, it was found prudent to add additional enterprises to cover for possible non responses from the respondents, and also increase the reliability of the findings. The residue MSMEs seventeen (17), though five (5) had already been used during the pilot study, thus unavailable for inclusion. Since the remaining twelve (12) firms were judged not to be many, it was found wise to include them in the study to act as a buffer zone for possible non responses. As a result, all the eighty five (85) available MSMEs were included in the study, thus making it unnecessary to establish the sampling fraction. The collected data was analysed using descriptive statistics.

3. Review of Relevant Literature

3.1 Study Context

Kenya government's big four agenda on food security, affordable housing and universal health care proposes support to the manufacturing sector with a view to raising its share of GDP to 15 percent by 2022. The manufacturing sector is also a critical pillar towards the realization Kenya's Vision 2030 due to its strong forward and backward linkages with other sectors in the economy. Despite this critical role of the manufacturing sector, its contribution to GDP over the last five years has been on a downward trend according to the Parliamentary Budget Office (2018). For instance the sector contributed 10.7 percent of GDP in year 2013, though this has progressively declined to 8.4 percent as at 2017. The manufacturing sector's real value rose slightly by 0.2 percent in 2017 as compared to a growth of 5.6 per cent in 2013.

Ironically, more than eighty per cent of the manufacturing or value addition enterprises in Kenya are based in Nairobi City County which is the capital city and political seat of policy makers in the country. The rest of the value addition outfits are located in other major counties, including Mombasa, Kisumu, Kakamega Nakuru, Uasin Ngishu, Machakos, Nyeri and Kiambu (KAM, 2019). According to data from the Kenya National Bureau of Statistics (2016), the manufacturing sector in Kenya recorded a decelerated growth of 3.5 per cent from a revised growth of 3.6 per cent in 2015. The sector's growth remained stifled in 2016 mainly due to underperformance of other sectors such as agriculture and energy (electricity) that provide inputs for manufacturing activities. The near stagnation in the growth of manufacturing was also manifest in the slow uptake of credit from Kshs 290.1 billion in 2015 to KSh 276.7 billion in 2016. In year 2017, the manufacturing sector posted a marginal growth of 0.2 per cent compared to a revised growth of 2.7 per cent in 2016. The slowed growth was partly attributable to uncertainties related to the 2017 general elections, high cost of inputs and stiff competition from cheap imports. Generally, most activities in the sector recorded significant decline leading to the slowdown experienced in 2017. The volume of food products manufactured declined by 10.8 per cent in 2017 compared to 1.9 per cent growth in 2016 (Kenya National Bureau of Statistics, 2019).

Kenya's manufacturing sector is considered essential to national development because it is expected to play a significant role in economic diversification and employment creation (Sessional paper No. 10 of 2012 on Kenya Vision 2030). This sector serves both the local and export market mainly in the East African region. It is subdivided into twelve sub-sectors which are in processing and value addition (KAM, 2019). The first one is Timber, Wood and Furniture Sector, which produces furniture and fixtures, lumber, sash, doors, windows and door frames, prefabricated wooded parts and structures, veneer, plywood, hard board and particle board, cooperage and other wood stock and excelsior.

According to KAM (2019) Food and Beverage is another sub sector that manufactures Vegetable Oils, Daily Products, Alcoholic Beverages and Spirits, Juices / Waters /Carbonated Soft Drinks, Bakers and Millers, Cocoa / Chocolate and Sugar Confectionery. There is also the Leather and Footwear Sector which manufactures leather and products of leather, leggings, gaiters, footwear, fabrics, and other materials. Another sub sector is the Motor Vehicle which produces engines, brakes, clutches, axle, gears, transmissions, wheels and frames, assembly, rebuilding and major alteration of complete motor vehicles such as passenger automobiles, commercial cars and buses, lorries and truck trailers.

Plastics and Rubber is another sub sector that manufactures tyres and tubes, re-treading tyres, fabricating of plastic articles such as plastic dinnerware, kitchen ware, plastic mats, synthetic sausage casings, plastic containers and cups, laminated sheets, plastic components for insulation, plastic furniture, and plastic industrial supplies.

The manufacturers of tobacco products such as cigarettes, cigars, smoking chewing and homogenised tobacco and snuff, is another sub sector within the manufacturing industry. Others include: Chemical and Allied Sector - Manufacturers of basic industrial chemicals including fertilizers, pesticides, cosmetics, paints and resins; Paper and Board Sector - Manufacturers of pulp, paper and paperboard articles such as glazed, gummed and laminated paperboards, pulp plates and utensils, bottle caps, unprinted cards, envelopes and stationery, wall paper, towels, toilet paper, straws, mounts, publishing, and allied industries; Electrical and Electronics Sector - Manufacturers of electrical machinery, apparatus, appliances and supplies.

Other sub sectors in the manufacturing industry include the following: Textiles and Apparel Sector - Manufacturers of wearing apparel, weaving and finishing textiles, knitting mills, carpets and rugs; Pharmaceutical and Medical Equipment Sector - Manufacturers of medical equipment, drugs and medicines; Metal and Allied Sector - Smelting and Hot Rolling, pipes and tubes, wire and wire products, general fabricators and allied industries (KAM, 2019).

3.2 Constraints to Small and Medium Scale Enterprises' Competitiveness

It has been shown that Small and Mediums Enterprises are very different from large firms. Penrose (1995) uses the analogy that while caterpillars and butterflies are manifestations of the same creature, they cannot be meaningfully compared with each other as the differences are too great. Likewise, Ghobadian and Gallear (1997) in considering the implementation of Total Quality Management (TQM) in business enterprises, conducted a comprehensive review of literature regarding the implications of organizational size. In their report, they concluded that there are significant structural differences between SMEs and large organizations. For instance, they identified 'resource paucity' as the most serious disadvantage faced by SMEs during the implementation of TQM in their enterprises. Here, their definition of the term 'resource' was covering not only financial resources but also knowledge, technical expertise and management time (Yusof & Aspinwall, 2000; Levratto, Tessier & Zouikri, 2010).

Firms in the SME sector have to contend with the constraints that are three fold in nature. Some are inherent to being small, because small size per se imposes costs and innovative penalties in the areas of marketing and technology, for lack of economies of scale (Levratto, Tessier & Zouikri, 2010; Yeboah, 2015). Some constraints are an offshoot of distortions in the market and institutions, while others are created by policy interventions. For instance, providers of productive factors (credit, infrastructure, etc.) prefer dealing with a few large customers because they are more economically viable and safer as compared to a range of small and dispersed ones (Dawson, 1997). The argument is that SMEs are more difficult to collect comprehensive information on them, for instance, to facilitate credit rating. They are also said to be more difficult to monitor and the cost of enforcing contracts may be disproportionately large as compared to the size of the transaction (Yeboah, 2015).

Given the critical role of the SME sector in the growth and development of national economies, governments through a myriad of agencies provide specialized programmes, projects and policies geared towards facilitating the development of the sector (Dawson, 1997; Yeboah, 2015; Okeke & Eme, 2014). This regulatory climate strongly influences the SMEs particularly in relation to compliance costs, duration and predictability of the permitting process. Though well intended, the policies and institutions relevant to the SME sector are to a large extent, a hindrance to the growth of the SMEs. For instance, tax privileges and/or exemptions of the SMEs from the tax systems, in some countries, provide strong incentives to the entrepreneurs to have their enterprises "remain

small" rather than grow large. In countries like India where certain industrial products are reserved for SMEs, it has led to the stifling of competition and retardation of technological upgrading.

The current economic environment provides many challenges and opportunities for the SME sector. Although the status, development and productive orientation of the sector vary from country to country, the extent and level of impediments and challenges experienced are often the same in different countries (Dawson, 1997; Yeboah, 2015). The sector encounters both internal and external problems. Internal problems include low level of management skills, retarded modernisation, and lack of consistent quality controls that contribute to capital problems. External problems inhibiting the growth of this sector, includes the non-conducive, non-transparent and complicated legal and regulatory framework coupled with inefficient bureaucracy. Without resolving the SME problem areas, the contributions of the sector to economic growth cannot be maximised (Mullei, 2003; Yeboah, 2015).

However, the inadequate framework conditions especially in most developing countries continue to be a major impediment to entrepreneurship development, and particularly the Small and Medium Enterprise (SME) sector. To illustrate this challenge, the World Bank in a publication, entitled "Doing Business in 2004", gives a very good account of the business regulations and the associated costs an entrepreneur has to face, irrespective of size of operation. This means that there is need to establish a business-friendly environment that would facilitate SMEs to successfully reorient their business operations in tune with the market requirements. This implies putting in effect policy frameworks and practices that would enable SMEs grow on sustainable basis in the present competitive environment in view of their well-recognised and acknowledged contribution to the social and economic development of a country. For this purpose, many governments as referees on the side-lines of the market, have come up with legislative initiatives and policies geared towards facilitating the SME sector, but within the constraints of tight national budgets and other considerations (Okeke & Eme, 2014). In comparing the policy framework in different countries, one realises there are great differences, as are the similarities. For example, the policies of countries such as New Zealand and Korea are directed at encouraging SMEs to export, while those of countries such as Cambodia are mainly directed at encouraging foreign investments in domestic SMEs (Awasthi, *et al*, 1990**;** Okeke & Eme, 2014).

In Kenya, a lot of funds have been spent in implementing government policies and programmes, and in building institutions specifically aimed at promoting the growth of the SME sector. Unfortunately, the support programmes though seemingly elaborate, are not fully adopted and implemented, mainly because of the ineffectiveness of the institutions concerned with SME sector support (Namusonge, 1999). Though opinions about government policies are mixed, numerous entrepreneurs in the SME sector view government policies as being less supportive of their business pursuits (Yeboah, 2015; Mullei, 2003).

Additionally, the policy document (Sessional No. 2 of 1999) advocated for the implementation of an entrepreneurship-training programme at diploma and degree level. But given the inadequacy of personnel and the technical capacity to manage the programme, poor coordination of the implementing Institutions, coupled with lack of monitoring, there is almost no evidence of the impact of this programme (Yeboah, 2015, Namusonge, 1999). These challenges are not peculiar to Kenya. In some other countries that have implemented the SMEs training programmes, similar observations have been made. Hoffman (1999) pointed out that the SMEs growth theories have not been translated into successful training modules to enable practicing entrepreneurs grow their enterprises from one level to another. He further agues that for the trainees, the impacted skills rarely goes beyond the gates of the implementing institutions, and no follow up of graduates is undertaken to register the impacts.

4. Results

A total of eighty five (85) MSMEs from a different range of production units were included in this study. The study recorded 66.66% response rate which means that fifty six (56) Chief Executive Officers, General Managers or Senior Management staff participated in the study. The non-response was due to a combination of factors including time constraint on the part of the interviewees, unwillingness and/or inability to respond to items on the questionnaire. The response rate from the various clusters is shown in **Table 4.1**.

Table 4.1: Response Rate

Stratum	Employment Levels			TOTALS
	51 – 100	101 – 150	151 – 200	
Food Processing	4	5	4	13
Wood Workings	5	2	2	9
Fabricated Metal Products	3	5	4	12
Non Metallic Products	2	3	4	9
Leather, Textiles & Garments	5	4	4	13
TOTALS	19	19	18	**56**
%	33.9	33.9	32.1	

The sizes of the firms were determined based on the number of employees in the respective enterprises. As presented in Table 4.1, the distribution of the number of employees in the firms showed that most of the Food Processing firms had 101 – 150 employees at 38.46%; Wood Working firms at 55.55% had 51-100 employees, while most in the Fabricated Metal cluster were at 41.66% (101 – 150). In the Non Metallic Products cluster, most firms at 44.44% had 151 – 200 employees as compared to the Leather, Textiles and Garments cluster where most of the firms had 51 – 100 employees. There was however, no significant difference in the sampled firm sizes (χ^2 = 1.721, P = 0.988) since the responses were well distributed across the clusters in the target group.

4.1 Responses on Policy and Regulatory Framework

When asked to identify issues that hinder the competitiveness of MSMEs, about 94% of the respondents indicated that the current legal framework is supportive of too much liberalisation and by extension, the big enterprises at the expense of firms in the Small and Medium Enterprise sector. Likewise, 54 out of 56 respondents indicated that MSMEs face massive challenges brought about by a complicated regulatory regime that fuels corruption. Other respondents cited unfriendly customs and trade regulations, tight monetary and credit policies and excessive tax regimes, workforce and labour regulations, utilisation of limited and outdated technology, limited information on possible markets, and overlapping roles of institutions with regulatory roles thus impacting negatively on the competitiveness of MSMEs in the market place. Some of the regulatory institutions perceived to have overlapping regulatory mandates are presented in Table 4.2.

Table 4.2: Overlapping Regulatory Institutions

Regulatory Requirement	Institution Involved	Products most Affected
Registration & licensing	Registrar of Companies	Textile and Apparel
	Nairobi City County government	Food and Beverages
	Ministry of Industry & Trade; Ministry of Agriculture, Livestock & Fisheries; Kenya Forest Service, Dairy Board, Ministry of Fisheries	Fish and fish products, Scrap metal, Leather and Leather products, Hides and skin
Standard Labeling and Inspection Regulations	Department of Weights and measures, Port Health, Kenya Bureau of standards	Food, drugs and Water
	KRA, NEMA and Nairobi City County government	Textile and apparel
Premises Safety	Ministry of Health, County governments, Kenya Dairy Board, Department of Occupational Health and safety	Business Premises, work places, factories
Standards Regulations	Department of Weights and measures, Kenya Bureau of Standards; Ministry of Environment and Forestry	Timber, Wood and furniture, Metal and Allied
Occupational safety and Health Regulations	Ministry of Health, Occupational safely and health services; Public works	Timber, wood and furniture, food processing, metal and allied

When asked what policies the Government can pursue or change so as to make the business environment more accommodative to the MSMEs, eight government policy issues were stated by the firms as presented in **Table 4.3**.

Table 4.3: Governmental Policy Reform Needs in Kenya

Policy issues	f	%
	31	47.0
Reduce complicated regulatory regime and remove overlapping roles of the institutions with regulatory roles		
Reduce liberalisation to protect indigenous firms	30	45.5
Curbing Corruption	11	16.7
Security Improvement	10	15.2
Avail funding for Business expansion and control hidden charges by commercial banks	9	13.6
Security Improvement in the country	8	12.1
Legislation on Unfair Competition from China	7	10.6
Management and Business skills Training	5	7.6

5. Discussion and Implications

The findings of the study are in agreement with others conducted in the East African region, Africa in General internationally (Adebisi & Gbegi, 2013; Simiyu et al. 2016; Levratto, Tessier & Zouikri, 2010; Yeboah, 2015; Okeke & Eme, 2014). The study's findings on the regulatory framework portend major impediments to MSMEs' attempt to reposition themselves for competitiveness. The complicated regulatory framework, coupled with overlapping roles of regulatory institutions not only increases the cost of doing business but also consumes huge amounts of resources. This situation has created a fertile ground for corruption by individuals the institutions mandated to regulate the sector. Similar studies carried out in Nigeria, the overlapping functions by regulatory agencies makes MSMEs to have to bear with multiple payments for similar licences, more time spent seeking to acquire permits and in some cases, funds expended in court cases due to the complicated nature of the regulatory requirements. This means that the extra expenses incurred by MSMEs have to be included in the final product

prising, thus becoming uncompetitive as compared to larger firms that benefit from economies of scale. Therefore, the high cost of doing business and the cumbersome regulatory procedures have discouraged investments and growth of MSME.

These findings mean that the MSMEs in Kenya are still not adequately facilitated to enable them compete effectively in a globalised business environment. This also may have contributed to Kenya's poor ranking by the world Bank in terms of ease of doing business as compared to other nations that have taken more deliberate steps to facilitate business. For instance, for the Asian tigers, the administrative conditions for founding new small and medium enterprises were improved by the change of the Company Law which abolished the requirements of special permits for carrying out the majority of the activities.

6. Recommendations on Policy Direction

Given the important role played by MSMEs in income generation and employment creation, the Kenyan government need to come up with more specific legislative initiatives and policies geared towards facilitating them. This can be through the formulation and implementation of a national MSME support programmes geared towards the acquisition of appropriate skills, providing tax incentives, cutting down electricity costs and bringing down costs of raw materials. There is also need to improve infrastructure such as roads, avail reliable water and electricity supply that sustain and increase the competitiveness of locally manufactured goods against cheap imports. The required infrastructure should facilitate raw material sourcing, bulking, collection and storage e.g. establishment of cold storage, timely transport, upgrading access roads etc. The legal framework should also include the enactment of suitable laws on corruption, flexible customs and port regulations, insurance schemes and the creation of a simplified accounting system. In addition, the national government in conjunction with the 47 County Governments should facilitate the formation of industrial structures rich in linkages like clustering of MSMEs and subsequent subcontracting arrangements of these clusters with large enterprises. The policy framework also enable technology grants system to link Universities, Research and technology institutions with MSMEs. This will facilitate the realization of Kenya's vision 2030.

7. Conclusion

There is no doubt that the development of the SME Sector should be regarded as an important step towards the overall economic and industrial takeoff in Kenya. The qualitative and quantitative growth of this sector can lead to several benefits, namely increased employment, exports and foreign exchange earnings. Speedy and optimal solutions to regulatory challenges are an important issue for SME Sector development. The Kenyan Government on its part, will not only need to formulate strategies that seek to enhance business practices that lead to organizational excellence, but also create a conducive environment that enables the SMEs to compete in the global market.

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MODERATING EFFECT OF HIGH PERFORMANCE WORK PRACTICES ON THE RELATIONSHIP BETWEEN TRADE UNIONS AND PRODUCTIVITY IN TVET INSTITUTIONS IN KENYA

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ABSTRACT

The study looked at the influence of trade unions functions as a practice of employee relations in Human Resource Management. Specifically, it examined the moderating effect of high performance work practices on the relationship between the influence of trade unions functions and productivity in TVET Institutions in Kenya. The study anchored on following theories Ability, Motivation and Opportunity and Universalistic. This research adopted cross sectional survey research design. The target population was TVET Institutions with 5718 individuals that included Principals, Deputy Principals, heads of departments, teaching staff, non-teaching staff, a ministry of science and technology education official, Secretary Generals of KNUT, KUPPET, COTU, TUC and representative from the TVET Institutions. The sample size was 361 of which 315 responded. Purposive sampling was used to select 10% of sample size of institutions for pilot testing. Normal approximation to the binomial distribution and stratified sampling were used to arrive at the sample size. A structured questionnaire and an interview schedule were used to collect primary data. The questionnaire was pretested before data collection for validation and reliability. Secondary data was collected through evaluation of journals, reports, and publications. Both descriptive and inferential analysis methods were used to analyze statistical data. The study used a statistical measurement model with a moderating variable. Inferential statistics was used to test preset alternate hypotheses. The Statistical Package for Social Sciences (SPSS) version 22 was used for the statistical analyses, while qualitative data was analyzed thematically along the objectives of the study. The study revealed a positive linear relationship between moderating influence of high performance work practices and productivity. This shows that the variable under study has a statistically significant influence on productivity. The study recommends that TVET institutional heads and Ministry of Science and Technology officers should always seek to work harmoniously with trade unions instead of competing in order to enhance productivity. TVET institutional heads and the ministry officials should tap into the influence of trade unions to achieve organizational goals thereby enhancing productivity. The study is beneficial to lecturers, non teaching staff, students, parents, members of Board of management, officials of Ministry of Education, trade union officials and the Government at large.

Key words: moderating effect of high performance work practices, trade unions, productivity, TVET institutions in Kenya

INTRODUCTION

According to Aroge (2011), trade unions work with employers to create a better and more competitive economy and not as organizations that stand in the way of change and increase costs for firms. There is a belief that both parties have mutual interests. Workers are better motivated if they feel their interests are being looked after by trade unions. Khan and Khan (2011), indicates that workers join unions for such benefits as higher wages, better benefits, job security, safer working conditions, and the right to have input into workplace affairs.

Trade unions play different roles in different countries, for example, according to Nirmala and Raju (2014), in India, the trade unions undertake the following functions: achieving higher wages and better working and living conditions for members, acquire control over industry by workers, minimizing the helplessness of the individual employees by making them stand-up united and increasing their resistance power through collective bargaining, raising the status of workers as partners in industry and citizens of society, generating self confidence among the workers, encouraging sincerity and discipline among the workers, taking welfare measures for improving the morale of the workers. The National Commission on Labor has outlined certain basic functions to which trade unions have to pay great attention. These include secure fair wages for workers, safeguard the security of tenure and improve conditions of service (Nirmala et al., 2014). Britain has a largely voluntarist system of workplace union representation and collective bargaining (Bryson, Forth, & Laroche, 2011). Trade unions are involved in workplace regulation only where there are strong traditions of union representation and where market conditions facing the employer are harmless. The scope of bargaining is limited to core terms and conditions, like pay hours and leaves.

In China, about 74 percent of Chinese employees are official members of the All-China Federation of Trade Unions (ACFTU) (2009). The ACFTU carries out union functions like union organizing (Chan, 2007 cited by Wang, 2011), collective bargaining and equal consultation (Howell, 2010 cited by (Wang, 2011). Several studies have shown that trade unions have beyond collective bargaining role such as role in increasing worker's productivity or efficiency, improvement of workers discipline, workplace peace and harmony and participating in decision making with management (Khan & Khan, 2011). Bryson *et al*., (2011), states that in theory, trade unions may have a negative influence on organization performance. If they are successful in bargaining for above-market wages or in capturing quasi-rents (for example, through restrictive practices that reduce productivity) they will reduce profitability. Trade unions can enhance performance through voice effects which raise labour productivity and improve managerial decision-making (Freeman & Medoff, 1984), cited by Bryson *et al*., (2011), by acting as an agent for the employer in monitoring workers, or in assisting with organizational change (Vroman, 1990) cited by Bryson *et al*., (2011). Productivity seems to improve in an economy promoting policies to weaken industry-wide collective bargaining. Further research is needed in Industry-wide work rules and productivity (Lamarche, 2013). In Nigeria, trade unions carry on many different activities, for example, those which produce direct benefit-negotiations, grievance handling, community service, and uncertain trades, job search or referral (Anyim, Ilesanmi, & Alaribe, 2013).

Trade Union Movement in Kenya

In the modern-day times, in the developing countries like Kenya, trade unions have come to assume roles that transcend the traditional role of protection of workers "welfare and class liberation". Nyaencha (2014), indicates that the enactment of a Trade Unions' Ordinance in 1937 by the colonial government, and its amendment in 1940, resulted in a dash for the registration of workers' unions in Kenya. From the initial three trade unions in 1937 immediately after the enactment of the ordinance, the number doubled to six in 1940. By 1963 as the country achieved independence, the number of trade unions had multiplied to 52, representing about 155,000 workers. Trade unions in Kenya especially those representing lecturers, employees, civil servants, doctors and nurses have been agitating for higher salaries, job security, improved terms and conditions of employment for their members among other things. The Constitution of Kenya (COK) 2010, which provides for industrial action under Article 41 in the Bill of Rights, has led to a fresh vibrancy in trade unionism. Some 14 trade unions have been registered since the promulgation of the Constitution on August 27, 2010, bringing the total number to 79 (Nyaencha, 2014).

Link between the moderating effect of high performance work practices, trade unions and productivity in TVET Institutions in Kenya.

There are authors who belief that trade unions can improve employee productivity while others belief that union presence lowers employee productivity. Hirsch (1997), cited by Khan *et al*., (2011) quoted studies of Maki (1973), who used aggregate Canadian data, concluded that the shock effects of unionization initially increase productivity levels but that unionism is associated with slower productivity growth. He quoted British studies of (Nickell,

Wadhwani, & Wall 1992, Gregg, Machin, & Metcalf 1993 cited by Khan *et al*., 2011) for differences in productivity growth between unionized and non-unionized firms, evidencing that unions have either a negative effect or no effect on productivity growth during the early years of their analysis but positive effects during the 1980s. About profit, Hirsch analyzed that Union salary gains lower firm profitability unless offset by productivity enhancements in the workplace or higher prices in the product market. There is evidence that managers regard trade unions as a stumbling block to workplace performance. This has resulted in union avoidance, suppression and substitution (Gill & Meyer, 2013).

However, there is also research evidence that shows that trade union can play an important and positive role in enhancing organization competitiveness through facilitating the implementation of High Performance Work Practices (HPWPs) (Gill, 2009) cited by Gill *et al*.,(2013). Trade unions can play an important role in removing barriers to the adoption of HPWPs by advocating long-term investment in change that is positive for the firm (Freeman & Medoff, 1984 cited by Gill *et al*., (2013). They can provide the communication infrastructure that facilitates the introduction of HPWPs (Rubinstein, 2000) cited by Gill *et al*., (2013). Trade unions can help create employee trust, co-operation and job security that HPWPs need to be introduced effectively (Gill & Meyer, 2013). It has also been argued that HPWPs can be a union substitute since they introduce direct employee individual voice which negates the need for collective employee voice (Galang, 1999) cited by Gill *et al*., (2013).The desire for Kenya to attain global competitiveness must be anchored on sound productivity. One of the drivers of productivity is social productivity or productivity consciousness, which is arguably lacking in many sectors (education included) of the Kenyan economy (Omolo, 2010). Trade unions perform several core functions among them trade union participation, trade union protection of employee rights, management of collective bargaining and trade union conflict resolution strategies.

Statement of the Problem

Trade Unions worldwide are facing a lot of challenges. Despite impressive performance and contribution to national economy, the Education, Health and Flower sectors are still faced with decent work deficit. Omolo (2006), cited by Odhong' & Omolo state that these could be manifested in terms and conditions of employment leading to industrial unrest in these organizations (Odhong' & Omolo, 2014). Despite much research being done by researchers like Daveri *et al*., (2005), cited by (Damiani & Ricci, 2014) and (Gray, 2013), on the influence of trade unions on productivity, productivity across the world has been slowing for years. The findings by the Conference Board, a global business research institute cited by Gray (2013), show that productivity globally, had declined by 1.8 percent in 2012, the largest drop since 2001. This is a global problem (Gray, 2013). Technical skills form the basis for the realization of industrial transformation and a meaningful quest for Kenya's Vision 2030. Technical skills are a basic requirement that enable graduates of TVET in Kenya to engage productively after graduating. This implies that employees in TVET should have a higher productivity (Sang, Muthaa, & Mbugua, 2012). In Kenya there has been declining labour productivity in all sectors of the country's economy, increasing unit labour cost and low levels of competitiveness. Kenya's labour productivity growth has, for example, declined from 4 per cent in 2007 to 1.4 per cent in 2012 (Odhong, Were & Omolo, 2014). There is a marked expansion of vocational and technical training institutions in Kenya but despite this, the system has some marked shortcomings. There is no feedback from the employers to training institutions leading to a supply driven training skewed in favour of technologists. The technical graduates lack hands on experience and have poor work attitudes and are inflexible to change. This is an indication of low employee productivity in TVET institutions (Republic of Kenya, 2002, cited in Makworo *et al.*, 2013).

In a research conducted by Commonwealth Secretariat in TVET institutions in Kenya, one of the recommendations was that there is need to strengthen teacher training and professional development, particularly in terms of developing and improving a competency-based approach to teaching and assessment. This is an indication that there is low employee productivity in TVET institutions (Commonwealth Secretariat, 2013). Empirical evidence from developed countries shows that salaries in the public sector are higher than in the private sector, while evidence from developing countries is either limited or lacking (Nancy, Mwange, Onsomu, & Wanjala, 2015). As a result of these glaring disparities, and coupled with the rising cost of living in the recent past, various categories of public servants (lecturers, and health employees) have "downed their tools" to demand higher wages. The trade unions (KNUT and KUPPET) representing the education sector in Kenya have been in the news (electronic and printed media) for organizing strikes due to poor terms and conditions of employment for their members. It is against this background that this study carried out research to examine the moderating effect of high performance work practices on the relationship between trade unions and productivity in TVET institutions in Kenya.

Specific Objective

To examine the moderating effect of high performance work practices on the relationship between trade unions and productivity in TVET Institutions in Kenya.

Research Hypotheses

H_1: High performance work practices have no statistically significant moderating effect on the relationship between trade unions and productivity in TVET Institutions in Kenya.

LITERATURE REVIEW

Theoretical Framework

Ability, Motivation, Opportunity Theory (AMO Theory)

Ability, Motivation and Opportunity, (AMO) theory from (Appelbaum *et al.,* 2000) cited by (Katua *et al.,* 2014) propose HRM-performance framework, and argue that organizational performance is served by workers who have the ability to do the work, possess the necessary skills and knowledge, are motivated to work and have the opportunity to arrange their skills in doing their work. According to Musah (2008) cited by Katua *et al.,* (2014), performance is a function of Ability+ Motivation+ Opportunity (AMO). AMO theory advocates that there is no specific list of HR practices that may influence performance. It states that, the whole process depends on HR architecture that covers policies designed to build and retain human capital and to influence employee behaviour. HRM polices that are required in order to turn AMO into action are considered to be recruitment and selection, training and development of career opportunities, these are linked to ability and skill; rewards and incentives, are linked to motivation and involvement, team working, work-life balance, while welfare services and autonomy are linked to opportunity to participate.

This theory implies that performance at individual level, which leads to productivity, depends on high motivation, possession of necessary skills and abilities. It is important for TVET institutions to implement the HRM practices that encourage, for example, employee participation through their trade unions. According to Musah (2008) cited by Katua *et al.* (2014), skilled, motivated and flexible workface can help develop an organization's sustainable core competencies which increase their productivity. While implementing AMO policies, employees in TVET institutions should develop organizational commitment, motivation and job satisfaction (attitudinal outcome). These attitudes are expected to lead to employee demonstrating a range of positive behavioural outcomes that is reflected in their performance and productivity.

Highly committed, motivated and satisfied employees perform better. Ability, Motivation and Opportunity (AMO) policies are expected to develop attitudes and feelings of satisfaction, commitment and motivation in most employees because these translate into great performance leading to high productivity (Purcel *et al.,* 2011).

The influential work of Appelbaum *et al.,* (2000) cited in Obeidat, Mitchell, & Bray,2016), provides a basis for a stronger conceptualization of high performance work practices (HPWP) through their AMO framework. According to Appelbaum *et al.,* (2000), HR practices influence performance through their impact on employee AMO to participate. Boxall and Purcell (2003) cited in Obeidat *et al.,* (2016), argue that according to the AMO framework employees will perform well when they are able to do so (that is, abilities); they have the motivation to do so (that is, motivation); and when their work environment provides the necessary support for them to express themselves (that is, opportunity to participate). The AMO model suggests that HPWP enhance the three main components of the model and can be described along three dimensions: ability-enhancing practices, motivation-enhancing practices and opportunity-enhancing practices. Obeidat *et al*., (2016), argue that these three dimensions broadly represent the domain of HPWP.

It is worth noting that this theory claims that employees increase their performance and productivity, if they have the necessary knowledge, skills and qualifications to do the job, they do the job because they want to (Motivation), they will improve performance if the environment they are working in provides necessary support, (provide machines or technology needed). According to (Lepak *et al.,* 2007) organizations that adopt strategic HRM practices, including strategic training practices, strategic voice mechanisms, welfare services that are strategic and compensation strategies yield an immense employee performance and productivity.

This theory has been criticised because of the following issues; its treatment of HR practices that allows for enhanced employee performance seems both theoretically defensible and empirically successful. According to Wright (2007) motivation and opportunity oriented bundles of HR practices are positively related to commitment and negatively related to turnover. However, skill oriented practices are unrelated to commitment and positively related to turnover. This theory is relevant to TVET institutions in Kenya because it indicates that employees will improve productivity if the environment they are working in provides necessary support. This is enhanced by

allowing trade unions to represent employees' interest. Trade unions functions like management of collective bargaining terms leads to increased motivation. This includes improved both financial and non-financial incentives, welfare services like health insurance, pension schemes, recognising personal achievements, and involving employees in key decision making. This makes employees accountable for their decision leading to increased productivity. Ability, Motivation and Opportunity (AMO) theory is linked to the moderating variable of high performance work practices. According to Appelbaum *et al.,* (2000) cited in Obeidat *et al.,* (2016), HR practices influence performance and productivity through their impact on employee AMO to participate. Boxall and Purcell (2003) cited in Obeidat *et al*., (2016) argue that according to the AMO framework employees will perform well when they are able to do so (that is, abilities); they have the motivation to do so (that is, motivation); and when their work environment provides the necessary support for them to express themselves (that is, opportunity to participate).

Universalistic theory

This theory is also referred to as the best practice model, which is based on the assumption that there is a set of best HRM practices, and that adopting them leads to superior organizational performance (Luthans & Summer, 2005, cited by Waiganjo, 2013). Universalistic approach also states that a fixed set of best practices can create surplus value in various business contexts (Naqvi & Nadeem, 2011). The notion of best practice was identified initially in the early US models of HRM, many of which formed the idea that the adoption of some 'best' human resource practices would result in enhanced organizational performance, manifested in improved employee attitudes and behaviours, lower levels of absenteeism and turnover, higher levels of skills and hence higher productivity, enhanced quality and efficiency and increased profitability (Marchington & Wilkinson, 2008 cited by Waiganjo, 2013). It is argued that organizations will benefit and see improvements in organizational performance if they can identify, gain commitment to and implement a set of best HRM practices. Universalistic perspective indicates that firms will realize performance gains by identifying and implementing best practice irrespective of the product market situation, industry or location of the firm (Pfeffer, 2001 cited by Waiganjo, 2013). Timiyo (2014) indicates that the Universalist view suggests that some HR practices (or best practices) are likely to produce maximum results when adopted irrespective of the nature and type of organizations and employees. This study uses the universalistic perspective, as several studies have indicated that this approach can be particularly accurate for understanding the relationship between HR practices and outcome (Guest, 2001). The study's argument is drawn from the work of Delery and Doty (1996) to justify the choice for the universalistic perspective. Delery and Doty (1996) gave an extensive overview of three alternative modes of theorizing the HRM practices and performance link.

Conceptual Framework

A conceptual framework refers to the extent a researcher conceptualizes to be the relationship between contextual variables in the study and shows the relationship graphically or diagrammatically (Mugenda & Mugenda, 2003). The relationship describes the association between the independent variables and the dependent variables. A conceptual framework is a tool researchers use to guide their inquiry; it is a set of ideas used to structure the research, a sort of map that may include the research question, the literature review, methods and data analysis (Smyth, 2004). It is a pictorial representation where descriptive categories are systematically placed in a broad structure on explicit propositions, statements of relationships between two or more empirical properties accepted or rejected. It comprises of independent and dependent variables. The utility of a conceptual framework in supporting doctoral study is to define the research problem**,** establish theoretical coherence, organize research design and implement, and frame conceptual conclusions (Berman, 2013).

Conceptual Framework

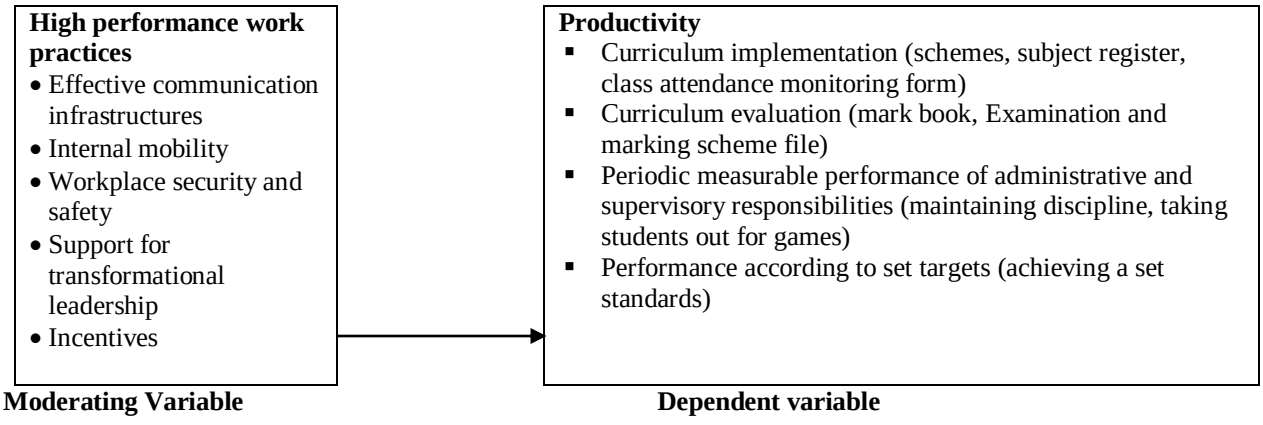

Figure 1: Conceptual Framework (adopted from Gill, 2009)

Empirical Review

There are several studies that indicate that trade union presence has a neutral impact (Black & Lynch, 2001; Galang, 1999; Moreton, 1999 cited by Gill *et al*., 2013) and a positive influence (Armstrong *et al*., 1998; Black & Lynch, 2001; Freeman & Rogers, 1999; Gregg & Machin, 1988; Marginson, 1992; Pil & Macduffie, 1996; Sisson, 1993; Woodand Fenton-O'creevy, 2005 cited by Gill *et al*., 2013) on HPWP adoption. There are studies that find that trade unions moderate the relationship between HPWP and outcomes (Lloyd, 2001; Rubinstein, 2001; Voos, 1987) cited by Gill *et al*., (2013). There is an indication that the quality of industrial relations moderates trade union influence with research proposing that HPWP's are less likely in organizations characterized by trade union militancy (Wells, 1993) cited by Gill *et al*., (2013). There is also research evidence from studies reviewed by Gill, (2009) cited by Gill *et al*., (2013), that shows that trade unions can play an important and positive role in enhancing organization competitiveness through facilitating the implementation of High Performance Work Practices. Organizational productivity can therefore be considered as the cumulative productivity of the individual members of that organization (Amah, 2013).

Among the multiple measurements used for measuring HPWSs, Pfeffer's model is the best-known one (Pfeffer, 1995) cited by Muduli, (2015). The Pfeffer model originally included 16 practices but was reduced to 7 (Pfeffer, 1998): job security, selective hiring of new personnel, autonomous teams and the decentralization of decision-making as the core to organizational design, a comparatively high salary depending on results, extensive training, a lessening of distinctions, and a substantial participation from the different departments in the company in financial information and results. In 2007, Sun *et al*., cited by Muduli, (2015), devised a revised instrument titled high-performance human resource practices to measure HPWS. The instrument consists of 29 items which are grouped under 10 sub headings such as selective staffing, extensive training, internal mobility, employment security, clear job description, result-oriented appraisal, incentive reward, participation, teamwork and flexibility. HPWS was measured through an adapted scale derived by Sun *et al*., 2007. All 29 items were measured on a Likert-type scale ranging from (5) highly satisfied to (1) very dissatisfied. Responses were reversely coded, and higher values indicate higher perceived effectiveness.

RESEARCH METHODOLOGY

This study adopted cross-sectional survey research design as it seeks to examine the influence of trade unions' management of collective bargaining terms on employees' productivity in Technical and Vocational Education Training Institutions in Kenya. The study utilized both Quantitative and qualitative methods. The population of this study was drawn from a sector with disputes. The trade unions representing the education sector in Kenya, the Kenya National Union of Teachers (KNUT), had been in the news (electronic and printed media) for organizing strikes due to poor terms and conditions for employees. The sampling frame consisted of teaching (4410) and non-teaching staff (1301), Principal secretary, State department of Science and Technology (1), Director TVET(1), TVET (1) and secretary generals of KNUT (1), KUPPET (1), KUDHEIHA (1), COTU (1) and TUC(1), (Ministry of Science and Technology, 2015) (KNUT, 2015, KUPPET 2011, KUDHEIHA, 2014, COTU, 2016, TUC, 2016). This target population had a group of individuals with some common defining characteristic that the researcher can identify and study. The study adopted proportional stratified sampling that ensured that the institution teaching staffs with higher population (4410) has more members in the sample than non-teaching staff (1301). Questionnaires were self-administered and two research assistants were recruited and trained so that they could obtain quality results. The quantitative data collected was analyzed by calculating response rate with descriptive statistics such as mean, median, standard deviation and proportions using Statistical Package for Social Sciences (SPSS) version 22 and Microsoft Excel.

RESEARCH FINDINGS AND DISCUSSION

Out of the targeted 361 respondents, 315 participated in the study meaning the response rate was 87.26%. The study obtained demographic data for the respondents. 85.71% of the respondents were lecturers. This implied that the bulk of trade union membership in TVET institutions was made up of lecturers. The study sought data on the number of years the respondents had worked in the targeted institutions; 34.42% (n=106) of respondents had worked in the current institutions for 6-10 years while 23.38 % (n=72) had worked for 11-15 years. This meant that majority of

respondent had enough work experience and thus the information they gave could be relied upon. The study captured data on the level of education of the respondents; 37.34 % (n=115) of respondents were graduates while 34.09 % (n=105) were diploma holders. This means that most of respondent had high literacy levels. The study obtained the job titles of the non-teaching staffs. The total number of non-teaching staff was 66 out of the total 308 which was 21.43%. Out of this majority (27.27%) were secretaries followed by nurses who were 25.76% followed by financial officers at 24.24% then drivers at 22.73%. The study sought data on general information about the trade union respondents belonged to, length of membership and position respondents occupied. 40.9% of the respondents belonged to Kenya Union of Domestic, Hotels, Educational institutions, Hospital and Allied workers (KUDHEIHA), 34.1% belonged to Kenya Union of Post –Primary Education Employees (KUPPET) while 25% of them belong to Kenya National Union of Teachers (KNUT). This meant majority of staff working in TVET institutions in Kenya belonged to KUDHEIHA. The data further showed that 94.5% of the respondents' unions were recognized by the institutions. This implied a huge level of recognition for trade unions in the targeted institution. 85.7% of respondents had more than 6 years of membership to the trade unions which was reasonably a long period of time and thus most respondents gave information based on experience. The data further revealed that majority (96.4%) of respondents did not occupy any position in trade union.

Moderating effect of High Performance Work Practices on Productivity in TVET Institutions

The study aimed at examining the moderating effect of high performance work practices on the relationship between trade unions and productivity in TVET Institutions in Kenya. The results of data analyses are presented in Table 1.

Table 1: Moderating effect of High Performance Work Practices

Responses	SA	A	NAD=3	D	SD
My trade union has enhanced both collective and individual voice at my workplace	10.1	57.1	17.5	13.6	1.6
My trade union focuses on effective communication infrastructure at workplace	20.8	52.3	14.9	9.1	2.6
My trade union supports for adequate compensation for equal job principle	21.1	58.8	11.0	6.5	2.3
Trade union advocates for flexible job assignments	19.5	51.9	20.5	6.2	1.9
Trade union advocates for workplace security and safety	45.1	42.9	7.1	3.9	1.0
My trade Union supports transformational leadership	36.0	45.8	13.3	4.2	.6

Table 1 shows that majority (67.8% n=207) of respondents agreed (10.1% strongly agreed, 57.1% agreed) that trade union has enhanced both collective and individual voice at workplace. This implies that trade union play a role in enhancing both collective and individual voice at TVET institution in Kenya. Organizational productivity does not occur on its own or in a vacuum, in fact; there can never be organizational productivity without people. Seen through this lens, organizational productivity can therefore be considered as the cumulative productivity of the individual members of that organization (Amah, 2013).Table 1 further show that majority (73.1%, n=225) of respondents agreed (52.3% agreed, 20.8% strongly agreed) that trade union focuses on effective communication infrastructure at the workplace. This implies that trade unions are concerned with effective communication infrastructure at TVET institution in Kenya.

Table 1further shows that majority (79.9%, n=246) of respondents agreed (58.8% agreed, 21.1% strongly agreed) that trade union supports adequate compensation for equal job principle. This implies that most of trade union supports the principle of adequate compensation for equal job principle in TVET institutions. Table 1 further shows that majority (71.4%, n=220 of respondents agreed (51.9% agreed, 19.5% strongly agreed) that trade union

advocates for flexible job assignments. This implies that to a significant extent, trade union advocates for flexible job assignments within TVET institution in Kenya. Table 1 further shows that majority (88%, n=271) of respondent agreed (45.1% strongly agreed, 42.9% agreed) that trade union advocates for workplace security and safety. This implies that most trade unions advocate for workplace security and safety at TVET institutions. Table 1 further shows that majority (81.8%, n=252) of respondents agreed (36% strongly agreed, 45.8% agreed) that trade union supports transformational leadership. This means that most trade unions are concerned with transformational leadership at TVET institutions.

These findings agree with the AMO theory as discussed earlier which agree with findings under high workplace productivity practices since its principles mean that performance at individual level, which leads to productivity is dependent on high motivation, possession of necessary skills and abilities. It is important for TVET institutions to implement the HRM practices that encourage, employee participation through their trade unions. Similarly, perspectives under universalistic theory supports HPWPs in that any firm will realize performance gains by identifying and implementing best practice irrespective of the product market situation, industry or location of the firm.

Employees' Productivity

The study however sought data on employee's productivity, which was the dependent objective. The study sought data on whether the Trade unions play critical role in championing for curriculum implementation through keeping of recommended documents as required by the employer (mark book, schemes, subject register, and class attendance monitoring form). Majority (76.62%, n=236) of respondents agreed (35.39% strongly agreed, 41.23 % agreed) that trade unions played a critical role in championing for curriculum implementation through keeping of recommended documents as required by the employer (mark book, schemes, subject register, class attendance monitoring form). This contrasts findings by Mutuku (2015) in a study that investigated Kenya National Union of Teachers' Initiative Influencing Provision of Quality Education in Primary Schools in Machakos County, Kenya that revealed that 36.2 percent of teachers were not satisfied with KNUT'S sensitization programmes on curriculum implementation while only a small number, 12 percent were highly satisfied. This implied that most trade unions are involved in championing for curriculum implementation through keeping of recommended documents as required by the employer.

The study sought data on whether Trade union encourages employees, during training, to complete and update assigned duties (assigned duties, mark books, schemes of work preparation and teaching syllabus on time, weekly record of work, subject register). Majority (80.23%, n=247) of respondents agreed, (31.17% strongly agreed, 49.03% agreed) that trade union encourages employees, during training, to complete and update assigned duties (assigned duties, mark books, schemes of work preparation and teaching syllabus on time, weekly record of work, subject register). This implied that trade unions in TVET Institutions encouraged their members through training; to complete and update assigned duties. This corroborates Wairagu (2013) in a study that assessed the effectiveness of trade unions' strategies in enhancing teacher professional performance in public secondary schools in Kieni West District, Kenya that revealed that Teachers professional performance in assessing students' assessments and homework was rated highly by majority (70%) of the head teachers. However, punctuality and lesson preparation was rated average by most of the head teacher.

This shows that trade unions have a role in encouraging employees to complete and update assigned duties. The study sought data on whether Trade unions encourages employees, during training, to monitor class attendance, maintain and record marks in the subject register. The analyzed data further revealed that majority (77.85% n= 239) of respondent agreed, (57% agreed, 20.85% strongly agreed) that trade union encouraged employees, during training, to monitor class attendance, maintain and record marks in the subject register. The study sought to establish whether the trade unions influence on employees to participate in co-curricular activities like music, athletics, handball, basketball, soccer and volleyball. Majority (71.1%, n= 219) of respondents agreed (40.6% agreed, 30.5% strongly agreed) that trade unions exert influence on employees to participate in co-curricular activities like music, athletics, handball, basketball, soccer, and volleyball. This means that trade unions do encourage their members in the TVET institutions to participate in co- curricular activities. This contrasts a study by Mutuku (2015) that showed that involvement of KNUT in improvement of teachers' welfare did not influence learners' participation in co-curricular activities.

Hypothesis testing

High Performance Work Practices Have no Moderating Effect on the Relationship between Trade Unions and Productivity in TVET Institutions in Kenya.

$Y= \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_1X_1 Z + \beta_2X_2 Z + \beta_3X_3 Z + \beta_4X_4 Z + \varepsilon$

β_iX_iZ = Product less interaction term of the moderating variable with each of the independent variable ($X_1X_2X_3X_4$).

Where

Y = Productivity (EP)

β_0 = Constant

Z = Moderating Variable (High performance work practices)

β_i = is the coefficient for X_i (Where i = 1,2,3,4)

X_1 = Employees participation (EP)

X_2 = Protection of employee's rights (PER)

X_3 = Management of collective bargaining terms (MCB)

X_4 = Conflict management strategies (CMS)

Z = High performance work practices (HPWP)

ε = Error term the statistical analysis shows that

Productivity= 0.317+0.1666 (EP) +0.246 (PER) +0.186 (MCB) +0.29 (CMS) +0.1666*0.265 (EP) +0.246*0.265 (PER) +0.186*0.265 (MCB) +0.29*0.265 (CMS)

Productivity (P) = 0.317+0.1666 (EP) +0.246 (PER) +0.186 (MCB) +0.29 (MCB) +0.29 (CMS) +0.44149 (EP) + +0.0636 (PER) +0.04929 (MCB) +0.07685 (CMS).

Plotting of the Moderating Variable

The study plotted the moderated results for each variable and presented the results in the section below. The parameters used in plotting are presented in the Table 2.

Table 2 Parameters Showing the Influence of the Moderating Variable on the Independent Variables

Variable	Regression Coefficient		Constant	Interaction
	IV	Moderator		
EP	0.1667	0.44149	0.59	0.249
PER	0.246	0.0636	0.296	0.348
MCB	.86	0.04929	0.643	0.344
CMS	.088	0.07685	0.29	0.447

Table 2 shows the parameters that show the effect of the moderating variable on the independent variables that was used in plotting the moderating effect in the section below.

i. Moderating Effect of High Productivity Workplace Practices on Relationship between Employees Participation and Productivity

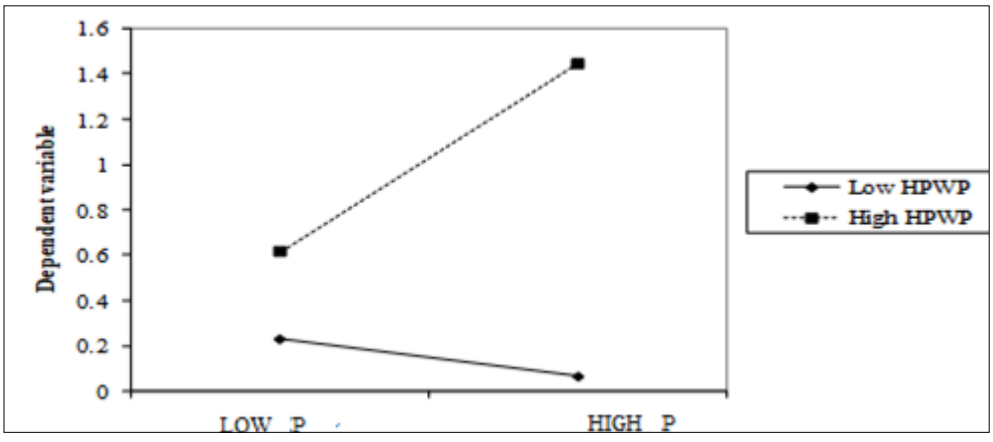

Figure 2 Moderating Effect of HPWP on P

Figure 2 shows moderating influence of HPWP on both TUP and EP, when it is either high or low. The interaction value of the moderation variable on the relationship between TUP and EP is 0.249 and the constant is 0.59 which shows it is statistically significant. A moderator (M) variable is a variable that alters the strength of the causal relationship (Dawson, 2014). Most moderator analysis measure the causal relationship between X and Y by using a regression coefficient. Although classically, moderation implies a weakening of a causal effect, a moderator can amplify or even reverse that effect (Kenny, 2015).

ii. Moderating Effect of High Productivity Workplace Practices on relationship between Protection of Employees Rights and Productivity

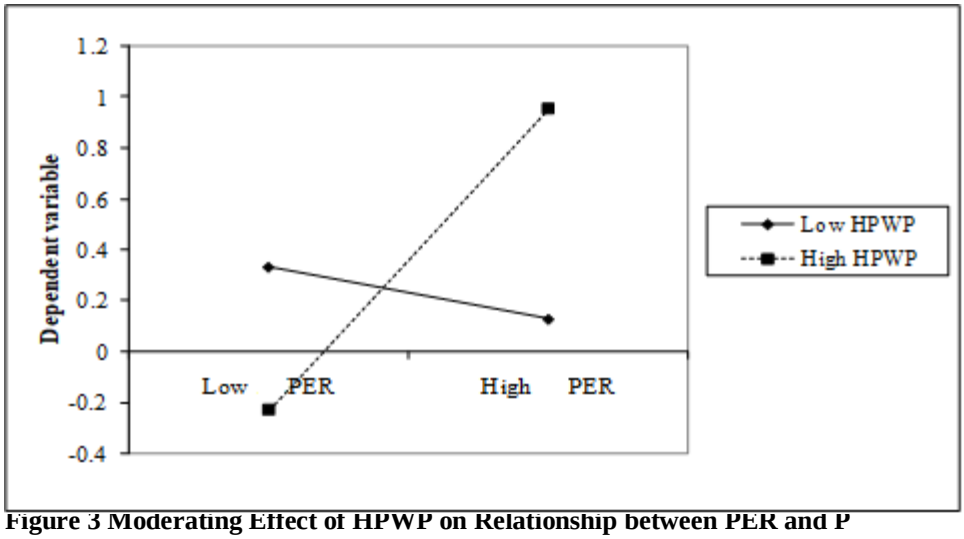

Figure 3 Moderating Effect of HPWP on Relationship between PER and P

Figure 3 shows moderating influence of HPWP on both PER and P, when it is either high or low and the extent it alters the strength of the causal relationship (Kenny, 2015). The moderation variable HPWP on the relationship between PER and P is 0.348 and a constant of 0.296 meaning it is statistically significant.

iii. Moderating Effect of High Productivity Workplace Practices on Relationship between Management of Collective Bargaining Terms and Productivity.

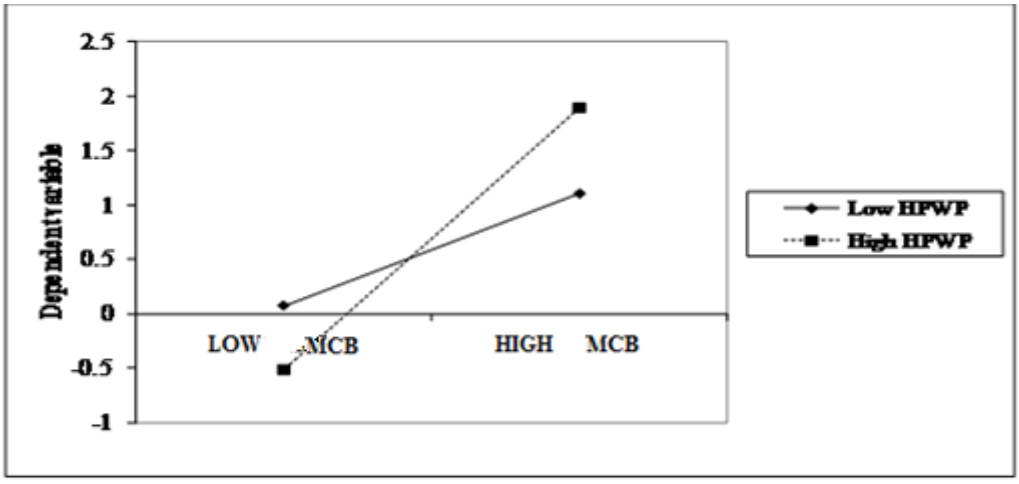

Figure 4 moderating influence of HPWP on both MCB and P, when it is either high or low and the extent it alters the strength of the causal relationship (Kenny, 2015). The interaction value of the moderation variable on the relationship between MCB and P variables is 0.344 and a constant of 0.643 showing it statistically significant.

iv. Moderating Effect of High Productivity Workplace Practices on Relationship between conflict management strategies and productivity

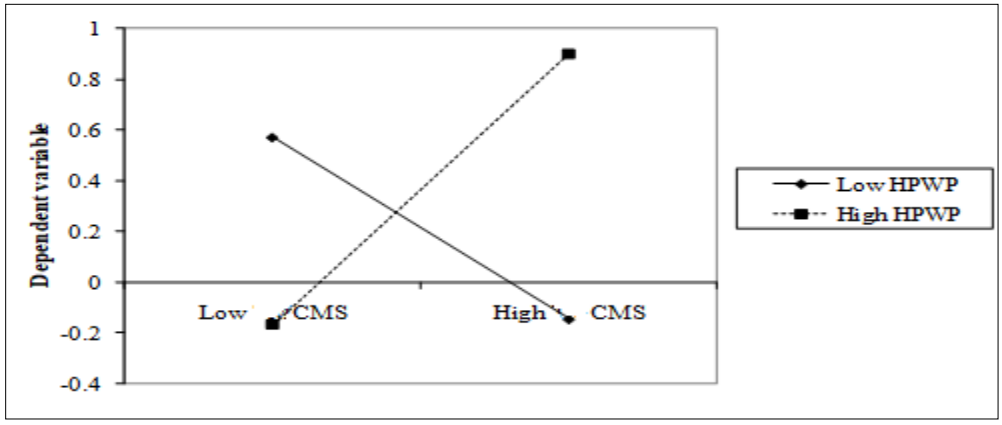

Figure 5: Moderating Effects of HPWP on the Relationship between CMS and P

Figure 5 shows moderating influence of HPWP the causal effect of CMS on P when it is either high or low (Kenny, 2015). The interaction value of the moderation variable on the relationship between CMS and P is 0.447 while the constant is 0.29 that shows the influence is statistically significant.

Qualitative Data Analysis

Qualitative data obtained from the study was analyzed thematically along the objectives of the study, then the results obtained discussed in the section that follows.

Moderating Influence of High Performance Work Practices on Productivity in TVET Institutions

On the influence of High Performance Work Practices on productivity in TVET Institutions the following themes emerged: a) facilitation learning: b) Support for performance measurement.

a) Facilitating Learning:- According to Secretary General, KNUT, trade unions play a role in enhancing high performance work practices in TVET Institutions such as organizing trainings sessions or workshops in conjunction with TVET institutions that are aimed at sensitizing their members on emerging issues like introduction of new technology. Secretary General, KUPPET further stated that Trade unions contribute to high performance practices like insisting that employees' training. In furtherance of training, currently the Government is sponsoring trainings purely on technical areas such as electrical and electronics, building and civil engineering, automotive engineering, mechanical engineering and institutional management. Secretary General, KUDHEIHA, opined that KNUT carries out induction courses for new lecturers, campaigns on issues like gender based violence, socio-economic activities like encouraging lecturers to form co-operatives, buy plots, and initiate benevolent education funds.

b) Support for Performance Measurement

On the contribution of performance contracting, Secretary General observed that KNUT is not against performance contract but the parameters used should be achievable. The informant observed that *'KNUT advocates that, the employer should consider different challenges and environment that lecturers face in their institutions. Lecturers should be given necessary tools that enable them to deliver their services'.*

According to Secretary General, COTU, KUPPET is involved in extra training, as well as participating in result oriented appraisal; for example where it was involved in designing the appraisal form that is currently being used by Teachers service commission. Director, TVET pointed out that COTU contributes to high performance work practices, through extensive training. The education department at COTU trains employees on their rights and obligations focusing on shop stewards. The ordinary member training is conducted with an aim of leading to a responsible worker who co-operates with employer. This in turn leads to higher productivity. Therefore, any work place with a need to maintain desirable labour relations has to carry out training which enhances high productivity.

c) Role of HPWP in Harmonizing Productivity Expectations

According to Director, TVET, It is in the employees' domain that the unions cannot agitate for better terms yet the employees are not delivering. But it's also important to note that the employer must also contribute towards high performance and productivity by ensuring that the welfare of the workers is taken care of with or without unions. Views from Director, TVET showed that trade unions contribute to high performance work practices like insisting employment of more teachers, organizing in-service or workshops in conjunction with the employer, encouraging teachers to further their education and produce desirable grades. The informant observed that the Government is currently sponsoring trainings on technical areas that include electrical and electronics, building and civil engineering, automotive engineering, mechanical engineering and institutional management. However secretarial courses, information communication technology, accounting, community development and social work and other related business courses are ignored.

This agrees with Black and Lynch, 2001; Levine and Tyson, 1990 cited by Gill *et al*., (2013), who state that trade unions contribute to the effective implementation of HPWP. Employees are more prepared to participate in employee involvement programs like training when they feel the union will offer job security. This is consistent with Gill (2009, cited by Gill *et al*., 2013), who states that trade unions play a positive role in enhancing productivity through facilitating the implementation of High Performance Work Practices. For example, trade unions play an important role in removing many of the barriers to the adoption of HPWP by advocating long-term investment in change like extensive training that is positive for the firm (Freeman & Medoff, (1984) cited by (Gill *et al*., 2013). These findings are consistent with, Sun *et al*.,(2007) cited by Muduli, (2015), who devised a revised instrument titled high-performance human resource practices to measure HPWS. The instrument consists of 29 items which are grouped under 10 sub headings such as selective staffing, extensive training, internal mobility, employment security, clear job description, result-oriented appraisal, incentive reward, participation, teamwork and flexibility. This disagrees with Pfeffer, (1995) cited by Muduli, (2015) who came up with Pfeffer's model. This is among the multiple measurements used for measuring HPWSs. The Pfeffer model originally included 16 practices but was reduced to seven (Pfeffer, 1998): job security, selective hiring of new personnel, autonomous teams and the decentralization of decision-making as the core to organizational design, a comparatively high salary depending on results, extensive training, a lessening of distinctions, and a substantial participation from the different departments in the company in financial information and results. This disagrees with Bryson, Forth, & Laroche, 2011) cited by (Gill *et al*., 2013) who states that there is evidence that some managers regard trade unions as hindrances to workplace performance. This has resulted in union suppression, substitution and avoidance.

Productivity

Regarding what trade unions should do to enhance productivity the following themes emerged:- Enhance staff professionalism through training, push for enactment of laws; provide all the necessary tools to the lecturers and awarding employees,setting clear objectives, managing exams, managing of teachers and students' discipline, supporting curriculum implementation. According to Director, TIVET, productivity can be enhanced if principals of TVET institutions award trophies, cash, certificates and recognition to employees who enhance academic, sports, athletics, drama and music festivals' performance in their institutions, during education and prize giving days. Trade unions should ensure employees in TVET institutions are paid higher salaries commensurate with semi developed countries like Kenya. The need to use reward in TVET Institutions, is in agreement with Koretz (1995) cited by Haenisch (2012), who states that insufficient rewards can lead to low productivity.

To improve productivity, Secretary General, KNUT, suggested that clear objectives should be formulated in two ways, that is, objectives for fighting for workers' rights, and for enhancing staff professionalism, production and ethics. This agrees with Leonard (2000),cited by Haenisch (2012), who noted surveys indicating that less organizational bureaucracy, a greater sense of purpose, clear goals, and being able to see results were essential to productivity. The informant observed that the government should provide an insurance cover for employees. This is because the working environment is characterized with risky machines which can affect the health of the lecturers and other employees. The trade unions should recognize TVET trainers as professionals and push for scheme of service for the lecturers as well as agitate for training and development for all trainers in order to meet the prevailing technological and economical levels in the world.

Secretary General, KUDHEIHA observed that trade unions influence productivity though the influence can be positive or negative. This corroborates with Hirsch (1997) cited by Khan and Khan, (2011) who concluded from many studies that there are both negative and positive effects of unions on productivity. Other studies show negative and positive effects of trade unions on productivity at different places in the same study. It is positive if what (for example, working tools) the trade Union is pursuing for, on behalf of teachers, is provided on time. It is negative if

necessary working tools are not provided on time. As a result, teachers will give minimum effort or teach theoretically. This also agrees with Fashoyin (1997) cited by Khan *et al.*,(2011) who is of the opinion that in Japan the productivity improvement movement has had a much greater influence and trade unions were an important party to the productivity improvement campaign. Human Rights Watch (1998) cited by Khan *et al*., (2011) quoted a study of ILO, which showed that productivity in Malaysia is higher in firms where the employees are organized in industrial unions than in non-unionized organizations.

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Trade unions play a role in enhancing both collective and individual voice at TVET institution in Kenya and are concerned with effective communication infrastructure at TVET institution in Kenya. Most of trade union supports the principle of adequate compensation for equal job principle in TVET institutions while majority advocates for flexible job assignments within TVET institution in Kenya. Most trade unions advocate for workplace security and safety at TVET institutions and are concerned with transformational leadership at the institutions. Overall, trade unions play a role in enhancing high performance work practices in TVET Institutions. For example, they participate in organizing trainings sessions and workshops in conjunction with TVET institutions aimed at sensitizing their members on emerging issues such as;-introduction of new technology, induction courses for new lecturers, campaigns on issues like gender based violence, socio-economic activities like encouraging lecturers to form co-operatives, buying plots, and initiation of benevolent and education funds.

In furtherance of high performance work practices, the study showed that currently the Government is sponsoring trainings on technical areas such as electrical and electronics, building and civil engineering, automotive engineering, mechanical engineering and institutional management. On role of performance contracting, trade unions are not against it but they point out that the parameters used should be achievable. In addition, in recognition of different challenges and environment that lecturers face in their institutions, trade unions advocate that lecturers should be given necessary tools so as to deliver their services. Trade unions contribute to high performance work practices through insisting employment of more teachers, organizing in-service or workshops in conjunction with the employer, encouraging teachers to further their education and encouraging production of desirable grades. The study concludes there is a statistically significant relationship between moderating influence of high performance work practices and productivity which means that the null hypotheses that states High performance work practices have no statistically significant moderating effect on the relationship between trade unions and productivity in TVET Institutions in Kenya is false and was rejected.

Conclusion

On the Moderating Influence of High Performance Work Practices on productivity in TVET Institutions the study concludes that trade unions are enhancing high performance work practices in TVET Institutions through organizing trainings sessions and workshops in conjunction with TVET institutions, sensitizing their members on emerging issues such as new technology, induction courses for new lecturers, campaigns on issues like gender based violence, socio-economic activities and initiation of benevolent and education funds. The study concludes there is a statistically significant positive linear relationship between moderating influence of high performance work practices and productivity which means that the null hypotheses that states High performance work practices have no statistically significant moderating effect on the relationship between trade unions and productivity in TVET Institutions in Kenya is false and thus rejected.

Recommendations

TVET institutional heads and Ministry of Science and Technology officers should always seek to work harmoniously with trade unions instead of competing in order to enhance productivity of lecturers and other members at the TVET institutions. TVET institutional heads and the ministry officials should tap into the influence of trade unions to achieve organizational goals at TVET institutions and thereby enhance productivity. Ministry of Science and Technology officials should use trade union structures to enhance productivity of lecturers and other staff members at the TVET institutions.

Areas for Further Research

The study suggests further research into the effect of trade unions in policy formulation in the ministry of education science and technology. The study further suggests an influence of trade unions on TVET curriculum reforms, the influence of trade unions on strategic human resource management in the TVET institutions and the role of trade unions in the strategic orientation of technical and vocational training in Kenya.

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PERCEIVED RISK OF USE OF MOBILE BANKING TECHNOLOGY AND ACCESS TO FINANCIAL CREDIT IN WOTE SUB – COUNTY, KENYA

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Abstract
Mobile phone innovations have led to development of modern financial innovation such as Mobile Banking by the financial providers. Although the financial system is a vital component of the socio-economic development of any nation, most Kenyans lack access to formal financial credit services. The purpose of this study was to establish the effect of Mobile banking adoption and access to financial credit by residents in Wote sub-county. The study was guided by the following specific objective:- to examine the relationship between perceived risk of use of mobile banking technology and access to financial credit. Descriptive research design was employed in which the study population comprised the residents of Wote sub-county. The target population of the study consisted of 137,944 mobile phone users of Wote sub-county and the sample size comprised of 138 participants selected using simple random sampling technique. Data was collected using a questionnaire whose reliability was established by use of Cronbach's Alpha. All items in the questionnaire had a score of above 0.7 which was deemed to be the acceptable threshold. The data collected was processed and analysed using SPSS. Descriptive statistics such as percentages, frequencies, standard deviation and mean scores were used. The research findings were presented using frequency tables, pie charts and bar graphs. Multiple regression analysis was used to analyse and draw inferences from the research data. The results indicated that Perceived risk of using mobile banking technology was statistically significant in accessing of financial credit. The intervening variable- customers' attitude- was found to be non-significant. This study recommended that both the banks and MNO's invest in improvement of mobile banking systems to ensure the uptake and security of mobile credit is enhanced and increase extra security features in their systems to increase trust in accessing mobile credit.
Key Mobile banking, Adoption, technology, Perceived Risk and Accessibility

1.1 Background to the study

Mobile banking is a form of technology that allows one to access various financial transactions offered by formal banking institutions through the use of a mobile device such as a Personal Digital Assistant (PDA) or a mobile handset. According to Manpreet (2015), Mobile commerce was initially defined by Kevin Duffey in 1997 to mean "the delivery of electronic commerce capabilities directly into the consumer's hand, via wireless technology anywhere". The banking sector in Kenya has embraced M-banking services in the provision of vital financial services to its' Kenyan clientele (Anyasi & Otubu, 2009).

1.1.1 Mobile Banking

M-banking has created a flurry of activities in the global financial services industry. In fact, it is leapfrogging formal traditional banking and now most of the top banks are providing their own mobile banking solutions, eventually reaping the benefits of technology that comes via mobile phones and introduce the service as a means of executing fast and efficient services, whereas financial institutions of various magnitudes are vigorously assessing their position in the mobile banking world. Subsequently, has created a level playing field for not only formal banks but also mobile network operators (Feig, 2010).

1.1.2 Mobile Banking Adoption

As stated by Karjaluoto (2002) the users in the developed countries were the initial targets for mobile banking systems. The M-banking system provides a convenient alternative way for transacting money without using cash thus complementing banking services such as cheque books, use of ATMs among others. The appeal for mobile banking services by the users in the developing countries may be much about ease of access and affordability than convenience. Generally, mobile banking applications in the third world countries allow users to do the following:

save funds in the mobile phone account, withdraw and deposit cash in the mobile account and transfer funds between accounts.

1.2 Statement of the Problem

The economic development of a nation is defined by a sound financial system and it is identified as one of the vital component of Kenya's economic pillar in Vision 2030. In Wote Sub-county there seem to be relatively fewer adoption rates in mobile adoption as compared by the mobile phone usage among the population which is about 85% (KNBS census, 2009). The residents are skeptical about the use of mobile banking deeming it insecure and risky. They fear that hackers will access their data and personal information to withdraw out their funds without any prior notification. They also bear doubt if their hard earned funds will be safe in their account or not. The customers often feel exposed to risk and loss when accessing mobile banking services because there might occur some errors and network failures during the transaction process.

Consumer mobile banking adoption in Wote Sub-county is minimal in comparison to the increased rate of mobile phone subscribers' base nationally. Hence various initiatives endeavor to provide financial services through mobile phone, not only to those who are banked but also the unbanked population. The scholarly research done on the adoption of mobile banking technologies in most of the third world countries has been limited because the systems are still in their early development stages. There is much less interest given to the economic, cultural and social concepts encompassing application of these Mobile banking systems. In addition, even the few researchers who have conducted research in mobile banking have come up with different conclusions on the most important factors influencing its adoption (Maurer, 2008).

1.3 Objective of the study

The general objective of the study was to establish the effect of Perceived risk of use of mobile banking technology and access to financial credit in Wote sub-county, Kenya.

1.4 Research Question

How does the Perceived risk of using mobile banking technology influence the access to financial credit?

2.0. Theoretical Literature

The study was guided by the following theories

2.1. Technology Acceptance Model

Davis (1989) indicates that the Technology Acceptance Model (TAM) can be utilized to predict acceptance and rejection of a new innovation by showing interrelationship between belief, attitude and action purpose According to Davis (1989), Perceived Usefulness is defined as the degree to which one believes that using a specific technology enhances one's job outcome. Whereas, PEOU describes the degree to which a person believes that applying a certain technology is free of effort. "The Technology Acceptance Model has been extensively tested and validated and is a widely accepted model, which can be extended or modified using other theories/constructs" (Masinge, 2010).

2.2. Technology Adoption Life Cycle Model

According to Rogers (2003), mobile banking adoption can be examined using the Technology Adoption Lifecycle (TALC) model which describes how new ideas and technologies is widespread in different cultures. According to TALC the stages through which a one adopts an innovation are; awareness of the requirement for a new technology, initial usage of the technology to test it, intension to accept or reject the technology, and continued usage of innovation. Through these stages, diffusion is accomplished. There are five different types of adopters namely: The Innovators are those individuals who intend to be the initial users of the technology are risk-takers and interested in new ideas. Whereas, early adopters represent opinion leaders, acknowledge change opportunities, enjoy leadership roles, and do not require any convincing for them to change. Early majority embrace innovations prior to an average person but need to perceive the technology work before they embrace it. The Late majority are users who are in doubt of new changes and only accept a new technology once it has been thoroughly tested. Lastly, the Laggards are tied by the norms and are really conservative; hence have a fear of new technology (Rogers, 2003).

2.3. Empirical Literature

The study considered the following empirical literature

2.3.1Mobile Banking Adoption

According to Masinge (2010), found out that the mobile banking adoption at the Bottom of the Pyramid (BOP) in South Africa were influenced by perceived cost, perceived risk and trust constructs to TAM. The main aspects of perceived risk include; time/convenience risk, social risk, security/privacy risk, and financial risk. The research showed that PU, PEOU, Perceived Cost, and client's trust had a major impact in adoption of mobile banking at the Bottom of the Pyramid unlike perceived risk.

2.3.2 Perceived Risk

Laforet and Li (2005) did a research in China on various barriers to users' adoption of online banking. They found out that the most vital factor that motivates adoption was security. They further found out that the main barriers to Mobile banking adoption include, computer and technological knowhow, PR, knowledge of the benefits, lack of awareness and the traditional cash-carry of Chinese banking culture.

2.3.3 Financial Credit Access

According to Overseas Development Institute (2009), a study done in Kenya and Tanzania shows that utilization of informal mechanisms is higher than the formal financial services. The rural population keeps savings while they also mainly borrow for an agricultural investment while the urban populace invests in businesses. In Tanzania, men are more oriented mostly towards savings or borrowing to undertake investments unlike women. Most of the people have not been able to open a formal bank account due to high minimum deposits. Mobile banking can make inroads into the formal financial system for the rural population with mobile phone service providers to connect their paying clients to Opportunity Bank by use of mobile trucks across twenty one countries in Africa at minimal transactional costs (Laugtug, 2010).

2.3.4 Customer's Attitude

Research done by Laforet and Li (2005) showed that several factors such as demography, person's behavior, motivation towards various banking innovations and one's acceptance of the innovation influenced the user's attitude towards mobile banking. They further added that prior experience of computer and innovative products toward mobile banking has been impacted by consumer's attitudes.

.5 Conceptual Framework

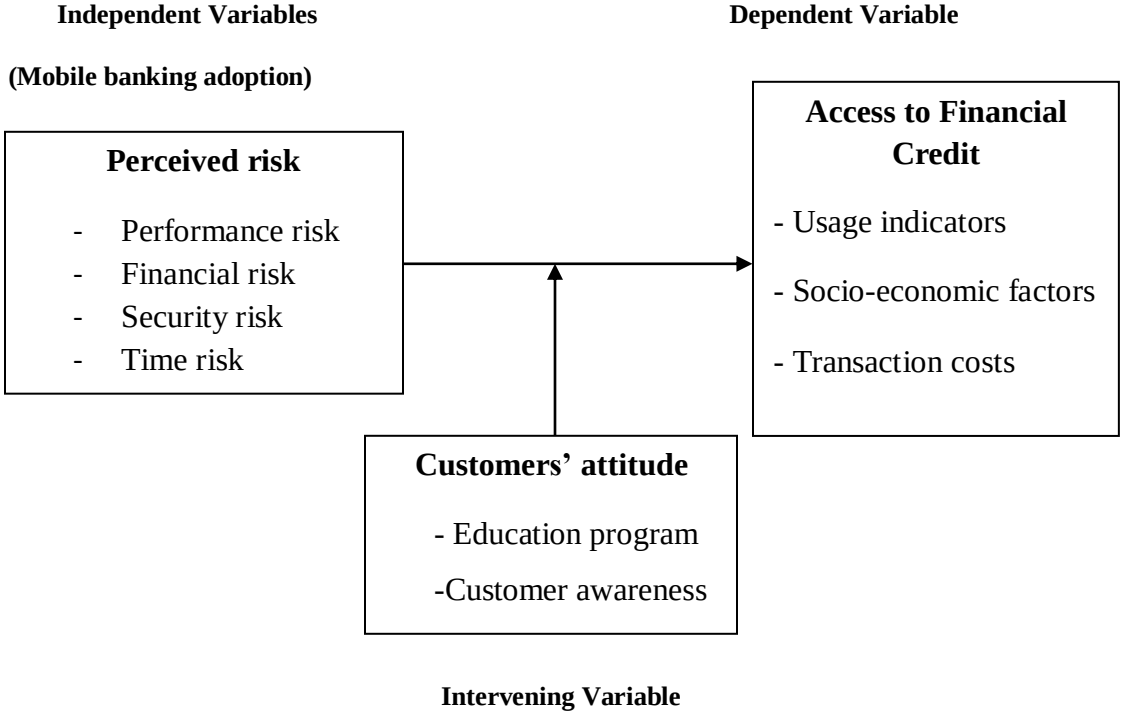


Figure 2.1: Conceptual Framework

Source: Researcher, 2018

3.0 Research Methodology

3.1 Research Design

Descriptive study design was adopted as a research design in conducting this study. It is appropriate because it constitutes collection of data to enable answering questions on the current status of the study subjects. Kothari (2005) recommended a descriptive survey design as it allows the records to be described by researcher, then analyze and report conditions that exist or existed.

The researcher employed descriptive study design because it's a study design in which data is collected without changing the study population environment. It's usually the most suitable method for collecting data that shows relationships and describe the world as it is.

3.2 Target Population

A Population is described as the entire group of people, events or objects with distinct observable characteristics (Mugenda & Mugenda, 2003). For purpose of this study, the target population was the 137,944 individuals within Wote Sub-county who are main users of mobile phones with formal bank accounts.

3.3 Sampling Design

In the research, a sample survey was undertaken. The sampling frame consisted of Mobile users who are also holders of bank accounts. The study sample of 138 mobile users was derived from this sample frame. The sample was drawn by selecting a participant in every fourth household in the five locations in Wote sub-county who were selected through simple random sampling.

3.4 Data Collection Instruments

In this study, the quantitative approach was applied during the collection of data using structured questionnaires composed of open-ended and closed-ended questions. They were constructed based on the three objectives. This is because they are convenient and easy to collect data from a higher number of respondents and provides the opportunity for anonymity thus promoting high response (Kiess & Bloomquist, 1985).

3.4.1 Validity of the Data Collection Instrument

According to Mugenda and Mugenda (2003), described validity as the accuracy and meaningfulness of the instrument that is the degree by which an instrument measures what it purports to measure. The researcher conducted a pilot study for a sample of ten respondents comprising two respondents from each of the five locations in Wote sub-county to polish the research instrument.

3.4.2 Reliability of the Data Collection Instrument

Mugenda and Mugenda (2003) described reliability to be a measure of the degree by which a research instrument produces consistent results after repeated trials. The Cronbach's Alpha was used to measure the reliability of the questionnaire. Field (2007) regards Cronbach's Alpha scores of 0.7 and higher as sufficient. The results to test the reliability of the questionnaire are summarized in table 3.1.

Table 3.1 Reliability Test Scores

Variable	Cronbach's Alpha	Number of items	Decision
Perceived Risk	0.743	7	Reliable
Customer's Attitude	0.768	9	Reliable

Source: Research data (2018)

The reliability scores on the variables in the questionnaire ranged from 0.743 to 0.768. Their reliability was deemed to be acceptable as it falls above the score of 0.7 which Mugenda and Mugenda (2003) had suggested as an acceptable reliability coefficient.

3.5 Data Collection Procedure

The researcher used the drop and pick later method. Through the assistance of a research assistant, the researcher distributed the questionnaires to the respondents. At the time of collection of the questionnaires, the researcher addressed any problems that the respondents may have had in answering the questions.

3.6 Data Analysis and Presentation

Questionnaires from the field were first checked for completeness. The data from the study was analyzed using both inferential and descriptive statistics. The descriptive statistics such as percentages, frequencies, standard deviation and measures of central tendency was applied. Afterwards, the research findings were presented using frequency tables, charts and bar graphs. The Statistical Package for Social Sciences (SPSS) was utilized in the study to analyze quantitative data. On the other hand, qualitative data was analyzed through segregation into common themes.

The Regression analysis was utilized in the study to establish the relationship between the dependent and the independent variables. The following multiple regression equation was used:-

$$\mathbf{Y = f(X_1, X_2, X_3)} + e$$

Where:

Y = Financial credit access
X_1 = Perceived usefulness
X_2 = Perceived Ease of Use
X_3 = Perceived Risk
e = Error

The following equation was applied.

$$\mathbf{Y_c = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3} + e$$

Thereafter, the researcher sought to establish the effect of the intervening variable. In this study, customer awareness was the intervening variable. Its effect on the other variables was analyzed using multiple regression analysis. In order to test its effect, the above model was modified as follows.

Y_c = Financial credit access
X_1 = Perceived usefulness
X_2 = Perceived Ease of Use
X_3 = Perceived Risk
I = Intervening variable
e = Error term

4.0 RESEARCH FINDINGS AND DISCUSSIONS

4.1 Education Level of the Respondents

The respondents were requested to state their education level and their responses were presented in table 4.1 below.

Table 4.1 Education Level of Respondents

Level of Education	Frequency	Percentage
Primary	0	0
Secondary	26	20.6%
Certificate	22	17.5%
Diploma	50	39.7%
Undergraduate degree	20	15.9%
Post Graduate degree	8	6.3%
TOTAL	**126**	**100%**

Source: Research data (2018)

The results in table 4.1 indicate that most of the respondents had completed their diploma education accounting for 39.7%. Those who attained secondary school education were 20.6%, Undergraduate level 15.9%, post-graduate level 6.3% and primary school dropouts were none. This is a representation of a literate population that has the know-how and knowledge of available mobile technologies at their disposal. This is supported by Polatoglu and Ekin (2001) who found out that those who adopt mobile banking are mainly customers who have a higher educational background.

4.2 Average Monthly Income

The respondents were requested to indicate their average monthly income and their responses were summarized in table 4.2.

Table 4.2 Average Monthly income

Level of Income (Kshs)	Frequency	Percentage
Below 20,000	36	28.6%
20,001 – 40,000	64	50.8%
40,001 – 60,000	16	12.7%
60,001 – 80,000	8	6.3%
Above 80,000	2	1.6%
TOTAL	**126**	**100%**

Source: Research data (2018)

Results in table 4.2 shows that 50.8% earn an average income of between Kshs 20,001 – 40,000, 28.6% earn below Kshs 20,000, 12.7% earn an average income of between Kshs 40,001 – 60,000, 6.3% have an income of between 60,001 – 80,000 and 1.6% earn an income of over Kshs 80,000. These findings replicate with Matilla (2001) who established that adoption of mobile banking is dominant among high-income earners.

4.4.3 Perceived Risk of Mobile banking and access to financial credit

The researcher sought to establish the effect of Perceived Risk (PR) in adopting mobile banking in accessing financial credit by residents of Wote sub-county, Kenya.

The respondents were requested to indicate whether they feel comfortable or at ease when transacting through mobile banking as opposed to using cash. Their response was presented in table 4.3.

Table 4.3 Ease of mobile banking transactions

Response	Frequency	Percentage
Yes	119	94.4
No	7	5.6
Total	**126**	**100**

Source: Research data (2018)

Results in table 4.3 indicates that 94.4% of the respondents indicated that they were comfortable or at ease transacting through the Mobile banking platform whereas 5.6% were not comfortable nor at ease with it.

The respondents who responded 'Yes' above were requested to rate statements regarding Perceived Risk in adoption of Mobile Banking on a scale of 1-5 (1=strongly disagree, 2=Disagree, 3=Neutral, 4=Agree and 5=strongly agree). Their responses are summarized in table 4.4.

Table 4.4 Perceived Risk (PR) in Mobile banking adoption

Item	Statement	N	Mean	Standard Deviation
i.	Due to network problems mobile banking services are not reliable.	**119**	**3.50**	**1.104**
ii.	Mobile banking services may not process payments correctly due to technical hitches.	**119**	**2.39**	**1.230**
iii.	Fears of loss of money when transferring money through Mobile banking due to transactional errors/mistakes.	**119**	**3.08**	**1.259**
iv.	Due to transaction errors, I worry that I won't be adequately compensated by the service providers.	**119**	**3.17**	**1.342**
v.	The transaction fees are expensive and deter use of mobile banking services.	**119**	**3.08**	**1.279**

vi.	Time wasting in fixing transactional errors creates a loss of convenience in use of m-banking systems.	**119**	**3.04**	**1.520**
vii.	Longer duration in learning how to use Mobile banking services.	**119**	**2.33**	**1.059**
viii.	Feeling of insecurity when providing personal privacy information over mobile banking.	**119**	**3.18**	**1.344**
ix.	I am worried about hacking and illegal access of account through mobile banking systems.	**119**	**3.17**	**1.380**
x.	Lack of a secure channel for sending sensitive information across Mobile banking.	**119**	**3.36**	**1.345**
xi.	Due to risk of poor network of mobile in some areas, it may be impossible to undertake transactions through mobile banking.	**119**	**3.78**	**1.329**

Source: Research data (2018)

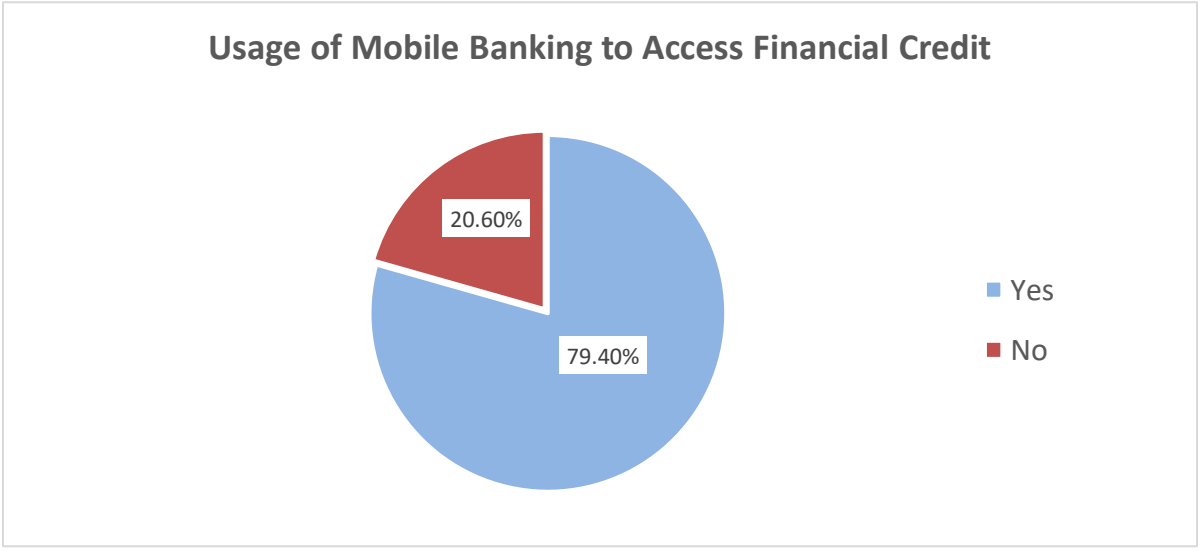
The table 4.4 shows that on average the respondents agreed that due to risk of poor network of mobile in some areas, it may be impossible to undertake transactions through mobile banking with a mean of 3.78, agreed that due to network problems mobile banking services are not reliable with a mean of 3.5, agreed that lack of a secure channel for sending sensitive information across Mobile banking with a mean of 3.36, agreed that feeling of insecurity when providing personal privacy information over mobile banking with a mean of 3.18, agreed that they are worried about hacking and illegal access of account through mobile banking systems with a mean of 3.17, similarly agreed that due to transaction errors, I worry that I won't be adequately compensated by the service providers with a mean of 3.17, also agreed that fears of loss of money when transferring money through Mobile banking due to transactional errors/mistakes with a mean of 3.08, agreed that the transaction fees are expensive and deter use of mobile banking services with a mean of 3.08, agreed that time wasting in fixing transactional errors creates a loss of convenience in use of m-banking systems with a mean of 3.04, disagreed that mobile banking services may not process payments correctly due to technical hitches with a mean of 2.39, and disagreed that they took longer duration in learning how to use Mobile banking services with a mean of 2.33. These findings are consistent with Riquelme and Rios (2010) who stressed that Perceived Risk (PR) and uncertainty are also possible elements that might influence adoption of Mobile Banking.

4.4.4 Accessibility of Mobile Credit

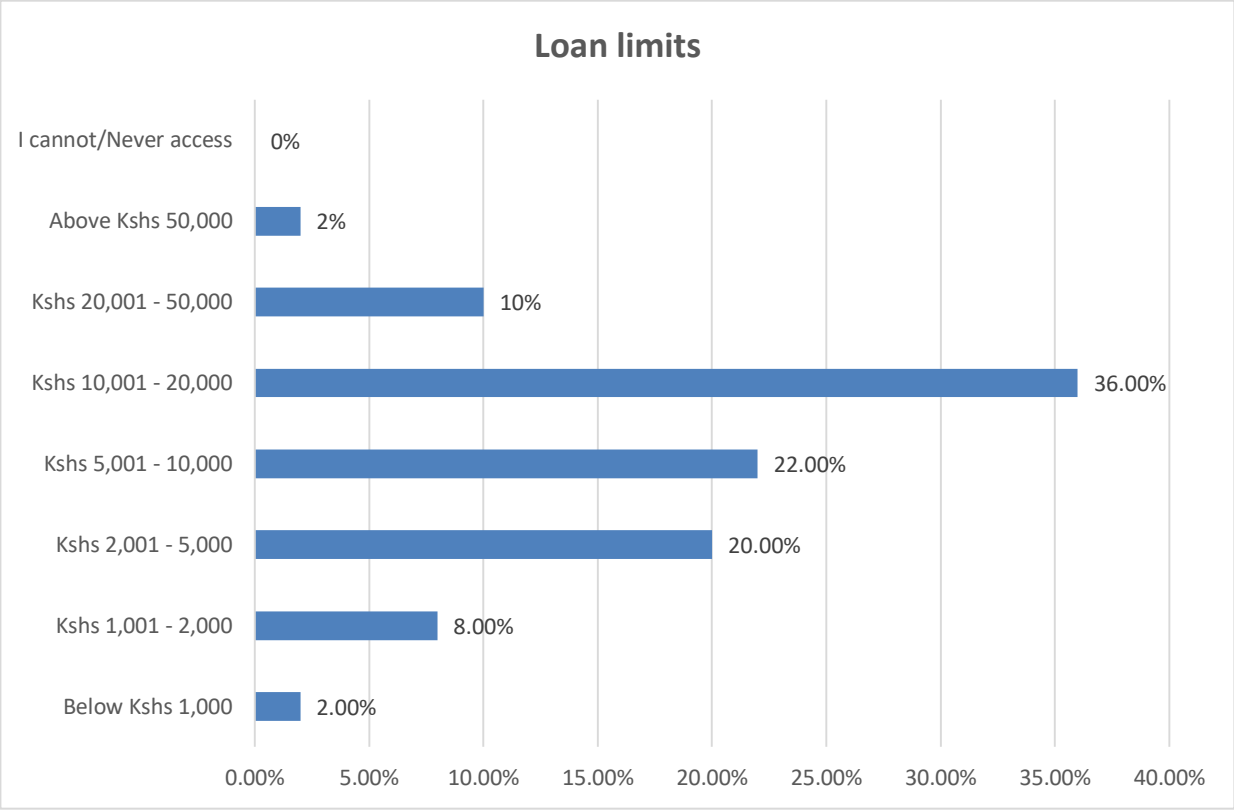
The researcher sought from the respondents to point out if they use Mobile technology to access financial credit (loans) and their responses are presented in figure 4.9. 79.4% of the respondents used mobile banking to access financial credit whereas 20.6% of the respondents didn't. From the results, most of the respondents have embraced mobile technology to access mobile loans due to its ease of accessibility. These findings are consistent with World Bank (2010) who found out that worldwide, accessibility of mobile credit has increased mostly in the developing countries in comparison to the developed nations who have set-up financial credit systems which comprises of debit cards and credit cards for accessing credit.

Source: Research data (2018)

Figure 4.1 Usage of M-banking to access financial credit



The respondents who answered 'Yes' to using of Mobile banking in accessing financial credit were requested to indicate the highest loan limit amount they can access. This was important in determining the reliability of mobile loans in meeting customer's credit demands. The results were as follows in figure 4.2.

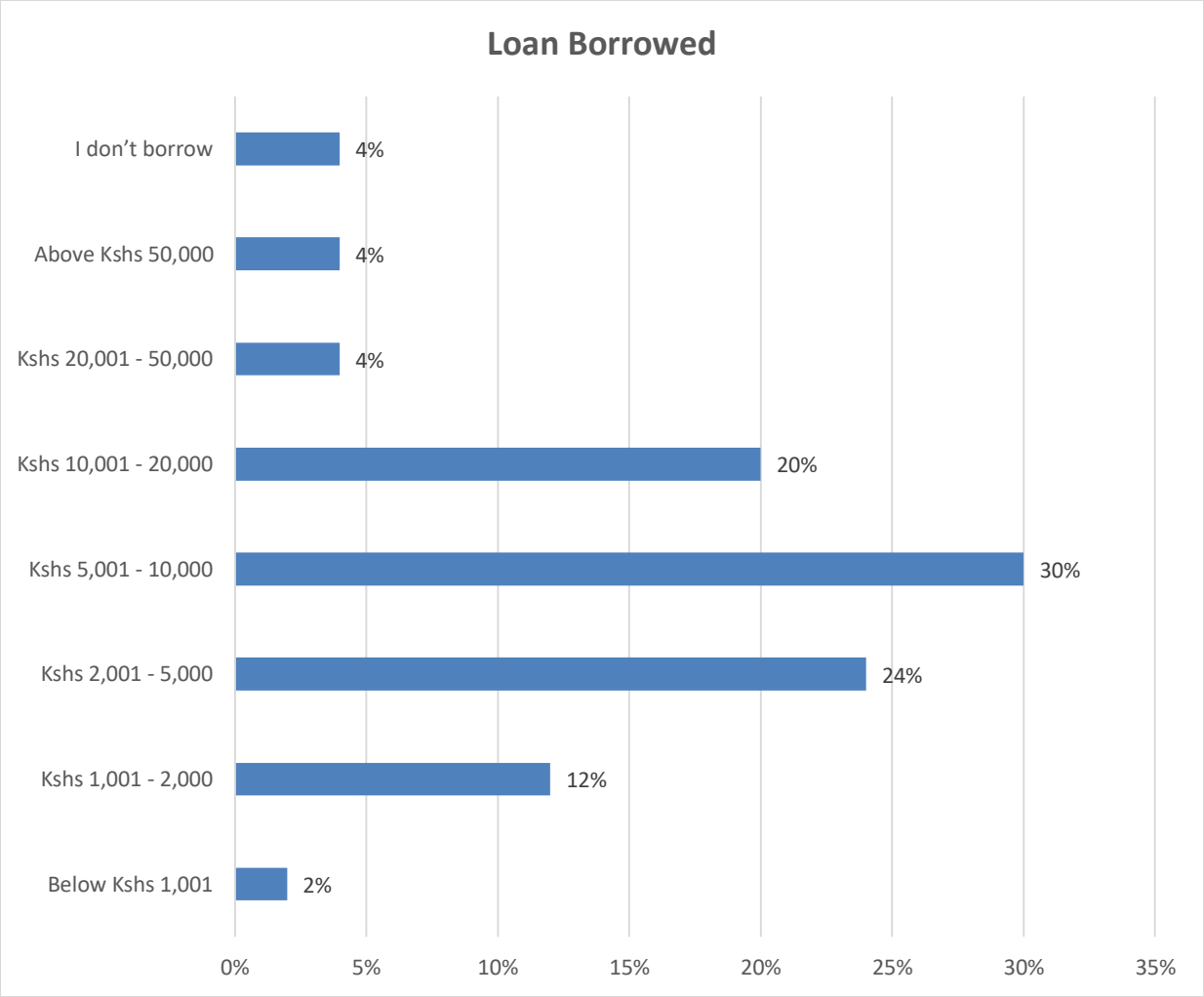


Source: Research data (2018)

Figure 4.2 Loan limits

Two percent of the respondents to this study indicated that the highest loan they had accessed was below Kshs 1,000. 8% indicated that the highest loan they had accessed was between Kshs 1,001 – 2,000, 20% had accessed between Kshs 2,001 – 5,000, 22% had accessed Kshs 5,001 – 10,000, 36% had accessed Kshs 10,001 – 20,000, 10% had accessed between Kshs 20,001 – 50,000 while 2% had accessed above Kshs 50,000. The study findings show that 88% of total customers demanded loans of less than Kshs 20,000 as the highest amount they could access. This findings show that introduction of Mobile financial services has increased subscription of financial services in Kenya with sevice providers such as M-pesa providing access to loan and money transfer services (Price, 2016).

Further, the respondents were requested to indicate the average loan amount they actually borrow through mobile banking. This was vital in determining on average if customers borrow substantial loan that can result to performance of commercial banks that engage in mobile credit. The results were presented in Figure 4.3 below.



Source: Research data (2018)

Figure 4.3 Average loans borrowed

2% of the respondents to this study pointed out that the highest loan they had borrowed was below Kshs 1,000. 12% indicated that the highest loan they had borrowed was Kshs 1,001 – 2,000, 24% had actually borrowed between Kshs 2,001 – 5,000, 30% had borrowed between Kshs 5,001 – 10,000, 20% had borrowed Kshs 10,001 – 20,000, 4% had borrowed Kshs 20,001 – 50,000 while 4% had borrowed above Kshs 50,000. Only 4% indicated that they had not accessed any mobile loan. The study findings show that 88% of total customers borrowed loans of less than Kshs 20,000. This shows that with the accessibility brought by mobile technology, an individual could access credit with ease in-case of an emergency without any need of provision of collateral as security. The results of the findings also suggest that individuals who access loan via mobile credit are low earners who are mainly salaried people who are capable of re-paying back their loans at the end of the month. This is supported by Tiwari, Buse, & Herstatt (2015) who indicated that mobile credit has not only enabled access to credit, but has also enabled financial inclusion in developing countries.

4.4.5 Customer's attitude of adopting Mobile banking and access to financial credit

In this section, the researcher sought to establish the intervening effect of customers' attitude on accessing of financial credit through adoption of Mobile banking by the residents of Wote sub-county.

The respondents were requested to rate statements regarding Customers' attitude towards adopting mobile banking in accessing of financial credit on a scale of 1-5 (1=strongly disagree, 2=Disagree, 3=Neutral, 4=Agree and 5=strongly agree). Their responses were tabulated as follows in table 4.5.

Table 4.5 Customers' attitude in adoption of M-banking

Statement	N	Mean	Standard. Deviation
I am very satisfied with the mobile phone loans provided by my bank	121	3.71	1.028
Mobile phone loans are very cheap thus I am a satisfied customer	121	3.41	1.243
I can access mobile phone loans very fast and thus I am satisfied	121	4.13	1.016
I can access mobile phone loans at my time of need	121	4.25	0.986
The loan limit I get through my mobile phone is sufficient for my needs	121	2.95	1.353
The repayment period for mobile loans is sufficient and thus I am satisfied	121	2.96	1.363
Mobile phone loans reduced the time for me to queue in banks to access credit	121	4.29	1.012
It is very easy to borrow using my mobile phone which makes me a satisfied customer	121	3.98	1.025
I have rarely encountered errors when using the mobile loan application	121	3.52	1.170
I am satisfied with the security levels when borrowing using the mobile phone	121	3.73	1.103
I need a smart phone to access mobile phone loans from the bank	121	3.02	1.511
The need to have knowledge on how to use mobile applications to access mobile phone loans from the bank	121	3.28	1.305
The bank has trained me on how I can access mobile phone loans	121	2.91	1.420
The cost of buying airtime (data access costs) to access mobile phone loans is high	121	3.11	1.419

Source: Research data (2018)

The results in table 4.5 indicate that mobile phone based loans reduced the time for me to queue in banks to access credit was the statement with the highest Mean of 4.29. Other statements include; I can access mobile phone loans at my time of need with a Mean of 4.25, I can access mobile phone loans very fast and thus I am satisfied with a mean of 4.13, It is very easy to borrow using my mobile phone which makes me a satisfied customer with a Mean of 3.98, I am satisfied with the security levels when borrowing using the mobile phone with a Mean of 3.73, I am very satisfied with the mobile phone loans provided by my bank/MNO with a Mean of 3.71, I have rarely encountered errors when using the mobile loan application with a Mean of 3.52, Mobile phone loans are very cheap thus I am a satisfied customer with a Mean of 3.41, the need to have knowledge on how to use mobile applications to access mobile phone loans from the bank with a Mean of 3.28, the cost of buying airtime (data access costs) to access mobile phone loans is high with a Mean of 3.11, I need a smart phone to access mobile phone loans from the bank with a Mean of 3.02, the repayment period for mobile loans is sufficient and thus I am satisfied with a Mean of 2.96,the loan limit I get through my mobile phone is sufficient for my needs with a Mean of 2.95, and the bank has trained me on how I can access mobile phone loans with a Mean of 2.91. Generally, the respondents were undecided on whether customer's attitude influenced the accessing of financial credit by adoption of mobile banking. This is supported by Ophir (2014) who noted that banks globally have concentrated on the application of mobile banking, virtual banks and internet banking with aim of reducing their customer operational costs as well as improve on customer satisfaction.

This is supported by Lin (2011) who found out through a research titled "An empirical investigation of Mobile banking adoption", whose outcome indicated that ease of use, integrity, competence, perceived relative advantage and compatibility have significant effect on one's attitude hence leading to behavioral intention to adopt M-banking.

4.5 Regression Analysis

The previous section had presented descriptive statistics on the study variables. However, to draw inferences about the population there was need to empirically analyses the data. The following was the study model that was tested.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Table 4.6 Coefficients of the Study Model

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.656	.164		4.007	.000
	Perceived Usefulness (PU)	.218	.020	.409	11.021	.014
	Perceived Ease of Use (PEOU)	.160	.024	.242	6.533	.000
	Perceived Risk (PR)	.206	.011	.681	18.336	.000

Source: Research data (2018)

The results in table 4.6 indicated that Perceived Risk had a significance level of 0.000<0.05. This indicates that the study variables were statistically significant in their influence of the dependent variable since their p values were all less than 0.05. Consequently, the study model was converted to the following equation.

$$Y = 0.656 + 0.218\ X_1 + 0.160\ X_2 + 0.206\ X_3$$

To test the effect of the intervening variable the study model was improved as follows.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_5 I + \varepsilon$$

Table 4.7 Coefficients of the study model with the intervening variable

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.419	.265		5.357	.000
	Perceived Usefulness	.170	.032	.337	5.267	.431
	Perceived Ease of Use	.129	.028	.291	4.659	.051
	Perceived Risk	.223	.026	.520	8.428	.102
	Customers' attitude	.050	.223	.162	3.568	.642

Source: Research data (2018)

The table 4.7 shows that after the introduction of the intervening variable (customers' attitude) in the model the independent variables had an insignificant effect towards the dependent variable of the study. This is because their p values were all greater than 0.05. Perceived Risk of mobile banking adoption had a significance level of 0.102>0.05. Customers' attitude had a significance level of 0.642>0.05. This led the researcher to drop the intervening variable from the study.

4.6 Model Testing

The researcher sought to test the overall significance of the regression model using ANOVA and the results are presented in table 4.8.

Table 4.8 ANOVA Test

Model	Sum of squares	df	Mean square	F	Sig.
Regression	12.115	3	4.038	3.410	0.002
Residual	70.049	123	.569		
Total	82.164	126			

Source: Research data (2018)

The results in table 4.8 on ANOVA test showed an F- statistics of 3.410, (significance level = 0.002) which were statistically significant at 0.05($P < 0.05$). This shows that the model adopted in the study was significant and that, the variables tested fitted well in the model.

The researcher sought to establish the goodness of fit of the study's regression analysis model and this is presented in table 4.9.

Table 4.9 Goodness of Fit of the Study Model

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.898(a)	.807	.801	.10391

Source: Research data (2018)

From the table 4.9, Adjusted R is 0.801 and this means that there was 80% positive variation in accessibility of financial credit index due to changes in Perceived risk in adoption of mobile banking.

5.0 SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of the study

The study sought to establish the effects of adoption of Mobile banking in accessing of financial credit in Wote sub-county, Kenya. The specific objectives of the study were: to establish the effect of Perceived risk of use of mobile banking technology and access to financial credit in Wote sub-county. In addition there was an intervening variable – customer's attitude.

The study found out that most of the respondents had embraced mobile banking services due to increased awareness via the mass media channels. They also greatly acknowledged that using mobile banking is advantageous and beneficial in accomplishing financial services. Most of the respondents revealed that the usage of mobile banking has made their tasks easier and accomplishing them more quickly. The ability of a service provider slightly influenced the adoption of mobile banking though overall the perception of importance of adopting mobile banking had a positive impact on accessibility of financial credit.

5.2 Conclusion of the study

The study concludes that there is a positive relationship between Perceived Risk of Mobile banking and access to financial credit. This implies that a mobile banking system that is secure and free of transactional errors quality will create confidence and trust in uptake of mobile loans.

Financial credit access through mobile banking is an innovative service has been greatly embraced in the global banking industry. Although mobile credit has not overshadowed traditional forms of credits, most banks have found it necessary to adopt the system to serve their customers effectively by providing credit access easily. Access to credit has its advantages and disadvantages. Mobile credit enhances economic productivity and growth while on the other hand, too much credit may have negative consequences on the stability of economy or cause financial crisis or reduce the living standards due to too much debt.

5.3 Recommendations of the study

The study recommends that since the number of people with access to a mobile hand set is gradually increasing, the financial institutions and Mobile Network Operators should continuously focus on adoption of mobile banking in their operations. In addition, the convergence of mobile phones and financial institutions has revolutionized the banking services/systems. Analysis further shows that mobile credit is still young in Kenya with less than 6 years, this gives it more reason for wide market availability in the country. This is based on the fact that due to technological advancements many business entities are switching from the physical branch networks to technology enabled networks due to the benefits associated with them. The effect of mobile credit can be made more significant if sufficient changes are made in view of the adoption and full application of this Mobile banking technology. It is

recommended by the study adoption of mobile credit since it support the bank focused theory which states that commercial banks can derive more benefits from adopting technologies such as mobile credit in the provision of loans and related services to their clients. Mobile credit is anytime banking since customers are able to transact anytime unlike the traditional normal banking procedures where customers must avail themselves into the banking halls or through the agency banking which is a waste of time.

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ADVERTISING APPEALS AND GENERATION Y PURCHASING INTENTIONS IN NAIROBI CITY COUNTY, KENYA.

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ABSTRACT

Most companies use advertisements to promote their brands amongst consumers. Today, Generation Y, also known as Millennials, have a huge influence in the buying decisions of their families. The aim of this study is to fill the gaps in the marketing literature by providing a comprehensive analysis of the impact of advertising appeals based on Kenyan products and services which target Generation Y, in order to increase advertising effectiveness and positively impact the intent to purchase among this particular generational cohort. The four advertising appeals that were under investigation are: fear appeal, emotional appeal, rational appeal and humor appeal. For the purposes of the study, a descriptive research design was employed and since the dependent variable was categorical, a logistic regression distribution model was used to test the impacts of the appeals on buying intention. The study established that all four appeals have a significant effect on Generation Y purchasing intentions, furthermore, revealing that advertising appeals are an important factor in the decision-making process for purchase. According to the study findings, the impact that emotional appeal has on Generation Y purchasing intention is the most significant out of the four appeals and can be very effective in increasing buying intention, as it promotes a positive brand attitude, cognitive response and reaction. Companies may refer to the results obtained to develop effective advertising appeal strategies that are beneficial for their brands, with the characteristics of Generation Y consumers in mind. This will in turn improve the delivery of the appeal in their advertisements, the marketing communication between company brands and Generation Y consumers, buying intention and ultimately increase profitability of the company.

Keywords: Generation Y, advertising appeals, purchasing intention, fear, emotional, rational, humor

INTRODUCTION

Majority of companies use advertising to promote their products and services in order to sell and make profit. Lamb, Hair and McDaniel (2011) describe advertising as any kind of objective and neutral paid communication in which the organization is identified. An advantage of advertising is that marketers are able to communicate to a large number of people at the same time (Lamb et al., 2011). It attempts to influence the consumer's buying behavior by delivering selling messages that are about the company's products and services (Zou & Fu, 2011). An appeal, in the general sense, is the quality of having charm. A simple definition of an advertising appeal as stated by DeJesus (2007) is that it refers to the approach used to attract consumers and to provoke their feelings towards a particular product or service. The motive is to affect the way consumers see themselves and how purchasing a certain product or a service can be beneficial to them (Zou & Fu, 2011). The various appeals that advertisers may utilize in an advertisement are to add to the influential power thus creating a stronger desire in customers' minds to purchase the product. Marketers generally have to do extensive market research so as to choose the best advertising appeal to incorporate in their selling messages. The advertising appeal chosen must be attractive to the target market, exclusive such that consumer must be able to differentiate the advertiser's message from the rival's message, and it must be believable by not making unrealistic claims about the product or service being advertised (Lamb et al., 2011). For this study, focus was on four commonly used advertising appeals, namely: fear appeal, emotional appeal, rational appeal and humor appeal.

Fear-Appeal

Fear is as an unpleasant emotion experienced when one believes that something is a threat and can cause pain or discomfort. Thus, fear appeal is a persuasive message that strives to evoke fear by highlighting the potential danger that will befall an individual if they fail to adopt the message's recommendations (Williams, n.d.). Marketers use fear appeals in advertising so as to persuade the audience to use or not use a certain product or service, and in doing so, deter the threats or risks highlighted in the message. Witte and Allen (2000) explain that fear appeals are most effective when both efficacy and threat have been used at a high level i.e. the advertising message must contain a relevant issue or threat; and clearly defined actions that an individual can take to deter the issue or threat. Fear appeals have been used for various product and service advertisements such as personal safety (e.g. do not drink and drive; don't text while driving), dental hygiene (e.g. gums bleeding while brushing), insurance (e.g. life insurance), regular health examinations (e.g. cancer awareness), and many others.

Emotional-Appeal

Jacobson (2011) defines an emotion as a "mental state that arises spontaneously rather than through conscious effort and is often accompanied by physiological changes" such as a feeling of love, sadness, joy or hate. An emotional appeal is a method of persuasion that's created to bring about an emotional response from an individual. They are used manipulate a person's emotions, and persuasive language is used instead of facts so as to build an emotion-based argument. Generally, children and young persons are more influenced by an advertisement that contains an emotional appeal, compared to mature and aged persons who are likely to be more influenced by rational appeal. Therefore, emotional appeals are better used to influence the buying decisions of young persons.

Rational-Appeal

The term "rational" is defined as having the ability to reason or to exercise sound judgment on a particular thing, making a rational appeal a mode of persuasion mostly used by advertisers that entails the use of factual information and details to promote a product or service. This particular appeal uses logical arguments and focuses on the rational thought processes of consumers (Estelami, 2009). Rational appeals place much emphasis on the benefits of a product such as superiority, low price (economy), durability, quality, performance, easiness in use or efficiency.

Humor-Appeal

Humor can be defined as something that is comical or amusing. Humor appeal on the other hand is a mode of persuasion used by advertisers that manipulates the element of comedy and amusement to capture the attention of the audience. An advertisement that has humor appeal is usually intended to make the consumer laugh, and hence create an emotional link to the brand being advertised. A well-executed humor appeal should enhance recollection as well as intent to purchase the product. However, if used excessively or inappropriately, consumers may strongly dislike the brand (Smith, 2002). Furthermore, companies who choose to use humor appeal in their advertisements may come across as less credible to consumers. There is also the risk that humor appeal can overshadow the product i.e. a consumer may only remember the humor in the commercial message, but not the product (Gulas & Weinberger, 2006).

Generation-Y

A generation is a cohort of people born within the same time span, who share a life stage and have been shaped by particular developments, trends and events (McCrindle, 2014). Generation Y, also referred to as Millennials or Echo Boomers, is one of the generations that largely form part of the world's population. Born from 1980 through 1995, this group is racially and ethnically diverse compared to earlier generations and are the first generation to fully accept technology and social media (McCrindle & Wolfinger, 2009). Millennials are very tech savvy and are known to be sophisticated technology-wise. They are immune to most traditional sales and marketing techniques and strategies, as they have been exposed to it all since their childhood. Since they are flexible and prefer to follow popular and upcoming trends, they tend to be less loyal to brands as compared to other cohorts.

Purchasing-Intention

Purchasing intention also known as buying intention refers to when a customer is planning to buy or not to buy a particular product or service. It is characterized as a behavioral tendency as well as a measure of the actual decision to buy or not to buy. It is closely related to the attitudes, behaviors and perceptions of consumers (Gogoi, 2013). Kotler and Armstrong (1991) suggest that before a decision is made to purchase or not to purchase a product or service, there are six stages that a consumer goes through, namely: awareness, knowledge, interest, preference, persuasion and then purchase. For this study, focus was on the persuasion stage, since the research looked at methods of persuasion i.e. selected advertising appeals used in product/service ads.

Problem-Statement

Tufte (2010) states that in the society of today, there is an increasing emphasis on youth as consumers. It is safe to say that over the years the youth have become a more attractive target audience to marketers. This is because youth not only have a considerable amount of disposable money to spend, but also have a huge influence on family buying decisions on daily basis.

However, the challenge that company brands are facing is to increase intent of purchase among members belonging to Generation Y. It is notable that because this group of individuals is exposed to hundreds of advertisements on a day-to-day basis, it is exhausting for them to pay attention to every advert presented to them, owing to the fact that they have become immune to traditional advertising methods and sales pitches ("Generations X, Y, Z and the Others").

Because this generation presents an eminently worthy market, company brands also have the challenge of gathering and analyzing market intelligence on the purchasing behaviors and decisions of this generation so as to understand them and hence maximize on the opportunity for a larger market share, and ultimately better profit margins. Understanding the generation Y purchasing intentions will enable companies to build relationships, gain trust and influence purchasing intentions, while understanding advertising appeals will enable companies know how to tailor their message effectively to influence attitudes.

Musyoka, Ng'ang'a and Wambugu (2015) carried out a similar study that focused on analyzing the purchase behavior of Generation Y in Nairobi, Kenya. Recommendations of this study were to focus on other aspects of Generation Y consumer behavior other than buying decision. In addition, they suggested a similar study to be carried out in other parts of Nairobi. Another research study gap can be found in a study carried out by Niazi, Siddiqui, Shah and Hunjra (2011) concerning effective advertising and how it affects consumer buying behavior. They suggested to conduct a similar study which should include electronics and automobile brands as well as pay attention to social concerns and consumer psychological behaviors.

The general objective of this study was to investigate the effect of each of the four advertising appeals (namely: fear, emotional, rational & humor) on Generation Y purchasing intentions in Nairobi City County, Kenya. Specific objectives were:

The study was guided by the following research--questions: -
1) To what extent does fear advertising appeal affect Generation Y purchasing intention?
2) To what extent does emotional advertising appeal affect Generation Y purchasing intention?
3) To what extent does rational advertising appeal affect Generation Y purchasing intention?
4) To what extent does humor advertising appeal affect Generation Y purchasing intention?

The study's focus was on four known Kenyan companies/ brands that mainly target the youth in Kenya and have implemented the mentioned advertising appeals in their advertisements.

A study limitation was that there was a chance that respondents were aware of or may have previously purchased or invested in any of the brands that were used in the questionnaire, and as a result, had already formed/developed an opinion or attitude towards the brand, be it positive or negative. They could have responded to the questions using the knowledge they already have on the particular brand(s), which may have affected the research findings.

LITERATURE-REVIEW

The theory of mood-congruent learning effect anchors the independent variable of this research study, i.e. fear, emotional, rational and humor advertising appeals. This theory is a phenomenon in psychology in which an individual tends to remember certain information that is consistent with a certain mood. Generally, people recall memories which coincide with the mood they experience at a particular time (Eysenck & Martin, 2013). For example, an individual who is in a happy mood will recall happy memories while if they are in a sad mood they will recall sad events (Parkin, 2013). This theory anchors this study by providing a basis for understanding the four advertising appeals and how they influence different moods, attitudes and beliefs in individuals, thus ultimately affecting buying behavior.

The theory of generations is also known as the sociology of generations. It seeks to explain in detail the origin of generations including Generation Y. It was proposed in the year 1923 by sociologist Karl Mannheim in his essay titled "Problem of Generations". This theory suggests that from their youth, individuals are significantly affected by the socio-historical environment and in particular notable events that influence their development, attitudes and the view of the world (Codrington, 2008). Individuals that share the same age, similar experiences, face similar issues and impacted by similar events tend to have indistinguishable underlying value systems, regardless of country of birth. These value systems are what drive and facilitate prediction of behavior and attitudes. If the theory is incorporated with the understanding of gender, race, culture, religion as well as personality profiles, it can be very helpful in analysis of the drivers behind a person's behavior. Therefore, this provides an anchor to the research study.

Proposed by Icek Ajzen, the theory of planned behavior is an extension of the theory of reasoned action which links behavior and beliefs and seeks to explain human behavior, hence anchoring and supporting the binary dependent variable of this research study i.e. purchasing intention (to buy or not to buy). it is based on the assumption that human beings tend to behave in a sensible way as well as take into account information that is available "and implicitly or explicitly consider the implications of their actions" (Ajzen, 2005). The theory also suggests that the most important determinant of the action is the person's intention to perform or not to perform a certain behavior.

METHODOLOGY

For the study, a descriptive research design was employed. Moreover, a logistic regression model was used as there was an independent variable (advertising appeal) and a bivariate dependent variable (purchase decision: to buy or not to buy). Since the focus of this research study is Generation Y, the target population included individuals within a local university in Nairobi City County. This comprised of both male and female respondents, from the age of 24 to 39 years. The age bracket therefore included the students within the school as well as the staff who worked in the school. The confidence level used was 95% and margin of error was 5%, while the sample size was a total of 120 respondents. As a data collection instrument, online survey questionnaires were used to collect primary data, which were distributed to the students and staff via email and social networks.

RESEARCH-FINDINGS

The online questionnaire was distributed to a total of 120 university staff and students. Responses were collected from 108 respondents and this represented a 90% response rate which was adequate for this study. From the findings, 61 respondents were male and 47 were female. The table below shows the findings based on a logistic distribution model, which used to determine the effect of fear, emotional, rational and humor appeal on the purchasing intention of Millennials, in Nairobi City County, Kenya.

Dependent Variable = Purchasing intention	**Logistic Regression**		**Marginal Effect dy/dx**
	Coeff. (B)	**P Value**	
EABL Ad: Fear Appeal	-5.605	0.014	-0.08

Safaricom Ad: Emotional Appeal	4.880	0.077	0.35
KU Digital ad: Rational Appeal	8.453	0.013	0.11
RBA Ad: Humor Appeal	3.607	0.092	0.30

The findings from the analysis indicate that all four independent variables i.e. the fear, emotional, rational and humor advertising appeals are jointly significant and hence influence the dependent variable i.e. purchasing intention. All the coefficients of the independent variables were significant at 5% significance level.

The first research question of this study sought to investigate the extent to which fear appeal affected the purchasing intention of Millennials. According to the results in the table above, it can be seen that for the EABL advertisement, which focused on a campaign cautioning Generation Y consumers on not to drink and drive, the fear appeal used had an impact on the purchasing intention, with a coefficient of negative 5.605 and an associated marginal effect of negative 0.08 implying that for an increase of every 1 unit, the probability of not purchasing increased by 8%. Hence, it can be deduced that Generation Y consumers exhibited a negative inclination in buying intention. This result is consistent with the study of Ferguson and Phau (2013) who discovered that campaigns associated with fear appeal discourage the intention to purchase the product among the youth.

The second research question sought to explore the extent to which emotional appeal influenced Millennials' buying intention. The result revealed that with a coefficient with 4.880 and a marginal effect of 0.35, emotional appeal affected buying intention, implying that for every unit increase, the probability to purchase increased by 35%. This outcome is consistent with study result by Chaudhary, Saddiq, Akram, Ali and Tariq (2016) which uncovered that emotional appeal has a positive impact on consumer buying behavior.

On the other hand, the third research question sought to determine the extent to which rational appeal influenced the purchasing intention of Generation Y consumers. With a positive coefficient of 8.453 and a corresponding marginal effect of 0.11, it is seen that rational appeal has a significant effect, whereby for very unit increase, the probability to buy increased by 11%. However, from the results, emotional appeal has a higher marginal effect of 35% than that of rational appeal. This means that emotional appeal is more effective than rational appeal in increasing buying intention, thus has a far greater effect on consumer behavior of Millennials. This is confirmed by a study carried out by Zhang, Sun, Liu and Knight (2014) which concluded that emotional appeals lead to a higher purchasing intention compared to rational appeals.

The fourth and last research question was to investigate the extent to which humor appeal influenced intention to buy among Generation Y consumers. The coefficient was 3.607 and the associated marginal effect was 0.30, and therefore for every unit increase, probability to buy increased by 30%. Hence, similarly to the emotional & rational appeals, the impact of humor appeal on buying intention is positively significant. This outcome is consistent with study findings of Elbers (2013) which showed that humorous advertisements can lead to an increased purchase intention among Millennials.

Moreover, the marginal effect of 30% for humor appeal is lower than that of emotional appeal (35%), which ultimately explains that emotional appeal has a greater impact on Generation Y buying intention than humor appeal. The result is consistent with the study findings of Srivastava (2016) which found that emotional appeal advertisements had a far greater effect on consumers than humor appeal advertisements. Using the regression results as a reference, emotional appeal has the highest statistic among the other three independent variable, making it the most effective advertising appeal in increasing purchasing intention.

CONCLUSION

The purpose of this research study was to enable marketers to use specific advertising appeals in creating more personalized advertisements that would effectively reach Generation Y, making them identify with brands on a more personal level. Hence this would facilitate marketers to develop a deeper and better understanding of this popular Generation i.e. their characteristics, behavioral traits and the challenges of marketing to this particular cohort.

The study verifies that fear, emotional, rational and humor advertising appeals have a significant effect on Generation Y purchasing intentions, furthermore, revealing that advertising appeals are an important factor in the decision-making process for purchase. It is noticed that fear appeal is mostly suitable for campaign advertisements, which are directed towards social issues rather than product advertisement, since it discourages purchase by instilling a sense of fear or concern in individuals. However, this appeal can be implemented in ads that have products or services which present a solution to an issue for example, a mouthwash that treats bleeding gums. This is because Millennials have proved to have self-efficacy in following recommended action or advice to curb particular issues. Marketers should therefore be careful when implementing fear appeal to product advertisements where they are looking to generate revenue and ultimately get better profit margins.

The impact that emotional appeal has on Generation Y purchasing intention is the most significant out of the four appeals and can be very efficient in increasing Millennial buying intention, as it promotes a positive brand attitude, cognitive response and ultimately high purchase intention. Marketers and promoters can therefore utilize this appeal to their benefit i.e. make more sales and gain market. Humor appeal is also beneficial in increasing buying intention, as it is emotional oriented i.e. brings about amusement in consumers which brings about positive emotional perception. On the other hand, rational appeal is more fact oriented i.e. brings about logic which is a mental perception.

Furthermore, advertising appeals that bring about emotional feelings (including fear, humor and emotion) are likely to be more influential in increasing cognitive response and memory in consumers belonging to the generation Y cohort, than appeals that focus on rationale. Emotional appeal advertisements are thus more memorable, and this therefore can have a significant impact on Millennials' intention to buy. It is also necessary to note that the appeals discussed do not seem to have a significant impact on the perception that a product, service or brand is of high quality. Companies may refer to the results obtained in this study for their future considerations in developing an effective advertising appeal strategy that is beneficial for their brands.

RECOMMENDATIONS

By utilizing the results in this research study, marketers can plan and design advertising appeal strategies with the characteristics of Generation Y consumers in mind which would improve the appeal of their advertisements significantly, thus improving marketing communication between company brands and Generation Y consumers, the buying intention and ultimately increase profitability of the company. Additionally, improvements can be made on this research study, by using other brands, products or services that are uncommon or unknown to Millennials.

This topic can be further explored by investigating the effect of other advertising appeals on purchasing intention of Generation Y consumers. Research can also be carried out in other counties other than Nairobi. Advertisements used in this particular research study were YouTube and television ads, therefore further research can focus on other upcoming modern advertising methods including email, app and mobile advertising.

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FINANCIAL RISKS AND FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN KENYA

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Abstract

This study sought to investigate the effect of financial risks on Kenya's commercial banks financial performance. Specific objectives for the study were to examine the effect of liquidity risk and foreign exchange rate risk on performance of commercial banks in Kenya. A causal research design was adopted in this study in which the population targeted included 42 commercial banks that had been in operation in Kenya from the year 2013 to 2017. The study used secondary panel data that was analyzed through descriptive and inferential statistics within the framework of panel regression model with the aid of STATA (vs14). From the analysis of the data, liquidity risk and foreign exchange risk, jointly explain 43.86 percent of the variations in commercial banks' financial performance (ROE) in Kenya. From the study findings it can be substantively concluded that, foreign exchange risk have a negative and significant effect on financial performance of commercial banks in Kenya. Liquidity risk on the other hand indicated an insignificant positive effect on financial performance of commercial banks in Kenya. Based on the study findings, commercial banks can be able to improve their financial performance (ROE) through efficient and effective management of exchange rate risk which poses the greater effect on the commercial banks financial performance. The study would recommend the use of swaps, options, spot markets and forward markets when dealing with operations abroad so as to minimize the exchange rate risk.

Key words: *Financial Risks, Liquidity Risk, Foreign Exchange rate Risk, Financial Performance, and Commercial Banks.*

Introduction

The banking sector plays a crucial role in financial allocation all over the world. This is because of its intermediation functions which involve shifting funds from surplus units to deficit units (Ongore, 2013). In order to perform and sustain its functions, the banking sector has to have a good financial performance, it is however not possible to anticipate or avoid financial risks. In addition, Boermans, (2011), states that financial performance and risk must be evaluated together since they are interdependent and may either sustain or lead to the closure of banks. Financial performance and risk are receptive to both internal and external factors such as inflation, real interest rate, off balance sheet items and the GDP growth. Banks operate in highly volatile and uncertain environment. Thus, the concern regarding financial performance arises. Financial performance has attracted a lot of attention due to globalization of business activities and high level of competition. This situation has had firms to minimize their costs, structure of operation attract more customers and retain existing customers (Ruziqa, 2013). The difficulty arises in selecting out the most successful firm with high level of profitability and good liquidity position.

From a global perspective, the main concern is to improve managerial performance by identifying activities associated with high and low performing operations. According to Akani, Nwanna and Mbachu (2016), the government and other stakeholders have raised concern by putting crucial efforts to revive the ailing and liquidating companies in an attempt to restore the confidence of shareholders and potential investors. In Kenya, the Central Bank of Kenya placed Dubai bank and Imperial bank under receivership in August 2015 and

October 2015 respectively (CBK, 2015). The Central Bank of Kenya further confirms that it had to pay close attention to the liquidity and credit risks in the banking sector as they were the cause of putting Dubai bank and Imperial bank under receivership. In the following year (2016), despite the banking sector recording a slight improvement in profits, Chase bank was also put under receivership (CBK, 2016).

Financial Risks

All businesses are risky, and in order to succeed, effective risk management strategies have to be put in place. A firm's management has different degrees of control as far as risk is concerned. The management can control risks within the internal environment but those that occur externally maybe beyond their control. Firms may not have control over risks and sometimes all they can do is attempt to predict potential risks, assess its likely effect on the firm's operations and be ready with a strategy to counter any adverse impact (Runo, 2013). According to Dimitropolous *et al*. (2010), financial risk comprises of liquidity risk, credit risk, interest rate risk and foreign exchange risk, all of which contribute to the unpredictability of a firm's financial performance.

Exchange rate risk is a risk brought about due to unexpected fluctuation in exchange rates between two currencies. Those firms that have some of their operations outside the country (of have their subsidiaries abroad), are more exposed to foreign exchange risk (Ruziqa, 2013). Omagwa, (2005), states that the changes in the exchange rates directly affects the import prices and in turn pose an inverse impact on the economy. According Ahmed, (2015), the most appropriate measure of foreign exchange rate risk is through a bank's Net Foreign Currency Exposure relative to its Net Total Assets.

According to Drehmann & Nikolaou, (2013) a bank may be unable to meet its short term financial demands when required to, this is referred to as liquidity risk. It normally happens when the firm is unable to convert its short term assets or security to liquid cash without incurring capital or income loss in the course. Liquidity is the quickness and certainty with which an asset can be converted into cash/ income whenever the asset holder desires. The current ratio and quick ratio are some of the ratios that are normally used to measure the liquidity of a firm (Buigut, 2010).

Commercial Banks in Kenya

The Banking sector in Kenya is overseen by the CBK Act, the Companies Act, the Banking Act and several prudential strategies provided by the CBK. According to Meshak and Nyamute, (2016), the lifting of the exchange controls and liberalization of the banking sector occured in 1995. The CBK is tasked with articulating and instigating monetary policy and nurturing the solvency, liquidity and effective operation of the financial sector (Otuori, 2013). According to Macharia, (2013) information regarding the commercial banks and non-banking financial institutions in Kenya, inflation, interest rates, other macroeconomic variables and financial sector guidelines are published by the CBK.

According to Otuori, (2013), banks have grouped themselves to form Kenya Bankers Association (KBA). Issues affecting members are served and banks interests are advocated for. According to the CBK, (2017) Supervision Report as of December 2017, the banking sector of Kenya had 42 commercial banks, where 29 are internally owned while 13 are owned by foreigners. In terms of asset holding, foreign banks take up to 35% as of 2011 (Ongore, 2013). In Kenya, the commercial banks control the financial sector, and as asserted by Mulwa, (2015) any underperformance in this sector has a massive effect on the growth of the economy.

Financial Performance of Commercial Banks in Kenya

Financial performance indicates the level of operations of a firm over a given time period, which is articulated in terms of returns and losses for a specified duration (Mulwa, 2015). Concerned stakeholders judge the outcome of a business's strategies and processes in objective monetary terms by assessing the performance. According to Kithinji, (2010), financial performance can be defined as how well a firm uses the resources at it exposure to generate returns to its investors. The financial performance of commercial banks may also be referred to as profitability and is generally measured in ratios. It can be measured in terms of the Return on Assets (ROA), net profits relative to total assets of the firm or the Return on Equity (ROE), net profits relative to the shareholders' funds (Khrawish, 2011). ROA ratio measures whether the bank is able to generate income using company assets at its disposal. The ratio further reveals how well a company's resource may be used to generate the income (Nzuve, 2016). A higher ROA indicates that a firm uses its resources efficiently, thus maximizing the

shareholders wealth. ROE, and ROA, are the most commonly used ratios. Quality financial performance can indicated by ROE of between 15% and 30%, while ROA is at least 1%. Kwakwa (2014) states that to best illustrate the extent to which banks use reinvested income in generating future profits, ROE is the best ratio to use. This study therefore adopted the ROE as the measure of the banks financial performance.

Like in other developing countries, the commercial banking industry of Sub Saharan-Africa has undergone a major shift in the last two decades. However, the industry is diverse, entailing local private and foreign commercial banks characterized by poor performances. In Kenya, the poor performances led to the collapse of some banks which include Dubai Bank, Chase Bank and imperial Bank (CBK, 2016). Commercial banks are predominant financial institutions and their changes in performance and structure have severe implications on the entire economy (Nasserinia, Ariff & Fan-tah, 2014). Liabilities in the banking business are about 85% deposits from depositors, this making the banking business a very delicate one (Kiganda, 2014).

Statement of the Problem

The CBK (2018), provided evidence of a declining trend in the commercial banks' financial performance. From the trend, the ROE of these banks stood at 29.8% as at 2012 which declined to 28.9% in 2013. Moreover, the decline extended to 26.6% in 2014, 25.2% in 2015 and a further decline to 24.5% in 2016. This indicates a stagnating growth in ROE, signifying a consistent poor financial performance over the years.

There have been efforts to explain the low performance of these banks, however, these have not been fruitful. Therefore, it is very vital for banks to withstand the demands arising from both micro and macro environment and to ascertain profitability. Understanding the banks' performance needs familiarity with the interactions between the measures of performance of banks and the micro and macroeconomic variables (Kimani, 2013). Empirical literature indicate that firms that practice prudent risk management have been able to improve their performance (Runo, 2013). The Kenyan banking sector is still susceptible to financial risks arising from the micro and macro-environment. The sector's financial sustainability and long-term viability are threatened by these risks. Liquidity, credit risk, interest rate and exchange rate risks presents a major challenge despite the development in the sector (Kithinji, 2010).

According to Ongore (2013), the financial performance of commercial banks is influenced by both external and internal variables, which can be categorized into macro (external) and specific/ micro-economic factors. The macroeconomic/ external variables are country wide or sector wide variables such as exchange rate risk and interest rate risk which are beyond the firm's management control and affect the bank's profitability. Microeconomic variables on the other hand include the individual bank features such as liquidity risk and credit risk which influence the performance of a bank, and are essentially affected by the internal decisions of the board and the management (Waweru, 2013).

Empirical studies on financial risk and performance of banks include, Kithinji (2010), Korir (2011), Macharia (2013), Cucinelli (2013), Kiganda (2014), Cuong (2015) and Muriithi (2016). However, some of these studies were centered on other countries other than Kenya. In addition some of the studies centered on Kenya also have some mixed results. In addressing the research gaps, the current study sought to establish the effect of financial risk on performance of commercial banks in Kenya. Specifically, the study sought to establish the effect of liquidity risk and exchange rate risk on the performance of commercial banks in Kenya.

Research Objectives

The following were objectives of the study:

- **i.** To establish the effect of exchange rate risk on financial performance of Commercial Banks in Kenya.
- **ii.** To determine the effect of liquidity risk on financial performance of Commercial Banks in Kenya.

LITERATURE REVIEW

Exchange Rate Risk and Financial Performance

Desaro (2012) conducted a research on the macroeconomic variables and commercial banks performance in Kenya. This study had money supply, inflation rate, GDP growth rate, exchange rate and the sampled commercial banks' lending rate as it study variables. The study made use of quarterly data which was analyzed

using Pooled Least Square Method where the findings of the study showed that ROA was negatively correlated with exchange rate. This study adopted ROE as the measure of the banks financial performance.

Macharia (2013) in his study looked at global financial crisis and banks profitability in Kenya. The study was centered on commercial banks offering mortgage financing services in Kenya. The findings indicated a negative effect of foreign exchange rate on profitability of commercial banks in Kenya. The study however paid attention to commercial banks offering mortgage services and failed to carry out some diagnostic tests. This current study was majorly centered on the commercial banks in Kenya, and a number of crucial diagnostic test were also conducted before making inferences.

Similarly, Kiganda, (2014) studied macroeconomic variables and banks financial performance in Kenya (focusing on Equity Bank Ltd). The study adopted a multiple regression model in its analysis and found an insignificant negative of the exchange rate on the banks financial performance. However, the study was centered on just a single bank in Kenya and cannot be generalized to all the banks in Kenya. A panel multiple regression model was adopted in the current study contrary to OLS.

Liquidity Risk and Financial Performance

Cucinelli (2013) researched on liquidity and financial performance of listed and non-listed European Banks. The sample size comprised of the 575 listed and non-listed European banks and the analysis was conducted within the OLS regression framework. The findings of the study indicated an insignificant effect of liquidity on financial performance of the listed and non-listed European banks in the long term. However, the study only focused on the European banks which operate in a different market environment from those in developing counties such as Kenya.

Otalu, Aladesanmi and Olufayo (2014) studied the impact of monetary policy on performance of Nigerian commercial banks: A valuation of their role in Credit Creation. In their study, they used liquidity ratio, interest rate, money supply and cash reserve ratio as indicators for monetary policy. For performance, they used total bank credit as an indicator. The findings revealed an insignificant negative impact of liquidity ratio on the banks financial performance. The study however used, total bank credit as the measure of the banks performance.

Cuong (2015) studied the effect of liquidity risk on the European banks financial performance. The study sample size comprised of a panel of the EU27 banks studied for the period 2001 to 2011. The study results indicated a significant and negative effect of liquidity risk on the banks financial performance. However, the study having been concentrated on commercial banks in Europe cannot be generalized to those banks in Kenya, which is still a developing country.

Muriithi (2016) studied financial risk and profitability of commercial banks in Kenya. Using a sample of 43 banks in Kenya, the Pagan Lagrange multiplier (LM) and the Chow and Breusch tests were performed to test for the fitness o the fixed effect model. The indicators of financial risk included the credit, market, liquidity and operational risks. The study findings indicated a negative and significant effect of liquidity risk on the profitability of commercial banks in Kenya

RESEARCH METHODOLOGY

Research Design

The study used a causal research design. Causal research design is used in a study to understand a cause and effect relationship between research variables, that is independent and dependent variables (Mugenda & Mugenda, 2011).A causal design was therefore suitable for the study as it seeks to establish the effect of financial risks on the banks financial performance. The target population of the study included all the commercial banks which had been in existence in Kenya since the year 2013 to 2017, and were 42 in number. Therefore, the 42 commercial banks and their published financial statements constituted the unit of analysis and unit of observation respectively. The study used the secondary panel data. The data collection was done from the financial statements of the commercial banks (annual reports from the banks websites) and the CBK (supervision reports) for the five year study period since 2013 to 2017. The study period was chosen as it was characterized by changes in the operating environment of banks which included the introduction of the interest rate capping and fluctuations in the exchange rates. Inferential analysis was done within the framework of a panel regression model. Inferences about a population of the study was made using statistics from the panel regression model.

Data analysis

Data was collected using data review guide and analyzed to produce results of the findings which are presented in figures and tabular form. The analysis involved the use of descriptive statistics where frequency, minimum, maximum, mean and standard deviation were considered. To test the suitability of variables, the researcher conducted diagnostic tests for subsequent regression analysis. Furthermore, in testing the overall implication of the independent variables on dependent variable, a panel multiple regression analysis was employed.

$Y_{it} = \beta_0 + \beta_1 X_{1it} + \beta_2 X_{2it} + \epsilon_{it}$

Where:

Y_{it} – Financial Performance (ROE).

β_0 –Constant.

X_{1it} – Exchange Rate Risk (Ratio of Net foreign currency exposure between assets and liabilities to Net Assets).

X_{2it} – Liquidity Risk (Ratio of total loans to total deposits).

$\beta_1 - \beta_2$ – Coefficients of the regression which measure Y sensitivity due to changes in X.

ϵ_{it} – Error term, that accounts for the variables omitted in the function.

i – Individual firm.

t – Time period (year).

Research Findings and Discussions

Descriptive Statistics and Results

The descriptive statistics comprise of mean, standard deviation and the trends of the dependent and independent variables. Table 1 presented the descriptive analysis results.

Table 1: Descriptive analysis table

Variable	Obs	Mean	Std. Dev.	Min	Max
ROE	170	9.185618	13.1183	-42.88321	34.09672
Foreign Exchange Risk	170	.5306305	.5273132	.000817	3.545683
Liquidity Risk	170	41.97253	15.87959	9.5	99.3

Source: Study Data (2018)

From the descriptive analysis, there were a total of 170 observations. The findings indicated that ROE had a mean of 9.185618 with 13.1183 as the standard deviation, implying that there was great deviation of the observed ROE values. The interpretation is that although some of the banks were making profits over the period, others were consistently making losses as others showing a consistent decline in in their profits. Foreign exchange rate risk had a mean of 0.5306305 and standard deviation of 0.5273132. This meant that there was little variation in the extent to which exchange rate risk contribute to performance of banks.

Liquidity risk had a mean of 41.97253 with 15.87959 as itsstandard deviation, an indication that there was moderate variability in levels of liquidity risk. In addition, the mean showed that on average all the commercial banks were able to maintain a liquidity ratio above the statutory ratio by the CBK of 20 percent.

Correlation Test

Correlation analysis was also done to test for cross sectional dependence of the study data. The test enables the researcher to establish the extent to which two study variables are related, whether the relationship is either positive or negative and lastly whether the association is significant or not.. The results of the data are presented in Table 2.

Table 2: Test for Cross Sectional Dependency Results

	ROE	Foreign Exchange Risk	Liquidity Risk
ROE	1.0000		
Foreign Exchange Risk	-0.2876	1.0000	
	0.0000		
Liquidity Risk	0.0639	-0.1193	1.0000
	0.4081	0.0549	

Source: Study Data (2018)

If any of the independent variable not related with the dependent variable, then this is indicated by a zero (0) value. On the other hand, +1 or -1 implies that the two variables were perfectly positively or negatively correlated.

The test results in Table 2 indicated that there are no two variables that have very strong correlations as all the correlations are less than the threshold of strong correlation of +0.8. Foreign exchange rate risk had weak negative correlation of -0.2876 (p=0.0000) with ROE. This implied that any increase in foreign exchange rate risk would lead to a decrease in the banks' financial performance while a decrease in the risks would increase in their performance. Liquidity risk on the other hand had weak positive correlation of 0.0639 (p=0.4081) with ROE. The implication was that increases in liquidity risk lead to an increase in the banks' financial performance and a decrease in these risks lead to a decrease in the banks' performance.

The p-value for foreign exchange rate risk was -0.2876 (p=0.0000) indicating that the coefficient was significant. Liquidity risk on the other hand had a p-value of 0.0639 (p=0.4081), implying that the coefficient was insignificant. All the correlations observed were weak positive and negative correlations an indication that there were no two variables that could interfere with each other during regression hence implying that the data collected qualifies for linear regression.

Regression Analysis

The general objective of the study was to determine the effect of financial risk on financial performance of commercial banks in Kenya. Independent variables of the study were liquidity risk and foreign exchange rate risk while the dependent variable of the study was financial performance (ROE). A panel multiple regression analysis was conducted and results were as presented in Table 3.

Random Effect Panel regression results

Table 3: Model Summary

Random-effects GLS regression					Number of obs =	170
Group variable: ID					Number of groups =	34
R-sq:					Obs per group:	
within = 0.3051					min =	5
between = 0.5725					avg =	5.0
overall = 0.4386					max =	5
					Wald chi2(4) =	6.82
corr(u_i, X) = 0 (assumed)					Prob > chi2 =	0.0000
ROE	Coef.	Std. Err.	z	P>|z|	[95% Conf. Interval]	
Foreign Exchange Risk	-.3395534	2.340404	0.11	0.031	-4.340577	4.833639
Liquidity Risk	.0025698	.0637592	0.04	0.968	-.122396	.1275356

_cons	12.51324	3.609866	3.47	0.001	5.438033	19.58845
sigma_u	.646991					
sigma_e	.9796463					
rho	.7357703	(fraction of variance due to u_i)				

Source: Study Data (2018)

R-squared (R^2) was 0.4386 according to the results of the study (Table 3), an indication that liquidity foreign exchange rate risk, jointly explained 43.86 percent of the changes in ROE. This meant that 56.14 percent could be attributed to other variables not studied in this study. The Prob > chi2 = 0.0000 was not greater than 0.05 which implied that the model was significant and best suited for the regression analysis. The results in Table 3 revealed that holding liquidity risk, credit risk, exchange rate risk and interest rate risk to a constant zero, ROE would be at 12.51324.

This results lead to the following general model that explains the effect of financial risks and financial performance of commercial banks in Kenya.

$$\mathbf{Y = 12.51324 - 0.3395534X_1 + 0.0025698X_2 + \epsilon_{it}}$$

Hypothesis Testing

This section presents the results of the hypothesis testing at 5 percent (5%) significance level, which were based on the p-values as shown in Table 3 above.

H_{01}: Exchange rate risk has no significant effect on financial performance of Commercial Banks in Kenya.

Foreign exchange rate risk had a coefficient of -0.3395534 (p=0.031). This indicated a significant negative effect on financial performance of commercial banks in Kenya. This findings was consistent with Desaro (2012) and Macharia (2013) who both found foreign exchange rate risk to have a negative and significant effect on performance of commercial banks in Kenya. Although Kiganda, (2014) found that foreign exchange rate risk had a negative effect on the banks' financial performance, the effect was insignificant. The results also indicated that foreign exchange risk had the greatest effect on the banks financial performance. Thus the null hypothesis ($\mathbf{H_0}$) was rejected at 5 percent level of significance, an implication that one unit increase in foreign exchange rate risk lead to a 0.3395534 units decrease in ROE. Banks should therefore strive to maximize on their foreign income while minimize their foreign expenses. The risks due to the banks operations abroad could be minimized through the use of swaps, options, spot markets and forward markets. This would bring a positive net foreign income for the banks.

H_{02}: Liquidity risk has no significant effect on financial performance of Commercial Banks in Kenya.

The coefficient for liquidity risk was 0.0025698 (p= 0.968) indicating an insignificant positive effect of liquidity risk on the commercial banks' financial performance. The null hypothesis ($\mathbf{H_0}$) was therefore accepted at 5 percent level of significance. An increase in one unit of liquidity risk lead to 0.0025698 units increase in ROE. This findings is in agreement with Cucinelli (2013) and Otalu *et al*, (2014), but contradicts Cuong, (2015) and Muriithi, (2016) who not only found liquidity to have a negative impact but also significant one on the banks performance. This therefore, clearly indicates that higher liquidity ratio may not necessarily indicate a favorable performance. Effective management of liquidity risk at manageable levels may allow the banks to service their obligations comfortably which in turn yield a positive effect the banks' ROE.

Summary of Findings

The study sought to establish the effect of financial risk on financial performance of commercial banks in Kenya. Study's specific objectives were to establish the effect of liquidity risk and foreign exchange risk on banks financial performance in Kenya. These two independent variables studied explained 43.86 percent

changes in the banks' financial performance while other factors not studied contributed to 56.14 percent of banks' performance in Kenya.

One of the study objective was to establish the effect of exchange rate risk on financial performance of commercial banks in Kenya. Exchange rate risk is the risk brought about due to an exposure to unexpected fluctuations in the exchange rate between two states. The results from the study showed that foreign exchange rate risk had a negative significant effect on the financial of commercial banks in Kenya. A decrease in the foreign exchange risk leads to an increase in the ROE.

The other objective of the study was to determine the effect of liquidity risk on the performance of commercial banks in Kenya. Liquidity risk refers to the possibility that a bank may be unable to meet its short term financial demands as and when they require. The study findings indicated that there exists an insignificant positive effect of liquidity risk on financial performance of commercial banks in Kenya.

Conclusions

From the study findings it can be substantively concluded that financial risks indeed had a notably great effect on the banks financial performance. This study noted that foreign exchange rate risk revealed negative and significant effect on the banks financial performance in Kenya. Exchange rate risk was have the greatest effect on the banks' financial performance. Thus, to enhance the banks long-term sustainability, this risk had to be carefully taken care of and could not be ignored, through the use of exchange risk management strategies such as swaps and options.

However, liquidity risk on the other hand indicated an insignificant positive effect on the banks' financial performance in Kenya. This risk poses a huge challenge on the banks' managers on how to handle this risk. Thus, the management had to re-examine its strengths and weaknesses so as to ascertain the level of liquidity at which it would profitable. In addition, based on the study findings, banks can be able to improve their financial performance (ROE) through efficient and effective management of exchange rate risk which poses the greatest effect on the banks performance, followed by credit risk and interest rate risk. Credit risk and foreign exchange risk should also be carefully monitored by the banks.

Recommendations

The study findings is of great importance to a number of stakeholders including the bank management, the government/ policy makers/ regulatory authorities, investors and other academicians. Based on the specific objectives of the study which were to determine the effect of liquidity risk and foreign exchange risk on financial performance of commercial banks, the following recommendations were made.

Based on the study findings (foreign exchange rate risk had a negative and significant effect on of financial performance of commercial banks in Kenya), the study recommends that management of banks should come up with the most effective and efficient strategies to identify and manage their financial risks so as to improve their financial performance. From the results, the managers should put more effort on their exchange rate risk management strategies since it poses the greatest negative effect on the banks performance. The study recommends that a close attention to the banks performance in relation to its operations abroad would enable the managers identify whether or not they are face with exchange rate risk. Moreover, the study would recommend the use of swaps, options, spot markets, forward markets etc. when dealing with their operations abroad so as to minimize their exchange rate risk.

To determine the effect of liquidity risk on financial performance of Commercial Banks in Kenya, the findings indicated a positive and insignificant effect of liquidity risk on the performance. From the findings on liquidity risk, the government should consider amending the Banking Act and increase its regulation on the banking industry so as to reduce cases of bank failures due to this risk. The government through its agencies/ regulatory authorities such as the CBK should pay close attention to those banks struggling to maintain the minimum financial requirements such as statutory liquidity ratio. In addition, the government through the CBK should consider raising the statutory liquidity ratio for the banks to about 30 percent.

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Strategic Human Resource Management Practices and Employee Retention In Commercial Banks In Nairobi City County, Kenya

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Abstract

Purpose*:* The purpose of this study was to establish the influence of strategic human resource management practices on employee retention among commercial banks in Nairobi City County, Kenya.

Methodology: This study adopted a descriptive survey design. The target population was all the 42 commercial banks licensed and regulated by the Central Bank of Kenya with head offices inNairobi City County. It consisted of staff members working in the human resources department who include 42 top level managers one from each bank, 84 middle level managers two from each bank and 210 low level managers totalling to 336 respondents. The sample size was100. Data was collected using semi-structured questionnaires. The data was analyzed using both descriptive and inferential statistics and presented using graphs, pie-charts and tables.

Results: The banks were found to select the best employees but do not retain them due to poor reward structure, irrelevant job design with most employees not comfortable with their job and some not understanding their roles. The banks however were thorough in implementation of performance management and appraisal among their staff all aimed at ensuring their performance. This however neglected the welfare of the employees.

Unique contribution to theory, practice and policy: It was recommended that in order to for the commercial banks to improve employee retention there is need to improve their reward criteria to be in tandem with employee performance, skills and qualifications. The banks should ensure that employees are rewarded for good performance and grow in scale or job group. The study recommends that the banks should involve their staff in performance management strategies to improve their acceptability and convenience among them. The study recommends that further studies be done on the influence of reward criteria on employee performance, the analysis of the effect of performance management on employee output in Kenyaand a comparative study on employee retention determinants among firms in Kenya.

Key Words: **Strategic, Human, Resource, Management, Practices, Employee, Retention**

1.0 INTRODUCTION

Employee retention as demonstrated by MSG experts insinuates the distinctive methodologies and practices which let the workers hold fast to a relationship for a more drawn out time span. The affiliation is absolutely at mishap when the workers leave their action once they are totally arranged. Workers support considers the distinctive measures brought with the objective that an individual stays in a relationship for the most extraordinary time period (Kok, 2003). The Harvard Business Essentials (2002) portrayed upkeep as the inverse of turnover, being wilful and programmed. It is a wilful move by a relationship to make a circumstance which attracts agents for a whole deal (Chaminade, 2007). Chiboiwa (2010) authenticates that the essential explanation behind support is to shield talented specialists from leaving the relationship as this drive influences organization and productivity. According to Dockel (2003) top upkeep factors consolidate head bolster, getting ready and progression, capacities grouping, work life approaches, work independence and business test and pay. From a managerial perspective, the interest and upkeep of astonishing delegates is more fundamental today than some other time in late memory.

Ngethe (2013) did a study on the determinants of scholastic staff maintenance in Public Universities in Kenya where he presumed that authority style, compensation, preparing and advancement impacted the goal to leave an association.

As indicated by Okioga (2013), key human resource management is the link between key administration and human resource management; it is the arrangement of administrative choices and activities that decide the long term execution of an association. It involves natural filtering, system definition, usage, assessment and control.

Key human resource management offers an upper hand by building basic capacities of HR, vital administration in the association encourages system plan and in strategy execution by giving able HR more aggressive knowledge (Okioga, 2013).

Key human resource arranging presents the part of a vital arrangement; a vital device in deciding if an association will have the right stuff and information set up when it needs them. A viable key human resource management program will help workers in utilizing and creating abilities and information that will profit the association, the development and confidence of its management. In this way, Key human resource management is an indispensable instrument in maintaining a strategic distance from mechanical out of date quality. This study therefore sought to establish the effect of strategic human resource practices on the performance of employees among commercial banks in Kenya.

1.2 Problem Statement

Vital human resource management offers an upper hand by building basic capacities of HR, key administration in the business banks encourages technique detailing and in approach execution by giving skilled HR and aggressive insight (Okioga, 2013). With an uplifted rivalry for clients and offering quality administration on business banks in Nairobi City County, Kenya are scanning for procedures to execute to adjust business targets to workers. On the off chance that such arrangement is fruitful, banks can quicken workforce adjustment to change, enhance cost-viability of human asset choices, and increment maintenance of the best achievers and this will go far to aid the general authoritative execution.

Business banks inNairobi City County, Kenya confront many difficulties in the present dynamic commercial centre and in a worldwide economy that has turned out to be progressively aggressive requiring advancement of items and administrations that can fulfil an all the more requesting client base and building long haul client put stock in (Munyoki, 2010). As per Kiptugen (2003), in Kenya business banks proactive as opposed to receptive procedures shape the premise of key arranging. Business Banks inNairobi City County, Kenya are in hardened rivalry for clients and furthermore for staff and these are combined with the assignment of holding the correct ability (GOK).

With an increased rivalry for clients and offering quality administration business banks in Nairobi City County, Kenya and all around are scanning for techniques to actualize in order to adjust business targets to representatives. On the off chance that such arrangement is fruitful, banks can quicken workforce adjustment to change, enhance cost-adequacy of human asset choices, and increment maintenance of the best achievers and this will go far to aid the general hierarchical execution.

Ngethe (2013) completed a study on the determinants of scholarly staff maintenance in state funded colleges in Kenya. This study canvassed the staff maintenance in Kenyan colleges. Ngethe infers that a blend of inherent and outward factors impact goal to leave an association. This is exemplified by authority style and advancement. He prescribes that present patterns, for example, business marking, worker offer and boss of decision should be very much grasped. Mello (2005) indicates that effective associations progressively understand that of the quantity of elements adding to representative maintenance, human asset is the most basic. He suggests additionally explore on territories that can inspire and impact decidedly on maintenance of human asset. There are numerous ways an association can hold its workers and increase supported favourable position over their rivals among them being the improvement of far reaching human asset administration rehearses (Narsimhe, 2000).

Caliskan (2010) recognizes that human resource management rehearsals are one fundamental wellspring of upper hand and maintenance of staff. He suggests that creating nations should now view powerful human asset administration as a more essential part and assume a critical part in the nation's economy and furthermore in the acknowledgment of the objectives of their vision like the Kenyan Vision 2030. As indicated by Armstrong (2000), adopting a vital strategy to human asset administration practices may mean rolling out solid improvements in how representatives are adjusted. He prescribes that pay is the focal point of worker inspiration and subsequently maintenance. As indicated by Charles (2002) the different activity attributes affect person's states of mind and perceive that human needs goes about as motivational powers. As indicated by Fisher (2005) individuals are the total of representatives' endeavours that make riches to enable associations to accomplish their vision.

Kiptugen (2003) conveyed a study on human asset rehearses in business banks inNairobi City County, Kenya a contextual investigation of Kenya Commercial bank. Ngethe (2013) did anstudy on the determinants of scholastic staff maintenance in state funded colleges in Kenya. He prescribed that further research should be done on key human asset hones and their effect on staff maintenance. Mbugua, George Mucai (2015) completed an study on Vital Human Asset Administration Practices and Representative Maintenance in Business Banks in Kenya, the investigation secured enlistment, preparing and execution administration. The study suggests that comparable investigations ought to be done in different divisions of the economy on the impact of key human asset administration on the representative maintenance. The study likewise proposes that further investigations ought to be done of different components influencing representative maintenance. This investigation hence looked at setting up the connection between key human resource management hones other than the ones secured by Mbugua and worker maintenance in business Banks in Nairobi City County, Kenya.

1.3 Research Objective

vii. To determine the influence of selection on employee retention among commercial banks in Nairobi City County, Kenya.

viii. To establish the influence of reward system on employee retention among commercial banks in Nairobi City County, Kenya.

ix. To find out the relationship between job design and employee retention among commercial banks in Nairobi City County, Kenya

x. To find out how performance appraisal influences employee retention among commercial banks in Nairobi City County, Kenya.

2.0 LITERATURE REVIEW

2.1 Theoretical Review

Expectancy Theory

This theory argues that delegates will propel a measure of work and obligation equal to what they want to get thus. Commission pay structures utilize this theory by empowering specialists to win as much money as they need, absolutely in perspective of their movement execution (Ingersoll, 2001). Guaranteeing that agents constantly expect future compensation increments and potential work headways can keep them endeavoring to finish singular destinations. As demonstrated by Gilbert (1978), if delegates expect little pay and no improvement openings as a final product of their work, they may progress simply insignificant effort until the moment that they over the long haul look for another business for new open entryways.

Expectancy is the likelihood that a specific activity will induce a required result. On the off chance that the authority has a specific objective, some lead must be passed on to fulfill that objective. The master needs to gage the probability of different practices that will fulfill the pined for goals and select the best lead (Vroom, 2009). Thus the delegate's motivation as demonstrated by Vroom may be broadened by changing the insight or by boosting the expectation level through better correspondence and extending the genuine reward that will come to fruition. This hypothesis explains the association between the specialist and the various levelled destinations and sees the differentiations between agents in conveying work motivation which influence on turnover. The hypothesis reinforces the study that awesome human resource organization sharpens are expected to motivate agents which will bolster their foresight and in this way their upkeep in the affiliation.

Theory X and Theory Y

Theory X and Theory Y address two limiting completions of the motivation extend. Theory X propels begin that agents are naturally unwilling to work and ought to consistently be enlivened from outside sources. Theory Y propels agents can be inside stirred at work, finding fulfillment in attempting to get destinations that usage their capacities and experience (Ruhland, 2001). Neither Theory X nor Theory Y is typically better than the following. Or on the other hand perhaps, the appropriate theory depends upon the work setting and specific delegates you are overseeing.Applying the wrong hypothesis in your work environment can frustrate, befuddle and irritate representatives, prompting expanded worker turnover (Abelson et al., 1984). A gathering of representatives that sees self-inspiration and self-sufficient basic leadership as critical, for instance, isn't probably going to stick around in a work setting that incorporates strict supervision constantly. Human asset administration practices might be inside or remotely gotten and actualized thus inspiring workers remotely and inside which will diminish turnover and enhance maintenance of the staff.

Hierarchy of Needs Theory

Abraham Maslow's hierarchy (1943) of prerequisites hypothesis puts people' needs into five dynamic classes, beginning with basic physical needs and progressing up to necessities for self-change and employment headway. Maslow claims that organizations must address each level of agents' issues for delegates to really give themselves to workplace goals. Fail to address laborers' issues at any level in the pecking request can make a nonattendance of fulfillment in delegates' master lives, influencing them at last to attempt to fulfill these prerequisites in solitude, maybe by finding another business who gives better open entryways.

Needs change after sometime, and each need by and large must be satisfied on a continuous premise. Be that as it may, a fulfilled need won't be showed. That is, a man who has satisfied his or her requirement for confidence won't act in an approach to attract regard for him or herself. Subsequently, such a man is allowed to seek after higher collaboration objectives (Maslow, A.H. 1970). Maslow's generally known chain of importance of necessities hypothesis contends that our needs shape a five level progressive system, going from physiological to self – completion needs. Maslow's progression of necessities includes physiological requirements, wellbeing needs, belongingness, regard and self-realization.

The Maslow's theory is pertinent to the study as in positive key human resource organization practices will ensure that specialists comprehend their advancement in the levels of leadership by repaying them well and satisfying them. This motivation will mean them not leaving the affiliation and consequently upgrade upkeep.

Herzberg's Two-Factor Theory of Motivation

The theory was proposed in 1959 by Frederick Herzberg. As exhibited by Herzberg, there are some activities accept that outcome fulfilment while there are other work factors that kill thwarted expectation. As indicated by Herzberg, the opposite of "Fulfillment" is "No fulfillment" and the switch of "Bafflement" is "No Dissatisfaction". Herzberg asked for these activity factors into two courses of action; hygiene variables and inspiration factors.

Herzberg's Two-Factor Theory separates inspiration and business fulfillment into two get-togethers of parts known as the inspiration segments and tidiness factors. As showed by Frederick Herzberg, "the actuating factors are the six 'occupation content' factors that join accomplishment, certification, work itself, commitment, development, and probability of change. Cleanliness factors are the 'occupation setting' factors, which merge affiliation framework, supervision, association with supervision, work conditions, association with peers, pay, solitary life, association with subordinates, status, and master consistent quality" (Ruthankoon, 2003). On an exceptionally essential level the theory segregates the variables between natural inspirations and coincidental accomplices. The ordinary flashes, known as the movement content pieces, depict things that the far reaching bunch truly do in their work; their devotion and achievements. These parts are the ones that can contribute a cerebrum boggling way to deal with the level of occupation fulfillment an ace feels at work. The headway setting factors, unmistakably, are the outward factors that some individual as a laborer does not have much control over; they relate more to the earth in which people work than to the probability of the work itself (Schermerhorn, 2003).

Herzberg sees these segments as the hotspots for work disappointment. "Hertzberg considered that in light of the way that the elements causing fulfilment are not the same as those causing disappointment, the two suppositions can't just be overseen as trade extremes of each other. The opposite of fulfilment isn't thwarted expectation, yet rather, no fulfilment. Besides, the turn- around of disappointment is no oversight. While at first look this refinement between the two exchange extremes may seem like a declaration with a two sided implication, Herzberg fought that there are two particular human needs portrayed" ("Herzberg's Motivation-Hygiene Theory," 2002).

The inspiration symbolized the mental needs that were viewed as an additional decent position. Motivational parts include: Recognition - The superintendents should be perceived and seen for their accomplishments by the manager; Sense of achievement - The bosses must have a supposition accomplishment. This depends on the improvement. There must be a thing or a comment affect in the movement and change and propel openings in a relationship to push the administrators to perform well (Leach, 2000). The administrators must view themselves as in charge of the work. The administrator should give them obligation regarding work. They should constrain mechanism however hold obligation and reality of the work.

Job Embeddedness Theory

The theory was proposed in 2001 by Mitchell et al. The speculation offers a procedure for discovering why people stay in an affiliation. It is the collection of forces that effect specialist support. It can be perceived from turnover in that its emphasis is on most of the parts that keep a laborer at work, rather than the mental strategy one encounters while ceasing.

Job embeddedness was familiar in an effort with improve standard agent turnover models. According to these models, factors, for instance, work satisfaction and legitimate obligation and the individual's impression of occupation decisions together expect an agent's objective to leave and in this way turnover. Since the experts prescribe that models just inconspicuously anticipate turnover, work embeddedness as an alternative show and melded "off-the-work" factors and other definitive components that have also been seemed to impact agent upkeep, however were avoided in these standard models.

While influencing this alternative to exhibit for elucidating why delegates stay on work, Mitchell and accomplices drew on investigate from Lee and Mitchell's spreading out model of turnover. This line of research suggests that tremendous quantities of the people who leave work are for the most part content with their jobs, don't examine for a choice position before leaving and quit as a result of some sudden off-the-work event. Delayed consequences of the basic study exhibited that action embeddedness foreseen both objective to leave and real turnover, and was an unrivaled marker of persistent turnover than work satisfaction, various leveled obligation, and mission for new business decisions.

As demonstrated by this theory, the closer one's up close and personal points of view, qualities, and goals are agreed with those of the affiliation or conceivably amass social orders, the "higher the likelihood that a laborer will feel professionally and before long introduced" (Mitchell et al., 2001). Unmistakable instances of various leveled fit join "work learning, aptitudes and limits" (Mitchell et al., 2001). Parts related to how individuals fit inside the gathering consolidate things, for instance, atmosphere, available and accommodating access to outdoors activities and redirection, assemble culture, and individuals (neighbors and non-work colleagues) who share near religious and political viewpoints. Note that how people see their fit inside the gathering can be on the other hand related to how they see their fit inside the affiliation. For instance, an individual may love the gathering; however hate working for the affiliation. Like the past territories of embeddedness, relinquish is separated into two segments: relinquish affiliation and relinquish gathering. The more conspicuous relinquish; the more troublesome the decision to leave will be (Shaw et al., 1998).

Definitive atonements may consolidate the loss of prosperity and retirement benefits, sports tickets, colleague associations, informational favorable circumstances, movement openings, settlement and closeness to the work territory, and possibly lost security as a result of downsizing. Gathering atonements are typically only an issue just if development is required with another position. A significant part of the time, a man's loss of gathering can address unreasonably inconceivable a relinquish, and henceforth the delegate is introduced. Diverse instances of gathering relinquish, including the time allocation and upgrades in a solitary's home or the ability to offer a home, settlement and closeness to the area merriments, assemble prosperity, and activity positions in the gathering, as often as possible address hardships workers are unwilling to hold up under, in spite of the way that interfaces with the affiliation might be immaterial.

2.2 Empirical Review

According to Munyoki (2010) past studies have investigated the linkage of particular Human asset administration practices to hierarchical execution. Human asset administration exercises painstakingly arranged to have a particular influence in an excellent outline in which the entire is more prominent than the entirety of the parts. Enter components in determination are; a reasonable and exact particular, successful utilization of numerous systems, disposal of excess procedures, estimation, and assessment and consistent change.

As demonstrated by Caliskan (2010), agent support should be associated with a reasonable assurance process. HR experts and enlistment workplaces, while choosing work contender for their affiliations, should consider work surveys as a fundamental bit of the enrollment strategy. In spite of the way that sensible enlistment and occupation fit strategies give a basic segment to both business satisfaction and specialist support, they ought to be joined with other motivational components to outline an intensive upkeep system that can diminish high turnover rates reasonably (Olorunjuwon, 2008).

As indicated by Armstrong, (2008), monetary prizes give a substantial type of acknowledgment and can along these lines fill in as circuitous helpers, insofar as individuals expect that further accomplishment will deliver

advantageous outcomes. Money related motivators intend to spur individuals to accomplish their destinations, enhance their execution, and improve their capability or abilities by concentrating on particular targets and needs. Money related prizes give monetary acknowledgment to representatives to their accomplishment in the state of achieving or surpassing their execution targets or achieving the level of fitness ability. Accomplishment reward, group based singular amount instalment our association gives in this classification.
As indicated by Zhu (2007), representatives might be remunerated with reference to their level of skill. Expertise based pay joins pay to the level of aptitudes utilized as a part of the activity and, now and then, the procurement and use of extra abilities by the individual doing the activity or competency. In fitness related pay plot the practices and properties of an individual needs to use to play out a part viably are evaluated notwithstanding unadulterated aptitude. Associations assess the potential cost of expertise based pay and additionally its advantages thoroughly before its presentation.

An investigation led by Morrison, et al, (2005) about how work outlines influence levels of representative control as refered to in GargandRastogi, (2006), recognized that activity plans that accommodate elevated amounts of worker control additionally give expanded chances to the improvement and exercise of aptitude. Likewise, mediational impact of apparent expertise usage on work control work fulfillment has been watched. GargandRastogi, (2006) reasoned that apparent work requests, work control and social help through occupation configuration prompts high profitability.

Al-Ahmadi, (2009) in his study about the impact work design on work execution, investigated the impact of occupation setup on agents' execution in the school of Kalmunai Zone in Sri Lanka. He also attempted to find the segments of occupation arrange for that exceedingly affected delegates' execution in the affiliations. Al-Ahmadi (2009) in this way exhibited the possibility of occupation itself was found earnestly connected with execution, which demonstrated that satisfaction with measure of collection and test in one's movement truly affect execution. The sentiment work centrality, feeling fundamental in eyes of others, understanding ones' expertise, and adaptability to settle on decisions is decidedly related to execution. A recommendation here was that more thought must be given to improving endeavor identity, info and self-govern with a specific end goal to upgrade quality level of occupation arrange for that can improve specialists' execution in achieving quality results. Ivancevich, (1998) recommended that, approaches to manage work design put different highlight on execution and satisfaction as needed outcomes. Figuratively speaking, certain strategies for work setup are essentially enthusiastic about improving execution while others are more stressed over satisfaction.

As indicated by Borman, (2004) worker prepares and work overhauling centers around enhancing work execution. Garg and Rastogi, (2006) contended that activity configuration enhances laborers inspiration and commitment to work however at nearer study work configuration can just add to better proficiency inside an association dispose of some medical issues. Be that as it may, won't affect representatives' ethics and eagerness at work.
In the perspective of Garg and Rastogi, (2006) on the investigation of how another model of occupation configuration influence inspired workers' Performance, upheld that all around composed occupations can positively affect both representative fulfilment and nature of execution. The apparent work requests, work control and social help through occupation configuration prompts high efficiency (Love and Edwards, 2005 as referred to in (Garg and Rastogi, 2006). In like manner Campion, et al, (2005) proposed that the idea of work substantially affect a worker's execution and demeanor. This study will hope to discover the impact of occupation outline on worker maintenance in Commercial Banks in Nairobi City County, Kenya.
Chan (2008) contends that a two way correspondence ought to be embraced with joint obligations regarding the two administrators and workers), Worker input (incorporates asking for that delegates give self-examinations on execution models which are then differentiated and the administrator's assessments and after that discussed. The strategy most fitting includes soliciting workers to plan explanations from their key outcome regions toward the finish of the rating time frame, Performance assessment (skills ought to be characterized to reflect diverse levels of duty, many-sided quality and trouble that describe representatives work at various levels in the association. A numerical rating on positioning workers is required if execution data is to be utilized for basic leadership) and Performance audit (this is a recap of what has happened all through the rating time frame. Improvement exercises with representatives ought to be done at this survey and any execution standard that isn't being met

concurred).

As per Narsimhe (2000) there are five stages in building up a compelling execution framework in associations: Creating and working with an outline group, connecting the framework to key hierarchical destinations, attributes and methodology, deciding the execution study cycle, connecting execution evaluation and pay conveyance and actualizing the framework. Tettly (2006) noticed that 360 degree criticism has increased wide notoriety in the corporate world and it empowers hierarchical individuals to get input on their execution from the diverse staff individuals they serve. This idea enrolls directors, peers, subordinates, providers and clients in giving people input on parts of their execution. This strategy has issues identifying with protection and furthermore legitimacy and viability of it regardless of its wide utilization. As indicated by Almond (2003), there are seven key advances associated with successfully connecting prizes to accomplishment of hierarchical adequacy: settling deliberately of estimation, choosing sorts of measures, connecting measures to goals, connecting estimation to criticism, connecting estimation to rewards, an agenda for beginning and going for authoritative accomplishment.

Conceptual framework

Independent Variables **Dependent Variable**

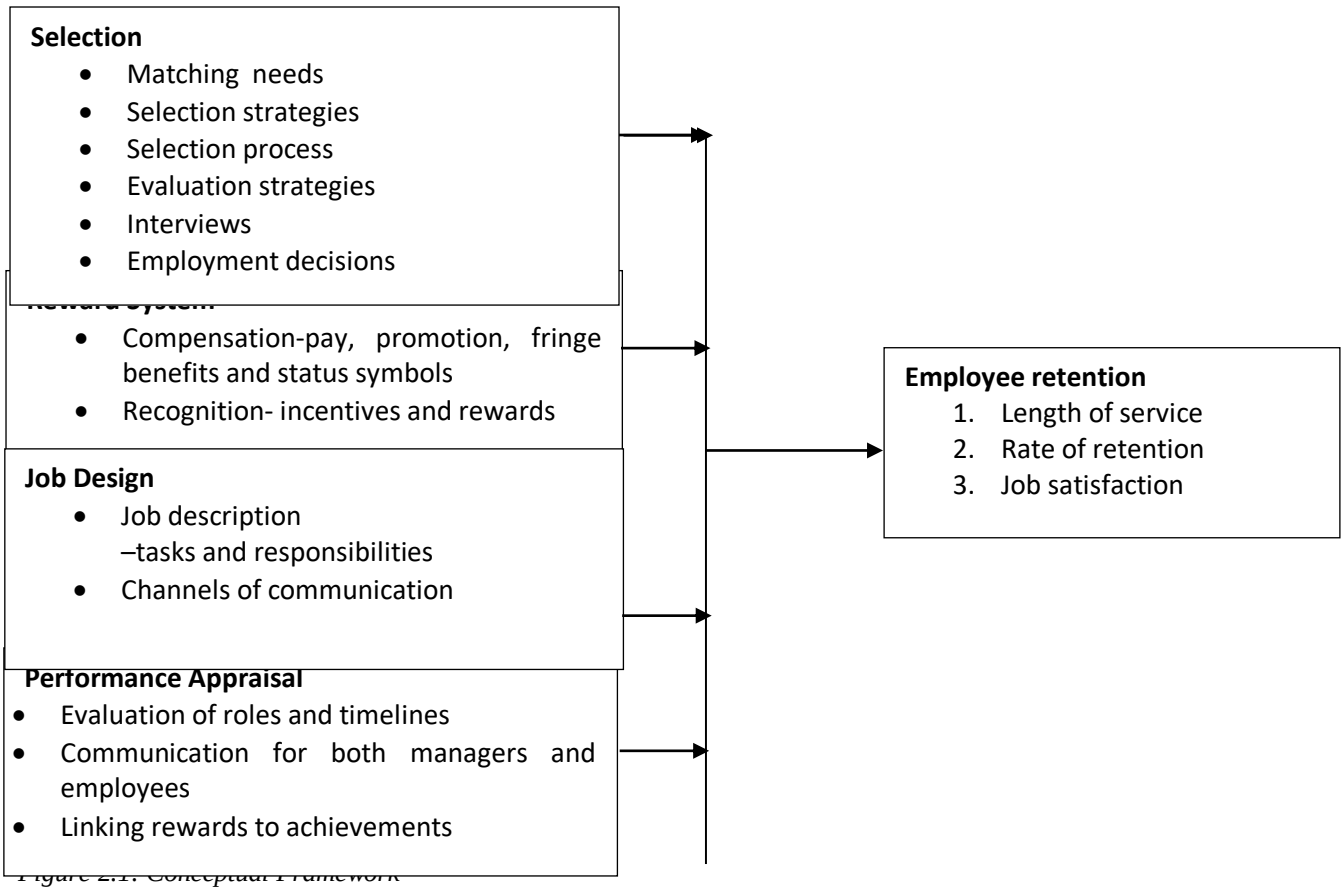

Figure 2.1: Conceptual Framework

3.0 RESEARCH METHODOLOGY

This study adopted a descriptive survey design. The target population was all the 42 commercial banks licensed and regulated by the Central Bank of Kenya with head offices inNairobi City County. It consisted of staff members working in the human resources department who include 42 top level managers one from each bank, 84 middle level managers two from each bank and 210 low level managers totalling to 336 respondents. The sample size was100.Data was collected using semi-structured questionnaires. The data was analyzed using both descriptive and inferential statistics and presented using graphs, pie-charts and tables. A multiple linear regression model was used to test the significance of the influence of the independent variables on the dependent variable

4.0 RESULTS AND DISCUSSIONS

4.1 Response Rate

Out of the selected sample of 100 respondents, 15 (i.e. 15%) did not respond, hence only 85(85%) questionnaires were used in the subsequent analysis. This correlates with Mugenda and Mugenda (2003) recommendation that a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent. This clearly shows that the response rate in this study was excellent.

Table 1: Response Rate

Rate	Frequency	Percentage
Response	85	85
Non-response	15	15
Total	**100**	**100**

4.2Bio-Data Analysis

4.2.1 Age of respondents

The study sought to establish the age distribution of the respondents. The table below indicates the findings;

Table 2: Age of respondents

Age bracket	Frequency	Percentage
20-30	36	42.36
30-40	22	25.88
40-50	17	20.0
50 and above	10	11.76
Total	**85**	**100**

As indicated in table 2 above, majority of the bank employees were young people aged between 20 and 30 years. 25.88% were between 30-40 years, 20% were between 40 and 50 years while 11.76% were 50 years and above. This indicates that the banks have a young and active members of staff.

4.2.2 Period worked with the bank

The study further sought to find out the number of years the respondents had worked with the respective banks. It was established that 25% of the respondents were less than 5 years old in the bank, 34% were between 5-10 years in their working stations, 27% were between 11-15 years with the banks while 14% had worked with their respective banks for over 15 years. The findings were as illustrated in the figure below;

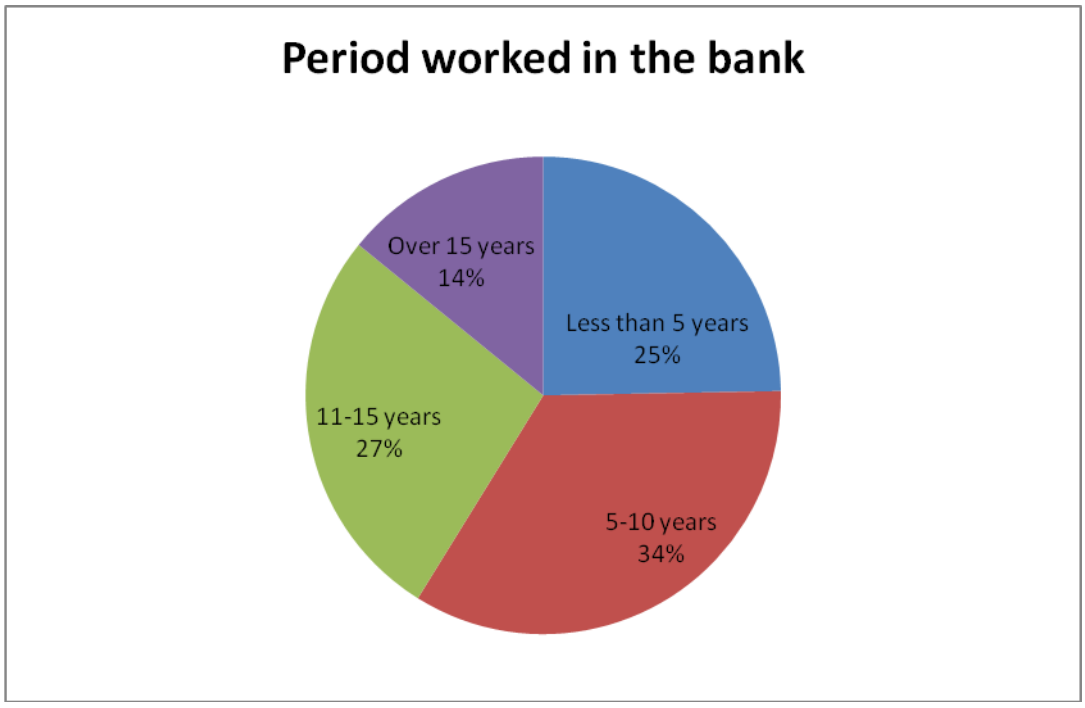

Figure 1: Period Worked in the bank

4.2.3 Period intending to work

The study sought to establish how much longer the respondents were intending to work in their respective banks. The findings were as tabulated below;

Table 3: Period intending to work with current bank

Period in years	Frequency	Percentage
Less than 5 years	31	36.47
Between 5-10 years	28	32.94
Between 11-15 years	16	18.82
Over 15 years	10	11.77
Total	**85**	**100**

The research findings indicated that majority of the respondents were not intending to continue working with their respective banks with 31 (36.47%) of them intending to work for less than 5 years, 28 (32.94%) of them indicating that they would possible work for between 5 and 10 years more with their current employers, 16(18.82%) of them indicated that they will work for 11 to 15 years more with their banks while only 11.77% would work for over 15 years with their respective employers. This generally indicated that most employees were not willing to work for long with their respective banks.

4.2.4 Department

The study sought to establish the departments in which the employees worked across the selected commercial banks in Nairobi City County. 21% of them worked in the human resources department, 17% were in the strategy department, 15% were from the audit department, 18% from finance and accounting departments, 19% from banking(both business and personal banking) and 10% from the customer service department. This portrayed an even distribution of respondents from across all the departments of the selected banks.

4.3 Descriptive Findings and Analysis

4.3.1 Selection and Employee Retention

The study sought to establish the level of adoption of selection and employee retention among commercial banks in Nairobi CityCounty, Kenya. The respondents were requested to indicate the extent to which they agreed with the following statement relating to the adoption of selection and employee retention in their respective commercial banks on a scale of 1-5. The findings were as tabulated below;

Table 4: Selection and employee Retention

Indicator	Mean	SDEV
My bank is doing a good job of selecting the right employees	3.86	0.904
The bank utilizes psychometric testing	1.44	0.882
The Bank targets specific professionals to fill a specific need	3.01	0.711
The Bank employs head-hunting strategies to select potential candidates	2.57	0.871
The Bank utilizes testing/ examination to evaluate the potential of the target employees	4.11	0.801
The Bank does ranking of potential candidates according to job related requirements	2.99	0.687
The Bank utilizes internet and other technologies to select potential candidates	3.15	0.655

Table 4 above indicates that the commercial banks in Nairobi CityCounty, Kenya are doing a good job in selecting the right employees (3.86). The employees equally agreed that the commercial banks utilize testing/examination to evaluate the potential of target employees (4.11). However the respondents were indifferent or neutral on whether the banks did ranking of potential candidates according to job related requirements, the banks utilized internet and other technologies to select potential candidates, the banks employed head-hunting strategies to select potential candidates and also whether the banks targeted specific professionals to fill a specific need as indicated by a mean of 2.99, 3.15, 2.57 and 3.01. This indicates that a significant number of the commercial banks either employed the strategies or not. The respondents disagreed that the banks employed psychometric testing to select the right employees as indicated by a low mean of 1.44 and standard deviation of 0.882. This study concurs with that of Munyoki (2010) on the human resource management among commercial banks in Kenya where he established that most banks did not apply scientific methods of recruitment and selection. The study also indicated there was rampant canvassing which compromised the process.

4.3.2 Reward System and Employee Retention

The study also sought to determine the extent to which the commercial banks employed reward system to improve employee retention. The respondents were requested to indicate the extent to which they agreed with the following statements regarding the use of reward system and employee retention in their respective institutions on a scale of 1-5 where Strongly agree=5, Agree=4, Neutral=3, Disagree=2 and Strongly Disagree=1. The findings were as presented in the table below;

Table 5: Reward System and Employee Retention

Indicator	Mean	SDEV
The unionizable employees in the bank are represented by a union	1.56	0.825
The Bank offers incentives e.g. bonuses, special packages to retain employees	2.11	0.806
Job grade or group progression is based on merit	1.88	0.711
The salary structure for employees is reviewed regularly	2.31	0.725
The Bank generally has a higher rate of compensation compared to competitors	2.45	0.658
The Bank has a formal employee merit review process	1.89	0.661
The bank gives recognition for achievements	2.77	0.547

As indicated in Table 5, most of the bank staffs that are unionizable are not represented by a union as indicated by a mean of 1.56. The banks were found not to offer sufficient incentives to staff based on their performance nor is the job grade or group progression based on merit as indicated by a low mean of 2.11 and 1.88. The respondents did not disagree that the salary structure for employees is reviewed regularly, the banks generally have a higher rate of compensation compared to competitors nor have a formal employee merit review process as indicated by a mean of 2.31, 2.45 and 1.89. The respondents were however neutral on whether the banks gave recognition for achievements as indicated by a mean of 2.77. This generally indicates that the reward system among the commercial banks inNairobi CityCounty, Kenya is still below expectations precipitating to high employee turnover as also established by Clare (2011) on her study on reward criteria among commercial banks in the UK.

4.3.3 Performance Appraisal and Employee Retention

The study sought to find out the state of performance appraisal among commercial banks in Nairobi CityCounty, Kenya. The respondents indicated the extent to which they agreed with the statements with regard to the use of performance appraisal and employee retention in their respective bank on a scale of 1-5 where 1 (strongly disagreed) while 5 (strongly agree). The findings were as indicated below;

Table 6: Performance Appraisal and Employee Retention

Indicator	Mean	SDEV
The Bank has a clear action value plan used to measure the performance	2.05	0.547
The Bank practices target setting for all its employees	4.21	0.601
The Bank sets realistic targets for the employees	2.54	0.722
The Bank practices regular forecasting to evaluate whether it is still on track on employee retention	2.66	0.814
The Bank practices performance management for all its employees	3.74	0.524
The management carriers out performance, targets and forecast for timely and corrective action	3.11	0.801
The Bank gives incentives to compensate its employees' performance	1.78	0.791

The table above indicates that commercial banks inNairobi CityCounty, Kenya do not have a clear action value plan used to measure the performance of their staff (205), do not set realistic targets for the employees (2.54) and do not give incentives to compensate its employees' performance (1.78). The respondents were indifferent on whether the banks practiced regular forecasting to evaluate whether they are still on track on employee retention (2.66), the bank management carries out performance, targets, and forecast for timely and corrective action (3.11). However the study established that the banks practice target setting for all their employees (4.21) and also practiced performance management for all its employees (3.74). This generally indicates that the commercial banks tracked and managed the performance of their staff but didn't set realistic targets for them

resulting in overload and also did not compensate them for their peak performance. This contributed to low employee retention. The banks were found to have the main target of improved profitability based on high staff output. The banks had a common mission of increasing market share and also building on their brand. The employees were sensitized on the common good and objective of improving performance of the bank to ensure their jobs are secure. The banks were more focussed on the output of each employee and contact hours per day to improve firm profitability and revenue as also established by Almond (2003) in his study on the financial sector employee appraisal in Britain.

The study also sought to find out how business strategies in the selected banks translated into a set of expectations about ways that each employee must perform so that the bank objectives can be achieved. 85% of the respondents indicated that the set of expectation upon them by the management were too high making them to work long hours and without breaks to meet them. The banks had daily, weekly, monthly, quarterly, semi-annually and annual targets which every employee had to meet.

4.3.4 Job Design and Employee Retention

The study also sought to assess the role of strategic job design on improving employee retention among the commercial banks in Nairobi CityCounty, Kenya. The respondents were to rate the extent to which they agreed with the following statements regarding job design and employee retention among the commercial banks in Nairobi City County, Kenya on a scale of 1-5. The findings were as tabulated below;

Table 7: Job Design and Employee Retention

Indicator	Mean	SDEV
My job in this Bank is well described and organized	1.53	0.811
Job design is relevant with the Bank's objectives	1.28	0.901
Employees fit in the Bank's job design	2.09	0.671
I have been issued with a job description which clearly outlines my duties	3.65	0.513
I have a good understanding of my role	2.01	0.825
There are regular updates to the job design within the bank	3.11	0.487

Table 7 above indicates that the respondents disagreed that their jobs in their respective banks were well described and organized (1.53), the job designs were relevant with the banks' objectives (1.28). The study further established that the employees didn't have a good understand of their roles among the banks (2.01) and also did not fit in the banks' job design (2.09). However they agreed that they had been issued with job descriptions which clearly outlined their duties (3.65). The study established that a significant number of the banks did have regular updates to the job design of their staff (3.11). This generally indicates that job design among commercial banks in Nairobi CityCounty, Kenya was not up to date and the employees did not understand clearly their job descriptions with irregular assignment of duties to staff without regard to their skills and specialities.These findings are in tandem with those of Sokoya (2000) who did a study on the employee retention among banks in Alberta, UK. The study established that employees among commercial banks didn't have a specific job design which makes them to do any kind of assignment. This contributed negatively to employee retention.

The study further sought to establish the extent to which the employee job design influenced employee retention among the selected commercial banks. The findings were as presented in the figure below;

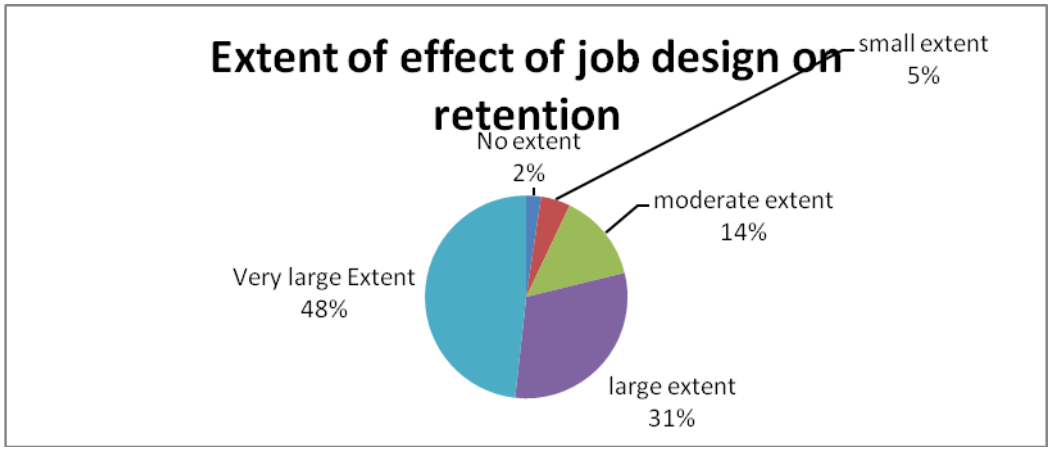

Figure 2: Effect of job design on employee retention

As indicated in the figure above, the study established that job design, to a very large extent (48%) affected employee retention. This was ochestrated by an employee being assigned duties hapharzardly, no reward attached to job category and poor job security coupled with unrealistic performance targets.

The employees were further requested to state their opinion on how job design has influenced employee retention in their respective banks. The respondents indicated that job design indicated their employer's expectations and therefore worked towards achieving them. A vague job design led to confusion and therefore affected negatively the motivation of employees which translated to low retention.

4.3.5 Employee Retention

The study finally sought to determine the state of employee retention given the application of the above human resource management practices. The respondents were to indicate the extent to which they agreed to the following statements regarding employee retention in their respective commercial banks on a scale of 1-5 where Strongly agree=5, Agree=4, Neutral=3, Disagree=2 and Strongly Disagree=1. The table below presents the findings;

Table 8: Employee Retention

Indicator	Mean	SDEV
The rate of retention in the Bank is high	4.51	0.802
I have no intention of leaving the Bank	1.25	0.771
Within this Bank my work gives me satisfaction	2.54	0.705
I am optimistic about my own future within this Bank	3.14	0.688
If it were up to me, I will definitely be working for this Bank for the next 12 months	2.85	0.823
If I could start over again, I would choose to work for another company	3.89	0.822
If I received an attractive job offer from another company, I would take the job	4.01	0.706
The work I am doing is very important to me	3.25	0.648
I love working for this Bank	2.71	0.852
I think my bank is one of the organizations with a good job retention policy for its employees	2.08	0.599

From table 8, it is evident that the respondents strongly agreed that the rate of retention among commercial banks in Nairobi CityCounty, Kenya is high as indicated by a mean of 4.51 and standard deviation of 0.802. The employees significantly indicated that they intended to leave their current employers (1.25) and their work within the banks were not giving them satisfaction (2.54) but were indifferent on their future within their respective banks (3.14). The respondents indicated that they were neutral on working for the same employer for the next 12 months (2.85) but they agreed that given a chance to start over again they would definitely work for another company and not the current bank (3.89) and also given an attractive job offer they will definitely decamp (4.01). The bank staff were neutral on their jobs being important to them (3.25) and also loving working with their respective employers (2.71). The employees disagreed that their banks are among those organizations with good job retention policy for their employees (2.08). This study therefore signifies that employee retention among the commercial banks in Nairobi CityCounty, Kenya is still very poor.

4.4 Regression Model Specification and Estimation

The researcher conducted multiple regression analysis to establish the influence of strategic human resource management practices on employee retention among commercial banks in Nairobi CityCounty, Kenya. The findings are indicated in subsequent sections;

Table 9: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.899	0.851	0.811	0.595

The table above indicates the model summary. From the findings, R was 0.899, R square was 0.851 and adjusted R squared was 0.811. An R square of 0.851 implies that 85.1% of changes in employee retention among commercial banks inNairobi CityCounty,Kenya are explained by the independent variables of the study. There are however other factors that influence employee retention among commercial banks inNairobi CityCounty, Kenya that are not included in the model which account for 14.9%. An R of 0.899 on the other hand signifies strong positive correlation between the variables of the study.

Table 10: ANOVA

Model	SS	df	MS	F	Significance
Regression	638.04	15	560.4	676.015	0.0912
Residual	281.40	85	0.950		
Total	**919.44**	**100**			

From the ANOVA table above, the value of F calculated is 676.015 while F critical is 489.465. Since the value of F calculated is greater than F critical, the overall regression model was significant and therefore a reliable indicator of the study findings. In terms of p values, the study indicated 0.012 which is less than 0.05 and therefore statistically significant.

Table 11: Regression Coefficients

Model	Unstandardized coefficients		Standardized Coefficients	t	Sig
	B	Std Error	Beta		
Constant	5.49	0.674		8.012	0.000
Selection	0.655	0.022	0.811	14.15	0.001
Reward system	0.876	0.033	0.120	11.04	0.002
Job design	0.945	0.029	0.127	1.15	0.000
Performance appraisal	0.860	0.031	0.384	4.42	0.001

The resultant regression equation becomes;

$$\mathbf{Y = 5.49 + 0.655X_1 + 0.876X_2 + 0.945X_3 + 0.860X_4}$$

5.0 DISCUSSIOINS, CONCLUSIONS AND RECOMMENDATIONS

5.1Findings

The study established that commercial banks inNairobi CityCounty, Kenya are striving to select the right employees (3.86). It was evident also that the commercial banks utilize testing/examination to evaluate the potential of target employees (4.11). However the respondents were indifferent or neutral on whether the banks did ranking of potential candidates according to job related requirements, the banks utilized internet and other technologies to select potential candidates, the banks employed head-hunting strategies to select potential candidates and also whether the banks targeted specific professionals to fill a specific need as indicated by a mean of 2.99, 3.15, 2.57 and 3.01. This indicates that a significant number of the commercial banks either employed the strategies or not in strategically selecting the right employees for the right job.

The study found out that most of the unionizable staff among banks inNairobi CityCounty, Kenya were not represented by a union. The banks were found not to offer sufficient incentives to staff based on their performance nor is the job grade or group progression based on merit as indicated by a low mean of 2.11 and 1.88. The salary structure for employees were not reviewed regularly, the banks generally did not have a higher rate of compensation compared to competitors neither the firms had a formal employee merit review process as

indicated by a mean of 2.31,2.45 and 1.89. The respondents were however neutral on whether the banks gave recognition for achievements as indicated by a mean of 2.77. This generally indicates that the reward system among the commercial banks inNairobi CityCounty, Kenya is still below expectations precipitating to high employee turnover.

The study further established that commercial banks inNairobi CityCounty, Kenya do not have a clear action value plan used to measure the performance of their staff (205), do not set realistic targets for the employees (2.54) and do not give incentives to compensate its employees' performance (1.78). The respondents were indifferent on whether the banks practiced regular forecasting to evaluate whether they are still on track on employee retention (2.66), the bank management carries out performance, targets, and forecast for timely and corrective action (3.11). However the study established that the banks practice target setting for all their employees (4.21) and also practiced performance management for all its employees (3.74). This generally indicates that the commercial banks tracked and managed the performance of their staff but didn't set realistic targets for them resulting in overload and also did not compensate them for their peak performance. This contributed to low employee retention.

The study established that employees' jobs among the banks were not well described and organized (1.53) the job designs were irrelevant with the banks' objectives (1.28). The study further established that the employees didn't have a good understand of their roles among the banks (2.01) and also did not fit in the banks' job design (2.09). However they agreed that they had been issued with job descriptions which clearly outlined their duties (3.65). The study established that a significant number of the banks did have regular updates to the job design of their staff (3.11). This generally indicates that job design among commercial banks inNairobi CityCounty, Kenya was not up to date and the employees did not understand clearly their job descriptions. It was clear that irregular assignment of duties to staff without regard to their skills and specialities has led to high turnover among the commercial banks. The job design among the bank staff is not clear and their unfriendly to them

The study realized that commercial banks inNairobi CityCounty, Kenya had a low rate of employee retention. The employees significantly indicated that they intended to leave their current employers (1.25) and their work within the banks were not giving them satisfaction (2.54) but were indifferent on their future within their respective banks (3.14). The respondents indicated that they were neutral on working for the same employer for the next 12 months (2.85) but they agreed that given a chance to start over again they would definitely work for another company and not the current bank (3.89) and also given an attractive job offer they will definitely decamp (4.01). The bank staffs were neutral on their jobs being important to them (3.25) and also loving working with their respective employers (2.71). The employees disagreed that their banks are among those organizations with good job retention policy for their employees (2.08). This study therefore signifies that employee retention among the commercial banks inNairobi CityCounty, Kenya is still very poor.

5.2 Conclusions

The study concluded that the strategic selection, reward systems, job design and performance appraisal have a positive and significant effect on employee retention among commercial banks inNairobi CityCounty, Kenya. The banks were found to select the best employees but do not retain them due to poor reward structure, irrelevant job design with most employees not comfortable with their job and some not understanding their roles. The banks however were thorough in implementation of performance management and appraisal among their staff all aimed at ensuring their performance. This however neglected the welfare of the employees.

The variables explained 85.11% of the changes in employee retention among the commercial banks inNairobi CityCounty, Kenya. A unit improvement in selection while all other factors held constant results in 0.655 increase in employee retention among commercial banks inNairobi CityCounty, Kenya, a unit increase in reward system with other factors *ceteris paribus* leads to 0.876 increase in employee retention among commercial banks inNairobi CityCounty, Kenya. Similarly a unit increase in job design while other factor *ceteris paribus*, translates to a 0.945 increase in employee retention among banks inNairobi CityCounty,Kenya while a unit increase in performance appraisal among employees with other factors held constant leads to a 0.860 improvement in employee retention among commercial banks inNairobi CityCounty, Kenya.

5.3 Recommendations

It was recommended that in order to for the commercial banks to improve employee retention there is need to improve their reward criteria to be in tandem with employee performance, skills and qualifications. The banks should ensure that employees are rewarded for good performance and grow in scale or job group. The study

recommends that the banks should involve their staff in performance management strategies to improve their acceptability and convenience among them. The study further recommends that the hiring and firing of employees should have a laid down procedure to avoid unprocedural dismissal of employees which worsens their job security prompting a search for other jobs. The banks should ensure that the performance appraisal outcome should be a yardstick for employee promotion and salary increment.

5.4 Suggestions for Further Research

The study recommends that further studies be done on the influence of reward criteria on employee performance, the analysis of the effect of performance management on employee output in Kenya and a comparative study on employee retention determinants among firms in Kenya.

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MOTIVATIONAL PRACTICES AND TEACHER PERFORMANCE AMONG PUBLIC PRIMARY SCHOOLS IN KIAMBU COUNTY

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Abstract

This study aims at establishing the motivational practices that influence teacher performance among public primary schools in Kiambu County. The main objective of this study was to analyze motivational practices and teacher performance in Kiambu County. This study was guided by four specific objectives: To determine the effect of compensation on performance of public primary schools in Kiambu County, to establish how working conditions affect performance of public primary schools, to investigate the relationship between promotion and performance of public primary schools in Kiambu County and to examine the effect of the leadership on performance of public primary schools in Kiambu County. The theories that guided the study include the balanced scorecard theory, Maslow's Hierarchy of Needs Theory, Herzberg's Motivation-Hygiene Theory and Vroom's Expectancy Theory. The research problem was studied through the use of a descriptive research design. The target population comprised of five teachers in each school in Thika, Juja and Gatundu North Sub-counties. The five teachers include the head teacher, one head of department and three teachers. One questionnaire was used for all since they are all teachers. The researcher used stratified random sampling using a ratio of 0.2 of 20 percent. The sample size was 112 employees. Semi- structured questionnaires were used to obtain primary data. The supervisor established the validity of the instrument through face validity. To evaluate reliability the researcher used test-retest method and Cronbach's Alpha. Data was analyzed using descriptive and inferential statistics. The Statistical Package for Social Sciences (SPSS) also helped in analyzing the data. Tables were used to present responses and facilitate comparison. To analyze the relationship between the dependent and independent variables regression analysis was used. The study revealed that, compensation, working conditions, promotion and leadership significantly influenced teacher's performance. The study concludes that compensation, working conditions, promotion and leadership are positively related to teacher's performance. The study recommends that the school management should adopt compensation strategies such as incentives, monetary and non-monetary rewards, teachers 'should be provided with conducive working environment, school leaders together with the government should work together to ensure that teachers are promoted and that school leadership should be participatory, so that ideas can be shared on how operations can be run in school.

Key words: Compensation, Leadership, Motivation Practices, Promotion, Teacher performance, Working Condition

Background to the study

Generally performance can be defined as work related activities expected of an employee and how well those activities were executed. Shani and James (1999) define performance as the level of an individual's work achievement after having exerted effort. Cummings and Schwab (1973) and Whetten and Cameron (1998) believe that performance is an individual phenomenon with environmental variables influencing performance primarily through their effect on the individual determinants of performance ability and motivation. Fule (1993) observes that managers should also find out the kind of organizational culture where people identify their interest with that of the corporation, find dignity and satisfaction in their work, with consequent efforts on increased productivity, morale and pride in being part of the organization. Saleemi (2006) states that for performance to occur, three factors have to be together. These are ability, effort and opportunity.

Employee motivation is popularly considered a major force that initiates and drives the workers toward attaining desired goals and objectives of their firm. Currently, it is one of the trending tasks in most organizations as majority of them strive to make best use of their financial and human resources (Gardner, Wright & Moynihan, 2011). Sadikoglu & Zehir (2010) explain that every individual in an organization is motivated by some different way. Employee motivation is a reflection of the level of energy, commitment, and creativity that a company's workers bring to their jobs. The job of a manager in the workplace is to get things done through employees. To do this the manager should be able to motivate employees.

Locally, Wanjala (2012), did a study in Vihiga sub-county with focus on the influence of motivation on teachers' work performance, indicated that teaching was a domain that required sacrifices given that most institutions had done very little to motivate teachers, and this led to poor academic performance. A study done by Njogu (2011), on teacher motivation in Kenya has shown that teachers were demotivated with increased workload, teaching between 41-45 lessons. At the same time schools faced acute shortage of teachers caused by freezingg of employment of teachers by government according to Wallaba (1997), in addition many others are quitting the profession. This had been reported from Kenya National Union of Teachers (KNUT), indicating that between January and June 2008, six hundred teachers had left classroom for better paying jobs and good working conditions (Oyaro, 2008). These have been seen to influence teacher motivation on their performance as workload goes up without proportional increment in extra time compensation. The teacher pupil ratio by ministry is 1:45 but many teachers were handling classes up to 70 students. This means less individual attention to student and lack of motivation for teachers who are overworked and underpaid. (Education-Kenya, 2008)

In Kiambu County, just like elsewhere, teachers encounter performance challenges. Without attempts put in place to motivate teachers, improved students' performance would be difficult to realize. This study therefore sought to investigate the Motivational Practices and Employee Performance among public primary schools in Thika West Sub-County, Gatundu North Sub-County and Juja Sub-County, Kiambu County.

Statement of the Problem

The changing business environment has increased the level of competition among firms especially in cases where human capital is not well managed. Ovidiu-Iliuta (2013) noted that well motivated employees could present an organization with competitive advantage which may not easily be replicated by competitors. Well motivated employees have been found to perform at their best resulting in higher customer satisfaction. In cases where employees are not satisfied with their jobs and not motivated to fulfill their tasks, the organization performance is negatively affected. According to Cristini (2011), any organization with well

recruited and highly skilled labor force but does not motivate them, then the employees' performance becomes low and the bottom line is that the achievement of the organization's goals becomes difficult. Charles & Marshall (2012) identified motivation factors as including, security, interesting work, opportunity for advancement, appreciation, company and management and intrinsic aspects of the job.

Student academic performance is a function of the quality and experience of teachers (Mkumbo, 2012), which means that the ability of schools to recruit and retain excellent instructors is of great importance and is fundamentally linked to incentives put in place. This explains the performance recorded by public primary schools in national examinations as compared to private primary schools. The KCPE results of 2015 showed that private schools in Thika did so well unlike their counterparts in public schools as they attained a mean score of 312.85. The number of candidates who scored above 400 marks in private schools was 130 up from 88 in 2014 (Thika Sub- County Report on Education, 2015).

Jain and Kabra (2015) noted that different forms of teacher incentives led to better student performance. Monetary incentives worked well in motivating teachers although non-monetary incentives also appear promising. The effect of these motivational practices on employee's job performance is rarely examined in the human resource practices yet it is an important issue. The motivational practices cannot be generalized and their impact on employee performance. The studies that have examined motivational practices and employee performance have considered different contexts, different variables or used different theories that limit their application to the current study context therefore creating a gap. For example, Zuma (2008) conducted a comparative survey between teachers' job performance in private learning institutions in Kwazulu Natal province in South Africa and established that most teachers in public institutions cited job security as the only advantage enjoyed in public institutions. In contrast, most teachers in private sector cited improved working conditions and several other fringe benefits. However the study focused on a comparative study on private and public institutions while this study focused on government oriented institutions only and will be done in Kenya not South Africa.

Locally, Langat (2011) did a survey of motivational factors on the performance of students in internal examinations in Bureti Constituency in Kericho County and found that failure to promote teachers encourages apathy in taking up assigned responsibilities among them in most learning institutions. Langat however focused on the internal examinations while this study focused on the Kenya Certificate of Primary Education which is a national examination and the study was not be in Kericho County but Kiambu County. Wanjala (2012), did a study in Vihiga sub-county with focus on the influence of motivation on teachers' work performance, indicated that teaching was a domain that required sacrifices given that most institutions had done very little to motivate teachers, and this led to poor academic performance. Wanjala's study was based in Vihiga Sub-County while this study was focusing on Thika west, Gatundu North and Juja Sub-Counties.

Wagunda (2013) did a study on the implementation of strategic plans in public secondary schools in Rachuonyo South Sub- County. The study found out that implementation of strategic plans was unsatisfactory because majority of the implementers lacked training given that they occupied low administrative positions in schools. Wagunda concentrated on implementation of strategic plans while this study focused on motivational practices and employee performance. He did his study on public secondary schools while this study focused on public primary schools and the study was done in Kiambu County. This therefore left a gap that this study sought to fill by investigating the Motivational Practices and Teacher Performance among Public Primary Schools in Thika West, Gatundu North and Juja Sub-Counties, Kiambu County.

Research Objectives

The main objective was:

To find out the Motivational Practices and Teacher Performance among Public Primary Schools in Kiambu County.

The following were the specific objectives to guide the study:

i. To determine the effect of compensation on performance of public primary Schools in Kiambu County.
ii. To establish how working conditions affect performance of public primary Schools in Kiambu County.
iii. To investigate the relationship between promotion and performance of public Primary schools in Kiambu County.
iv. To examine the effect of the leadership on performance of public primary schools in Kiambu county.

The significance of the study

The results of this study would help schools to understand the relationship between motivation and teacher performance within schools. Through this they can be able to know what to do to motivate their employees to improve employee performance in their schools. The researcher would gain more knowledge on motivational practices and employee performance. She may also benefit because it is a requirement for the partial fulfillment for the award of Master Degree in Business Administration at Kenyatta University. In case the researcher wants to do further studies in future this document could be of importance because identifying gaps would be easy for her for further studies. The Government as an employer can use this in reviewing policies concerning motivation of employees to improve performance because she is also an employer and does not need to lose potential employees to other Governments. Researchers and academics could find it useful material for reference and future research since motivational practices and employee performance is a continuous phenomenon that still requires more studies.

Theoretical Review

The Balanced Scorecard Theory

The balanced scorecard was introduced by Kaplan and Norton (1992) as a measure of performance. According to them employee and process performance are critical for current and future success. Financial metrics, ultimately will increase if organizational performance improves. To optimize long-time shareholder value, the firm had to internalize the preferences and expectations of its shareholder, customers, suppliers, employees and communities. The balanced scorecard incorporates stakeholder's interests within a coherent strategy and value–creation framework, when outstanding performance with these stakeholders is critical for success of the strategy.

The balanced score card therefore translates an organization's mission and strategy into a comprehensive set of performance measures that provides the framework for a strategic measurement and management system. It enables organizations to track short-time financial results while simultaneously monitoring their progress in building the capabilities and acquiring the tangible assets that generate growth for future financial performance. The scorecard measures organizational performance across four perspectives. Financial Perspectiveviews organizational financial performance and use of financial resources. Customer/Stakeholder

Perspectiveviews organizational performance from the point of view of the customer or stakeholders. Internal Process Perspective views organizational performance though the quality and efficiency related to our product or services.

Abraham Maslow's Hierarchy of Needs Theory

Maslow (1954) came up with the five needs hierarchy. Maslow saw human needs in the form of a hierarchy ascending from the lowest to the highest and he concluded that when one set of needs is satisfied, this particular need ceases to be a motivator. The hierarchy is as follows starting from the lowest level to the highest. Physiological needs are the basic needs for sustaining human life. They include food, shelter, clothing and sex. Deprivation of these basic needs can cause a lot of tension to teachers and lead to job dissatisfaction and eventually poor job performance. Security or Safety needs are the needs to be free of physical danger and the fear of losing a job, property, shelter, etc. Job security of the teachers should be enhanced to ensure good performance of employees and help them settle better in their jobs. Affiliation or acceptance need means that people need to belong since they are social beings i.e. being accepted by others.

Employers should foster an environment of commonness and teamwork to ensure that teachers relate well and belong to a common team and hence improve their performance. Esteem needs are concerned with people's need to be held in esteem both by themselves and by others. This need provides such satisfaction as power, prestige, status and self-confidence. Employees need this need for them to perform. Need for self-actualization is the highest need in Maslow's hierarchy. It is the desire to become what one is capable of becoming. Self-actualization needs in teachers are not necessarily a creative urge and may take many forms, which vary from one individual to another (Mullins, 1996).

Fredrick Herzberg's Motivation – Hygiene Theory

The motivation – Hygiene Approach was developed by Fredrick Herzberg in 1968. He termed it the two-factor theory of motivation. According to this theory, people are influenced by two sets of factors – motivation and hygiene. This theory is going to guide the study as the major theory. This is because Fredrick's theory brings out two aspects; two factors that affect teachers inwardly and outwardly. These are intrinsic and extrinsic aspects. Hygiene factors can demotivate or cause dissatisfaction if not present and often create satisfaction when present. Motivation factors create satisfaction and rarely cause dissatisfaction. Hygiene factors or extrinsic factors in a school include the school's policies, supervision, and relationship with the management, work conditions, salary and relationship with other teachers. Motivators include achievement, recognition, the work itself, responsibility advancement and growth.

The researcher realized that Herzberg replaced motivation with satisfaction while Maslow dealt with motivation. Motivation and satisfaction are two concepts which are totally different. Being satisfied by tasks that are more challenging does not mean you will be motivated to do your job better. Furthermore, motivation- hygiene theory has been tried in different occupations and they recorded conflicting outcomes. Ruthankoon and Ogunlana (2003) tested Herzberg's theory in Thai construction industry and they concluded that the theory is not entirely applicable. The results showed that some of the factors (recognition and work itself) that cause satisfaction in Herzberg's research can lead to dissatisfaction in the construction industry. The dissatisfaction factors in Herzberg's research (work conditions, personal life, relationship with peers and subordinates and company's policy) can be satisfaction in the construction industry. One factor can cause job satisfaction in one person and job dissatisfaction for another. This shows that because of different contextual factors and settings the theory needs similar testing in diverse work fields.

Vroom's Expectancy Theory

According to the theory motivation to act in a particular way comes from a belief that by doing something, a particular outcome will result (expectancy); that this outcome will then result in a reward (instrumentality);

and, finally that the rewards for accomplishing this outcome are sufficient to justify the effort put into doing it (valence). According to Vroom, valence stands for value. Instrumentality is the belief that if few do one thing, it will lead to another and expectancy is the probability that action or effort will lead to an outcome.

Porter and Lawler (1968) developed the expectancy theory into a model, which follows Vroom's ideas by suggesting that there are two factors that determine the effort people put into their jobs. The two factors are: The value of the reward to individuals in so far as it satisfies their need for security, social esteem and autonomy and the second factor is self-actualization and the probability that reward depends on effort, as perceived by individuals in other words, their expectations of the relationships between effort and rewards. This means that, the greater the value of a set of rewards, and the higher the probability that receiving each of these rewards depends upon effort, the greater the effort that will be made in a given situation. According to Porter and Lawler, effective effort is what produces the desired performance and not mere effort. In a school's situation when teachers are or promised rewards for certain good deeds the more effective effort they will put in their work and hence improve their school's performance.

Empirical Literature

Table 5: Summary of studies, findings and research gaps.

No.	Study	Focus	Findings	Knowledge Gaps
1.	Otega (2011)	The influence of extrinsic rewards on teachers' job in public secondary schools in the informal settlements in urban populations in Argentina.	Teachers were hardly motivated and hence it was common to meet learners abandoned in classes, while teachers engage in informal business.	The study concentrated only in extrinsic rewards and left out intrinsic factors which are equally important thus creating a gap.
2.	Zuma (2008)	A comparative survey between teachers job performance in private learning institutions in Kwazulu Natal Province in South Africa and compared with teachers in public institutions.	Most teachers in public institutions cited job security as the only advantage enjoyed in public institutions, In contrast , most teachers in private institutions cited improved working conditions and several other fringe benefits,	Zuma did a comparative survey to private and public institutions in South Africa. This study focused fully on government oriented institutions and was done in Kenya.

Source: Author (2018)

The Conceptual Framework

Conceptual framework for this study was where teachers are given institutional motivation by the school management and are able to carry out their work effectively and pupils' academic performance at K.C.P.E. is improved. The diagram below presents linkage between sets of variables and their influence on school's performance.

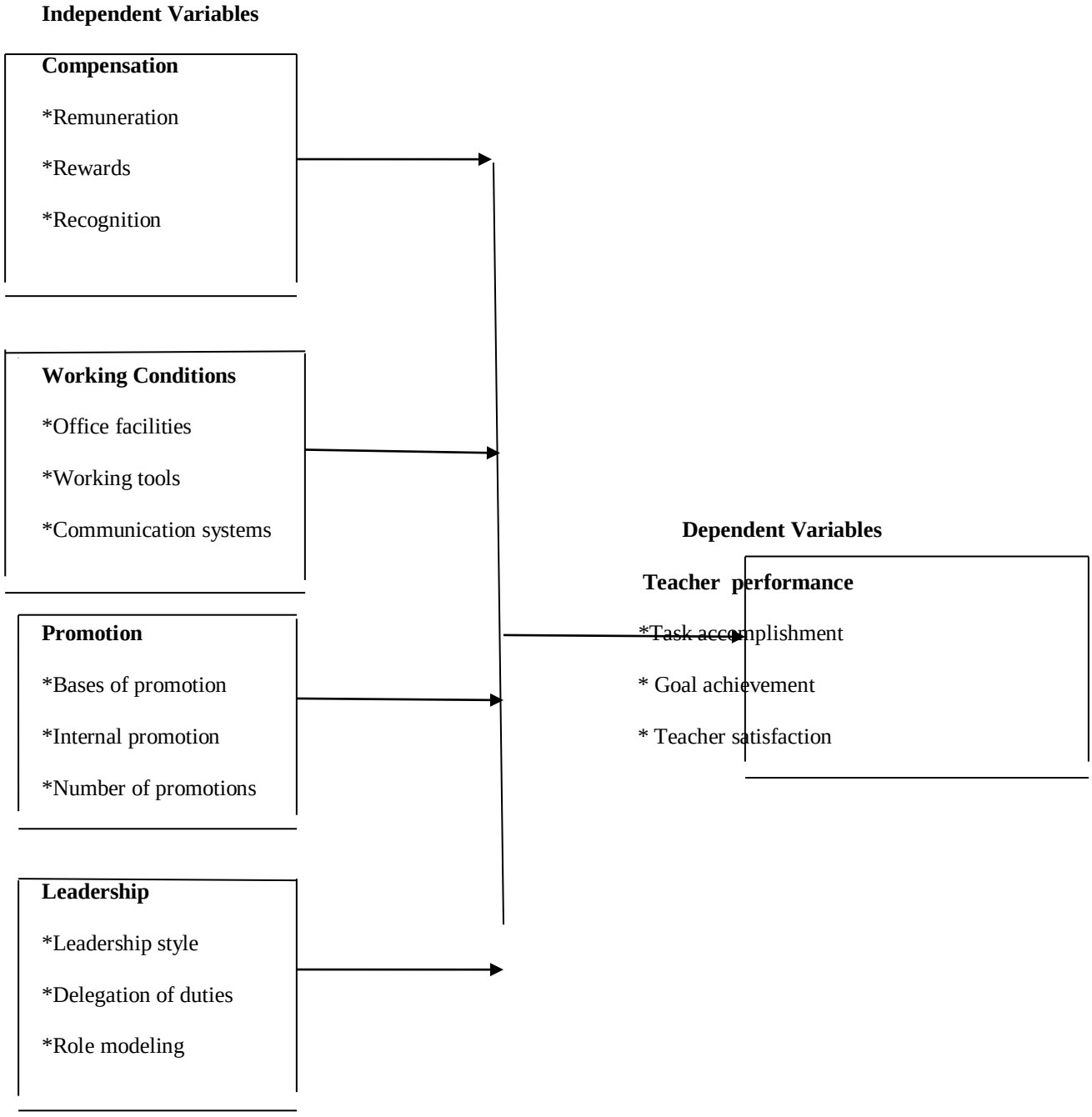

Figure 2.2 The Conceptual Framework

Source: Author 2017

Research Methodology

This research problem was studied through the use of a descriptive research designs. According to Cooper & Schindler (2003), a descriptive study is concerned with finding out what, where and how of a phenomenon. Descriptive research design was chosen because it helped to describe some units in details, context and holistically (Kombo& Tromp, 2009) then generalize the findings to a larger population. Kiambu County has twelve Sub-Counties namely Thika West, Juja, Ruiru, Gatundu North, Gatundu South, Kabete, Kikuyu, Lari, Limuru, Kiambaa, Githuguri and Kiambu Sub-Counties. From the twelve sub- counties the researcher targeted five teachers in each school in Thika, Juja and Gatundu North Sub-counties. The five teachers include the head teacher, one head of department and three teachers. The number of schools multiplied by the number of teachers in each school gave a population frequency of 560 in total. These were the respondents. Thika West Sub- County has twenty four public primary schools while Juja Sub-County has thirty one public primary schools and Gatundu North has fifty seven public primary schools.

Table 6: Target Population

Sub-Counties of Kiambu	No. of schools	Population Frequency	Percentage (%)
Thika West	24	120	21
Juja	31	155	28
Gatundu North	57	285	51
Totals	112	560	100

Source: Kiambu County TSC office (2018)

From the above target population of 560 the researcher made use of stratified random sampling using a ratio of 0.2 of 20 percent. In this case three sub-counties were to be used. They are Thika West, Juja and Gatundu Sub- Counties. This is in agreement with (Mugenda&Mugenda 2003) recommendation of 10-30 percent sample size.

Table 7: Sample size

Sub-Counties	Population Frequency	Sampling Ratio	Sample Size
Thika West	120	0.2	24
Juja	155	0.2	31
Gatundu North	285	0.2	57
Totals	560		112

Source: Kiambu County TSC office. (2018)

The researcher developed semi- structured questionnaire guided by the research questions. The descriptive statistics used include frequencies and percentages. Data was presented using tables. Inferential statistics were used to draw conclusion from data based on relations found in the samples. The data was analyzed using Statistical Package for Social Sciences (SPSS). The researcher used regression modeling analysis to predict one variable from the other variables used in the study. The regression model was used to analyze the relationship between the dependent variable and independent variables. It was used to measure specifically, the influence of each independent variable on the performance of teachers in the selected sub counties in Kiambu County.

The regression model is illustrated as follows:

$Y = \beta o + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$

Where; Y = Employee Performance, X_1 = Compensation, X_2 = Working conditions,
X_3 = Promotion, X_4 = Leadership, βo = Regression Constants, $\beta_{1,2,3,4}$= Coefficient terms e = Error term

Research Findings and Discussion

The study targeted a sample size of 112 respondents from which 104 filled in and returned the questionnaires making a response rate of 93%. This response rate was satisfactory to make conclusions for the study. The response rate was representative.

Table 8: Response rate

Category	Frequency	Percent
Response	104	936%
Non-Response	8	7%
Total	**112**	**100%**

Compensation and Teacher Performance

The respondents were asked to indicate whether they are rewarded. The findings are as shown in figure 45.

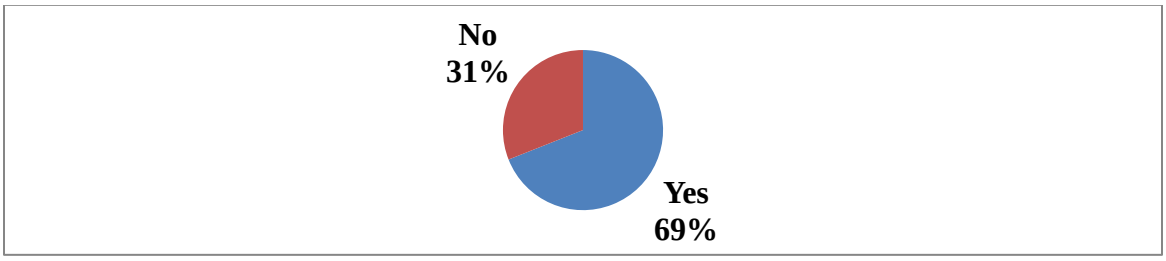

Table 9: Teacher's Compensation

According to the findings, 69% of teachers indicated they are rewarded while 31% indicated that they are not rewarded. This implies that most teachers are rewarded.

The respondents were asked to indicate the measures used to determine their reward. Results are as shown in Table 6

Table 10: Measures Used to Determine Teachers' Reward

Statements	Frequency	Percent
Money available	15	14
Pupil exam results	56	54
Teacher Performance	33	32
Total	**104**	**100**

From the findings in table 6, 54% of the respondents indicated that pupil exam results is used to determine their reward, 32% indicated that teacher's performance is used to determine their reward and 14% indicated that money available is used to determine their reward. This implies that most of the times teachers are rewarded based to the pupils performance.

The respondents were asked to indicate those involved in determining their reward. Results are as presented in Table 7:

Table 11: Individuals who determine Teacher's Reward

Statements	Frequency	Percent
PTA	20	19
BOG	23	22
Head teacher	61	59
Total	**104**	**100**

From the results in table 7, 59% of the respondents indicated that head teachers determine their reward, 22% indicated that the BOG determine their reward and 19% indicated that PTA determine their reward.

The respondents were asked to indicate whether they have ever been recognized/awarded at the sub county level for your work. Results are as shown in Table 8

Table 12: Award Recognition at County Level

Statements	Frequency	Percent
Yes	23	22
No	81	78
Total	**104**	**100**

According to the findings in Table 8, 78% indicated that they have never been recognized or awarded at the sub county level for your work while 22% indicated that they have once been recognized or awarded at the sub county level for your work. This implies that most teachers have never been recognized or awarded at the sub county level for your work. Those who said yes further indicated that they are rarely recognized or awarded.

The respondents were asked to indicate whether their schools had a prize giving day. Results are a shown in Table 9

Table 13: Prize Giving Day in Schools

Statements	Frequency	Percent
Yes	87	84
No	17	16
Total	**104**	**100**

From the results in table 9, 84% of the respondents indicated that their schools had prize giving day while 16% indicated that they had no prize giving day in their school. This implies that most primary schools had prize giving day.

The study further sought to determine whether the teachers have ever been awarded during any prize giving day. Findings are as shown in table 10

Table 14: Awarding in School Prizing Giving Day

Statements	Frequency	Percent
Yes	34	33
No	70	67
Total	**104**	**100**

According to the findings in table 4.9, 67% of the respondents indicated that they have never been awarded during any prize giving day while 33% indicated that they once been awarded during any prize giving day. This implies that most teachers have never awarded during any prize giving day.

The respondents were asked to indicate whether the compensation they receive as salary is adequate. 100% of the respondents indicated that the compensation they receive as salary is not adequate. This is because they are not able to meet their basic needs with the compensation they receive.

The respondents were asked to indicate whether their numeration enable them to perform their job better.

Table 15: Effects of Remunerations on Job Performance

Statements	Frequency	Percent
Yes	30	29
No	74	71
Total	**104**	**100**

According to the findings in Table 11, 71% of the respondents indicated that their numeration do not enable them to perform their job better while 29% indicated that their numeration enable them to perform their job better.

The respondents were asked to indicate the extent to which remuneration strategies affect their work. Use a scale of 1-5 where 1=Not at all and 5= Very great extent.

Table 16: Effects of Remuneration Strategies on Work

Statements	1	2	3	4	5
Payment of salary on time	0%	4%	14%	19%	63%
Payment of allowances	2%	6%	10%	22%	61%

The respondents indicated that payment of salary on time and payments of allowances affect their work to a very great extent as shown by 63% and 61% respectively.

Working Conditions and Teacher Performance

The respondents were asked to indicate on how the following human resource activities handled. Results are as shown in Table 13

Table 17: Handling of Human Resource Activities in School

Activity	Poorly	Very poorly	Satisfactory	Very satisfactory	Cannot say
Discipline of teachers	12%	9%	44%	20%	15%
Allocation of duties and responsibilities	25%	13%	36%	12%	14%
Leave of absence	19%	12%	42%	13%	13%
Communication systems	34%	19%	27%	11%	10%
Extra hour of work	23%	15%	37%	10%	15%
Office facilities	23%	13%	47%	10%	8%
Working tools	27%	9%	42%	13%	9%
Guidance and counseling	20%	11%	38%	18%	13%
Employee associations	17%	10%	41%	25%	7%

From the findings in Table 13, most respondents (44%) indicated that discipline f teachers is handled at satisfactory level, 36% also indicated that allocation of duties and responsibilities is handled at satisfactory level, 42% indicated that leave absence is handled at satisfactory level, communication systems are handled poorly as shown by 34%, extra hour of work is handled at satisfactory level as show by 37%, office facilities and working tools are handled at satisfactory level as shown by 47% and 42% respectively and guidance and counselling and employee associations are handled at satisfactory level as shown by 38% and 41% respectively.

Promotion and Teacher Performance

The respondents were asked to indicate whether they ever been promoted. Results are as shown in Table 14

Table 18: Teachers Promotion in School

Statements	Frequency	Percent
Yes	26	25
No	78	75
Total	**104**	**100**

According to the findings in Table 14, 75% of the respondents indicated that they have never been promoted while 25% indicated that they have been promoted. This implies that most teachers have never been promoted.

The respondents were further asked to indicate the number of times they have been promoted

Table 19: Number of Promotions

Statements	Frequency	Percent
1-2 times	14	54
3-4 times	8	31
Above 5 times	4	15
Total	**26**	**100**

From the results 54% of the respondents indicated that they been promoted 1 to 2 times, 31% indicated that they have been promoted between 3 to 4 times and 15% had been promoted for over 5 times.

The respondents were asked to indicate the criteria used in their school for one to get promoted. Results are as shown in Table 16

Table 20: Criteria Used for Promotion

Statements	Frequency	Percent
Teacher performance	18	17
Career Development	28	27
Performance Appraisals	24	23
Pupil Exam Results	34	33
Total	**104**	**100**

According to the findings in table 16, 33% of the teachers indicated that the criteria used in their school for one to get promoted is through pupil exam results, 27% indicated that the criteria used in their school for one to get promoted is through career development, 23% indicated that the criteria used in their school for one to get promoted is through performance appraisals and 17% indicated that the criteria used in their school for one to get promoted is by teacher performance.

The respondents were asked to indicate their level of agreement on the statements below;

Table 21: Teachers' Promotion

Statement	Strongly Disagree	Disagree	Not sure	Agree	Strongly Agree	M	S
There is a promotion policy that makes life predictable for me as a teacher	3	6	13	65	17	3.837	1.016
My school supports and facilitates my training and advancement	2	9	12	59	22	3.865	0.926
The career progression path is	4	8	12	44	36	3.962	0.846

clear and I can see myself rising up the ladder							
The performance appraisals used by my employer as a base of promotion are suitable and relevant	6	9	10	52	27	3.817	0.850

According to the findings in Table 17, the respondents agreed that the career progression path is clear and help them in rising up the ladder a as shown by a mean of 3.962, the school supports and facilitates my training and advancement as shown by a mean of 3.865, there is a promotion policy that makes life predictable for me as a teacher as shown by a mean of 3.837 and the performance appraisals used by my employer as a base of promotion are suitable and relevant as shown by a mean of 3.817.

Leadership and Teacher Performance

The respondents were asked to indicate the extent to which the following strategies enhance their work.

Table 22: Leadership Strategies

	Not at all	Little extent	Moderate extent	Great extent	Very great extent
Leadership style	1%	2%	4%	73%	20%
Delegation of duties	2%	5%	8%	59%	27%
Role modeling	4%	7%	10%	56%	24%

From the findings 73% of the respondents indicated that leadership styles enhance their work to a great extent, 59% indicated that the delegation of duties enhance their work to a great extent and 56% indicated that role modelling enhance their work to a great extent.

Teacher Performance

The respondents were asked to give their opinion on the following information about teacher's performance. Results are as shown in table 19.

Table 23: Teacher Performance

Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std. Dev
Tasks given are completed on time	6	8	12	46	32	3.865	0.815
Resources provided are utilized well and for the designated tasks	5	7	10	42	40	4.010	0.894
Goals are achieved on time	7	9	14	52	22	3.702	0.802
I am satisfied by my work	6	6	11	38	43	4.019	0.908

According the findings in table 19, the respondents agreed that are satisfied by their work as shown by a mean of 4.019, resources provided are utilized well and for the designated tasks as shown by a mean of 4.010, tasks given are completed on time as shown by a mean of 3.865 and goals are achieved on time as shown by a mean of 3.702.

Regression Analysis

Table 24: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.879[a]	0.773	0.765	0.02762

a. Predictors: (Constant), compensation, working conditions, promotion, leadership

Model summary is used to analyse the variation of dependent variable due to the changes of independent variables. The study analysed the variations of teachers' performance due to compensation, working conditions, promotion and leadership. From Table 20, adjusted R squared was 0.765 implying that there was 76.5% variation of teachers' performance due to changes of compensation, working conditions, promotion/career development and leadership. The remaining 23.5% implies that there are other factors that affect teacher's performancewhich were not discussed in the study. R is the correlation coefficient which shows the relationship between the study variables. From the findings, the study found out that there was a strong positive relationship between the study variables as shown by 0.879.

Table 25: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	154.032	4	38.508	99.895	.000[b]
	Residual	38.163	99	0.385		
	Total	192.195	103			

The analysis of variance ANOVA is used to determine whether the data used in the study is significant. From Table 21, the ANOVA statistics, the processed data (population parameters) had a significance level of 0.000. This shows that the data is ideal for making conclusions on the population's parameter as the value of significance (p-value) is less than 5%. The F calculated was greater than F critical 99.895>2.464. This shows that project of compensation, working conditions, promotion and leadership significantly influences teacher's performance.

Table 26: Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	1.073	0.131		8.191	0.000
Compensation	0.419	0.084	0.384	4.988	0.000
Working conditions	0.475	0.099	0.339	4.798	0.000
Promotion	0.329	0.088	0.29	3.739	0.003
Leadership	0.383	0.086	0.365	4.453	0.001

The regression equation was

$Y = 1.073+ 0.419X_1 + 0.475X_2 + 0.329 X_3 + 0.383X_4$

The equation above reveals that holding, compensation, working conditions, promotion and leadership constant the variables will significantly influence teacher's performance by a constant of 1.073 as shown in the table 4.22.

Compensation is statistically significant to teacher's performance as shown by ($\beta = 0.419$, $P = 0.000$). This shows that compensation had significant positive relationship with teacher's performance. This implies that a unit increase in compensation will result to an increase in teacher's performance.

Working conditions is statistically significant to teacher's performance as shown by ($\beta = 0.475$, $P = 0.000$). This shows that working conditions had significant positive relationship with teacher's performance. This implies that a unit increase in working conditions will result to an increase in teacher's performance.

Promotion is statistically significant to teacher's performance as shown by (β = 0.329, P = 0.003). This shows that promotion/career development had significant positive relationship with teacher's performance. This implies that a unit increase in promotion/ will result to an increase in teacher's performance.

Leadership is statistically significant to teacher's performance as shown by (β = 0.383, P = 0.001). This shows that leadership had significant positive relationship with teacher's performance. This implies that a unit increase in leadership will result to an increase in teacher's performance.

Conclusions

The study established a significant relationship between compensation and teacher's performance. This implies that changes in compensation will lead changes in teacher's performance. The study concludes that compensation is positively related to teacher's performance.

The study found that working condition influences teacher's performance. A significant relationship was also established between working conditions and teacher's performance. This shows that improvement of working conditions will lead to improved teacher's performance. The study concludes that working conditions is positively related to teacher's performance.

The study revealed that promotion affects teacher's performance. A significant positive relationship was also established between promotion and significant positive relationship. This implies that a unit increase in promotion will result to an increase in teacher's performance. The study concludes that promotion is positively related to teacher's performance.

Leadership is statistically significant to teacher's performance. This shows that leadership had significant positive relationship with teacher's performance. This implies that a unit increase in leadership will result to an increase in teacher's performance. The study concludes that leadership is positively related to teacher's performance.

Recommendations

The study recommends that the school management should adopt compensation strategies such as incentives, monetary and non-monetary rewards. The government should also be a source of support for teacher's compensation. This will be a source of motivation for teachers hence improving teacher's performance.

The study recommends that teachers 'should be provided with conducive working environment. This includes proper ventilation in the buildings and safety measures while at work. This will make teachers feel secure and contended with their work. Hence, they will be able to work to achieve the set objectives.

The study recommends that the school leaders together with the government should work together to ensure that teachers are promoted. Promotion can be based on teacher's performance, years of experience and also school performance. This will motivate teachers to work much better to improve their performance.

The study also recommends that school leadership should participatory, so that ideas can be shared on how operations can be run in school. This will make teachers feel that they are part of the school. This will also ensure that better school decisions are arrived at. This will help to improve teacher's performance.

Suggestions for Further Research

The objective of the study was to find out the motivational practices and teacher performance among public primary schools in Kiambu County. The study suggests that other studies should be conducted on effects of motivational practices ion student's performance in both primary and secondary schools in the public and private sector.

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INFLUENCE OF GOVERNMENT STRUCTURAL CHANGE ON ECONOMIC WELFARE OF COUNTIES IN KENYA: A CASE OF THARAKA NITHI COUNTY.

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ABSTRACT

Kenya has devolved funds up to grass root level with the aim of bringing services and development close to its citizens in view of vision 2030. However a report by the controller and Auditor General in Kenya gazette 2010 uncovered massive misappropriation of Constituency Development Funds in 16 Constituencies. In spite of this, other constituencies were reported as posting remarkable performance. Presence of devolved funds at community level seems to spark little concern among community-members, yet the funds are meant to bring improvement in their socio economic welfare. The purpose of this study is to investigate how government structural changes influence economic welfare of communities among Counties in Kenya. The study explores the influence of devolved funds and human resource practices on economic welfare o communities in Tharaka Nithi County. The study used a descriptive survey design with a target population of 100 respondents. Purposive sampling was the main sampling techniques used. The study used questionnaire and interview schedule to collect data. Data was analyzed using both descriptive and inferential techniques of which frequencies, cross tabulations, and chi-square elements for measuring association were used. The study established that budgets allocated, amounts provided, funding channels in the county, accessibility of funds, county administrators meeting requirements before being appointed, automated systems significantly influenced performance of the counties offices hence increased economic welfare of the community I the study area. The study recommended that there should be enforcement of the policies which enhance full accountability of the county resources and Counties need to be embraced training on financial management and system operation to enhance improved usage of the resources hence greater positive impact to the intended beneficiaries.

TERMS: Government structural change, devolved funds, human resource practices, Economic welfare, Tharaka Nithi.

INTRODUCTION

Political scientists present three major rationales for decentralization. First, they argue that decentralization enhances democracy by bringing government closer to the citizens. Second, by establishing different tiers of government, decentralization provides mechanisms for protecting democracy through vertical checks and balances. Third, by distributing authority and responsibility for fiscal management and public service delivery, minorities are given a stake in the system and this helps in conflict management (Afar et. al., 2004). Devolution has been applied in developed countries which have been recorded to impact positively or negatively to the community. For instance Veseth (2008) study found that in USA initially the idea did not work as a lot of corruption and misappropriation of the resources were mentioned. These flaws caused many issues serious civil unrest within many areas of the United States, and that the government may not have been strong enough to suppress rebellions, and guarantee stability (Veseth, 2008). This indicated that there would be a need of a stronger, more centralized government and for that reason; they developed Constitution which guided the operations in all regions.

Many democracies over the world, including Kenya have in recent years adopted devolution as a system of decentralization for development. In Kenya, this was after years of the post-independence approach of Local Governments which still embraced a strong centralized governance structure and which had been meant to resolve the regional development challenges but apparently failed (Khaunya, Wawire & Chepng'eno, 2015). They indicated that entire government sector of the economy has experienced large and unexpected structural changes in response to the "decentralization" that have swept through the economy. This is evidenced by the challenges in Kenya mainly associated with bureaucratic inefficiencies, lack of accountability and transparency, unequal distribution of national resources and minimal sustainable community-based projects in local development, amongst others (Khaunya *et al*, 2015). Indeed, many feel that post-Independence Kenya has been characterized by centralization of political and economic power in the hands of a few, resulting in a spatially uneven and unfair distribution of resources and corresponding inequities in access to social services: the opposite of an inclusive state (Kaimenyi, 2013).

Devolution is at the heart of the new Constitution and a key vehicle for addressing spatial inequities (Nyanyom, 2010). A more decentralized government makes eminent sense given Kenya's diversity and past experience with political use of central power. Decentralization has been increasingly seen and adopted worldwide as a guarantee against discretionary use of power by central elites, as well as a way to enhance the efficiency of social service provision, by allowing for a closer match between public policies and the desires and needs of local constituencies. Kenya's Constitution entrenches devolved government by guaranteeing a minimum unconditional transfer to counties under the new dispensation (Kangu, 2012). Devolved government presents an opportunity to address the diversity of local needs, choices and constraints in Kenya. This is a very diverse country with ten major and more than thirty minor ethnic groups. Needs are very different between the arid and semi-arid North, the highlands, the rural Northern Rift, the urban centers of Mombasa, Nairobi, and Kisumu, the Coast, and Western Kenya (Republic of Kenya, 2011).

It is perceived that Counties be better placed than the national government to deliver social services, because they have specific challenges and the local knowledge to address them. For instance, in the case of health, lagging counties still need to catch-up in providing basic health services, while the leading urban counties be faced with new types of diseases (mostly non-communicable such as diabetes and cancer). With these stark differences it makes little sense to provide the same mix of services across the country. And even if there are no dramatic improvements in service delivery, people prefer to make decisions themselves rather than following directions imposed by a central government. With a constitutional guarantee of unconditional transfers from the center, Kenya's counties have the means and the autonomy to begin to address local needs, and their citizens be more able to hold them accountable for their performance (Khaunya et. al., 2015).

But Kenya's devolution is very ambitious, and therefore quite risky. It is a massive undertaking from a logistical point of view. The day after the last general election, Kenya's system of government and public administration was remodeled. It was inevitable that teething problems would be encountered during the transition. There have been diverging views on how far and how fast the transition should have been implemented. Since Independence, Kenya's leaders have held diverging views about devolution. From one perspective, it is seen to offer the potential to redress perceived ethnic and political bias by giving local community-based projects far greater control over resources and decisions about service delivery. However, from another perspective, devolution could potentially undermine national unity governments and breed apprehension amongst community projects considered aliens in the Counties (Nyanyom, 2010).

Indeed, Kenya's devolution structure presents massive challenges for political and administrative restructuring by encouraging fragmentation of the state along partisan, regional and ethnic lines or is seen as 'decentralizing corruption', leaving citizens worse off if local elites are able to capture resources to the detriment of the majority, or when the newly established counties fail to put in place the systems needed for effective and transparent service delivery (Mugambi, 2013).

The process of devolution is seen as being made up of three separate factors: legitimacy, the decentralization of resources and the decentralization of authority. Mugambi (2013) notes that any form of devolution implies some degree of sub national legitimacy and some form of decentralization of authority and resources. In striving to achieve its fiscal and macro- economic policies of employment, equitable distribution of resources, economic growth and others; the government of Kenya has established various devolved funds each addressing a specific objective. These funds include: Women Enterprise Fund, Youth Enterprise Development Fund, Constituency Bursary Fund, Poverty Eradication Fund, Water Services Trust Fund, Road Maintenance Levy Fund, Constituency HIV/AIDS Fund, and National Development Fund for Persons with Disability, Uwezo Fund and Constituency Development Fund (National Treasury, 2017).

The CDF has been viewed as a key strategic driver of socio-economic development and regeneration within Kenya. It is a development initiative targeted at the constituencies by devolving resources to the regions to meet social economic objectives which have previously been managed from the Centre. The key objectives of the fund are to fund projects with immediate social and economic impact with a view to improving lives, alleviating poverty and general development purposes. It supports local development

Projects, especially those aimed at alleviating poverty and developing infrastructure at grass roots level. It targets community-based projects -based development projects as a criterion and whose benefits are enjoyed by all as well as projects relating to set up and equipping constituency project offices. In this way the fund seeks to control imbalances in the regional development, improve pro-poor targets, expand coverage and improve development outcomes by eliciting local people's participation in decision making on issues of local development (Simiyu, 2014). This paper discusses how these changes have affected the economic welfare of the communities in Kenyan counties. It focuses on the way that the structure of Kenyan government has been shaped by the forces of structural change in the economy.

Justification

Empirical evidence on the impact of government structural change on economic welfare done in developed countries depicts mixed results. In some cases, it is inconclusive. For example, a study of the federal state of India suggests that government structural change promotes government responsiveness in service delivery, especially if the media is very active at the local level (Besley and Burgess, 2002). Another study of Italy indicates that

government structural change may exacerbate regional disparities in public spending and economic outcomes (Hofman and Guerra, 2010). Azfar (2001) finds that local level is hampered by limited information. As a result, devolution does not achieve the desired effects of a locative efficiency. These inconsistencies present one of the needs for this study.

Efficient and effective delivery of public services in Africa and other developing regions has for a long time been hindered by highly centralized government bureaucracies (Mwabu, 2001). In Kenya, several efforts have been made to reduce unnecessary layers of government to make service provision to the populace more effective. This is because devolvement of funds and governance to the locals is fundamental for both social and economic development of any given nation of the world. This aims at enhancing democracy through the systems which enables identification of problems that affect community directly and find ways of solving them to improve their well-being and also spearhead the operations of the government. Despite the government of Kenya's endeavor to devolve funds to the grassroots, still the economic welfare of the people is low (Kaimenyi, 2013). Additionally, the report by the controller and Auditor General in Kenya gazette 2010 uncovered massive misappropriation of Constituency Development Funds in 16 Constituencies. This study therefore sought to investigate how government structural change influences economic welfare of community in Kenyan Counties.

Research Objectives

The study was guided by the following objectives:-

i. To establish how devolved funds influence economic welfare of community in Tharaka Nithi County
ii. To examine how human resource practices influence economic welfare of community in Tharaka Nithi County.

LITERATURE REVIEW

Theoretical Review

Community Driven Development (CDD) Theory

CDD is a term, originally coined by the World Bank that refers to Community based development (CBD) projects where communities have direct control over key project decisions as well as the management of investment funds (Rao and Ibanez 2008). CDD contains five main components including: Empowering communities, empowering local governments, re-aligning the center, improving accountability and building capacity (Hofman and Guerra, 2010). Most practitioners think of community development as an outcome – physical, social, and economic improvement in a community – while most academicians think of community development as a process – the ability of communities to act collectively and enhancing the ability to do so (Elliott, 2018).

Community-driven or bottom-up approaches to development are based on the premise of community ownership and responsibility for the planning, implementation and monitoring of development projects (Elliott, 2018). Innovation, not only enhances accountability by addressing the challenges of public based systems where their failures are attributed to lack of accountability to clientele (Jock & Feder, 2003); but also empowers communities to take charge of assessing the quality and effectiveness of the service.

Community-driven development (CDD) theory is relevant to this study as it recognizes that poor people are prime actors in the development process, not targets of externally designed poverty reduction efforts. In CDD, control of decisions and resources rests with community groups, who may often work in partnership with demand-responsive

support organizations and service providers, including elected local governments, the private sector, nongovernmental organizations (NGOs), and central government agencies. Not only do poor communities have greater capacity than generally recognized, they also have the most to gain from making good use of resources targeted at poverty reduction (Elliott, 2018). Through structural change community are able to be empowered through training to participate, question realities and contribute to their own economic well-being. The CDD empowers local people, helps to build upon and expand existing social capital and improves governance (Jock & Feder, 2003).

Empirical Review

Devolved funds and Economic Welfare

Devolution is generally defined as a process of transfer of political, administrative and fiscal management powers between central government and lower levels of government, primarily operating at city and region levels (Potter, 2001). It is not just a linear process of power transfer from national to sub – national level but also involves some degree of cooperation between the different levels of government. Other frameworks that lie between are the de - concentration and delegation frameworks. The level of decentralization is determined by several factors such as: the degree to which the sub – national unit can exercise administrative powers, in terms of recruiting and controlling employees, responding to citizens' feedback and altering services and budgets to match local preferences; ability of the local government unit to exercise political authority in terms of initiating policy and overseeing its implementation; and the local government influence on revenue and expenditure decisions (Kaimenyi, Mwangi and Meagher, 2014). Scholars have advanced political and economic rationales in support of decentralization of delivery and financing of public goods and services (Dent, 2004; Kaimenyi et. al., 2014 and Ndung'u, 2014).

Afar et al, (2004) argues that as a result of decentralization the government structural change may improve governance in public service provision by improving the efficiency of resource allocation since the government has a better knowledge about local preferences. Local governments are therefore better placed to respond to the diverse needs of the local people. Musgrave (2009) further states that decentralization can enhance productive efficiency by promoting accountability, reducing corruption and improving cost recovery. In addition, hard budget constraints, usually set at the sub – national level, compel local governments to minimize the costs of delivering public goods and to optimize on cost recovery.

The success of devolution or other decentralization frameworks which leads to government structural change depend on the decentralization framework, which stipulates how the authority to spend and tax is shared among the various levels of government (Afar et al, 2004). The efficiency of a government structural change is high when the community affected welfare is enhanced (Shah, 2006). Additionally, to enhance the efficiency of decentralization, information (relating to the costs, beneficiaries, procurement and public service delivery) should be shared with the media, public and among the different levels of government. Shah (2006) indicated that for efficient outcomes of government structural change, there must be adequate capacity in the form of human capital, essential equipment and technology, and incentives to motivate government officials to produce the desired.

Human Resource practices and Economic Welfare

Government structural change as a result of devolution has brought about need to proper coordination of the counties personnel in terms of how they are recruited, promoted and coordinated. Bailis (2009) indicated that coordination efforts can either be "system-oriented" or "service-oriented" depending on their goals to be achieved. System- oriented efforts have ambitious goals that are focused on reforming the delivery system ad are intended to develop new human service delivery systems or alter the way existing agencies are structured, create new services to fill gaps in available services or address unmet client needs, and reduce conflicts and inconsistencies among service programs to make it easier for clients to apply to and be accepted by programs. To accomplish their goals, these efforts seek to change the way government plan, the systems in place, adoption of the best practice and the way such undertakings are funded (Kaimenyi et. al., 2014).

Most state and local initiatives to coordinate services fall into the service-oriented model focused on coordination rather than service integration. While the coordination of service delivery systems usually takes place at the local level, studies have shown that the initiative to coordinate may either be locally developed ("bottom-up" coordination) or may be encouraged or imposed by state officials ("top-down" coordination) (Trutko and Wietzke, 2011); Bailis, 2009). With top-down integration, federal and state officials may promulgate "requirements" that local agencies coordinate the delivery of specific types of services, or offer advice or incentives to promote collaboration. Coordination is often mandated in legislation; at other times, requirements are contained in administrative communications ranging from personal initiatives of key officials, to joint policy statements, to agency regulations. For example, the new Workforce Investment Act promotes "top-down" coordination by requiring the establishment of state and local Workforce Investment Boards and the submission of state and local plans detailing how coordination occur According to Trutko and Wietzke, (2011), "top-down" initiatives to promote coordination are sometimes influential in shaping the decisions made by local program administrators.

Human resource practices includes activities involving client services such as intake and eligibility determination, assessment and case management, and delivery of employment and training services (Gertler, Schargrodsky, Holcomb, 2013). In addition, coordination can occur around activities involving agency operations such as planning, training and information exchange, integrated MIS systems, and collocation of facilities. Coordination can involve different populations of constituents including all job seekers, disadvantaged workers, dislocated workers, unemployment insurance claimants, welfare recipients, youth, homeless, and ex-offenders. Several studies point to the substantial benefits of coordination which can potentially accrue to both clients and programs and lead to economic welfare of the community (Trutko & Wietzke, 2011 and Gertler et. al., 2013).

Gertler et. al., (2013) pointed out that the primary benefit of coordination is to eliminate the costly duplication of services and to refocus human resources on the provision of new or expanded services. By doing so, organizations experience access to additional resources, greater flexibility in using funds, the ability to offer a wider range of services targeted at client needs, increased knowledge and communication among staff, enhanced ability to serve different target groups, and an improved image with clients, employers, and the community served. Grubb (2000), finding only very limited duplication in the provision of services even with relatively uncoordinated efforts, stressed that the primary goal of service coordination should be to make programs more effective. Bailis (2009) emphasizes that service integration efforts cannot be judged by the coordination process (as he finds most studies have done) but whether it achieved the intended results of greater effectiveness, reduced costs, and fewer demands on clients.

Gertler et. al., (2013) found that the performance standards that each program is accountable for can differ substantially, altering perspectives of administrators and complicating efforts to coordinate. Therefore for better

performance of any community undertaking coordination of employment and training services is necessary which is brought about by welfare and workforce development systems.

Finally, one study (Elliott, 2018) used site visits to 13 states to identify major workforce development issues and gauge how workforce programs were being managed to achieve the economic growth of the community. This study found that states' workforce development systems motivated the employees to ensure sustainability of the projects in the locality. In addition, such workforces were reported to be more accountable and clear communication among them.

Conceptual Frame work

The model shown in conceptual framework proposed that structural change includes devolved funds, administrative systems and community based projects representing independent variables and the dependent variable is economic welfare.

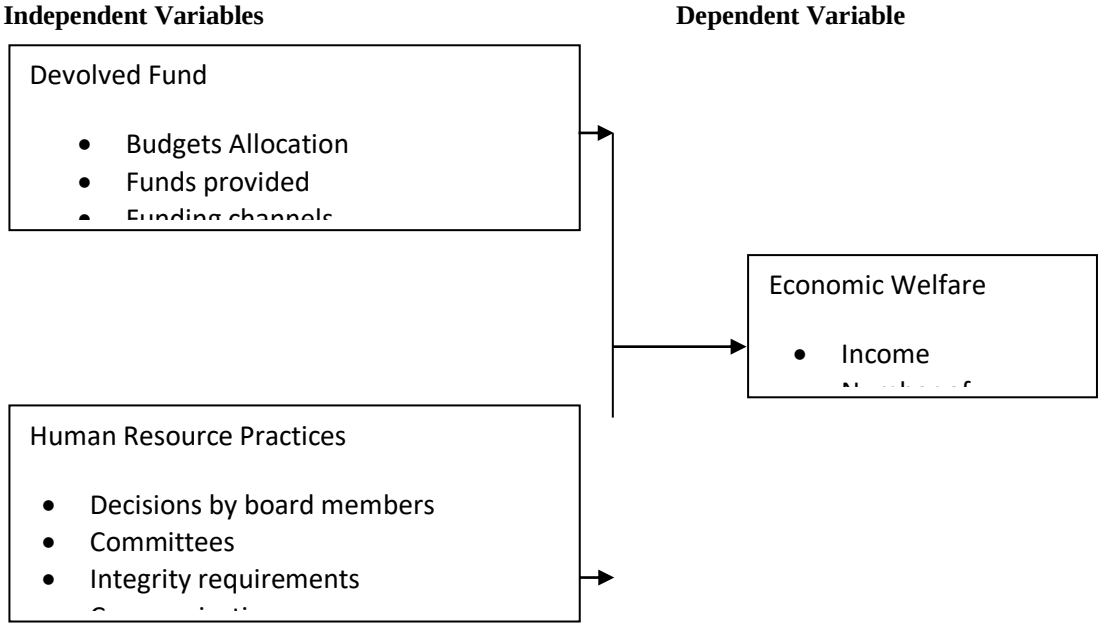

Figure 2.3: Conceptual Framework

RESEARCH METHODOLOGY

The study was anchored on positivist philosophy which advocates for objectively interpreting the reality using the hard data and seeks factual phenomena with little regards to the subjective status of the individual (Kothari, 2004). Descriptive research design was adopted in order to determine the current status of the population with respect study variables. The study targeted population 100 devolved structure operators, beneficiaries and managers in Tharaka Nithi County including County administration's budgetary allocation committees, C.B.O's representatives, NG-CDF committee members, women and youth groups representatives and business fraternity.

Table 3.5: Distribution of Target Population

Respondents	Target Population
NG-CDF Committee member	8
Business fraternity representatives	15
County Administrations Budgetary Allocation Committee	8
C.B.Os Representatives	12
Youth Group's representatives	15
Women Group's representatives	15
Total	**100**

The study used a census as the number was small enough and the respondent had the necessary information required for the study. Questionnaires was the main data collecting tool. A pilot study of 10% of target population was conducted in Embu Government County offices which share the same experiences as the target population, the aim being to testing whether the design of the questions is logical, and whether the questions are clear and easy to understand. Reliability tests in SPSS Version 22 used the Cronbach's alpha and gave values which were greater than 0.7 as shown in the table 3.2 which indicated the instrument was reliable (Field, 2005).

Table 3.2: Reliability Test Results

Variable	No. of items	α = Alpha	Comment
Devolved Fund	10	0.872	Acceptable
Administration Systems	10	0.709	Acceptable
Community Based participation	10	0.897	Acceptable
Community Welfare	10	0.800	Acceptable

The data obtained following pilot test was also used for normality and multicollinearity test. Kolmogorov-Smirnov test was used to determine if the distribution was normal from which a p-value of 0.51 was obtained indicating normal distribution. In addition Variance Inflation Factor (VIF) and tolerance was used from which all the values obtained were greater than 0.1 for tolerance and for VIF all the values obtained were less than 10 an indicator of lack of multicollinearity between the explanatory variables.

Descriptive statistics including frequency mean and standard deviation as well as inferential statistics including chi-squire at 5% level of significant. For ethical considerations including voluntary participation, informed consent, confidentiality and privacy of the respondents was observed.

RESULTS OF THE STUDY

1. Demographics Analysis

Out of 100 distributed questionnaires, 87 were returned representing a return rate of 87% which were deemed adequate for the analysis. Majority of the respondents (56.3%) were female and 43.7% were male, an indicator of female dominated workplace. Majority of respondents were above 40 years of age as represented by 56.3%, followed by those within 31 – 40 years represented by 33.3%, 20 – 30 years of age represented by 8.0% and finally the least stood in he below 20 years bracket 2.3%. This indicates majority of the people in study area are mature and understand operations. Majority of the respondents had primary level of education (35.6%) followed by Diploma graduates (31.0%). Meaning greater workforce do not have high level of understanding operations within the county and grassroots levels. Majority of respondent's economic status were described to be from lower-class and middle class income economic status indicated at 47.1%. This implied economic status in the study area is affected.

2. Descriptive Statistics

The study used SPSS to obtain the study variables descriptive statistics. From the questions presented in a Likert scale of 5 the following means and standard deviations were obtained

Table 4.1: Descriptive Statistics

Variable	Mean	Standard Deviation
Devolved Fund	4.1	1.2
Human Resource Practices	3.9	1.3
Economic Welfare	3.7	1.2

Table 4.1 indicated that the mean for various variables are very high indicating the study respondents perceived these variables as very important in determining the economic welfare of the community in Tharaka Nithi County. Low values of the standard deviations as shown in the table 4.1 shows that the respondents' had low variations on their opinion in regards to the influence of the independent variables to the dependent variables.

3. Analysis as per Study Objectives

Devolved funds

Influence of the devolved funds on the community welfare was sought using various indicators. Questions were asked in terms of the extent to which the respondents were satisfied with the influence of the various indicators on the improvement of community economic welfare was given. The options provided were very satisfied (V.S), satisfied (S), moderately satisfied (MS), unsatisfied (U.S), very unsatisfied (V.U). Chi –Squire Test was also used to indicate significant of the association between variables categories.

Budgets allocated

Information related to the extent to which budget allocation at county level affected community welfare was sought and the results are as provided in table 4.2.

Table 4.2: **Cross tabulation: Economic welfare & budgets allocated**

		V.S	S	M.S	U.S	V.U	Total
Budgets allocation improve Economic welfare	Yes	4 (6%)	10 (15%)	24 (35%)	16 (24%)	14 (21%)	68 (100%)
	No	2 (11%)	6 (32%)	4 (21%)	4 (21%)	3 (16%)	19 (100%)
	Total	6 (7%)	16 (18%)	28 (32%)	20 (23%)	17 (20%)	87 (100%)

From table 4.2, majority 32% were moderately satisfied of the fact that budget allocated for Tharaka Nithi County improved the economic welfare of the people.

A chi – statistic conducted by the study established a very significant association between budgets allocated and improvement in economic welfare of community people in Tharaka Nithi County as a chi-square value of 8.379 at a members in responding degree of freedom = 3 drawing a .039 likelihood in association thereby revealing a very significant relationship between the variables. This is as depicted as follows;

Table 4.3: Chi-Square Tests: Budgets allocated and Economic welfare

	Value	Df	Asymp. Sig.(2-sided)
Pearson Chi-Square	8.379(a)	3	.039
	8.574	3	.036
Linear-by-Linear Association	6.717	1	.010
N of Valid Cases	87		

Amounts Provided

In relation to the amount provided to enhance economic development of the community in study area, the study found that 88.8% were very much satisfied of the fact that the amounts provided influence the economic welfare of the people. A chi –statistic conducted by the study established a very significant association between amounts provided for improvement in economic welfare of community Tharaka Nithi County as a chi-square value of 8.384 at a corresponding degree of freedom = 3 drawing a .039 likelihood in association thereby revealing a very significant relationship between the variables. This is as depicted as follows;

Table 4.4: Chi-Square Tests - Amounts provided and economic welfare

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	8.384(a)	3	.039
Likelihood Ratio	8.721	3	.033
Linear-by-Linear Association	5.534	1	.019
N of Valid Cases	87		

Funding Channels

The study sought to compare categorical responses of effects of channels the funding at the county use to reach the common people and enhance their wellbeing. The results are as show in table 4.5 below;

Table 4.5: **Cross tabulation: Funds channels and Economic welfare**

		V.S	S	M.S	U.S	V.U	Total
Fund channels improve Economic welfare	Yes	2 (6%)	8 (15%)	12 (21%)	28 (36%)	16 (27%)	66 (100%)
	No	3 (10%)	5 (38%)	3 (16%)	6 (19%)	4 (19%)	21 (100%)
	Total	5 (7%)	13 (21%)	15 (16%)	34 (44%)	15 (29%)	87 (100%)

From table 4.5, majority 44% were unsatisfied of the fact that funds channels to community members in Tharaka Nithi County improved the economic welfare of the people.

A Chi – statistic (7.163) conducted by the study established a very significant association between the economic welfare with funding channels in the County enabling proper funds disbursement for improvement in economic welfare of communities in Tharaka Nithi county. The findings are supported by the significant values recorded at 0.067 an alpha level of above 0.05 thereby revealing a very slight relationship between the variables.

This is depicted as follows;

Table 4.6:Chi-Square Tests; funding channels and economic welfare

	Value	df	Asymp. Sig. (2-SSided)
Pearson Chi-Square	7.163(a)	3	.067
Likelihood Ratio	7.597	3	.055
Linear-by-Linear Association	5.348	1	.021
N of Valid Cases	87		

Funds accessibility

The study sought to compare categorical responses and their relationship to accessibility of funds through groups or individuals for economic welfare of community and its influence on improvement of economic welfare as shown in table 4.8.

Table 4.7: **Cross tabulation: Funds accessibility and Economic welfare**

		V.S	S	M.S	U.S	V.U	Total
Funds accessibility	Yes	2 (3%)	8 (11%)	18 (25%)	28 (39%)	16 (22%)	72 (100%)

improve Economic welfare	No	1 (6%)	2 (13%)	3 (20%)	6 (40%)	3 (20%)	15 (100%)
	Total	3 (3%)	10 (11%)	21 (24%)	34 (39%)	19 (22%)	87 (100%)

From table 4.7, majority 39% were unsatisfied of the fact that funds accessibility by the community members in Tharaka Nithi County improved the economic welfare of the people. This means they were not able to access necessary funds for their own economic development.

A Chi – statistic gave a value of 7.232 which indicated significant association between accessibility of funds through groups and or individuals for economic welfare of community in Tharaka Nithi County. This result was confirmed by the level of significant recorded at 0.065. This is as depicted as follows;

Table 4.9:Chi-Square Tests; Groups /individuals funds and economic welfare

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	7.232(a)	3	.065
Likelihood Ratio	6.795	3	.079
Linear-by-Linear Association	4.163	1	.041
N of Valid Cases	87		

Human Resource Practices

Influence of the human resource practice on the community welfare was sought using various indicators. Questions were asked in terms of the extent to which the respondents were satisfied with the influence of the various indicators on the improvement of community economic welfare was given. The options provided were very satisfied (V.S), satisfied (S), moderately satisfied (MS), unsatisfied (U.S), very unsatisfied (V.U). Chi –Squire Test was also used to indicate significant of the association between variables categories.

Committees formed

In relation to finding if the constituency of the community committee formed to look at the welfare of the community are related to the economic welfare, a cross tabulation was generated as in table 4.10. The table shows atleast 55.1% were satisfied that the committees influence and improve economic welfare.

Table 4.10: Cross tabulation; Economic welfare and committees

		V.S	**S**	**M.S**	**U.S**	**V.U**	**Total**
Committee formed improve Economic welfare	Yes	3 (4%)	10 (14%)	31 (45%)	13 (19%)	12 (17%)	69 (100%)
	No	2 (11%)	3 (17%)	7 (38%)	4 (22%)	2 (11%)	18 (100%)
	Total	5 (6%)	13 (15%)	38(44%)	17(20%)	14 (16%)	87 (100%)

The majority, 44% were moderately satisfied in support of the fact that the committee formed looked the interest of the community. This indicated that the concerned authority at the County are not interested in the economic welfare of the people.

The chi-square tests results (8.718) established a slight probability of association between committees formed as properly constituted to serve major interests of the community and improvement of economic welfare of community in Tharaka Nithi County. This was confirmed by significant level recorded at 0.033 which shows significant relationship between the variables. This is as depicted as follows;

Table 4.11:Chi-Square Tests- Committees and economic welfare

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	8.718(a)	3	.033
Likelihood Ratio	7.786	3	.051
Linear-by-Linear Association	3.941	1	.047
N of Valid Cases	87		

Integrity Requirements

A comparison of responses categorically and their relationship to adherence to integrity requirements and its influence on improvement of economic welfare was conducted on a contingency table 4.12.

Table 4.12: Cross tabulation on improvement of economic welfare and integrity requirements

		V.S	S	M.S	U.S	V.U	Total
Adherence to integrity requirements improve Economic welfare	Yes	5 (7%)	5 (7%)	9 (13%)	16 (23%)	36 (51%)	71 (100%)
	No	5 (31%)	6 (38%)	2(12%)	2 (12%)	1 (6%)	16 (100%)
	Total	6 (7%)	7(8%)	11 (13%)	22 (25%)	37 (43%)	87 (100%)

The majority, 43% were very unsatisfied that the adherence to integrity requirements improved the economic welfare of the community in the study area. More probing indicated that the respondent were for the opinion that a lot of corruption take place at the County level which lead to misappropriation of the resources needed for economic projects.

The chi – statistic (4.861) to test for significance of the relationship between the integrity requirements indicated that a slight probability of association of between committees' integrity issues are dealt with properly before one is selected to serve in committee. This was supported by the significant level of 0.182 indicating the relationship was significant. This is as depicted as follows;

Table 4.13:Chi-Square Tests: Committees' integrity issues and economic welfare

Pearson Chi-Square	4.861(a)	3	.182
Likelihood Ratio	4.881	3	.181
Linear-by-Linear Association	3.311	1	.069
N of Valid Cases	87		

Training

Respondents were asked to indicate if the county government offers them training on how they can come up with projects for economic development. It was found that no training has ever been offered by the government on the same. When asked about training in relation to how to run the development projects, the respondents were for the opinion that minimal training have been offered to development partners within the county. This indicate that the level of literacy do not allow the initiative to perform as expected thus poor economic development.

Communication Channels

A further comparison of responses categorically and their relationship between communication channels used by county government to the economic activities which assist in economic development of the community was presented in table 4.14.

Table 4.14: Cross tabulation: Economic welfare and communication channels

		V.S	**S**	**M.S**	**U.S**	**V.U**	**Total**
Communication channels improve Economic welfare	Yes	1(1%)	4 (6%)	13 (18%)	21 (29%)	33 (46%)	72 (100%)
	No	0 (0%)	2 (13%)	3 (20%)	5 (33%)	5 (33%)	15 (100%)
	Total	1 (1%)	6 (7%)	16 (18%)	26 (30%)	38 (44%)	87 (100%)

The majority, 44% were extremely in support that communication channels can improve the economic welfare of the community. However in further probing it was noted that minimal communication of the allocation of the resources, access to the resources and community need assessment is carried out in the study area.

CONCLUSIONS

The study concludes that devolved funds at county levels affect the economic welfare of the community in various ways. The government at the national level allocates enough funds to the county proportionally according to needs of the community and its size. However, it can be concluded that at the county level, the concerned individual are not allocating the budget to the projects aimed at improving the welfare of the community. This has led to high level of the poverty in most of the county regions as evidenced by recurring drought in the area. The study also concludes that the channels of the funds from various offices have not been made so transparent. This has attracted a lot of corruption and misappropriation of the fund. This in effects reduces the economic activities for the community members such as development projects, thus, affecting the community welfare negatively. In addition, due to financial accessibility requirements put forward by the government, the community people are not able to access funds easily for their own projects.

The study also concludes that employees lack sufficient trainings necessary to run operations in the Counties such that they impact to the community. It can be concluded that due to integrity issues which were mentioned in terms of corruptions, the funds allocated to the counties are not channeled very well to support the economic activities carried out by the community.

RECOMMENDATIONS

The government should offer platforms for further funds accessibility; allow constituencies more financial muscle to support their initiatives at the grass root level. Budgets to be made in line with the needs of the people based on priorities articulated. The government should provide adequate amounts to cater for the needs of the constituents. The channels followed in the disbursement of funds should be simplified so as to enable easy accessibility to the funds. The use of groups protects the government but in a big way limits the people from being able to do what they intend to do. The need for collateral to access the funds should be reviewed with a view to enabling as many of those who desire to get the funds. The current situation is too limiting.

There is need for those who are appointed to the various administrations to have the necessary qualities. The chairpersons need to should be those with the requisite qualifications so as to effectively chair the committees. Integrity should be a top priority for those who are mandated to deal with the devolved resources. Committees formed should be properly constituted to serve major interests of the community.

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COMMUNICATION FACILITIES, HUMAN RESOURCE PRACTICES AND PERFORMANCE OF HEALTH CENTRE IN PASTORAL COMMUNITIES IN KENYA: A CASE STUDY OF WAJIR COUNTY

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ABSTRACT

The devolved functions have been facilitated by transfer of funds and enactment of various laws. One of the functions of county government is provision of health services. The county leaders lack objectivity and impartiality in decision making thus decisions on how much to allocate to the health sector in each sub-county is marred with subjectivism and partiality. This paper seeks to address the influence of communication facilities and human resources practices on performance of health centres in patrol communities in Kenya. Research study is anchored on goal setting theory, with two study variables that included communication facilities and human resource policies. Descriptive survey was adopted where 65 respondents were chosen through random sampling that was stratified. Data was collected, edited, coded and then analysed using inferential and descriptive statistics with the aid of SPSS. The research study established that communication and human resource practices have a great influence in the provision of health services. The study recommends that Governor and county officials of Wajir County should provide adequate facilities and embraces the best human resources practices at the health centres assist ensuring the performance of the centres are ensured. They should also lobby for the increase of budget allocation from central government. County and national Government must commit to work cooperatively with other stakeholders in achieving results by elimanating corruption.

Keywords: Devolved Government, Performance, Health centres, Pastoral Communities**,** Human Resource Practices, Communication facilities.

INTRODUCTION

The constitution 2010 brought serious reforms in policy, governance, law and institutions. This brought new hope to Kenyans who believed that the nation will never be the same again due to the changes that devolution will come with in the transformation process. According to Nyakudi (2004), in Kenya the pastoral communities regions include Lamu, Taita Taveta, Isiolo, Kilifi, Kwale, Tana River, Narok, Samburu, West Pokot, Marsabit, Wajir, Mandera and Turkana. The marginalization of pastoral community should be done away with and never be an issue of discussion anymore in Kenya since leadership is in the hands of elected leaders that are given the mandate by the people who understand their issues. The pastoral communities in Kenya have been marginalized by the previous unitary government of late Kenyatta, Moi and Kabaki partially which has been overhauled into federalism and county governments as referred by Kenyans.

Decentralization is referred to as the transfer of authority (WHO, 2008). As outlined in the World Bank report 2009, healthcare decentralization policies have been affected on a broad scale in the emerging economies, the process involves combination health finance restructuring, economic development and promoting social development in the last decade. The Kenyan constitution that was enacted in 2010, provides a legal framework for a widespread rights based approach in healthcare service delivery, it provide that every person has the right to be provided with the highest achievable standard of health that include right reproductive health, right to reasonable sanitation standards, right to safe and clean drinking water and adequate quality food. In the devolved government health policy 2012-2030 provides a way forward for provision of the quality health standard through provision of equitable, quality and affordable services at attainable standard for all Kenyans with inclusion of monitoring and evaluation that aligns county and national levels objectives. The procedure gives an institutional framework that specifies the new management and institutional arrangements required under the devolved system which is aligned to Kenyan vision 2030.

Statement of the Problem

Under the constitution dispensation 2010 healthcare provision is under devolved system of government and this is an emerging idea for most of the counties if not all. The programmes under County healthcare are established by county health managers that are faced with challenges in decision making on matters that are critical to the running of the health in the Counties. Studies (Okebiro, 2014; Masungo et al., 2015) have shown that embracing the best human resource practices and with good systems in place would enhance decision making in an organisation. Health is a vital to economic development and if the healthcare is at a limbo then the economic aspect of the county is at a great risk, reports shows that Kenya's indictors' of health have been on a deteriorating mode over the last five years (WHO, 2013). The report from the ministry of health indicates that provision of free and quality health care has been on the pipeline for sometimes now and access of physical availability of facilities within seven kilometres radius has been achieved in most counties. However this achievement is not reflected in counties such as Wajir which consists of pastoralist communities who are sparsely populated and hardly inhabit one single place.

Community facilities would increase communication network which are needed especially if the patient is not able to report to the hospital on time. However, this is not so in the County. There is very poor communication within the County which forces some people to fall victims due to inaccessibility of the health centre. Markedly, the health sector has been in disasters since it being devolved to the counties devolved as evident by doctors and nurses strikes every single day and the increased levels of mortality across the country.

County leadership lack embracement of the best practices in the human resources. This can led to the leadership in the positions who lack the required qualifications for the positions they are holding. Even allocation to the funds to cater for the necessary and paramount facilities such as communication is not done adequately. Majority of the personnel are influenced by nepotism hence regardless of the domination of health problems, and the resources are distributed based on tribes or clans. The researcher thus sought to examine the effects of communication facilities and human resource practices on the performance of health sector in pastoralist community of Wajir County.

LITERATURE REVIEW

Theoretical Literature Review

The study was anchored on the goal setting theory of motivation (Locke, 1960). The postulation of goal setting theory is that their aim is to supervise human action. Studies specify exact aims leads to increased employee performance. According to Locke and Latham (1960), goal setting has four motivational mechanisms that are goals have an energizing function, goals that are meaningful tends to emphasis on distinct consideration on what is important and relevant, goals affect persistence. When an individual in pursuit of certain goals, they don't seemed satisfied until the goal is achieved. Goals serve as reference opinion that distinguish satisfaction and dissatisfaction and employee that produces the toughest goal line are hard to fulfil. Human beings are unendingly wanting group and to satisfy their needs are not altogether mutually exclusive but only tend to be.

When goal setting is applied to work stations this implies that managers have a responsibility to ensure that deficiency needs are met that is proper wages and safe environment, creating proper climate in which staff can develop their full capabilities. In relation to the study there is need for assurance, obligation and maturity. Managing organization by objectives becomes the process in which organizational objectives are agreed upon this way personnel know the expectation and hence they are able to set their own individual goals. According to Ferris (2007), goal setting is a set of decision theories of work of motivation and performance. Kinick (2003), explains that perception plays a vital role in this theory because it emphasizes on cognitive ability to anticipate likely consequences that result from behavioral action. Goal setting theory has two major assumptions that is individuals have a perception about the concerns that result from their interactive engagements and casual relations among the outcomes and second assumption is individual has effective reactions to certain outcomes that is both positive and negative value.

According to this theory individual are motivated to perform by two expectations. Goal setting is the probability that the effort will always lead to desired performance and second goal setting is that particular performance will lead to preferred outcomes. While not all efforts will be compensated, staffs are not going to motivated with to perform specific task. Goal setting theory relies upon motivators to clarify the causes of behaviour at a work station, external rewards are viewed as motivators that fuel behaviour as opposed to intrinsic motivators when behaviour are driven from internal forces. Therefore individuals' employees are able to attain both individual goals and organization target (Isaac, 2011).

Empirical Literature Review

Contribution of Communication Facilities on Performance of Health Centres

According to Eklof and Westlund (2012) Communication is quintessence of organization and the basic function of management is preparation, establishing, recruitment, leading and monitoring which cannot be accomplished without proper communication channels. Communication in organization involves continuous flow information. There are a number of people that are required to work with the devolved system of government which have various levels in the hierarchy. The role of communication in organization and more especially in county government plays a vital role in controlling and directing employees. Communication feedback can be misinterpreted and misunderstood if proper channels of communication are not used especially between managers and staff in organization or county government officials. Communication process is an indispensable part of growth and success of organizations and if communication gaps can be avoided the better for any organization (Eklof & Westlund, 2012).

County government communication channels are apprehensive. The guidelines, procedures and strategies of both county and the central government have to be communicated to people within and without. Organization communication is governed by certain norms and rules that clearly indication communications process and channels within a particular setting some communications are limited to paper work while other are electronic based communication. Information communication technology has drastically change the way organizations communicate while procuring and monitoring organization resources with the goal of conveying correct, accurately and précised information to the right person (Grönroos, 2010).
There are three plain apparatuses of the practice of communication the transmission of massage through a channel to the receiver, the idea is first developed by the sender and then passed to the receiver using appropriate channel, the receiver interprets the intended knowledge from the sender. The material philosophers have further intricate the etymological.Effective communication is measured with the common understanding of the parties involved are in the mutual agreement which is the main goal any communication it's not always achieved (Abong'o, 2009).

The most efficient communication should be at minimum cost in terms of resources spend and time. However efficient time saving communications channels are not always effective. A low cost communication approach like email list may have effective distribution that saves time but it doesn't always result to everyone getting the same meaning in the massage with no one to clarify the massage. Poor choice of communication method and other barriers to effective communication that include noise and physical distraction, failure to recognize nonverbal signs and language while at times communication is effective but not efficient (Brady, Cronin, & Brand, 2010).

Contribution of Human Resources Practices on Performance of Health Centres

According to Armstrong (2010) Human resource practices make a direct impact on employees characteristics such as motivation, skill, morale, engagement and commitment. Staff with these characteristics are key to organizational performance in terms of quality, productivity and delivery which has a direct relationship between organization outcomes and human resource management(Armstrong, 2010). A study by Behling (2009) on challenges of attraccting and retaining staff , established that organization profit margins were being eroded because of depletion in employees. Another study by Woods (2009) in the United States on Staff turnover in hotel sector, found out that 52% of front line staff attributed turnover to low pay and limited employee programmes, in such circumstances managers are faced with the challenge for recruiting and retaining motivated staff.

Armstrong (2010) supports the notion that firms are able to attract and retain employees through offering benefit package and pay that are more attractive than other organization. Bratton (2007) supports the idea of aligning employee needs with organization demands and need to accommodate staff concerns such as taking time off, flexibility in working hours, opennes and a better workplace. According to Blakemore (2008) openness in organization can be facilitate by providing relevant information that is available to staff. In addition employee empowerment boosts morale and management can use it to obtain competitive advantage. In future organizations will even focus on talent management therefore recognition of talents developement which results in excellence in service.

According to Mullins (2011) human resource polices will influence employee performance in the organizations. Realization in human relation field, works well with branches in Human resource management policy and effective personnel management. Work in organizations is provided for by the policies and Human resource management guiding principles, therefore Human resource management practices are reflections of organizational policies put in place to guide staff in making decision and taking actions that directs the overall behavior in organization. Organization that doesn't select right staff might not be in a position to retain them for a longer period due to low morale that arise from poor job match and organizations that do not socialize new staff in their jobs may not be able to

cultivate them with a sense of commitment and loyalty to the organization due to luck of attachment demonstrated by the company.

A study by Bob and Brian (2007) established that organizations that weigh applications blanks to screen job candidates who had lower employee performance. The reason is because weigh applications blanks lowers the numbers of weak candidates to be picked for positions of employement which in the end reduces turnover. The finding is supported by Brocker (2008) whose study established that job compability and employee characteristics predicts employee tenure and turnover. Organizations that are able to assess if individuals were compatible for the position they applied for were more able to reduce employee performance.

Another study by Tiwari and Sexana (2009) investigated the Human resource management practices implementation in TATA. They established that due to resources the organization had put in place, the organization had competitive advantage . They also established that Human resource policies are no longer viewed as an expense but rather than capital asset in the company that needs to thrive in this modern dynamic world. Denny (2010), investigated what the term threshold fit in organization as dominant perspective within commitment model, his finding were unless a higher threshold of policy development exists in all Human resource policy areas, the desired effect on organization performance and that of employee behaviour will definitely not be achieved. Another study conducted on 140 Human resource mangers in San Diego hotels by Blakemore (2007) on effects of human resources practices and staff morale, The findings showed that having employee voice was the most important human resource management practice that is being used while pay for performance was found to be the most negative human resource management practice. The study concluded that managers felt that demanding job should be rewarded daily instead of how they perform. The study points out that this technique will be more effective on part time staff of the hotels. Blakemore concluded that that the adoption of Human resource management best practices affects employee morale, job satisfaction and impact on positive feeling towards organization.

Arthur (2014) argued that Human resource practices are indistinguishably linked to staff discernments of the organizational provision and it influence staff commitment to organization. Human resource activities increases organizations effectiveness that inspiring conditions where staff participation in the accomplishments of organizational goals, best approach that is adopted to link employee retention and Human resource management practices will result to higher performance , higher commitments, higher involvement where staff becomes more involved in the organization activities that will result in accomplishing objectives. This results to lower turnover and higher productivity. Employees are very important resources in any given organization. The skill they pose and the roles they play in organization keeps the firm in a competitive edge. Armstrong (2010) for employees to play their part effectively, it is important that they are satisfied, motivated and managed in a way that enhances their level of satisfaction with the employer.

Conceptual Framework

The study was guided by the following theoretical structure.

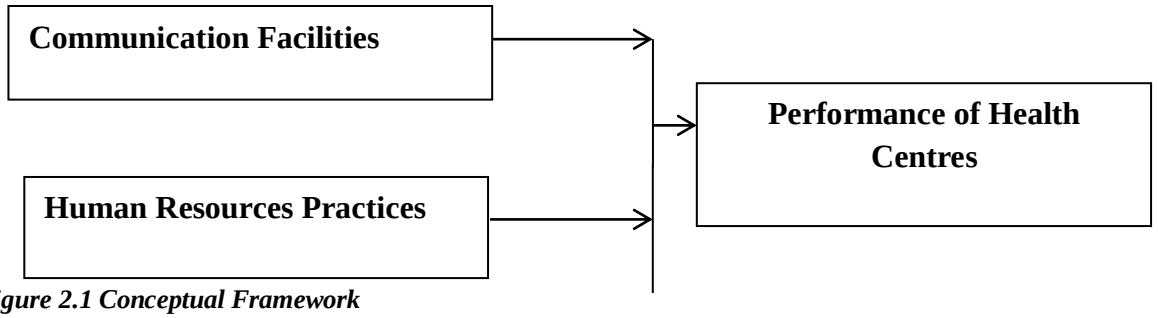


Figure 2.1 Conceptual Framework

Research Hypothesis

H_{01}: There is no significant relationship between communication facilities and performance of health centres in patrol community.
H_{02}: There is no significant relationship between Human resource practices and performance of health centres in patrol community.

Methodology

Descriptive research design is appropriate for studies that have specific issues where problems have been defined (Mugenda & Mugenda, 2003). The issues in the study being the determine the effects of communication, human resource practices on the performance of the devolved health sectors in patrol community, are thus geared to address the essential why, who, when, what, and how questions in the research. The study sought to describe a situation through the study of variable relationships. The study describes and defines the subject matter by profiling issues under study (Cooper & Schindler, 2008). The study adopted a survey method to collect data from the respondents. The study was undertaken in one referral hospital and six county hospitals in Wajir. The target population comprised of staff from the department of health, staff from the referral hospital, staff from six county hospitals and patients who were sampled as they visited the facility.

The study adopted a stratified sampling design. Kothari (2004) argues that a stratified proportional sample increases a samples statistical efficiency and provides adequate data for analyzing the various populations. The method is effective and allows tracking of data collection in an effective way. Kothari (2004) observed that a sample drawn randomly is unbiased in a way that no number of populations has any chance of being selected more than the other. This method was appropriate since it gives all the respondents from each of the four strata equal chance to participate. Participants were stratified into the following categories the Department of health one staff was picked out of the top three, County Hospitals with a population of 100 staff we shall sample 20 staff, Sub county Hospital with a population of 200 staff we shall sample 40 staff and Five (5) patients from each of the six (6) facilities within the county were sampled randomly to make a sample of 3 patientsStudy used questionnaires to collect data especially primary data.

The study adopted content validity to measure the degree to which data collection tools will be effective. Questionnaires needed to be pretested before being administered in the field and pilot study was conducted using 33 participants that were randomly selected from the target population but the findings were not included in the final study.The researcher used both content and facial observation to ascertain validity of the questionnaire. Validity is the correctness and capacity of interpretations founded on the study results. The researcher conducted the pilot study to validate the study survey using 8 respondents from another County. The study used co-efficient of 0.7 or above for all constructs that are considered adequate for the study. The construct multiple of reliability is Cronbach alpha; according to Kombo and Tromp (2009), the standard acceptable reliability coefficient is 0.7 the study adopted Cronbach Alpha was used to test research instruments reliability.

Table 3.1 Reliability Test Results

Variables	**No. of Items**	**α = Alpha**	**Comment**
Communication Facilities	8	0.783	Acceptable
Human Resource Practices	8	0.799	Acceptable
Performance of health facilities	8	0.823	acceptable

Analysis of data was done using means and standard deviation as descriptive statistics. The relationship between the study variables was analysed using the linear regression analysis. The regression model was of the form:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \varrho$$

The data analysis tools were simple tabulations and presentations of the report using spread sheets and SPSS. Data was first coded then arranged in line with study variables from which each individual concept analysed and presentation made in order to meet study objectives, the study findings were tabulated and calculated and interpretation made. The respondents were selected on voluntary basis and the confidentiality of the research findings were assured. The anonymity of the respondents' names was ensured and the respondents were assured of getting the findings after the study was completed.

DATA ANALYSIS AND PRESENTATION

Regression Analysis

A multivariate regression model was applied to determine the form of relationship between communication facilities, human resource practices and performance of health centres in pastoral communities. The predictors were communication and Human Resources practices. The results are presented in table below.

Table 4.1 Regression Analysis model

Model	R	R Squire	Adjusted R Squire	Std. Error
1	0.772 (a)	0.596	0.523	0.231
Predictors:	(Constant)	Communication Facilities	Human Resource Practice	

The Adjusted R^2 as the coefficient of determination and shows an adjusted R^2 value of 0.523. This shows that there was a variation of 0.523 between performance of health centres and the study predictors. This is to mean that the independent variables: Communication and Human Resources practices explained 52.3% effects of performance of health centres at a 95% confidence level.
Further testing was done to test the model using Analysis of Variances (ANOVA). Table 4.2 shows the results:

Table 4.2: Analysis of Variance

	Sum of Squires	Df	Mean Squire	F	Sig.
Regression	4.673	4	1.168	4.059	0.000(a)
Residual	73.672	256	0.2878		
Total	78.345	260			

a Predictors in the study that remains constant are Communication facilities and Human Resources practices.

b Dependent Variable: performance of health centres

The research adopted ANOVA to establish the appropriateness of the regression model to provide realisable results. An f-significance value of p = 0.000 was established. The findings indicate the regression model has a less than 0.000 probability of providing a wrong prediction. Hence the regression model has a confidence level above 95%. The value of the critical F is 4.059, this value is less than the calculated F value of 4.701 thus the regression model is reliable.
The regression coefficients of the individual variables are shown in table 4.4 below:

Table 4.3 Regression Coefficients Results

Model		Unstandardized coefficients		Standard coefficients	t	Sig
		B	Std. Error	Beta		
1	(Constant)	1.087	0.401		2.711	0.008
	Communication	0.037	0.084	0.049	0.440	0.046
	Human Resources	0.003	0.026	0.045	0.115	0.660

Results in table 4.3 shows that there is a positive relationship between performance of health centres and all the predictors as shown by beta coefficients: Communication ($\beta = 0.037$), Human Resources ($\beta = 0.003$).
The regression equation established was as following

PHC = 1.087+ 0.037CF + 0.003HRP + error term

Where:

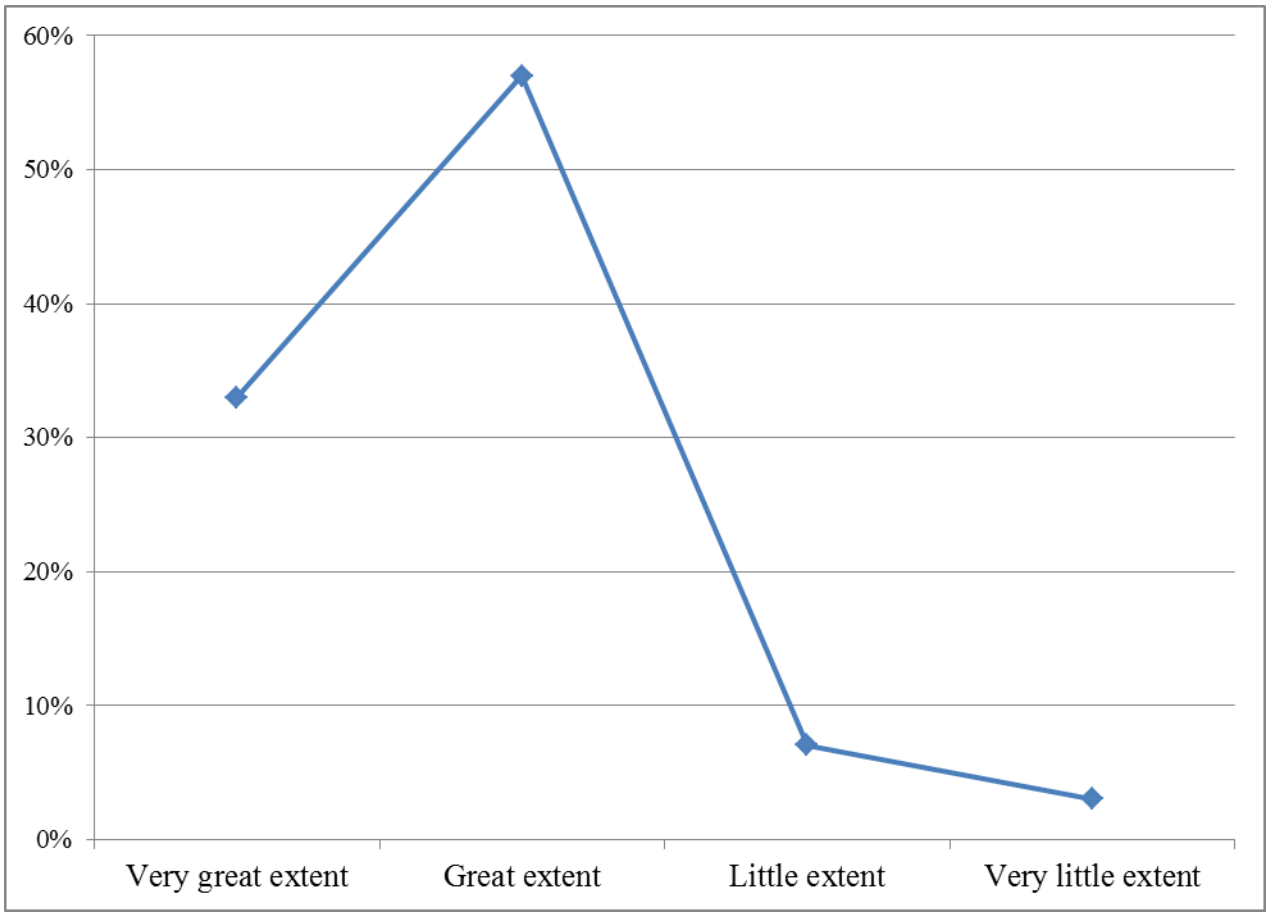
PHC = Performance of Health Centres
CF = Communication Facilities
HRP = Human Resource Practices

The study also establish that there is a significant relationship between performance of health centres and two variable as shown; communication (p = 0.025<0.046), and human resources practices (P = 0.060<0.05). The implication is

that, communication and human resources practices affect performance of health centres. An increase in any of the provision of communication facilities and human resource practices would definitely improve the performance of health centres in pastoral communities.

Respondents were asked to give the extent to which human resources affected performance of health centres in Wajir County. Figure 4.1 shows the results.

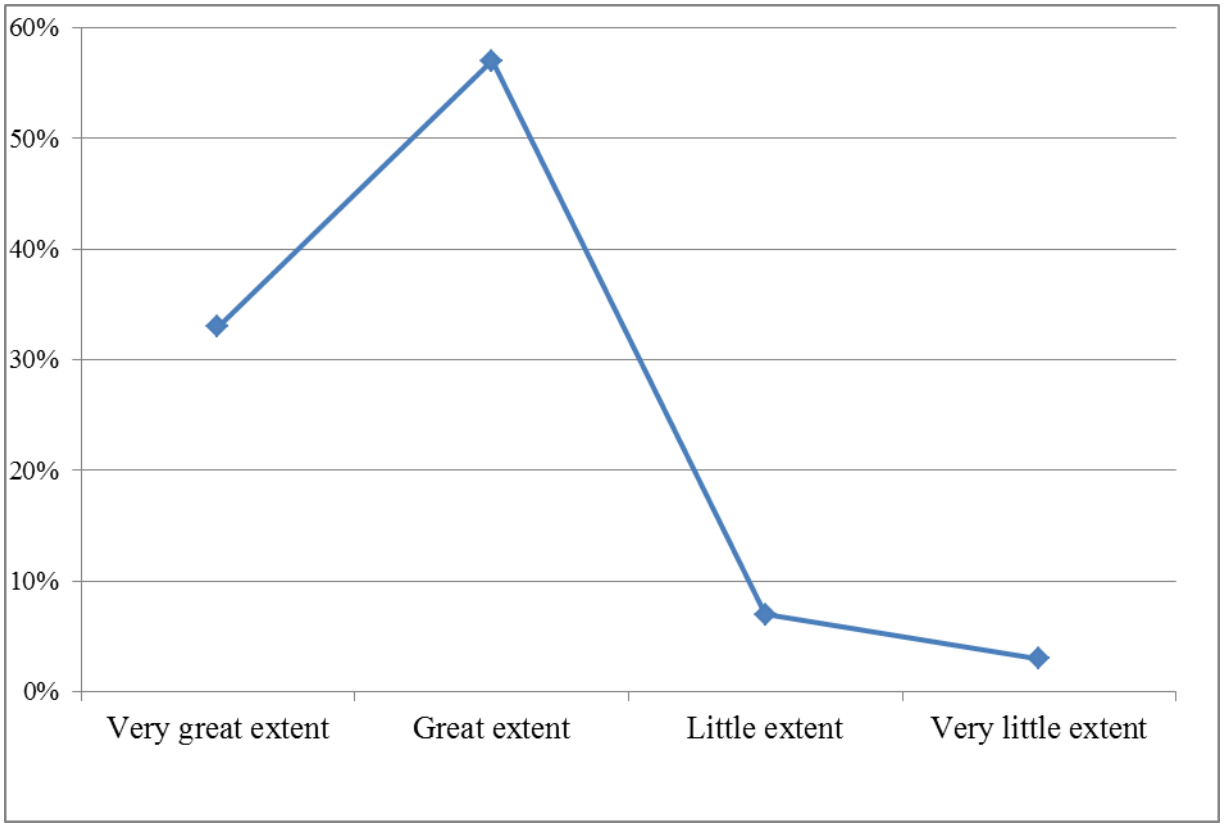
Figure 4.1: Figure showing the extent in which human resources affects performance of health centres in Wajir County



As shown in figure 4.1 respondents were asked to indicate the extent in which human resource management affects performance of health centre in Wajir County; 51 percent indicated to a very great extent, 41 percent indicated it affects to a great extent and 5percent indicated too little extent while 3 percent very little extent. The finding are in agreement with studies conducted by such as Armstrong (2010), supports the notion that firms are able to attract and retain employees through offering benefit package and pay that are more attractive than other organization. According to Bratton (2007), support the idea of aligning employee needs with organization demands and there is need to accommodate staff concerns such as taking time off, flexibility in working hours, a better workplace. According to Blakemore (2008), openness in organization can be facilitate by providing relevant infarmation that is available to staff. In addition employee empowerment boosts morale and management can use it to obtain competitive advantage.

Respondents were asked to give the extent to which communication affected performance of health centres in Wajir County. Figure 4.2 shows the results.

Figure 4.2: Figure showing the extent in which communication affects performance of health centres in Wajir County



As shown in figure 4.2 respondents were asked to indicate the extent in which communication affects performance of health centres in Wajir County; 33 percent indicated to a very great extent, 57 percent indicated it affects to a great extent and 7 percent indicated to little extent while 3 percent indicated to very little extent. The findings are in agreement with other studies such as According to Eklof and Westlund (2012), communication is quintessence of organization and the basic function of management is preparation, establishing, recruitment, leading and monitoring which cannot be accomplished without proper communication channels. Communication in organization involves continuous flow information. There are a number of people that are required to work with the devolved system of government which have various levels in the hierarchy. The role of communication in organization and more especially in county government plays a vital role in controlling and directing employees.

CONCLUSSION AND RECOMMENDATIONS

Conclusion

The study concludes that communication facilities have positive effect on the performance of health centers in Wajir County. However, the leadership at the County offices have not been able to adequate communication facilities in the health centres thus affecting the communication network within the county. The findings are in agreement with other studies such as According to Eklof and Westlund (2012), communication is quintessence of organization and the basic function of management is preparation, establishing, recruitment, leading and monitoring which cannot be accomplished without proper communication channels. Communication in organization involves continuous flow information. There are a number of people that are required to work with the devolved system of government which have various levels in the hierarchy. The role of communication in organization and more especially in county government plays a vital role in controlling and directing employees.

Human resource practices are needed to enhance performance of the health centres in the Wajir County. However, the leadership in the county are rigid to adopt the best practices needed for effective operation of the health centres. For example the leadership in the health facilitates have not been able to attract human resource who are competent and motivated to work in the county due to lack of basic facilities needed for them. The finding are in agreement with studies conducted by such as Armstrong (2010), supports the notion that firms are able to attract and retain employees through offering benefit package and pay that are more attractive than other organization. According to Bratton (2007), support the idea of aligning employee needs with organization demands and there is need to accommodate

staff concerns such as taking time off, flexibility in working hours, a better workplace. According to Blakemore (2008), openness in organization can be facilitate by providing relevant infarmation that is available to staff. In addition employee empowerment boosts morale and management can use it to obtain competitive advantage.

Recommendations

Staff motivation affects performance; The County Government of Wajir should not only remunerate their staff fairly according to responsibilities and duties they perform. Human resource manager at county should ensure that promotions are awarded on merit and employee satisfaction level increases through fair and equitable pay. Employee Motivation is a fundamental function of the governor of Wajir through the human resource department should address issues such as performance management, job values, pension, rewards management, contingent pay and employees benefit. Motivation practices in organization should take in to account values, strategies and goals.

The County Government of Wajir should involve employees in decision making this makes the employee identify themselves with the organization. Training and development is a useful tool for employees to perform their jobs, if training and development programmes are periodically arranged employees skills are regularly improved hence better performance, The County Government of Wajir should know that Training and development of individual staff enhances satisfaction as well as performance.

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END-USER INVOLVEMENT AND PERFORMANCE IN GOVERNMENT-SPONSORED HOUSING PROJECTS IN LANGATA CONSTITUENCY, NAIROBI COUNTY, KENYA.

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Submitted: April 29, 2019

ABSTRACT

The role of governments in any country is provision of adequate housing for its citizens. However, there are challenges for governments to fulfill this role and this may include, inadequate resources, large number of low income citizens, poor housing plans, unsatisfactory performance of housing developed, lack of enduser satisfaction and involvement. Although in most government housing projects, over 80% developments are considered successful by the same government measured through variables of time, scope and budget. Globally, housing projects to be considered successful, they require end-user's involvement throughout the project process. End-users are the most important component for successful housing projects. The absence of end-user in different project stages may lead to the project not addressing necessary requirements resulting to project failure. This paper identifies and assesses the role of endusers involvement and performance of government sponsored housing projects in Langata constituency, Nairobi County, Kenya. This paper will look at the dependent performance variables of quality houses, end-user satisfaction and fully functional units and Independent variable end-user involvement particularly in project initiation, planning, project execution and project monitoring and control. The research methodology will be descriptive survey research design with the target population being 413 end-users who are residents in the Langata, Madaraka, Nairobi West, Highrise and Kibera projects and a sample of 144 endusers of the population will be used. The results indicate the residents residing in the housing projects are generally dissatisfied with the building housing functionalities, lack of amenities, poorly developed housing units that were not sustainable to the end-users. The study recommends that end-users are an important key component in government projects. The role of endusers is critical through participation in housing activities, sensitization of communities, identifying corrective actions, during project closing and handover.

Keywords: End-users, performance, government sponsored housing projects, Langata Constituency, end-user Satisfaction

1. INTRODUCTION

The role any government can play is the provision of housing for its citizens is to meet the people's expectations of affordable price, quality, functional and readily available housing options among Kenyans and especially the urban poor (UNDP Kenya, 2017). Although many citizens expect the government of the day to provide housing for them as a result of the taxes paid through the people, the ability for the governments to offer the same is limited. The government's main mandate is to provide capital in form of mortgages, loans, policies to govern the housing sector, provide laws and regulations to enable development and ownership of homes by the very people in the country (IEA, 2017).

End-users' involvement in the planning phase includes the participating during identification of the

The Project Initiation Phase is the initial stage of the Management Life cycle. This stage involves defining a new project. The ignition phase involves defining project objectives, scope, purpose and outcomes. Here endusers participate in the project through participation in the gathering and collection of project requirements, participate during the undertaking of feasibility studies and participate in project selection (Waithaka, 2014).

End-users' involvement in the planning phase includes the participating during identification of the

Original idea, degree of participation in design and End-user commitment to project. According to a study conducted by Wang & Gibson (2008), on the relationship between pre-project planning activities such as participation during identification of resources, Participate in project design process, participate in risk management planning leading to project success. The end-user involvement result from the study indicates that projects with proper end-user planning are more likely to result in a higher project performance after completion.

The third variable is project execution where end-users can be part of the implementation processes. (Mulwa, 2008). Under the execution phase, end-users can participate in the implementation processes of the project. They are needed to either providing labour for the project, site visits to the project site or testing the project outcomes on functionality, quality, and usability (Mose V. Gachanja J & Osiolo H, 2017). Project monitoring and evaluation is the process of collecting, consolidating performance, assessing measurements and trends to generate improvements (PMBOK, 2013).

Monitoring ensures any issues picked from the project execution are addressed to ensure they do not become unmanageable and to take corrective action before it is too late. Monitoring and control checks if and how the project is taking the right direction and on the right track or if it has taken the wrong turn s (Tear fund, 2009). It is aimed at improving the efficiency and effectiveness of a project or organization.
Performance measurement indicators in the housing industry carried out under different approaches over the last two decades are client satisfaction, specification compliance and timely completion of the project.. In the case of a housing project Orihuela and Orihuela (2010) considered possible perception that the customer may have about physical safety of the building, suitable conditions, functionality, aesthetics and visual and ergonomic comfort. Menoka, (2014) carried out a study on Stakeholder involvement and sustainability-related project performance in the construction industries. This study aimed at identifying the role of End-user involvement and its relationship in achieving sustainable performance through social, economic and environmental sustainability to measures how successful housing project (PMBOK Guide, 2016).

Problem statement
Since 1953, the government of Kenya through the National Housing Corporation (NHC) has been making remarkable strides in addressing decent housing for Kenyans. By 2016, 59.5% of Kenyan lived in houses they owned compared 69.6% in 2006. The NHC has continued to promote decent housing through schemes such as tenant purchase, outright sale, rural and peri-urban housing loan and rental housing (Mose & Gachanja, 2017/18). Besides the progress made through the various interventions, a set of challenges continue derailing the housing sector.

Despite the continued developments in the housing sector, it is noted and continuously there have been concerns about the quality, functionality, end-user satisfaction and compliance leading to low rate of uptake and acceptance of housing units developed under the national government schemes (Hwang & Zhao, 2013). Reports on the current housing projects in Kibera, Highrise and Nairobi West indicate that at least 30% the end-users allocated housing units in these schemes have raised concerns about the housing units including incomplete housing, houses lacking necessary amenities, poor drainage, small living areas, and high cost of the houses. This in turn has led to the intended end-users rejecting handover of the project, selling the units, renting the units and moving out of the projects back to the slums. With this reports, it can be noted that end-user requirements may have not been met during project development due to lack of involvement in project activities. This study, therefore, aims to establish the role for end-user involvement in various phases of the project and the impact on performance of government-sponsored housing projects.

Objectives of the Study
- To assess the effect of end-users during project Initiation of government-sponsored housing projects in Langata constituency, Nairobi County, Kenya
- To determine the influence of end-users on project planning of government-sponsored housing projects in Langata constituency , Nairobi County, Kenya
- What role do end-users play during project execution of government-sponsored housing projects in Langata constituency , Nairobi County, Kenya
- In what ways are end-users involved of end-users in project monitoring and control government-sponsored housing projects in Langata constituency , Nairobi County, Kenya
- What us the role of end-users on determining performance of government sponsored housing projects in Langata constituency, Nairobi County, Kenya.

2. LITERATURE REVIEW

End-user Involvement is the level to which beneficiaries of a housing project are involved in sharing project vision through consultation, decision making, and initiating action in the program activities (Khan & Minatullah, 2013). Mitchell and Bevan (2012) believe that the higher the level of involvement of the owner of the project in the delivery process the better the satisfaction to be drawn from affordable housing projects end-users. The degree of involvement by end-users in the housing projects activities range from personal involvement to representation by community leaders. Project participants however can receive financial, technical or other benefits from the implementing agency i.e the National government.
Githinji's (2013) study on determinants influencing the successful implementation of modern housing projects in Mikindani. His study looks at the how stakeholder engagement, project planning & design, project execution and monitoring & control. The conventional look of project success to consider the triple constraints of project cost, budget and schedule are no longer sufficient to fulfill project success. One of the major steps in project initiation whose emphasis is given to idea generation looking at what project can be developed, idea prioritization on what project suits the community and idea selection on from ideas, which is the best.

In their study, Nyandemo and Kongere (2010), project planning means ways in which human resources, material needed, financial resources are organized in such a way as to undertake a unique scope of work of a given specification within constraints of time, cost and quality so as to achieve some intended objectives. Eriksson & Johansson (2014) study on end-user involvement in Swedish residential building projects taking a case on a

stakeholder perspective looks at factor influencing quality in the building industry. The study outcome showed that is there is an exclusive need for different tools and methods to be implemented to enable supporting a correct approach to end-user involvement, so that the preconditions of the project and context identified are clear from the beginning and the risk of false expectations is minimized.

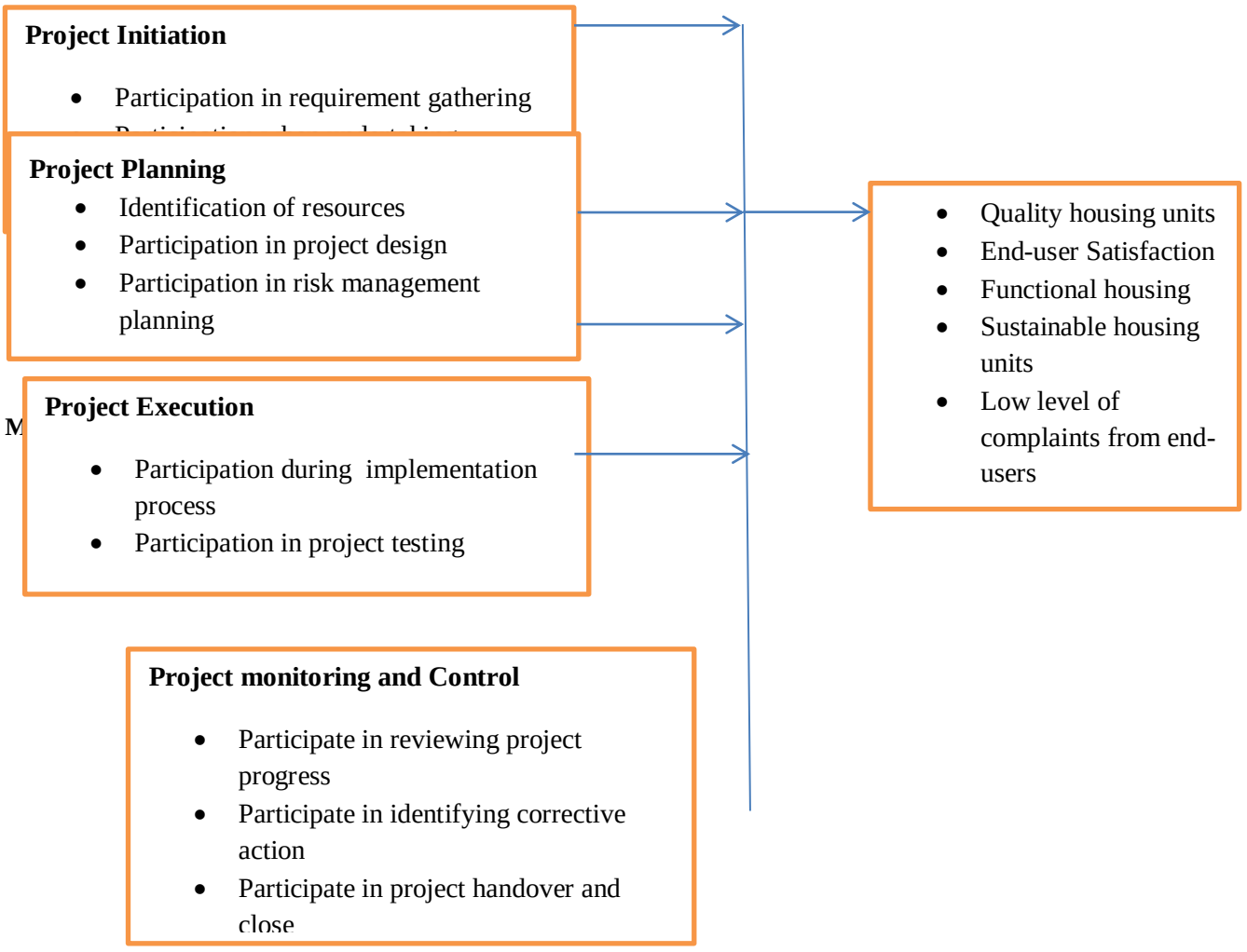
Mohlasedi, K M and Nkado, R N (2007) the role of stakeholders in the delivery of affordable housing schemes in South Africa. This study looks at how the stakeholder can be involved in various phases of project development to enable successful projects. This paper identifies relevant stakeholders to be involved in the various stages to enable in the delivery of housing schemes in South Africa. The study investigates the aim and roles of stakeholders in a project and whether stakeholder activities to be undertaken are helpful or destructive for the expected housing project. Stakeholders are identified in two main categories that is the end-users who benefit from the project and implementing agency in the affordable housing

In Monitoring and Control process, end-users ensure that project objectives are met and when necessary, the necessary corrective action is undertaken. This process formulizes the acceptance by users of the project and bringing it to an orderly closure and handover. Participatory monitoring also can be used to strengthen relationships between the project owners and its End-user (Flanagan& Norman, 2009).

Project performance is the overall quality of a project to achieve impact, value to end-users, execution effectiveness and efficiency (IBBS and Kwak, 2000). In Kenya, project performance has been measured through project cost, quality, customer or end-user satisfaction, timeliness, and achieving of project objective as an effective indicator (Nyikal, 2011). In a study by Ekanayakage (2011) study on Management of Projects with End-user Participation input, looks at ways in which government institutions in India can manage projects by involving end-users. The study objectives include identifying the significant factors effect to End-user participation projects and develop recommendations for similar End-user participatory projects. This project identified various benefits for End-user participation in development projects, it listed the issues in community related procurement and disbursements, the benefits, strategies and obstacles of participation and how they promote development of large scale projects.

Conceptual framework

Independent Variable (End-user Involvement) **Dependent Variable(Performance)**



This study utilize descriptive survey research design which is suitable for this study as it helps in gathering data that describe events and then organizes, tabulates, depicts, and describes the data that help in answering research questions or to test the hypothesis of the current status. The Descriptive studies to be used will portray variables by answering who, what and how questions (Babbie, 2002). The Survey will involve participants answer questions administered through interviews or questionnaires.

A target population is the group of subjects which reflect the purpose of the study (Kothari, 2004). According to Field (2005), the population will be a set of people or households who are the End-user being investigated. In this study, the target population consists of 825 households who live in over 5 governments sponsored housing schemes on Nairobi West, Kibera and Highrise projects. The Project of Kibera and Nairobi West are chosen for this study because they are recently developed projects while Highrise project in an older project. This three reflect that government projects both old and new have issues that need to be relied through studies undertaken.
This section describes sample size and sampling procedures that will be used the sampling target population. Brinker (2006) defines sampling as a systematic selection of representative cases from the larger population. Sample size selected will depends on the nature of the analysis for the study to be performed, the desired precision of estimates to be achieved. The number of comparisons that will be made from the study includes the number of variables that have to be examined. Simultaneously these variables and show how heterogeneous a universe is sampled. A sample of 144 Households from the 3 estates is arrived at using Miller, L.R. & Brewer, J.D. (2003) mathematical formula as shown:

$$.. n = \frac{N}{1+N(e)2}$$

Where; n = Sample size

N= Population size =413 Households

e = is the margin error/level of precision at 5 percent (assumed at ±5 percent)

Therefore; $n = \frac{413}{1+413(0.05)2}$

n =144

Table 3.2: Sample Size

Housing Project	**Population Of End-User**	**Proportion Of End-User**	**Sample Size Of End-User**
Highrise	173	42%	72
Nairobi West	100	24%	24
Kibera	140	34%	47
TOTAL	**413**	**100%**	**144**

FINDINGS AND DISCUSSIONS

A multiple regression model was applied to establish whether there exists a significant relationship between End-user involvement and performance of government Sponsored Housing projects. The multiple regression model used in this study was:

$$Y=1+ \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X4+ \varepsilon$$

Where:

Y = Performance of government sponsored housing projects
X_1 = Project initiation
X_2 = Project Planning
X_3 = Project Execution
X_4 = Project Monitoring & Control
E = error team

Coefficient Analysis

Coefficient Model	Unstandardized Coefficients B	Std error	Standardized Coefficient Beta	t	Sign.
(Constant)	3.012	0.981		8.419	0.001
End-user Involvement and project identification	0.269	0.214	0.121	3.224	0
End-user Involvement and project planning	0.390	0.102	0.353	7.675	0.002
End-user Involvement and project implementation	0.468	0.145	0.345	5.126	0.001
End-user Involvement and project monitoring	0.519	0.132	0.450	6.113	0

a) Variables: end-user involvement in project identification, end-user involvement in project planning, end-user involvement in project implementation and end-user involvement in project monitoring and control.
b) Performance of government housing projects

Y = 3.012+269X1+0.390X2 +0.468X3 +0. 519X4+e
Regression results revealed that End-user Involvement in project identification has significance role on Performance of government sponsored housing projects as indicated by β1= 0.269, p=0.002<0.05, t= 3.224.The implication is that an increase in end-user Involvement in project identification improves project Performance by β1= 0.269.
Regression results revealed that End-user Involvement in project planning has a positive and significance influence on Performance of government sponsored housing projects as indicated by β2= 0.390, p=0.002<0.05, t= 7.675. The implication is that an increase in End-user involvement in project planning would lead to an increase in project Performance by β1= 0.390.
Regression results revealed that End-user Involvement in project implementation has a positive and significance influence in Performance of government sponsored housing projects as indicated by β3= 0. 468, p=0.001<0.05, t= 5.126. The implication is that an increase in End-user Involvement would lead to an increase in project Performance by β3= 0. 468.
The results further revealed that End-user involvement in project monitoring & control has a positive and significance influence in government sponsored housing project performance as indicated by β3= 0. 519, p=0.001<0.05, t= 6.113. The implication is that an increase in stakeholder involvement in project monitoring would lead to an increase in performance by β3= 0.519.

Summary of the Findings

1. The study established that the end-users were involved in project identification of the housing project. 11.21% of respondents felt that member's participation in project identification process and this affected the performance of the project to a very great extent. The study also revealed that 10.94% did not participate during project meetings and 14.36% did not participate during project selection and with 10.26% of the respondents did not participate in proposing solutions they involved during the initiation meetings, project sensitization meetings, project requirement gathering and in proposing solutions to the initial problems.
2. The study found out that 11.16% of the end-users felt their participation in project planning process influenced performance of government sponsored housing projects to a great extent. The study also established that members participated in identification of resources at 11.92 % with more a majority of respondents involvement during in the identification of community responsibilities, involvement during needs assessment at 8.44% and participation during community capacity building being 11.43% not at all involved or to just a less extent.
3. The study also revealed that 10.79% of the members felt their participation in the execution phase influenced the performance of housing projects in Langata constituency to a very great extent and this was achieved by participating when undertaking physical verification of the projects activities at 11.04% testing functionality of project housing units at 13.32% and undertaking project site visits at 13.59%. End-users also felt that while monitoring development progress ad participated in surveys reporting on status and project outputs.
4. The study further found that regular involvement in project monitoring and control improved performance in government sponsored housing projects with end-users participating in end of project capacity building with 14.47% giving their opinions during project progress feedback to enable assess the impact of the

project..14.63% assisting the project managers in identifying project errors and 16.26% and 15.77% being part of the project closing stage and handover respectively.

5. The study established that 16.10% of the end-users felt their participation in determining performance factors improved the housing projects to a very great extent. The end-users identified the factors such as projects that , 10.37% were interested in houses that meet quality housing that satisfy end-user satisfaction at 10.49%, functional house with usable amenities at 10.14, houses that are energy efficient at 10.37%, sustainable housing units and living on conducive environments at10.49% and 9.56% respectively.

Discussions

This study is looks at the variables in which the of end-user involvement on performance is differentiated in project stages of project initiation, participation in project planning , participation in project implementation and participation in project monitoring and control.

Conclusions

This study sought to establish the role of end-user involvement on performance of government sponsored housing projects in Langata constituency, Nairobi County. In regard to the influence of end-users in project selection and identification it can be concluded that there was a some involvement in a few of the stages during project initiation phase. This included participation during requirement gathering, during initial project sensitization and capacity building meetings and during selection of end-user representatives. Although in this phase end-users felt there was lack of involvement during undertaking feasibility studies, project selection and proposing solutions for the end-user needs

During the project planning phase, end-user involvement was practiced when end-users participated in identifying community responsibilities, and community related committees and meetings for sensitization while they felt they were not involvement in selection of the project to be undertaken, development of project designs, development of risk management plans and even during allocation of resources.

in regard to the role of enduser involvement in project planning and design the conclusion is that there was more end-user involvement in undertaking physical verification, making site visits and testing housing unit functionality compared to the low percentages resulting from lack of participation in to housing project performance compared to expected results. Providing labour resources during the execution process, measuring actual verses the expected and monitoring the development progress

The same can be said about participation in the monitoring and control phase where the end-user were involved in identifying project errors, participating during capacity building, project closing and handover to the end-users while there was little end-user involvement during feedback gathering on achievement against set objectives, identifying corrective actions and providing project feedback

Recommendations

1. The government and housing sector stakeholders should ensure that future housing project have the end-user fully involved in the project cycle process as it has been shown that this has a positive influence on success of the projects.
2. End-users who are the target to benefit from housing projects in low income areas such as slums and other target initiatives by the government should be made aware of special initiatives and who they are meant to benefit and have the end-user part of the process to fulfill the needs of the user.
3. End-user involvement from an early stage in government sponsored housing projects provides a strong linkage with other institutions and persons who are part of the project as a progressively continual process leading to end-users being free to raise issues and make follow-ups when the housing units don't meet their basic needs.
4. It is important to have all end-users and any other stakeholders clearly identified and trained well in advance on during the course f the project on purpose of the project being developed, how they will benefit, what it involves and how they can be part of the project from inception to competition.

Suggestions for further research

From the study it can be suggested that research be carried out in the following areas:

1. A comparative study of the influence of end-user involvement on the success of the government sponsored affordable housing projects.
2. Influence of end-users involvement in the other government sponsored projects such as health projects, devolved government and other sectors where the government targets middle and low income Kenyans especially in slum areas.
3. The role of End-users involvement in the success of the affordable housing under the Big 4Agenda umbrella.

Contribution of the Study to the Existing Body of Knowledge

This study sought to establish the role of end-user involvement in government sponsored. The study through the conclusions and recommendations adds the following to the existing body of knowledge:

1. That short term capacity building and sensitization meetings held by the government for end-users can improve the relationship and the level of acceptance by the end-users for the housing projects.
2. The role of end-users inn government sponsored housing projects cannot be undervalued to ensure that the government delivers what it intends to undertake also fulfill the needs of the end-users.

3. The overall success of the government sponsored housing projects in Langata constituency is greatly influenced by the acceptance of the project and the components of the fulfilling the needs of the end-users.

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TECHNOLOGY INNOVATION AND SUSTAINABILITY OF COMMUNITY BASED DEVELOPMENT PROJECTS IN KAJIADO COUNTY

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Abstract

Project sustainability is a critical component in the project lifecycle. Sustainability in development projects is a dominant concern affecting decisions and actions that may shape donor policies for years to come, other authors define sustainability in relation to the development of poor regions. Sustainability has remained a major challenge to many development projects globally. Donors put in billions of dollars to development projects only for them to fail immediately the funding stops. This study looked at the effect of both financial innovations in technology and technological process innovation on improving the management of Community Based Development Projects. The study was conducted in in Kajiado County. The study was precisely delimited to employees working with the aforementioned Community Based Development Projects. In the study, it was noted that technological innovations increase firm performance by considerably reducing administrative and transaction costs, reducing costs of service and improving labor productivity in Community Based Development Projects. Descriptive Research Design was utilized in this study. The target populations of this study were project managers, finance officers, project officers, county leaders, community leaders and beneficiaries in community development projects in in Kajiado County, who made a total of forty-nine (49) respondents out of which the 40 respondents managed to return the questionnaire for the analysis. The study revealed that Technological Innovation among the members of the Community Based Development Projects have a positive and significant effect on the sustainability of Community Based Development Projects in Kajiado County. The study also concluded that Technological Innovation Process has positive relationship with the sustainability of Community Based Development Projects. Based on the above conclusions, study recommended that another study be done with an aim to investigate the effects of technological innovations on the financial performance of Community Based Development Projects in Kenya.

Key Terms: Project Sustainability, Community based Development Projects, Technological innovations

I. INTRODUCTION

Sustainability of Community Based Development Projects is a critical component in the project lifecycle. Defining sustainability is a challenge because sometimes the term can be used interchangeably with the term development. Sustainability within the context of sustainable development has been defined by World Commission on Environment and Development (2017) as forms of progress that meet the needs of the present without compromising the ability of future generations to meet their needs. This simply means that in as much as the goal of the project is to address a present and pertinent problem, the solution achieved should have a futuristic orientation in the sense that the benefits of the project should be extended to the future after the external donor funding is pulled out. Sustainable project is the one that is capable of generating benefits to the project beneficiaries for an extended period of time and as a result, the project will produce resources to be used in the running of the project making it worthwhile in terms of finances and time. Future orientation is the basic element of sustainability.

According to Diane Russell (2017) sustainability is a measure of how the growth, maintenance, or degradation of a resource or set of resources affects a population's ability to sustain itself. Indicators are used to measure these effects. A resource can be natural or human, and includes knowledge, technical, financial and other social systems. It is as a result of processes, investments, technologies and systems as they affect resources available to a population over time. Such processes include policy reform, investments made by donors, governments or other groups and technologies. The extent of local participation in and ownership of a process, investment decision, technology development and system is seen to be crucial to sustainability.

An organization which is competing in fast changing markets with fast changing technology must make things happen, it must innovate. If it does not innovate it risks being overtaken by competitors. Sometimes a business underestimates the competitive challenges it faces. The risk of this happening is high when competitors react to potential challenges in much the same way (Abernathy and Utterback, 2015).

In today's global and dynamic competitive environment, product innovation is becoming more and more relevant, mainly as a result of three major trends: intense international competition, fragmented and demanding markets, and diverse and rapidly changing technologies (Wheelwright and Clark, 2012). Firms that offer products that are adapted to the needs and want of target customers and that market them faster and more efficiently than their competitors are in a better position to create a sustainable competitive advantage (Calantone, 2015). Competitive advantage is increasingly derived from knowledge and technological skills and experience in the creation of new products (Teece, 2013).

Technological innovation is used to refer to the process through which technological advances are produced (Goh, 2012). The innovation process includes a set of activities that contribute to increase in the capacity to produce new goods and services (product innovations) or to implement new forms of production (process innovations). Therefore, the concept of technological innovation is associated with the idea of a flow – generation, application, dissemination – of technologies.

Community Based Development Projects in Kajiado County must play a catalytic function to develop technological innovation-driven economy. The experience of developed countries has evidently demonstrated that a shift of government's industrial policy-making towards a technological innovation-driven economic strategy is absolutely critical. Allegedly successful industrial policy performs an important function in fostering firms to inculcate a culture-based spirit of innovation and addresses firms' concerns in the realm of innovation pursuits (Goh, 2012).

II. LITERATURE REVIEW

Theoretical Literature Review

Theory of Innovation Diffusion

The theory of innovation diffusion was pioneered by Rogers (2015). The theory states that innovation diffusion is based on the notion that adoption of an innovation involves spontaneous or planned spread of new ideas. Rogers defines innovation as an idea, practice, or object that is perceived as new (Rogers, 1995). The theory stresses that the perception of change is important and that if and when the idea seems new to the potential adopter, it is then ought to be considered as an innovation. It is stated that in diffusion theory, the existence of an innovation is viewed to cause uncertainty in the minds of potential adopters (Berlyne, 2012). In this case, uncertainty refers to lack of predictability and of information. Rogers (2015) further describes diffusion as an information exchange process amongst members of a communicating social network driven by the need to reduce uncertainty. Uncertainty can be considered as the degree to which a number of alternatives are perceived in relation to the occurrence of some event, along with the relative probabilities of each of these alternatives occurring. Those involved in considering adoption of the innovation are motivated to seek information to reduce this uncertainty (Rogers, 2015)

Diffusion theory contends that a technological innovation embodies information, and so its adoption acts to reduce uncertainty. According to Rogers (2015) diffusion of an innovation is subject to five important characteristics which include its relative advantage, compatibility, complexity, trialability, and observability. The innovation diffusion theory can be employed to explain process innovation where technology is a component. For instance, the theory can be used to explain automation of service delivery by the community development projects.

Empirical Literature Review

Technological Innovation Process on the sustainability of Community Based Development Projects in Kajiado County

Technological innovation is fundamentally competitive and conflictual. Management researchers, sociologists, and economists all agree that, despite the need for cooperation in technology development and diffusion, technological innovation fundamentally takes place within a competitive and conflictual atmosphere. For the social shaping of technology theorists, different social groups are inevitably involved in technological innovation (Bijker, 1992), each with their own interpretation of what the technology is, and what problem it is trying to solve.

For technological innovation to happen, networks of interest groups must be attracted into a new technological system, and their commitment to it preserved (Bijker and Law, 2012). For the economists of innovation, technological

innovations compete for scarce resources and have uncertain returns (Rosenberg, 1994). Within the firm, each stage of the innovation process – expressing the idea, exploring the feasibility, building prototypes – can be seen as a separate hurdle where a number of ideas are in fierce competition with each other (Jolly, 2017).

Between firms, the rapidity of technological innovation puts organizations under severe pressure to innovate effectively (Brown and Eisenhardt, 2017) and to maneuver strategically within their industries to establish commercially lucrative positions for themselves in the face of technological change (Utterback, 2014).

Technological innovation is underdetermined – there is no single "best solution". To state that technological innovation is underdetermined is to say that "technical principles are insufficient by themselves to determine design" (Feenberg, 2015). The research traditions mentioned above subscribe to the view that the "natural attributes" of technology are not sufficient to explain technological innovation, though they differ in the importance they attach to this belief. For the social shaping of technology theorists, the belief that technological innovation does not unfold according to some predetermined technical logic is critical (Williams and Edge, 2016).

The particular path that technological innovation takes is something to be explained, rather than simply adjusted to. Studies of the management of innovation, and innovation adoption, acknowledge that the seemingly "best" technology does not always become the most widely accepted (Utterback, 2014). While the economists of innovation believe that technological "trajectories" make some innovation paths more likely than others (Dosi, 2015), the complex interplay between technological supply and market demand cannot be captured strictly with reference to the characteristics of technology. Even in the literature on technology and organization structure, which has argued for the strongest links between the nature of technology and organizational forms, there is a recognition that technological change serves as an occasion for restructuring (Barley, 1990), and the same technology can occasion quite different organizational outcomes.

Technological innovation cycles between periods of stability and change. A wide range of technological innovation research suggests that the innovation process fluctuates between periods of relative stability and periods of relative change. Research on innovation and business strategy in particular has argued that the nature of innovation changes over time. Periods of more incremental innovation, in which technology appears to develop along well understood paths, are then abruptly followed by periods of more radical innovation, in which the certainties of the past era are abandoned (Utterback,2014). Eventually, a radical innovation becomes more widely accepted, and settles back into relatively well understood incremental innovation. The economists of innovation refer to waves of change, in which the nature of technological innovation changes over the "lifecycle" of a technology (Freeman, 2000).

The social shaping of technology theorists see the "firming up" of technology – the process of stabilizing interpretations and relationships around a technology – as one of the key processes to be explained (Bijker et al., 2012). While technology can become more "closed" over time for the social shaping theorists, the contingency of social life ultimately works to reopen previous controversies and pursue new opportunities. Each of these three claims offers an alternative starting point for the investigation of information systems as technological innovation.

Effect of technological financial innovation on the sustainability of Community Based Development Projects in Kajiado County

Technology is one of the key elements that define a society or civilization. The critical role of technological innovation in the development of a company and its contribution on the economic growth of firms has been widely documented. Ayres (2018) identified technology as the wealth of companies. According to Abernathy and Utterback, (2014) the primary role of technological innovation is to assure the survival of the entity, as well as the business ecosystem, which in turn is based on achieving sustainable financial performance.

Gerstenfield and Wortzel (2017) analyzed the relationship between the usage of Internet-based innovation technologies, different types of innovation, and financial performance at the firm level. Data for the empirical investigation originated from a sample of 7,302 European enterprises. The empirical results show that Internet-based innovation technologies were an important enabler of innovation in the year 2003. It was found that all studied types of innovation, including Internet-enabled and non-Internet-enabled product or technological innovations, are positively associated with turnover and employment growth. Finally, it was found that innovative activity is most of the time associated with higher profitability.

Regarding the importance of technological innovation, there are a huge body of knowledge like, technological innovation is a means of survival and growth of industrial sectors or technological innovation is recognized as a major contributor of economic growth and a dominant factor of business success not only in developed countries but also in Developing Countries (Pack and Westphal, 2016). Gerstenfield and Wortzel (2017) suggested that one of the requirements for economic and industrial development of Developing Countries is their ability to innovate successfully.

According to Tefler (2012), a company must innovate or die, the process of innovation is fundamental to a healthy and viable organization. Those who do not innovate ultimately fail. Hill and Utterback (2013) identified technological innovation as a major agent of development and change in societies which has been linked to rising productivity, employment growth and a strong position in export markets, trade and improved quality of life. However, the inherent complexity of the process of technological innovation and its involvement in interaction with different environmental as well as industry-specific factors, made studies of the characteristics of technological innovation seem difficult to carry out.

Rycroft and Kash (2009) claim that innovation requires a process of co-evolution between technology and cultural perspectives. Technology exerts a significant influence on the ability to innovate and is viewed both as a major source of competitive advantage and of new product innovation. Often, banks experience problems in this area, which are caused by lack of capital expenditure on technology and insufficient expertise to use the technology to its maximum effectiveness (Alstrup, 2000).

Hammer (1990) stresses that organizations should "obliterate rather than automate" believing that technology are often introduced for technology's sake without contributing to the overall effectiveness of the operation. However, banks traditional lack of resources usually results in a compromise situation (Vossen, 2009). It is important to link technology to innovation in sustaining competitiveness. Organizations that can combine customer value innovation (Kim and Mauborgne, 2009) with technology innovation have an increased chance of enjoying sustainable growth and profit.

However, Lall (1980) stressed that a significant amount of technological innovation is taking place in the modern sectors of Developing Countries, particularly in those with relatively long experience of community development and with broad –based capital good sectors. To Lall, these innovations include changes in broad sense. They encompass increase in productivity and efficiency from simple learning by doing, advances in the designing, constructing and managing complex and advanced industrial processes and a manifestation of the ability to innovate technologies in the areas of medium to high.

Gaps in Literature Review

The available literature shows that there exists a strong relationship between technological innovations and sustainability of project organizations such as community development projects. As noted by Ayres (2008) technology affects the wealth of companies. There is, however, need to investigate the specific effects of these technological innovations with a specific reference on community development projects. This is due to the research gap that exists as no study has been done to investigate the effects of technological innovations on financial performance of community development projects. Despite their strategic positioning to adopt technological innovations. Due to contextual, sector, and managerial differences among the organizations issues of technological effects on sustainability of community development projects gained from these studies may not be assumed to explain effects of technological innovations on community development projects. It is in this light that the researcher carries out a study on the effects of technological innovations on sustainability of community development projects in Kajiado County.

Conceptual Framework

Mugenda & Mugenda (2003) define conceptual framework as a graphic or written upshot that explains using a description or graphics significant variables to be studied and the expected relationships between them. This framework is very vital in sanitizing the study goals, creating research questions, selecting study methods and classifying issues that may overturn the conclusions arrived at by the study. A pictorial representation is presented below.

Independent variables **Dependent variables**

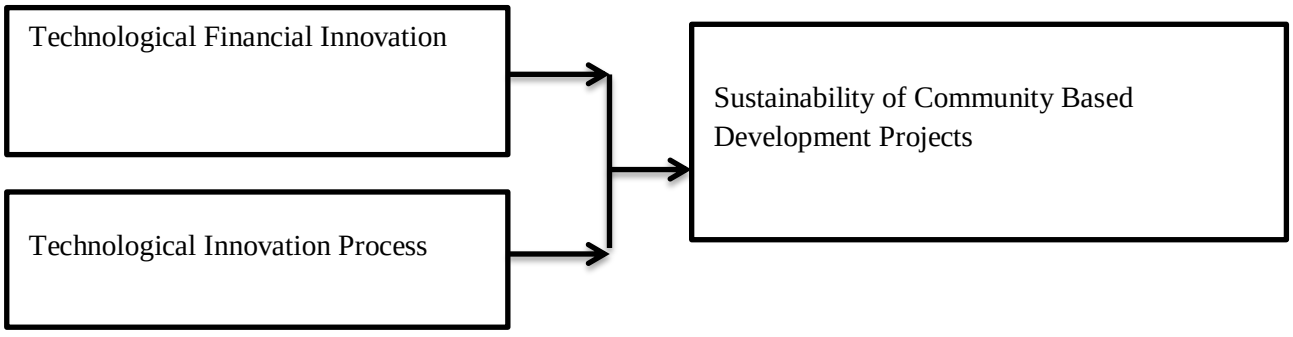

Figure 2.1: Conceptual Framework

Hypothesis of the Study

The study was guided by the following hypothesis:

H01: Technological Financial Innovation has no significant effects on the Sustainability of Community Based Development Projects.

H02: Technological Innovation Process has no significant effects on the Sustainability of Community Based Development Projects.

III.METHODOLOGY

In this research, community development projects are the circumstance under scrutiny. Descriptive Research Design was utilized in this study. The target populations of this study were project managers, finance officers, project officers, county leaders, community leaders and beneficiaries in community development projects in in Kajiado County, who made a total of forty-nine (49) respondents. The sampling technique for this study was census survey which involved the use of the entire population as a sample. A census is attractive for small populations. A census eliminates sampling error and provides data on all the individuals in the population (Kothari, 2008).

Primary data was collected through the use of a questionnaire, while Secondary datawascollected through reviewing records of the study relevant to the subject. Piloting study was done to community development projects in Kajiado County where only 10 members from two groups were used. This enabled reliability test was done using the Cronbach's Alpha and returned values greater than 0.60 (See table 3.1) which meant the instrument was reliable according to Mugenda and Mugenda (2003).

Table 3.1 Reliability Test Results

Variable	No. of Items	α = Alpha	Comment
Technological Financial Innovation	10	0.750	Acceptable
Technological Innovation Process	10	0.688	Acceptable
Sustainability of Community Based Development Projects	10	0.699	Acceptable

The descriptive statistics such as mean, standard deviation and correlation was used whereas the relationship between the study variables was determined using the linear regression model. The regression model was of the form:

$Y = \beta 0 + \beta_1 X_1 + \beta_2 X_2 + e$

Where:

Y = Sustainability of Community Based Development Projects

$\beta 0$= Constant

β_1, β_2= The Coefficient for the independent variables

X_1 = Technological Financial Innovation

X_2= Technological Innovation Process

The findings were presented in tables. Ethical considerations included moral standard and the respondent's consents obtained prior to data collection. In addition, inclusion of the respondents was on voluntary basis. Confidentiality of the information and non-disclosure of the respondents identify was also assured.

IV.RESULTS AND DISCUSSIONS

Descriptive Statistics

Out of the 49 sample size of respondents, only 40 responded to the questionnaires. This represented an effective response rate of 81.6% that was considered sufficient enough to answer the research objectives. Larger percentage (40 %) of respondents was aged 40.0% were aged 31-40. Descriptive statistics shows that Technological Financial Innovation had a mean of 3.45 and a standard deviation of 1.88 implying that the most respondents‟ opinions were within a maximum of three showing that diversity in views. Technological Innovation Process had a mean of 3.77 and a standard deviation and a standard deviation of 1.01 also indicting diversity in respondents "opinions. Sustainability of Community Based Development Projects on the other hand had a mean of 3.87 and a standard deviation of 1.13 which indicates lesser variation in opinions of the respondents. The correlation analysis of the study variables all returned significant relationships with Technological Financial Innovation and sustainability had r=0.514 and p≤0.05 and Technological Innovation Process and sustainability of the projects had r=0.514 and p≤0.05.

Hypothesis Testing

Hypothesis for this paper were tested at 95% confidence level. To investigate the influence of Technological Financial Innovation and Technological Innovation Process to the Sustainability of Community Based Development Projects, a multiple linear regressions were run and table 4.1 shows the summary of the data obtained.

Table 4.1 Model Fitness

Model	R	R Square	Adjusted R Squire	Std. Error of the Estimate
1	0.714a	0.624	0.514	0.611

Predictors: (Constant), Technological Financial Innovation, Technological Innovation Process. This model summary table represents an R^2 value of 0.624 which means that Technological Financial Innovation and Technological Innovation Process explain 62.4% of the total variability in the Sustainability of Community Based Development Projects. The remaining 37.6% of the variation are explained by other factors including by chance. The further Analysis of Variance (ANOVA) performed on the model gave the results indicated in table 4.2.

Table 4.2 Analysis of Variance

	Sum of Squares	df	Mean Square	F	Sig.
Regression	14.111	2	436	21.513	.000b
Residual	20.434	38	0.329		
Total	34.545	40			

ANOVA results indicate the model is statistically significant (p≤0.05) and strong F value (21.513). This indicates that Technological Financial Innovations and Technological Innovation Process is significantly related to the Sustainability of Community Based Development Projects. Sustainability of Community Based Development Projects was measured in different ways. The results of tests of regression coefficients are presented in table 4.3.

Table 4.3: Regression Coefficients

	Un standardized Coefficient		Standardized coefficient		
	B	Std. Error	β	t	Sig.
Constant	0.013	0.411		2.011	0.001
Technological Financial Innovations	0.554	0.320	0.115	6.320	0.037
Technological Innovation Process	0.648	0.014	0.131	2.142	0.000

The model can be fit as: $Y = 0.013 + 0.554\ X_1 + 0.648\ X_2 + e$

From the results in table 4.3, regression coefficient for Technological Financial Innovation is 0.554 and significant (p = 0.037) which implies that the relationship between Technological Financial Innovation and Sustainability of Community Based Development Projects is very strong. Therefore, the null hypothesis that there is no relationship between Technological Financial Innovations level and Sustainability of Community Based Development Projects was rejected an indicator that there is a relationship between the Technological Financial Innovations level and sustainability of the projects. These findings are in agreement with Vossen (2009) who posits that, it is important to link technology to innovation in sustaining competitiveness. Organizations that can combine customer value innovation with technology innovation have an increased chance of enjoying sustainable growth and profit.

In addition, regression coefficient for Technological Innovation Process is 0.648 and significant (p = 0.000) which implies that the relationship between Technological Innovation Process and Sustainability of Community Based Development Projects is very strong. Therefore, the null hypothesis that there is no relationship between Technological Innovation Process and Sustainability of Community Based Development Projects was rejected an indicator that there is a relationship between the Technological Innovation Process and Sustainability of Community Based Development Projects The findings are in agreement with Utter back(2014) who established that periods of more incremental innovation, in which technology appears to develop along well understood paths, are then abruptly followed by periods of more radical innovation, in which the certainties of the past era are abandoned.

From the focus group discussion, the respondents indicated that Technological Financial Innovation was important in ensuring the Sustainability of Community Based Development Projects in Kajiado County. Most members reported that higher Technological Financial Innovations level is very useful in ensuring sustainability of their projects and that why those who are selected as part of the management needed had to have post-secondary Technological Financial Innovations . These findings agreed with Ayres (2018) who posits that technology is one of the key elements that define a society or civilization. The critical role of technological innovation in the development of a company and its contribution on the economic growth of firms has been widely documented. Ayres (2018) identified technology as the wealth of companies. The primary role of technological innovation is to assure the survival of the entity, as well as the business ecosystem, which in turn is based on achieving sustainable financial performance

V.CONCLUSION AND RECOMMENDATIONS

The study concludes that technological Financial innovation among the members of the Community Based Development Projects have a positive and significant effect on the sustainability of Community Based Development Projects in Kajiado County. High Technological Financial Innovations level help members to make more informed decisions on how to run and sustain their projects. However, their projects have been facing sustainability challenges because most of the members of the projects are technologically illiterate thus make little contribution to the running to the projects and leaving very few members to make the decisions. Technological Financial Innovations has a least influence of on the sustainability of Community Based Development Projects but enhance organization's ability to utilize the skills they have gained to offer contribution on how projects can be sustained.

The study concludes that Technological Innovation Process has positive relationship with the sustainability of Community Based Development Projects. The projects whose members are given adequate training and financial resources are able to sustain their projects. The study has explored the effects of technological financial innovations on sustainability of Community Based Development Projects in Kajiado County. The Community Based Development Projects in Kenya however is comprised of various technological endeavors which differ in their way of management and have different settings all together. This warrants the need for another study which would ensure generalization of the study findings for all the Community Based Development Projects Kenya and hence pave way for new policies. The study therefore recommends another study be done with an aim to investigate the effects of technological innovations on the financial performance of Community Based Development Projects in Kenya.

The study also recommends that another study be done to investigate the factors influencing technological innovations in the Community Based Development Projects in Kenya. This would necessitate in determining the extent to which the Community Based Development Projects have adopted technological innovations and thus enhancing financial performance. Other studies need to be carried out on other aspects that affect financial performance. These could include organizational structure and company mergers.

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Service Quality and Customer Satisfaction among Account Holders in Deposit Taking Savings and Credit Cooperative Societies in Nairobi City County, Kenya.

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ABSTRACT

Organizations innovate quality products and services to meet the needs of their target market in a satisfying manner. However, customer preference and technological changes that have increased information awareness to the customer are changing the way organizations operate for sustenance. DT SACCOs are under pressure to meet the changing needs of their customers which has been made worse with competing brands and availability of substitute. SACCO members are withdrawing their membership while some opt for alternative banking products due to dissatisfaction with SACCO products. The study sought to assess the effect of service quality on customer satisfaction among account holders in DT SACCOs in Nairobi City County, Kenya. Theories of cognitive dissonance, expectancy-disconfirmation, SERVQUAL and European Consumer Satisfaction Index (ECSI) guided the study. The study used descriptive design with cross-sectional approach. The target population was members of DT SACCOs in Nairobi generated from SASRA DT SACCO performance report of 2016. A census survey of 39 DT SACCOs was adopted with proportionate stratified sampling to arrive at a study sample of 100. Data was collected using 52 questions made from SERVQUAL model. Systematic random sampling was used to identify respondents in the banking hall assisted by two research assistants. Cronbach's Alpha was used to test reliability. Descriptive, correlation and multiple regressions were used in the analysis with the aid of SPSS. The study found that service quality is strongly related to customer satisfaction. The study also found that service quality dimension of empathy affected the outcome of customer satisfaction significantly. The study recommended enhancement of tangibility, reliability, responsiveness and assurance dimensions to improve customer satisfaction. The study also recommended future research on other factors that affect customer satisfaction outside service quality like culture and corporate image.

Key Words: Service Quality, Customer Satisfaction, SERVQUAL, Tangibility, Reliability, Responsiveness,

Assurance, Empathy.

Introduction

Service quality and customer satisfaction are two different concepts even though closely related. Tracy (2014) defines quality as the promise organizations make to their customers and the promise they keep. Crosby (1979) (cited in Awuor, 2014) defines service quality as being conformance to requirements. Service quality focuses on perception and expectation of a service that is connected to customer experience in the pre-purchase which is evaluated after consumption to determine the satisfaction level. If expectations are higher than perception, satisfaction becomes low as service quality does not meet requirements (Lankton & McKnight, 2012).

Customer satisfaction varies from one consumer to another according to different expectations and perceptions of a given brand. Macharia (2014) and Owino (2013), recognize the strong link between service quality and customer satisfaction that increases business to an organization. Oanda (2015) recommends segmentation of SACCO customers for targeted marketing designed improve customer satisfaction.

Due to long term contracts that DT SACCOs have with their members, it is important to provide satisfaction during the term of the contract that will result into more gain through retention, referrals, repurchase and re-instatement. Sultan (2003) suggests that all the businesses results are found outside from a customer who turns the costs and efforts

of the business into revenues and profits through product purchase. Sharma (2016) states that customer's judge service quality as low or high depending with service performance towards their expectation which results in dissatisfaction or satisfaction.

Customer Satisfaction

Customer satisfaction is a measure of the extent DT SACCO is fulfilling the general expectations of the members (Sharma & Kedarnath, 2017). Customers perceive service in terms of quality of the service and how satisfied they are overall with their experience which according to Williams, Ogege and Idesi (2014), DT SACCO needs to deliver its services and products in a way that enables the member to access them in the most efficient, fair and humanly satisfying manner possible.

Lucas (2002) observes that when employees are competent and enthusiastic about service delivery to the members in a manner that satisfies both identified and unidentified needs, satisfaction occurs. This is supported by Haaften (2017) noting that friendly and courteous employees who are knowledgeable and helpful will always provide accuracy when dealing with member issues. By consistently meeting member requirements, DT SACCOs can move to a different level of satisfying and delighting its members, Oakland (2002) (cited in Clare 2014).

University of Cambridge (2006) examines what members are always looking for in a SACCO by emphasizing on the need to have friendly and interactive employees to meet member basic needs and improve their satisfaction. This signifies willingness to help and being open and approachable. Employees need to empathize with members by stepping in their shoes to feel their pains and emotions and acting to help ease the pain, (Tracy, 2014) being fair and treating all members equal based on member segments and providing them with information they need to help make informed decision. Members whose needs are met develop favorable attitude towards certain DT SACCOs which drive future behavior. Hill, Roche and Allen (2007) suggest that highly satisfied members become loyal by buying more from trusted organizations.

Iruguthu (2014) observes that dissatisfaction by members in DT SACCOs is because of customer relations. DT SACCOs need to improve their customer relations through employee training to enable them acquire key skills needed in customer relations and also motivate them to reduce dissatisfaction that is experienced by the members. Ingrid and Karla (2011) note that the key to making customers loyal is to proactively delighting them on a regular basis so they have no reason to go anywhere else.

Service Quality

Service quality is any act that one party can offer to another that is intangible and satisfies an identified need through a form of exchange, Zeithaml, Bitner and Gremler, (cited in Omollo, 2016, p.1). Organizations view quality as the lifeblood that brings increased patronage, competitive advantage and long-term profitability. Juran (1950) (cited in Thomas, 2007) observed that quality problems found in organizations are due to ineffective and insufficient planning for quality. Financial industry has adopted the use of SERVQUAL model, to measure service quality dimensions which include; tangibility, reliability, responsiveness, assurance and empathy. Parasuraman et al. (cited in Omollo 2016). The model has been used in the financial industry to identify gaps with recommendations on service improvements.

Service quality helps cope with the competition and control the competitive position which leads to market share possession. It is observed that high quality frontline and back stage staff offer service differentiation to DT SACCOs as they are able to foresee member needs, customizing products and services and building personalized relationship with customers (Lovelock, Wirtz & Chatterjee 2011).

SACCO Star (2018) provides an overview of what members think interms of service quality; interest on deposit and dividend, absence of loan backlog and innovative products. Members believe that high interest on deposit and dividends signify high performance which is as a result of good service quality. They also believe that where there is no loan backlog, they will always receive credit facility when they need to address their immediate needs.

Whenever members call, they always want to receive help or ask questions regarding their financial status to enable them access credit or advice to help them continue with their lives. The service quality that members want should therefore be quick and timely (Lalani, 2017).

DT SACCOS in Nairobi City County, Kenya

The concept of co-operative began in 1844 in Rochdale village, Manchester in England. It has since developed across the globe as a socio-economic movement employing over 250 million people around the world with a global turnover of US Dollar 2.2 trillion, World Co-operative Monitor (2014), (cited in The Co-operative Alliance of Kenya 2017, p. 12). In East Africa, cooperative was introduced by the colonial administration during the first two decades of the 20th century with an objective of organizing the producers of cash crops to counter trade monopolies which were held by commodity merchants.

In Kenya, the concept of co-operative was introduced by white settlers in 1908 at Kipkelion- Rift Valley province and thereafter spread into other regions including Central, Eastern, and Nyanza provinces. After independence, the

national governments considered co-operative movement as a vital tool for development in both rural and urban areas where community development could be achieved, (Makabila 2016; Minishi, Kobia & Labourn 2014).
The financial SACCOs are grouped into two; non-deposit taking which provides limited range of savings and credit products and the Deposit Taking (DT) besides the basic savings provide other basic banking services like front office service activity (FOSA) and ATMs, (Sacco Society Regulatory Authority, SASRA, 2017). The DT SACCOs are regulated by SASRA doing licensing, regulation and supervision. They have continued to play rightful roles of mobilizing for savings credit facilities access and improving financial deepening within the Kenyan economy. The supervision report by SASRA (2017) provides the 2016 industry highlights with a total membership of 3,632,597 Million, out of which 489,112 are inactive with a market growth of 15%.
The total asset base of the DT-SACCOs grew in 2016 to reach Kshs 393 Billion compared to Kshs 342 Billion recorded in 2015 fully funded by members' deposit. By the end of the year 2016, there were 424 DT-SACCO branch networks spread across the country, in addition to the 176 head office locations adding up to 600 physical office delivery channels in Kenya. Nairobi County had 40 DT-SACCOs head offices, and 23 different branch networks – making a total of 63 physical delivery channels.

Statement of the Problem
Kenya has one of the strongest, vibrant and dynamic cooperative movements in Africa with the highest points of GDP attributed to cooperatives globally at 45% followed by New Zealand at 22%. SACCO contribution in economic growth is enormous (The Co-operative Alliance of Kenya, 2017, p13). The increase in market growth to 15% with a membership of 3.6 million distributed in 600 branch networks nationally indicates a vibrant economy that needs more input from stakeholders to improve its growth, (SASRA, 2017).
The recent government capping of the interest rate on bank products, Central Bank of Kenya (2018), Ngángá (2017), has reduced the cost of credit and increased access thereby providing opportunity to SACCO members to switch to alternative bank products where the loan granted does not determine how much savings members have. A study done in Kenya by Iruguthu (2014) focusing on Balozi SACCO's member satisfaction recommended that employees be more responsive and faster in their service provision as satisfaction was seen to be high when employees were more responsive to member needs. The study was based on a case study of one DT SACCO while the current study worked with 39 different DT SACCOs based in Nairobi City County to provide a broad outlook of members' satisfaction across the industry.
Gichuru (2013) study on factors affecting customer satisfaction in SACCOs in Kenya focusing on Balozi recommended the need to lower interest rates, shortening of loan processing, upgrading ICT system and use of latest technology that were seen to be the reasons why DT SACCO members went for alternative banking products.

Despite the vibrant growth from the movement, there is discomfort from the members due to inefficient services with reduced returns on investment to the members. Members are concerned by DT SACCOs who charge high interest rate on loans while paying low dividends, non-compliance with the regulators requirements leading to de-registration, (Okoth, 2017) which affect member savings, the loan backlog making the members wait for long before maturity of their loan therefore not able to meet their needs in time and sourcing funds from external sources leading to high cost to the members (Kipkorir 2017).

SASRA (2017) reported that there were over 489,112 in-active accounts from DT SACCOs drawn from the members who have withdrawn their membership due to natural and competitive reasons.
This study focused on the expectancy disconfirmation paradigm where perceived quality was viewed as the result of comparing performance with standard. The study sought to determine the effect of service quality dimensions of tangibility, reliability, responsiveness, assurance and empathy on customer satisfaction among account holders in DT SACCOs in Nairobi City County, Kenya.

Literature Review

Cognitive Dissonance Theory
The theory of cognitive dissonance was proposed by Festinger (1950) (cited in Jones E. & Jones C, 2007). It postulates that when an individual holds two or more elements of knowledge that are relevant to each other but have inconsistencies, some discomfort emerge which causes dissonance. James and Gutkind (1985), state that if a person acts in a manner that is contrary to his belief, a state of discomfort emerges as what he has done is not possible to be reversed. Sun and Guo (2013) add that because people are not able to tolerate inconsistencies from too much information, Cooper (2007) they become selective to information that are consistent with their cognition to avoid discomfort. DT SACCOS give incentives to their members through low interest rates on loans advanced as compared to the banks, provide high interest on dividend and member education forums to reduce the regrets that unsatisfied members may have. The theory was used in the study to understand what the DT SACCO is doing through its service quality provision to reduce the dissatisfaction.

Expectancy-Disconfirmation Theory

Expectancy Disconfirmation Theory (EDT) was introduced by Oliver (1981) cited in Oh (1999) to study customer satisfaction in service industry. It implies that consumers purchase goods and services with pre-purchase expectations about the anticipated performance. DT SACCO members join the movement with expectation of high dividend, low interest on loans granted where they get information from communication materials and referrals. Consumer belief about the service is determined by how well it measures up to their standard (Isac & Rusu 2014). In SERVQUAL model, Parasuraman (1985) consumer expectation is affected by personal needs, word of mouth and experience. Perception is then developed upon consumption based on experience received. The level of perception is affected by personnel attitude, equipment and how service is delivered which is then assessed using expectation as the reference point where three results are obtained, positive, negative disconfirmation and confirmation, (Yuksel A. & Yuksel F. 2008). The study used the theory to understand service quality by using members' perception during data collection.

SERVQUAL Model

SERVQUAL model was developed by Parasuraman (1985,1988,1998) (cited in Bhatt & Bhanawat, 2016, Temba, 2013) which translates theories of customer satisfaction and service quality into management practice by defining service quality as the difference between customer expectation and perception of service received thereby enabling identification of gaps in service delivery. The main idea of the model is to show how service quality is dependent on the size and direction of the five gaps that exists in the service delivery process, Parasuraman, Zeithaml and Berry (cited in Kabir & Carlsson, 2010, p. 14).

The model was originally used in financial services to assess customer satisfaction measures and has been recognized as the most eminent in attempting to systematize the concept of service quality (Foya, 2015). It has been tested in the banking sector, micro finance and cooperative societies; Al-Azzam, (2015) and Awuor, (2014). The study used the model to develop the questionnaire for primary data collection.

European Consumer Satisfaction Index (ECSI)

The European Consumer Satisfaction Index (ECSI) is an economic indicator that was adapted from the Swedish Customer Satisfaction Barometer and developed by the European Technical Committee, (1998) cited in (Bayole, 2000) to measure customer satisfaction.

Customer satisfaction has become an important topic of concern for organizations and companies towards the improvement of product and service quality. The ECSI is based on a structural model with seven latent variables linking customer satisfaction to its main drivers including company image, customer expectations, perceived quality, perceived value and its main consequences being loyalty and complaints. The study used the model to understand the relationship between service quality and customer satisfaction while examining the expectation and perception of customers in DT SACCOs and the consequences resulting from the level of customer satisfaction (Strenitzerova & Gana, 2018).

Empirical Review

Tangibility and Customer Satisfaction

Awuor (2014) did a study in Kenya to determine the service quality and customer satisfaction in the banking sector using descriptive research design targeting 44 commercial banks in Nairobi CBD. Using stratified sampling technique with a sample of 338, the study discovered that bank customers were pleased with technology and equipment used and perceived employees to be smart and presentable. The study focused on the banking industry, the current study focused on the SACCO industry.

A study done in India by Ruchikasoni (2015) to determine customer satisfaction in urban cooperative banks using six banks to collect a sample of 302 respondents found that tangible factors like location of the bank, cleanliness, teller counter, suggestion/complaint box, customer meetings, seating arrangements, drinking water, security systems and parking space were highly regarded by customers. India is an industrious country that is more developed than Kenya with more infrastructures thus a different outcome for the current study.

Reliability and customer Satisfaction

Hong and Marimuthu (2014) did a study in Malaysia to establish the relationship between service quality and customer satisfaction of Malaysian banking industry by using a sample of 200 respondents. The study showed that service quality had a significant influence on customer satisfaction indicating how expectations of Malaysian bank customers on service quality were higher than their perceptions signifying dissatisfaction. The study was carried in Malaysia where labor force is supplemented by immigrants from Asian countries thereby causing language barrier in some instances leading to poor understanding of the questionnaire which affected the response rate and accuracy. The current study was done in Kenya where DT SACCO members are mostly Kenyans with good understanding of English language which resulted in good understanding of the survey forms and accuracy in filling resulting into high response rate.

A study done in Kenya by Watiki (2014) to determine service quality and customer satisfaction in hotels in Nairobi used a sample of 358 respondents. The study found that reliability had the highest impact and recommended that reliability dimension should be allocated more resources since it has the highest impact on customer satisfaction. Watiki (2014) study focused on hotels within Nairobi City County. The current study focused on financial industry specifically DT SACCOs in Nairobi City County.

Responsiveness and Customer Satisfaction

A study done in Uganda by Musoke, Kakundwa and Nyonyintono (2016) to evaluate the relationship between service quality and customer satisfaction in microfinance institutions used a sample of 10 selected SACCOs to measure service quality in terms of giving adequate sizes of loan, giving services other than savings and credit, effective communication with stakeholders, speedy delivery systems and competent staff. The study discovered that service quality is an important factor of customer satisfaction which is essential for survival and growth of any business. The study also found that effective communication with all stakeholders contributes more to customer satisfaction. The study used a sample of 10 DT SACCOs in Uganda, the current study used 39 DT SACCOs in Kenya having a different environment.

A study by Iruguthu (2014) on factors that influence customer satisfaction in savings and credit cooperatives societies in Kenya, focusing on Balozi SACCO used 108 respondents. The study showed that customer satisfaction in SACCOs is high when employees are responsive to customer needs. The previous study was a case study while the current study used 39 DT SACCOs therefore not a case study.

Assurance and Customer Satisfaction

Ismaila and Nassir (2017) did a study in Nigeria on comparative analysis of service quality and customer satisfaction of interest and non interest based co-operative societies using 180 respondents. The study concluded that there is a difference between service quality and levels of satisfaction received by members of interest and non interest based cooperative societies as it was higher in non-interest based cooperative societies than in the interest based societies with assurance contributing most to members' satisfaction. The study was a comparison study between non-interest and interest based SACCOs. The current study was not a comparative study and used only interest based DT SACCOs.

Oanda (2015) did a study on service quality dimension & customer satisfaction in Barclays Bank of Kenya. The study concluded that assurance scored highest where customers felt safe in their transactions. The study was carried in Nairobi Kenya focusing on BBK comparative study of customer segments among affluent, mass and business markets with a sample size of 50 giving low response rate with too much information on the questionnaire resulting into poor response. The current study was not a comparative study and was done with a population of 39 DT SACCOs and 100 sample size that increased response rate. The questionnaire was precise and to the point to allow more understanding and less time to complete for more participation.

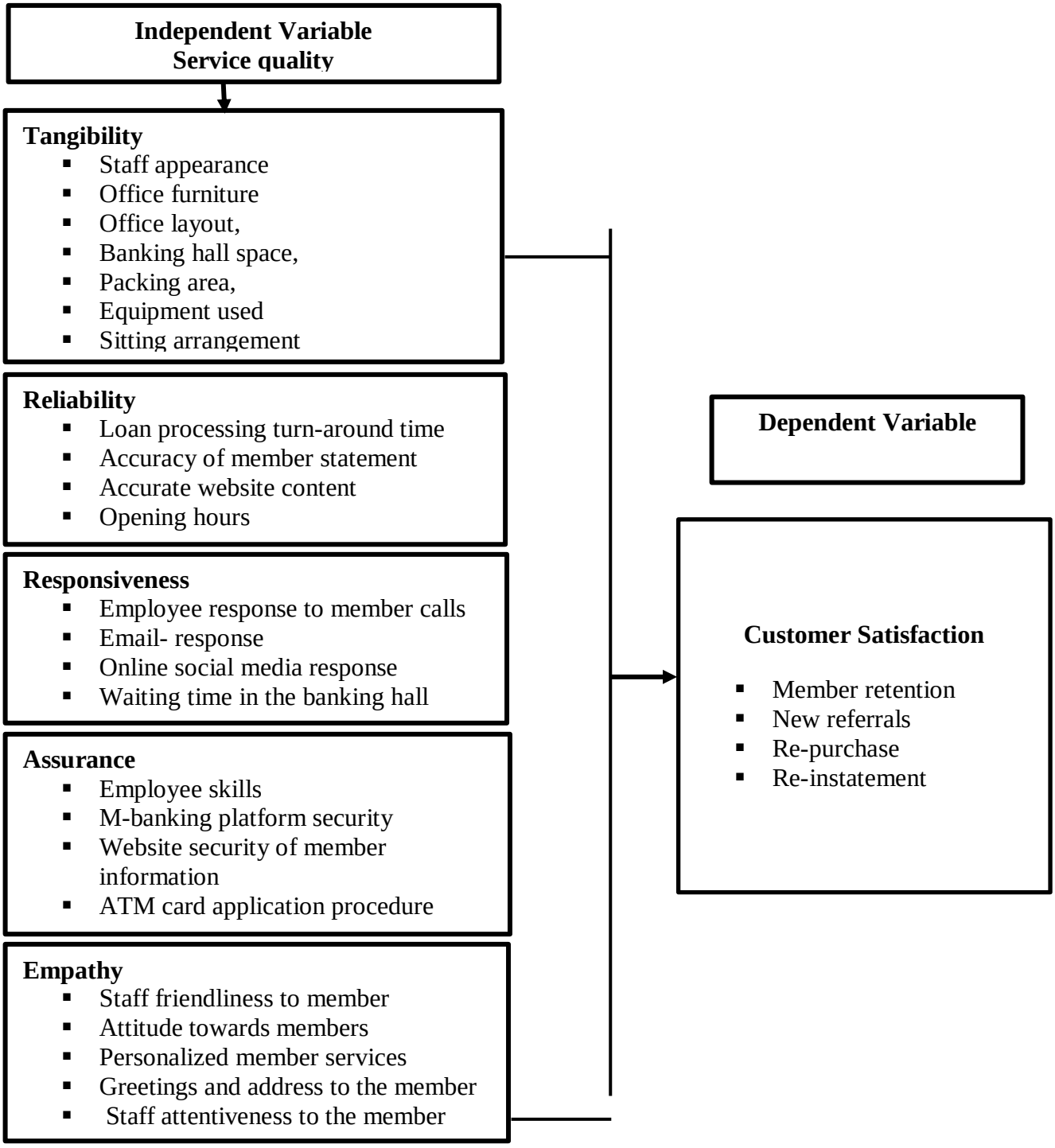
Empathy and Customer Satisfaction

A study done in India by Sharma and Kadarnath (2017) on customer satisfaction and service quality focusing on banking sector in India, used convenience sampling with a sample of 50 respondents. The study indicated that empathy resulted in customer satisfaction. The study was done in India with a small sample of 50. The current study was done in Kenya with a sample of 100 that increased reliability.

A study done in Malaysia by Ismail, Abdullah and Francis (2009) to explore the relationship among service quality features, perceived value and customer satisfaction in selected public institutions of higher learning in Malaysia used a cross-sectional research design to integrate service quality literature, in-depth interviews, a pilot study and actual survey to carry out the study. The study results indicated that perceived value increased the effect of empathy on customer satisfaction. The study was done in Malaysian public institutions of higher learning with survey and interview in data collection. The current study was done in Kenyan financial industry focusing on DT SACCOs sub-sector. In-depth interview was not applied. Survey method was used in data collection.

Conceptual Framework

Figure 1: Research Conceptual Framework



From the above conceptual framework and the literature reviewed, the following null hypotheses were tested;

Null Hypotheses

H_{01}: There is no effect of tangibility on customer satisfaction among account holders in DT SACCOs in Nairobi City County, Kenya.

H_{02}: There is no effect of reliability on customer satisfaction among account holders in DT SACCOs in Nairobi City County, Kenya.

H_{03}: There is no effect of responsiveness on customer satisfaction among account holders in DT SACCOs in Nairobi City County, Kenya.

H_{04}: There is no relationship between service assurance and customer satisfaction among account holders in DT SACCOs in Nairobi City County, Kenya.

H_{05}: There is no effect of empathy on customer satisfaction among account holders in DT SACCOs in Nairobi City County, Kenya.

METHODOLOGY

Study Design and Data Collection

The study adopted cross-sectional descriptive design to describe the state of affairs in real life experience, (Kothari, 2004) as data was collected on more than one case at a single point in time having a single contact with the study population. The study design was chosen due to its simplicity, easy analysis and not expensive as data is collected once. Other previous researchers Al-Azzam (2015) and Awuor (2014) used descriptive survey where quantity data was collected and analyzed to describe specific phenomena in their studies.

The target population was DT SACCOs account holders in Nairobi City County-Kenya. The study adopted census survey as the population of DT SACCOs in Nairobi City County was small hence the use of all 39 to represent 176 DT SACCOs nationally. A probability sampling design was adopted with stratified and systematic random sampling (Phrasisombath, 2009) to generate a sample of 100.

The study used both secondary and primary data in the research. Primary data was collected through structured closed ended self- administered questionnaire which was made clear and easy to understand. The study used the SERVQUAL model to construct a questionnaire with 6 demographic questions, 40 service quality and six customer satisfaction questions. A 5- point Likert scale was used to rate the extent of agreement between 1 and 5 where one was least extent and 5 large extent. The scale was adopted to help minimize response variation and efficiency in time to increase response rate (Owino, 2013). The survey was based on perception only with modification done on the wordings to suit the DT SACCO scope (Gichuru, 2013).

The secondary data was collected from DT SACCO regulator's website, literature published by industry experts, Daily Newspapers, internet resources, journals and other related materials from the library and class notes from Kenyatta University. The researcher then obtained a research authorization letter from Kenyatta University Graduate School which was forwarded to National Commission for Science, Technology and Innovation (NACOSTI) to seek authorization to carry out the study in Nairobi City County, Kenya. Two research assistants helped in data collection at the DT SACCOs banking hall where self-administered questionnaire was given to walk-in members.

Measures and Data Analysis

The study used previous validated SERVQUAL models in service quality measurement to ensure that the study measured what was in the objective, (Kumar (2011) where data was scrutinized to ensure that what was obtained was free from error (Njoka, 2013). The study obtained primary data from SACCO members who had first-hand experience with DT SACCO's service, above 18 years and with good level of education as the least had secondary education with good knowledge of the English language hence comprehension of the questionnaire. Pre-testing was done to examine each question and its meaning as understood by the respondents. This was carried out under actual field conditions on a group of 10 people similar to study population to help identify problems that potential respondents might have (Iruguthu, 2011). The study sought opinion of experts and academicians in questionnaire development, (Mohammad and Alhamadani 2011) to help improve editing of research questionnaire for more precision. Reliability was tested through Cronbach's alpha methodology to check internal consistency for the 40 service quality variables and 6 customer satisfaction variables to determine the accuracy and consistency of the data, Shanghversy (2003) (cited in Mogaka 2014)

The Cronbach's alpha values range between 0 and 1 with those closer to 1 as being strong. Awuor (2014) noted that a higher Cronbach's alpha indicates a reliable scale having a score of 0.79 for service quality attributes in the study.

Taber (2016) described values between 0.93-0.94 as excellent, 0.91-0.93 as strong and 0.84-0.90 as reliable. The table below was the findings of reliability test from the study data.

Table 1: Reliability Statistics

Variables	Cronbach's Alpha	Number of Items
Service quality	.962	40
Customer satisfaction	.929	6

Source: Survey Data (2018)

From Table 1 above, the Cronbach's alpha was 0.962 for service quality and 0.929 for customer satisfaction which according to Taber (2016) is strong. The study therefore used reliable data to support the research objective. Data analysis through multiple regression was then performed to analyze the effect of five independent service quality variables on customer satisfaction,(Nayak & Singh 2015).

Results

Mugenda and Mugenda (1999) (cited in Awuor, 2014) noted that 50% response rate is adequate, 60% is good while 70% is excellent. The study response rate was 71% which was excellent hence considered good for generalization. From the demographic profile, the male were the majority account holders at 59.2% while women were at 40.8% which was an indication that men are more banked than women in DT SACCOs. The finding was supported by Awuor (2014) in the banking sector that provided evidence with men being the top at 64.95% while women were 35.05%.

In regards to age, Table 2, the study found that deposit taking account holders were between the ages of 35-45 at 45.1%, 25-35 at 38%, 45-55 at 9.9% while the least were between 18-25 years at 7%. It can also be seen that account holders between 45-55 years (those who are almost retiring) are bigger than those between 18-25 (youth) years old. This means that DT SACCOs have not focused on the youth through their products and marketing to motivate them to join the SACCO movement thus their low number. Owino (2017) reported DT SACCO membership between the brackets of 26-35 at 7.7%. The current study found that the members within the same age bracket have increased to 38%. This is an indication of the new strategies adopted by the DT SACCOs in their recruitment and retention. The study sought to find out the number of years the respondents have been in the DT SACCO. The study indicated that members have been in the SACCO between 5-10 years at 26.8%, 3-5 years at 25.4%, over 10 years at 22.5%, 1-3 years at 16.9% and finally below 1 year at 8.5%. This means that the respondents had good knowledge and experience of the DT SACCO products and services for many years hence was fit for the study sample that improved reliability. It also showed that the DT SACCOs were providing satisfactory services to their members hence long service with the SACCO.

Table 2: Respondents Age

Age bracket	Frequency	Percentage
35-45	32	45.1
25-35	17	38.0
45-55	7	9.9
18-25	5	7.0
Total	**71**	**100.0**

Source: Survey Data (2018)

Descriptive Statistics

The study sought to describe the five service quality dimensions and customer satisfaction using descriptive statistics. The study objective was to find out the effect of service quality on customer satisfaction among account holders in DT SACCO in Nairobi City County-Kenya. The respondents were provided with 40 questions related to the five service quality dimensions where they were to give their opinion on the extent of their agreement with the statements presented in a five point likert scale where they were to rate with choice ratings being; 1= not at all, 2= little extent, 3= modrate extent, 4= large extent, 5= very large extent. The mean for each of the service quality dimension was analysed.

Table 3: Service Quality Dimensions'Aggregate Mean

Service Quality	Aggregate Mean	Std. Deviation
Assurance	4.04	1.10
Reliability	4.03	1.04
Empathy	3.91	1.10
Responsiveness	3.74,	1.10
Tangibility	3.72	1.05

Source: Survey Data (2018)

From Table 3, the five service quality dimensions were rated by members as follows; assurance aggregate mean score of 4.04, reliability at 4.03, empathy at 3.91, responsiveness 3.74 and tangibility at 3.72. From the findings, assurance and reliability were highly preferred by the members to a large extent followed by empathy, responsiveness and tangibility to moderate extent respectively. From the study findings, all the service quality dimensions offered customer satisfaction. The study also confirmed Ismaila & Nassir (2017) for assurance dimension as it provided more satisfaction to the respondents. The respondents also stated that they were happy and satisfied with their SACCO with a mean score of 4.34 and 4.35 respectively and as a result were willing to refer new members to their SACCO which was ranked high at a mean of 4.38. The study findings of members willingness to recommend was evident in the European Consumer Satisfaction Index model that was linking customer satisfaction to its main drivers and consequences where loyalty and willingness to recommend were customer satisfaction consequences.

Correlation Analysis

The study sought to find out the relationship between service quality attributes and customer satisfaction using Karl Pearson correlation coefficient. Goodwin and Leech (2006) describe correlation as statistical method that determines the size and direction of relationship between two or more variables which range between -1 (perfect negative correlation) and +1 (perfect positive correlation) and zero which indicates that there is no relationship.

Table 4: Correlation Analysis

Service Quality	Tan.	Rel.	Res.	Assu.	Emp.	Satis

Tangibility	Pearson Cor. Sig. (2-tailed) N	 71					
Reliability	Pearson Cor. Sig. (2-tailed) N	.659** .000 71	 71				
Responsive	Pearson Cor. Sig. (2-tailed) N	.630** .000 71	.721** .000 71	 71			
Assurance	Pearson Cor. Sig. (2-tailed) N	.550** .000 71	.779** .000 71	.802** .000 71	 71		
Empathy	Pearson Cor. Sig. (2-tailed) N	.513** .000 71	.666** .000 71	.777** .000 71	.712** .000 71		
Satisfaction		.516** .000 71	.664** .000 71	.773** .000 71	.735** .000 71	.784** .000 71	 71
	Pearson Cor. Sig. (2-tailed) N						
**. Correlation is significant at the 0.01 level (2-tailed).							

From the analysis in Table 4, all the service quality dimensions had positive relationship with customer satisfaction at a significant level of 0.01 with empathy showing a strong positive relationship at 0.784, followed by responsiveness at 0.773, assurance at 0.735, reliability at 0.664 and tangibility at 0.516. This means that all the service quality dimensions had strong positive relationship with customer satisfaction.

The study also sought to find out how the best the model described the relationship between the service quality and customer satisfaction. Table 5 provides the model summary.

Table 5: Model Summary- Service Quality and Customer Satisfaction

Model 1	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.837[a]	.700	.677	.47389

From Table 5, it was established that the coefficient of correlation R was 0.837 indicating a strong relationship between service quality and customer satisfaction. The coefficient of determination, the R Square according to Mooi (2014) lies between 0 and 1 to give a better model fit where models with higher R Square are considered best. R square of 0.75 is substantial, 0.5 is moderate and 0.25 is weak. From the findings in Table 5, the R Square was greater than 0.25 at 0.70 making it substantial. It also showed that service quality dimensions which include tangibility, reliability, responsiveness, assurance and empathy caused up to 70% of customer satisfaction. The remaining 30% is due to other factors which are outside the objective of the study.

Further the study sought to find out the significance of individual variables of service quality on customer satisfaction. Table 6 provides ANOVA of service quality and customer satisfaction.

Table 6: ANOVA - Service Quality and Customer Satisfaction

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	34.055	5	6.811	30.329	.000[b]
Residual	14.597	65	.225		
Total	**48.652**	**70**			

Source: Survey Data (2018)

From Table 6, the P-value of the model is below 0.05 at 0.000 meaning that all the five service quality dimensions are significantly related to customer satisfaction.

Regression Coefficient

The study sought to find out the effect of service quality on customer satisfaction by analysing individual variable contribution to customer satisfaction. Table 7 provides the analysis of regression coefficient.

Table 7: Regression Coefficient

Model	Unstandardized Coefficient		Standardized Coefficient	T	Sig	95.0% Confidence Interval for B	
	B	Std. Error	Beta			Lower Bound	Upper Bound
Constant	.615	.351		1.754	.084	-.085	1.315
Tangibility	.000	.110	.000	.004	.996	-.218	.219
Reliability	.061	.141	.053	.430	.668	-.221	.342
Responsive	.271	.140	.267	1.937	.057	-.008	.551
Assurance	.204	.142	.190	1.435	.156	-.080	.488
Empathy	.399	.110	.406	3.614	.001	.178	.619

Source: Survey Data (2018)

From Table 7, it can be seen that;

$Y = B_0+B_1X_1$

Where ;

Y = Customer satisfaction, B_0 = Constant, B_1 = Coefficient, X_1 = Empathy

Customer satisfaction = 0.615 + 0.399 Empathy.

This is because from Table 7, it is only empathy dimension that was significant at 0.001 which was within the required level of 0.05 therefore contributing an increase in customer satisfaction at 39.9%. The study findings of hypotheses were as follows;

H_{01}: There is no effect of tangibility on customer satisfaction among account holders in DT SACCOs in Nairobi City County, Kenya. The study failed to reject H_{01} as from Table 7, the significance level was 0.999 which is above the required level of 0.05 therefore it does not affect customer satisfaction.

H_{02}: There is no effect of reliability on customer satisfaction among account holders in DT SACCOs in Nairobi City County, Kenya. The study failed to reject H_{02} as from Table 7, the significance level was 0.668 which was l above the required level thereby indicating no effect on customer satisfaction.

H_{03}: There is no effect of responsiveness on customer satisfaction among account holders in DT SACCOs in Nairobi City County, Kenya. The study failed to reject H_{03} as the significance level was 0.57 which was above 0.05. This indicates that responsiveness does not have significant effect on customer satisfaction.

H_{04}: There is no relationship between assurance and customer satisfaction among account holders in DT SACCOs in Nairobi City County, Kenya. The study failed to reject H_{04} as from Table 7; the significance level of 0.156 is not within the required limit of significance.

H_{05}: There is no effect of empathy on customer satisfaction among account holders in DT SACCOs in Nairobi City County, Kenya. From Table 7, there is a significance level at 0.01 which is as per the required level of significance (below 0.05). This means that empathy has a strong effect on customer satisfaction. The study therefore rejected H_{05} as it has been proved that empathy has an effect on customer satisfaction. This is in order of the DT SACCO sector as members need empathy when they seek for credit facilities to improve their living standard; emergency loan, school fees loan, development loan and other loans to pay hospital bills, travel expenses among others. This was confirmed by Sharma and Kadarnath (2017) study that indicated empathy as a contributor to customer satisfaction. Tracy (2014) supported the findings noting that employees need to empathize with the members by stepping into members' shoes to feel their pain and seek for ways of easing the pain.

Conclusion

DT SACCO sector have not focused on tapping the youthful membership for sustainability. Men are more banked than women in the SACCO industry. There is high retention of membership in the DT SACCO sector.

Service quality is key in determining customer satisfaction as it is strongly related with customer satisfaction. Assurance is preferred by the members to increase their satisfaction. Empathy strongly contributes to customer satisfaction.

Recommendations

Enhance marketing strategies that will improve acquisition of youthful and retention of members.

Tap into the less banked women to increase membership in the DT SACCO as they are actively involved in economic activities.

The study recommends that the management needs to improve on service quality interventions to attain 100% customer satisfaction to reduce member withdrawal and switching to competitor and substitute products.

The management should consider enhancing tangibility by improving the banking hall and the parking area for more customer satisfaction. The management should also keep their promise and deliver services as communicated to their members.

Website communication is key in reaching out to the members who are far from the physical office locations. The management should enhance the website content to make it informative for decision making. The employees should also be trained on customer service to improve their skills on handling member calls efficiently.

Mobile application provides convenience and ease of accessing DT SACCO services and products. The management should consider improving its efficiency and security to allow more customer experience hence more satisfaction. The policy makers should consider improving on supervision to ensure that the cooperative principles are adhered to and allow members to participate and receive information pertaining to their SACCOs.

Limitations of the study

Data collection was done between the month of November and December when majority of DT SACCOs were busy thereby not willing to allow any research to be conducted in their offices. This made some DT SACCOs inaccessible hence reduced the number of respondents.

Getting members in the banking hall was not easy as with the festivities; most of them seemed to be in a hurry hence not able to fill the questionnaire that reduced the number of respondents. Some were also given the questionnaires but failed to return thus reduction in response rate.

Recommendations for further research

The study recommends future research in other areas that affect customer satisfaction in deposit taking SACCOs within Nairobi City County as the study focused on five service quality dimensions only. The study also recommends future research with a big sample as the sample was 100. Future research should also focus on how SACCO image influences customer satisfaction.

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PRIVATE PUBLIC PARTNERSHIPS AND PROJECT PERFORMANCE OF COMMERCIAL STATE CORPORATIONS IN KENYA

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ABSTRACT

In Kenya, the need for public facilities and services is growing and public sector capital is in short supply to cover this demand causing an unmanageable investment gaps. With the help of the public private partnerships (PPPs), Kenya as a state is capable of minimizing the financing gap in state corporations and the public sector. However, there are challenges in putting the PPPs in place which may include; identification, selection, evaluation, due diligence, management of performance and management of their relationships. The purpose of this research was to study the effect of public private partnerships and project performance in commercial state owned corporations in Nairobi County. The study adopted a descriptive research design. The target population was the 34 commercial state corporations operating in Nairobi County. The researcher adopted a census and purposively sampled 3 management staff from every commercial state corporation totaling 102 participants. Primary data was collected using questionnaires. Data was analyzed by way of descriptive and inferential statistics. Tables, charts and figures were used in the presentation of the analyzed data. Correlation results indicate that the association between project performance and financial contribution, risk mitigation and accountability was strong and positive and was statistically significant. Regression results also show that there is a positive relationship between project performance and financial contribution, risk mitigation and accountability. It can be concluded that commercial state corporations in Kenya had put in place financial contribution, risk mitigation and accountability measures and such measures were important in determining project performance in the institutions. On technical skills, the researcher recommends that the management of PPPs should ensure they source for the most economical technical expertise in fields where required in carrying out corporation's projects so as to achieve high output level.

Key Words: *Public Private Partnerships, Technical Skills, Financial Contribution, Risk Mitigation, Accountability, Project Performance*

1.1 Introduction

During the last ten years, variations in the global development strategic view have caused Public Private Partnerships (PPPs) to be a normal component of policy growth and development (Strakexgroup, 2014). Globalization, more incorporation of states, canvas agreements with private charities, global public benefit institutions (NGOs), and multinational companies, along with acknowledgement that nations cannot address challenges/issues by themselves only, all lead to an agreement of the requirement to function more closely with private entities. Partnerships facilitate public sector entities to handle development matters anchoring modern resources, skills and market based methodologies that can offer better supportable results. Even though not an answer to every development challenge, PPPs are presently viewed as a probable tactic to deal with strategic problems leveraging the resources of a variety of players in innovative techniques to arrive at superior development results (USAID, 2011)

In the sub-Saharan Africa alone, the value of PPP projects had grown from less than 0.1$ billion in 1995 to over 4.9$ billion in 2004 (Asian Development Bank, 2010). In Kenya, investment in infrastructure, beyond telecommunications, is majorly steered by the public sector. Presently, the third largest apportionment of public finances goes to physical infrastructure, after nondiscretionary and education industry expenditures. Nevertheless, an

absence of funding capability for enormous projects of infrastructure has ended up in an aim by the state to finance those projects envisioned in the Vision 2030 mainly through PPPs which offers an important prospect for private sector entities in Kenya (Kamau, 2016).

Performance has been defined as "the level of attainment of predefined specific aims or task". It is inclined to the set goals or objectives which make up the constraints of the project (Hoseini, 2015). Performance of a project is entails covering or going over and above stake holders' requirements and anticipations from a project. It unvaryingly includes putting thought on three key components of project i.e. time, cost and quality (Lines. *et al*., 2015). In today's extremely rivaled and unclear corporate setting, the customer who is the key player, requires faster distribution of their project with initial beginning of the project, surety of performance in the basis of cost, quality and time, worth for financing for their investment, reduced acquaintance to uncertainty and early validation of plan and value or charge rate (Badewi, 2015).

Public-private partnerships (PPP) were established in the United Kingdom, where they typically referred to as the Public Finance Initiatives (PFI). Public-private partnerships are currently being endorsed globally as the solution for capital investment in the public sector. Kenya is among the nations where this idea is currently energetically motivated by the administration. Public-Private Partnership (PPP) encompass public and private sector players functioning together on the foundation of common goals, approaches and pre-established standards of monitoring and evaluation (Brickell & Elias, 2013).

Public Private Partnership Regulations (PPPRs) in Kenya were initially publicized on 10th March, 2009, with the purpose of improving economic stimulus; encouraging investment and formation of worth for cash, which is a pool of numerous influences (Kamau, 2016). PPPs are engagements amidst the state and the private entities/institutions with the key goal of acquiring investment and superior efficacy in the transfer of public infrastructure, societal services and additionally linked amenities (Tokudo, 2015). According to Thai (2009), PPP is a plan where the private entities plan, form, funds, maintain and run assets of infrastructure conventionally offered by the public sector. These agreements have qualities of dividing of investments, uncertainties, rewards and duties amidst the two entities (Strakexgroup, 2014).

1.2 Statement of the Research Problem

In Kenya, the Vision 2030 (2008 – 2030) which purposes to change Kenya into a middle income economy by 2030 stresses the necessity for PPP in the advancement and management of projects in the public sector. The need for public facilities and services is growing and public sector capital is in short supply to cover this demand causing an unmanageable investment gap (Getuno, *et al*. (2009). To address this gap, the state is opting for PPPs (Strakexgroup, 2014). With the help of the PPPs, the state is capable of minimizing the financing gap in state corporations and the public sector (Kamau, 2016). The state has also generated a quicker and bigger pipeline of investments in infrastructure, and covering with the deficit in infrastructure with about US$ 2 to 3 billion/year. With the help of PPPs, the state has capability to exploit competences of private sector to grow the efficiency of services in the public sector (Kidenda, 2014).

However, there are challenges in putting the PPPs in place which may include; identification, selection, evaluation, due diligence, management of performance and management of their relationships. According to Ahmed (2010), creating partnerships involves a weighty amount of hindrances like getting the correct partners and the true common challenge with the right scheduling and extent of resources, in addition to cooperation across organizational cultures and procedure, all of which cause difficulty in facilitation partnerships. Forming and sustaining partnerships amidst government businesses and private institutions is very time consuming and sometimes have an unclear return (Kirira, 2011). This hence brings in the question on whether PPPs lead to better project performance in State Corporations and as such the researcher seeks to study the effect of PPPs on project performance of commercial state corporations in Kenya.

Several studies have been done on public private partnerships. Barrera-Osorio, Galbert, Sabarwal and Habyarimana (2015) studied the influence of public-private partnerships on performance of private school which was data from a randomized controlled experiment in Uganda and found that the program productively took in huge quantities of entitled students in secondary schools and that their performance in contributing schools was meaningfully better. Mugisa (2009) studied the influence of public-private partnership on delivery of health services efficiency in Uganda, Kasese District and discovered that Ugandan Government by PPP gave out grants totaling to 18.4 % of the budget of hospitals throughout the eleven years. Wibowo and Alfen (2013) did a research on the influence of financing of projects for PPP infrastructure on growth of the economy and the findings indicated that there was an affirmative association amidst financing of PPP infrastructure and growth of the level of GDP. Benon and Mbabazize (2016) studied the impact of involvement of private sector in performance of public private partnerships in projects involved in housing construction in Kigali and the outcomes showed that there was a sturdy positive and key link between technical skills, financial contribution, risk mitigation, accountability and performance of housing projects

Nevertheless, although the research works were contributory in creation of important milestones in the areas studied on, they weren't done on state owned corporations in Kenya causing a rarity in literature in a Kenyan viewpoint. In addition, none of the reviewed studies applied technical skills, financial contribution, risk mitigation and accountability as a portfolio independent variable for PPPs but rather, the researchers used only one variable in the respective studies. This gap is what the researcher desired to solve by investigating public private partnerships and project performance in profit making state owned corporations in Kenya.

1.3 Research Objective

1.3.1 General Objective

The purpose of this research was to study public private partnerships and project performance in commercial state owned corporations in Kenya.

1.3.2 Specific Objectives

The research was anchored on the following specific objectives:

i. To investigate the effect of technical skills on project performance in commercial state owned corporations in Kenya.
ii. To investigate the effect of financial contribution on project performance in commercial state owned corporations in Kenya.
iii. To investigate the effect of risk mitigation on project performance in commercial state owned corporations in Kenya.
iv. To investigate the effect of accountability on project performance in commercial state owned corporations in Kenya.

1.4 Research Hypothesis

The hypotheses for the study included:

H_{01}: Technical skills do have an effect on project performance in commercial state owned corporations in Kenya.
H_{02}: Financial contribution does have an effect on project performance in commercial state owned corporations in Kenya.
H_{03}: Risk mitigation does have an effect on project performance in commercial state owned corporations in Kenya.
H_{04}: Accountability does have an effect on project performance in commercial state owned corporations in Kenya.

2.0 Theoretical Review

The study was anchored on three theories namely; the resource dependence theory, rational-bureaucratic theory and the stakeholder theory. A review of the theories will provide a link between the public private partnerships and project performance in commercial state corporations in Kenya.

2.1 The Resource Dependence Theory

According to Pfeffer and Salancik (1978) the resource dependence theory proposes that there is no institution or body that can have the capabilities and resources required to stay alive without interrelating with organizations and persons outside their boundaries. The RDT offers an understanding on inter-organizational interactions and in what way their development aids to minimize risk and uncertainty (Hillman, Withers, & Collins, 2009). Hillman *et al.* (2009), on the other hand add that such interactions merely assimilate some of the risks confronted by establishments in the environment of business setting.

In relevance to this research, the theory of resource dependence is grounded in the perspective of an institution's capabilities, in terms of its resources and capabilities, are better achieved where there is synergy and strength. PPPs are based on the fact that the institutions might not have all the resources they require and as such join hands with other institutions to be able to achieve a desire goal as such the underpinnings of this theory are quite relevant in getting to understand how PPPs affect the project performance in such projects

2.2 Bureaucratic Theory

The research work was anchored on Max Webber`s theory of Bureaucracy which has been of major effect on organizational theory and the contemporary global discipline of management and (Page, 2013). The chief principles of the theory assumes the subsequent foundations of the contemporary management; (1) well-distinct separation of power and labor, (2) ranked organization of office structure, (3) formal procedures detailing standards of performance, (4) enrolment to workplaces founded on expertise and specialization, (5) holding an office as a career, and (6) power and responsibilities linked to positions instead people (Polasky *et al.,* 2011).

In relevance to PPPs and this study, the foundational underpinning of Bureaucratic Theory, persons ought to be recruited in different positions founded on qualifications and ability and providing a push to legitimacy to the application of power. The foundations of the theory can also be applied to help enhance governance and accountability particularly in projects where objectives are really time-bound and specific with tight financial and other limitations.

2.3 Stakeholder Theory

The stakeholder theory was invented by Freeman (2012) and is posited as "any collection or a single person who can influence or is influenced by the attainment of an institutions' goals and objectives". In contrast with the agency theory where the managers are at work and serve the stakeholders, stakeholder philosophers propose that managers in establishments have a linkage of interactions to work that comprise the staff, business partners and suppliers and the society in general. Application of PPPs in all institutions needs backing from the institute's players and stakeholders (Mitchell, 2010).

Relevant to the current research, state corporations usually make a decision to go into PPPs and these choices influence the wellbeing of interested parties either positively or adversely. Ordinarily the players must be on board in the decision making and if not, the projects may not be fruitful because the institution may get opposition from the players. The anticipated goal of getting into PPPs is to generate tangible worth benefits for the source from implemented projects.

2.4 Empirical Review

Several studies have been conducted on the public private partnerships and project performance. Benon and Mbabazize (2016) studied the influence of involvement in private sector in performance of public private partnership in projects of housing construction in the Kigali. The study exposed that there was a robust affirmative and significant association amongst Technical skills, financial contribution, Risk mitigation, and performance of housing projects. A report by OECD (2012b) on public-private consultations reveals that skills necessities may aid in addressing some of the disparity problem by facing national initiatives with constructive responses from initiatives and by placing them in control of a number of the skills policies they gain from.

Wibowo and Alfen (2013) conducted a research on the effect of financing PPP infrastructure projects on growth of the economy and the study findings exposed that there was an optimistic link amidst financing of PPP infrastructure and level of growth of gross domestic product. In another study, Kamau (2011) investigated on the connection amidst financing infrastructure projects on Kenyan economic growth. The results of the data showed that there was affirmative connection amid financing infrastructure and Kenyan economic growth. Sudić, Ćirović and Mitrović (2013) did in Serbia an analysis of risk management on public private partnership projects (PPP). The researchers adopted a descriptive research approach. The study revealed a sturdy and optimistic connection amidst the predictor variable (risk analysis and management) and response variables (public private partnership projects' performance) in the study

Oluwafemi and Obawale, (2010) conducted a study on the management risk and financial performance of Nigerian commercial banks. The research concluded that there is a significant correlation amid risk management and performance. Alfan and Zakaria (2012) studied public-private partnership project's accountability by performing a financial examination of Malaysian highway authority and the research findings revealed that accountability is positively linked to performance in the public-private partnership projects in Malaysia. In another study, Benon and Mbabazize (2016) studied the influence of the involvement of private sector in performance of public private partnership in housing construction projects in Kigali, Rwanda. From the research findings, it was exposed that there was a strong affirmative and significant connection amongst technical skills, financial contribution, Risk mitigation, and performance of housing projects.

3.0 Methodology

The study utilized a descriptive research. The population for the research took into account the 34 commercial state corporations operating in the Kenya.

Table 3.1: Population

Commercial State Corporations according to Ministry	Population
Lands, Housing & Urban Development	2
Education, Science & Technology	7
Transport & Infrastructure	1
Industrialization & Enterprise Development	5
East African Affairs, Tourism & Commerce	7
National Treasury	3
Agriculture, Fisheries & Livestock	9
Total	**34**

Source: Republic of Kenya (2017)

3.1 Sample Size and Sample Technique

This research incorporated a census methodology whereby all the 34 state corporations were considered for the study. The scholar purposively sampled 3 management staff from every institution totaling 102 participants. The study participants/ respondents selected comprised of; senior accountants finance and operations managers and from every commercial state corporation as they understand the processes and operations of their particular institution

The researcher adopted primary data in this investigation. Primary data was assembled through questionnaires. Primary data was gotten from the study objects by way of questionnaires. Content validity of the tool was assessed by getting the sentiments and opinions of specialists in the arena of the research specifically the supervisor. Cronbach's Alpha (α) was utilized by the researcher to assess and measure for reliability. Results on reliability are presented in Table 3.2. Ten instruments were handed to arbitrarily selected people. All the variables were considered reliable since they had above 0.7 coefficients for Cronbach Alpha and were hence accepted for the study.

Table 3.2 Reliability Results

Variable	Cronbach's Coefficient	Remark
Technical Skills	0.721	Accept
Financial Contribution	0.740	Accept
Risk Mitigation	0.732	Accept
Accountability	0.722	Accept

Source: Research Data (2019)

3.2 Data Presentation and Analysis

The evidence was investigated by means of frequencies, descriptive and inferential data. An examination of the evidence by way of multiple linear regression was applied to construe explanations on the data regarding the link the between the research factors. To explain the level of significance of the research model, analysis of variance (ANOVA) evaluation was performed. R Square's coefficient of determination was adopted by the researcher to measure magnitude which the determinant factors could explain response variable. Specific coefficients of regression were additionally conducted by employing coefficients of beta to assess the effect of unit change of the predicting factor to the response factor. The f statistics/p value was adopted to assess the extent of significance of the predictor factors.

The analytical model to be applied in the study was;

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$$

Where:

Y= Project Performance
X_1= Technical Skills
X_2= Financial Contribution
X_3= Risk Mitigation
X_4= Accountability
α = Constant
e = Error Term
$\beta_1, \beta_2, \beta_3, \beta_4$ = coefficients

These refers to the procedures of principles and values that make clear in what manner the student/researcher is to carry themselves in the entire research process (Creswell, 2003). This research endeavored to apply proper research methods and

4.0 Research Findings

4.1 Sample Demographics

Seventy nine out of a hundred and two respondents (77.5 %) successfully responded to the questionnaire. On gender, seventy seven percent of those that responded turned out to be male with 22.8% of those that responded being female. On age, 45.6% of those that took part in the study were aged thirty six to fifty years with 29.1% being over fifty years. Twenty five percent of those that took part in the study were between twenty one to thirty five years while no participant was less than 20 years. On work experience, forty two percent of those who undertook the study had worked in their commercial state corporations for above ten years. Thirty four percent of those that took part in the study had been in their respective corporations for less than four years. Twenty four percent of those who undertook the study had been in their corporations for four and ten years.

On the highest level of education, most of those that took part in the study (64.6%) had achieved a master's degree. Twenty four percent of those that took part in the study had attained a bachelor's degree. Ten percent of those that took part in the study had attained a doctorate with one percent achieving a diploma as their highest education level. On duration in the corporation, above sixty four percent (64.5%) had been in their corporations for six to ten years. Twenty three percent of those who undertook the study had worked in their institutions for more than ten years. Six percent of those that took part in the study had been in their respective corporations for 3 to 6 years while 6.3% had been in their respective corporation for less than three years.

4.2 Descriptive Statistics

On technical skills, most of those who undertook the study (55.7%) agreed that PPPs had brought in technical expertise in fields where such was required in carrying out corporation's projects. Above sixty nine percent (69.7%) of those who undertook the study agreed that experienced personnel had well been sourced through engagement of PPPs in carrying out projects. Seventy six percent of those who undertook the study agreed that key competencies were well screened by way of involving PPPs enhancing better project management within the corporation. Seventy one point nine percent (70.9%) of those who undertook the study agreed that customized specialized training had been offered by PPPs in areas where there was need for special skills. Most of those who undertook the study (68.4%) agreed that skills development has been developed in the corporation by involving PPP in project execution and implementation. The findings were supported by an overall average of 3.6 with a standard deviation measure of of 1.18.

On financial contribution, eighty two point three percent of those who undertook the study stated that financial support for feasibility analysis to check viability of the corporation's projects was provided due to the PPPs. Seventy one percent of those who undertook the study agreed that budget requirements were well met where PPPs are in place covering the project life. Eighty seven percent of those who participated in the study agreed that sufficient leverage in case of deficiency had been eased though PPPs covering cost needs. Most of those who participated in the study (69.6%) agreed that capital requirements for big projects had been adequately met by way of PPPs. Eighty six percent of those who participated in the study agreed that running costs had been well taken into account in engaging PPPs in carrying out various projects within the corporation. The findings were supported by an overall average of 4.0 with a standard deviation measure of 1.00.

On risk mitigation, eighty six percent of those who participated in the study agreed that risk analysis was well carried out before any corporation's project undertakings were carried out. About eighty nine percent of those who participated in the study agreed that the type of contract agreement in PPPs had clear ways in which risk was dealt with in an attempt to mitigate it. Above eighty eight percent of those who participated in the study agreed that guarantee from the government on risk control and mitigation was well in place in the life of the PPP projects. Seventy six of those who participated in the study (75.9%) agreed that appropriate risk allocation measures had been put in place so as to attribute the risk accordingly. Most of those those who participated in the study (73.4%) agreed that contingency measures where adverse risk scenario arise were in place and were frequently assessed. The findings were supported by an overall average of 4.0 with a standard deviation measure of 1.02.

On accountability, eighty one percent of those who participated in the study agreed that transparency had been enhanced in PPPs so as to increase accountability. Most of those who participated in the study (82.3%) agreed that information timeliness measures was highly advocated for in the project operations. Above eighty three percent (83.6%) of those who participated in the research agreed that financial reporting practices had been put in place and were functional in pursuit of accountability. Eighty five percent of those who participated in the study agreed that accurateness of information was highly exercised in PPPs for decision making. Ninety one percent of those who participated in the study (91.2%) agreed that internal control measures were well in place for checks and balances. The findings were supported by an overall average of 4.1 with a standard deviation measure of 0.87.

4.3 Pearson's Correlation Analysis

Pearson's correlation analysis was used to assess the strength and association between the variables under study. The correlation between project performance and all the predictor variables; technical skills, financial contribution, risk mitigation and accountability was positive (0.688, 0.736, 0.606 and 0.266 respectively). The outcomes of the results show that all the predictor variables; technical skills, financial contribution and risk mitigation as determinants have a strong association to project performance to commercial state corporations in Kenya. However, there was a weak link/association amid project performance accountability as its beta value was less than 0.5 i.e. 0.266. This could be as a result of budgeting preparation issues and corruption.

4.4 Goodness of Fit

The outcomes of the findings show that the predictor factors; technical skills, financial contribution, risk mitigation and accountability jointly were satisfactorily explaining project performance as supported by the R square of 0.664. This shows that the technical skills, financial contribution, risk mitigation and accountability jointly can explain 66.4% of the project performance.

4.5 Regression of Coefficients

The outcomes of the findings indicate that there is a an optimistic link amidst technical skills, financial contribution, risk mitigation and accountability and project performance as indicated by their coefficients of 0.330, 0.637, 0.397

and 0.497 respectively. Furthermore, technical skills, financial contribution, risk mitigation and accountability were all statistically significant as shown by significance values of 0.015, 0.001, 0.047 and 0.001 respectively. The results indicated that technical skills, financial contribution, risk mitigation and accountability were key predictors of project performance.

Table 4.1 Regression of Coefficients

Variable	Unstandardized Coefficients	Standard Error	t	Sig.
(Constant)	-3.569	0.792	-4.506	0.000
Technical Skills	0.330	0.128	2.590	0.012
Financial Contribution	0.637	0.193	3.307	0.001
Risk Mitigation	0.397	0.197	2.015	0.047
Accountability	0.497	0.150	3.312	0.001

Source: Research Data (2019)

The equation for the overall model was presented as;

Project Performance = 0.330 Technical Skills + 0.637 Financial Contribution + 0.397 Risk Mitigation + 0.497 Accountability – 3.569

4.6 Analysis of Variance

Results on ANOVA are shown on Table 4.10 and they imply the joint model is statistically significant. The findings show that the F Cal was of 236.639 which was greater than the F Critical which was 3.789 at p value 0.000. This indicates that the model had goodness of fit. These outcomes show that the predictor variables; technical skills, financial contribution, risk mitigation and accountability are important determinants of project performance

5.0 Summary

The aim of the study was to study the influence of PPPs on project performance in commercial state owned corporations in Kenya. The empirical literature shows that increase in PPPs have a direct influence in project performance. General studies indicate that there has been a steady increase in the demand for PPPs in government projects over time. This forms the motivation of the study. It becomes important to establish the influence of PPPs on project performance in commercial state owned corporations.

5.1 Conclusion

The first objective was to investigate the effect of technical skills on project performance in commercial state owned corporations in Kenya. Outcomes of the findings showed that technical skills were key determinants of project performance. This was supported by most of those undertook the study who affirmed that PPPs had brought in technical expertise in fields where such was required in carrying out corporation's projects, experienced personnel had well been sourced through engagement of PPPs in carrying out projects, key competencies were well screened by way of involving PPPs enhancing better project management within the corporation, customized specialized training had been offered by PPPs in areas where there was need for special skills and that skills development has been developed in the corporation by involving PPP in project execution and implementation. Results from correlation analysis show that the link amidst project performance and technical skills was sturdy/ robust and positive. Outcomes from regression analysis demonstrate a statistically significant link amidst project performance and technical skills.

The second objective was to investigate the effect of financial contribution on project performance in commercial state owned corporations in Kenya. Outcomes of the findings showed that financial contribution was a key determinant of project performance. This was supported by most of those that took part in the study who agreed that financial support for feasibility analysis to check viability of the corporation's projects was provided as a result of the PPPs, budget requirements were well met where PPPs are in place covering the project life, sufficient leverage in case of deficiency had been eased though PPPs covering cost needs, capital requirements for big projects had been adequately met by way of PPPs and that running costs had been well taken into account in engaging PPPs in carrying out various projects within the corporation. Results from correlation analysis show that the link amidst project performance and financial contribution was sturdy/ robust and positive. Outcomes from regression analysis demonstrate a statistically significant link amidst project performance and financial contribution.

The third objective was to investigate the effect of risk mitigation on project performance in commercial state owned corporations in Kenya. Outcomes of the findings showed that risk mitigation was a key determinant of project performance. This was supported by most of those that took part in the study who agreed that risk analysis was well carried out before any corporation's project undertakings were carried out, the type of contract agreement in PPPs had clear ways in which risk was dealt with in an attempt to mitigate it, guarantee from the government on risk control and mitigation was well in place in the life of the PPP projects, appropriate risk allocation measures had been put in place so as to attribute the risk accordingly and that contingency measures where adverse risk scenario arise were in place and were frequently assessed. Results from correlation analysis show that the link amidst project performance and risk mitigation was sturdy/ robust and positive. Outcomes from regression analysis demonstrate a statistically significant link amidst project performance and risk mitigation.

The forth objective was to investigate the effect of accountability on project performance in commercial state owned corporations in Kenya. Outcomes of the findings showed that accountability was a key determinant of project performance. This was supported by most of those that took part in the study who agreed that transparency had been enhanced in PPPs so as to increase accountability, information timeliness measures was highly advocated for in the project operations, financial reporting practices had been put in place and were functional in pursuit of accountability, accurateness of information was highly exercised in PPPs for decision making and that internal control measures were well in place for checks and balances. Results from correlation analysis show that the link amidst project performance and accountability was weak and positive. Outcomes from regression analysis demonstrate a statistically significant link amidst project performance and accountability.

5.2 Recommendations

On technical skills, the researcher recommends that the management of PPPs should ensure they source for the most economical technical expertise in fields where required in carrying out corporation's projects so as to achieve high output level. The researcher also recommended that measures to be put in place to ensure key competencies are well screened to enhancing better project management.

On financial contribution, the researcher recommends that the government provides financial support for feasibility analysis to check viability of the corporation's projects so as to empower them to do it effectively. The researcher also suggests that the PPPs put in place actions to ensure budget requirements are well within limit and adequately met during the project life. Furthermore, the researcher recommends that sufficient leverage measures should be enhanced to curb costing needs.

On risk mitigation, the researcher recommends that PPPs should involve specialists in carrying out risk analysis before any corporation's project undertakings are carried out. Further, the researcher recommends that measures are put in place to ensure clear ways in which risk is dealt with are well spelt out to enhance mitigation. In addition, the researcher suggests that the government should have in place measures to ensure guarantee to enhance risk control

and mitigation. Finally, frequent assessments should be in place to strengthen contingency measures for adverse risk scenarios.

On accountability, the researcher recommends that more transparency measures be incorporated in PPPs so as to enhance accountability. Furthermore, financial reporting practices should be emphasized in PPPs and should be well implemented in enhancing accountability in the institutions. The researcher also recommends that measures of internal controls should be well set up to enhance checks and balances in the state corporations thus enhancing accountability.

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LINKING HUMAN RESOURCE MANAGEMENT PRACTICES WITH IMPLEMENTATION OF QUALITY MANAGEMENT PROGRAMS IN MANUFACTURING FIRMS IN NAIROBI COUNTY

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ABSTRACT
For organizations to achieve the objectives of quality management there has to be synergy and congruence between human resource management practices and implementation of quality management programs. The objective of this study, therefore, was to investigate the human resource management practices influencing the implementation of quality management programs in manufacturing firms in Nairobi County. A sample of 100 firms was selected through a stratified random sampling method. Primary data was obtained through self-administered questionnaires from human resource managers from each firm. The study adopted a descriptive and cross-sectional research design. A pilot study was conducted to enhance the validity of the instrument and a Crobanch's alpha coefficient of > 0.8 was achieved for the internal consistency. Data was analysed using regression analysis and correlation analysis. Human resource practices of employee training, employee involvement and teamwork were found to have positive significant correlation with implementation of quality management programs at significance level $P < 0.01$. The study established that there was need to align the human resource practices to the implementation of quality management programs.

Key Words: Human resource management practices, quality management programs, total quality management, manufacturing firms.

1. INTRODUCTION
1.1 Background of the Study
The global market place, domestic and international competitions have made organizations around the world realize that their survival depend on high quality, with implementation of quality management programs gaining traction in the service sectors (Evans & Lindsay, 2008). Organizations investment on quality management is motivated by the belief that quality programs improve quality of products and services, improves efficiency in production and reduces cost of production, hence resulting into increased productivity, profitability and customer satisfaction (Yang, 2006). However, research has shown a high failure rate in the implementation of quality programs. The main reason for this failure is attributed to the management's paying little attention to HRM practices and over emphasizing the technical aspects of quality management. Some scholars have argued that HRM acts as a catalyst for the implementation of quality management (Shahraki, *et al*, 2011).

Emphasizing the significance of HRM in the implementation of quality management programs, Evans and Lindsay (2008) postulate that a quality system comprises two distinct systems: the management system and the technical system. The management system largely deals with human resource management (HRM) issues. Wilkinson (1992) identifies these systems as "hard" side and a "soft" side of quality management. He regards the "soft" side as emphasizing on the management of human resources while the 'hard' side deals with the technical aspects of quality management. Therefore, understanding the configuration of the HRM practices that influence the implementation of quality management programs is necessary. Studies have underlined the significance of HRM for successful implementation of quality programs. Emphasis has been placed on the following HRM practices; job design and redesign, teamwork and skill sharing, employee empowerment, employee training and development, reward and recognition, selection of employees, compensation systems, and performance management (Goetsch & Davis, 2013).

In spite of the numerous benefits accruing from implementing quality management programs, majority of firms have not enjoyed these benefits. This is due to poor implementation strategies, management failure, cost constraints, poor infrastructure, and poor monitoring by the certifying bodies. Management failure stems from lack of creating quality awareness among employees, and lack of training on quality tools (which are critical issues in HRM). Organizations also lack qualified and motivated personnel to drive the increasing demands of continual improvement.

1.2 Manufacturing Sector in Kenya

Kenya has a large manufacturing sector serving both the local market and exports to East Africa and COMESA regions. The sector, which is dominated by subsidiaries of multi-national corporations, contributes approximately 10 per cent of the Gross Domestic Product, 12 per cent of Kenya's exports and 13 per cent of formal employment (Kenya Association of Manufacturers, 2018). According to the Central Bank of Kenya (2018), the sector has over 2,500 registered firms, 87 per cent of them are active. The companies and the industrial activities are concentrated around the three largest urban centers, Nairobi, Mombasa, and Kisumu. The Kenya Association of Manufacturers (KAM) is the umbrella organization for manufacturing value-add sectors in Kenya. KAM has about 654 members which constitutes 26 per cent of manufacturing value-add industries in Kenya and comprises of small, medium and large enterprises. KAM members are categorized into 14 sub-sectors, 12 of which are in processing and value addition while the other two offer essential services to enhance formal industry (KAM, 2016).

As the international and local business environment becomes increasingly competitive, customers have become more demanding where quality is concerned. Therefore, there is an increasing need to match services and products to the needs of the customers. To address this, many manufacturing firms have adopted quality management programs. In Kenya, there are over 300 certified firms in quality management. Majority of these are ISO certified.

1.3 Statement of the Problem

The benefits of the implementation of quality management programs are improved quality of products, efficient production systems, improved performance and customer satisfaction (Evans & Lindsay, 2008). These benefits are accrued only when the implementation is well aligned, otherwise, the venture becomes a waste of resources. Research has shown a high rate of failure in the implementation of quality management programs The management failure to align the human resource management system to the quality program has posed a major challenge in the successful implementation of total quality management in organizations (Shahraki, 2011).

Managers may focus too much on tools and techniques and ignore the role of human resource in the implementation of quality management program. The "soft dimensions" of quality management, which are human resource management issues, have been ignored by the management. Janakiraman and Gopal (2006) assert that quality should be understood in the same spirit and language both by the management and the employees, otherwise implementation becomes difficult. Evans and Lindsay (2008) assert that there are significant gaps between the management awareness of quality improvement processes and implementation of quality programs. These gaps stem from management failure to align the HR function of the organization to the quality programs being implemented.

1.4 Research Objectives

1.4.1 General objective

The general objective of this study was to investigate the human resource management practices influencing the implementation of quality management programs in manufacturing firms in Nairobi County.

1.4.2 Specific objectives

The specific objectives of this study were:

i) To determine the extent to which employee training influences implementation of quality management programs in manufacturing firms in Nairobi County.

ii) To determine how employee involvement influences implementation of quality management programs in manufacturing firms in Nairobi County.

iii) To establish how teamwork influences implementation of quality management programs in manufacturing firms in Nairobi County.

1.5 Research Hypotheses

i) Employee training has no influence on the implementation of quality management programs in manufacturing firms in Nairobi County?

ii) Employee involvement has no influence on implementation of quality management programs in manufacturing firms in Nairobi County?
iii) Team work has no influence on the implementation of quality management programs in manufacturing firms in Nairobi County?

1.6 Significance of the Study

The findings of this study provide information that is useful to stakeholders involved in implementation of quality management in organizations. The findings will help the top management to implement quality programs successfully by adopting human resource practices that are supportive of quality initiatives. Human resource managers and practitioners will be empowered to play a more central role in the implementation and management of quality programs in their organizations. Managers in charge of quality assurance will appreciate and understand the HR issues relevant in driving quality programs. In addition, employees will understand their role in the quality management implementation chain. The findings of this study are also useful to government officials tasked with the responsibility of implementing quality programs in government departments and institutions. The study will help them to institute quality programs such as adoption of quality service delivery programs in public service.

1.7 Scope of the Study

The study focused on investigating how various HRM practices influence implementation of quality programs in manufacturing firms which are registered by the Kenya Association of Manufacturers. The study focused on the firms located in Nairobi County. The choice of firms located in Nairobi County and its surrounding regions was necessitated by the fact that 501 firms out of 654 manufacturing firms registered with KAM, which is approximately 77 percent, are located in these regions (KAM, 2016).

2. LITERATURE REVIEW

2.1 Theoretical Literature

2.1.1 Quality Management

The quality revolution is founded on the philosophies of quality gurus such as the late Edward Deming, Joseph Juran, Philip Crosby, Feigenbaun, Kaoru Ishikawa, and Genichi Taguchi. Their insights on measuring, managing and improving quality have had profound impacts on management of organizations (Evans, 2008). Juran (1989) defined quality as fitness for use. Juran (1989) viewed quality in five dimensions: design; conformance; availability; safety; and fit for use. His philosophy of quality, ''Quality Trilogy,'' consists of quality planning, quality control, and quality improvement. Crosby (1979) invented the quality concepts of "Do it Right First" and "Zero defects." He defined quality in terms of conformance to requirements that the customer has set. He advanced the following absolutes of quality management: quality is conformance to requirements; prevention causes quality not appraisal; performance standard must be zero defects (Naidu, *et al*, 2006).

Deming's (1986) philosophy of quality focuses on continual improvements in product and service quality by reducing uncertainty and variability in design, manufacturing, and service processes. Deming (1986) developed 14 points of quality: create consistency of purpose toward improvement of product and service; adopt the new philosophy; cease dependence on inspection to achieve quality; end the practice of awarding business on the basics of the price tag; improve constantly and forever the system of production and service ; institute training on the job; institute leadership; drive out fear; break down barriers between departments; eliminate slogans, exhortation and targets for the workforce; eliminate work standards – quotas – on the factory floor; remove barriers that rob the worker of the right pride of workmanship; institute a program of education and self improvement; and put everybody in the company to work to accomplish the transformation.

Ishikawa (1985) theory of total quality holds that: quality begins with education and ends with education; the first step in quality is to know the requirements of customers; the ideal state of quality control occurs when the inspection is no longer necessary; remove the root cause, not the system; quality control is the responsibility of all workers; put quality first; marketing is the entrance and exit of quality. On the other hand, Feigenbaum (1983) philosophy of quality is summarized in his Three Steps to Quality: Quality leadership which holds that management must maintain a constant focus and lead the quality effort; Modern Quality Technology which underlines that quality problems can be resolved through integration of all staff in the process and continual evaluation and implementation of new techniques to satisfy customers in the future; Organizational Commitment which entails continuous training and motivation of the entire workforce as well as integration of quality in business planning. Genichi Taguchi

Philosophy of quality promotes three stages in developing quality in the design of product or system: determine the quality level; improve the quality level in a cost effective manner; and monitor the quality of performance (Evans & Lindsay, 2008).

These theories have shaped the concept of total quality management as understood by management today. Quality management is understood as a management philosophy which integrates a set of practices which focus on continuous improvement, customer satisfaction, zero defects, employee improvement, team work, process redesign, competitive benchmarking, team based problem solving, constant measurement of results, and closer relationship with suppliers The implementation of these practices provides a foundation for competitive advantage as the system improves quality of products and services, improves efficiency in production, and reduces costs of production, hence improving competitive leverage of a business (Goetsch & Davis 2013)

2.1.1 Strategic Human Resource Management Perspective

Strategic human resource management (SHRM) is largely concerned with integration of HRM into the business strategy and 'adaptation' of HRM at all levels of the organization (Guest, 1987). There are three perspectives in SHRM that emerge from the existing literature: universalistic, contingency, and configuration. The 'universalistic' perspective posits the 'best' of HR practices, implying that business strategies and HRM policies are mutually independent in determining business performance. The 'contingency' perspective emphasizes the fit between business strategy and HRM policies and strategies, implying that business strategies are followed by HRM policies in determining business performance. The 'configurational' perspective posits a simultaneous internal and external fit between a firm's external environment, business strategy and HR strategy, implying that business strategies and HRM policies interact, according to organizational context in determining business performance (Delery & Doty, 1996). According to Pfeffer (1998) identified the following SHRM practices: employment security; selective hiring; self-managed teams; high compensation contingent on performance; training to provide a skilled and motivated workforce; reduction of status differentials; sharing information.

2.2 Empirical Literature

2.2.1 Implementation of Quality Management Programs

Successful implementation of quality programs enhances the company image and improves the satisfaction and quality awareness of employees (Yang, 2006). Firms that have implemented quality programs are improvement orientated, customer focused, and quality driven (Kehoe, 1996). The features of successful implementation of the quality programs according to Janakiraman and Gopal (2006) include: the involvement and recognition by external customers; reduction in complaints; improved attitudes at work; reduction in errors, scrap, and rework; and increased productivity. A review of literature reveals the following major practices in a TQM program: Quality control circles; statistical quality control; supplier cooperation; Kaizen; Hoshin Management; leadership; quality goal-setting; customer satisfaction managing; customer service system; benchmarking; balance score card; daily management; project team of improvement; culture change and development; quality management system; training of quality tools; business process reengineering; and continuous improvement (Goetsch & David, 2013).

Kehoe (1996) identifies the following fundamental components in the implementation of a TQM program: Senior management leadership; improvement orientation; customer focus; company-wide involvement; commitment to training and education; ownership of the process; emphasis on measurement and review; and team-work. On the other hand, Basu (2004) recommends the following three stages in the implementation of a quality program: ensure that necessary tools and techniques are available; provide right level of education and training to employees from the

top to bottom of organization on the use of tools and techniques; and institute the tools, starting with simple tools first.

Different firms implement quality programs at different levels. The first level is of zero control. This is the zero level of implementation of quality programs. At this level there is no concern for customer satisfaction or quality controls. The next level is of quality control. At this level organizations set up quality control systems and develop their products management systems. Most firms use SQC and QCC systems. The level of quality control is followed by quality assurance. At this level, firms try to control all the processes that affect product quality. Most companies assure quality by using quality programs such as ISO 9000, ISO 9000 - 2000, ISO 9001 - 2015. The next level is continuous quality improvements. Firms at this level not only conform to quality assurance but also focus on continuously developing competence, and skills of quality management. These firms use continuous quality improvement concepts such as Just in Time (JIT), Zero defects and QCC (Singh *et al*, 2010, Raja, *et al*, 2011). The highest and ultimate level of quality implementation is quality awards models. Firms operating in this level are global firms which dominate markets. Their key focus is customer satisfaction. These firms use management approaches such as process reengineering, benchmarking and computer software packages to enhance quality performance (Kaluarachchi, 2010).

2.2.2 Employee Training and Implementation of Quality Management Programs

Training and development is fundamental in the implementation of quality management programs. Training employees in areas such as adoption of new quality concepts, the set up and practices of customer satisfaction systems, the use of statistical quality control, and change of organizational culture is vital for successful implementation of quality programs Training and development programs are popularly used by ISO certified firms. One of Deming's 14 points was that all employees must be trained in improvement techniques. Organizations that have embraced quality management practices should invest in training, a continuous process of training. The training program should be objective, that is, focus on the quality concepts of customer satisfaction, quality control, change of culture, zero defects and efficiency (Shahraki *et al*, 2011).

Evans and Lindsay (2008) state that training should focus on quality awareness, leadership, project management, communication, teamwork, problem solving, interpreting using data, meeting customer requirements, process analysis, process simplification, waste reduction, and error proofing, cycle time reduction and other issues that affect employee effectiveness and efficiency in realizing the quality goals. In total quality environment, employees need to understand the goal of customer satisfaction to be given training and responsibilities to achieve this goal. Training should relate specifically to the job performed by those being trained, and it should have immediate practical application on the job. Employees from the top to bottom of an organization should be provided with right level of training and development in order to ensure they have the right knowledge of the tools and techniques appropriate for their jobs (Basu, 2004). Goetsch and Davis (2013) advocates for corporate training which revolves around the concept of superior value in terms of quality, cost, and service.

According to Juran (1989) managers should be well trained in Juran's Trilogy: quality planning; quality control; and quality improvement. He emphasizes on continuous education on quality and encourages the need to invest in training at all levels of the organization (Basu, 2004, Juran, 1989). Deming (1986) advocated for instituting training on the job. Hence organizations should become learning organizations with a willingness to share knowledge. Further, Deming (1986) states that staff should be encouraged to seek higher educational qualifications and organizations should become knowledge-based. An integral part of the total quality implementation is the harnessing of the skills of the people within the organization (Kehoe, 1996). Employees should be prepared for TQM implementation through training programs on the principles of TQM (Shahraki et al 2011). The benefits of training on TQM programs implementation include fewer production errors, increased productivity, improved quality, better response to change, better team work and reduced costs (Goetsch & Davis, 2013).

2.2.3 Employee Involvement and Implementation of Quality Management Programs

The involvement of the people in the organization will ensure the success of TQM program (Naidu, *et al*, 2006). The involvement of employees in making decisions that satisfy customers without constraining them with bureaucratic rules is fundamental for developing a quality culture (Evans & Lindsay, 2008). Employee involvement in a Total Quality environment is a tool for improvement. It enhances creativity and initiative, values necessary for TQM practice of continual improvement. Deming's (1986) 14th point of quality underscores the need to put everybody in the company to work to accomplish the transformation. The idea is that quality is the responsibility of all employees and not just quality managers (Basu, 2004). Employees who are allowed to participate in decisions that affect their

jobs and are empowered through delegation and training make substantial contribution to the success of quality management programs (Shahraki, *et al* 2011). Employees should be physically, intellectually, and emotionally involved. The management must provide an open, non-threatening, and creative environment that encourages employee involvement; expects employees to think; recognizes employee value; and honours employee ownership of processes, products, and service (Goetsch & Davis, 2013).

For quality initiatives to work there must be sufficient participation of all employees in quality decisions (Shahraki *et al*, 2011). Studies done by Yang (2006) reveal that employee involvement has great influence on the implementation of TQM programs such as the adoption of new quality concepts, the set-up and practice of customer satisfaction systems, a change in culture, and quality control circle. The workforce may demonstrate resistance when total quality programs are "installed" without their involvement. This resistance is justifiable because TQM programs demands high level skills, abilities, quality attitude and commitment (Naidu et al, 2006). When managers give employees the tools to make good decisions and the freedom and encouragement to make contributions, they virtually guarantee that better quality products and production processes will result (Evans and Lindsay, 2008). Quality should be understood in the same spirit and language both by the management and the employees, otherwise implementation becomes difficult (Janakiranaan & Gopal, 2006). This congruence and unity is achieved if the workforce is fully involved in programs implementation.

2.2.4 Teamwork and Implementation of Quality Management Programs

Teamwork for total quality should focus attention on customers-supplier relationships and encourage the involvement of the total workforce in attacking systematic problems, particularly those that cross functional boundaries (Evans & Lindsay, 2008). Effective teamwork is critical to a successful quality effort (Evans, 2008). Team working underpins the application of the techniques of quality management. Evans (2008) identifies six types of teams necessary to drive a TQM program: leadership teams (steering committees); problem solving teams; natural work teams; self-managed teams; virtual teams; and project teams. Teamwork enables various parts of the organization to work together in meeting customer needs. Teams provide the capacity for rapid response. Team work culture is essential for TQM; it should be practiced in cross functional teams to encourage a borderless organization (Basu, 2004).

Deming (1986) points out that barrier between departments should be broken and replaced by team work. Quality gurus Juran (1989) and Crosby (1979) advocated the use of leadership teams namely quality councils and quality improvement teams. These teams are responsible for establishing the overall quality policy and for guiding the implementation and evaluation of quality throughout the organization. Goetsch and Davis (2013) rationalize teamwork thus: teams satisfy the human social need to belong; two or more heads are better than one; the whole can be greater than the sum of its parts; people in teams get to know each other, build trust, and as a result, want to help each other; teamwork promotes better communication; teamwork multiplies the potential of individual members; and teamwork produces positive peer pressure. Teamwork provides for greater sharing of information and skills within the workgroup and enhances job satisfaction (Shahraki, *et al*, 2011). Employees who participate in team activities feel more empowered, are more satisfied with the rate of improvement in quality in their companies and receive better training in both job-related and problem solving skills (Tuckman *et al*, 2011).

2.5 Conceptual Frame Work

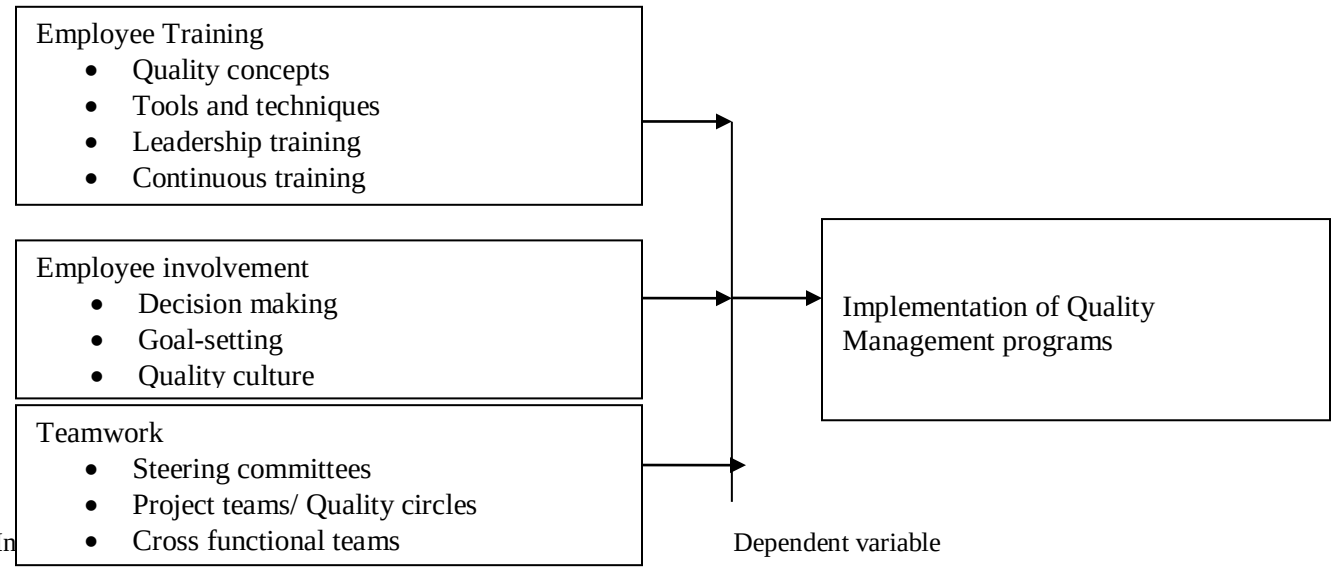

Figure 2.1: The Conceptual Framework
Source: Njoroge, Bula & Wanyoike (2019)

3. RESEARCH METHODOLOGY

This study adopted a descriptive research design to investigate the human resource management practices influencing the implementation of quality management programs in manufacturing firms in Nairobi County. Descriptive research designs are usually structured and designed to measure the characteristics identified in the research questions (Kothari, 2004). The design is more reliable and suitable in determining the relationships between variables and used to produce models of these relationships (Saunders, Lewis & Thornhill, 2009). The study targeted 501 manufacturing firms which were categorized into 12 manufacturing sectors. A sample of a 100 firms was selected using stratified random sampling method.

Data was mainly collected using self-administered questionnaires which had both closed-ended and open-ended questions. It sought information on the background of the respondents and their insights and perceptions about HRM practices and their implementation, quality management programs and their implementation, and the relationship between the various HRM practices and quality management programs implementation. The questionnaire was administered to human resource manager of the selected firms. In order to test the validity and reliability of the questionnaires, a pilot study was conducted using five firms which were randomly selected from the target population. Internal consistency was measured using Cronbach's alpha whereby 38 items of the questionnaire were tested.

The collected data was analyzed and interpreted using descriptive and inferential statistics. Statistical package for social sciences (SPSS) was used in the analysis of data. Inferential statistics were mainly done using regression and correlation analyses. These analyses were done in order to determine the statistical relationships between the human resource practices and the implementation of quality management programs

4. RESEARCH FINDINGS

4.1 Reliability Test

To internal consistency reliability test was conducted on 38 items to get the Cronbach's alpha coefficient. The internal consistency of the research instrument was strong enough to provide reliable results. As shown in table 4.1.

Table 4.1: Internal Reliability Analysis

Variables	Items	Cronbach's alpha
Employees' Training	9	0.88
Employees' involvement	7	0.85

Teamwork	8	0.94
Implementation of quality programs	14	0.75

The internal consistency of the research instrument was strong enough to provide reliable results.

4.2 Response Rate

Out of the 100 questionnaires administered to human resources managers, 75 were filled and collected giving a response rate of 75%.

4.3 Inferential Statistics

4.4.1 Implementation of Quality Management Programs

The study sought to establish the level of implementation of quality management programs in manufacturing firms.

Table 4.2 Result of One – Sample Statistics

Category	N	Mean	Std. dev	Std. error mean
Implementation of Quality Management Programs	75	3.457	0.452	0.057

Likert scale (1 – 5) $<$ 2.99 = Low; $\geq$ 3.00 $\leq$ 3.99 = Moderate, $\geq$ 4.00 = High

Table 4.3 Results of One – Sample Test

	One – Sample Test					
	t	Df	Sig (2-tailed)	Mean difference	95% confidence level	
					Lower	Upper
Implementation of Quality Management Programs	8.02	74	0.000	0.457	0.345	0.570

The results show that the mean for implementing quality management programs is 3.457 (Std. Dev 0.452) which indicates moderate level. In table 4.3, a one sample T-test show the sig. (2 – tailed) for quality management implementation is 0.00. This affirms that manufacturing firms have implemented quality management programs at the significance level P $\leq$ 0.05.

4.4.2 Regression Analysis

The linear regression model was used to examine how changes in the independent variables influenced changes in the dependent variable. The model shows a significant proportion of variance in performance (R^2=0.398) as shown table 4.6.

Table 4.4: Regression Model (R^2)

Model	R	R^2	Adj. R^2	Std. Error of the estimate
1	.631	.398	.352	.851

Predictors: (Constant) Employee Training, Employee Involvement, Teamwork.

The results indicate that the independent variables collectively explain 39.8% of the variation in implementation of quality management programs. This implies a significant influence of human resource management practices on implementation of quality management programs in manufacturing firms.

Table 4.5 ANOVA

Model		Sum of squares	Df	Mean square	F	Sig.
1	Regression	25.82	4	6.455	8.91	.000
	Residual	39.88	50	.798		
	Total	65.70	54			

Predictors: (Constant) Employee Training, Employee Involvement, Teamwork.
Dependent variable: Implementation of Quality Management Programs

The study tested the overall significance of the model using ANOVA (F) test at 5% significance level. The results in table 4.5 show a significant F statistic value of 8.91($P<0.05$) which implies that the HRM practices of employee training, employee involvement and teamwork positively predicts performance.

Table 4.6: Regression Coefficients for Independent Variables

Model	Unstandardized coefficients		Standardized coefficients		
	B	**Std. Error**	**Beta**	**T**	**Sig.**
1 Constant	1.60	.689		2.350	.024
Employee Training	.285	.142	.217	1.971	.001
Employee Involvement	.133	.193	.131	.163	.000
Teamwork	.186	.195	.492	3.095	.003

Dependent variable: Implementation of Quality Management Programs

The results of regression coefficients for independent variables Table 4.6 show that:
Employee training significantly predicted performance: $B = 0.285$, $t = 1.971$, $p < 0.05$
Employee involvement significantly predicted performance: $B = 0.133$, $t = 0.163$, $P < 0.05$
Teamwork significantly predicted performance: $B = 0.186$, $t = 3.095$, $P<0.05$
$Y = B_o + B_1 X_1 + B_2X_2 + B_3 X_3 + \varepsilon$

Where Y = Performance

X_1 = Employee Training
X_2 = Employee Involvement
X_3 = Teamwork
ε = Error term
B_0 = Intercept
$B_1 – B_3$ = Slope coefficients

$Y = 1.60 + 0.285X_1 + 0.133X_2 + 0.186 X_3$

4.4.3 Corrélations between HRM Practices and Implementation of Quality Management Programs

A Pearson's correlations of dimensions were conducted to determine correlation coefficients of each of HRM practice and implementation of quality management programs.

Table 4.7: Pearson's Correlations of Dimensions

Dimension	Employee Training	Employee Involvement	Teamwork
Performance	.788**	.712*	.785**

**correlation is significant at the 0.01 level (2-tailed)
*Correlation is significant at the 0.05 level (2-tailed)

Results indicate that HRM practices have statistically significant correlation with quality management programs implementation. Employee training has the highest positive correlation (.788) followed by teamwork (.785) and employee involvement has a high positive correlation of .712.

4.4.4 Pearson Correlation Matrix

A Pearson's correlation matrix was conducted to determine whether there was multi-collinearity between the independent variables.

Table 4.8 Pearson Correlation Matrix

Dimension	Performance	Employee Training	Employee Involvement	Teamwork
Performance	1	.788**	.712*	.785**
Employee Training	.788**	1	.138	.075
Employee	.712*	.138	1	.125

Involvement				
Teamwork	.785**	.075	.125	1

**correlation is significant at the 0.01 level (2-tailed)
*Correlation is significant at the 0.05 level (2-tailed)

The Pearson correlation coefficient values signify a strong relationship between each of the HRM practices independent variables and the dependent variable. The relationship between the independent variables is insignificant and none of the coefficients is higher than 0.3. This implies that there is no multicollinearity; therefore, HRM practices are statistically predictors of the implementation of quality management programs.

5. CONCLUSION

It is evident from results of the study that human resource management practices of employees' training, employee involvement, and teamwork have influence on the implementation of implementation of quality management programs in manufacturing firms in Nairobi County. Implementation of quality management programs enhances efficiency in production, improves customer satisfaction, enhances the corporate image of the organization and improves employee satisfaction. To achieve these benefits to a greater extent requires good management of human resource practices. These practices must be aligned with the quality management programs.

Training of staff on quality concepts of customer satisfaction, leadership, control of quality and culture change is significant in implementation of quality management programs. Involving of employees in quality control decisions; making them responsible for quality in processes, products, and services; communicating the quality goals of the organizations; involving them through delegation and job rotation; and involving them setting standards of performance enhances the implementation of quality management programs. Use of teams to solve quality problems and to spearhead quality projects enhances the implementation of quality management programs. Cross functional teams are important. Teamwork encourages skill sharing, coaching, mentorship, and empowers employees. It improves efficiency in production and hence quality in products and services.

6. RECOMMENDATIONS

For successful implementation of quality management programs, the management of the organization must adopt human resource practices that are supportive of the total quality initiatives. After adopting these HR practices they should be managed in such a manner that they will have a direct impact on the level of the implementation of quality programs. Training of employees should be a continual process. Every employee should be trained on the quality concepts and on the use of tools and techniques of quality management. Employees should be involved in quality initiatives. They should be involved in quality decisions and made responsible for quality in their jobs. Teamwork should be enhanced by forming teams across departments and empowering them through leadership training and provision of necessary resources. Teams should be used to solve quality problems and to drive quality projects.

7. FURTHER RESEARCH

This study was limited to the manufacturing sector. A further research could be conducted on the other sectors of economy which implement quality management systems, that is, health sector, education, banking, and hospitality sector.

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Effect of Competitor Threats on the Competitive Advantage among Commercial Banks in Kenya

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Abstract

Globalization and technological advancement have in a big way altered the business landscape, making it difficult for banks to sustain competitive advantage. The need to enhance competitiveness has forced firms to consider competitive intelligence not only as a tool to guard against competitor threats but also as a mechanism for discovering new opportunities and trends. Competitive intelligence contributes to continuous improvement of the quality of products, services and solutions offered by companies to their clients as well as increasing a firm's innovative capability. Competitor threats have been identified as one of the competitive intelligence domains that a firm needs to focus on in order to gain and sustain competitive advantage. This paper sought to examine the effect of competitor threats on the competitive advantage among commercial banks in Kenya. The target population for the study were directors or managers in-charge of planning or strategy in each of the forty banks in the country. Primary data was collected using a semi structured questionnaire. The questionnaire was tested for both validity and reliability and was found to meet the required threshold. A response rate of 77.5% was achieved in the study and this was adequate for analysis. The study found that competitor threats had significant effect on the ability of banks to sustain competitive advantage. The study therefore concluded that competitors' threats are real and could inhibit a company's strategy from succeeding in the marketplace and therefore should be detected early. The study therefore recommends that banks should raise the level of use of competitive intelligence in monitoring the competitive landscape to enable early identification of competitors' threats. The study further recommends that banks should develop strategies to neutralize, eliminate or ameliorate the threats.

Key words: competitor threats; competitive intelligence; competitive advantage

Background of the Study

Globalization and technological advancement have greatly changed the business terrain and have made it difficult for companies to keep a sustained competitive advantage (Nenzhelele & Pellisier, 2014). The increased environmental uncertainties have created a need to monitor and understand the environment more accurately for survival and success (Kalinowski, 2012). The need to enhance competitiveness has forced companies to consider competitive intelligence not only as protective tool to guard against perceived threats and changes, but also as a mechanism for discovering new opportunities and trends (Pirttimaki, 2007).

Dubey and Dubey (2011) noted that competitive intelligence is the right toolkit for managing information, external actors and winning on the business battle field. Competitive intelligence may be regarded as the acquisition, analysis and utilization of information about competitors, new and potential competition, clients, suppliers and governments in order to support decision making for enhancing competitiveness of organizations (Anica & Cucui, 2009). In order to maintain a sustainable competitive advantage in the fierce business environment, it is certainly important to have a versatile and in-depth understanding of the determinants driving change (Nasri, 2012).

The challenge for organization's management today in their quest to improve performance is how to deal with this changing competitive landscape. Performance measurement is considered as the process of quantifying the effectiveness and efficiency of actions (Alaa & James, 1996). Ma (2000) observed that competitive advantage and firm performance are two constructs with an apparently complex relationship, while Ray, Barney and Muhanna (2004) found a significant relationship between competitive advantage and performance. Though much empirical

works have centered on competitive advantage, the generalization of its relationship to competitive intelligence is under researched (Safarnia, Akbari & Abbasi 2011).

Domains of Competitive Intelligence

The topic of intelligence is vast and has its roots in military science. One of the earliest sophisticated references is the art of war by Sun Tsu (Griffith, 1971) written about 500 BC and has been the basis for development in military intelligence. Intelligence has been a significant factor in military success for thousands of years (McCandles, 2003).The genesis of intelligence activities in the context of commerce and business, is however, a more recent development (Fleisher, 2001). Since the end of the Cold War, competitive intelligence once used in the military environment rapidly infiltrated into the business environment (Deng & Luo, 2010). When the Cold War came to an end in 1990, downsizing occurred in the United States of America armed forces and related intelligence activities, which resulted in many qualified intelligence officers seeking to apply their skills in other arenas. One arena where they found a home was in business organizations (CIR, 1999). Hence the widespread use of competitive intelligence in business organizations today.

Petrisor and Strain (2013) noted that competitive intelligence contributes to the continuous improvement of the quality of products, services and solutions offered by companies, while on the other hand, has an important role in increasing the firm's innovation capability. Fahey (2007) identified five competitive intelligence domains or strategic inputs that researchers in competitive intelligence needs to focus on. These are: market place opportunities, competitor threats, competitive risks, key vulnerabilities and core assumptions. These domains are the variables adopted for this study.

Competitor threats are the ways a rival inhibits a company strategy from succeeding in the market place. When a threat is detected too late, the resources devoted to this strategy would go to waste. If detected early, strategies could be developed to neutralize, eliminate, ameliorate or avoid the strategy. Calof (2008) stated that competitive intelligence acts as a factor to protect organizations against future risks and recognize hidden opportunities. Moneme, Nzwewi and Mgbemena (2017) state that competitor threats could be mitigated through competitive interdependence where competitive pressures push firms to enter into alliances to limit the number of competitors.

Competitive Advantage

The pursuit of competitive advantage is an idea at the very heart of strategic management literature (Liao & Hu, 2007). Levy and Weitz (2001) describe sustainable competitive advantage as an edge over competition that could be maintained over a long time. In order for the organizations to create sustainable competitive advantage, they need to develop a value propositioning that meets the needs of customers in a way that rivals cannot match or easily imitate (Kotler & Keller, 2006). It is essentially a position of superiority on the part of the firm in relation to its competition in any of the multitude of functions/activities performed by the firm. Ma (1999) categorizes generic competitive advantages into three: ownership based; access- based and proficiency-based.

Barney (2007) noted that competitive advantage is developed on the basis of three characteristics. First, competitive advantage must be able to generate customer value which may be described in terms of speedy delivery, lower price, convenience or other characteristics. Second, the customer must perceive the increased value of the product or service and third, for competitive advantage to be effective it should be difficult for rivals to imitate. While Agbour (2008) asserts that creativity of an organization depends on how the leader inspires every employee to bring out their best competencies which they use to transform the organization toward a competitive advantage over its rivals.

Porter (1980) asserts that a firm can achieve competitive advantage through ownership or possession of certain valuable assets, factors or attributes such as strong market position. Barney (1991) noted that it could be developed from a firm being endowed with unique resources, while Hall (1992) says it could come from the firm's reputation. Lieberman and Montgomery (1998) stated that it could be achieved in the form of superior factor market or supply distribution channels. Moreover, a firm could enjoy competitive advantage through its superior knowledge, competencies or capability in conducting and managing its business processes (Teece, Pisano & Shuen, 1997). Safarnia et al., (2011) state that competitive advantage is born when a firm discovers a new and more efficient way to enter an industry and put that invention in concrete form, than its rivals. This could allow the firm to produce quality products at lower costs and deliver the right product/service in the right place, at the right price and time through the most convenient channel.

Commercial Banks in Kenya

The banking industry in Kenya is governed by the Companies Act (Cap 486), the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK, 2011). The Industry comprises of 43 commercial banks, 2 mortgage finance companies and 123 foreign exchange bureaus (CBK, 2012). The CBK places commercial banks in Kenya in four broad categories based on ownership; foreign owned locally incorporated, institutions with government participation, foreign owned but locally incorporated institutions (partly owned by locals) and the locally owned institutions (CBK, 2012). Three of the commercial banks have however been placed under receivership by the regulator after experiencing some financial challenges. The study will therefore consider the forty banks that are operating with the direct control of Central Bank of Kenya.

An appropriate banking environment is considered a key pillar as well as an enabler of economic growth (Koivu, 2002). Banks are essential for each country's economy, since no growth can be achieved unless savings are efficiently channeled into investments. Banking industry is competitive and thus requires a lot of creativity and innovation in terms of new product development. As competition among the commercial banks continues to rise, the management of each bank must come up with novel ways of beating the competition, hence the adoption of competitive intelligence. For organizations in the banking industry to become competitive they need to have access to high quality, future oriented information that is necessary for good long term decisions (Hughes & White, 2005). Vargo and Lusch (2008) state that services enable a firm to co-create value based on competencies of company for the customer which leads to resources that are unique and hard to imitate (Wernerfelt, 1984).

Statement of the Problem

Gwahula (2013) stated that commercial banks play an important role in the socioeconomic development in both developed and developing countries by ensuring prudent allocation as well as efficient utilization of resources. They are continuously helping to channel funds from depositors to investors as well as providing access to a nation's payment system (Ongore & Kusa, 2013). However, rapid change, hyper competition, changing demographics and customer needs require banks to build adaptability competency for survival and fostering organizational performance (CBK, 2013).

Serieux (2008) noted that the financial systems in Africa and in Kenya specifically were shallow and fragile and hence, unable to effectively contribute to economic development. The shallowness and fragility, the author further observed, was reflected in low lending levels, high interest spread, high levels of non-performing loans and failing of several banks. Upadhyaya (2011) argues that this has led to poor performance of the commercial banks. While Oloo (2013) noted that several commercial banks were declaring losses in their financial reports. This was further affirmed by Onuonga (2014) who stated that the performance of commercial banks in Kenya was not impressive and profitability was on average erratic. This has necessitated the banking institutions to adopt competitive intelligence strategies in order to remain competitive and maintain their industry positions.

Wright (2010) noted that competitive intelligence strategies provide a firm with an objective review of the market place, reduces decision making time, minimizes risks and avoid surprises. It also helps in identification of opportunities before competition does, identification of early warning signals of competitor's moves and reduction of uncertainty. Ngugi, Gakure and Mugo (2012) in an empirical study found the existence of a high correlation between competitive intelligence practices and profitability of firms in the banking industry in Kenya. This study seeks to determine the effect of competitive threats on sustainable competitive advantage among commercial banks in Kenya.

Objective of the Study

To establish the effect of competitor threats on competitive advantage among commercial banks in Kenya

Research Hypothesis

H_0: Competitor threats have no effect on competitive advantage among commercial banks in Kenya

Significance of the Study

This study will be of significance to the management of the banking institutions as it will enable them gain insights on how to apply competitive intelligence strategies to ensure sustained competitive advantage for their organizations. Central bank as the regulator of all the organizations in the banking industry will also gain an understanding on the policies they should formulate to allow the banks to gain competitive advantage. The study has made a contribution to empirical knowledge in this discipline which future researchers can use as a basis for their studies.

Literature Review

Porters's Five forces Model

Porter's (1980) work on the analysis of competitive forces affecting firms, which focused on tracking specific contestant behavior and connecting competitor analysis to competitive strategy, created the background for the development of competitive intelligence as a business discipline (Peyrot, Childs, Van Doren, & Allen, 2002). Porter took a view of scanning the external environment to gather intelligence on rivals. He (Porter) then developed the Five Forces Model to elucidate the forces that shape competition in an industry. This well-defined analytical structure helps strategic managers to link remote factors and their effects on a firm's operating environment. Porter (1985) identified customers, suppliers, potential entrants, current competitors and substitute products as competitors that may be more or less prominent or active, depending on the industry.

This five forces framework (Porter, 1980) allows a firm to assess both the attractiveness (potential profitability) of its industry and its competitive position within that industry through an evaluation of the strength of the threat of new entrants to the industry; the threat of substitute products; the power of buyers or customers; the power of suppliers (to firms in the industry); and the degree and nature of rivalry among businesses in the industry. According to Porter, the potential for a firm to be profitable is negatively associated with increased competition, lower barriers to entry, a large number of substitutes, and increased bargaining power of customers and suppliers. On the basis of analysis of these forces, Porter argues that an organization can develop a generic competitive strategy of differentiation or cost leadership, capable of delivering superior performance through an appropriate configuration and coordination of its value chain activities (Porter, 1985).

Thompson and Strickland (2003) argued that the collective strength of these forces determines the ultimate profit potential of an industry. Whatever their collective strengths, the corporate strategists' goal should be to find a position in the industry where the firm can best defend itself against these forces or can influence them in its favour. They highlight the vital strengths and weaknesses of the company, animate the situation of the company in its industry, elucidate the areas where strategic adjustment might yield the greatest payoffs, and stress the places where industry trends promise to hold the most significance as either opportunities or threats (Charles & Gareth, 2010). Understanding these forces also proves to be assistance in considering areas for diversification. The model is relevant to this study, as it helps managers identify the boundaries of an industry and its key players and their uniqueness so as to develop strategies to deal with competition in the particular industry.

This model helps firms to understand competitors, their strengths and weaknesses, and gain a thorough knowledge of the competitor's products. With the right kind of information provided by competitive intelligence domains, firms can avoid unpleasant surprises by anticipating competitor's moves and decreasing response time. Competitive intelligence domains identify and describe threats. Understanding the significance and possibility of each threat is valuable since it allows a firm employ more intense defense for its business.

Competitor Threats and Competitive Advantage

Competitive advantage occurs when an organization acquires or develops an aspect or combination of aspects that allows it to outperform its competitors. These aspects or characteristics can include right to use natural resources, such as high quality raw materials or cheap power, or access to highly skilled and competent human resources. New technologies such as robotics and information technology can provide competitive advantage, whether as a part of the product itself, as an advantage to the making of the product, or as a competitive aid in the business process (for example, better identification and understanding of customers) (Barney, 2007). The term competitive advantage is the ability gained through aspects and resources to perform at a higher level than others in the same industry or market (Cousins, 2005). Superior performance outcomes and superiority in production resources reflects competitive advantage (Gottschalg & Zollo, 2007). Competitive advantage is the ability to stay ahead of present or potential competition, thus superior performance reached through competitive advantage will ensure market leadership.

Competitive Advantage is developed on the basis of three characteristics. First, competitive advantage must be able to generate customer value. Customer value may be defined by the customer in terms of speedy delivery, lower price, convenience, or other characteristics. Second, the customer must be able to perceive the increased value of the product or service. Whether or not the product is superior to the competition is not as important as whether the customer perceives the product to be superior. Third, for competitive advantage to be effective, it should be difficult for competitors to copy (Burden & Proctor 2000; Barney 2007). The first step in developing competitive advantage is to identify relevant competitors. Next, business owners must identify their strengths and business resources. These might include location, specialty product merchandise, or better-trained and more knowledgeable employees. If the business is a new business venture, this step should focus on the various resources that the business is able to bring together. While these may seem limited compared to the resources of larger competitors, competitive strategy is more about leveraging what resources are available.

Gaining superior organizational performance requires successful efficient and effective utilization of firm resources and competencies with the plan of creating and sustaining competitive advantage locally and globally. Competitive advantage can be defined as a status that organization achieves when it outperforms its competitors in such marketplace (Kleiman, 2000). Porter (1985) asserted that there are two types or models of competitive advantage which are installed in the economic theory. The first one is the market based model which involves the cost and differentiation and argues that market uncovers inefficient organizations particularly those that do not offer products for which consumers are prepared to pay premium price. And it's driven by factors that are external to the firm such as threats and opportunities. The second one is the resource based model which focuses on the firms resources and is driven by factors internal to the firm. Divergent views exist to describe competitive advantage based on different goals of studies. Tracey, Vonderembse and Lim (1999) have investigated competitive advantage from the aspect of, price, cost, delivery, flexibility and quality. Musran (2013) found a positive correlation between total quality

management and competitive advantage that consist of, delivery dependability, cost or price, time to market, and product innovation.

Ade, Akaninbi and Tubosun (2017) investigated the influence of competitors' threats on business competitive advantage a case of Diamond Bank in Nigeria and found a very strong correlation. Early identification of competitors' threat was found to have enabled the bank to improve its profitability, expand branch network and perform better than its rivals. The study also found that competitor threats had significant influence of business competitive advantage. The study was a case study of only one bank which makes it hard to generalize, while the current study is on all commercial banks in Kenya.

Nematizadeh et al., (2013) examined the effect of competitive intelligence of insurance firms in Kermanshah Iran in a descriptive study. Data was collected from insurance agents of various firms. The results revealed a significant relationship between competitive intelligence and insurance sales. The agents further asserted that understanding of competitors threats was an integral part of competitive intelligence. Kaunyangi (2014) in a study on the impact of competitor threats on the performance of firms in the telecommunication sector in Kenya found that competitors' threats have a great impact on the performance of those firms. The study applied Porter's five forces model in the study. The current study had a different set of variables and was done in the banking industry

Research Methodology

The target population for the study was all the commercial banks in Kenya. There are 43 licensed commercial banks that operate in the country but three have been placed under statutory management by the regulator, which is the Central Bank of Kenya. These three banks were not part of this study therefore the population were 40 of the commercial banks. Hence, the unit of analysis in this study was those commercial banks. A census study of those 40 commercial banks was carried out. The study targeted the manager or director in-charge of planning /strategy in each firm as the unit for observation. Those are the experts in the subject matter within the firm and are believed to be responsible for competitive intelligence activities carried out in their firm; therefore they were best positioned to provide information for this study. Primary data was collected using a semi-structured questionnaire which was tested for validity and reliability and found to meet set threshold.

Findings and Discussions

In the course of the study, a total of 40 questionnaires were distributed to managers or directors-in-charge of planning /strategy in each of the 40 commercial banks operating in Kenya. Out of these questionnaires, 31 of them were completely filed up and returned by these respondents. This was equivalent to a 77.5% response rate which was in line with Yin (2017) who recommended that an over 70% response rate as sufficient for presentation of the findings.

Most of the respondents (71%) were male holding bachelor's degrees (52%) as their highest level of academic qualifications. The least number of respondents (29%) were female. Those with PhD as their highest level of

education were three per cent (3%). Most of the respondents (35%) were strategy managers having worked for a 6-10 years.

From the findings above, it can be inferred that respondents of the study were educated and thus had knowledge on how to read and interpret the research questions. It can also be deduced that respondents of the study had worked in their respective organizations for a long period of time and thus were knowledgeable. The other inference drawn from the above findings is that respondents who took part in the study were generally in managerial position which in most cases deals with the formulation of key strategies including competitive intelligence and thus they were knowledgeable and quite informed.

Twenty six percent (26%) of the banks had been in operation for a period of 11-15 years and majority, (55%) are Tier III banks. Most of the banks studied (42%) had 301-400 employees and spend less than 10 Million shillings annually as competitive intelligence activities budget. Twenty nine (29%) had over 41 branches and frequently at (58%) collect and analyse information on competitive intelligence. This shows that majority of the studied banks were stable and had invested in competitive intelligence as way of remaining competitive.

The findings indicate that competitive intelligence helps the banks to track performance of competitor's products in the market, enables the banks to keep an up-to date profile of competitors and improve current market position. The banks analyses competitors' plans and strategies to predict and anticipate their actions. These statements had values of mean above 4.00, with values of standard deviations lower than 1.00. The high mean shows that the respondents agreed with the statements, and a low standard deviation indicated high clustering around the mean of the distribution. This implied that there was close agreement among the respondents on the ability of competitive intelligence activities to help identify competitors' threats.

Further the findings indicate that competitive intelligence assists in making accurate prediction of competitors' moves, regularly prepares profiles of competitors and helps banks to anticipate changes in the business environment. The banks use competitive intelligence to estimate competitor's capabilities and to track trends in the industry. The value of means on these statements ranged from 3.80 to 4.00, which signifies that respondents were in agreement on them.

Respondents on the other hand were neutral on whether bench-marking activities help to track what's going on in the industry, competitive intelligence aids the banks in accurately evaluating suppliers' capability or competitive intelligence assists the bank to keep abreast with market information with values of means reported as 3.42, 3.39 and 2.72 respectively. The values of standard deviations on most of these statements are lower than 1 showing a high level of convergence in the views as expressed by the respondents of the study.

Table 1: Regression Coefficients

	Unstandardized Coefficients		**Standardized Coefficients**		
	B	**Std. Error**	**Beta**	**t**	**Sig.**
(Constant)	11.194	4.527		2.473	.021

Competitor threats	.316	.160	.293	1.975	.000

The results in Table 1 indicate that competitor threats (p=0.000>0.05, β=.316) was found to have significant effect on competitive advantage of commercial banks. The finding agrees with Nematizadeh et al., (2013) who found a significant relationship between competitor threats and insurance sales. The agents further asserted that understanding of competitors threats was an integral part of competitive intelligence. Ade et al., (2017) who investigated the influence of competitors' threats on business competitive advantage found a very strong correlation and that competitor threats had significant influence of business competitive advantage. The findings further concur with Kaunyangi (2014) who found that competitor's threats have a great impact on the performance of firms in the telecommunication industry in Kenya. This agrees with Nwokah and Ondukwu (2009) who found that competitive intelligence was positively correlated with marketing effectiveness through revealing competitor threats in corporate organizations in Nigeria

Conclusions

The study found that Competitor threats have significant effect on competitive advantage among commercial banks. The study therefore concluded that competitors' threats are real and could inhibit a bank's strategy from succeeding in the marketplace and therefore should be detected early to enable the banks to develop strategies to eliminate them or reduce their impact. Competitive intelligence helps banks to track performance of competitor's products in the market, enables them to keep an up-to date profile of competitors and improve current market position. Most banks analyses competitors' plans and strategies to predict and anticipate their actions. Competitive intelligence assists in making accurate prediction of competitors' moves. Banks regularly prepare profiles of competitors.

Recommendations

Competitor threats have significant effect on competitive advantage among commercial banks. On the basis of this finding, the management of commercial banks should invest more resources in analyzing competitor threats as this significantly results into competitive advantage. Bank managers should increase the amount of organizational resources devoted to competitive intelligence activities to help reduce managerial myopia in the process of identifying competitor threats. Managers could also mitigate against competitors threats through competitive interdependence where banks enter into strategic alliances to eliminate the number of competitors.

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Compensation Schemes and Employee Performance of Commercial Banks in Nairobi City County, Kenya

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Abstract
Compensation and benefits are the most critical factors in attracting and retaining high quality employees. The employees' commitment and motivation are directly tied to this aspect of the employment relationship. Great employers provide generous monetary and non-monetary compensation and benefits to their workforce. Money is considered as the reward which is given to employees against work, to support their family, and payment for the work which is done. The banking sector in Kenya has over the years faced a number of challenges including increasing competition, increased regulation by the government and high rate of technological growth especially the mobile phones that now offer banking services. Managers often use rewards to reinforce employee behaviour that they want to continue. The general objective of this study was to establish the relationship between compensation schemes and employee performance among commercial banks in Kenya. Further, the study sought to find out the effect of commissions and bonus schemes on employee performance among commercial banks in Kenya. The study was guided by the following theories: Expectancy theory, and Herzberg's Two-Factor Theory of Motivation. A descriptive research design was used to gather the information needed to achieve the objectives. The target population was all the 44 commercial Banks consisting of staff members working in the human resources department at top level, middle level and low level management totalling to 336. Stratified random sampling technique was used to generate a sample size of 101 respondents who formed 30% of the target population. A semi-structured self-administered questionnaire was used to collect the data. The data was analysed using descriptive statistics and presented in tables, charts, means and percentages. The study established that. Commission ($\beta=0.179$, $p=0.030<0.05$) had a positive and significant effect on employee performance. Bonus schemes ($\beta=0.171$, $p=0.015<0.05$) had a positive and significant effect on employee performance. The study concludes that incentives had a positive and significant effect on employee performance.

Keywords: Compensation schemes. Commissions, bonus, employee performance

INTRODUCTION

According to Barney and Hesterly (2014), an organizations employee compensation policy and practice is important in implementing a strategy. A company that adopts a compensation policy that is consistent and reinforces its practices is more likely to implement those practices than a firm that adopts compensation policies that are inconsistent with its strategies (Armstrong, 2015). A reward strategy should enhance commitment and engagement and provide more opportunities for the contributions ofpeople to be valued and recognized. According to Rudman (2013) paying for performance is a big issue in contemporary human resources management; organizations have long believed that productivity improve when pay is linked to performance and payment by results systems and incentives are developed to support this belief. Studies have found a positive relationship between performances related pay and performance.

Compensation and benefits are the most critical factors in attracting and retaining high quality employees. The employees' commitment and motivation are directly tied to this aspect of the employment relationship. Practices, which were effective when they were introduced, may degenerate as the organization evolves or it degenerates. Reward management is therefore is not only about money, it is also concerned with intrinsic, as well as extrinsic motivation; with non-financial, as well as financial rewards. This leads to several components of reward management such as strategic reward, job evaluation, Market rate analysis, grade and pay structure as well as contingent pay, (Ripley, 2012).Organizations provide rewards to their personnel in order to try to motivate their performance and encourage their loyalty and retention. According to Luthans and Fred (2014), organizational rewards take a number of different forms including money (salary, bonuses, and incentive pay), recognition and benefits.

Despite the tendency in the recent years to downgrade the importance of pay as an organizational reward, there is ample evidence that money can be positively reinforcing for most people, and, if the pay system is designed properly to fit the strategies, can have a positive impact on individual, team and organization performance. For example, many organizations use pay to motivate not just their upper level executives but everyone throughout the organization. Moreover, these rewards may not always have to be immediately forthcoming. Many individuals will work extremely hard for rewards that may not be available for another 5 or 10 years. Additionally, every permanent employee receives benefits, even though they often seem to be unaware and not know the usually high monetary value of these benefits. In fact, benefits constitute a large percentage of most organizations expenses (Armstrong, 2012).

A study by Kiarie (2015) on selected employees in Mobile Phone Industry concluded that performance is not a major factor while setting compensation schemes for most quoted companies in Kenya. A majority of companies use salaries to compensate their employees with only a small number combining both salaries and bonuses. These salaries are based on grading systems that companies set based on either the education level or the experience of the employees.

Ooko (2013) concluded that employees in the mobile phone industry perceive a link between performance and incentive pay both among the sales persons and technicians. Work, salary and incentives are important to most employees in the mobile phone industry positively influence satisfaction among employees and the timing of incentives is satisfactory to majority of employees. McNamara (2008) also found that monetary compensation is an essential component in recruitment and retention process; but benefits are equally important and can often be the deciding factor in whether an individual accepts an offer or even stays in the organization.

Huselid, (2011); Dotty, (2016); Goel (2014). People receive extrinsic or intrinsic rewards (Armstrong, 2014), Dessler, 2015, Goel 2014). Extrinsic rewards e.g. pay bonuses, promotions, time off, special assignments, office fixtures, awards and verbal praise are externally administered (Dessler, 2015; Armstrong, 2014).Intrinsic rewards are self-administered (Dessler, 2015).The dynamic state of global business greatly influences how organizations position themselves for performance and profitability. An organization's success is highly dependent on the performance of its employees. Poor employee performance is detrimental to any organization while effective employee performance is a great source of organizational success.

In most organizations, rewards are directly linked to employee performance (Zaman, 2011). Dewhurst et al (2010), defines rewards as both financial and non-financial benefits that are given to employees for good performance at work, or for accomplishing assigned duties, as stipulated in an organizational structure, strategies, policies, and processes. Zaini, Nilufar, and Syed (2012) define employee rewards as tangible financial benefits and services, and other non-tangible benefits given to employees for playing their part in an organization. Richard, Ryan and Deci (2010) say that organizational rewards significantly influence employee performance in organizations.

Employee performance can be defined as the ability of an employee to accomplish his or mission based on the expectations of an organisation (Pierce et al, 2014). It can also be said to be the level to which the employees apply their skills, knowledge and attitudes towards achieving the desired results and meeting the specified objectives, (Rehman, 2012). Bohnstedt & Larsen, (2014) points out that employee performance is often indirectly measured using aspects of employee behaviour at work such as speed, courtesy, etiquette, precision, time management, consistency and influence on other employees.

Performance based compensation is a method of compensation designed to reward employee performance. Performance based compensation may be based on individual and team performance (Gomez, 2013). Gomez-Mejia and Balkin (2013) specify favorable conditions under which performance related compensation is deemed to be favorable and they include; where individual performance can be objectively and meaningfully measured, where individuals are in a position to control the outcomes of their work, where close team working or cooperation with others is not central to successful job performance and where there is individualistic organizational culture.

In Asian countries, rewards have been used for decades to enhance employee performance (Thomas, 2012).Long before multinationals started venturing in Asia, countries like Malaysia, Japan, and Singapore were using reward systems to enhance employee performance. A study conducted by Ali, and Ahmad (2012) on effects of rewards on employee performance in Malaysian hospitality industry established the existence of a relationship between rewards, motivation, job satisfaction, and performance. The study found that financial rewards were directly related to employee performance as well. Further, they noted that organizations in the hospitality sector should design evaluation systems for rewards that are able to uncover employees' weaknesses and strengths in a specific job, and reward factors that motivate employees towards enhanced performance.

Africa as a continent has used rewards systems from pre-colonial days. However, Africa's pre-colonial employee rewards were not as advanced as the monetary extrinsic systems used in Europe (Dewhurst, Guthridge & Mohr, 2010). Employees who worked in farms received higher rewards when the harvest was bountiful as a way of showing appreciation and recognition.Many studies have shown a positive relationship between HRM strategies and performance in the manufacturing sector (Huselid 2017; Armstrong & Baron, 2012; Katou, 2014; Ahmad & Schroeder, 2013; Bae & Lawler, 2010; Batt, 2012; Delery & Doty, 2016; Guthrie, 2011; Gardner & Moynihan, 2013). Despite these findings most SHRM studies have been characterized by lack of a solid theoretical foundation explaining the mechanisms causing the observed enhanced performance.

Nairobi City County is the County hosting the Capital City of Kenya and therefore most of the headquarters for commercial banks and other organizations are based in the city. In Kenya, the Banking sector is composed of the Central Bank of Kenya, as the regulatory authority and the regulated, Commercial Banks, Non-Bank Financial Institutions and Forex Bureaus. As at 31st Dec 2011 the banking sector comprised 45 institutions, 43 of which were commercial banks and mortgage finance companies. Commercial banks and mortgage finance companies are licensed and regulated under the banking Act 488 and Prudential Regulations and regulated under the Central Bank of Kenya (CBK) Act Cap 491. Out of the 45 commercial bank institutions, 33 were locally owned and 12 were foreign owned. The locally owned financial institutions comprised 3 banks with significant government shareholding, 28 privately owned commercial banks and 2 mortgage finance companies (NIFC's). Of the 44 private banking institutions in the sector, 71% were locally owned and the remaining 29% were foreign owned. According to the Central Bank of Kenya website by January, 2017 there are 44 commercial banks, 1 mortgage finance company (HFC), and 7 authorized holding companies in Kenya. Out of the 44 commercial bank institutions, 30 are locally owned and 12 are foreign owned.

Statement of the problem

The banking sector in Kenya has over the years faced a number of challenges including increasing competition, increased regulation by the government and high rate of technological growth especially the mobile phones that now offer banking services. The shift by commercial banks in Kenya to strategic management has created a lot of interest on the effect of compensation practices on employee performance. Commercial banks in Kenya are faced with issues of productivity, competition for customers, efficiency in operation, trade unions and high staff turnover. Such

issues must be dealt with (Robbins, 2001). Achieving success in core business is the concern of every organization. This requires considerable skill, expertise, experience and judgment on the part of its staff. Commercial banks must implement motivational structures that will attract, retain and motivate employees to major objectives of the organizational pay system which include efficiency, equity and compliance with laws and regulations (Gomez and Balkin, 2014).

Employee performance among commercial banks has been a challenge due to high competition from other sectors on rewards and compensation, volatile financial sector environment, unfavorable government policy and above all dynamism in the labour market. Most of the staff are not motivated due to non-consumerate compensation and overwork among the banking institutions (Okioga, 2015)).Previous studies show that good compensation for employees will be able to stimulate the emergence of fresh ideas and employees' innovation.

Commercial banks in Kenya are faced with issues of productivity, competition for customers, efficiency in operation, trade unions and high staff turnover. To compete effectively, organizations must continually improve their performance by reducing costs, innovating products, improving quality, increasing productivity of staff and efficiency in operation. Past research has predominantly focused on the performance- pay strategies among CEO and top management. For instance Steven et.al.,(2011) investigated the relationship between firm strategy and the use of performance measures in executive compensation and found that there was an increased emphasis on sales in the determination of executive compensation for firms pursuing a cost leadership strategy in order to attain competitive advantage through low price and high volume. Studies that have been done on employee performance based pay include Kiarie (2015), a survey of performance based compensation schemes in companies listed at the NSE and Ooko (2013), employee perception of the link between performance and incentive pay.

Available literature highlights that most of the studies examining the relationship between HRM and employees' performance have been conducted in the manufacturing sector mostly in the United States (Huselid, 2011; Guest, Michie, Conway, & Sheehan, 2013). Very few studies have been done in Kenya particularly in the banking sector. This study therefore sought to establish the influence of compensation schemes on the employee performance among commercial banks in Nairobi City County, Kenya.

General Objective

The general objective of this study was to establish the relationship between Compensation schemes and employee performance among commercial banks in Nairobi City County, Kenya.

Specific Objectives

The study was guided by the following specific objectives;

xi. To establish the relationship between commissions and employee performance among commercial banks in Nairobi City County, Kenya.

xii. To determine how bonus schemes influence employee performance among commercial banks in Nairobi

City County, Kenya.

Research Questions

iii. What is the influence of commissions on employee performance among commercial banks in Nairobi City County, Kenya?

iv. What is the influence of bonus schemes on employee performance among commercial banks in Nairobi City County, Kenya?

Scope and limitations of the study

The study sought to establish the influence of compensation schemes on employee performance among commercial banks in Nairobi City County, Kenya. The compensation schemes considered include incentives, piece rate systems, commissions and bonus schemes. The study focused on the 44 commercial banks in Kenya which have been licensed and regulated by the Central Bank of Kenya as per the attached list in appendices and have operations in Nairobi County. The study was confined to banks in Nairobi City County since it is the main hub and headquarters for all the banks in Kenya According to Central Bank of Kenya website there were forty two licensed commercial banks and one mortgage finance company as at January, 2017.

Theoretical Underpinnings

Herzberg's Two-Factor Theory divides motivation and job satisfaction into two groups of factors known as the motivation factors and hygiene factors. According to Frederick Herzberg, "the motivating factors are the six 'job content' factors that include achievement, recognition, work itself, responsibility, advancement, and possibility of growth. Hygiene factors are the 'job context' factors, which include company policy, supervision, relationship with supervision, work conditions, relationship with peers, salary, personal life, relationship with subordinates, status, and job security" (Ruthankoon, 2013). Basically Herzberg theory differentiates the factors between intrinsic motivators and extrinsic motivators. The intrinsic motivators, known as the job content factors, define things that the people actually do in their work; their responsibility and achievements. These factors are the ones that can contribute a great deal to the level of job satisfaction an employee feels at work. The job context factors, on the other hand, are the extrinsic factors that someone as an employee does not have much control over; they relate more to the environment in which people work than to the nature of the work itself (Schermerhorn, 2013). The theory supports the study on the motivation and hygiene factors. Reward and competition are some of the key motivators of employees in an organization. Managers and owners of firms should appreciate the efforts of their work force by remunerating, recognizing and rewarding them accordingly. This will assist in reducing employee turnover among firms especially commercial banks.

Expectancy Theory

This theory was proposed by Victor Vroom (1932) of the Yale School of Management. Expectancy theory (or expectancy theory of motivation) proposes an individual will behave or act in a certain way because they are motivated to select a specific behaviour over other behaviours due to what they expect the result of that selected behaviour will be. In essence, the motivation of the behaviour selection is determined by the desirability of the outcome. However, at the core of the theory is the cognitive process of how an individual processes the different

motivational elements. This is done before making the ultimate choice. The outcome is not the sole determining factor in making the decision of how to behave. The theory supports the study that favourable human resource management practices are meant to motivate employees which will boost their expectancy and hence their retention in the organization. Compensation schemes are some of the significant human resource management practices that foster employee productivity in a firm.

Literature Review

Literature on the dependent variable and the two independent variables on commissions and bonus were reviewed to identify the gaps in research.

Commissions and Employee Performance

Appelbaum (2016) on an analysis of the effect of sales commissions on firm performance indicated that the commission schemes improve rate of sales but interest of the organization or the customer may not predominate. This can be reduced by paying only for outcomes which are acceptable to the organization or by paying true salary, which is related to wider issues than financial performance (Appelbaum, 2016).

Mach (2013) on exploratory study on the influence of commission schemes on sales, indicated that commission schemes typically treat the salesperson as a self-standing profit unit. The commission plan is structured to share the gross margin of sales between the organization and the salesperson. If the organization provides selling tools such as a car, mobile phone or portable computer, these costs may be explicitly taken into account. He further indicated that the main risk inherent in commission schemes is that the sales person will be motivated only by personal gain.

Taylor (2014) on his analysis on the other hand, on the relationship between commission based remuneration and career progression among the sales staff in South Africa indicated that commission pay scheme might not give any recognition to levels of competence or performance except through the level of earnings. In these circumstances salespeople often ask for a career structure. This can be provided by defining the number of levels of sales role. Progression through these is governed by a set of criteria which could include performance levels and competence standard. Commission is a variable component of compensation package. It is given on the basis of business generated by the employee. Commission is a pre fixed component say 5% of the total sales done by the employee. It is practiced in the retail and other sectors in the marketing and sales segment.

According to McConnell et al (2014) on the effect of commissions on sales for FMCG companies in the UK, payments often are calculated on the basis of a percentage of the goods sold, a way for firms to solve the principal–agent problem by attempting to realign employees' interests with those of the firm. Sales personnel are thus paid, in part of entirely, on the basis of products or services successfully sold rather than being paid by the hour, by attempted sales, or by any other measure. A common form of commission sales is real estate; in the United States, a real estate agent who successfully sells property will collect a commission of 6% of the sale price but a realtor who makes no sales will collect no salary or compensation whatsoever.

Madhani (2017) did a study on how commissions improve employee performance commissions are intended to create a strong incentive for employees to invest maximum effort into their work. One of the most common means

of attempting to align principal and agent interests is to design a contract with incentives that track agent performance. The principal–agent theory provides an explanation for the dissimilarities across the marketing firms in the types of compensation plans used by them, such as fixed salary, straight commission or a combination of both fixed salary and straight commissions. Often, a firm embracing a commission structure may not involve employees, but may solely establish themselves using independent contractors. Reward in the form of commission alone with no pay or salary is known as straight commission. Reward may also take the form of commission plus a fixed salary. Industries where commission is commonly paid include car sales, property sales, insurance broking, and many other sales jobs.

Bonus Schemes and Employee Performance

A company that gives its employees bonuses is bound to motivate them to perform highly (Dohmen and Falk, 2017). Furthermore, Mwita (2012) concludes by stating that, the performance incentive bonus scheme is the logical process by which an organization includes its employees as individuals and team members, in refining organizational effectiveness in the achievement of organizational goals and mission. This information is further backed up by Kanji (2015) who stated that performance Incentive Bonus Scheme is a pillar of any individual life and organization, once employees appreciate what needs to be done and when and why/what is to be done, then the organization will achieve its goals and employees will feel empowered.

Methodology

A descriptive research design was adopted for the study. According to Mugenda and Mugenda (2013) the purpose of descriptive research is to determine and report the way things are and it helps in establishing the current status of the population under study and is useful for describing, explaining or exploring the existing status of two or more variables.The target population comprised of all the 44 commercial banks licensed and regulated by the Central Bank of Kenya with head offices in Nairobi City County. The target population consisted of staff members working in the human resources department who include 44 top level managers one from each bank, 84 middle level managers two from each bank and 210 low level managers who will be 5 from each of the 44 commercial banks registered and regulated by the Central Bank of Kenya with operations in Nairobi City County, who made a total of 336 .

Table.1: Sample Size

Category	Population	Sample Ration	Sample Size
Top level managers	44	0.3	12
Middle level managers	84	0.3	25
Low level managers	210	0.3	63
Total	**336**	**0.3**	**101**

Source: Researcher (2018)

The study covered all commercial banks but sampled the respondents from each of the 44 banks using the stratified random sampling technique. Kothari (2014) argues that when all items are covered, no

element of chance is left and highest accuracy is obtained. Kothari (2015) argues that if well-chosen a sample of 30% of a population can often give good reliability findings. Mugenda and Mugenda (2013) stated that in stratified random sampling where population within each stratum is known, a sample of 30% is adequate representation for data collection. Therefore 30% of each stratum formed the sample for the study as shown in Table 1.

Data was collected using a semi-structured questionnaire. The study sought to establish the validity of the questionnaire through the opinion of the research project supervisor and a field test to measure the face and content validity. A pilot study or pre-test was done in I&M bank and respondents who took part were not included in the main study. The pre-test enabled update the research questionnaire hence enhancing content validity. Reliability was tested using Cronbach's coefficient alpha (Cronbach 1951). a Cronbach's coefficient above 0.70 is acceptable as an internally consistent scale so that further analysis can be possible.Before processing the responses, the completed questionnaires were edited for completeness and consistency. Descriptive analysis was used; this includes the use of weighted means, standard deviation, relative frequencies and percentages. The study was guided by the following regression model to establish the relationship between the study variables:

$$\mathbf{Y= \alpha + \beta_1 X_1 + \beta_2 X_2 + \varepsilon}$$

Y = Employee performance

α = Constant

β = Coefficients

X_1= Commissions

X_2= Bonus schemes

ε = Error Term

Data Analysis and Findings

A total number of 101 questionnaires were issued out to respondents of the study by the researcher. From these questionnaires, 79 of them were completely filed and returned to the researcher. This was equivalent to a response rate of 78.2%.

Descriptive Analysis

Descriptive statistics were used to describe how compensation schemes affected employee performance of commercial banks in Nairobi city county, Kenya. In particular, means and standard deviation were employed. This section presents the findings of the analysis using these descriptive statistics.

Commissions and Employee Performance

The findings on commissions and how they influenced employee performance are shown in Table 2

Table 2 **Commissions and Employee Performance**

	Mean	Std. Dev
The bank has a commission based payment system for sales staff	4.13	0.872
The bank gives employees a retainer then commission based on volume of sales	4.14	0.617
The bank only pays sales staff commissions without any salary	3.53	1.065
The bank has a graduated commission system	3.73	0.783
Employees are consulted in designing the commission criteria	3.49	0.529
Management only decided on the commission to be earned	3.78	0.893
Commissions given are not competitive	3.44	0.875
The commissions paid to employees are not motivating	3.47	0.898
Average Score	**3.71**	**0.816**

The findings in Table 2 indicate that the bank gave employees a retainer then commission based on volume of sales with a mean of 4.14 and standard deviation of 0.617. The study revealed that the bank had a commission based payment system for sales staff with a mean of 0.872 and standard deviation of 0.872. The findings of the study further indicated that the management only decided on the commission to be earned with a mean of 3.78 and standard deviation of 0.893. The study revealed that the bank had a graduated commission system with a mean of 3.73 and standard deviation of 0.783. A small portion of respondents however agreed that their bank only paid sales staff commissions without any salary with a mean of 3.53 and standard deviation of 1.065. Respondents however were not sure whether employees were consulted in designing the commission criteria with a mean of 3.49 and standard deviation of 0.529, the commissions paid to employees were not motivating with a mean of 3.47 and standard deviation of 0.898 or the commissions given were not competitive with a mean of 3.44 and standard deviation of 0.875.

On average, respondents agreed with a mean of 3.71 that commission affected employee performance. Taylor (2014) on his analysis on the other hand, on the relationship between commission based remuneration and career progression among the sales staff in South Africa indicated that commission pay scheme might not give any recognition to levels of competence or performance except through the level of earnings.

Bonus Payments and Employee Performance

Table 3 reports the findings on bonus payments and how they influenced employee performance.

Table 3: Bonus Payments and Employee Performance

	Mean	Std. Dev
The firm has a bonus payment system for staff	3.98	0.789
Bonus payments are done at the end of each financial year	3.96	0.881
Bonus payments are based on employee targets	3.69	0.982
Bonus payments are based on organizational targets	3.89	0.874
Organizational mission determines bonus payments	3.59	0.890
Bonus payment system is not standardized	3.40	0.887
Average Mean	**3.75**	**0.883**

As shown in Table 3 the study revealed that the firm had a bonus payment system for staff with a mean of 3.98 and standard deviation of 0.789. The study established that bonus payments were done at the end of each financial year with a mean of 3.96 and standard deviation of 0.881. The study revealed that bonus payments were based on organizational targets with a mean of 3.89 and standard deviation of 0.874. The study established that bonus payments were based on employee targets as shown by a mean of 3.69 and standard deviation of 0.982. Some respondents slightly agreed that their bank mission determined bonus payments with a mean of 3.59 and standard deviation of 0.890. Respondents however were not sure whether bonus payment system was not standardized with a mean of 3.40 and standard deviation of 0.887.

The average mean was 3.75, which shows that respondents generally agreed on the statements under bonus payment. Kanji (2015) stated that performance Incentive Bonus Scheme is a pillar of any individual life and organization.

Employee Performance

Employee performance was the dependent variable of the study. The findings are shown in Table 4.

Table 4: Employee Performance

	Mean	Std. Dev
The output per employee has significantly improved with the reward system	3.88	0.673
The level of job satisfaction among staff has improved	3.63	0.997
Customer service has increased with performance based rewards on staff	3.89	0.876
Employee efficiency has improved with performance based rewards	3.76	0.888
The compensation schemes system in the bank has improved employee effectiveness	3.77	1.064
The bank staff are motivated and feel proud working for the bank	3.68	0.873
Customer loyalty has improved	3.65	0.872
Average Mean	**3.75**	**0.891**

The study established that customer service had increased with performance based rewards on staff with a mean of 3.89 and standard deviation of 0.876. The findings on employee performance from Table indicate that the output per employee had significantly improved with the reward system with a mean of 3.88 and standard deviation of 0.673. The study established that compensation schemes system in the bank had improved employee effectiveness with a mean of 3.77 and standard deviation of 1.064. Employee efficiency had improved with performance based rewards as shown by a mean of 3.68 and standard deviation of 0.876. The study established that the bank staff were motivated and felt proud working for the bank as shown by a mean of 3.68 and standard deviation of 0.873.

Respondents agreed that customer loyalty had improved as shown by a mean of 3.65 and standard deviation of 0.872. The level of job satisfaction among staff had improved with a mean of 3.63 and standard deviation of 0.997.

Regression Results

Regression analysis was employed to determine how compensations schemes influenced employee performance. The findings are reported in sections that follow. Table 5 is the Model Summary that indicates the value of the coefficient of determination R squared.

Table 5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.858[a]	.737	.703	1.92029

From the findings in Table 5, the coefficient of determination R square is 0.737. This shows that 73.7% change in employee performance is explained by compensation schemes in place. The findings of the Analysis of Variance (ANOVA) are shown in Table 6.

Table 6. Analysis of Variance

	Sum of Squares	df	Mean Square	F	Sig.
Regression	317.067	2	79.267	51.842	.000[b]
Residual	113.146	74	1.529		
Total	**430.213**	**76**			

As shown in Table 6, the value of F calculated is 51.842 while F critical (from the F-tables) is 2.495. Since the value of F calculated is greater than F critical, this indicates that overall regression model was fit. The findings on the p values and beta coefficients of each of the study variables are reported in Table 5

Table 7: Coefficient Results

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	3.207	1.474		2.175	.043
Commissions	.179	.081	.215	2.201	.030
Bonus schemes	.171	.069	.229	2.475	.015

From Table 7, the following regression equation is formulated;

$$\mathbf{Y=3.207+0.179X_3+ 0.171X_4 +e}$$

Y = Employee performance; X_1= Incentives; X_2= Piece rate systems; X_3= Commissions and X_4= Bonus schemes.

Thus, the possible level of employee performance when all the factors were held constant would be 34.207.

At 5% level of significance, Commission (β=0.179, p=0.030<0.05) had a positive and significant effect on employee performance. The findings of the current study agrees with Appelbaum (2016) on the analysis of the effect of sales commissions on firm performance indicated that the commission schemes improve rate of sales but interest of the organization or the customer may not predominate.

Bonus schemes (β=0.171, p=0.015<0.05) had a positive and significant effect on employee performance. This study concurs with Kanji (2015) who stated that Bonus Scheme is a pillar of any individual life and organizational

Performance.The study established that commissions had a positive and significant effect on employee performance. The bank gave employees a retainer then commission based on volume of sales. The study revealed that the bank had a commission based payment system for sales staff. The findings of the study further indicated that the management only decided on the commission to be earned. The study revealed that the bank had a graduated commission system.

The study established that bonus payment had a positive and significant effect on employee performance. The study revealed that the firm had a bonus payment system for staff. The study established that bonus payments were done at the end of each financial year. The study revealed that bonus payments were based on organizational targets. The study established that bonus payments were based on employee targets.

Conclusions

The study concludes that commissions have a positive and significant effect on employee performance. The bank gave employees a retainer then commission based on volume of sales. The bank had a commission based payment system for sales staff. The management only decided on the commission to be earned. The bank had a graduated commission system. The study further concludes that bonus payment has a positive and significant effect on employee performance. The firm had a bonus payment system for staff. The bonus payments were done at the end of each financial year. The bonus payments were based on organizational targets.

Suggestions for Further Studies

The focus of the current study was on remuneration schemes and how they influenced employee performance. From regression analysis, the value of R square was 73.7% showing that there exist other factors apart from remuneration schemes that have an influence on employee performance. Thus, future studies should focus on these other factors with significant influence on employee performance.

The focus of the current study was on commercial banks operating in Kenya that belong in the larger financial industry. Thus, future studies should focus on other firms within the financial sector including Micro-finance institutions and SACCOs. This would facilitate generalization of the finding to the entire finance sector.

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PROJECT COMPLEXITY AND PERFORMANCE IN ROAD CONSTRUCTION PROJECTS IN KENYA

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ABSTRACT

Road transport is the dominant mode of transport in Kenya with Kenya Roads Board (KRB), estimating that 90% of all cargo and passenger traffic relying on this mode of transport. Prior to 2002, road construction projects in Kenya performed poorly due to inefficiencies among contractors, contracting and regulatory government agencies. The current study sought to establish the influence of project complexity on the performance of road construction projects in Nairobi City County (NCC). The objective of the study was to determine the effects of project complexity on the performance of road construction projects in NCC. The study adopted the descriptive research design in collecting data from respondents. The target population was drawn from the ninety-four National Construction Authority (NCA) 1 contractors licensed to do business within NCC and twelve engineers drawn from Kenya Rural Roads Authority (KeRRA), Kenya Urban Roads Authority (KURA) and Kenya National Highways Authority (KenHA). Questionnaires were the primary tool of data collection. Data was analyzed using descriptive and inferential (correlation and regression) statistics with the aid of the SPSS software and presented using tables, graphs and charts as appropriate. The findings revealed that the dimensions of project complexity under investigation have a significant effect on the performance of road construction projects in NCC. Political interference, financial factors, fragmented nature of government oversight and the involvement of subcontractors affect the cost, quality, timeframe and functionality of road construction projects undertaken. According to the regression model used, it was established that only financial factors had a statistically significant relationship to the performance of road construction projects. The study concludes that road contractors and paying organization need to come up with mechanisms of detecting and controlling project complexity. The study recommends that NCA, contractors and paying organizations should abolish milestone-based contracts and deploy skilled, experienced and technically competent personnel in the implementation of road construction projects.

Key Words: *Project performance, Project complexity, Financial factors, Political interference, Fragmented government oversight, Subocontractor role*

Introduction

The project management process is achieved through the integration and implementation of the project life cycle. A successful implementation of a project is contingent upon many attributes. Effective project management thus refers to the management of these factors so as the project is finished within the predetermined parameters and achieves the intended results (Didinsky, 2017). Time, cost and quality have been the acceptable parameters measuring project success for a long time (Al-Tmeemy, Abdul-Rahman, & Harun, 2011). But in recent years, other factors have been used to measure project success such as customer satisfaction, occupational health and safety and environmental conservation (Didinsky, 2017). It is the norm to consider a project successful if it is completed on time, at cost and according to the specifications of the customer. It is with this in mind that we looked at road construction projects. These projects are predisposed to delays and cost overruns. Incidentally, the study sought to establish the effects of project complexities on the performance of road construction projects

The duration required to complete a project is influenced by numerous parameters both external and internal to the project. Completion outside of the set time, causes a delay and an escalation of other factors such as the costs of the project (Abou-Hafs & Bellihi, 2013). From this it is clear that, it is not only the completion of the project that is important, but also the how the project is completed. Is it completed within the stipulated time, cost and scope? Project performance in the management functions of time, quality and cost are currently used to measure project success (Kendrick, 2016). Time has always been at the centre of evaluation of project success because it has a direct effect on cost and owner satisfaction. Project performance can also be viewed with regards to how efficient the project manager is using the available resources to meet the project goals and objectives. Project performance has evolved to include other aspects other than the traditional project outputs (Basu, 2015).

To add to costs, time and the availability of resources, project complexities necessitate direct managerial action during project planning, implementation and appraisal. As far as project management is concerned, the project manager normally refers to projects as either being uncomplicated or complicated. Practically, complexity determines how project managers view the implementation of projects (Kutsch, Hall, & Turner, 2015). Complex projects require project management tools and techniques that are appropriate to their changeability. Complexity of the project introduces more costs and also an increase in project completion time (Cooke-Davies, 2011). If complexity isn't well managed, it will lead to project failure. Controlling project complexity is very important as far as the positive performance of projects is concerned. It is therefore crucial to have a working knowledge of project complexity in order to effectively control it.

Statement of the Problem

Negative project outcomes in the road construction sector is not limited only to construction of new roads but also maintenance of existing ones (Njenga, 2014). Poor performance of road construction projects in Kenya has attracted the attention of both scholars and professionals. Ugwa and Haupt (2007) believe that poor performance in road construction projects can be attributed to inefficiencies in resource allocation, political interference and inadequate performance management systems. Njenga (2014) on the hand established that from the contractor's perspective, poor performance in road construction project is a result of delays in project schedules due to decision making related factors, cost overruns, and failure to adhere to agreed upon performance indicators. Kamaru (2012) alludes that skills incompetency among contractors in the areas of project management, coordination with various subcontractors, project evaluation and monitoring and leadership skills have meaningful effect on the performance of projects. Clearly numerous efforts have been undertaken to ascertain the challenges facing the road construction industry in Kenya. However, there is no known study that has sought to examine the impact of project complexity on road construction projects in developing countries, particularly in Kenya. Therefore, the current study sought to bridge this gap by examining the impact of project complexities on the performance of road construction projects in Kenya.

Research Objectives

General Objective

The general of objective of the study was to determine the effects of project complexity on the performance of road construction projects in Kenya.

Specific Objectives

The researcher was guided by the following specific objectives: -

i. To analyze the effect of political interference and patronage on the performance of road construction projects in NCC
ii. To find out how financial related factors affect performance of road construction projects in NCC
iii. To determine the extent to which the fragmented nature of government oversight influences the performance of road construction projects in NCC

iv. To identify how the role played by subcontractors influences the performance of road construction projects in NCC

Theoretical Review

Chaos Theory in Project Management

The hypotheses of Thiertart and Forgues (1995) could be viewed as follows in the context of the project environment: projects have the potential of being chaotic; the more entities involved in a project and the longer it is, and the more likely the project is to be chaotic; a change affecting two or more variables within the project might result to chaos within the project; the consequences of chaos driven change within projects in most cases are difficult to predict; and finally, in a chaotic state, identical action does not lead to identical outcomes in projects (Alaloul, Liew, & Zawawi, 2016).Chaos in projects can be because of either internal or external origin. Internal chaos within projects emerge when the objectives and the needs of the client and/or end-users change consequently resulting to significant changes in scope and quality of the project (Lapidus & Makarov, 2016). Subsequently, these result to changes in time, cost and other resources culminating to the project spiraling into chaos. External chaos originates from factors outside the purview and the influence of the project (Li, 2016). Projects are implemented in volatile and dynamic environments that are subject to change without notice. Basically, externally, chaos in projects can be attributed to PESTEL factors that is political, economic, social, technological, ecological and legal factors.

Event Chain Model

The event chain model is basically a method of visualizing and analyzing uncertainties in projects. It is based on the principle that despite how well-developed project schedules are, there will be some incidents that will occur during project implementation that shall alter these schedules (Trumper & Virine, 2011). As such, the major purpose of the event chain model is to recognize and manage these events and resulting event chains. Project planning and scheduling via the event chain model normally takes place in the following processes. First, a project manager should develop a perfect project schedule based on ideal estimations of cost, duration and any other relevant project dimensions (Kao, 2017). During the second stage, the project manager should establish and create a list of possible events and event chains likely to affect the implementation of the project schedule. Presentation of the stated events should be done in a risk breakdown format outlining the events, their subsequent event chains and their effect on project tasks, resources, delays and schedules (Intaver Institute, 2012). Third, perform quantitative analysis on the main project parameters of cost, duration and finishing time. Fourth, the project manager should perform a sensitivity analysis. While all the events and their respective chains are important, not all of them have a meaningful effect on the implementation of the project. As a result, a sensitivity analysis will be instrumental in separating events and event chains with a meaningful effect from the rest (Trumper & Virine, 2011). Finally, a project manager should repeat this process regularly during the project implementation process using real world data and considering real risks as they occur. As a result, the goal in the fifth stage is to reassess the likelihood and influence of risks on the project based on real project performance assessment. This will be instrumental in the development of projections with respect to project duration, costs and any other relevant project dimensions (Intaver Institute, 2012).

Empirical Review

Project Performance and Complexity

Project performance is not only subject to the resource competency of project organizations, but also their ability to efficiently and religiously execute project plans. Further, project performance can be viewed in terms of the success of the project organization as far as stakeholder relations is concerned. Long (2004) categorizes challenging factors facing construction projects into the following attributes: incompetency among key project participants; deficiencies in projection and uncertainty management; social and technical challenges; project environment associated challenges; and inappropriate methods and approaches. The term project complexity can be understood in two perspectives; first being the difficulty involved in the attainment of the end product and the second being risks and uncertainties inherent in project implementation. Whilst project difficulty focuses on the project team's know-how and proficiency, project risks relate to the unknown aspects of implementation (Vidal & Marle, 2008). Regardless of complexity being part and parcel of construction projects, most methods used to evaluate, classify and gauge complexity are limited to analyzing the relationship between time and the accomplishment of project tasks (Antunes & Gonzalez, 2015).

Political Interference and Project Performance

Politicians have perfected the art of abusing their powers to benefit the members of their networks. Specifically, political leadership is instrumental in the allocation of public road construction projects (Rogger, 2014). Regardless of the checks and balances in place, politicians still find a way of swaying public road construction projects towards contractors in their personal networks. The overall impact of political patronage and interference includes the following. To begin with, undeserving contractors end up bagging road construction projects due to their proximity

to political leaders. Consequently, this results to preferential treatment of well-connected road contractors (Puopiel & Chimsi, 2015). Secondly, political interference increases the cost of road construction due to corruption without providing offsetting benefits of efficiency and quality. Third, political patronage can potentially lead to either misdirection of road construction projects, of public moneys or both (Kanda, Muchelule, Mamadi, & Musiega, 2016). Politician can use their power to induce public policy hence change the mechanics of public road construction. Finally, politicians can interfere with road construction projects by requesting for additional scope of requirement hence significantly increasing the cost of the project (Sunjka & Jacob, 2013).

Financial Related Factors and Project Performance

Financial related factors determine the extent and direction of the performance of construction projects. Specifically, cost factors and financial management are linked to the positive performance of infrastructural projects (Buertey, Abeere-Inga, & Kumi, 2012a). Construction projects rarely have their scope of definition 100% defined at the onset of the project thus significantly increasing the influence of budget related variations on project performance. In addition to the scope definition, cost errors are also evident in the design of the project. Project teams in road construction projects normally make errors resulting from error in estimation and design of the project. Specifically, this is as a result of incomplete design, incomplete scope and uncertainties in construction technology (Buertey, Abeere-Inga, & Kumi, 2012a). Finally, the lack of standardized method of estimating costs further compounds the influence of financial related factors on project success.

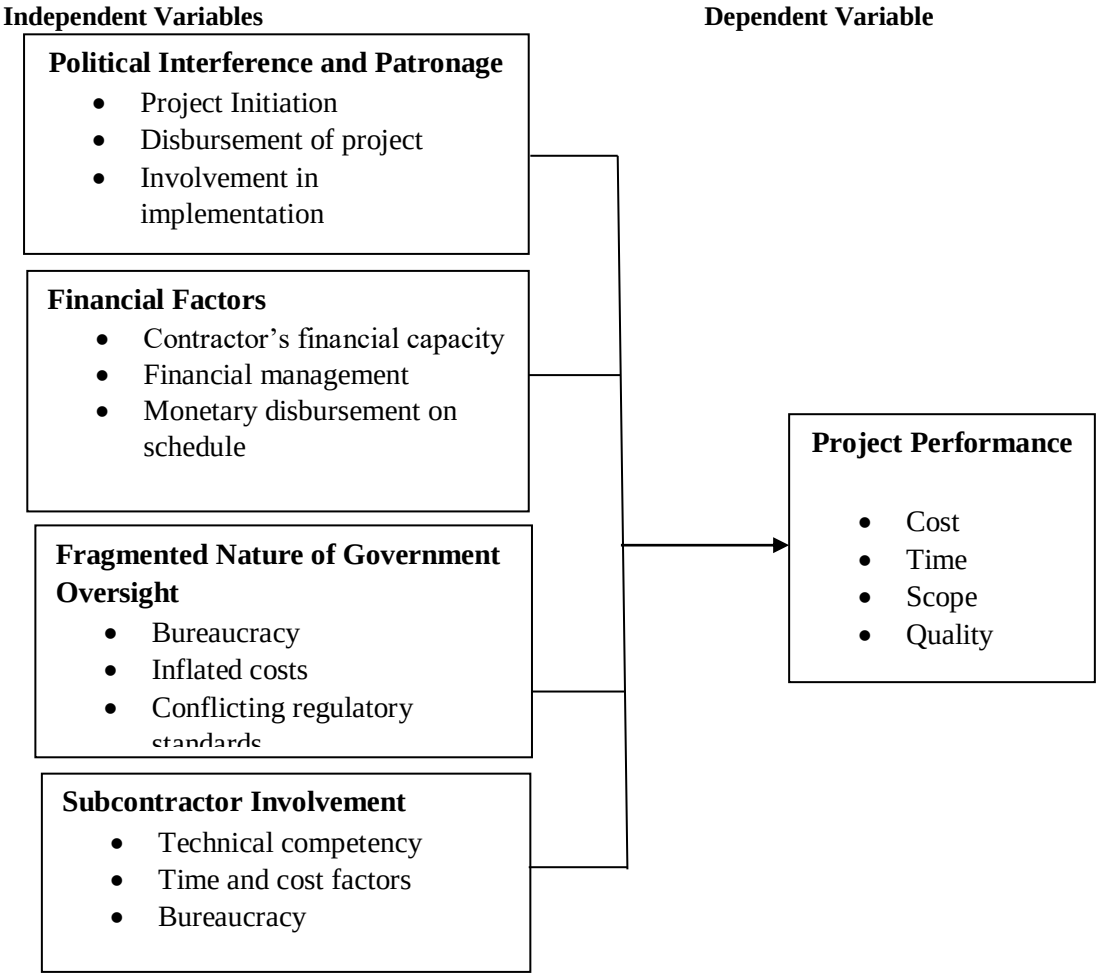
Fragmented Government Oversight and Project Performance

According to the World Economic Forum (WEF), the estimated value of government mediated road construction industry is two trillion US dollars (Almeida, et al., 2016). On average, most governments in the world invest between 2% – 3% of their GDP on road construction projects (Gerbert, Castagnino, Rothballer, & Filitz, 2016). As such, government oversight in road construction industry determines how such projects perform and this come with its own challenges. These challenges affect the project performance and more specifically cost overruns. Studies indicate, due to government oversight, cost overruns in road construction projects have become a normal rather than rare occurrence. Cost overruns in infrastructural project are estimated to escalate the project cost by 45%, 34% and 20% for rail, bridge and road construction projects respectively (Ikechukwu, Emoh, & Okorocha, 2017).

The Subcontractor Factor and Project Performance

Previously, a road construction project was a simple affair involving two players; the client and the contractor. The situation nowadays however has become a bit complicated. This is because contractors have also adopted the outsourcing model (Agyeman, Gyamfi, & Akorli, 2017). Subsequently, they tend to outsource most of the project activities to other parties often referred to as subcontractors. In addition, the road construction project management environment has evolved to the extent that clients are also relying on third parties to manage projects on their behalf in the form of management and technical consultants (Tan, Xue, & Cheung, 2017). Subcontracting by both the client and the contractors has been found to have some consequences in road construction projects such as coordination challenges, sub-contractor absenteeism and it reduces learning opportunities for the road contractors.

Conceptual Framework



Research Design

The current study was based on the descriptive research design. A descriptive survey is a research design used to collect data that can be used to establish the specific characteristics of phenomenon. (Mugenda & Mugenda, 2013) It involves asking questions about the study phenomenon either via internet-based solutions or in person, one-to-one or over a telephone conversation. This design was preferred because of its ability to collect large volumes of data from a large sample size.

Target Population

Simply put, target population refers to the pool from which the study participants are drawn. As a result, the study's target population was NCC. Specifically, the study population included government officials from KenHA, KeRRA and KURA and NCA 1road construction companies licensed to operate in NCC. The total population size for this study was one hundred and fifty-four respondents.

Sample and Sampling Procedure

The researcher conducted a census survey of 58 NCA 1 road construction companies licensed to operate in NCC. An engineer or project manager from each of the company's road construction department was selected randomly. According to the Ministry of Roads, there are three state sanctioned agencies tasked with the mandate of supervising road construction projects nationally; KenHA, KeRRA and KURA. Four engineers from each of these agencies directly involved in road construction projects were also randomly selected. Below is the study sample:

Table 1: Study Sample

	Frequency	Percentage
Contractors	58	82.87
KeNHA Officials	4	5.71
KeRRA Officials	4	5.71
KURA Officials	4	5.71
Total	**70**	**100**

Analytical Model

To determine the statistical relevance of each of the four independent variables that is financial related factors, fragmented nature of government oversight, subcontractor factor and political interference with respect to performance of road construction projects, the researcher relied on the regression model below:

$Y=\beta_0+\beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4$

Where;

Y was performance of road construction project

β_0 is a constant term

$\beta_{1...6}$ were coefficients outlining the magnitude and direction of the relationship between the dependent and independent variables

X_1 was political interference

X_2 was financial related factors

X_3 was fragmented nature of government oversight

X_4 was subcontractor factor

Response Rate

The study sample was 70 and it included the contractors and the regulating bodies in road construction industry. The projects response rate was 44.8% translating to twenty-six contractors' responses and seven paying organization responses. Only engineers attached to the design and construction departments of KURA and KeNHA participated in the study.

Political Interference and project performance

The respondents were asked to indicate the effect of political interference on road construction projects in NCC.

Table 6: Political Interference

Dimension of Political Interference	Sample size (n)	Mode	Mean	Standard Deviation
Award of road construction projects is based on political inclination	33	4	3.36	1.295
Road construction projects in NCC are awarded based on merit	33	2	2.88	1.193
One must pay a bribe to be awarded a road construction project in NCC	33	3	3.15	1.253
Choice and initiation of road construction projects in NCC is based on political affiliation	33	4	3.36	1.055
Politicians interfere with the implementation of road construction projects in NCC	33	4	3.73	1.257
Average	**33**	**3.4**	**3.296**	**1.211**

The results indicated that the respondents were to a large extent neutral about the involvement of politicians in road construction in NCC as indicated by the average mode and mean in absolute terms of 3. The average SD of 1.211 is very small indicating that most responses are spread around the mean. The overriding theme from the respondents is that politicians interfere with the choice, initiation, award and implementation of road construction project in NCC. Politically connected individuals can have roads redirected so they are either beneficiaries of astronomical compensations in terms of land acquisition or so that their properties are not affected by road construction projects (Kanda, Muchelule, Mamadi, & Musiega, 2016). Political interference has also been linked with substandard outcomes of road construction projects (Puopiel & Chimsi, 2015). Evidently, this affects the quality of work because contractors offering the best value for money do not always get the chance to implement road construction projects (Roger, 2014). The sentiments of the respondents are in agreement with the reviewed literature that indicates political interference is evident in awarding, change of scope and cost inflation of road construction projects in addition to political players being the initiators of the corruption rampant in projects of this nature (Sunjka & Jacob, 2013).

Financial Factors and project performance

Table 3: Financial Factors

Dimension of Financial Factors	n	Mode	Mean	Standard Deviation
Road contractors in NCC give accurate budget estimates during tendering	33	2	2.64	1.055
Road construction projects in NCC are always finished on cost	33	2	2.06	0.998
Road contractors in NCC allocate project funds appropriately	33	2	2.58	0.936
Paying organizations have sufficient budgetary allocation to complete construction projects as planned	33	4	3.52	1.121
Funds allocated to road construction projects are released on time	33	2	2.36	1.113
Road contractors have contingency plans to deal with financial uncertainties	33	2	2.61	0.899
Underfunded road construction projects result to poor quality roads	33	5	3.94	1.456
Average	**33**	**2.714**	**2.816**	**1.083**

From an absolute average mean and mode of 3, it was established that the respondents were neutral with regards to the influence of financial factors on the performance of road construction projects in NCC. Further, an average SD of 1.083 revealed that there was little variance between a great number of the responses and the statistical mean of the data set. A great number of the participants agreed that the road construction subsector is well funded. Financial mismanagement common in the subsector can be attributed to both the contractors and the paying authorities as the study has established. The study established that most contractors have insufficient working capital and rely on credit or pool their resources together. Delays in payment affects their credit standing and their ability to secure such facilities in the future (Mccue, 2011). Paying organizations paint a more favorable picture of the contractors' management of finances citing variations in budget estimates and final project costs are attributable to project uncertainties associated with change of scope, erratic weather patterns and the external project environment. These uncertainties according to paying organizations are beyond the control of road contractors. These findings are in agreement with reviewed literature as far as the influence of delayed release of project funds, fluctuations in currency markets, financial illiteracy and inadequacies in the construction sector regulatory framework on project performance is concerned (Buertey, Abeere-Inga, & Kumi, 2012a).

Fragmented Nature of Government Oversight and project performance

Contractors in the road construction subsector have to contend with numerous regulations from various government oversight agencies ranging from the NCA to the National Environmental Management Agency (NEMA). Further, the government has established several paying organizations whose mandates are limited to specific classes of roads.

Table 4: Fragmented Nature of Government Oversight

Dimension of the Fragmented Nature of Government Oversight	n	Mode	Mean	Standard Deviation
Fragmented nature of government oversight imposes extra burden on road contractors	33	4	3.27	1.329
Delayed release of construction funds is as a result of fragmented nature of government oversight	33	4	3.33	1.109
Delays in projects schedules in road construction projects is attributed to fragmented nature of government oversight	33	3	3.06	1.171
Fragmented nature of government oversight results to high quality roads	33	4	3.03	1.104
Fragmented nature of government of oversight increases the span of project management	33	4	3.79	0.893
Average	**33**	**3.8**	**3.296**	**1.121**

While the absolute average of the mode of 4 indicates that most respondents agree that fragmented nature of government oversight affects the performance of road construction project in NCC, the absolute average mean of 3 pointed towards a neutral picture. The average SD of 1.121 established that there was very little variance between the mean and a good percentage of the responses. Most study participants believe that the fragmented oversight results to a bureaucratic management structure in the project environment. Such a management structure according to the respondents is not only inefficient, but also leads to poor coordination between the contractors, regulators and paying authorities. This is in agreement with empirical evidence that established that fragmented nature of government oversight increase the coordination challenges, the span of management, opportunities for corrupt dealings and project budgets and the duration expended towards project execution (Jiménez, Russo, Kraak, & Jiang, 2017; Locatelli, Mariani, Sainati, & Greco, 2016; Punjabi, 2017).

Involvement of Subcontractors and project performance

Table 5 presents the mode, mean and SD of the various dimensions of the involvement of subcontractors investigated in the study.

Table 5: Involvement of Subcontractors

Dimension of Involvement of Subcontractors	n	Mode	Mean	Standard Deviation
Involvement of subcontractors positively affects performance of road construction projects	33	4	3.55	0.971
Subcontractors are technically competent to handle road construction projects	33	4	3.36	0.822
Involvement of subcontractors in road construction projects saves money	33	4	2.91	1.071
Subcontractors are a timesaving strategy in road construction projects	33	4	3.45	1.034
Involvement of subcontractors complicates implementation and management of road construction projects	33	2	3.21	1.244
Average	**33**	**3.6**	**3.296**	**1.028**

While most respondents agreed that involvement of subcontractors affects the performance of road construction projects in NCC as indicated by the absolute average mode of 4, in general the respondents reported a neutral relationship between the two variables. The average SD of 1.028 indicated that most the data were spread very close to the mean of the dataset. A lead road construction project owner is always a general contractor. Subcontractors on the other hand possess specialized skills that a general contractor may not possess. Involvement of subcontractors in road construction projects therefore ensures projects are delivered on time and budget (Akintan & Morledge, 2013). In addition, subcontractors are normally brought onboard by contractors and not client organizations. Parties external to the project rarely influence the decision to subcontract and to whom. Subcontractors are hired on merit. Specifically, on their ability to deliver a portion of the road construction project within the stipulated terms of reference (ToR) (Cao & Wang, 2014). Subcontractors are therefore an efficiency strategy. They allow the main contractors to efficiently and effectively deploy project resources and personnel. There is therefore a need for an oversight mechanism to ensure that contractors only call upon qualified and well-resourced subcontractors. KURA for instance prequalifies subcontractors and encourages the lead contractor to only engage these prequalified subcontractors. These findings completely contradict empirical evidence. While the literature viewed subcontractors in negative lights, according to the findings they are the saving grace of the road construction industry in Kenya (Piasny & Pasławski, 2015).

Project Performance

Road construction performance is assessed based on the indicators of time, cost, quality and functionality. In addition to this, it is imperative that participants in the construction process agree on a clear scope of performance that forms the basis of project monitoring and control.

Table 7: Project Performance

Dimension of Project Performance	N	Mode	Mean	Standard Deviation
Road construction projects in NCCC are executed within budget	33	2	2.61	1.088
Road construction projects in NCC are implemented in the confines of the agreed on timelines	33	2	2.58	1.032
Road construction projects in NCC achieve their intended project goals	33	4	3.06	1.029
The outcome of road construction projects in NCC is in line with predetermined scope and quality	33	4	2.94	1.197
Beneficiaries use the completed roads in Nairobi NCC	33	4	3.94	0.864
Average	**33**	**3.2**	**3.026**	**1.042**

In absolute terms, the results indicated that the respondents gave neutral responses with respect to the various dimensions of project performance in NCC and so were average responses. The average SD of 1.042 indicated that there was very little variance between the average and a majority of the responses. Project complexity has a meaningful influence on the performance of road construction projects. In practice, complexities occur when challenges arise during the routine project execution (Murithi, Makokha, & Otieno, 2017). The rate at which the challenges experienced on site are resolved affect the project completion rate hence its performance. Projects should be implemented with the end user in mind because how the end user interacts with the road also informs the overall performance of the road construction projects (Seboru, Mulwa, Kyalo, & Rambo, 2016).

It is common for variations to exist in planned versus actual outcomes of road construction project with respect to scope and quality. In cases of unavoidable variations, poor communication among key project stakeholders can potentially derail the ability to control emerging challenges on site in real time (Memon, Rahman, & Hasan, 2014). Enhancing proper coordination between the project supervisor and the contractor, regular site meetings to monitor project progress, and regular analysis of progress reports can positively influence the performance of road construction projects. In some cases, contractors normally compromise on quality hence denying end users the benefit of fully enjoying the use of roads in terms of durability and facilities (Wambui, Ombui, & Kagiri, 2015).

Pearson's Correlation

		X_1	X_2	X_3	X_4	Y
	Pearson Correlation	1	.056	-.176	-.036	-.259
X_1	Sig. (2-tailed)		.758	.327	.843	.145
	N	33	33	33	33	33
	Pearson Correlation	.056	1	-.077	.096	.585**
X_2	Sig. (2-tailed)	.758		.670	.597	.000
	N	33	33	33	33	33
	Pearson Correlation	-.176	-.077	1	.042	-.129
X_3	Sig. (2-tailed)	.327	.670		.817	.475
	N	33	33	33	33	33
	Pearson Correlation	-.036	.096	.042	1	.256
X_4	Sig. (2-tailed)	.843	.597	.817		.151
	N	33	33	33	33	33
	Pearson Correlation	-.259	.585**	-.129	.256	1
Y	Sig. (2-tailed)	.145	.000	.475	.151	
	N	33	33	33	33	33

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

Based on the 2 tailed significance, of all the predictors in the model, it has been established that only financial related factors have a meaningful correlation to project performance. The relationship between the two variables is direct, strong and positive implying that variation of either of the two results to variations in the other by the same magnitude and direction.

Regression Model

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.696[a]	.484	.410	.59714

a. Predictors: (Constant), X_4, X_1, X_2, X_3

b. Dependent Variable: Y

The regression model only accounts for 41% of the variance in project performance in road construction projects in NCC.

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	9.356	4	2.339	6.560	.001[b]
1	Residual	9.984	28	.357		
	Total	19.341	32			

a. Dependent Variable: Y

b. Predictors: (Constant), X_4, X_1, X_2, X_3

The F-Test is significant indicating that the model explains a statistically meaningful amount of the variance in the performance of road construction projects in NCC. As a result, there is some indication of the independent variables having a statistically meaningful influence on the dependent variables.

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.867	1.245		.697	.492
	X_1	-.333	.148	-.310	-2.245	.033
	X_2	.919	.220	.572	4.172	.000
	X_3	-.159	.149	-.148	-1.067	.295
	X_4	.362	.252	.196	1.435	.162

a. Dependent Variable: Y

Based on the coefficients above, below is the study's regression model:

$Y = 0.867 – 0.333X_1 + 0.919X_2 – 0.159X_3 + 0.362X_4$

Where Y is project performance, X_1 is political factors, X_2 is financial factors, X_3 is fragmented nature of government oversight and X_4 is subcontractor involvement.

From the above model, it is evident that only financial factors had a meaningful influence on the performance of road construction projects in NCC while the all the other predictors had an insignificant relationship. Reviewed literature is agreement with the findings of this model. Financial factors are critical to the performance of road construction projects world over. Empirical evidence reveals a strong link between the financial factors of budgets associated with client organizations; sources of project funds; project cash flow management; costs associated with labor, equipment and materials; and the macro economic factors of inflation and interest rates and the performance of road construction projects. Future studies should investigate the dynamics of this relationship (Kanda, Muchelule, Mamadi, & Musiega, 2016; Kihoro & Waiganjo, 2015; Kithinji & Kamaara, 2017; Seboru, 2015;Seboru, Mulwa, Kyalo, & Rambo, 2016). Holding the predictors constant, 86.7% of the variance in the performance of road construction projects in NCC is attributed to predictors not included in the model. Some of these variables that came out very clearly during the study include land compensation, coordination challenges, stakeholder management, erratic weather patterns, political uncertainty and relocation of utilities such power, water, and internet networks.

Conclusions

The parameters of project complexity under investigation have a meaningful influence on project performance as far as time, cost, quality and functionality are concerned. The project complexity can be managed if stakeholders deploy competent and experience personnel and resolve the challenges experienced on site judiciously. To enhance functionality of road construction projects, all stages of implementation should be conducted with the end user in mind. In conclusion, enhancing proper coordination between the project supervisor and the contractor, regular site meetings to monitor project progress, and regular analysis of progress reports can potentially enhance project performance.

Recommendations

The research recommends that to reduce political interference, the government agencies should follow the public procurement regulations when awarding tenders and all stake holders should be involved in the road construction projects. The research additionally recommends that milestone-based contract should be abolished, and the contractors should be paid on a monthly and activities completed. Additionally, client organizations should only award road construction projects to contractors with a solid financial plan to ensure adequate budgets to complete the projects. The research also recommends that to effectively manage the fragmented nature of government oversight, the researcher recommends that proper coordination should be enhanced between the project participants and regulatory agencies via regular site meetings to monitor project progress versus its conformity to regulatory requirements and regular analysis and implementation of the recommendations of progress reports. In conclusion, the study further recommends that to optimize on the efficiency of subcontracting, there is need of developing a mechanism to govern subcontractors to ensure that only qualified, technically competent and well-resourced subcontractors are brought on board.

Policy and Practice

The inferences, conclusions and recommendations drawn from this study have far reaching implications to the practice and policy governing the road construction subsector. Contractors and paying organizations should rely on the findings of this study to manage project complexities. Paying organizations must develop better guidelines to govern how they release project funds, coordinate and control projects and manage budget and scope changes.

Contractors on the other hand must hire qualified personnel and manage financial resource more prudently to manage project complexities whenever they arise.

The NCA among other policymakers should take the challenge to institute legal frameworks that will ensure that road construction projects perform in accordance to the triple constraints of quality, cost and time. There is a need for policymakers to put in place legislations governing how major stakeholders including the beneficiaries of the project, the public, could be involved in every phase of the project. Road construction projects must be implemented in accordance with the new constitutional framework that mandates public participation. Guidelines must be established to mediate the financial relationship between contractors and paying organizations to ensure project funds are released in a timely fashion.

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RESOURCE ISOLATING MECHANISM AND SUSTAINABLE COMPETITIVE ADVANTAGE AMONG COMMERCIAL BANKS IN KENYA

BY

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ABSTRACT

Kenyan commercial banks are facing intense rivalry within the industry due to dynamic changes in the external environment. For survival in the industry, it is important that banks respond to the changes in the external environment. Sustainable competitive advantage has become the core focus of corporate strategy, has increasingly gained much attention in strategic management and is a concept which enables organizations to survive in the long-run. The main purpose of this study was to establish the effect of resource isolating mechanism on sustainable competitive advantage among commercial banks in Kenya. The specific objectives in this study were to ascertain the effect of economic deterrence, identification of rival competitive advantage and exploitation of opportunities on sustainable competitive advantage among commercial banks in Kenya. Descriptive and explanatory research designs were employed in the study. The research targeted all the commercial banks in Kenya. Purposive sampling was used to select a sample of 160 respondents from the key departments of Finance, Sales and Marketing, Strategy and Operations of all the forty (40) commercial banks' headquarters in Kenyan capital Nairobi. The data collection instrument used was semi-structured questionnaire. The variable characteristics were summarized using descriptive

statistics. Agreement to the most frequent responses to the statements on the study variables ranged between moderate and high extent. Based on results of hypotheses testing, there exists a positive effect of resource isolating mechanism on sustainable competitive advantage.

Key Words: Resources, Isolating Mechanism, Competitive Advantage, Sustainable Competitive Advantage, Sustainability

1.0 INTRODUCTION

Rapid change in economic and business environments has resulted to firms competing for profits, customers, and products that are perceived to be of value by customers (Dirisu, Iyiola & Ibidunni, 2013). Also liberalization of the economy and opening of global markets has increased the rate of global competition among business entities (Khandekar, & Sharma, 2005). The intense competition has resulted in firms constantly implementing defensive and offensive strategies (Yannopoulos, 2011). The firm's main concern is to defend its high market shares and reacting aggressively to the competitors moves by trying to build its own strengths (Porter, 1980). Profitability and high market share can only be achieved when a firm is in position to create and sustain competitive advantage (Rothaermel, 2008).

Resource isolating mechanism is a crucial hypothetical concept which explains the competitive advantage sustainability process in a resource-based model for it discusses the competition among firms in a particular industry (Mahoney & Pandian, 1992). An entity must be capable to discover rival competitive advantage, invest and earn superior performance, diagnose rival competitive advantage and acquire competitive resources and capabilities to remain competitive in a particular industry (Grant, 2010). The firm should also identify opportunities in the external environment, resource mobilization and employ skilled and experienced people to remain competitive (McGrath, 2013). When barriers to entry are high in an industry, competition declines over time and it makes it hard for beginning firms to get into the industry (Pearce & Robinson, 2005).

Commercial banks in Kenya should embrace technology for effective and efficiency service delivery and thus, enhance customer confidence and loyalty, improve service quality, minimize costs and maximize on profits (Mbobua, Juma & Musiega, 2013; Kungu, Desta, & Ngui, 2014). Processes and systems in operational activities should be developed effectively in order to maintain the structure of firm environment and as a result attain sustainable competitive advantage (Srivatsava, Franklin, & Martinette, 2013). The resources central to competitive advantages should be recreated, reduplicated, redeployed or combined to bring growth (He, 2012).

The banking industry in Kenya has experienced increasing competition over the years whereby commercial banks have been competing among themselves and also with other financial institutions (Kungu, Desta & Ngui, 2014). At the same time, the Central Bank of Kenya (CBK) Annual Report (2015) indicates that there has been high fluctuation in the level of competitive advantage achieved by individual banks in the last five years with several banks being ranked in different positions over the same period. The Banking Act chapter 488 requires banks to

publish their results and bank charges which expose each bank to imitation by their rivals in the same industry (CBK, 2015).

The area of resource isolating mechanism has been given little attention in the banking industry and in strategic management. Hence, there is lack of adequate understanding on the set of resource isolating mechanism adopted by commercial banks in Kenya and how they influence sustainable competitive advantage in the banking industry, as well as the role played by capabilities generated by the bank resources and the external environment. The purpose of this study therefore was to determine the effect of resource isolating mechanism on sustainable competitive advantage among commercial banks in Kenya. The specific objectives of the study were to determine the effect of economic deterrence, effect of identification of rival competitive advantages and the effect of exploitation of opportunities on sustainable competitive advantage among commercial banks in Kenya

The findings of this study are important to managers in various firms especially in the banking sector in Kenya and other developing countries through insight on which resource isolating mechanism should be embraced as a strategy for sustainability of their competitive advantage for survival in the industry. The research is of great importance to the government and organizational policy makers for they can use the findings in this research to formulate and develop strategies on resource isolating mechanism for implementation in both public and private sectors. The study contributed towards filling of the information gap on the subject matter which is useful for future research. The study also contributed to the existing body of knowledge, which can be used as reference point by academicians, scholars and researchers.

2.0 LITERATURE REVIEW

This section reviews specific conceptual and empirical literature selected covering the main parameters used in this study aimed to point out current research gaps. It also emphasized on literature covered in other areas of resource isolating mechanism and sustainable competitive advantage and focused on identification of areas where research gaps exist. This section reviewed existing theories related to the study variables. Several theories have been advanced by scholars, researchers and writers in sustainable competitive advantage. The most prominent of these theories are resource-based theory, knowledge-based theory and institutional theory.

Resource Based View (RBV) Theory provides a framework which explains and predicts the origin of the competitive advantage of the business (Konzlenkovan, Samaha, & Palmatier, 2013). According to Grant, (1991), RBV approach helps the firm develop uncommon characteristics to realize the relationships that exist between firm resources, competencies, potentiality and its gainfulness and the mechanism that can be used to integrate these resources to sustain the competitive advantage. This can be achieved by designing and implementing strategies which can exploit the opportunities in the external environment (Grant, 1991). Resource based theory focused on firm resources and creation of sustainable competitive advantage (Barney, Ketchen, & Wright, 2011). RBV explains how firms can compete effectively and efficiently by exploitation of specific resources and capabilities which possesses uniqueness and are immitable by competitors for they are factors of sustainable competitive advantage and high performance of the firm (Theriou, Aggelidis & Theriou, 2009). Sustainability of competitive advantage is determined by the level to which competitors are able to match the uniqueness of their resources and that of other firms (Olavarrieta, & Ellinger, 1997).

RBV identifies four characteristics known as resource isolating mechanism of firm's resources as physically unique (virtually impossible to imitate), path-dependent resources (very difficult to imitate), causal ambiguity (very difficult to imitate due to its complexity), economic deterrence (resources which requires high capital investment) (Pearce & Robinson, 2005). Resource Based View theory is important in this study for its main concern is the resources controlled by a firm and how these resources can be linked to produce competitive advantage.

Knowledge Based-View (KBV) of an entity is a continuation of resource based view (Grant, 1996; Curado, Lupi & Lisboa, 2006; Felin & Hesterly, 2007). Knowledge-based resources include knowledge and intellectual abilities of employees, capacity to learn and expand on more knowledge, and have significant effect on the performance in the current business environment through sustainable competitive advantage (Capon, 2009). Creation and sustainability of competitive advantage depends upon inimitability of the capabilities and this underlies in the scope of specialized knowledge within an organization (Grant, 1996). The firm is able to create new value if its capabilities and knowledge are rooted in experts and specialist for this provides the starting point in creation and sustaining competitive advantage (Felin & Hesterly, 2007). Acquiring knowledge through learning triggers insights into organizational routines, beliefs, values and culture (Clegg, Kornberger & Pitsis, 2014). Therefore, continuous learning of the organization's employees develops capabilities and competencies that are sources of sustainable competitive advantage (Njuguna, 2009; Chowtupalli & Rafi, 2013). Managers should therefore be able to identify staff with unique skills and talents which cannot be duplicated by rivals (Hatch, & Dyer, 2004).

Institutional theory of organizations emerged from Philip Selznick and his students whereby they created an institutional theory model which viewed organizational structures as a means of shaping the organization's characteristics in response to the changes in the external environment (Tosi, 2009), is concerned with progressions by which structures are recognized as authoritative guidelines for social behavior (Scott, 2004) which provides a multifaceted view of firms (Zucker, 1987). Institutional theorists are concerned with how organizational structures and processes become established over time (Oliver, 1997). Institutional theory focuses mainly on distinguished and specialized cognitive and normative systems that classify human activities within an organization (Tosi, 2009). Rationalized institutions create myths of formal structure which shape organizations (Meyer & Rowan, 1977). Therefore, institutional theory considers processes by which structures become established as authoritative guidelines for organizational behavior (Prasad, 2010). Institutionalized organizations have the benefits of institutional strategies (Thomas, 1999), capable of implementing sound decisions (Peters, 2000). Institutional resource isolating mechanism denotes barriers to imitation and this helps a firm to protect its competitive advantage (Oliver, 1997).

Conceptual and Empirical Review

Strategic resources possess four characteristic attributes that provide a firm with the potential for sustainable competitive advantage: the resource must be valuable such that it exploits the opportunities and/or neutralizes threats in the firm's environment, it must be rare among rivals and industry of operation, the resource must be imitable for competitors and the resource must have no equivalent substitutes and hence unique (Dess, Lumpkin & Eisner, 2011). Unique resource is the one which cannot be imitated by rivals (Collis, 2013). Ensuring sustainable competitive advantage through product differentiation establishes brand reputation of a product and this attracts customer loyalty (Thompson, Strickland & Gamble, 2010), this results in customer satisfaction and eventually helps the firm to retain its customers thereby creating entry barriers (Auka, 2014). Differentiation strategy enables a firm to produce products customers perceive as different and valuable, and this is a basis for competitive advantage (Hoskisson, Hitt, Ireland & Harrison, 2008; Grant, 2010).

Anyim (2012), found that service differentiation strategy used by the private hospitals to gain competitive advantage enhances service delivery and leads to high customer loyalty. The purpose of the study was to determine service differentiation as a phenomenon among private hospitals in Nairobi in order to assess the extent to which service differentiation can be used to gain sustainable competitive advantage in the private hospital sector. The target population was all private hospitals in Nairobi. A sample study of 30 private hospitals in Nairobi was selected through purposive sampling method. The recommendation from the study findings was that other sectors of the economy should practice service differentiation to gain competitive advantage.

Kungu, Desta and Ngui (2014) found that equity bank used different competitive strategies among them the combination strategy, cost leadership strategy, differentiation strategy, and focus strategy and also it possessed various strengths that enabled it to survive in the market and also enabled it to compete favourably against rival firms. The study recommended that commercial banks should improve their information systems, come up with policies that would address the challenges they faced in maintenance of customer demands, pricing strategies and advanced technology to ensure improved quality and reduced costs to their customers.

Economic deterrence as a form of resource isolating mechanism is a strategy that enable a firm to determine its internal strengths as a result of resources in its custody which enables effective exploitation of business opportunities and also development of a new generation of resources in order to sustain its competitive advantage (Chaharbaghi & Lynch, 1999). Firms' should acquire, develop and build resources that create value to gain and sustain competitive advantage (Barney & Hesterly, 2008). The study of sources of sustained competitive advantage focuses on valuable, rare, imperfectly, and non-substitutable resource controlled by a firm and tends to be harder for competitors to copy if they are based on unique bundles of resources (Barney, 2001; Dess, Lumpkin & Eisner, 2009). Gaya, Struwig and Smith, (2013) found that the presence of tangible resources, both financial and capital are the main source of sustainable competitive advantage. The study was conducted in the motor vehicle industry in Kenya where senior managers and CEO were interviewed. The study concluded that a firm should possess bundle of resources which are rare, immobile, inimitable and unsubstitutable in order to perform at higher level than rivals.

Ismail, Rose, Uli and Abdullah, (2012) study sought to establish the relationship between organizational resources, capabilities, systems and competitive advantage. The target population consisted of manufacturers listed in the 2008 Federation of Malaysian Manufacturers Directory. A cross-sectional research design was employed where structured questionnaire was used to obtain responses from the manufacturers. A sample of one thousand manufacturers were randomly selected however, 127 respondents duly filled and returned the questionnaires for analysis (12.7% response rate). The study found that there was positive effect of organizational resources, capabilities and systems on competitive advantage and recommended that organizations should consider having sound work systems that facilitate internal capabilities and resources to achieve competitive advantage, and that the organization's should improve their research and development (R&D) and product promotion capabilities to attain and sustain competitive advantage.

Identification of rival competitive advantages is a strategy that enables the firm evaluate the sustainability of its competitive advantage by benchmarking their business against key competitors for it enables the firm to identify the best practices for this as another way to judge the competitive strength of the competitors' in order to determine how to perform business efficiently and effectively (Pearce & Robinson, 2011), and entails establishing comparison of performance of various companies in terms of their value chain activities as well as costs of this activities (Thompson, Strickland & Gamble, 2010). Competitive factors that tend to increase rivalry are categorized into attributes about firms within an industry and attributes about a product or service or markets (Carpenter & Sanders, 2009). Iberg (2015), recommendation was that sustainability of the firm's competitive advantage and strategies is a requirement for long term business success and this is due to rise in consumer demands for valuable products, strained resources and uncertainty in the firm's environment. The study was done on different industries among

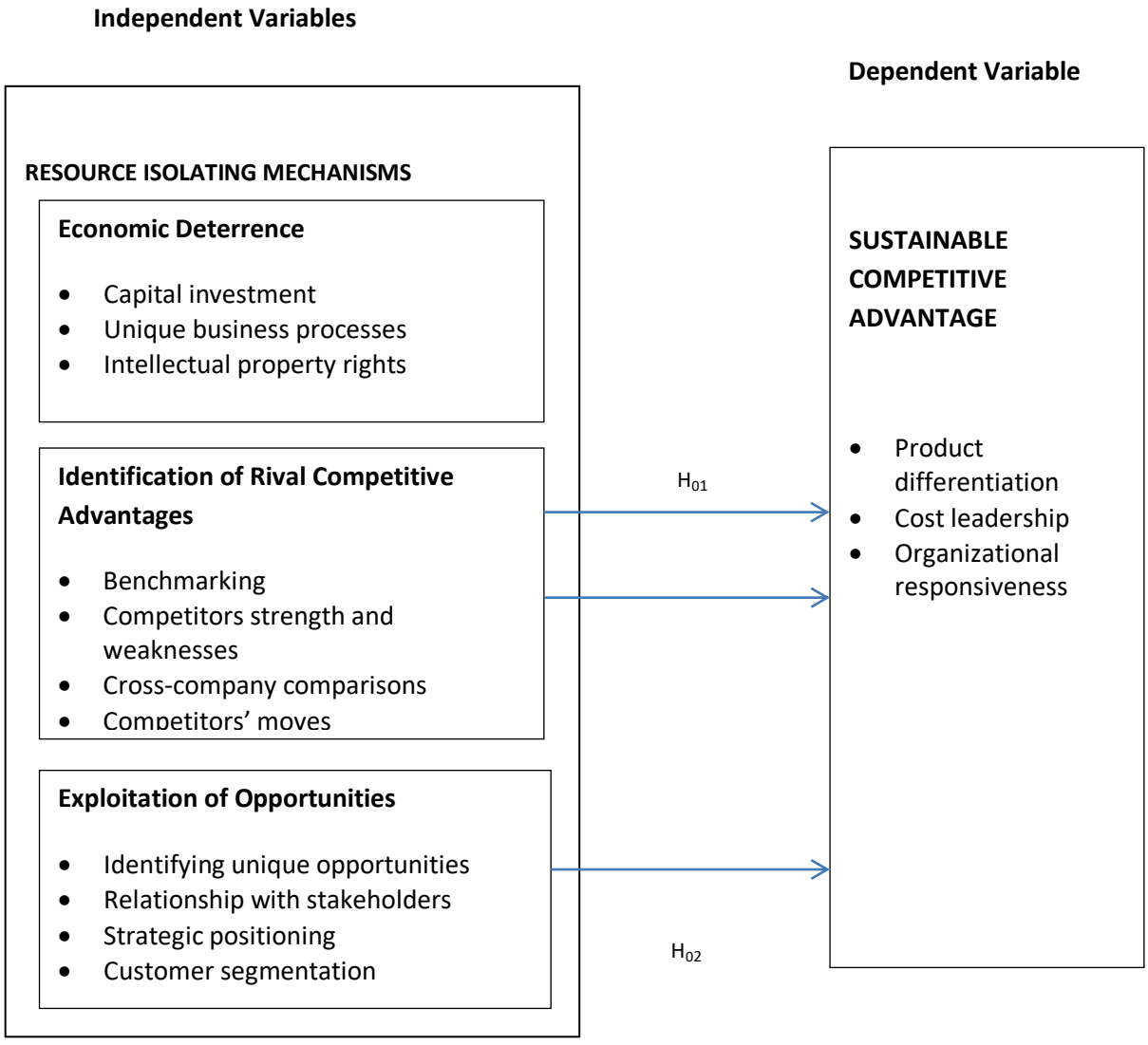
them the clothing, transportation, restaurants, cleaning products in University of Tennessee. The finding was that firms that invest in sustainability create strong comparatives advantages for their businesses in the 21st century.

Exploitation of opportunities as a form of resource isolating mechanism is required due to increased rate of global competition (Dirisu, Iyiola & Ibidunni, 2013). For a firm to sustain competitive advantage, it should deter imitation by occupying existing and potential strategic advantage to reduce the range of investment opportunities open to the competitors (Grant, 2010). The firm should also establish the products or services those have potential of creating value to customers (Srivastava, Franklin, & Martinette, 2013).

Choi and Shepherd (2004), found that it was likely for entrepreneurs to exploit opportunities if more knowledge of customer demands are perceived for new products, technologies are fully developed and presence of managerial capability and strong stakeholder support. The purpose of the study was to establish the entrepreneurs' decisions to begin exploiting business opportunities from the resource-based view. The target population were entrepreneurs involved in high-technology located in business incubators in US. Thirty seven business incubators were randomly selected from the US list of incubator members whereby two sixty seven entrepreneurs were contacted via telephone or emailed letters. The respondents were CEOs or presidents of the business.

Conceptual Framework

The conceptual framework on figure 1, illustrates the direction of the relationship between study variables: Resource isolating mechanism and sustainable competitive advantage



H_{03}

Figure 1: Conceptual Framework

Source: Author (2018)

3.0 RESEARCH METHODOLOGY

The study used both descriptive and explanatory research designs. The population was 40 commercial banks in Kenya. The targeted respondents were managers of key departments in these 40 commercial banks in Kenya. The study was conducted at the commercial banks' headquarters in Nairobi, Kenya. Consequently, the unit of analysis in this study was the bank while the unit of observation was the head of functional/departmental area. Primary data was collected using self-administered semi-structured questionnaire. The research instruments was validated in terms of content and face validity. The closer Cronbach's alpha is to 1, the higher the internal consistency (Sekaran, 2003; Weiner & Hopkins, 2007). This study used a cut off coefficient point of 0.7 and above as a strong measure of coefficient. The overall score of reliability for the four variables was 0.867 which was greater than the adopted threshold of 0.7 as recommended by Robert (2006).

Quantitative methods, data analysis involved computation of both descriptive and inferential statistics using Statistical Package for Social Sciences (SPSS). Descriptive statistics analysis entailed calculation of means, variances, coefficients' of variation, correlation coefficients and regression models constants of the responses without giving detailed explanation of the values computed. Output of these procedures was presented through frequency distribution tables, graphs and charts. In inferential procedures, interpretations of values obtained from descriptive analysis. Inferential statistics therefore, provide deeper understanding of descriptive statistics.

The research hypothesis was tested at 95% level of confidence in order to provide for drawing of conclusions that if the p-value is less than 5%, the null hypothesis was rejected and the alternative hypothesis was accepted. If p-value was greater than 5%, the null hypothesis was not rejected and the alternative hypothesis was rejected. Pearson's product movement correlation (r) was derived to show the nature and strength of the relationship. Coefficient of determination (r^2) was used to measure the amount of variations in the dependent variable explained by the relationship between variables.

4.0 FINDINGS

The study findings included the bio-data of the study responses, the descriptive analysis and the inferential analysis of the study.

Table 1 Respondent Bio-data

Biographic characteristics	Bank type			Total	Percentage (%)
	Tier 1 banks	**Tier 2 banks**	**Tier 3 banks**		
Gender					
Male	4	15	40	59	45.7
Female	6	29	35	70	54.3
Total	**10**	**44**	**75**	**129**	**100.0**
Age					
21-30 years	3	26	43	72	55.8
31-40 years	7	17	28	52	40.3
41-50 years	0	1	4	5	3.9
Total	**10**	**44**	**75**	**129**	**100.0**
Years of work					
Less than one year	0	0	1	1	0.8
1-2 years	0	10	17	27	20.9
3-5 years	5	17	37	59	45.7
6-10 years	4	17	18	39	30.2
Above 10 years	1	0	2	3	2.3
Total	**10**	**44**	**75**	**129**	**100.0**
Education					
Diploma	0	2	1	3	2.3
Degree	8	34	64	106	82.2
Masters	2	7	9	18	14.0
Other (specify)	0	1	1	2	1.6
Total	**10**	**44**	**75**	**129**	**100.0**

Source: Survey data (2017)

The researcher administered 160 questionnaires among the Commercial Banks of interest. However, 129 dully filled questionnaires were collected from the respondents translating to a response rate of 80.63%. From the findings, majority of the respondents had worked for the banks between three to five years, were degree holders and therefore, able to understand the research questions since they were literate.

Variable Characteristics

This section of the study discusses the characteristics of the variables through measures of central tendency and dispersion of the mean and standard deviation respectively.

Table 2 Variable characteristics

Variable	**No of Items**	**α Score**	**Mean**	**Standard Deviation**
Economic deterrence	129	0.856	3.91	0.81
Identification of rival competitive advantage	129	0.888	3.97	0.80
Exploitation of opportunities	129	0.841	4.21	0.70
Sustainable competitive advantage	129	0.905	3.94	0.82
Overall score		**0.873**	**4.01**	**0.78**

The first variable of the study was economic deterrence and was used in the study because of its focus on existing resources in exploiting business opportunities and sustaining competitive advantage. The aggregate mean for the variable of economic deterrence was *3.91* indicating that overall, the respondents largely agreed to the statements on economic deterrence. The aggregate standard deviation was *0.81* indicating that variation of responses by the respondents was not high.

The second variable of the study was identification of rival competitive advantages and was used in the study because of its linkage of company environment and sustainable competitive advantage. The variable was measured using five indicators. The responses on all the statements on identification of rival advantages had an aggregate mean of *3.97* indicating that the respondents generally agreed to the statements on identification of rival advantage. The aggregate standard deviation was *0.80*, showing a low variation on the respondents' responses.

The third variable of the study was exploitation of opportunities and was used in the study because of its focus on exploitation of market environment in sustaining competitive advantage. The variables were measured using five indicators. Overall, the variable Exploitation of Opportunities had an aggregate mean of *4.21* showing that the respondents largely agreed to the statements on exploitation opportunities. The aggregate standard deviation was 0.70 indicating a low variation on the respondents' responses.

The dependent variable, sustainable competitive advantage was used in the study because of the expected outcomes from the resource isolating mechanism strategies. The variables were measured using six indicators. The responses on the statements on sustainable competitive advantage had an aggregate mean of *3.94* indicating that the respondents generally agreed to the statements on sustainability. The aggregate standard deviation was *0.82* indicating a low variation on the respondents' responses.

Table 3: Regression analysis for the direct relationship between resource isolating mechanism and sustainable competitive advantage

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.778[a]	.605	.596	.42069	1.972

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	33.939	3	11.313	63.922	.000[b]
	Residual	22.122	125	.177		
	Total	56.061	128			

coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.402	.270		1.490	.139
	Economic Deterrence	-.001	.091	-.001	-.016	.987
	Identification of Rival Advantages	.442	.091	.442	4.869	.000
	Exploitation of Opportunities	.424	.082	.408	5.148	.000

Source: Survey data (2017)

The first hypothesis of the study sought to determine the effect of Economic Deterrence on sustainable competitive advantage of commercial banks in Kenya. The hypothesis was stated in the null form as:

H_{01}: Economic Deterrence has no significant effect on sustainable competitive advantage among commercial banks in Kenya.

From the established regression equation from the findings reported in Table 4.3, economic deterrence had a negative coefficient (β=-0.01) and a statistical importance of p>0.05. The coefficient indicated that with all the other variables constant, one-unit increase in economic deterrence would cause a 0.01units reduction in sustainable competitive advantage. This indicates a negative relationship between economic deterrence and sustainable competitive advantage. However, the relationship was non-significant. As a result H_{01} was supported and the study concluded that economic deterrence had a negative effect on competitive advantage sustainability which was not statistically significant.

The second hypothesis of the study sought to determine the effect of identification of rival competitive advantage on sustainable competitive advantage of commercial banks in Kenya. The hypothesis was stated in null form as:

H_{02}: Identification of Rival Competitive Advantages has no significant effect on Sustainable Competitive Advantage among Commercial Banks in Kenya

From the established equation, identification of rival competitive advantage had a positive coefficient (β=0.442) and a significance of p=0.000 which is less than the threshold of p<0.05. The coefficient indicated that, with all variables remaining constant, one unit increase in rival competitive advantage would result to 0.442 unit increase in sustainable competitive advantage among commercial banks in Kenya. This indicates a positive relationship between identification of rival competitive advantage and sustainable competitive advantage. As a result the study rejected H_{02} and concluded that identification of rival competitive advantage had a positive effect on sustainable competitive advantage which is statistically significant.

The third hypothesis of the study sought to determine the effect of exploitation of opportunities on sustainable competitive advantage of commercial banks in Kenya. The hypothesis was stated in the null form as:

H_{03}: Exploitation of opportunities has no significant effect on sustainable competitive advantage among commercial banks in Kenya

Exploitation of opportunities had a positive coefficient and significance at *β=0.408; p=0.000.* The coefficient indicated that, with all the variables remaining constant, one unit increase in exploitation of opportunities would result to 0.408 unit increment in sustainable competitive advantage among commercial banks in Kenya. The findings of the study indicated a strong positive relationship between exploitation of opportunities and sustainable competitive advantage at *p=0.00; t=5.148.* As a result the study rejected the null hypothesis and concluded that exploitation of opportunities had a positive effect on sustainable competitive advantage which was statistically significant.

The findings can be explained using several bases. The first base is the demographic features of the respondents who engaged in the research. The demographic data reported in table 4.1 showed that the composition of demographic characteristics of the study was majorly between 21 and 30 years of age, where most of the respondents had acquired post graduate education. The level of experience for majority of the respondents was between 3 and 10 years which is considered to be favorable especially for workers at top level of management where strategic decisions such as economic deterrence takes place. It is observed that the respondents have adequate understanding of the industry, competitive behaviors and so capable of projecting into their likely strategic moves during competitor analysis process in their strategic management process.

The second basis used to explain the findings is the set of previous empirical findings. In regard to hypothesis one, Gaya, Struwig and Smith, (2013) found that the presence of tangible resources, both financial and capital are the main source of sustainable competitive advantage. Similarly, the study Ismail *et al.*, (2012) found out a positive relationship between organization resources, capabilities, systems and competitive advantage. However, the study scope was in Malaysian manufacturing industry and the population was larger than the current study, further, the study focused on competitive advantage strategies and effective resource utilization.

From the findings and explanations given on hypothesis two, the study makes an important contribution that, focus on benchmarking and monitoring of competitor activities are rival competitive advantages that affect sustainable competitive advantage. Previous studies such as Iberg (2015), did not discuss how rival advantages related to sustainable competitive advantage as in the current study. Chowtupalli and Raffi (2013) a positive relationship exists between competitive advantages, customer relationship, information technology resources, exploitation of opportunities and sustainable competitive advantage. The study asserted that resource configuration and organization identity were sources of competitive advantage practices that resulted to organization learning, knowledge management and innovation which are indicators of sustainable competitive advantage where resource configuration and organization identity serve as opportunities for firm to be rare and unique both internally and externally.

In relation to the above discussion, the study makes the following contribution: exploitation of opportunities through stakeholders and external environment has positive impact on strategic direction of sustainable competitive advantage. While the previous studies such as Choi and Shepherd (2004) did not relate exploitation of opportunities to performance outcomes which had the ability to explain how it influences Sustainable Competitive Advantage, the current study expands on this variable by incorporating performance measure.

5.0 CONCLUSION AND IMPLICATION

The objective of the study was to determine the effect of resource isolating mechanism on sustainable competitive advantage among Kenyan commercial banks. Relying on the study findings, the study makes several conclusions. Findings on research objective one indicated that economic deterrence was not statistically significant and had a negative effect on sustainable competitive advantage.

Regarding the research finding on objective relating to identification of rival competitive advantage, it was found to be significant and had a positive relationship with sustainable competitive advantage. The study found that commercial banks in Kenya which were able to bench mark the competitors' best practice, which monitors the rivals' strategic moves and continuously performs cross company comparisons were able to produce quality and differentiated products which sustains competitive advantage.

In regard to objective three, the study found that exploitation of opportunities was significant and had effect on competitive advantage sustainability. The study found that Kenyan commercial banks which regularly scans the environment, able to segmentation the market and product positioning creates and sustains competitive advantage. The study also found that banks which rely on strategic fitness acquire competitive resources in their business environment and thus, were in a situation of gaining and achieving sustainable competitive advantage.

The study found a positive effect of resource isolating mechanism on sustainable competitive advantage. This study findings makes several recommendations. Firstly, top management characteristics and external environment were found to influence the sustainability of competitive advantage. Therefore, top management of commercial banks, specifically strategy department should formulate and implement strategies which are future oriented and flexible such that the changes in the external environment especially changes in technology are taken care of.

It is also crucial for strategic managers in Kenyan commercial banks to incorporate strategic aspects such as strategic fitness, alignments and Top Management Teams (TMT) to facilitate strategic effectiveness of the resources acquired. Secondly, the managers in finance, operations and marketing should work together as a team to ensure that the resources of the banks are well utilized for the success of the bank. The finance department managers should emphasis more on allocation of resources on the strategies such as benchmarking, cross company comparison and monitoring of competitors moves which helps the bank to identify the rivals' competitive advantage for these activities were found to bestow attainment of sustainable competitive advantage of the commercial banks.

Thirdly, Operations managers of commercial banks should introduce mechanisms which help them deal with changes in the external environment. The mechanisms should also assist the management in decision making in regard to production of quality and valuable products or services which were found to have positive effect on overall sustainability of competitive advantage**.**

Recommendations for Future Research

The study can be replicated at a regional level in Kenya so as to contrast any variations on the regional characteristics. Future researches should consider replication to other regions, especially developing countries to establish any adjustments on study variables.

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BOARD CHARACTERISTICS, FIRM SIZE AND FINANCIAL LEVERAGE OF MANUFATURING AND ALLIED FIRMS LISTED AT NAIROBI SECURITY EXCHANGE, KENYA

RAPHAEL NJENGA GICHINGA

ABSTRACT

Kenyan manufacturing firms' structural inefficiencies with huge uncontrollable debts levels coupled with poor performance poses a great threat to Kenyan economy. The sector is financed through debts and equity (Akoto. et al, 2013) to avoid dire negative impact such as collapse (Ahmed, 2017) arising from firm`s illiquidity (Koech, 2013). Kenyan manufacturing firms are crippled by poor corporate governance and huge unsustainable debts leading to stakeholders losing their investment and unsettled suppliers claims associated with poor financial management decisions (KPMG report, 2015). Kenyan manufacturing sector growth depicts a worrying declining trend (KNBS 2018 and 2016 economic survey. The government efforts in setting up sector`s improvement policies, have not yielded fruits (World Bank, 2014. The financial leverage and the board of director's characteristics have been identified as a root cause. The problem is catalyzed by numerous court cases against manufacturing firms` former directors on mismanagement and embezzlement of funds. This independent study paper offers a back ground and theorizes on financial leverage and board of directors characteristics. It provides literature and theoretical overview on the relationship that exists between financial leverage decisions and Board of director's characteristics in manufacturing sector. This paper concludes that Board of directors characteristics affect financial leverage decisions and that firm size influences how much external borrowing a firm may secure. This paper indicate a need to an empirical research to ascertain the exert relationship between the board of directors characteristics, firm size and financial leverage of manufacturing firms.

Key words: Financial leverage, Manufacturing Firm, Board of Directors Characteristics

CHAPTER ONE: INTRODUCTION

Background of the Study

Financial leverage is the ability of a firm to use the available resources both debts and equity to make maximum profits for its shareholders (Ojo 2012). Firms finance their projects through a mix of debts and equity to avoid illiquidity challenges which has a dire negative impact on firms operations (Koech, 2013).The financing options determine collapse or the going concern of any profit making entity (Ahmed 2017).Firms operate optimally with a good mix of equity and debts and therefore it is critical for all the stakeholders to be concerned with firms considered financing options (Raza 2013 & Al-Otaibi ,2015). Pandey (2003) contends that an unlevered firm is an all-equity firm, whereas a levered firm is made up of ownership equity and debt. Financial leverage takes the form of a loan or other borrowing (debt), the proceeds of which are (re)invested with the intent to earn a greater rate of return than the cost of interest

The firm attributes such as the firm size which is determined by the firm turn over and its asset structure among other factors (Chandrapala and Knapkova 2013) is a key consideration of how much a firm can be externally financed. In extension, firm size influences the firm decisions regarding debts and equity (Bhutto,Memmon,and Abbas,2012).Further , firm size decreases the long term debt of firms(Gul, Sajid,Mumrtaza 2012) and asset size maturity leads to an increase in debts(Gul, Sajid, Mumrtaza 2012) .Debt ratio is negatively correlated with firm size Sheikh and Wang (2011).Ramlall 2019.Firms with small asset structure size would find difficulties in sourcing external funds visa-viz a firm which has a large asset base (Abdu,2016). This is basically because the asset structure is explained as the assets which are directly involved in production process and hence directly related to loan serviceability (Zhenge 2016).

Generally, the specific firm attributes determines the firm financial leverage speed of adjustment (Buvanendra and Sridharan, 2017). Further, besides the fundamental analysis on capital structure decisions, Myers theory (1978) introduces the human aspect as pivotal in determining firm` debt. The fiduciary role by directors to systemize the organization, direct and control (Cadbury Report (1992) as the agent of shareholders (Salomon Vs Salomon, 1897) is critical to financing decision in a firm. In extension, resource based theory asserts that firm`s intangibility and tangibility resources are immobile and heterogeneously existing.

Critically, the firms` Board of directors` decisions on funding operations whether short or long term is an indicator of firm`s survival and a mirror of the Bod characteristics. Financial leverage decisions can therefore be argued to be a reflection of Bod`s characteristics diversity such as education background, expertise/experience, percentage shareholding in the firm, tenure of service and age of director among other factors.

Kenyan firms have continued to sink into un-proportional debt levels compared to their asset base. Many manufacturing firms have been liquidated or operation crippled such as sugar industry in Kenya (miwani, muhoroni, nzoia,sony, and chemilil factories). Generally, firms in Kenya have a slower speed of adjustment of targeted capital structure pointing to higher costs hence reduced profits margins but they also adjusts faster to shorter term debts targets than in long term debts,(Mohammed and tendai,2013). Does this indicate that manufacturing firms have poor decisional organ? How does the individuals traits in this decision organs contribute to overall soundness of the firm?This current study aims at drawing the nature and exert relationship of board of directors` characteristics on firms financial leverage; Is there a relationship between the firm` board of directors characteristics diversity on firms` financial leverage?

Statement of the Problem

Manufacturing firms are financed through debts and equity (Akoto. et al ,2013) to avoid dire negative impact arising from firm`s illiquidity (Koech, 2013).The financing options determine collapse or the going concern of any profit making entity (Ahmed, 2017). Kenyan manufacturing sector has been crippled by poor corporate governance and huge unsustainable debts evidenced by huge debts at Athi-river mining cement plc which compels its shareholders to auction the firm according to Delloitte & touche audit report (2016); Mumias sugar company huge unmanageable debts coupled with funds embezzlement leading to stakeholders losing their investment and unsettled suppliers claims associated with poor management decisions (KPMG report,2015) among others .

The sector has slower speed of adjustment to targeted capital structure; adjust faster to shorter term debts targets than in long term debts leading to higher costs of operation and subsequently reduced profits margins (Mohammed and tendai,2013).Subsequently, the manufacturing sector growth depicts a worrying declining trend from a higher of 7.2 % in 2011 to the lowest of 0.4% in year 2017(KNBS

2018 and 2016 economic survey). Its growth is slow than in comparator countries and is facing risk of being hollowed out as firms move to more attractive location,(Kenya economic update, vol 94697 and NSE, 2013 survey report). The government efforts in setting up sector`s improvement policies, have not yielded fruits (World Bank, 2014). The sectors` vicious negative effect has a major impact on the attainment of Kenya`s vision 2030 of converting the country into an industrialized middle level country (Mohammed and Tendai, 2013).

The problem is catalyzed by numerous court cases against manufacturing firms` former directors on mismanagement and embezzlement of funds. The manufacturing firms' structural inefficiencies with huge uncontrollable debts levels coupled with poor performance poses a great threat to Kenyan economy. The current study aims to offer solution by investigating effect of manufacturing firms` board of director's characteristics on financial leverage .The findings will erode poor financial leverage decisions by recommending ideal board of director's characteristics in order to strengthen financial decision making.

Research Objectives

1.3.1 General Objective

The study general objective will be to investigate board of directors` characteristics, firm size and financial leverage of manufacturing firms listed at NSE, Kenya.

1.3.2 Specific Objectives

The specific objectives of the study will be:

1. To determine the effect of board of directors tenure of service on financial leverage of Manufacturing firms listed in the NSE, Kenya.
2. To asses' effect of board of director's shareholding on financial leverage of manufacturing Firms Listed in the NSE, Kenya.
3. To determine effect of board of director's education level on financial leverage of manufacturing Firms listed in the NSE, Kenya.

4. To determine effect of board size on financial leverage of manufacturing firms listed in the NSE, Kenya
5. To investigate the moderation effect of firm size on both dependent and independent variables of manufacturing firms listed in the NSE, Kenya.

Hence the following research questions will inform the study:

1 How does the board of director's tenure of service affect financial leverage of manufacturing firms listed in the NSE, Kenya?

2. Does the board of directors` firm own share percentage affect the financial leverage of Listed manufacturing firms in the NSE, Kenya?

3. Does the board of director's education level affect the financial leverage of listed Manufacturing firms in the NSE, Kenya?

4. Does the board of director's size affect the financial leverage of listed manufacturing Firms in the NSE, Kenya?

5. Does the firm size act as a good moderating variable on independent and dependent variables In manufacturing firms listed in the NSE, Kenya?

1.4 Research Hypotheses

1.4.1 H0:1 Board of director's tenure of service does not have significant effect on financial Leverage of manufacturing firms listed in the NSE, Kenya.

1.4.2 H0:2 Board of directors` firm own share percentage does not have significant effect on the Financial leverage of listed manufacturing firms in the NSE, Kenya?

1.4.3 H0:3 Board of directors` education level does not have significant effect the financial Leverage of listed manufacturing firms in the NSE, Kenya?

1.4.4 H0:4 Board size does not have significant effect on the financial leverage of listed Manufacturing firms in the NSE, Kenya?

1.4.5 H0:5 firm size does not have a significant moderating effect on board of director's

Characteristics and the financial leverage of listed manufacturing firms in the NSE, Kenya?

1.5 Significance of the Study

The recommendations and findings of this research will significantly be of benefits to the following:

1.5.1 Policy makers

Study conclusion and recommendations will enable policy makers to effectively pin point areas requiring trainings and skills required to guide performance in manufacturing firm .The widened spectrum will help them to re-engineer effective policies and implementation strategies for ideal firms` BoD characteristics required for optimum leverage levels. This subsequently help firms in policy and strategy formulation on how to elect / place the right BoD composition to ensure the going concern of the firm.

1.5.2 Academic

The findings will add to the existing literature and further documented knowledge on influence of board of directors to firms performance and financial leverage decisions.

1.5.3Financial Institutions

The findings will guide the financiers of firms on other characteristics besides the normal appraisal considerations factors in extending loans to manufacturing firm and other corporates.

1.6 Scope of the Study

The study will be informed by the manufacturing sector which contributes seventy five percentage to the eastern Africa total production and specifically that the sector is ranked fourth highest in contribution to Kenyan gross domestic product (Orenge 2016). The study will use financial report of manufacturing firms from year 2009 to 2018 .This captures current data to date from June year 2008 when the vision 2030 strategy was effected by the government of Kenya .This strategy emphasizes the importance of Manufacturing sector in realization of the envisaged double digit economy with manufacturing sector to contribute a 10% pa to the Kenyan gross domestic product. This is also the period characterized by

massive collapse of manufacturing firms, poor performance of manufacturing firms (World bank- Kenya economic update vol 9469, KNBS 2018 ,2016 economic survey report and the KPMG report (2015).

The study will analyze the financial reports for all the manufacturing firms listed in the NSE during the period under review on the variables being investigated in this study. The study will be descriptive in nature covering the panel data within the period under review on audited and published financial reports. The audited financial reports are prepared under the (international financial reporting standards (IFRS) hence data mined will be reliable and valid to give a true and fair view of leverage and BoD characteristics. Data mined will cover a study period of 10 years which the researcher believes will be adequate to mitigate periodic biasness on variables volatility effects.

1.7 Limitation of the Study

The study will be limited to listed manufacturing firms only in the Nairobi security exchange between years 2009 to 2018 besides other many sectors. Due to natural attrition such as mergers and amalgamation of firms within the study period, the researcher anticipate possible unbalanced data on the variables. To overcome the challenge, the researcher will use the most robust analysis models .The sampled manufacturing sector will reduce the time spent on data collection and greatly reduce costs.

1.**8 Organization of the Proposed Study**

This independent paper is structured as follows: the foregoing chapter one provides the independent study background, research objectives, hypothesis, significance of the study, scope, and the limitations anticipated to be encountered in the course of the study research. Chapter two will present a theoretical review, empirical literature review and conceptual framework and Summery of the literature review.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter reviews literatures written on topics related to the researcher's area of study on financial leverage. It indicates the empirical findings of the past studies and theoretical reviews relevant to the independent paper under study, conceptual framework and the research gap in knowledge that this study proposes to fill.

2.2.1 Capital Structure Theories

Myers & Mailuf on pecking order (1984) theorized on the firm hierarchical financing options The theory posits that the management of any firm prefers to fund projects and their operations by giving preference to raising funds from retained earnings which are less costly, followed by debts with last option of financing through a hybrid convertible loans and eventual issuing of shares respectively.

The theory proponents emphasizes that when firms are floating shares, they should target to maximize reducing costs arising from information asymmetry, bankruptcy costs and agency costs which affect the capital structure policies . Issuing of equities will lead to diluting ownership while debts will increase financial costs / bankruptcy cost (Pandey,2012). However, the relevance of debt in firm capital structure re-dates from Modigliallian and Miller theory (1978) on levered and un-levered firms on firm value. The MM theory posit that debt affect the value of the firm by taking advantage of tax shields. However, for any firm to realize the value addition, there is a desirable level of debt that take advantage of the interest tax deductibility beyond which additional debt is not economical. Its therefore critical for any business entity to take cautionary measures in determining level of debt in its financial decisions. The tradeoff theory by Kraus and litzenberger, (1973) emphasizes that the firm should always balance on the distress cost visa-viz the benefit accruing on debt financing to prevent firms from being declared bankrupt . Critically, the firm`s forms of financing whether debt or equity signals the firms going concern.

The capital structure theories informs the dependent variable (financial leverage) which will be calculated as ratio between the debts and equities

2.2.2 Board Characteristics Theory

Agency Theory (Jensen and Meckling, 1976)

The need to separate ownership and control of firms was theorized in 1976 .This theory was modeled on assumption that firm managers are opportunistic and may maximize their own utility instead of enhancing shareholder value (Jensen and Meckling, 1976);information asymmetrical distribution between the manager and shareholders and that writing and enforcing contract is costly (Fama and Jensen, 1983) since the principals cannot correctly measure the managers effort who know the details of the operations of the firm. The theory assumes that there exists a conflict of interest between the owners of the firm and its manager/ agents due to divergence of interests between the firm manager and the principle. It also assumes an obvious conflict between the lessor and lessee.

The opportunistic behavior of the manager at the expense of the shareholders is effectively controlled by addressing the agency problem .The board of directors systemizes the organization in view of controlling and subduing the managers` opportunistic behavior. The agency problems arises where the managers fails to cooperate but act defensively by being reluctant to implement the policies as directed by the board of directors. The concept of agency theory has dominated in the corporate governance discussion / studies with the issue of board composition and its characteristics viewed as pivotal in solving the agency problems (Meme, 2017)

The board of directors oversight ability roles becomes clear and easy to implement by separating the Ceo and chairman role independency. The independency dilutes the Ceo`s power and increases the board of directors effectiveness to perform their oversight role. To enhance independency, some of internal mechanisms employed is the concern of increasing representation of outside independent non-executive directors and having a large board. Large boards are hard to be controlled by the Ceo contrary to small boards but interferes with group dynamics (Jensen ,1983).

The theory advocates for inclusion of non-executive boards by aiming an enlarged board size to ensures that the Ceo is skewed toward best interests of the shareholders of the firm. Agency theory assumes

that the independent directors largely represent the share-holders (stewardship theory, Sundaram and Inkpen in 2004) interests hence dilutes either the Ceo or board of directors dominance conflicts` in decision making or in either party making unilateral decision. Agency Theory assumes that the firm's performance will improve when the roles of board chairman and CEO are separated; with higher proportion of outside directors are appointed to the board; increasing the board size; higher proportion of independent or non-executive directors on board; board with higher average age; and board members with lower average tenure.

The agency theory anchors the board characteristics parameters.

2.3 Empirical Literature Review

2.3.1 Financial Leverage

Koech (2011) study on the effect of capital structure on profitability of financial firms listed at Nairobi stock exchange posits that listed firms fund their activities through debts and equity and that they support pecking order theory while Armed,2017 findings concluded that debt levels determine the firm`s going concern . However, according to Mohammed and Tendai (2013) study findings , firms in Kenya have a slower speed of adjustment of targeted capital structure pointing to higher costs and reduced profits margins contrary to Ting et al 2017 findings that financial leverage play an important role in maximizing its shareholder's wealth.

Specifically, the study by Anshu and Narendra Dhansoia, (2009) on financial leverage and firm value concluded that the Manufacturing sector firms Capital Structure is too rigid to offer any scope for adjustment.To cushion the shareholders and the government from poor governance, Kenyan budget speech 2009 raised capitalization of investment banks and stoker brokerage to enable firms compensate its investors instead of government covering the costs. (Wahome, 2009) identified excessive compensation, improper loans, self-dealing, under performance or shirking as crucial pointers of sinister motives that the public should note.

2.3.2 Firm size as moderating variable

Wong study (2018) concludes that firm size determine the suitable board size and no particular board size is applicable to all industries. In extension, Bhutto, Memnon , and Abbas (2012) study on Capital Structure and Firm Performance of Pakistan textile industry concluded that firm size influences the firm decisions in regards to debts and equity while Rashid (2013) study findings on the manufacturing firms external financing decisions in Pakistan concluded that the firms` specific factors are more important to influences their external funding than the macro factors.

The findings were in support of Ramlall (2019) that firms with small asset structure size would find difficulties in sourcing external funds visa-viz firms which have a large asset base (Abdu,2016). In another study by Ting et al (2017) , findings concluded that firm size have a significant negative relationship with dividend payout while financial leverage play an important role in maximizing its shareholder's wealth. Based on the empirically proven interlinkages between the firm size effect and on financial leverage and element of board of directors characteristics on various researches, firm size may be argued to play a role as a moderator between the two variables.

2.3.3 Board size

Kenga (2018) study on board characteristics role of corporate governance practices on firm performance of sme found that small board was more effective in decision making , while large board have superior monitoring ability to push the managers to pursue lower costs of debt hence improves firm value. This proposition is supported by Meme (2017) study findings on board diversity and firm financial performance of manufacturing firms which concluded that board characteristics in regard to board size has a significant effect on the financial performance. In enjoining the proposition, Abidin et al. (2009) findings concluded that board composition such as size have a positive impact on firm performance of listed firms in Malaysia Stock Exchange However, Carmen *el* .at (2011) study findings on board effectiveness and cost of debt found that large boards are outweighed by the cost of poorer communication and increased decision-making .However, While in agreement with effect of board size on financial performance, Wambua (2011) study on corporate governance qualified on magnitude of board size by concluding that board size has a positive but little effect on financial performance while Wong study (2018) concluded that no

particular board size is applicable to all industries but rather it boils down to the firm size to determine the suitable board size .

2.3.4 Board of Directors Service Tenure

Findings by Nali and Aida (2018) on director tenure diversity and board monitoring effectiveness concluded that boards with higher tenure diversity are more performance sensitive. However, Wambui (2011) study on Cadbury report (1992) implementation on Kenyan investment banks found that tenure of service beyond 3 years has to be approved by share-holders. This was contrary to Stefano.et.al 2017 seminal paper cited that the presence of a long tenured director is truly beneficial to his/her company, the average tenure of independent board members does not increase firm value and in some specifications, appears to have a negative impact on firm performance and firm stability. Further the extended tenure of service, for a director is positively related with performance for up to more than 20 years; Good firm performance likely leads to longer tenures for the board as a whole; similarly, poorly performing firms will lead to board-wide director turnover. A long tenure allows directors to accumulate information about past events in the firm and about responses to exogenous market shocks that help the firm weather crises and discontinuities.

2.3.5 Board of Directors' Shareholding

According to OECD (2012) ,concentrated ownership brings more effective monitoring of management and helps overcome the agency problems arising from the separation of ownership and control while on the other hand, Wong (2018) study findings on Malaysian listed firms on corporate structure and firm financial performance indicates that a higher ownership concentration result in better performance in ROE .Further, Ting et al (2017) study on Malaysian firms concluded that ownership concentration appears to be an effective internal corporate governance strategy that helps to enhance performance.

2.3.6 Board of Directors Education level

Stefano et al (2017) indicates that when considering directors personal characteristics and career, long tenured directors are characterized by superior professional which can be traced from earlier days on in their careers. Further, Wong (2018) study findings concluded that education diversity in board would

diminish firm performance especially in government linked companies and not in non-government linked. This was basically due to their culture in appointing successful directors emphasizes on network with governance characteristics rather than education characteristic.

Table 2.1: Summary of Empirical Literature

Author	Study variables	Theories and Methodology	Findings	Research gaps	Current study:
The role of corporate governance practices on firm performance of medium sized enterprises in kilifi county, kenya Kenga, S. T., & Nzulwa, J.	Board size, Board skill leves levels,ceo duality,directors tenure of service	descriptive research design/ correlational analysis, regression analysis	board size is significance on firm performance, board composition made the structure function to maintain corporate integrity, reputation and responsibility, board skills levels, enhanced accuracy and honesty in transactions; CEO duality had an increase in overall Control; small boards are effective than large boards in decision making, monitoring expenses communication, raising the value of the firm	Study did not look at the impact of directors tenure, Education background of the directors	The current study will aim at finding exert relationship between BoD financial decision on leverage, BoD service tenure and education level

Challenges of implementing lord Cadbury report principles of corporate governance In investments banks in Kenya, Wambui (2011)	Accountabity, Transparency, integrity	Descriptive and inferential designs; Census survey, content analysis; Agency theory, stakeholders theories, Stewardship theory	Director's tenure of service beyond 3years required approval from shareholders. Compensation and remuneration of directors affected shareholders implementation of Cadbury report.	Study carried on 12 investment banks. With response rate of 60 questionnaires (managers)	Current study will published secondary data which is more reliable and valid in its publishing. The study will include all the manufacturing firms under the period of study.
Long-Tenured Independent :Stefano Bonini, Justin Deng, Mascia Ferrari, Kose John : 2017	Director Tenure of service,torbin q	Descriptive ,inferential statistic	a director with very long tenure (LT director) is beneficial to the company	Study did not have the variable on corporate governance, and shareholding	Current study will be focussed on leverage as financial policy (dependant variable), with corporate governance and BoD shareholding to measure their exert relationship and their impact.
The Impact of Educational Level of Board of Directors on Firms' Performance (2018) DOI: 10.1007/978-981-10-1458-1_4	education diversity; firm size, industry dependent variable ROA and ROE	Multiple regression,	education diversity in board would diminish firm performance especially in GLC (government linked companies) because their culture in appointing successful directors emphasizes on network with governance characteristics rather than education characteristic.	The corporate governance, tenure of service variable were not considered in this study.	Current study in on financial decision on leverage and not on firm financial performance.
ting, irene wei kiong; kweh, qian	roe ,dividend payout,,firm leverage, firm	Agency conflict theory Descriptive;	ownership concentration appears to be an	The study did not consider,board	Current study considers board size, tenure of service and

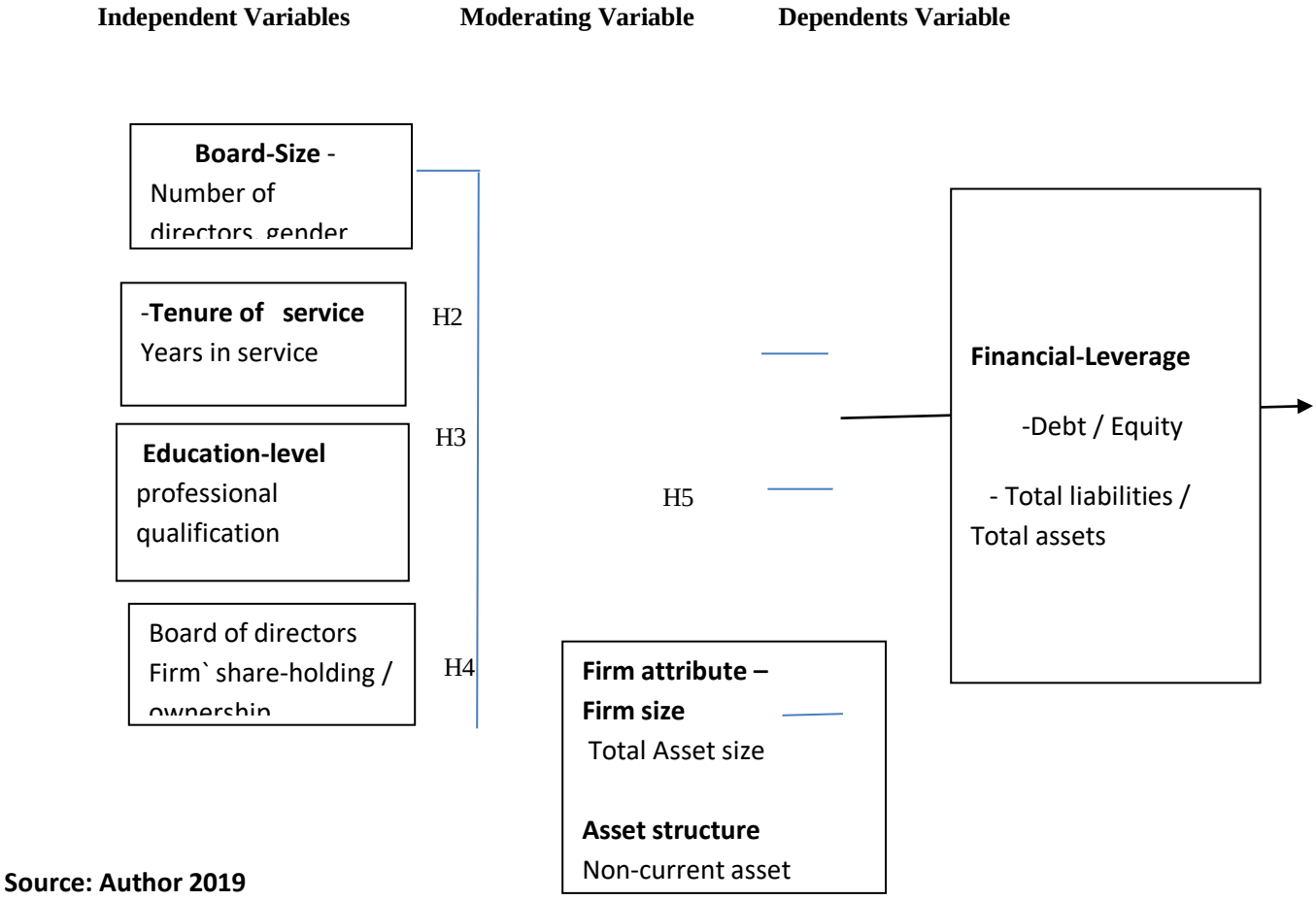
long; somosundaram, kausalya. ownership concentration, dividend payout and firm performance: the case of malaysia. **malaysian journal of economic studies**, [s.l.], v. 54, n. 2, p. 269-280, nov. 2017. issn 1511-4554. <https://mjes.um.edu.my/article/view/8632>. doi: https://doi.org/10.22452/mjes.vol54no2.6.	size, firm growth firm leverage, ownership concentration	inferential	effective internal corporate governance strategy that helps enhance performance; high degree of ownership concentration are less likely to pay dividend; ownership concentration also enhances the profitability of the company significantly positive relationship between ROE and Div; control variables, the finding shows that only Fliq , Fage , and Meetings have a significantly positive relationship with Div; Firm leverage , Firm growth , and Firm size Have a significant negative relationship with dividend payout.	education level, tenure of service and board size	education level as independent variables.

Memon, Fozia & Bhutto, Niaz & Abbas, Ghulam. (2012). Capital Structure and Firm Performance: A Case of Textile Sector of Pakistan. Asian Journal of Business and Management Sciences. 1. 9-15.	Profitability, tangibility, size and growth. The speed of adjustment of leverage	ordinary least squares, general linear model and partial adjustment model, Trade off theory, market timing hypothesis, Pecking order theory	profitability, tangibility and growth play a significant role in leverage behavior and the speed of adjustment, although both differ across sectors exponential leverage adjustment appears to be	The study was on speed of adjustment to financial leverage and not o	Current study is on board of directors characteristics on financial leverage
corporate governance structure and firm performance of Malaysian public listed companies Wong kok xiang (2018)	CEO duality, board composition, board size, ownership concentration, number of women on board, ROE ,ROA	Agency Theory, Stewardship Model, Stakeholder Theory, Resource Dependency Theory; descripto-explanatory research and multiple regression; Probability sampling	CEO duality has significant impact on the ROE but not on ROA, higher board independence can relate to less desirable performance, ownership concentration is found to have significant positive relationship with the ROE but no significant relationship with ROA, gender diversity has positive significant impact on the ROA b	Study did not consider tenure of service	Current study incorporate service tenure as independent variable, education level and it is only on financial decision.-leverage

Effect of Corporate Governance and Financial Leverage on Market value Added in Pakistan 1Maria Shams Khakwani, 2Muhammad SadiqShahid, 3Ali Hamza-(2016)	Audit Committee, CEO duality, Outside Director, Board Size	Descriptive, inferential		The study did not consider other board diversity like service tenure, education level of directors	Leverage was a independent variable while in the current study is the dependent, education level will be a variable to consider.
Firm external financing decisions: explaining the role of risks: Abdul Rashid (2013) ;International Institute of Islamic Economics (IIIE),International Islamic University, Islamabad, Pakistan	external capital and debt versus equity	Multinomial logit and probit models	Firms financing decisions considers both firm-specific and economic risk, more (less) likely to do external financing when firm-specific (macroeconomic) risk is high. The propensity to debt versus equity issues substantially declines in uncertain times. However, firms are more likely to pay back their outstanding debt rather than to repurchase existing equity. firm-specific	The study was general on how financing decision are affected by firm specific factor against the macro factors	Current study narrows down to specific firm attribute- firm size, board characteristics and their influences on financial leverage.

2.4 Conceptual Framework

The study proposess that the leverage of manufacturing firms is function of by board characteristics such as tenure of servise, age, education background and the percentages of shares owned by the board of directors in the company as captured in figure2.1**2.1 Figure Conceptual Framework**



Source: Author 2019

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APPENDIX 1: Operationalization of Independent Variables and Measurement

Variable	**Measurement**	**Regressional Operationalization**
Financial leverage	LevRatio - total debt/owners' equity and Total liabilities / Total assets	By calculating total debts, total assets and owners'- equity ratios for the ten years study period.
Firm size	By Calculating Total Asset size and Asset structure i.e Non-current asset log of total assets	Obtain values for For firms total assets And Non-current asset natural logarithms

Boad size	Total number of directors serving on the board	Counting the total number of directors serving on board
Board of directors level of education	Measured by the education qualification level/ Expertise years as a board member.	Extract the years of experience by looking number of years served in the board
Board of directors shareholding	Shares ownership/ total firms shares value	Getting the total firms equity values and each directors firm share-ownership and calculating the ratios
Board of directors service tenure	Number of years serving as board member	Calculating the average number of years served by each directors

Source : Researcher (2019)

Foreign Exchange and Performance of Stock Market in Kenya

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ABSTRACT

This paper investigates the relationship between the foreign exchange rate and the performance of Stock market in Kenya. The stock market prices in Kenya have been experiencing drastic volatility in the recent past. In the year 2015 alone, the value of the listed companies shrunk by about Ksh 250 billion representing about 25% of the national government annual budget. Performance of stock market is an important proxy of a country's economic environment. Globally, economists, financial analysts and investors are interested in comprehending the factors that affect the fluctuations of stock markets. Excessive fluctuations of stock prices (in the financial markets) affects the smooth operation of financial markets and consequently adversely affects the performance of an economy. Rational investors are keen in maximizing their returns given a level of risks. Foreign Exchange represent a systematic risk that investors cannot diversify within the Kenyan market yet it affects their returns. Investors therefore need to understand the relationship between foreign exchange and stock performance so that they can know how to react to predicted changes in foreign exchange. The study was underpinned by the Efficient Market Hypothesis, Capital Asset pricing Model, Arbitrage Pricing theories. The study adopted a positivism philosophy and use a cointegration analysis, used Johansen test of cointegration to determine the level analysis. The study period was 10 years from 2007 to 2017 and used NSE 20 share index as the proxy for Nairobi stock exchange performance. The causality results indicates a significant short run relationship running from foreign exchange to Nairobi stock performance. However there is no causality running form NSE 20 share index to USD exchange rate. Investors should therefore evaluate short run changes in foreign exchange as they have an influence on stock performance.

Keywords: Volatility, foreign exchange, systematic risk, stock performance

1.1 Background of the Study

Performance of a stock market is important element in any financial market and economy (Kitati, Evusa, & Maithya, 2015). This is because the stock market plays a critical role in providing alternatives investment opportunities for both local and international participants in any economy. Investors invest in the stock market with an aim of increasing their wealth or generate positive returns without necessarily increasing their risk to greater magnitudes (Apiyeva, 2007). Most investors believe they can outperform the market by generating higher returns than the markets (Erdugan, 2012). Investments involve risk and uncertainty and capital market helps in managing risk and uncertainty. When the stocks markets operate smoothly and efficiently, they facilitate economic growth and lower production costs and business risk. This in the long run promotes growth of GDP and growth of employment (Handa, 2005).

Excessive volatility of stock prices in the financial markets, affects the smooth operations of financial markets and consequently adversely affects the performance of any economy (Wang & Huang, 2012). In 1929 the Wall Street crash, October 19 1987 black Monday and the Asian crisis in 1997 and most recently the Global financial crisis of 2008 represents some of examples of how stock markets have affected significantly the economies of the countries and their trading blocks. Financial analysts, are concerned with understanding the factors that affect the persistent fluctuations of stock prices. This is of importance in analysing market trends and making investments that are well diversified and balanced from the risk perception (Erdugan, 2012).

Over the years, the operations of securities markets have continually grown with introduction of many products. This has given investors more flexibility in terms of what options they have at their disposal, this has led to more diversification in the terms of investments products as well increased the activity of the securities markets (Apiyeva, 2007). Securities markets provide liquidity and enable implementation of both short run and long-term projects hence assisting in development of economy. This is in addition to attracting foreign inflows, which provides adequate cash flows. Stock markets performance is a significant indicator of the performance of a country economy (Dimitrova, 2005). Progressive rise in stocks prices and active volumes of stocks traded at the countries stock exchange, are usually an indicator of sound market and business policies (Clare & Thomas, 1994).Therefore any progressive governments, monitor the performance of the stock markets, as well as ensure that the factors that affect the performance are closely monitored.

The Nairobi stock market performance has experienced fluctuations in the last ten years under study. In the year 2015 alone, the value of listed companies shrunk by 10% translating to about Ksh 250 Billion (Dyer & Blair Invetsment Bank, 2016). In the year 2016 the stock markets shrunk by a further 259 billion. This represents about 25% of national government annual budget. In the year 2013 NSE was top in Africa and was ranked 5th best performed stock market in the world. In this year the stock's value appreciated by rose by 43% representing about Ksh 650 Billion. The Nairobi All Share Index (NASI) fluctuated from 92 points in 2008 to 65 and 92 points in 2009 and 2010 respectively (NSE, 2010). This was followed by further decline to 83 and 82 basis points in 2011 and 2012.The Index, rose to 122 in 2013 and increased to 166 in the year 2014 before declining to 156 in 2015 and 140 points in 2016 (NSE,2017).

The dynamic behaviour of stock markets is a very critical factor in any policy makers as well as financial analyst (Addo & Sunzuoye, 2013). Globally economist, analyst and investors are interested in comprehending the factors that affect the consistent fluctuations of stock markets over time (Gatuhi, 2015). This is anchored on the fact that understanding the events which affect the volatility of stock prices is essential, in building an accurate predictive model that can forecast the future movements' patterns. This can be helpful for investors when making informed investments and diversification decisions.

Systematic risk factors are factors that affect the stock market as a whole. These factors are not unique to individual companies or stocks but they affect the entire market. Rational investors make decisions to maximize their returns given a level of risks (Erdugan, 2012). Total risk comprise of unsystematic risk and systematic risk. Systematic risks present to investors a challenge because they cannot be hedged out by diversification (Patra & Poshakwale, 2006). Therefore investors need to understand how the shocks in these systematic factors relate with the stock prices so that they can react or predict possible stock prices based on predicted changes in systematic risk factors. Empirical literature proves that among the important systematic risk factors include the foreign exchange rate.

1.1.1 Foreign Exchange Rate

Joseph (2012) explains that foreign exchange rate, is the price paid for a country's currency relative to another country's currency. A stable exchange rate, is very useful because it facilitates accurate forecasts and planning by investors across international trade (Dimitrova, 2005). The Kenya shilling exchange rate has been fluctuating against other currencies in the global economy. The main currency against which the Kenyan currency is exchanged is the US dollar. This study used the exchange between the Kenya shilling and the US dollar as the basis of measuring the strength of the shilling (CBK, 2017). The Kenya shilling was trading at 66.86 and 62.01 in May and November 2007 respectively. The shilling appreciated to 75.08 in October 2009 and a further appreciation saw the shilling trade at 86.32 in March 2011. In April 2013, the Kenya shilling traded at 86.16 against the US dollar, it further depreciated to 90.59 in December 2014. The shilling further depreciated to 94.60 in April 2015 and by December 2015 the shilling was trading at 102.52. In the year 2016 the Kenya shilling traded at 101.08 in April and closed at around 102.58 in December 2016. Over the period of study, the shilling was at the strongest point in May 2008 when it shilling traded at and 61.51 and at the weakest point in September 2015, when it was trading at 106.25 (CBK, 2015)

1.1.2 Performance of Stock Markets

The national and international role of most securities markets is to provide an avenue for investors and firms to share risk and rewards (Erdugan, 2012). The security market aids in flow of funds from investors to productive sectors which aid in creating national wealth, improving employment levels as well as economic stability (Kazi, 2004). Securities markets provide opportunities for investors to trade in equities, debt securities as well as derivatives. Markets act as a critical conduit of overseas flow of equity investments in most economies, therefore connecting a nation to the global economy (Tursoy, Gunsel, & Rjoub, 2008). Investors analyse the stock markets based on the movements in price level, and their ease of liquidity trade off which is offered at the securities markets. If the markets are bullish i.e. when they are active, on upward trends, confident of the securities markets operations investors are more willing to participate in the NSE because it's an investment vehicle as well as mechanism for liquidity trade off. When the market is bearish, the prices are falling and this dooms the hope that the stocks will regain an upward trend at least in the short term. This is characterized by most investors selling the stock so as to exit the market before the prices fall further (Patra & Poshakwale, 2006).

Stock market performance can be measured by aggregating the total companies' stock market performance (Dobbs & Koller, 2005). This is done by calculating the total returns to shareholders (TRS). TRS is defined as the appreciation in share price plus dividend yield over the period of consideration. The limitation of TRS, as a measure of stock market performance is that it is a short term measure, and may be misleading as stocks cannot consistently report high total returns to shareholders. The use of stock indices to track stock exchange market performance has received wide acceptance in the finance field. Both domestic and international investors, use average indexes as a proxy to determine the direction of future stock performance. S &Poor, FTSE and NYSE are among globally accepted indices that gives an indication of the stock market performance. The official index in the Kenya is the Nairobi All share index and the NSE 20 Share Index (CMA, 2016)

1.1.3 Stock Market in Kenya

Nairobi Securities Exchange (NSE) is the principal bourse in Kenya, offering an automated platform for the listing and trading of multiple securities. The NSE was established in 1954, when it was registered in societies act, as a voluntary association of stockbrokers and charged with the responsibility of developing securities markets and regulating trading activities (NSE, 2016). The market has undergone various transformations over the years, in tandem with the developing business and market. The NSE is regulated by the Capital market authority (CMA, 2011).CMA role is to ensure that there is sound regulatory frameworks, and counter checks the performance of the NSE to ensure prudent an fair practices in the securities trading (Mwaniki, 2015)

The stock market in Kenya is relatively developed in the African Context. It is ranked second in Africa after Johannesburg markets in South Africa. The performance of NSE over the years since its inception has been cyclical. The performance of shares has been fluctuating, leaving the investors unable to accurately predict or make forecasts of expected returns (Barnor, 2014). NSE had progressively increased the value of the investors in some periods increasing the speculative aspect of the market, but in other periods the returns have been

whipped by bearish markets leaving investors in panic. Rational investors have an interest in monitoring the movements in securities in the markets (Najaf & Najaf, 2016). This is because the size and directions of the movements will affects their returns on securities they hold as well as the decisions on the securities they want to hold in the future (Joseph, 2012). The NSE just like other developing markets, in their weak or semi strong efficiency reacts to news on systematic risk indicators including the policy decisions. Systematic risks that have a bearing in the direction of the securities prices in the NSE. Changes in the level of interest rate, the level of Treasury bill rate, the foreign exchange rate, inflation and gross domestic product have a relationship with the direction of movements of the stock prices at the Nairobi Securities exchange. Informed investors agree that most of the systematic risk have a relationship with the volatility of securities, but they may hold different views and expectations on the size and direction of relationship (Lee & Rui, 2002).

1.2 Statement of the problem

The NSE 20 share index has exhibited volatility over the years. In 2007 NSE 20 index basis points were 5,262 this declined to 4,522 in 2008 and further declined to 3,027 in the year 2009 (Dyer and Blair Invetsment Bank, 2016). The year 2010 saw a 40% increase in the basis points to 4,257.However in the subsequent year, it declined by about 12 % to 3,751 basis points and 3,735 in year the 2012.The year 2013 saw the Index improve by 28% to reach 4,788 and a marginal rise in 2014 saw the basis points get to 5,017 (NSE, 2015). In year 2015, there was a reduction in the performance of the NSE which led to the reduction in the basis points to 4,618 which represented a decline of about 10% from the year 2015. In the last year under the study i.e. year 2016, there was a big decline in the value of shares translating to about 23% basis points of 3,555 (NSE, 2017).

These fluctuations of the NSE20 share index, has been of great concern to investors due to the inability of the market to provide a stable and predictable pattern (Kitati, Evusa, & Maithya, 2015).This does not only put firms and investors in awkward situation, but are also unable to make accurate forecast of their future cash flows. Erdugan (2012) indicates that since systematic risk factors cannot be hedged out, Investors need to understand how they relate with stock performance so that they can adapt to their expected changes. There is therefore need for investors to understand, how the prices of stocks in Nairobi stock exchange reacts to changes in foreign exchange rate changes so that the investors can be able to adapt to these changes, whenever they get reliable information about them (Gatuhi, 2015).

Empirical evidence across the world indicates contradicting results in regard to factors affecting the stock performance. Muhammand and Rasheed (2001) studied the shortrun and long run relationship between the exchange rate and stock prices and found no relationship between exchange rate and the stock prices . Humpe (2008), Apiyeva (2007) and Kuwornu(2012) found that exchange rate, have a significant relationship with perfomance of stock market.The studies document contradictory findings in regard to the direction of relationship of these variables and stock perfomance, some reporting negative relationship while others document a positive relationship. Other studies such as Kazi (2004) and Tursoy, Gunsel, & Rjoub (2008)) found no significant relationship. These contradicting findings on relationship between systematic risk and perfomance of stock market pose, an emperical gap which formed a good basis for this study.

There is substantial empirical evidence on Foreign exchange rate and stock performance (Phuyal (2016), Kitati, Evusa and Maithya (2015) and Gatuhi(2015)).These studies adopted regression models to analyse data. This methodology is deficient to the extent that of data on systematic risks (being time series in nature), evolves over time due to the long run relationships making it mostly non stationary (Ifionu & Ibe, 2015). Whereas regression can be used when the data is de-trended to correct the non stationarity, doing so would lead to loss of variable interrelationships. This means that the findings of these studies including Gatuhi are potentially misleading. This study adopted Vector autoregressive models which take care of non- stationarity of the variables without losing the valuable relationships. In addition the VAR model allows the study to determine relationship between lagged and present stock performance. Having established the empirical, conceptual and methodological gaps form the past studies. This study sought to establish the relationship between systematic risk and Performance of stock market in Kenya by broadening the scope and adopting Vector error Correction Model methodology.

1.3 Specific Objectives

The specific objectives of the study were:

i. To determine the short run relationship between foreign exchange rates changes and performance of the stock market in Kenya.
ii. To establish the long run relationship between foreign exchange rates changes and performance of the stock market in Kenya.
iii. To investigate the existence of granger causality between foreign exchange rate and performance of the stock market in Kenya

2.0 Literature review

2.1 Theoretical Review

This study adopted Efficient Market Theory which was put forward by (Fama, 1970). Fama argues that the primary role of any market is allocation of ownership of the economies capital stock. He opined that an ideal market would provide accurate signals of resource allocation. He explained than in a market, firms make production and investments decisions and investors chose securities that represent ownership of firms. Apiyeva (2007) utilized the theory and argued that a market which the securities price fully reflect all available information is an efficient market. Jensen (1968) opines that it is impossible to beat the market. This implies that an investor cannot make abnormal profits by trading in the stock markets. Tursoy, Gunsel, and Rjoub (2008) indicates that stock prices follow a random walk and it is therefore not possible to accurately predict prices based on the past trends. The theories categorizes markets based on their efficiency and brings out three forms of market efficiency. The weak form of market is a level of efficiency which prices reflect all past information that is available. Therefore investors cannot beat the market by analysing historical information of stocks. In the context of this study, the Nairobi stock exchange is assumed to be in the second level of efficiency, the semi strong efficiency. Nguyen, Nhan and Bach (2013) findings indicates that markets in the developing countries have developed past the weak form to the semi strong form. The level of efficiency was equally adopted by Gatuhi (2015).

The study also adopted Capital Asset Pricing Model (CAPM**),** a basic technique used to determine risk and performance related to a particular security. The single factor model was developed by (Sharpe, 1964). This theory was an equilibrium model which underlies all modern financial theories and heavily relied on the concept of Markowitz portfolio theory. CAPM emphasised the principles of diversification so as to create an efficient portfolio. Sharpe made several assumptions while coming up with the theory. Firstly the theory assumes that all investors are price takers. Lintner (1973) contends that in an efficient market with informed buyers and suppliers, no individual player can influence the price in the market, but rather adapts to the price already arrived by the competitive forces in the market. The theory also assumes a single period investment horizon, implying that investors only intend to hold the security in the current period only and are not interested in what happens afterwards in the subsequent periods (Lee & Rui, 2002). Sharpe also assures that investors can borrow or lend any amount of finances at a fixed risk free rate and that investments are limited to only publicly traded financial assets, such as stocks and bonds. Sharpe(1964) opined that investors pay no taxes on returns and no transactions cost incurred on traders when buying and selling these securities. The theory further argued all investors are rational mean variance optimizers.

2.2 Empirical literature review

Phuyal (2016) assessed the effect of foreign exchange rate on long term stock movements by conducting a study in the Nepali capital markets.The study used johansen's cointegration test to test if there is a longterm association between average monthly foreign exchange rate and Nepali stock market.The study utilized monthly data of exchange rate as a proxy for short term exchange rate. The study adopted contegration,Vector Autoregressive model and vector error correction model (VECM) to analyse the relationships.The study found that changes in foreign exchange rate had no relationship with the movements of Nepali stock market. The study also found a granger casuality between foreign exchange,interest rate and stock perfomance. The study did not report the shortrun relationship between the foreign exchange rate and Nepali stock perfomance.This current study adresses both shortrun and long run relationship between the variables.

Najaf and Najaf (2016) studied the relationship between Indian rupess-USdollar exchnage rate and Nifyt retuns. The study used the exchange rate between the Indian rupee, US dollar and the movements in the Nifyt 50 index as a proxy of of stock perfomance. The study tested for normality and found that exchange rate and

stock market are not normaly distributed.Unit root shown that the exchange rate and Indian stock index are stationary at level. The study employed the Vector Error Corectiom Model (VECM) and Impulse Response Fuction (IRF) to analyse the relationship. The study found a negative relationship between exchange rate and the Niffy returns. The study period was three years which is relatively short to capture the longrun relationship between exchange rate and stock perfomance.This current study evaluates a ten year period to capture the longrun relationships between variables of study.

Gatuhi (2015) analysed the effects of foreign exchange rate, Interest rate, Inflation and money supply on the stock performance in Kenya. The study focused on the effect of foreign exchange rate on the performance of different sectors in the market. The study adopted a causal research design and targeted all the companies listed and active at the NSE. Gatuhi used a time series regression model to examine the effect foreign exchange on the stock exchange. The study found a positive relationship between exchange rate and the stock performance in several sectors including Banking, Agricultural, Energy and Automobile. The findings document a negative relationship between exchange rate and Insurance, Investment and manufacturing sectors. The study found no significant relationship between exchange rate and the stock market performance in the automobile and accessories sector. However, the study did not factor any effects of the trading volumes of shares in the performance of stock prices. The study also did not include the lags of foreign exchange rates in the analysis implying that the study did not capture the effects of previous movements of exchange rates wrongly assuming that investors have a single period horizon. The current study has addressed this by using past lags of all variables.

Barnor (2014) studied the effect of exchange rate on stock market returns in Ghana. The research sought to establish whether exchange rate as a systematic risk variable had a significant effect on the market returns. The study targeted all the 36 listed firms on Ghana stock market and found that exchange rate had a significant positive effect on stock market returns in Ghana. The study found a weak relationship between the exchange rate and the overall performance of the stock exchange.

Dimitrova (2005) assessed the relationship between exchange rates and stock prices in the United States. The study used a multivariate model and evaluated the stock prices for the period of ten years. The study used multivariate open economy short run model that allowed simultaneous equilibrium in the goods, money and foreign exchange. The study had hypothesised a link between foreign exchange and stock markets. The empirical results of the study were weak. The findings documented weak relationships between exchange rate and the stock prices in both US and UK. The study found that depression of the currency may depress the stock markets, the stocks markets reacted with a lesser proportion decline to that of exchange rate. The study concluded that though in a weaker way appreciating exchange rates positively affect the stock markets.

Muhammand and Rasheed (2001) explored the relationship between stock prices and the exchange rates by doing an empirical analysis on South Asian Countries. The study focused on both the short-run and the long-run link between the variables explored using monthly data on the Pakistan, India, Bangladesh and Sri-Lanka for the period of Seven years. The study employed cointegration, vector error correction and standard granger causality to examine the long-run and short-run relationship between stock prices and exchange rates and found that there were no long-run relationship between stock prices and exchange rates in Pakistan and India. In contrast, the study found a bi-directional causality between the two variables in Bangladesh and Sri-Lanka. The study did not include the volume of transactions, a variable captured in the current study.

3. Research methodology

This study adopted the positivism philosophy. The philosophy is considered more objective and is anchored in scientific methods in testing relationships in a study. This study employed a correlation research design. This research design is concerned with assessment of relationship between variables. The correlation research design is based on the premise of a statistically significant relationship exist between the independent variables and the dependent variable (Saunders, Lewis, & Thornhill, Reserach methods for Business students, 2009)

Granger Representation Theorem (GRT) developed an effective method of analysing non stationary data without losing long run valuable information as in the case for other methods which require differencing or de-trending techniques. This method is known as cointegration. Vector Autoregressive Models (VAR) models are used for multivariate time series. The advantage of the VAR models is that in their structures each variable is a

linear function of the past lags of its itself and other variables(Humpe, 2008).The variables of choice are determined and VAR models determine the short-run adjustments is often determined by the VAR model. The number of lags is critical and must be determined prior to estimation.

The general form of a $VAR_{(p)}$ model is describe by:

$$Y_t = C + A_i Y_{t-1} + A_2 Y_{t-2} + .. + A_p Y_{t-p} + B_{xt} + e_t \quad \text{.....3.1}$$

Where;

y_t is a $k \times 1$ vector variables,

c is a $k \times 1$ vector of constants,

A_i is a time-invariant $k \times k$ matrix of parameters

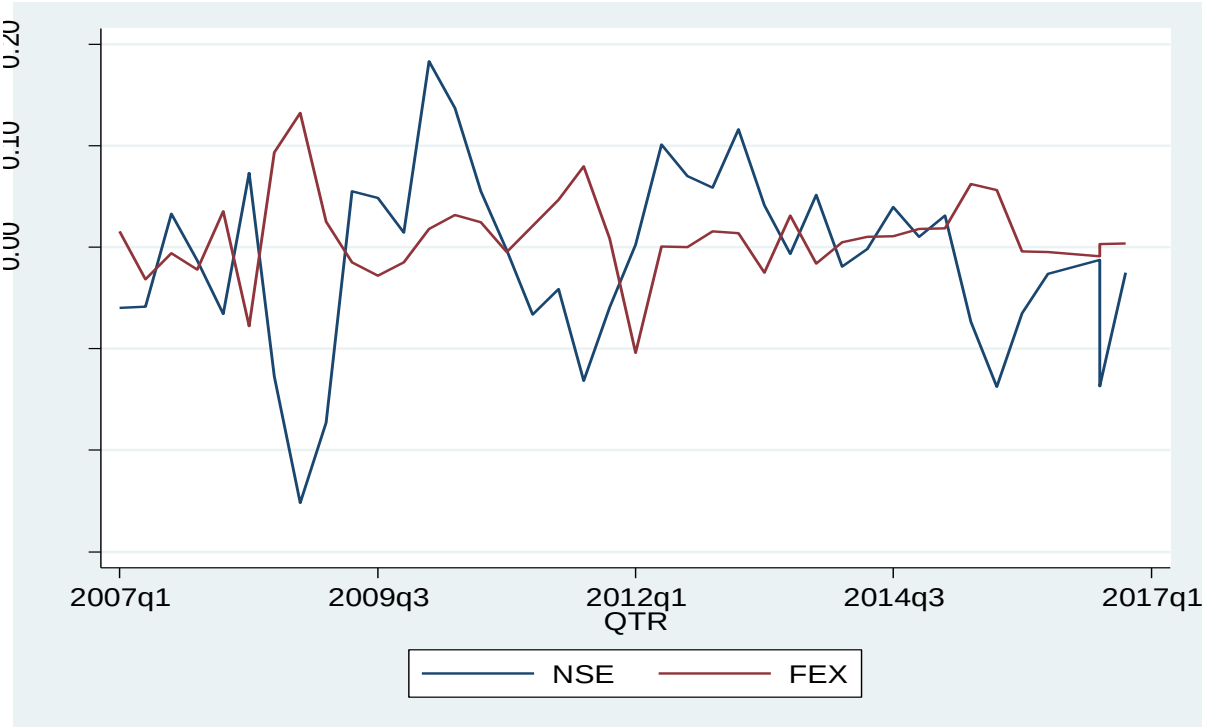
e_t is a $k \times 1$ vector of error terms

This study used secondary data which was collected using a document review guide. The target population of this study was all the listed firms at the Nairobi Securities Exchange. As at December 2016 the total number of firms listed was 65 firms listed at the Nairobi Securities Exchange (NSE, 2016).This study used the NSE20 share index which is a representative of the whole market to establish the relationship between foreign exchange rate and the performance of stock market.

3.1 Research Findings

Trend analysis USD/Ksh Exchange Rate & NSE 20 Share Index

Figure 4.1 below shows the trend between USD/KSH rate and the NSE 20 share Index.



Source: Study data (2007 – 2016)

Figure 4.1: Trend analysis Exchange Rate & NSE 20 Share Index

The figure 4.4 above shows the trend of USD exchange rate and NSE 20 share Index. In the year 2008 the USD/KSH exchange rate decreased by 8% and then increased by 9% and 13 % the subsequent quarters. In the same period the NSE 20 share index increased by 7% and then declined by 13% and 25 % respectively. In the

first two quarters in 2015 the exchange rate increased by 6% the remained constant in the following two quarters. In the same period the NSE 20 share index decreased by 7%, 14%, 7% and finally by 3 % in the last quarter in 2015

4.2 Lag Order Selection Test Results

Selection-order criteria
Sample: 2008q1 - 2016q4 Number of obs = 36

lag	LL	LR	df	p	FPE	AIC	HQIC	SBIC
0	-708.521				9.8e+09	40.0289	40.2132	40.5568
1	-547.342	322.36	36	0.000	9.7e+06	33.0746	33.8115	35.1859
2	-488.022	118.64	36	0.000	3.3e+06	31.779	33.0686	35.4739
3	-435.481	105.08	36	0.000	2.4e+06	30.8601	32.7024	36.1385
4	-342.963	185.04*	36	0.000	430856*	27.7202*	30.1152*	34.5821*

Endogenous: nse wbr ifl fex tbr gdp
Exogenous: tvl _cons

4.3 Johansen test of cointegration

```
. vecrank nse wbr fex ifl tbr gdp tvl, trend(constant) lags(4) max

                    Johansen tests for cointegration
Trend: constant                                      Number of obs =      36
Sample:  2008q1 - 2016q4                                   Lags =       4
```

maximum rank	parms	LL	eigenvalue	trace statistic	5% critical value
0	154	-479.22341	.	487.1056	124.24
1	167	-395.83108	0.99027	320.3209	94.15
2	178	-331.84945	0.97141	192.3577	68.52
3	187	-293.58328	0.88067	115.8253	47.21
4	194	-257.4117	0.86595	43.4822	29.68
5	199	-243.93601	0.52699	16.5308	15.41
6	202	-236.21557	0.34878	1.0899*	3.76
7	203	-235.67061	0.02982		

maximum rank	parms	LL	eigenvalue	max statistic	5% critical value
0	154	-479.22341	.	166.7847	45.28
1	167	-395.83108	0.99027	127.9633	39.37
2	178	-331.84945	0.97141	76.5323	33.46
3	187	-293.58328	0.88067	72.3432	27.07
4	194	-257.4117	0.86595	26.9514	20.97
5	199	-243.93601	0.52699	15.4409	14.07
6	202	-236.21557	0.34878	1.0899	3.76
7	203	-235.67061	0.02982		

Source: Study data (2007 – 2016)

Table 4.3 indicates the results of Johansen test of cointegration. The Null hypothesis that there is no co integration was rejected and the Alternative hypothesis accepted, this was because the trace statistic value of 487.1056 was more than the critical value of124.23.The Null hypothesis was also rejected for one, up to five co integration. From the table the null hypotheses of 6 co integration was accepted, this is because the trace statistics 1.099 was less than the critical value of 3.76 .The study therefore used the VECM because at least 6variables are co integrated. The results were consistent with the analysis of Eigen values

4.4 Relationship between Foreign Exchange Rate and NSE 20 Share Index

Vector error-correction model

Sample: 2008q1 - 2016q4		No. of obs	= 36
		AIC	= 19.5173
Log likelihood = -334.3113		HQIC	= 19.77829
Det(Sigma_ml) = 399152		SBIC	= 20.26507

Equation	Parms	RMSE	R-sq	chi2	P>chi2
D_nse	8	307.262	0.4837	26.23493	0.0010
D_fex	8	3.17535	0.3331	13.98424	0.0822

	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
D_nse						
_ce1						
L1.	-.2633906	.085153	-3.09	0.002	-.4302873	-.0964938
nse						
LD.	.5993847	.2024355	2.96	0.003	.2026184	.996151
L2D.	-.153474	.2386926	-0.64	0.520	-.6213028	.3143548
L3D.	.3994652	.2066824	1.93	0.053	-.0056249	.8045552
fex						
LD.	-8.38557	21.20309	-0.40	0.692	-49.94287	33.17173
L2D.	-10.2729	20.47588	-0.50	0.616	-50.40489	29.8591
L3D.	11.96652	18.98681	0.63	0.529	-25.24695	49.17998
_cons	.0070111	58.56651	0.00	1.000	-114.7812	114.7953
D_fex						
_ce1						
L1.	.0017539	.00088	1.99	0.046	.0000291	.0034786
nse						
LD.	-.0018044	.002092	-0.86	0.388	-.0059047	.0022959
L2D.	.0015115	.0024667	0.61	0.540	-.0033232	.0063462
L3D.	-.002185	.0021359	-1.02	0.306	-.0063713	.0020014
fex						
LD.	.0963982	.2191195	0.44	0.660	-.3330682	.5258646
L2D.	-.1428667	.2116043	-0.68	0.500	-.5576036	.2718702
L3D.	-.1914241	.1962158	-0.98	0.329	-.576	.1931518
_cons	1.052904	.605245	1.74	0.082	-.1333542	2.239163

Source: Study data (2007 – 2016)

The results form the table 4.4 above shows that ther is a longrun significant relationship between the exchange rate and NSE 20 share index.This is supported by a p- value of 0.001 at 0.05 significant level. The coefficient (D_nse celL1) is also negative (- 0.2633906) which indicates that there is a longrun cauality running form changes in exchange rate to NSE 20 share index. Thise findings are similar to those of Phuyal (2016). The speed of adjustement is 26.34% indicating that NSE adjust back to equilibrim by 26.34% in three quarters to any change in foreign exchange movements. All the short run coefficents of USD exchange rates lags(ie LD, L2D ,LD3) are insignificant at 0.05 significance level. This indicates that in the shortrun the changes in foreign exchange do not significantly affect the NSE 20 share index movements.

Table 4.4 also indiacates the results of the relationship when the foreign exchange rate is made the dependent variable. The result show a significant relationship between movements of NSE 20 share index and the exchange rate. This is because the p -level of 0.046 is less than 0.05 significant level, indicating a significant relationship. However there is no evidence of longrun casuality because the coefficient(D_fex celL1) is positive (0.0017539) meaning that no casuality is running from the share index to USD share index. All the coefficient of NSE from lag One to three are insignificant at 0.05 level of significance. The results show that changes in USD exchange rate up to three lags can explain 33.31% changes in NSE 20 share Index. On the other hand NSE 20 share index three lags can explain 48.37% changes in USD exchange rate.

Table 4.5: Foreign Exchange Rate and NSE 20 Johansen Normalized Results

Cointegrating equations

Equation	Parms	chi2	P>chi2
_ce1	1	.1002336	0.7515

Identification: beta is exactly identified

Johansen normalization restriction imposed

beta	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
_ce1						
nse	1	.	.	.	.	.
fex	-6.454975	20.38862	-0.32	0.752	-46.41594	33.50599
_cons	-3634.747	.	.	.	.	.

Source: Study data (2007 – 2016)

The results of Johansen normalized test show that there is a positive relationship between exchange rate and NSE 20 share index. The relationship is however not significant at 0.05 significant level.This finding support those of Phuyal (2016) and Barnor (2014) but contrasted those of Najaf and Najaf (2016)

4.6 Short run causality tests results between NSE 20 and Foreign Exchange

```
. test ([D_NSE]: LD.FEX L2D.FEX L3D.FEX)

 ( 1)  [D_NSE]LD.FEX = 0
 ( 2)  [D_NSE]L2D.FEX = 0
 ( 3)  [D_NSE]L3D.FEX = 0

           chi2(  3) =    9.54
         Prob > chi2 =    0.0229

. test ([D_FEX]: LD.NSE L2D.NSE L3D.NSE)

 ( 1)  [D_FEX]LD.NSE = 0
 ( 2)  [D_FEX]L2D.NSE = 0
 ( 3)  [D_FEX]L3D.NSE = 0

           chi2(  3) =    0.95
         Prob > chi2 =    0.8137
```

There is a short run very causality running from foreign exchange rate to NSE 20 share index .This is because the p value 0.0229 is less than 0.05 significance level. This means that the short run changes in foreign exchange has an effect on the NSE 20 share index. However there is no causality running form NSE 20 share index to USD exchange rate

3.3 Conclusion

The study sought to determine the long run and short run relationship between foreign exchange rate and performance of Nairobi stock market. USD/Ksh rate was used as a proxy for exchange rate in Kenya. The study found a long run positive relationship between USD exchange rate and NSE 20 share index. The relationship was not significant at 0.05 significance level. This means that the changes in foreign exchange rate however did not significantly explain the changes in the Nairobi stock prices. In the short run the study found that there is granger causality running from changes in foreign exchange to stock performance. The findings support that that changes in foreign exchange can significantly explain the changes in stock prices in Kenya

3.4 Recommendation

This study implies investors should monitor the movements of foreign exchange because in the short run they can predict the direction of the stock prices. However the Central bank should not be keen on having a target foreign exchange rate. This is because the study indicates that changes in foreign exchange do not significantly explain the changes in stock price in the long run. This means that long run exchange targeting is not effective in influencing the movements of stock market in Kenya.

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ROLE OF HUMAN RESOURCE METRICS AND ANALYTICS ON ORGANIZATION PERFORMANCE OF INSURANCE FIRMS IN KENYA

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Abstract

The purpose of this paper was to assess the role of human resource metrics and analytics in the organization performance of insurance firms in Kenya. The study used desktop literature review by focusing on past literature relating to HR Metrics and Analytics, and performance of a company. A total of 21 journals were found relating to HR Metrics and Analytics, and performance of a company. This paper is informed by two theories, namely, configurational theory and resource based view theory. The results from the literature review established different views of the effect of HR metrics and HR analytics on performance of insurance companies in Kenya. The study found that the use of HR information system increased the efficiency of HR functions and therefore contributing to the capacity of HR department in performance of insurance companies. Some of the measures that were found to measure efficiency were, the cost of recruitment per recruit and time taken to recruit. It was found that if the time of recruitment increased then there was a likelihood of a detrimental effect on the performance of the insurance company, and this is because key posts remained unfilled over time hence delay in decision making which eventually trickles down to negative effect on the performance of the company. Further, efficiency metrics were found to be useful in balancing the aspects of resource expenditure and performance enhancement in insurance companies. Properly set effectiveness metrics were also found to represent the quality of the efforts by HR in wider systems such as, compensation, training, staffing, recruitment, labour relations and performance appraisal. In regard to outcome metrics, the paper found that insurance companies having high workforce HR systems had considerable financial impacts in terms of market value per employee, profits per employee, and sales per employee. Revenue per employee as an outcome metric was found to have the capacity of providing the HR with a good understanding of an insurance company's human capital. The study concluded that HR analytics was an evidence based approach that enabled better decision making in an insurance company which in turn improved the performance of the company. HR analytics were found to connect workforce utilization to financial objectives for enhanced insurance company performance, and identification of determinants that lead to greater customer satisfaction and retention.

For credible measurement of employee performance in the insurance firms, the companies should purpose to establish a HRIS for measurement in the HR department. In building up these systems, the companies should consider benchmarking information which can be done through specialized reporting groups and use of consultants specialized in the area. This step should also be considered by even the well performing insurance companies. In the collection of data, the HR should consider using the total population rather than a sample, report the collected data to relevant parties and give accurate prediction. In addition, insurance companies scale up decision making throughout all the levels of a company in a holistic approach and conduct a continuous enhancement following the evolving technology. This would help insurance companies to prioritize and target individuals who are most qualified for certain positions in the company, forecast the requirements of the workforce and make informed decisions of how to fill the open positions, connect workforce utilization to financial objectives for enhanced business performance, and help in identification of determinants that lead to greater customer satisfaction and production, discover the

causes of employee attrition and the risk of employees at the verge of leaving the company and establish effective training and other career development programs.

Keywords: *HR Metrics, HR Analytics, Performance and Insurance companies*

1.0 INTRODUCTION

Over the globe the use of human resource information systems (HRIS) have transformed the operations of Human resource (HR) and the role of HR within companies. The systems comprise of metrics and analytics that enhance the operations of the Human resource as an administrative unit. Lawler III, Levenson, and Boudreau (2004) stated that HR metrics can and are expected to influence the growth and implementation of business strategies. It is true that companies that make inaccurate assumptions about the capacity of a company to staff pivotal jobs and develop new positions of expertise that support the objective of the company are doomed to fail. Today, in spite of the presence of HR services in almost all companies, limited research exist on the study of selection, utilization and application of HR metrics and analytics in particular in the insurance inducstry (James & Johnson, 2013). Thus this article aims at assessing the role played by the different types of metrics and HR analytics. HR metrics can be defined as a tool used to measure, assess, compare and investigate the performance of a company. While, HR analytics is the process of combining data mining with business techniques to analyze human resource data, and describe the present situation and predict what will happen in the future (Fitz-Enz, 2010).

Durai, Rudhramoorthy and Sarkar (2019) state that the main reason for utilizing metrics and analytics is to utilize the expertise of HR personnel in human resource management as regards their understanding of the appropriate way to select, recruit, train, build, motivate, develop, assess and retain employees in a company in order for the company to achieve its target goals effectively. With the proper measures or metrics and analytics in place decision makers are able to easily manage and enhance human resource policies and programs and as a result the workforce in the company becomes effective and in turn the performance of the company improves. Lawler III *et al*. (2004) acknowledges that statistical techniques and experimental means can be used to demonstrate the relationship between the HR practices and performance practices such as, sales per employee, customer satisfaction and profitability particular activities in a company.

The main reason behind the use of HR metrics and analytics is to show the impact of its activities to the company. It is one of the best way to increase its influence on the decisions and future strategies of a company. In order to achieve this the right metrics are needed followed by good analytical models and good measures of the performance of the company. This study reviews three kinds of HR metrics and the HR analytics, that is, efficiency metrics, effectiveness metrics and Outcome metrics in order to identify the connection between HR metrics and analytics, and performance of insurance companies. A good HR unit should be in a position of bringing data and data analysis to the strategy table that demonstrate how management decisions affect the performance of the company (Durai *et al*., 2019). The provision of data and analysis about the strategic readiness of a company to implement a strategy is of high value to a company.

With the recent challenging economy, insurance companies' human resource departments should be more nimble than before in order to meet the demands by customer, achieve their targets and remain competitive in the global market(Deloitte Consulting, 2012). According to Deloitte's benchmark, insurance companies have the opportunity of reducing the total HR cost per year by an average of 45%. This can be done by the use of HR metrics which improve efficiencies and cut costs and be ready for future strategy execution. This study is timely due to the unstable performance experienced in the insurance industry in Kenya (Kogo & Kimencu, 2018). The insurance companies in Kenya face extreme challenges, such as low penetration and intake of insurance. On this background a research on HR metrics and analytics is

beneficial not only to the insurance industry but also to Kenya. Effective human resource management is attributed to sustainable competitive advantage and increased profitability (Mansour, 2011).

In Kenya, the insurance industry has a significant role in the development of the economy. This is seen through the confidence of entrepreneurs to enter into risky ventures with the assurance of protection by insurance companies in case of any perils (Kogo & Kimencu, 2018). Today insurance companies stand a position of growing at a high rate, this is because of the opportunities that have been presented to the companies by economic developments in Kenya such as, standard gauge railway (SGR), mineral venture development, rise in the number of middle class and the thriving business of real estate (Deloitte, 2015). As a result, a need arises for the insurance industry to enhance its performance.

1.1 Objective of the Study

The aim of this paper is to assess the role of human resource metrics and analytics on the organization performance of insurance firms in Kenya.

1.2 Hypothesis

H_1: Human resource metrics and analytics has a significant influence on organization performance of insurance firms in Kenya.

2.0 LITERATURE REVIEW

2.1 Configurational theory

This theory asserts the integration of relevant concepts and ideas of a theory or theories. According to Delery and Doty the governance and control of commitment HR systems lead to better performances in an organization only if the systems are utilized for achieving corporate goals through a business strategy (Delery & Doty, 1996). For instance, MacDuffie's in his research on automobile industry uses the configurational perspective, where a unique pattern of elements are identified (MacDuffie, 1995). The identification is made possible by a holistic principle of inquiry. Holistic refers to the attempt to cover and apply all the suitable views and ideas for achieving the expected common objectives. Managers are encouraged to use the most suitable concepts, ways, techniques and systems and use them in a more combined approach in order to achieve the objective of a company. This theory will inform this study through its principle of integration, whereby the expectation is that if the various HR metrics are correctly combined then the HR objectives will be timely and accurately attained and ultimately the performance of insurance companies will improve.

2.2 Resource Based View Theory

The Resource based view theory acknowledges that the resources of an organization are key determinants of the performance of a company and they are an added advantage in regard to competition (Barney, 1991). According to the theory outsourcing decision depends on the client company's capabilities to invest on the internal abilities (Lacity & Willcocks, 2008). The early stage of the theory identified the resource features of the company that were not likely to be imitated by competitors, however an argument arose that even thou the features may be replicated then the advantage may not last for long. Therefore the theory acknowledges the importance of coordination and cooperation among the teams of resources in a company. Company's capability involve the ability of the human resource team of resources to perform some activities for the productivity of a company (Grant, 1991). The company's resources are the source of company's capability.

The theory assumes that companies' within specific industry may turn out to be heterogeneous in terms of the resources they control. It also assumes that the resource heterogeneity may persist over time. The argument behind the model is that if all the companies had an equal share of resources then any strategy in

any one company will be available to another company in the same industry (Cool, Almeida Costa & Dierickx, 2002). Resource Based View brings out the aspect of developing unique capabilities, resources and internal value. The implication of the theory is that HR analytics can cause better results in a company when it is unique and value adding (Marler & Boudreau, 2017).

2.3 Empirical Review

According to Dulebohn and Johnson, (2013), HR Metrics can be defined as a tool that allows the assessment of function' results. In other terms, it is a tool used to measure, assess, compare and investigate the performance of a company. It act as a basis of decision making (Carson & Kavanagh, 2015). Metrics can be gauged through the use of ratios or complex formulas, whereby they can be used to measure a particular phenomenon over time (Fitz-enz, 2010). HR metrics can be divided into three, namely, efficiency metrics, effectiveness metrics and outcome metrics. This study focused on the three and their effect on organizational performance. Boudreau and Ramstad, (2003) identifies that the three can be adopted by a company to better understand and assess the impact of HR's operations and to influence company's performance. Thus past literature was reviewed to understand the three variables. HR analytics were also reviewed.

2.3.1 Efficiency Metrics and Organization Performance

Efficiency metrics involve the level of perfection of the administrative HR tasks in a company (Jensen-Eriksen, 2016). The main two aspects measured by this metric are productivity and cost. The main goal of the metric is to maximize the operation of the HR function. They can be evaluated against normative data and compared to other companies. A cross sectional study by Shiri (2012) investigated the importance of the use of Human Resource information system (HRIS) on the HR functions in an organization in India. The respondents of the study included senior managers, managers, and HR personnel and executive. A quantitative approach was used to aid the researchers in data collection. From the findings of the study it was realized that the use of IT increased productivity among adopters which minimized the number of staff needed for HR work. Thus the use of HRIS reduced cost. A conclusion was made that the efficiency of HR produced more effective outcomes compared to paper work. HRIS increased the efficiency of HR functions and therefore contributing to the capacity of HR department towards the company.

A report by Charlwood, Stuart, and Trusson (2017), asserts that measures of efficiency relate to the HR processes efficiency. An example was given of "cost of recruitment per recruit" which was used to measure the efficiency of the process of recruitment. Another example of efficiency measure that was stated was "time to recruit", however it was established to be indicating the effectiveness of the processes of recruitment. The report established that if the time of recruitment increased then there was a likelihood of a detrimental effect on the performance of the organization, reason being that key posts remained unfilled. This revealed that the relationship between efficiency in this case was negative but significant on the performance of the company.

2.3.2 Effectiveness Metrics and Organization performance

Effectiveness metrics are used to gauge the productiveness of the HR policies and practices and they separate the effective practices from the ineffective practices (Jensen-Eriksen, 2016). Fink and Sturman (2017) identified effectiveness metrics as, availability of ready-now successors for roles in the company, quality of hire, differentiation in rewards, changes in attrition because of retention programs and so on. Efficiency metrics were used to balance aspects of resource expenditure and performance enhancement. Further, effectiveness metrics upon tuning could be used to represent the quality of the efforts by HR in wider systems such as, compensation, training, staffing, recruitment, labour relations and performance appraisal. Charlwood *et al.* (2017) identifies measures such as; 'percentage of new hires who turn to be high performers' within 12 months of their employment, and 'new-hire failure rate', as effectiveness metrics of recruitment and selection.

Effectiveness metrics are different from efficiency metrics. Huus (2005) established that the effectiveness measures are human capital metrics, where he focused on people-related decisions and results. Similarly, Huselid *et al*. (2005) in their study differentiated between HR scorecards and workforce scorecard. HR scorecards includes key measures of the human resource activity that are essential to the company, while the workforce scorecard includes the broad measures of human capital. HC metrics are utilized for provision of workforce descriptions as a way of assessing efficiency of HR processes and measure the contribution of human capital to the performance of a company. The study by Huus (2005) established that the rate of embracing HC metrics was low and a standardized approach to human capital reporting within companies was not yet achieved.

The use of Effective metrics was established to have some pitfalls (Fink & Sturman, 2017). First, measuring effectiveness would involve measurement at different multiple points and would require extra measurement beyond what was accumulated in HR data systems. Further, Boudreau and Ramstad, (2007) stated that it would require collection of appropriate HR data, not just data that was readily measured. Such barriers were noted to discourage the use of sampling approach. Thus the use of the whole population level measurement was recommended. This means that more resources would be required to collect the data.

Lawler III, Levenson, and Boudreau (2004) in their study focused on uses and impacts of HR metrics and Analytics. Their study acknowledged that a meaningful effectiveness metrics involved talent and talent management. Measures like talent quality, talent development and talent deployment were established to be important metrics that would help in finding out how well companies were carrying out the responsibility. Other measures that were noted were strategic skills measures, core competencies included in the workforce and metrics that surveyed on how well pivotal jobs were filled. These kinds of metrics are referred to as typical metrics that allows one to gauge the kind of development activities that were taking place for critical talent.

2.3.3 Outcome Metrics and Organization Performance

Outcome metrics are the highest level of HR metrics. They measure the HR's influence on a company, this includes financial, customer, process and people's outcomes (Dulebohn & Johnson, 2013). In Outcome metrics the focus is embedded on combining HR data with other data in the company, in attempt to understand the influence HR practices and policies have on the performance of the company. The creation and the sharing of facts about impact is a key lever for contributing to more impact and for building up confidence among investors, partners and the observers in the industry (Reisman & Olazabal, 2016).

Rauf, Gulzar, and Baig (2016) paper noted that HR metrics led to measurement of the effectiveness of decisions that are cost effective. The paper was based on quantitative analysis. It was found that companies having complex HR systems had considerable financial impacts in terms of market value per employee, profits per employee, and sales per employee. Such systems that provided valuable information were known as High performance Work system. A study by Huselid (2005) established that practitioners were encouraged to engage in creation of accountability towards leaders in producing bottom line results through the enhancement of workforce contribution. Revenue per employee was found to have the capacity of providing the HR with a good understanding of a company's human capital. The study concluded that HR personnel were in a good position to discover new opportunities of gaining a good base for becoming a resource center. This would be done by building some outsourcing activities of talent pool for enhancing the human asset utilization (Khan, 2014). The paper recommended that decision making should be improved for the sustainability of the company in terms of employee retention, satisfaction, training and growth.

2.3.4 HR Analytics and Organization Performance

HR analytics is also known as people analytics, workforce analytics, or talent analytics. Human Resource analytics is about analyzing an organization's people problems using data. It enables you to answer critical questions about your organization e.g. How high is your annual employee turnover; How much of your employee turnover consists of regretted loss; Do you know which employees will be the most likely to leave your company within a year (Erik Van Vulpen 2013)

HR analytics is the process of combining data mining with business techniques to analyze human resource data, and describe the present situation and predict what will happen in the future (Fitz-Enz, 2010). Five stages are noted in the process of HR analytics (Fred & Kinange, 2015). First, the overreliance on managerial decisions such as instincts and intuitions, use of analytics in some departments, increase of the use of analytics in several departments, this is noted by the increase in the number of departments, the fourth stage is the scaling of decision making throughout all the levels of a company in a holistic approach and the last stage is continuous enhancement following the evolving technology. The study by Fred and Kinange, (2015) concluded that HR analytics was an evidence based approach that enabled better decision making on the side of the employee's business which in turn improved the performance of both an individual and the company. Further, the study noted that HR analytics could also enhance the credibility of HR function and the profession by way of improving the effectiveness of HR practices. In addition, it can be used to expose the gaps left by effort, budgets and resources in the event where the three aspects are not generating the intended outputs.

A study by Madhavi, Lakshmi and Siva Pratap (2016); HR Analytics - a Strategic Approach to HR Effectiveness; identified five steps of HR analytics as; the determination of critical outcomes, the creation of cross-functional data team, assessment of measures of critical outcomes, the conduction of objective analysis of key data, the creation of a program and its execution, and measuring and adjusting the progress. Some of the benefits that were noted as a result of HR analytics are; prioritizing and targeting individuals who are most qualified for certain positions in a company, forecasting the requirements of the workforce and making informed decisions of how to fill the open positions, connecting workforce utilization to financial objectives for enhanced business performance, identification of determinants that lead to greater customer satisfaction and production, discovery of the causes of employee attrition and the high risk of employees at the verge of leaving the company and the establishment of effective training and other career development programs. The study proposed the need of HR function going beyond the reporting and give accurate prediction.

A study by Carlson and Kavanagh (2012) focused on HR metrics and workforce analytics. In their paper the researchers found that increased use of human capital metrics and analytics had led many companies to consistently report a big number of unreliability to HR metrics. It was noted that majority of the HR personnel had a hard time to locate the managers of their respective companies on their attempt to get relevant information that would help HR departments in their duty, to give them HR metrics information included in reports and acknowledge the receipt of the reports. The study also found that the company's problems and opportunities were first to be identified before the identification of the metrics to be reported. As regards the timing and frequency of metrics reports the paper indicated that some companies did the reporting monthly, quarterly or annually. However, some companies were considering to go for real time updating for particular metrics. The study also found that the metrics reporting was done to senior managers, however the paper noted the growing recognition that the mangers at the lower levels were in a position to act on the information in the reports to aid in tactical and operational decisions.

Dulebohn and Johnson (2013) in their study on human resource metrics and decision support established that, sufficient strategy on how to apply metrics and incorporate them into distributed decision support systems (DDSS) by managers was lacking which were vital in adding value to the HR. Kapoor and Sherif (2012) also acknowledges that adding Data analytics in the HRM programs can attract development and their top talent and be a for runner in the global level of competition. A channel through which analytics and strategy can be tied up is through a scorecard (Jon Ingham, 2011). The scorecard can be derived from a strategy outline for instance the original balanced scorecard, which links inputs, human resource activities and outputs of the human capital and the depiction of how the activities are linked to the bottom line performance.

3.0 METHODOLOGY

The study used desktop literature review by focusing on past literature relating to HR Metrics and Analytics, and performance of a company. A total of 21 journals were found relating to HR Metrics and Analytics, and performance of a company. Yamane (1967) formula was used to calculate the sample size.

Yamane Formula:

$n= N/1+N(e^2)$

Where;

n= sample size

N= size of population

e= error term of 5%

Therefore;

$n= 21/1+ (0.05^2)$

n= 20

A sample of 20 journals was randomly selected for review. This paper is informed by two theories, namely, configurational theory and resource based view theory.

4.0 CONVERGENCE AND DIVERGENCE OF RESEARCH FINDINGS

In the past studies have been conducted on the uses and impacts of HR metrics and analytics, however very few studies exist that focus on the role of the HR metrics and analytics on the performance of insurance companies and in particular in Kenya. The reviewed studies in the literature review, for instance, Shiri (2012) investigated the importance of the use of Human Resource information system (HRIS) on the HR functions in an organization in India, the study concluded that the efficiency of HR produced more effective outcomes compared to paper work. HRIS increased the efficiency of HR functions and therefore contributing to the capacity of HR department towards the company. The result were in agreement with the findings of Rauf, Gulzar, and Baig (2016) who found out that companies having complex HR systems had considerable financial impacts in terms of market value per employee, profits per employee, and sales per employee. On the basis of Outcome Metrics, Dulebohn and Johnson, (2013) established that outcome metrics bring out a better understanding of the influence HR practices and policies on the performance of

the company. The finding was supported by Reisman and Olazabal, (2016) who established that the creation and the sharing of facts about impact is a key lever for contributing to more impact and for building up confidence among investors, partners and the observers in the industry. HR analytics enabled the use of data and data techniques that enabled to realize an analysis that allowes better decision making (Fitz-Enz, 2010). This finding was supported by Fred and Kinange, (2015) who concluded that HR analytics was an evidence based approach that enabled better decision making on the side of the employee's business which in turn improved the performance of both an individual and the company.

Even though Effective Metrics are essential, Fink and Sturman, (2017) asserts that the use of Effective Metrics has some pitfalls, that is, they require extra measurement beyond what was accumulated in HR data systems. Boudreau and Ramstad, (2007) argues that the action of going beyond the already accumulated HR data in the systems is a barrier that discourage the use of sampling approach which means that more resources are required for a total enumeration of all the population on the ground. A negative impact is also identified by Charlwood et al. (2017) who found that an efficiency measure like time of recruitment if increased, would have a negative effect on the performance of the organization.

In this study, some literature was considered to be insufficient in terms of connecting the various metrics with the performance of the company. For instance, Lawler III *et al* (2004) fails to link metrics such as talent quality, talent development and talent deployment with the outcomes of the performance. Another study by Huus (2005) established that the rate of embracing HC metrics was low and a standardized approach to human capital reporting within companies was not yet achieved. The study failed to establish what would be done to enhance the prevalent behavior. Even though the study by Shiri (2012) encourages the adoption and use of human resource information systems (HRIS) as a way of automating key HR processes and activities to achieve costs cut and boost efficiency, Durai *et al*., (2019) acknowledges that the understanding of how HR contributed to costs cut was not enough value to a company and that the HR administrative unit needed to go beyond that by making accurate predictions for the future and set a readiness strategy. The way to that is not explained in Shiri's (2012) study.

5.0 RECOMMENDATIONS

To assess the factual data on the effects of HR metrics and analytics on the performance of insurance companies in Kenya, this study recommends a real study on the ground where all the insurance companies are to be surveyed. Such a study will generate the real situation on the ground as regards the use of HR metrics and analytics and their impacts on the performance of insurance companies. This study recommend the senior managers to set up strategies in which they can be easily accessed by the HR personnel to enable timely reporting of information for timely decision making, an alternative way may also be sort by allowing junior managers who are readily available to receive information gathered by the HR personnel for timely response and strategy setting. This study also suggest the development of a scorecard by insurance companies that can be used to link inputs, human resource activities and outputs of the human capital and the depiction of how the activities are linked to the bottom line performance. Policy makers such as the ministry of labour or IHRM body can consider setting a standard that encourage the incorporation of the three metrics; efficiency, effectiveness and the outcome metrics as a way of improving existing policies to ensure smooth and fruitful operations in the insurance firms. Managers of insurance firms should advocate for the establishment of HRIS for the purpose of measurement in the HR department. In building up these systems the companies should consider benchmarking information which can be done through specialized reporting groups and consultants. This study also suggests that researchers need to consider in the future, the application and incorporation of HR metrics and analytics into the distributed decision support systems (DDSS) in insurance companies.

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EMPLOYEE TRAINING AND PERFORMANCE OF AGENCY BANKING UNITS OF SELECTED COMMERCIAL BANKS IN NAIROBI CITY COUNTY, KENYA

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ABSTRACT

Despite the progress made in implementation of Agency Banking both the Commercial Banks and the Agents have not realized the expected results. The study aimed at establishing the relationship between training needs assessment, on- the- job training, off-the-job training and training evaluation and the performance of agency banking Kenya. The study was guided by the Human Capital Theory, Resource Based Theory, and Experiential learning theory, Reinforcement theory and Balanced Scorecard. The study adopted a descriptive research design. The study targeted a population of 882 comprising Agency Banking Managers, Agency Banking Supervisors and Bank Agents ans selected a sample of 268 respondents. Primary data was obtained using self-administered open and closed ended questionnaires and an interview guide. Secondary data was obtained from the banks record on profitability, market share and number of transactions. Data was analyzed for descriptive and inferential statistics using Statistical Package for Social Sciences (SPSS Version 25.0). The information was presented in form of tables and graphs. The study found out that training needs assessment influences performance of agency banking in Kenya to a great extent. The study also found that transfer were used in the banks and it provided experience in other areas.The study concluded that Training Needs Assessment had the most influence on the performance of agency banking in Kenya, followed by on-the Job Training, then by Training Evaluation and the least was off-the Job Training.The study recommends that the commercial banks should assess their agents' needs for training and development more often and conduct them as need arises. Further, the study recommends that the commercial banks should give equal opportunity and chance to every employee to participate in the training programmes

Key Words: Performance of Agency Banking, Training Needs Assessment, On- the- job training, Off-The-Job Training, Training Evaluation, Profitability and Market Share.

INTRODUCTION

Organizations today face a lot of competition all over the globe as more continuing change turbulence and pressures are imposed on them. Globally, firms are facing employees' globalization and the business itself. Successful organizations today must have managers who able to motivate and inspire their employees. Training as an investigational method of getting the patterns of character refers to the systematic behavior modification. This is attained by learning and experiencing what is gotten via a deliberate process which adjusts skill, behavior to attain efficient range of activities success. Organization success seldom depends upon a single factor, but on complex interactions between several factors from within and outside the firm. The internal business environment determines how the firm manages performance through configuration and deployment of resources. Therefore, organizations need to establish the conditions and forces that affect performance in the market (Ogaga & Owino, 2017). Traditionally performance of an organization was viewed function of organizations exterior factors however but lately there existed a shift in design where researcher argued that the success of a firm is influenced by the firms' aspects (Ombaka, Machuki, Awino & Wainaina, 2015).

Training falls under HRD functions which have been argued to be an important function of human resource management. Training and development are used interchangeably. Training is for specific job purpose while development not only covers the specific activities that improves job performance but those that bring about the growth of personality. Training is an organization's process of systematically planning training either an external consultant hired by the firm or by an internal expert within the organization with a focus to developing the employees' knowledge, their skills and attitude as well as their expertise that is critically essential for them to be successful and effective at their current job and organization. Training is a short-term process, utilizing a systematic and organized procedure by which non-managerial personnel learn technical knowledge and skill for a definite purpose. Development on the other hand is a long-term educational process utilizing a systematic and organized procedure by which managerial personnel learn conceptual and theoretical knowledge for general purpose (Bailey, Mankin, Kelliher & Garavan, 2018).

Performance is assessed by a few firms through stewardship evaluation of the best management or how efficient the firm utilizes the assets in creating a benefit. As a result of the fact that the period deliberated is naturally short, these processes may be rendered as markers current situation of the firm. Others performance measures in overarching cost view of a firms stock (Kassa & Shega, 2018).

It is in 2010 that Agency banking started in Kenya after the amendment of Financial Act (2009). Kenyan Banking framework as at 31st December 2017 comprised 43 banking institutions and thirteen micro finance banks (MFBs) with the Central Bank (CBK) as the regulatory authority (Banking Survey, 2018). According to CBK annual Report (2017) the number of Bank agents continues to grow. By 2017, 61,290 and 2,191 bank agents were contracted by 18 commercial banks and 5 microfinance banks (MFBs) respectively which recorded a rise from 53,833 and 2,068 agents as per December 2016 report (CBK Annual Report, 2017).

There are a lot of changes that have been witnessed by banking sector in Kenya among them being e-banking. Today, banks clients are able to access efficient, fast and convenient services of bank. Technological investments have taken greater bank's resources share despite the fact that quick IT development is making the banking services cheaper and more effective. Another challenge related to this financial innovation is plastic card fraud. Banks are required to manage costs and risks linked to e-banking (Kamande, 2018). This paper sought to establish the relationship between employee training and the performance of agency banking in Nairobi County, Kenya.

Statement of the Problem

Increasing services demand as well as quality services expectations have positioned firms and their managers under a lot of pressure, portraying change as an unceasing life episode of companies. Firms need to address the change demands while simultaneously realizing that technology and knowledge development renders obsolete a lot of traditional skills of the staff while at the same time advancing the needs for new ones. Hinkin and Tracey (2012) notes that regardless of investing greatly on staff training, firms regularly fail to sufficiently appraise their training programmes value or success. No evidence was found to suggest that specific forms of training or training content or type were necessarily more conducive to good performance (Montero, Toner & Moran, 2018).

Despite the progress made in implementation of employee training programmes in Agency Banking both the Commercial Banks and the Agents have not realized the expected results. While training and education of qualified staff takes years of development; Kenyan Banking sector is losing a lot of money on training without experiencing equitable performance. Most agency banking units take training as an expensive and unnecessary process due to the fact that despite investing in training, there is no commensurate effect on the performance of the employees (CBK, 2017). Some banks feel that after spending so much on their employees on training, they might be poached by other institutions. As a result of this, there is poor transactions as the agents keep on calling banks and are not able to do their business effectively and hence increasing the amount of time necessary to complete their tasks making performance of the banks ineffective and inefficient lowering their profitability (Fukuyama, 2017). Commercial banks have recorded a 12.6% reduction in number of transactions through agency banking for the year 2016/2017 (Kenya bankers Association report, 2017).

The reviewed studies in relation to performance of agency banking units such as Mbugua (2017) who assessed the relationship between agency banking and the performance of commercial banks. The study found that banking cost of agency banking influence the performance of commercial banks. Argamo (2014) established the effect of agency banking on the financial performance of commercial banks in Kenya in 2014. The study found out that banking using agency banking excels in service quality and service delivery. Agency banking has low infrastructural cost and hence reduction in cost. Nthiga (2016) determined the relationship between training of employees and the commitment to the organization in the Ministry of Energy and Petroleum in Kenya. The researcher found that training has a direct impact on organizational commitment. It was also found that training does serve a key role in enhancing employee's loyalty, sense of belonging, relationship with colleagues, performance and personal development of employees. The relationship between employee training and the performance of agency banking units in Kenya is not documented. Therefore, this study sought to establish the relationship between employee trainings and the performance of agency banking in Kenya.

Objectives of the Paper

The paper aimed at establishing the relationship between employee training and the performance of agency banking in Nairobi County, Kenya. Specifically the paper focuses;

i. To examine the relationship between training needs assessment and the performance of agency banking in Kenya.

ii. To establish the relationship between on- the- job training and the performance of agency banking in Kenya.

iii. To assess the relationship of off-the-job training and the performance of agency banking in Kenya.

iv. To examine the relationship between training evaluation and the performance of agency banking Kenya.

Theoretical Review

The underpinning theories for this study were human capital theory, resource based theory, experiential learning Theory and the Balanced Scorecard model.

Human Capital Theory

This theory was developed by Becker and Gerhart in 2006. It is a prevailing viewpoint on training at workplace. Training is in this theory viewed as investment as it improves the projected performance at a cost. A firm equipment may be sold however employees can't. As the employees desire to use their own human capital, staff and companies needs to be consensus of the labor market exchange. This indicates that the way the sharing of the training costs and returns is between the staff and the companies. Human capital theory was later advanced in 1970s for describing the life-cycle earnings pattern. This literature analyses the individuals' decisions on human capital investment in an environment with a lot of competition. It may be argued that in human capital theory there is an artificial difference amongst education and training.

As a result, correct replies needs to be invoked by effective instruction. He was serious of traditional methods of teaching since they often produce learning errors and since they fail to effectively strengthen behaviour. Negative strengthening was to be avoided in this theory (e.g. criticism, punishment). Positive strengthening is sound theoretically and this needs to be administered as per particular programs to make sure that training is effective. For example, as new replies are moulded, strengthening needs withdrawal. Mechanical curriculum presentation the appeared to be a perfect means of training because perfect shaping and reinforcement schedule could be founded on program of training (Becker & Gerhart, 2006). This theory therefore, guided the researcher providing an understanding on the training evaluation.

Resource Based Theory

This theory was advanced by Penrose in 1959. He noted that resources possessed, organized and utilized by the firm are of great significance than the firms' structure. The theory is inward focusing by maximizing the resources of the firm as the single requirement for high performance of the firm (Kimiti et al 2018). This theory develops two crucial hypothesis, the one for heterogeneity of resources and the other one for immobility of resources. Where resources are heterogeneous it leads the companies to be exclusive regarding the owned and controlled resources (Barney, 1991). On the other hand, immobility of resources accepts that among firms, resources are relatively stable such that heterogeneity could be lasting (Selznick 1957). As per RBV, if a company has to attain competition edge, it needs to get and regulate the resources which are valuable, rare, inimitable and non-substitutable(VRIN) and competences and additionally have the firm in place where it is able to engage and use them (Barney,2001.)The contribution of this theory to this study is in supporting the availability and utilization of training resources on the Agency Banking unit performance based on effective training needs assessment.

Experiential Learning Theory

The theory was postulated by Kolb (1984) who suggested that learning is the process whereby knowledge is created through the transformation of experience. Learning consist of four stages that include; concrete experience, reflective observation, abstract conceptualization and active experimentation. Kolb (1984) identified four learning styles, assimilators; who learn better when presented with sound logical theories to consider, converges; who learn better when provided with practical applications of concepts and theories, accommodators; who learn better when provided with hands-on experiences, diverges; who learn better when allowed to observe and collect a wide range of information.

Bank agents include adults who are varied in ages and experiences. They are knowledgeable in a lot of things since they have another main business that they undertake apart from the agency business. This theory is relevant to the study in that it helps in guiding the appropriate training method for the agent users in order to improve the performance of agent banking business. The theory anchors both on the job and off-the- job training.

Balanced Scorecard Model

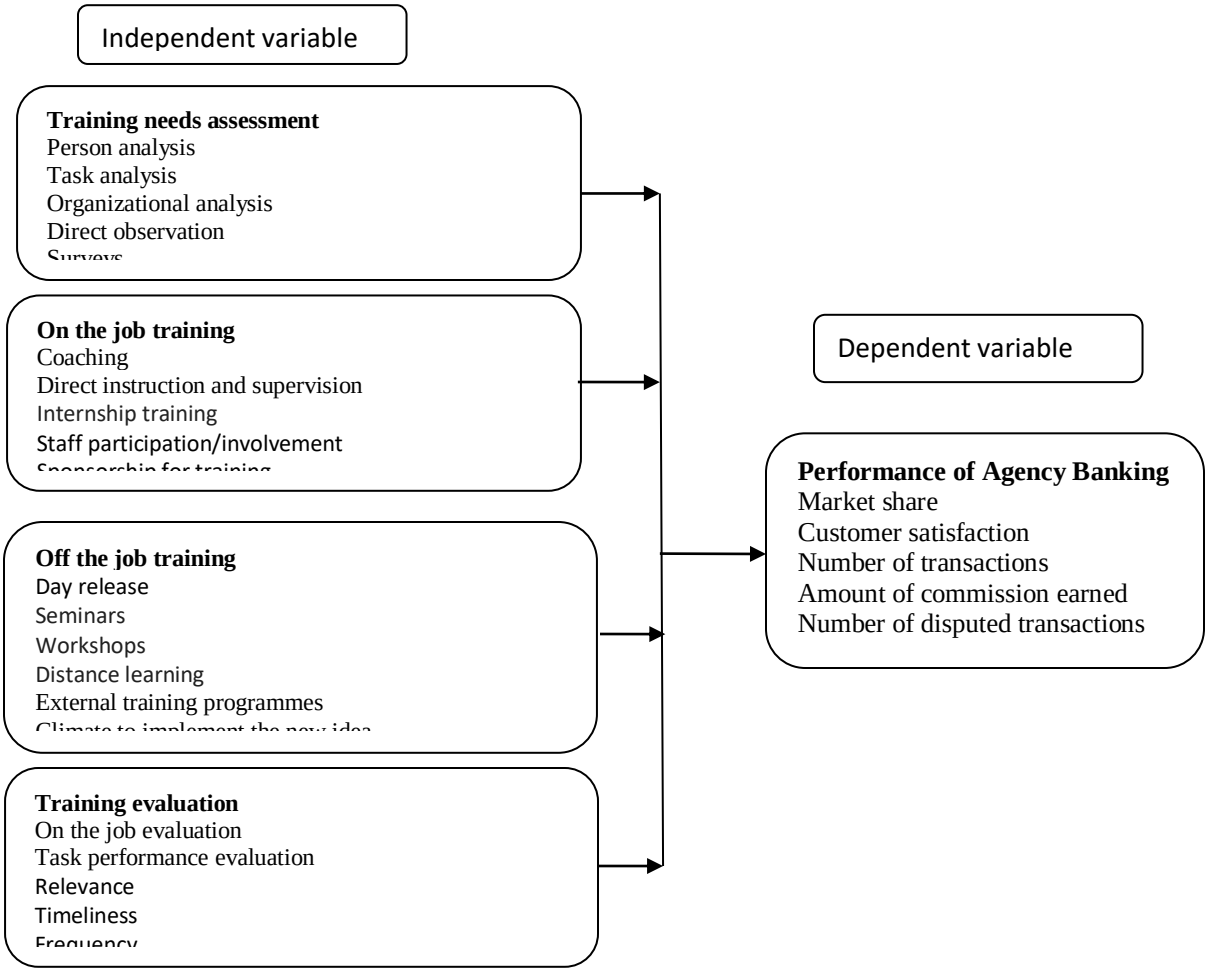
Balanced Scorecard model was advanced by Kaplan and Norton's in the early 1990's as a bid to assist the companies in assessing their performance by use of financial and non-financial data. The Balanced Scorecard aim is aligning the activities of the firm to its vision and strategy, enhance communications both internal and external, and monitor performance of the business against goals of strategy. The balanced scorecard gives a relevant financial and non-financial range of information which backs efficient management of business. The balanced scorecard is a strategy performance management tool, a semi-standard structured report that can be used by managers to keep track of the execution of activities by the staff within their control and to monitor the consequences arising from these actions.

Kaplan and Norton (1996) acknowledged that the balanced scorecard (BSC) helps to align activities of an organization to the vision and strategy. It provides feedback on the internal processes and external outcomes to ensure that organizations continuously improve their strategic performance (Kaplan and Norton, 1996). The BSC identifies ways of satisfying and delighting customers' thus giving business unit managers the opportunity of translating the mission and strategy statements of organizations into objectives that are specific to the customer (Coop, 2006).

The BSC model presents a framework used in translating the vision of an organization into a set of indicators of performance. It identifies four different perspectives from which an organization can measure its performance (Awadallah & Allam, 2015). These include the financial perspective that covers measures of financial performance such as: return on investment, return on asset and equity returns among other financial ratios (Lynch, 2003). The customer perspective focuses on customer satisfaction and corporate image which are important aspects of organizational performance. The processes perspective looks at the processes that organizations need to use to succeed in the market place (Porter, 2003). The innovation perspective deals with how organizations can move on from learned lessons with sustainability of change and improvement of operations of the organization (Kaplan & Norton, 1996).

Conceptual Framework

The schematic diagram below illustrates the association between the study variables and the indicator of the variables. An independent variable is a variable that a researcher manipulates in order to determine its effects on another. The independent variables comprise training needs assessment, on the job training methods, off the job training methods and the training evaluation while the dependent variable is the performance of agency banking.



RESEARCH METHODOLOGY

Research design

Descriptive research design was adopted in this study. The descriptive research purpose was determining and reporting events are and was appropriate for this study since the study aims at collecting widespread data via descriptions that are significant in identification of the variables.

Target Population

According to Robson and McCartan (2016), target population is the members of a real or hypothetical set of people, events or objects the researcher wishes to generalize the results of the research. The study targeted a population of 882 comprising Agency Banking Managers, Agency Banking Supervisors and Bank Agents of the 18 commercial banks that have agency banking

Sample Size and Sampling Technique

Sampling is a thoughtful selection of items or population elements from which deduction about the whole population is made. The sample size is a part of the population which is taken as representative of the whole population. The study used stratified random sampling to selected a sample of 268 respondents who received the questionnaires.

Data Collection Instrument

Self-administered questionnaires and interview guides was used for collection of primary data. The questionnaire contains both closed and open ended questions. The use of open-ended questions were for encouraging the respondents to give information of great depth since there are no restrictions and the closed ended questions allows the participants to reply within stated limited choices.

Data Collection Procedure

University introduction letter was obtained by the researcher from the university for presenting to the participants so as to participate in the study and give the required data. The questionnaires was administered using the drop and pick later method in order to allow the respondents have enough time for responding adequately to the questions. Training of the research assistants was done on skills of interviewing including rapport development, for convincing participants to give information which is relevant as well as clarifications seeking whenever necessary. Appointment with Agency Banking Managers, Agency Banking Supervisors and Bank Agents were booked by research assistants 2 days prior to questionnaires administration. The questionnaires were administered by the research assistants to the participants. This assisted the researcher in establishing rapport, explaining the study aim as well as the items meaning which aren't clear as noted by Sekaran and Bougie (2016).

Data Analysis and Presentation

SPSS Version 25.0 was used for data analysis. Every questionnaires received was referenced and coding for the questionnaire items was done for easy entry of the data. After cleaning of the data which included entry error checking, estimation of every quantitative data was done by use of descriptive statistics such as frequencies, percentages, mean score and standard deviation and presentation of the findings was in form of graphs and tables. The study used descriptive statistics since it enabled the researcher describe meaningfully the scores or measurements distribution by use of a few indices. Conceptual content analysis was used in the analysis of the qualitative data from the open-ended questions. As per Saunders et al (2016) recommendations on the qualitative data analysis, collected data was prearranged, sorted out, coded and analysed thematically searching for meaning, interpreting and drawing concepts based deductions. Regression analysis was done for inferential statistics. Multiple regressions was used by the study for analysing the collected data. The regression model was as follows:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where:

Y = Agency Performance

β_0 = Constant Term; β_1, β_2, β_3 and β_4, = Beta coefficients

X_1= Training needs assessment; X_2 = On- the- job training; X_3= Off-the-job training

X_4= Training evaluation; ε = Error term

RESEARCH FINDINGS

Response Rate

This study targeted 268 respondents comprising of Agency Banking Managers, Agency Banking Supervisors and Bank Agents from the 18 commercial banks that have agency banking. A total of 234 questionnaires were returned duly filled. This was represented by 87.3%. Awino (2011) posits that a response rate of above 65 percent is acceptable for such studies. High response rates yield results that can be better inferred to a population.

Table 1: Response Rate

Response Rate	Frequency	Percent
Response	234	87.3
Non-Response	34	12.7
Total	**268**	**100.0**

Reliability Analysis

Reliability is a measure of the degree to which instruments yield consistent results or data after repeated trials. The Cronbach's alphas from the extracted factors are shown in Table 2, along with their labels and number of items.

Table 2: Reliability Analysis

	Reliability Cronbach's Alpha	No. of Items
Training Needs Assessment	0.741	8
On- the- Job Training	0.802	8
Off- the- Job Training	0.776	6
Training Evaluation	0.726	5

All alphas were above 0.70, relatively a high reliability in each construct. The factors are all reflective because their indicators are highly correlated and are largely interchangeable. As shown in the Table 2, Training Needs Assessment had 0.741, On- the- Job Training had 0.802, Off- the- Job Training had 0.776 and Training Evaluation had 0.726.

Multiple Regression

A multiple regression analysis was conducted to investigate the joint causal relationship between the independent variables and dependent variable (performance of agency banking in Kenya). This is represented by the overall model $Y = \beta 0 + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + e$

Table 3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.906	0.821	0.818	1.001

a. Predictors: (Constant), Training Evaluation, Training Needs Assessment, Off the job Training, On The Job Training

The coefficient of determination R square and correlation coefficient (r) shows the degree of association between the independent variables (Training Evaluation, Training Needs Assessment, Off the job Training, On The Job Training) and performance of agency banking in Kenya. The results of the multiple regression indicate R^2= 0.821 and R= 0.906 as shown in Table 3. This is an indication that there is a strong relationship between independent variables and the dependent variable (performance of agency banking in Kenya). From the model summary Table 3 adjusted R^2 was 0.818; this indicates that employee training practices explain 65.2% of variations in performance of agency banking in Kenya.

Table 4: ANOVA Results

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	1066.041	4	266.510	262.589	0.000
Residual	232.42	229	1.015		
Total	1298.461	233			

a. Dependent Variable: Performance of Agency Banking

b. Predictors: (Constant), Training Evaluation, Training Needs Assessment, Off The Job Training, On The Job Training

The overall model significance was presented in Table 4. An F statistic of 262.589 indicated that the overall model was significant as it was larger than the critical F value of 3.88 with at the P=0.05 level of significance.The findings imply that training practices were statistically significantin explaining Performance of Agency Banking in Kenya.

Table 5: Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	3.792	1.655		2.291	0.023
Training Needs Assessment	0.849	0.336	0.513	2.527	0.012
On-the Job Training	0.796	0.359	0.437	2.217	0.028
Off-the JobTraining	0.627	0.245	0.382	2.559	0.011
Training Evaluation	0.701	0.323	0.378	2.170	0.031

a. Dependent Variable: Performance of Agency Banking

After the analysis the model arrived at was as follows;

$Y = 3.792 + 0.849X1 + 0.796X2 + 0.627X3 + 0.701X_4 + e$

Performance of Agency Banking= 3.792+ 0.849Training Needs Assessment + 0.796On-the Job Trainings + 0.627Off-the JobTraining + 0.701 Training Evaluation

Regression results in table 4.17 indicated that if all factors were held at zero, Performance of Agency Banking in Kenya was 3.792. The results reveal that the relationship between Training Needs Assessment and Performance of Agency Banking in Kenya was positive and significant as the p-value= 0.012 which was less than 0.05. Also, all other independent variables at zero, a unit increase in the Training Needs Assessment would lead to 0.849 increase in Performance of Agency Banking in Kenya. This is in accordance with Braun, Stepleman and Swift (2016) who note that an efficient program of training is required to be modified according to a particular sport demands. Hence, its crucial for conduction of needs analysis so as to get information on the unique sport attributes.

Results further indicate that On-the Job Training had a positive and significant relationship with Performance of Agency Banking since the p value= 0.028<0.005. This implies that an increase in On-the Job Training by 1 unit leads to an increase in Performance of Agency Banking by 0.796 units. This conforms to Twyford, Alagaraja and Shuck (2016) who posit that On-the-job training is an efficient way since the trainees apply the training in real situation instead of being taught in a class where the learner has a higher probability of forgetting.

The findings further indicated that the relationship between Performance of Agency Banking and Off-the Job Training was also positive and significant since the p-value=0.011<0.005. This implies that an increase

in Off-the Job Training by 1 unit leads to an increase in Performance of Agency Banking by 0.627 units. This concurs with Marshall, Davis, Dibrell and Ammeter (2018) who state that part-time entrepreneurship delivers a chance for individuals to get skills as well as knowledge conducive for coming up with innovative staff behaviours.

The results further indicated that the relationship between Performance of Agency Banking and Training Evaluation was positive and significant p value= 0.031<0.05. This implies that an increase in Training Evaluation by 1 unit leads to an increase in Performance of Agency Banking by 0.701 units. In relation to these findings, Steele, Mulhearn, Medeiros, Watts, Connelly and Mumford (2016) state that since training is expensive its crucial to understand the returns it yields if it's carried out.

The study therefore reveals that all the variables were significant at 95% confidence level as their p-value was less than 0.05. The study also deduces that Training Needs Assessment had the most influence on the performance of agency banking in Kenya, followed by On-the Job Training, then by Training Evaluation and the least was Off-the Job Training.

Conclusion

The study concluded that training needs assessment influences the performance of agency banking in Kenya. Organization analysis was found to be the most influential aspect of training needs assessment. Organisation analysis involves reviewing the development, work environment, personnel, and operation of a business or another type of association.It further focuses on the structure and design of the organization and how the organization's systems, capacity and functionality influence outputs. Undertaking an organizational analysis is helpful in assessing an organization's current well-being and capacity, and deciding on a course of action to improve the organization's long-term sustainability. The study concludes that the commercial banks ensure that information about the firm is sorted in order to make it easier to draw connections. Through theoretical models, the commercial banks present situation is more adequately addressed, and the trajectory of the organization can be more fully determined.

The study also concluded that on- the- job training influences the performance of agency banking in Kenya. Through transfers in the commercial banks, employees are provided experience in other areas. This helps them develop a career path and motivates the employee since it is a sign that the organization cares about and will provide opportunities for the employee's development. The study further concludes that transfers in the commercial banks overcomes boredom and dissatisfaction and provides an experience in a different environment hence encourages employees to adapt and learn to manage change.

The study further concluded that off-the-job training influenced performance of agency banking in Kenya. The study concluded that adoption of employee's seminars in a great way improve communication skills, helps in gaining expert knowledge, networking with others and renewing motivation and confidence. Also, a large number of people are trained simultaneously at a time and is economical thereby cancelling the notion that training is expensive. Through this, high productivity is maintained.

The study concluded that training evaluation influenced the performance of agency banking in Kenya. Analysing the training event by using appropriate evaluation tools can improve the outcome of future trainings to a considerable extent. This is because there is identification of new and different perspectives on the training and also insight on the weaknesses of the training are established and improved.

Recommendations

The study recommends that the commercial banks should assess their agents' need for training and development more often and conduct them as need arises. It is also recommended that the banks should train its agents as soon as they finish evaluating them as a remedy to help their banking units perform

better. It is recommended that the commercial banks should take into account both individual and operational needs when carrying out organizational assessment.

The commercial banks should take into consideration that every agency's needs need to be developed hence involve the agents in the training programmes that will help them sharpen their skills. It is recommended that the commercial banks should formulate quality and effective training programmes that will improve the agency's productivity and performance. In addition, the commercial banks should organize for conferences, seminars and team building activities that will help to improve employee performance as well as achieve the bank's objectives.

On employee motivation, the study recommends that more trainings to be conducted for the commercial banks leaders on the importance of recognizing and embracing staff suggestions. In addition, sufficient trainings to be conducted also for the leaders on how to focus on strengths rather than weaknesses of the employees. The management and the leaders in the commercial banks should be trained on how to address the weaknesses of the agents as well as establishing ways that will give room for agents to improve on their weaknesses.

Commercial banks should ensure that there is adequate budget for training and development activities, utilizing the allocated resources in efficient manner should be maintained for organizational success. They should also check if the employee is having the necessary tools needed for task completion and if enough time is given for task completion, or if the working environment is conducive for task completion.

The study recommends that further research be carried out on the same topic focusing on other sectors such as the manufacturing and retail sectors in order to get the perspective of other companies. Secondly, further study be carried out on other factors that enhances performance of agency banking in Kenya other than employee training addressed in this study. The impact of employee training on quality of services and client satisfaction should be studied. The study was done based in Nairobi City County, however there is need to replicate it in other counties.

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Corporate Social Responsibility and Growth Strategies of Selected Commercial Banks in Kitui County, Kenya

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Abstract

Purpose: The purpose of the study was to investigate the effects of corporate social responsibility on growth strategies of commercial banks in Kitui County
Methodology: the study used descriptive research design. The target population was commercial banks in Kitui County which have integrated corporate social responsibility activities in their operations. The study focused mainly on staff of commercial banks in Kitui County who were one hundred and twenty eight. The respondents were drawn from departments of managerial, operations and sales. Moreover a census of departments within the commercial banks was taken for the study. The study used both primary and secondary method of data collection. The primary data was collected using self-administered questionnaires, which were administered by drop and pick method. The closed ended and open ended questions were used in the self-administered questionnaires. The secondary data was collected using previous annual reports from the banks. Data collected was quantitative and was analyzed using descriptive data analysis. The relationship between the variables was analyzed using multiple regression models, computer packages SPSS version20.
Results: The study found out that philanthropy contributed more to growth strategies of commercial banks, followed by ethical labor relations while environmental protection had the lowest effect. The study concludes that for commercial banks to achieve high level of growth and profitability they must actively engage in philanthropic activities which have a great influence on growth strategies of commercial banks. Moreover commercial banks should promote ethical labor relations amongst their employees and also participate in environmental protection that has a positive effect on growth strategies of commercial banks.
Unique contribution to theory, practice and policy: The study recommends that commercial banks should increase the budget allocation on philanthropic activities, environmental protection programs and ensure ethical labor practices are implemented as they have a significant positive influence on growth strategies of commercial banks. The study recommends a similar study to be conducted in other Counties facing similar challenges in Kenya and also other financial institution in Kitui County to allow generalization of results.

Keywords:
Corporate,
Social,
Responsibility,
Growth,
Strategies.

1.0 INTRODUCTION

Corporate social responsibility is gaining a lot of popularity in strategic management through its positive impacts on society (McWilliams & Sigel, 2010), for this reason commercial banks are not an exceptional in integrating the corporate social responsibility in its operations. Through corporate social responsibility banks can be able to address societal needs and environmental needs more effectively and gain massive support from the local populations especially in Kitui County where there are few commercial banks. Thus corporate social responsibility can be used significantly to influence growth strategies of commercial banks in Kitui County (Tacon & Walter, 2010).According to Nixon, Helen, and Kennedy (2014) corporate social responsibility is an important part of what companies do towards making a positive contribution to the society, which can be traced to firm's sustained growth both in short run and long run. Managers have accepted corporate social responsibility just the same way they have accepted other operating expenses in the business. It is the goal of every organization to attain sustainable growth rate over a given period of time.

According to McKinney (2005) there are many growth strategies that an expanding company can take. They include entering new markets, acquiring new business units, diversification, strategic alliances, partnership and mergers. Therefore with few numbers of commercial banks in Kitui County, the region has high potential for growth of financial institutions through various strategies and also participation in corporate social responsibility. This can be attributed to development of Devolved County Governments, Upgrade of the infrastructure such as construction of roads thus promoting accessibility to remote areas, rural electrification and network upgrade, Availability of mineral deposits such as sand, coal and copper. Banks can therefore employ corporate social responsibility activities such as charitable donations, education scholarships, environmental protection, financial literacy training to local residents and community development as a way of winning new customers and promoting good corporate image. These corporate social responsibility activities enhance implementation of growth strategies of commercial banks more effectively in the region where growth of financial institution is minimal (Ghelli, 2013).

A business growth strategy refers to an organization broadening the scope of its business in terms of customers group, function and new technology in order to improve the overall performances efficiency and effectiveness from its past performance. It also refers to a strategy aimed at winning a big market share despite the short term earning. The best tool that relates to growth strategy in the market is one developed by Ansoff's (1957) on product-market mix that categorizes markets verses products. Moreover, it involves old verses new products presented to existing verses new markets. These growth strategies categorized by Ansoff include; market penetration, product development, diversification and market development.

Kenya banking sector has improved greatly over the last decade in size, profitability and customer service delivery. Many banks faced closure in 1990s due to poor growth formulating strategies and inadequate technology. Kenyans have in the current times grown a positive attitude towards banks that have competitive strategies, ranging from superior customer service delivery to efficient technology innovative such as mobile and internet banking. As at 31st December 2013, the banking sector in Kenya comprised of the Central bank of Kenya, as the regulatory authority, 44 banking institutions, 118 forex bureaus and 2 credit reference bureaus. Out of 44 banking institutions ,31 are locally owned banks while 13 are foreign owned (CBK, 2011).The number of bank branches increased from 1063 in 2010 to 1161 bank branches in 2011, which showed an increase in access to banking services in the country. The growth of banking sector in the country is guided by medium term objective and long term objective of the financial sector reform and development strategy (Achira, 2015).

1.2 Problem Statement

Corporate social responsibility is being embraced globally by many organizations in the markets; as it has proven behold doubts as a contributor of sustainability in the competitive market. Customers are keen to evaluate and examine various contributions of corporate social responsibility by organizations that offer them

product and services in various sectors. The growth of financial institutions in Kitui County has been very poor; this can be shown by few commercial banks and poor economic growth in the region. For instance there are seven commercial banks in Kitui County as compared to neighboring Machakos County which has more than twenty commercial banks. Thus need to come up with sustainable growth strategies to improve the current condition of financial institutions in the county.

Rani, Kumar, and Rao (2013) in their studies on growth and performance of Indian Commercial Banks during the Global economic crisis, found out that commercial banks showed a positive trend for growth during that given period of economic crisis, this was as a result of technical investment and innovation in information technology. The research recommended that banks should adopt better management efficiencies such as using information technology, deviation from product to customer satisfaction and providing excellent customer services at a cheaper cost that ensures positive growth and stability at all times.

Oke (2013) in his studies on marketing strategies and bank performance in Nigeria Consolidated industries ,using consolidated banks in Nigeria found out that banks did not only pursue profit as a goal, but also customers and stakeholders satisfaction which ensured loyalty and definitely increased profitability as well as quality services in the long run. The study recommended that in adoption of various marketing strategies, banks should compare various strategies and evaluate their probability success and failures before their implementation. The study also recommended that banks needed to be more customer focused and ensure that they engage more in relationship marketing rather than transaction marketing only.

Mwandime (2010) did the study about analysis of growth strategies by Kenya Commercial Banks and found out that the reasons for their growth strategy were; increased profits, growth of market share, growth of balance sheet, favorable political environment, increased investors' confidence, increased shareholder value amongst others. The research recommendation was that the policy makers can develop policy in regard to the growth of the firms in Kenya and East Africa region and also that the banks should continually focus on both growth in the home market and international market.

Sabina (2013) did a study about investigation into internal growth strategy effects on financial performance of commercial banks in Kenya and found out that investment into new technology, customer satisfaction and employee reward scheme affected financial performance of the banks. She recommend that banks should invest in new technology for tremendous growth in industry, involve customers before investing in any growth strategy and Central Bank to come up with policy that will encourage banks to use the most advanced technology in the market. The above research studies do not address the effects of corporate social responsibility on growth strategies of commercial banks in Kitui County hence the research gap which needed to be addressed by the study.

1.3 Research Objective

(i) To determine the effects of environmental protection on growth strategies of commercial banks in Kitui County, Kenya.

(ii) To evaluate the effect of philanthropy on growth strategies of commercial banks in Kitui County, Kenya.

(iii) To establish the effects of ethical labor relations on growth strategies of commercial banks in Kitui County, Kenya.

2.0. LITERATURE REVIEW

2.1 Theoretical Review

Resource Based View Theory

This theory was proposed by Wernerfelt in 1984. Resources are inputs which an organization uses in its production process to produce outputs. The firm resources include assets, intrinsic knowledge, organization technology and information base knowledge. Resources can either be tangible or intangible. This theory

postulates that a firm that poses strategic resources has a golden advantage to develop as compared to its rivals. These competitive advantages help the firm enjoy strong profits (Barney, 2002).

A strategic resource is an asset in the firm that is rare, difficult to imitate, valuable, and non-substitutable. A resource is valuable to the firm if it is able to help the firm create strategies that, wards off threats to the extent of increasing the growth of the firm as compared to its competitors. Resources are rare if they are held by few or no other competitors. Resources are difficult to imitate if they are legally protected by intellectual property such as trademarks, patents or copyrights. Resources are non-substitutable if the combination of resources by other firms cannot duplicate the strategy provided by the resource bundle of a firm (Barney, 2002). Moreover a resource that is rare, difficult to imitate and which cannot be easily substituted gives an organization, a high competitive advantage over its rivals to grow and attain a larger market share through its growth strategies.

In resource based view theory, resources are given a major role in helping companies to achieve a higher organization performance. This resource can either be tangible or intangible. The theory assumes that companies achieve competitive advantage by using combined different bundles of resources. Resource based view holds that, a firm is able to maintain competitive advantage in the market if the internal growth strategies are easily exploited as compared to the external factors. Resource based theory consist of a number of related but distinctive branches; resource based theory, dynamic capabilities and core competencies approach (Williamson, 2004).

However the resourced based theory was useful in the study as it provided a better understanding of how organizations can exploit its resources that are valuable, limited, hard to imitate and non-substitutable by participating in corporate social responsibility activities to gain a competitive advantage from the market and implement suitable growth strategies to expand the firm performance.

Institutional Theory

This theory was proposed by Meyers and Rowan in 1977. An institutional theory argues that the institutional environment can affect the growth of formal structures in an organization, more than the existing market pressures. Innovations that are environmentally friendly and that improve the technical efficiency of the firm are easily legitimized in the environment. Legitimization of these innovations consequently becomes a limiting factor for organization operating within such an environment and adopting them becomes a requirement for survival in the market.

Meyer and Rowan argues that institutions myths are only accepted without resistance in order for the organization to attain legitimacy in the institutional market. Institutional theorist postulates that, organization legitimacy explains its survival in a competitive market. Institutional theory explains how deliberate actions can lead an organization to adopt norms and ideologies in the market environment that will promote its survival. Therefore an organization that meets environmental expected demands receive legitimacy and hence worthy of resources by the environment at large (Toma, Dubrow, & Hartley, 2005).

The environment within the organization will always limit it to engage in certain strategic activities and ensures conformity by the organization. Institutional theorist argues that the environment controls the organization available choices and options; moreover the environment limits the extent to which an organization can make such choices. Institutional theory depends on environmental conditions that influence an organization such as societal norms and requirement that an organization need to accept in order to receive support. Institutional theory depends more on societal expectation that helps to explain processes of an organization and its structure. Institutional theory also postulates that the society has a great role in determining the legitimacy of an organization than the internal operations of an organization (Scott, 2008).

Institutional theory concentrates on the impact of the environmental forces that the organization experiences and influences of the organization policies and structures that forms within the organization field. Consequently organizations give in to these environmental pressures and forces in order to get resources from the existing environment, attain potential customers and institutional legitimacy (Jamie,Kimberly,& Lori 2012).

The weakness in this theory is that formal structures of legitimacy may minimize efficiency and prevent organization's competitiveness nature in their technical environment. To get rid of the negative effect the organization can separate its technical concentration from the legitimizing structures of the environment. With the help of this theory one understood how corporate social responsibility activities towards the environment could help to legitimize an organization in the market and enable an organization to implement its growth strategies more effectively. This theory also helped to understand organizations needed to develop policies pertaining to corporate social responsibility, so as to conform to the environmental conditions thus enabling it to develop growth strategies that would promote its sustainability.

Modern Portfolio Theory

The modern portfolio theory was proposed first by Harry Markowitz in 1952 in the Journal of Finance. Modern portfolio theory explains how risk-averse investors can formulate various portfolios to maximize expected returns on investment based on a certain level of market risks, stressing that risk is a necessary of a higher return. Modern portfolio theory allows investors to estimate the expected risks and expected returns as calculated statistically for their various investment portfolios. It was his position that portfolio risks should be minimized and expected rate of return maximized when assets with same price values were combined. It was realized that holding securities that tend to concert with each other do not necessarily reduce your risk on investment (Swamy, 2013).

Investment portfolios should be appraised based on market price of risks, which combines risks and rate of return into one measure, rather than risk or rate of return alone. This enables an organization to make comparison on various sets of portfolios because choosing which strategy to implement so as to gain competitive advantage and grow efficiently. Modern portfolio theory seeks to explain how we can maximize returns by selecting various assets in a given portfolio. The purpose of this theory is to maximize portfolios expected return by altering and selecting portfolios of various assets in the portfolio (Bodie Kane,&Marcus, 2009).

This theory argues that if an investor is presented with two portfolios of equal value that offer same expected returns, then the investor will select a less risky one. Investors will only assume a risky venture only if they are sure of an additional return to their investment. The modern portfolio theory is important in that, it provides a mathematical linkage between concepts of risk diversification and selection of various portfolio assets. The model links the expected rate of return portfolio to expected risks and indicates the importance of diversification to reduce total risks of a portfolio investment (Chen & Fang, 2009).

The limitation of this theory is that it assumes that assets returns are normally distributed random variables and also that investors have access to same information, have same expectation, and make same choices given a particular set of circumstances. This theory was important especially when choosing the corporate social responsibilities that could be of benefit to the local population, which could help an organization to reduce its expected risks in its investment, thus providing an optimal environment for developing growth strategies that could maximize the expected returns of an organization.

Stakeholder Theory

This theory was first proposed by freeman in 1984.Freeman stated that stakeholders are individuals or groups who affect or are affected by the achievement of the organization goals. He further argued that each of the stakeholder groups has a right not to be treated as a means to an end and must be involved in shaping the future direction of the organization. Stakeholders include employees, customers, financiers, government agencies, trade unions, suppliers and the local community, which an organization has a social responsibility to address their needs as it strives to achieve the organization goal.

Bowman and Wiggen (2004) defined stakeholders as those people who are tangibly affected by the companies' actions. The main essence of stakeholders' theory is to establish the interaction between the corporation and its stakeholders. This theory suggests that a company success mainly lies in how well it satisfies all the stakeholders and not only from those who might profit it from their stock. In addition this theory views a corporate environment as an ecosystem of related groups who need to be considered and satisfied to keep the

company healthy and successful in the long run, through application of various corporate social responsibilities to those groups.

Moreover stakeholders' theorist argued that for any business to be successful it has to create value for all its stake holders. Their interest has to be taken into account and the main concern of any manager is to establish how best to address the stakeholders satisfaction by maximizing the benefits and minimizing their damage. Stakeholder's theory in itself is based on ethical and moral principles which should indicate some ethical component to corporate social responsibility decision (Philips, 2007).

The main limitation of this theory is that it focuses its interest on human participants in the business enterprises while ignoring the natural environment in which the business exist that does not directly involve people. Despite that the stakeholder theory is important in this study as it helps us understand how effectively we can employ corporate social responsibility to various stakeholders of the organization that affect its general performance and sustainability in a competitive market.

2.2 Empirical Review

According to Attah (2010) in his study on environmental sustainability with a focus on global efforts to achieve sustainable economic growth found out that, sustainable environment growth can be achieved through integration of various regulatory policies that connect with the environment, economy and the society as a whole. These imply that in evaluating environmental policies the long term effect should be considered from various perspectives; economy, society and the environment. Achieving sustainability from one perspective may be successful in the short run period but costly in the long run period. Moreover with the need of sustainable development and growth then countries need to embark on industrial activities that comply with efficient use of natural resources through efficient technology.

Lev, Petrovits and Radhakristhan (2010) in their studies on how corporate charitable giving enhances revenue growth, examined the impacts of corporate philanthropy on revenue growth of public companies in 1989-2000, found out that appropriate corporate giving program helps firms create satisfaction amongst customers leading to higher revenues in long run. They also found out that firms donating presently are indeed better in future under certain prevailing conditions. A donation which improves a firm's reputation can attract new customers or ensure existing customers less likely to shift to other competitors.

Wang ,Choi and Li (2008) in their study re-examined the relationship between corporate philanthropy and financial performance found out a positive regression coefficient for corporate giving and a negative coefficient for corporate giving, which they interpreted as decreasing marginal returns at higher level of giving. They also noted that philanthropy was a managerial prerequisite in relation to high organization performance. Moreover corporate giving improves reputation among stakeholders which in turn improves financial performance and organization growth**.**

Wright and Geroy (2001) in their study on changing mind set: the training myth and need for world class performance found that the employees' competencies changes through effective ethical training programs; it improves overall job performance of the employee to effectively perform the current job, enhances knowledge, skills and attitude for the workers thus transforming the organization to an excellent performance in the long run. Ethical trainings of employees develop competencies in them and they are able to implement their work more efficiently thereby achieving the organization growth competitively.

George and Jeff (2008) in their study " Attaining sustainable growth through corporate social responsibility", observed that to attain growth through corporate social responsibility, companies must align Corporate social responsibility with organization strategies and integrate it within the organization, thus ensuring funds necessary to achieve organizations objectives are wisely invested, implementation of open information strategy for transparent information sharing with various stakeholders and transparency to improve the level of engagement of key customers. They also argued that if these activities are done with combinations, then corporate social responsibility can be a direction for an organization competitive strategy.

Nixon, Hellen and Kennedy (2014) in their studies "Investment in Corporate social responsibility and sustained growth in Commercial Banks of Kenya" found out that investment in corporate social responsibility had positive effects on sustained growth of banks. This was due to the fact that corporate social responsibility activities create a platform for banks to promote their brand value and enhance social insurance. Moreover they observed that the increased desire to have sustained growth by banks, there was need to invest in society benefiting activities to increase the stakeholders' confidence and satisfy their expectations. Therefore commercial banks need to embrace corporate social responsibility activities that are accessible, ethically acceptable, have a positive impact, relevant within the environment, technically innovative and replicable. This enables an organization to have a higher competitive advantage hence promoting its growth.

2.3 Conceptual Framework

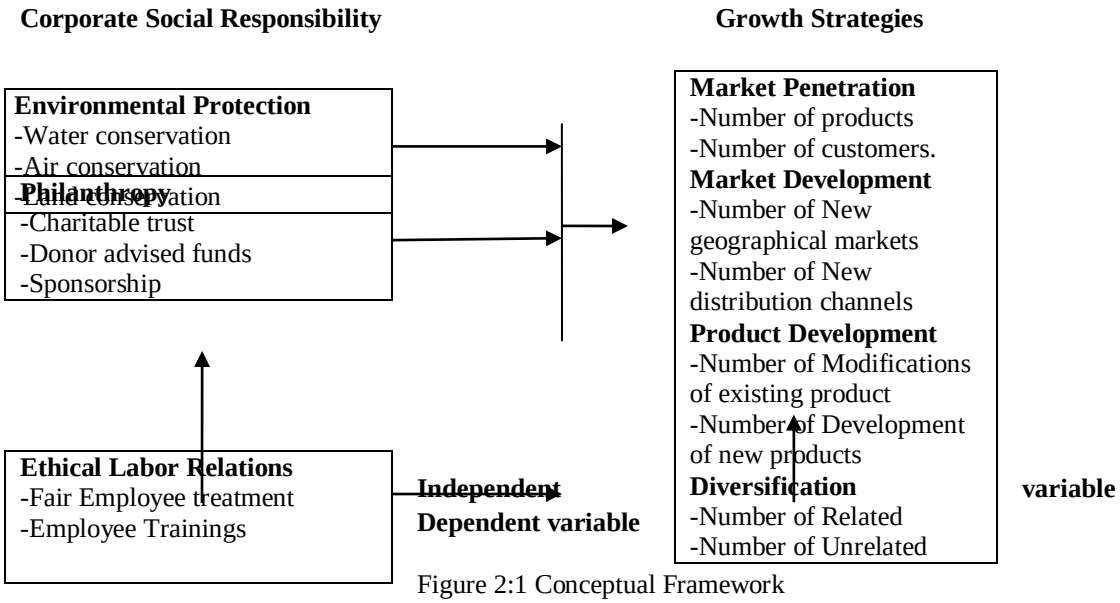

Figure 2:1 Conceptual Framework

3.0. RESEARCH METHODOLOGY

This study used descriptive and explanatory study. Descriptive study was concerned with answering the how, where and what phenomenon in the study (Cooper & Schindler, 2003). This design was chosen because it was accurate, precise and easy. The descriptive study gave statistical information about the aspects of the study that was useful to policy makers. Moreover the study used explanatory research design to establish the extent of cause-and -effect relationships of the variables. The target population for the study was the seven commercial banks in Kitui County namely; Kenya Commercial Bank, National Bank, Equity Bank, Cooperative Bank, Family Bank, Sidian Bank and Barclays Bank of Kenya. The study focused on commercial banks staff who were one hundred and twenty eight in number in Kitui County. Primary data was collected using structured self-administered questionnaires which were consisting closed and open ended questions, while secondary data was collected using previous annual reports of the banks. A pilot study was conducted to test the validity and reliability of the data to be collected using the research instrument. This enabled the researcher to know the

areas which needed to be improved in terms of content. Content validity was carried out for the research instrument through seeking the supervisor's opinion so that necessary correction and modification could be done to the research instrument to enhance validity. The reliability of the questionnaire was determined by test-retest reliability method. A Cronbach Alpha (α) was computed to test the consistency and scale measure of study variables. A higher coefficient of above 0.7 indicated good reliability. To test the effect of corporate social responsibility on growth strategies of commercial banks, a multiple regression model was employed and a computer package SPSS (statistical package for social sciences) version 20 was used to analyze the data for this study.

4.0 RESULTS AND DISCUSSIONS

4.1 Response Rate

The study managed to achieve a 100.0% (128 responses) response rate since the population was small. One type of questionnaire was used for all respondents. Mugenda and Mugenda (2003) advise that a response rate which is above 50% is considered adequate for analysis of study conducted. The response rate in this study was found to be reliable hence the analysis of the collected data.

4.2 Bio-Data Analysis

Table 1 :Designation of the respondent

Designation	Frequency	Percent
Manager	20	15.6
Bank Officers	46	35.9
Clerk	62	48.5
Total	**128**	**100.0**

From the findings in Table 1, the study found that majority of the respondents 62 (48.5%) were clerks. Bank officers constituted 46 (35.9%) while managers were 22 (15.6%). This is a normalized distribution of the employees in the banks. The nature of this study generated more interest from bank clerks as they are directly involved in most banking operations.

Table 2: Department of the respondent

Department	Frequency	Percent
Managerial	19	14.8
Operations	51	39.9
Sales/Credit	58	45.3
Total	**128**	**100.0**

From the findings in Table 2, the study found that sales/credit departments were 58 (45.3%), followed by operations department who 51 were (39.9%) and Managerial department who were 19 (14.8%) which is a fair representation considering that Kitui County has seven commercial banks. Majority of the respondents (75%) worked within operation and sales/credit departments.

Table 3 : Duration in the position

Duration	Frequency	Percent
Less than 1 year	34	26.6
1 to 4 years	46	35.9
5 to 10 years	39	30.5

Over 10 years	9	7.0
Total	**128**	**100.0**

From the findings in Table 3, the study found that most employees 46 (35.9%) have been in the same position for 1 to 4 years. Similarly, another larger number 39 (30.5%) have been in same position for 5 to 10 years. Thirty-four employees 34(26.6%) have been in the same position for less than a year while only 9 (7.0%) have been in the same position for over 10 years. The results indicated that work experience was a necessary requirement for employees to be promoted from one position to another. This is shown by the minority of employees (7%) who had worked in the same position for over ten years.

Table 4: Duration in the banking sector

Duration	**Frequency**	**Percent**
Less than 1 year	10	7.8
1 to 4 years	40	31.3
5 to 10 years	55	43.0
Over 10 years	23	17.9
Total	**128**	**100.0**

From the findings in Table 4, the study found that 55 (43.0%) have been in banking sector for 5 to 10 years, 40 (31.3%) of the respondents have been in the banking sector for 1 to 4 years. At least 23 (17.9%) have had over 10 years in the banking sector. Just 10 (7.8%) of the respondents had less than a year in the bank. This implies most of banking employees (60%) have adequate work experience about banks operations.

Table 5: Highest education level of the respondent

Education level	**Frequency**	**Percent**
Post graduate	17	13.3
Undergraduate	89	69.5
Diploma	22	17.2
Certificate	0	0.0
Total	**128**	**100.0**

From the findings in Table 5, the study found that 89(69.5%) of the employees were bachelors' holders, at least 17 (13.3%) of employees were postgraduates while 22 (17.2%) were diploma holders. This indicated an elite working class likely to deliver the goals of commercial banks in a competitive manner.

4.3 Descriptive Findings and Analysis

4.3.1 Environmental Protection and Growth Strategies of Commercial Banks in Kitui County, Kenya.

The study sought to determine the effects of environmental protection on growth strategies of commercial banks. The results are shown in Table 6.

Table 6: Environmental protection and Growth Strategies

Statement	Very Low	Low	Medium	High	Very High	Mean	Std. Dev.
Participation in forest conservation programs	19(14.8%)	55(43.0%)	21(16.4%)	22(17.2%)	11(8.6%)	2.328	.644
Participation in land conservation programs	8(6.3%)	20(15.6%)	77(60.2%)	15(11.7%)	8(6.3%)	4.314	1.228
Use of environmental friendly technology	32(25.0%)	31(24.2%)	36(28.1%)	21(16.4%)	8(6.3%)	2.005	.814
Participation in water conservation programs	27(21.0%)	29(22.7%)	33(25.8%)	24(18.8%)	15(11.7%)	4.337	.675
Participation air conservation	49(38.3%)	21(16.4%)	26(20.3%)	18(14.1%)	14(10.9%)	2.081	.783

From the findings of the study in Table 6, the respondents indicated that there is high participation in water conservation programs as shown by a mean of 4.337 and high participation in land conservation programs as shown by a mean of 4.314. The respondents also indicated that there is a low participation in forest conservation programs as shown by a mean of 2.328, low participation air conservation as shown by a mean of 2.081 and low use of environmentally friendly technology as shown by a mean of 2.005. These findings indicated that banks were rarely utilizing environmental protection since it had little significant effects on growth strategies of commercial banks, thus banks were paying less attention on environmental protection since its impact on its growth strategies was minimal. This is in disagreement with Attah (2010) who observed that sustainable environment and growth could be achieved through integration of policies that connect with the environment, economy and society. Banks in the past paid little or no attention to climate and environment related activities. However, in the recent times such programs have been rolled out by commercial banks due to competitiveness in the market and the regulatory requirements by the government that persuades commercial banks to engage in environmental protection despite the fact that it has little impact on its growth strategies.

4.3.2 Philanthropy and Growth Strategies of Commercial Banks in Kitui County, Kenya.

The study sought to evaluate the effects of philanthropy on growth strategies of commercial banks. The results are shown in Table. 7.

Table 7 : Philanthropy and Growth Strategies

Statement	Very Low	Low	Medium	High	Very High	Mean	Std. Dev.
Education sponsorship for the needy and bright students in primary education	15(11.7%)	19(14.8%)	15(11.7%)	42(32.8%)	37(28.9%)	4.337	.675
Education sponsorship for the needy and bright students in Secondary education	5(3.9%)	11(8.6%)	12(9.4%)	52(40.6%)	48(37.5%)	4.463	.619
Sponsorships for Sports such as football	12(9.4%)	16(12.5%)	18(14.1%)	40(31.3%)	42(32.8%)	4.289	.662
Sponsorship for Radio programs that promote	3(2.3%)	10(7.8%	20(15.6%)	57(44.5%)	38(29.7%)	3.812	1.090

economic growth							
Sponsorship for Television programs that promote social and moral growth in the society	1(0.8%)	3(2.3%)	21(16.4%)	62(48.4%)	41(32.0%)	3.563	1.440
Growth of Technology access to rural areas	12(9.4%)	21(16.4%)	52(40.6%)	25(19.5%)	18(14.1%)	2.125	1.014
Health care (malnutrition) for the needy in the region through charity organization like Red cross	10(7.8%)	12(9.4%)	42(32.8%)	38(29.7%)	26(20.3%)	3.120	0.943
Reduction of mortality among pregnant mothers in the region through donations to the health sector	18(14.1%)	45(35.2%)	30(23.4%)	22(17.2%)	13(1.2%)	2.319	1.045
Contribution towards Agriculture through provision of seedling and equipment to small scale farmers	8(16.3%)	19(14.8%)	24(18.8%)	47(36.7%)	30(23.4%)	3.692	1.082

From the findings of the study in Table 7, the respondents indicated that there is high education sponsorship for the needy and bright students in Secondary education as illustrated by a mean of 4.463, high education sponsorship for the needy and bright students in primary education as illustrated by a mean of 4.337, high sponsorships for Sports such as football as illustrated by a mean of 4.289, high sponsorship for Radio programs that promote economic growth as illustrated by a mean of 3.812, high contribution towards Agriculture through provision of seedling and equipment to small scale farmers as illustrated by a mean of 3.692 and high sponsorship for Television programs that promote social and moral growth in the society as illustrated by a mean of 3.563. This is in agreement with Cathrine (2013) who found out that corporate social responsibility increased customer awareness of the products offered, improved the level of customer loyalty, reduced the marketing costs and operational cost, promoting the image of the Bank in a competitive market, as well as its overall growth.The respondents also indicated that there is moderate health care (malnutrition) for the needy in the region through charity organization like Red cross as illustrated by a mean of 3.120, low reduction of mortality among pregnant mothers in the region through donations to the health sector as shown by a mean of 2.319 and a low growth of Technology access to rural areas as shown by a mean of 2.125. The findings indicated that participating in sponsorship activities positively influenced implementation of growth strategies in commercial banks in Kitui County. This is in agreement with Lev et al (2002) who hypothesized in their studies that corporate giving helps a firm retain satisfied customers and high revenues as well as sustained growth. Moreover, Wang et al (2008) found a positive regression coefficient for corporate giving and a negative coefficient for corporate giving, which they interpreted as decreasing marginal returns at higher level of giving. They noted that philanthropy was a managerial prerequisite in relation to high organization performance and corporate giving enhances reputation amongst stakeholders which in return enhances organization growth.

4.3.3 Ethical Labor Relations and Growth Strategies of Commercial Banks in Kitui County, Kenya.

The study sought to establish the effects of ethical labor relations on growth strategies of commercial banks. The results are shown in Table 8

Table 8 : Ethical Labor Relations and Growth Strategies

Statement	Very Low	Low	Medium	High	Very High	Mean	Std. Dev.

Rewarding outstanding employee performances	10(7.8%)	19(14.8%)	43(33.6%)	34(26.6%)	22(17.2%)	3.337	0.675
Employee Compensation in respect to their qualification and job description	11(8.6%)	20(15.6%)	46(36.0%)	31(24.2%)	20(15.6%)	3.817	1.735
Employees Good working conditions	8(6.3%)	13(10.2%)	25(19.5%)	49(38.3%)	33(25.8%)	4.164	0.979
"Strong employee and employer relationship"							
Effect of training on employee Efficiency	11(8.6%)	14(10.9%)	16(12.5%)	53(41.4%)	34(26.6)%	3.990	0.978
Effect of training on Competency of employees	11(8.6%)	13(10.2)%	10(7.8%)	62(48.4%)	32(25.0%)	4.217	1.000
Effect of training on employee adaptability to changes in technology	5(3.9%)	16(12.5%)	25(19.5%)	58(45.3%)	24(18.8%)	3.683	1.242

From the findings of the study in Table 8, the respondents indicated that there is a high effect of training on Competency of employees as shown by a mean of 4.217, high employees Good working conditions as shown by a mean of 4.164, high effect of training on employee Efficiency as shown by a mean of 3.990, high employee Compensation in respect to their qualification and job description as shown by a mean of 3.817 and high effect of training on employee adaptability to changes in technology as shown by a mean of 3.683. The respondents indicated a normal rewarding outstanding employee performance as shown by a mean of 3.337. The findings are in agreement with Moragwa (2013) who found out that to achieve internal consistency, firm employees must be convinced that all jobs are compensated according to their value, such that they are confident that the company remunerations reflect the importance of each person's job to the success of the organization. This enhances motivation and outstanding performance by the employees leading to high efficiency and productivity by the company. This indicated that most respondents were skewed positively on these statements, which can be interpreted as ethical labor relations had positive effects on growth strategies of commercial banks. This study further found that banks participating in sound ethical relations had greater impact when implementing growth strategies in commercial banks. This is in agreement with Lee and Wong (2006) who hypothesized that rewarding employees for excellent performance had an impact on company's performance and also on its growth strategies.

4.3.4 Growth Strategies employed by Commercial Banks in Kitui County.

The study sought to establish various growth strategies employed by commercial banks in Kitui County, Kenya to promote their expansion. The results are shown in Table 9.

Table 9: Commercial Banks Growth Strategies.

Market penetration	**Very Low**	**Low**	**Medium**	**High**	**Very High**	**Mean**	**Std. Dev.**
Selling of more products to established customers by your bank.	7(5.5%)	15(11.7%)	20(15.6%)	46(35.9%)	40(31.3%)	4.386	0.750
Finding of new customers within the existing market by your bank	12(9.4%)	29(22.7%)	21(16.4%)	35(27.3%)	31(24.2%)	3.243	1.032
Increase the usage of your bank products by the current customers	5(3.9%)	10(7.8%)	15(1.7%)	50(39.1%)	48(37.5%)	4.381	0.764
Engaging in promotion of its products	6(4.7%)	9(7.0%)	10(7.8%)	57(44.5%)	46(35.9%)	3.976	0.811

Market development							
Selling its products in new geographical areas	8(6.3%)	17(13.3%)	35(27.3%)	37(28.9%)	31(24.2%)	3.333	0.687
Different pricing strategies for your banks products	10(7.8%)	18(14.1%)	30(23.4%)	47(36.7%)	22(17.2%)	3.619	0.962
Development of new distribution channels for the products by your bank	6(4.7%)	11(8.6%)	50(39.1%)	39(30.5%)	22(17.2%)	3.833	1.034
Expansion for new users of your banks products	12(9.4%)	32(25.0%)	18(14.1%)	33(25.8%)	33(25.8%)	3.071	0.712
Product development							
Modification of existing products	6(4.7%)	12(9.4%)	10(7.8%)	53(41.4%)	47(36.7%)	4.381	0.764
Development of new products	14(10.9%)	14(10.9%)	15(11.7%)	53(41.4%)	32(25.0%)	3.976	0.811
Diversification							
Related relationship of new products to the existing products in the market	10(7.8%)	28(21.9%)	30(23.4%)	25(19.5%)	35(27.3%)	2.810	1.065
Unrelated relationship of new products to the existing products in the market	39(30.5%)	21(16.4%)	20(15.6%)	21(16.4%)	27(21.1%)	2.136	0.713

From the findings of the study in Table 9, regarding market penetration, the respondents indicated selling of more products to established customers by their bank was high as shown by a mean of 4.386, increase the usage of your bank products by the current customers as shown by a mean of 4.381, engaging in promotion of its products as shown by a mean of 3.976 and normal trend of finding of new customers within the existing market by their bank as shown by a mean of 3.243. The findings are in agreement with Harzing (2010) who asserts that firms may seek to increase its market share through market penetration strategies, so as to gain reputation since market leaders have their influence that they can use for their own advantage. Large player in the market have a higher competitive advantage to negotiate with suppliers and channel members hence promoting firm's expansion. Regarding market development, the study established that development of new distribution channels for the products by their bank as shown by a mean of 3.833, that different pricing strategies for their bank's products as shown by a mean of 3.619, that selling its products in new geographical areas as shown by a mean of 3.333 and that expansion for new users of your banks products as shown by a mean of 3.071. The findings are in agreement with (Dupis & Prime, 2007) who found out that successful market development could be achieved through the following approaches; finding of new geographical markets, new distribution channels and use of different price strategies to attract new customers and create new market areas. With regard to product development, the respondents indicated that there is a modification of existing products was high as shown by a mean of 4.381 while there was a high development of new products mentions as shown by a mean of 3.976. These findings are in agreement with Peninah (2010) who found out that product development had the highest effect on performance of commercial banks, followed by market penetration; diversification and market development had the lowest effect. Moreover, the success the success of a product in the market determines the success of growth strategy and its efficiency (Hung et al., 2007). Finally, on diversification, the respondents indicated that there is a low related relationship of new products to the existing products in the market as shown by a mean of 2.810 while there was a low unrelated relationship of new products to the existing products in the market as shown by a mean of 2.136. These findings show that most commercial banks did not adequately utilize the diversification strategy for its expansion. This is in agreement with (Chandler, 2010) who indicated

that a diversification strategy is pursed when firms have opportunities embedded in market structures as well as opportunities for growth in the firm's basic business.

4.4 Regression Model Specification and Estimation

The researcher conducted a multiple regression analysis to test the relationship between the variables. This showed how the dependent variable is influenced by the independent variables.

Table 10: Model of Fitness

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.886[a]	.785	.798	.15066

From the findings in Table 10, the coefficient of correlation R was 0.866 an indication of strong positive correlation between variables. Coefficient of determination R^2 was 0.785 implying 78.5% of variation in growth strategies was explained by the independent variables (Environmental protection, Philanthropy and Ethical labor Relation). The residue 15% would be explained by other factors beyond the scope of the current study.

Table 11: ANOVA.

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	199.121	3	66.374	83.968	.000
	Residual	98.017	124	0.790		
	Total	297.138	127			

From the findings in Table 11, p-value was 0.000 and F-calculated was 83.968. Since p-value was less than 0.05 and the F-calculated was greater than F-critical (2.4472), then the regression relationship was significant in determining how environmental protection, philanthropy and ethical labor relation influenced growth strategies of selected commercial banks in Kitui County, Kenya.

Table 12: Regression of Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.445	.102		17.15	.000
Environmental protection	.352	.174	.541	3.81	.001
Philanthropy	.821	.063	.449	1.221	.001
Ethical labor Relation	.448	.050	.938	3.81	.000

A regression model was finally computed. The study used analytical statistics and the following model was generated using SPSS.

$\mathbf{Y} = 0.445 + 0.352\mathbf{X_1} + 0.821\mathbf{X_2} + 0.448\mathbf{X_3} + 0.004$

Where;

Y- Growth Strategies, **X1**- Environmental protection, **X2**- Philanthropy, **X 3- Ethical labors** Relation.

5.0 DISCUSSIONS, CONCLUSIONS AND RECOMMENDATION

5.1 Findings

The study was aimed to determine how corporate social responsibility affected growth strategies of commercial banks in Kitui County, Kenya. The study achieved this through investigating the following three objectives; determining the effects of environmental protection on growth strategies of commercial banks, evaluating the effect of philanthropy on growth strategies of commercial banks and establishing the effects of ethical labor relations on growth strategies of commercial banks in Kitui County, Kenya.

The study found that banks participation in environmental protection programs was found to be minimal with most respondents rating conservations of forest, land, air and environmentally friendly technology averagely.

Banks have in the recent resulted to initiating environment protection programs as a way of giving back to community and a reaction to emerging competition in the market and government regulatory requirements for organizations to be environmentally friendly, thus participation in environmental protection by commercial banks had some significant effects on its growth strategies hence it cannot be absolutely ignored.
The effect of philanthropy on growth strategies of commercial banks was also investigated. Mostly banks were found to sponsoring education in both primary and secondary schools for bright needy students. Secondly banks were found to sponsor many TV and Radio programs that promote economic growth and awareness in the market. Programs with high view and audience definitely improve brand awareness. However, banks were not participating a lot in malnutrition issues and health programs as well as agriculture programs; only less than 50% were in the precedent programs. In conclusion participation in philanthropy by commercial banks was seen to significantly influenced growth strategies in a positive manner.
The effect of Ethical labor relation on growth strategies of commercial banks was also investigated. Ethical labor relation is a very important factor in an organization. Most banks were found to practice high level of employee treatment and training. Employee performance rewarding, compensation for a qualification added in the job description card, ensuring of employees Good working conditions and strong employee and employer relationship were rated “high” and “very high” by majority. Training of the employees sharpens the skills, improves efficiency, and improves competency and adaptability to new working technologies geared towards improved output. Therefore, participation in ethical labor relations by commercial banks significantly affected growth strategies positively.

The study found out that Commercial banks utilize a number of strategies to improve their growth. Modification of existing products was the main strategy with 36.7% of the employees suggesting that it was highly utilized. Engaging in promotion of its products was also cited by many (35.9%) as also highly utilized. Banks also were keen on cross-selling (selling of more products to established customers by banks) to their customers. However, banks were moderately exploiting chances like; selling products in new geographical areas, development of new distribution channels for the products, different pricing strategies for banks products. This gradually improved market development strategy by commercial banks in the market. The study also found out that the new products in the banks had a significant relationship to the existing products in the market.

5.2 Conclusions

The study concludes that in order for the commercial banks to achieve and sustain high level of growth and profitability in the market, they must actively engage in philanthropy activities such as sponsorships of education, sports and TV& radio programs which directly or indirectly affect most of their customers, and which have a very high influence on growth strategies of commercial banks. The study also concludes that for the commercial banks to excel in growth, they must exercise good working ethical labor relation to their employees, such as rewarding outstanding performances, effective training programs, and proper employee compensation with respect to their qualification and also good working conditions for all employees, because ethical labor relation had a significant positive impact on growth strategies of commercial banks.
The study further concludes that Commercial banks are indebted to participate in environment protection programs in the Kitui County such as using environment friendly technology, participating in water, air, and forest conservation programs either directly or indirectly as they affect most of the local population, this will improve the customers’ loyalty and consequently promote their growth in the region despite the fact that environment protection has a lower contribution towards growth strategies of commercial banks.

5.3 Recommendations

This study makes several recommendations for policy implementation. Foremost, the study has established that commercial banks adopt various CSR initiatives; it is therefore recommended that the adoption of the initiatives

be encouraged and reinforced in order to drive competitive advantage and present the bank as an important and beneficial member of society. The study recommends that the management of commercial banks should increase the budget allocation to philanthropic activities such as sponsoring education of children in primary and secondary school, TV& radio programs which highly affect the general population which can enable the commercial banks to implement their growth strategies more effectively. The study also recommends commercial banks are required to walk an extra mile in ensuring the best ethical labor relation policies are developed and implemented for all their employees. The study also recommends commercial banks to set aside a budget for continuous training of employees as a result of dynamic change in technology and skill upgrade for employees. This guarantees motivated, dedicated, skillful and improved workforce which forms a strong base for effective implementation of the growth strategies by the banks. The study further recommends involvement by commercial banks in the millennium global programs like environment protection which is core for the banks to thrive in a competitive market. Environmental protection has become a regulatory requirement by the government for all organization operating within its boundaries. Thus, the study recommends commercial banks should roll out environment protection programs and policies that are geared in promoting the social welfare of the community and thus significantly influence implementation of the growth strategies.

5.4 Suggestions for Further Studies

The researcher recommends a similar study to be carried in other counties in the country facing same economic growth challenges in the banking sector to allow generalization of results. A similar study could also be carried out in other financial institutions within Kitui County such as savings and credit corporations and micro finances. The study focused mainly on commercial banks in Kitui County, thus the same study can be carried out in other industries within the county. The study recommends that further research be done to establish if from a management stand point it is best to focus on fewer corporate social responsibility initiatives and really drive brand appeal and uptake or if spreading the investment in community on several initiatives is beneficial and sustainable in the long run to drive business growth.

To the researchers, it is recommended that similar study be conducted using a specific case study rather than industry survey. This is because the results may not be generalized given that each organization faces different challenges in selecting and executing their CSR initiatives. Case study would also provide more detailed information describing strategy selection criteria by a single organization. The study confined itself to all the Commercial Banks operating in kitui county, Kenya and the findings are not applicable in other sectors as a result of uniqueness of the banks competitive landscape. It is therefore recommended that the study is replicated in other service sectors to establish the relationship between corporate social responsibility and growth strategies.

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DIGITAL CREDIT AND PERSONAL FINANCE MANAGEMENT IN KENYA.

A DESK REVIEW OF THE RELATED LITERATURE IN THE RECENT TIME.

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ABSTRACT

There has been a lot of innovations in the financial sector in Kenya. Financial innovation is the act of creating and popularizing new financial instruments and new financial technologies, institutions and markets. Stiff competition in the Kenyan Financial sector has fueled creativity and innovation making the Kenyan economy a financial hub. Organizations in the financial sector in Kenya have worked towards is financial inclusion by ensuring easy access to financial products and services to all individuals which helps in reduction of income inequality, poverty reduction, consistent and sustainable development and hence economic growth.

A 2017 World Bank Global Findex database revealed that 82% of Kenyan adults have a financial account at a bank or other financial institution such as a credit union, a microfinance institution or cooperative or have used a mobile money account to pay bills or send or receive money within the past twelve months. Since the introduction of M-Pesa a mobile money platform in 2007 by Safaricom, it was the beginning of the journey of transformation of the Kenyan financial system. It then led to an introduction of M-Shwari an innovation by CBA and Safaricom that enables M-Pesa users to save and access loan products that are convenient and cheap. Five years after Kenya launched the world's first digital credit solution, the market for digital credit has expanded rapidly in Kenya and many low-income countries. World Bank has outlined five key characteristics of financial products that are from the financial inclusion definition.

The financial products should be accessible, useful, affordable, and able to meet the needs of its users and delivered in a responsible and sustainable way. Personal finance management is managing your money, saving and investing; it is about meeting personal financial goals whether short term or long term financial needs.

The research seeks to find a correlation between digital credit and personal finance management among Kenyan users. It also seeks to establish whether the financial institutions are working for the interests of its users or their own interests. That brings the question whether the digital lending products are affordable or its users get into more debt to pay back the loan. These questions will enable the financial sector to plan for the future for the digital lending platforms to suit and to offer full benefits to the consumers.

INTRODUCTION

Financial services are an important aspect of an economy. This is evidenced by the fact that the global economy as well as the national economies have set out initiatives to eradicate poverty and one of the ways of achieving this is by developing a financial sector and making the services available to all. The role of the financial sector is to allocate resources within the market. However only a small percentage of Kenya's population are able to access the formal financial services. Poverty is more than lack of income and one of its manifestation is exclusion from formal financial services. One way of ensuring that economic growth in a country is inclusive is through financial inclusion. The initiative by the Kenyan government through the blueprint vision 2030 is to reduce the share of population without access to finance from 85% to below 70%. Those who have been formerly excluded, the poor, the unserved and underserved should be able to access financial products through financial inclusion.

In pursuit for financial inclusion, there has been an immense growth in the digital credit world. Since the introduction of digital credit in Kenya five years ago, there has been great transformation in the market for credit. Traditional financing is now not appealing to borrowers making digital lending the leading source of credit in Kenya. Digital lending platforms have made loan products easily accessible and instant in terms of application and disbursement. Many players have currently invested in to the market to benefit from the high demand for loan products among the un-deserved persons. The high growth in the market has raised questions in regard to consumer protection, Industry regulation and personal finance management among the borrowers just to name a few. Impact studies have shown that digital credit has significantly improved the personal financial management by helping people manage shocks. M-Shwari sought to change the way Kenyans save and borrow. Commercially, it quickly scaled: within three years of its launch approximately 10million accounts were opened and 4.5 million people were using M-Shwari on a day to day basis. It wasn't long before competitors realized their own version of the product and today Kenyan borrowers can access digital loans from over 20 providers from their mobile phones. The most common reasons for digital borrowing among Kenyan adults are business and day-to-day needs. Digital credit is in three forms. One is bank-backed where there is partnership with a bank for example Safaricom and Commercial Bank of Africa that partnered to come up with M-Shwari. Secondly is app-backed form, the fintech companies come up with mobile applications that support the digital credit and is downloaded from either google store or apple store. Finally, non-bank financial institutions such as Sacco together with network operators come up with digital credit apps that support their work processes for example M- Loan.

RESEARCH METHODOLOGY

To assess the impact of digital credit, the research sought to compare the new users those that their loan limits are not high with those that qualify for loans and they have high loan limits. A random sample of 5,000 users

was taken from digital credit users in Embu town. The sampled individuals were called and asked to respond to a survey that collected information on consumption, savings, wealth and investment.

The research employed secondary data. Data on digital credit included the three digital credit forms that is bank backed form, app-backed form and digital credit offered by non-bank financial institutions. Data on digital credit was retrieved from credit rating bureaus and the Central Bank of Kenya.

The data collected was analyzed using correlation and regression analysis via statistical package for social sciences. Correlation analysis was used to determine the nature and the degree of the relationship between the study variables while regression analysis was used to establish the existing relationship between the dependent and independent variables.

70% of the sample drawn responded to the research. This methodology allowed the respondents to differ in age, digital credit forms and the time of usage of the digital credit platforms that is the new users and those that having been using for a long time.

FINDINGS

It was noted that 34% of the new users of digital credit after a few months approximately 3 -5 months were likely to be in more than one digital credit platform. 55% of the respondents were young people aged 18-35. Respondents above 35 were likely not to get another loan after payment of the first loan.

The research also found out that not only were the individuals likely to borrow from more than one digital lending platform but they also are likely to borrow a large amount over the years. The number of black listed individuals also has been increasing over the period since borrowers are also borrowing more frequently.

M-Shwari was more preferred among respondents since it was found not being too stringent in their payments compared to other platforms. Other platforms especially app-based were associated with constant nagging for payments and threats to be listed in the CRB. Non-bank financial institutions that offer digital credit were not tried by most respondents since they were not known by them.

The high uptake of digital credit was significantly associated with consumption and academic investment. Individuals below 27 years were more likely to take up a loan for social and entertainment purposes for example betting, partying, try out a new restaurant in town and many more social activities. Individuals above 27 years

were found to use digital credit mostly on education and to manage the effects of shocks for example being fired from a job and increase in school fees.

The research has not found any correlation between digital credit uptake and the saving behavior of individuals as well as household consumption. It was not able to also get a significant relationship between digital credit uptake and large and long term investments due to the fact that digital credit is mostly offered in short term basis and most platforms don't offer large amounts of money.

CONCLUSION

In conclusion the results depict that digital credit has high uptake among the youths for social and entertainment purposes. It also helps to deal with economic shocks. Therefore, there is a positive weak relationship between digital credit and personal finance management.

The private and short- term loans though expensive are found to be more satisfying. Digital credit although having significantly contributed towards financial inclusion in Kenya there are major concerns that come with it that need to be addressed.

The over in debtness of individuals in Kenya where users get loans from more than one platform to be able to payback loan from another platform. There should be policies that can prevent this kind of behavior. The credit reference bureaus should be also more vigilant. Regulation for purposes of consumer protection should be considered. This especially should be in consideration of the data retrieved from users for the purposes of determining their credit worthiness. Transparency is important, that is the users should be able to understand what kind of information is being retrieved and for what purposes and for how long as well as being assured that it is private and confidential. To add on there should be adequate information sharing for both parties. Most users are not aware of the digital credit products especially in regards to their pricing.

The high uptake of digital credit with the dying behavior of saving is alarming. M-Shwari has been able to encourage the users to uphold a saving culture as they borrow. This should also be a goal for other digital credit platforms which will also be a positive significant effect to the Kenyan economy.

Finally, every digital credit platform should objectively consider to be more supportive of long term improvement in welfare of borrowers without placing undue debt stress. This is probably by introducing large amounts of money investments and long term loans.

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Derivatives Hedging and Performance of Non-Financial Firms Listed in the Nairobi Securities Exchange, Kenya.

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Kenyan listed non-financial firms use derivatives for hedging purposes while financial firms use derivatives for speculation and hedging purposes. Non-financial firms have made huge losses due to derivatives hedging. In 2015, Kenya Airways reported a net loss of Kes. 25.7 billion, out of which Kes. 7.5 billion was attributed to derivatives usage, representing 29.18% of the total loss. The firm's value dropped from 0.08 in 2014 to 0.04 in 2015. Kenol Kobil reported a net loss of Kes. 6.28 billion for the 2012 financial year, compared to a profit of Kes. 3.2 billion in 2011, out of which Kes. 4.6 billion was attributed to derivatives hedging, representing a 73.25% of the total loss. In 2013, a Tobin's ratio of 0.53 was witnessed, a drop from 0.63 in 2012 despite cancelling some derivative contracts. The specific objectives of the study were, to determine the effect of currency derivatives hedging, commodity derivatives hedging and interest rate derivatives hedging on the performance of non-financial firms listed in the Nairobi Securities Exchange. All the 34 listed non-financial firms were targeted. Ten firms were purposively sampled and studied for years 2012 – 2017. Descriptive survey research design and a positivism study philosophy were utilised in the study. Primary data was collected through a questionnaire while secondary data was obtained from the published financial statements. Fixed effects regression was used to determine the derivatives hedging effect on the performance of non-financial firms. A negative relationship was found between derivatives hedging and the performance of non-financial firms. Currency derivatives hedging was positively related to the performance of non-financial firms. Interest rate derivatives hedging and commodity derivatives hedging were negatively related to the performance of non-financial firms. Exchange rates were found not to have a moderating effect on the relationship between derivatives hedging and the performance of non-financial firms.

Key Words: Commodity Derivatives, Currency Derivatives, Interest Rate Derivatives, Exchange Rates and Firm's Performance.

1. Background of the Study

Milton Friedman in his book, Capitalism and Freedom, argues that the business of a business is to utilize its resources and engage in activities geared at increasing its profits and hence increase the shareholders' wealth as long as its undertakings are in an unrestricted and open competition short of chicanery or deception, (Friedman, 1970). According to Selvam, Gayathri, Vasanth, Lingaraja and Marxioli (2016) firm performance is mainly the organizational effectiveness which has two major components, i.e, financial and operational outcomes. The firm's operational performance is the antecedent to the firm's financial performance, hence an increase in the shareholders wealth. A firm that wants to maximize its market value, has to arrange its affairs in such a way that the operational risks are reduced or mitigated and that there is a smooth flow of its operations to ensure none of the production processes stops. From sourcing of the raw materials, financing, production and eventual sale of the finished goods, the process should never stop at all. Inflation is generally viewed as the main source of financial risk in Kenya. This is because it negatively affects the exchange rate by depreciating the currency as well as increasing the interest rates. This leads to poor performance of the non-financial firms who really rely on importation of raw materials as well as borrowing locally and internationally to finance their operations. In the recent past, Kenya has had one of the worst inflationary pressures since independence (CBK, 2017).

According to Chui (2012), derivatives have been in use for long with early trading being traced to Venice around the 12th century. Derivatives products are commitments whose value depends on other 'securities' and depends on future events not yet known with certainty, (Kobayashi, 2008). As per Khediri (2010), derivatives can be classified into three main types, Currency derivatives, Commodity derivatives and Interest rate derivatives. Commodity derivative is any contract that uses commodities such as electricity, oil, precious metals like gold, silver and copper as well as agricultural products like maize, wheat, barley, coffee, tea among others

as the underlying assets, (Neftci, 2000). For the commodity derivatives, forwards and futures are commonly used as the tools of hedging, (Chui, 2012). Currency derivatives are also referred to as the Foreign exchange derivatives. The underlying asset here is the currency. According to Chui (2012), the developing trade and financial assimilation across nations have led to a surge in demand for protection against exchange rate shifts over the past few decades. Forward exchange contracts are very popular hedging tools which allow traders to sell or buy a pre-agreed foreign currency amount at a pre-agreed exchange rate at an agreed future date. The 2012 Central Bank of Kenya guidelines noted that interest rate derivatives include all derivative contracts and off-balance sheet instruments that react to interest rate changes. It identified examples such as forward rate agreements (FRAs), interest rate futures, interest rate and cross currency swaps, forward foreign exchange positions, interest rate options, and mortgage derivative products, (CBK, 2012). The exchange rates are determined by the exchange rate system in the country. Generally there are two types of exchange rate systems; Fixed Exchange Rate System, that is undertaken by a state's government or its central bank by tying the official exchange rate to another country's currency or the price of gold. The main purpose of fixed exchange rate system is to keep the said currency's value within a narrow band hence maintain a stable system.

Non-financial firms mainly use derivatives to hedge against risks with a view of safeguarding firms' profits hence increase their market value and growth opportunities. Despite currency, commodity and interest rate derivative hedging by non-financial firms from 2010 to 2017, the intended effects were not realised. For example, Kenya Airways reported a net gain of Kes 2.5 billion in 2012 from the use of oil derivatives, a 652% rise from Kes 328 million reported in 2011 financials. Despite such a gain, the firm's Tobin Q ratio dropped from 0.19 in 2011 to 0.07 in 2012. In a turn of events, the 2013 financials reported a net gain of Kes 602 million which was drop of 75.60% from 2012 gain. The Tobin's Q ratio improved from 0.07 to 0.16. In the two years, (2012 & 2013), KQ was using futures derivatives to hedge against oil risks which led to an improvement to its firm value. In 2014, Kenya Airways Plc changed from futures to options and this change led to a net loss of Kes 1.6 billion which represented a 6.23% of the total loss for the 2014 financial year. This led to a 50% drop in its Tobin's Q ratio to 0.08 from 0.16 ratio realised in 2013. Due to Derivatives hedging, Kenol Kobil in 2012 reported a loss of Kes 4.6 billion was reported that was 73.25% of the total loss for the year, (Kenol Kobil, 2013). The performance as measured by Tobin's Q ratio was 0.63, which was way below the recommended of 1.00, (Tobin, 1977). After cancelling the derivative contracts in 2013, the Tobin's Q ratio dropped to 0.53.

The study sought to establish the effect of derivative hedging on the performance of non-financial firms listed in the Nairobi Securities Exchange and the specific objectives of the research were

(i) To determine the effect of currency derivatives hedging on the performance of non-financial firms listed in the NSE, Kenya
(ii) To examine the effect of commodity derivatives hedging on the performance of non-financial firms listed in the NSE, Kenya
(iii) To evaluate the effect of interest rate Derivatives hedging on the performance of non-financial firms listed in the NSE, Kenya
(iv) To establish the moderating effect of exchange rates on the relationship between Derivatives hedging components and the performance of non-financial firms listed in the NSE, Kenya

The risk management theory argues that, in order to reduce the expensive external funding costs, firms utilize hedging strategies. Risk can be seen as the likelihood that an event will befall and unfavorably affect the accomplishment of objectives. Risk management is the course that tries to manage the uncertainty that impacts the attainment of purposes, with the goal of attaining the objectives and thus generating value for the firm in which it is applied, (COSO, 2004). The main forms of risks include credit risk, financial risks, liquidity risk, compliance risk, market risk and operational risk, (Kiio, 2016). In an unfavorable external environment firms may find coming up with external funds to be expensive, (Admati, 2012).

According to Keynes, interest is a monetary phenomenon purely since the interest rate is calculated in monetary terms. Keynes described interest as the reward for parting with liquidity for specified time, (Wray, 2006). Liquidity Preference Theory establishes that, in comparison, future spot rates may be different from the premium offered (interest) in forward rates. The premium therefore, will be utilised as an exchange tool for the

consumption of the scarce liquid resources, payment of goods & services and the fact that short term expenditures can't be ascertained with ease, (Kiio, 2016). In the study, the non-financial firms raise debt capital as a form of financing, this way of financing increases the risk of bankruptcy and financial distress costs. International Fisher Effect (IFE) theory suggests that foreign currencies that have fairly high interest rates tend to depreciate since the expected inflation rates are reflected by the high nominal interest rates. Available evidence between the interest and inflation rates is mixed just like in the Purchasing Power Parity theory, (Madura, 2010). It has been observed that, a relationship between subsequent changes in spot exchange and interest rate differentials seem to exist in the long run but with considerable variations in the short term.

The Stakeholders Theory argues that, there are different parties that have an interest in any firm. These different parties are the stakeholders and they include; employees, suppliers, financiers, government, customers, equity holders and communities, (Freeman, 1984). The stakeholders' theory integrates both a market based and a resource based view and incorporates socio-political level to serve the interests of different stakeholders by creating value for their interest, (Freeman, Harrison & Wicks, 2009). The shareholders are interested in the wealth maximisation of the firm, ie, increasing the value of their shares. The government has an interest in that the firm will be able to spur economic growth as well paying taxes. The community on the other hand expects a peaceful coexistence with the firm as well as social corporate activities from the firm. The employees expect the firm to be a going concern so as to continue meeting their economic obligations, (Wicks, 2013). With such expectations from the different stakeholders, a firm is expected to create value to all the stakeholders. By creating value to the stakeholders, it ensures their continued support, participation and thrive over time.

Haushalter (2000) investigated the hedging policies of 177 Oil and Gas producers in the US for periods 1992 to 1994. The study found that, out of the total yearly production, the amount hedged differed in every year with 13.8% hedged in 1992, 14.4% in 1993 and 16.8% hedged in 1994. Furthermore, different financial instruments were found to have been used at different rates. 10.5% hedged using options, swaps were used at 50.8%, fixed price agreements stood at 40.4%, futures and forwards hedging was at 37.0% while volumetric production payouts was at 9.8%. Khediri (2010) investigated the association between corporate hedging and firm value of 320 large French non-financial companies for the year 2001. Using multivariate analysis, the use of financial derivatives was found not to be associated with firm value at all. Chanzu and Gekara (2014) sought to find out the effect of use of derivatives on financial performance of companies listed in the Nairobi Securities Exchange. Efficiency in trading derivatives affected market capitalisation by 47.4%, price stabilization in derivatives was at 52.6% while price discovery in derivatives was at 60.5%. Ayturk, Gurbuz and Yanik (2016) examined the usage of financial derivatives (commodity, interest rate and currency derivatives) and their effect on the value of non-financial Turkish firms for periods 2007 – 2013. The study found a positive relationship with system GMM estimators and a hedging premium of 0.53% which was not statistically significant for the hedgers. It was concluded that, financial derivative usage does not affect the non-financial firm value. Ouma (2016) investigated the effect of currency derivatives on the value of non-financial corporations in Kenya. The study findings disclosed a negative association between currency derivatives utilisation and the company's value as proxied by the Tobin's Q ratio.

2. Study Design and Methodology

The study adopted a descriptive survey research design. Descriptive research establishes and presents the way things are and helps a researcher to describe a phenomenon in terms of attitude, values and characteristics, (Mugenda & Mugenda, 2003). Also, a descriptive design permits a researcher to collect, present and expound information for clarification purposes. According to Glass and Hopkins (1984), a descriptive study has its objective as a description of something regarding who, what, where, when, and how, of a phenomenon, which was the concern of this study hence it involved description, analysis and the interpretation of the prevailing circumstances during the time of the study. This method was the most suitable for the research hence the study sought to assess and define the relationship between Derivatives hedging activity and the NSE listed non-financial firms' performance. The study assumed positivism approach as the conceptual hypotheses were drawn from existing theories and identified knowledge gaps. Positivism presumes that the social world exists objectively and externally, that the knowledge is valid only if it is based on observations of this external reality and the universal and general laws exists or that theoretical models can be developed that are generalizable, can

explain cause and effect relationships and which lend themselves to predicting outcomes, (Saunders, Lewis & Thornhill, 2009).

The study population was all the NSE listed non-financial firms. As at December 2017, 34 non-financial firms were in operation. The exclusion of the Banking, Insurance, Investment, Investment Services firms was to allow the study to focus on the non-financial firms since the financial firms used derivatives for speculation purposes often than for hedging purposes. Purposive sampling technique was used in the selection of the participants from the respective market segment. This was because, the sampling technique allowed the researcher to only use the firms that have the required study data with respect to the study objectives. As per Dolores (2007), purposive sampling is the deliberate choice of an informant due to the qualities of the information possessed. The study utilised both primary and secondary data. To collect the primary data, a structured questionnaire was used. Saunders, Lewis and Thornhill (2009), content that for a descriptive study, questionnaires are the best tools to be used. Orodho (2009), advocate for a questionnaire use when one needs to collect large amounts of data in a short period of time. The questionnaires were self-administered by the researcher to be completed by the respondents. The use of a structured questionnaire was to allow the respondents to only give the necessary data and to conform to the positivist approach used by the study. The secondary data focussed on the performance of firms as it was measured using the Tobin's Q ratio and was collected from the firm's published financial reports for periods 2012 - 2017.

Direct Relationship Model

$$\mathbf{Y_t = \beta_{0t} + \beta_{1t}X_{1t} + \beta_{2t}X_{2t} + \beta_{3t}X_{3t} + U_{it}}$$

Where;

Y_t = Performance of firms
β_{0t} = Constant
X_{1t} = Currency Derivatives
X_{2t} = Commodity Derivatives
X_{3t} = Interest Rate Derivatives
β_{1t}, β_{2t} and β_{3t} = Regression Coefficients to be determined
U_{it} = Regression Error term

Moderated Relationship Model

$$\mathbf{Y_t = \beta_{0t} + \beta_{4t}X_{4t} + \beta_{5t}X_{5t} + \beta_{6t}X_{6t} + \beta_{7t}X_{7t} + U_{it}6}$$

Where,

Y_t = Performance of Firms
β_{0t} = Constant
X_{4t} = Moderated Currency Derivatives
X_{5t} = Moderated Commodity Derivatives
X_{6t} = Moderated Interest Rate Derivatives
X_{7t} = Moderating Variable (Exchange Rates – Average Annual Rates)
β_{4t}, β_{5t}, β_{6t} and β_{7t} = Moderated regression coefficients to be estimated
U_{it6} = Regression Error Term

Descriptive statistics, panel multiple regression analysis and correlation analysis were used to analyse the data collected. After extracting secondary data from the published financial statements, it was put in excel program that was used to calculate the Tobin's Q ratio for each of the non-financial firms across time. The panel multiple regression analysis was done through GLS estimators and Stata version 15 software. To draw conclusions, the research hypotheses were tested at 95% level of confidence. Field (2005), noted that, inferential statistics is used to establish the nature, strength and magnitude of the hypothesized relationships between variables.

3. Findings and Discussions

Hart (1987) contented that the response rate in a business survey vary from 17% to 60% with an average of 36%. However, Nachmias and Nachmias (2004) as well as Mendenhall *et. al.*, (2003) observed that a 50% response rate was adequate. The study response rate was 80% and therefore considered adequate as it was above the 36% and 50%. This asserted the validity and reliability of the study findings as it was supported by a Cronbach alpha of 0.762.

Table 4.1: Descriptive Statistics

	Tobin's q ratio	Currency Derivatives (Kes million)	Commodity Derivatives (Kes million)	Interest Rate Derivatives (Kes million)
Mean	1.60	915	9,130	1,439
Median	0.99	137	3,919	692
Std Deviation	1.54	1,585	12,136	2,042
Minimum	0.04	-	183	-
Maximum	4.96	5,387	49,128	9,942
Count	48	48	48	48

Source: Survey Data (2018)

Results in Table 4.1 illustrates the summary of the descriptive statistics of Tobin's Q ratio, currency derivatives, commodity derivatives and interest rate derivatives. For periods 2012 – 2017, the mean of Tobin's Q ratio was 1.66 with a median of 0.99 and a standard deviation of 0.96. Ayturk, Gurbuz and Yanik (2016), found that the non-financial firms that were using derivatives to hedge, had a mean of 1.26, a median of 1.13 and a Tobin's Q standard deviation of 0.50. From the study results, it shows a moderate variation over the time in the firms' replacement cost and hence the firm's value as measured by the Tobin's Q ratio. The minimum Tobin's Q ratio was 0.04 with a maximum of 4.96. This shows that some listed non-financial firms' shares had a higher market value than others and so such firms were able to acquire additional capital since the value of capital exceeds the cost of acquiring it, hence increasing the value of those firms. Allayanis and Weston (2001) found that the non-financial firms that were using financial derivatives generally had a higher and median Q's than non-users. Also, the non-financial firms had Q's that were nearer to 1.

On average currency derivatives hedging was Kes. 915 million with a standard deviation of 1,585 million. The minimum currency derivatives used was zero with a maximum amount of Kes. 5,387 million for the years 2012 to 2017. This shows that some NSE listed non-financial firms did not find the currency derivatives attractive while others found them worthwhile using as a tool to mitigate foreign currency risk. The standard deviation shows a above moderate variations of the users. The study findings on currency derivatives hedging was in line with the findings by Kimani (2013) who found that, the mean usage of currency derivatives amongst the firms were Kes. 181,850.19 million, having a standard deviation of Kes. 74,601.64 million with the minimum value of currency derivatives used at Kes 92,493.00 million and a maximum value at Kes. 323,312.00 million.

Commodity derivatives were used on average of Kes. 9,130 million with a standard deviation of Kes 12,137 million between the years 2012 to 2017. This shows a moderate variation in the usage of commodity derivatives. The minimum amount of commodity derivatives used was Kes. 183 million while a maximum of Kes. 49,128 million was observed. This shows that all the NSE listed firms were actively using commodity derivatives to mitigate against commodity risks. Most of the firms are affected by the weather and few are in oil and gas and were being affected by the international commodity prices and production hence the need to cushion themselves against the unexpected global shocks. Commodity derivatives were used more than any other derivative instrument for the years under study.

Finally, the results in Table 4.1 show a mean of Kes. 1,439 million with a median of Kes. 692 million and a standard deviation of 2,042 million. This was supported by the minimum interest rate derivative of Kes. 0.00 and a maximum of Kes. 9,942 million. Some NSE listed non-financial firms did not use any interest rate derivative as a form of managing interest rate for the years 2012 to 2017. This shows that the firms mostly allowed the market rates to prevail and this was supported by the capping of interest rates in Kenya in 2016 for any borrowing from a Kenyan bank at 4% above the CBK rate.

Table 4.2 Derivatives Usage

Instrument	Currency Derivatives		Commodity Derivatives	Interest Rate Derivatives
Options	Call	Put		
	3%	2%	-	-
Swaps	-		-	12%
Forwards	95%		88%	-
Futures	-		12%	-
Interest Rate Locks	-		-	88%
Total	100%		100%	100%

Source: Survey Data (2018)

From the Table 4.2, the non-financial firms listed in the NSE used two instruments for currency derivatives. Call and put options were rarely used at 3% and 2% respectively while forward contracts were used at 95%. The non-financial firms used options, forward contracts and futures at varying rates. Forward contracts were the mostly used at 88% while futures were the least used at 12%. For both currency and commodity derivatives, forwards were the mostly used instruments. For the interest rate derivatives, interest rate locks were the mostly used at 88% with swaps being utilised at 12%. Only two instruments were used in the interest rate and commodity derivatives. The NSE listed non-financial firms used locks to avoid the uncertainty of the interest rate as well as using forward contracts to fix the future prices for the raw materials and sales. Haushalter (2000), found that, the Oil and Gas producers hedged using 10.5% options, swaps were used at 50.8% while futures and forwards were being used at 37%. In this study, options and futures were the least of the hedging instruments used. Kiio (2016) found that firms used 26.7% forward exchange contracts to mitigate currency risks while 2.2% were using options and swaps to hedge against currency risks. 26.7% of the firms used interest rate forwards and 2.2% used a combination of futures, options and swaps to hedge against interest rate risks. For commodity derivatives, 44.4% of the sampled firms used forward contracts to hedge against commodity price risks.

Table 4.3 Number of the derivative contracts

	Currency Derivatives		Commodity Derivatives		Interest Rate Derivatives	
	Count	Percentage	Count	Percentage	Count	Percentage
0 - 25	22	65%	11	23%	38	100%
26 – 50	12	35%	1	2%	-	-
51 – 75	-	-	4	8%	-	-
76 - 100	-	-	2	4%	-	-
Over 100	-	-	30	63%	-	-
Total	34	100%	48	100%	38	100%

Source: Survey Data (2018)

From the Table 4.3, the currency derivatives contracts that ranged from 0 – 25 were 22 and this represented 65% of the total currency derivative contracts used between 2012 and 2017. For the range 26 – 50, 12 contracts were made by the NSE listed non-financial firms. Allayanis and Weston (2001) found that only 37% of the non-financial firms in their study used financial commodity derivatives. For commodity derivatives, for the range of 0 – 25, eleven contracts were drawn, 26 – 50 range had one contract which was the least, 51 – 75 range saw four

contracts drawn while for 76 – 100 range had 2 contracts drawn and finally, there were 30 contracts that were above 100 range. The highest range was above 100 and it represented a 63% of the total commodity derivative contracts drawn between 2012 and 2017, with the lowest range being 26 – 50 that had 2%. For the interest rate derivatives, only 38 contracts were done in the range of 0 – 25 and this was 100%. The reason for this could be that most of NSE listed non-financial firms were using a specific lender and that they already knew their financial requirements beforehand.

Table 4.4: Fixed Effects Model Regression Results

tqr	Coef.	Std. Err.	t	P > | t |	95% Conf.
Currency derivatives	.0523387	.0637389	0.82	0.420	-.0795153
Commodity derivatives	-.0066369	.1550186	-0.04	0.966	-.3273172
Interest rate derivatives	-.0063618	.0427119	-0.15	0.883	-.094718
Constant	-1.431852	3.371757	-0.42	0.675	-8.406863
Sigma_u	1.5999627				
Sigma_e	.3113099				
rho	.96352226	(fraction of variance due to u_i)			

F test that all u_i = 0: F (5, 23) Prob > F = 0.0000

Source: Survey Data (2018)

Table 4.4 presents a within fixed effects regression results that were used to determine the direct relationship model. All the variables were logarithmically transformed since log transformed variables present better statistical distribution attributes over the raw variables as suggested by Ayturk, Gurbuz and Yanik (2016) and Hirsch and Seaks (1993). The rho, also known as intraclass correlation and which is estimated as $\{(Sigma_u)^2 / ((Sigma_u)^2 + (Sigma_e)^2)\}$explains the variance due to differences across the panels. The study rho is 0.9635 which is greater than 0.90. This asserts the reliability of the variables. Sigma_u is the standard deviation of residuals within u_i and the Sigma_e is the standard deviation of all the residuals i.e, overall error term e_i. The "t" column presents the t-values that test the hypothesis that each coefficient is different from 0. To reject this, the t-value has to be higher than 1.96 for a 95% confidence. If this is the case, then one can conclude that the variable has a significant influence on the predicted variable. The higher the t-value, the higher the relevance of the variable. On the other hand, the "p > | t |" column is two tail p-values test for the hypothesis that coefficient is different from 0. To reject this, the p-value has to be lower than 0.05 for a 95% confidence interval and if that is the case, then the explanatory variable has a significant influence on the dependent variable.

Therefore, panel regression equation was estimated as follows;

$$\mathbf{Y = -1.431852 + 0.0523387X_1 – 0.0066369X_2 – 0.0063618X_3 + U_{it}}$$

Where; Y = Performance of Non-financial firms

X_1 = Currency Derivatives

X_2 = Commodity Derivatives

X_3 = Interest Rate Derivatives

The first study objective was to determine the effect of currency derivatives hedging on the performance of NSE listed non-financial firms in Kenya. The regression results presented in Table 4.7, give a coefficient of 0.0523387. The t-value is 0.82 and a p > | t | of 0.420. The t value is less than the critical t at 95% (1.96) and also the p value is greater than 0.05. Generally, one rejects the null hypothesis when the t value is greater than 1.96 and when P value is less than 0.05. Therefore, the study failed to reject the null hypotheses and concluded that currency derivatives hedging is not statistically significant at 95% confidence interval. This is consistent with the findings by Khediri (2010) who found that the use of financial derivatives was not statistically significant. Paneretou (2013) postulated that currency derivatives were not statistically significant at 5%

significance level. Also, Ayturk, Gurbuz & Yanik (2015) found that currency derivatives were not statistically significant. The three studies above studied non-financial firms and measured firm value using the Tobin's Q ratio. However, this study's findings contrasted Kiio (2016) who found foreign currency hedging was statistically significant at 5 percent level. The currency derivatives hedging and the value of non-financial firms listed in the NSE are positively related. This means that a unit change in the currency derivatives hedging, would result to a 5.23% increase in the value of a non-financial firm. Such a positive relationship is consistent with the findings by Kiio (2016) but in contrast with Ouma (2016) who found a negative relationship between currency derivatives usage and the firm value of NSE listed non-financial firms, using the Tobin's Q ratio to measure the firm value.

Secondly, the study sought to examine the effect of commodity derivatives hedging on the performance of non-financial firms listed in the NSE. From the regression results in Table 4.7, the coefficient of commodity derivatives hedging is -0.0066369 with a t value of -0.04 and a P value of 0.089. With a t value less than 1.96 and a p value greater than 0.05, the study failed to reject the null hypotheses that commodity derivative hedging do not have significant effect on the performance of non-financial firms listed in the NSE and concluded that, commodity derivatives hedging is not statistically significant at a 5% significance level. This is in contrast to the findings by Chanzu & Gekara (2014) and Lookman (2004), who found commodity derivatives to be statistically significant. On the other hand, the study findings are consistent with Jin & Jorin (2006) who found that commodity derivatives were not significant and so, they did not affect the value of the firm. Further, the regression model shows a negative relationship between commodity derivatives and the firm value, measured using the Tobin's Q ratio. The results imply that, the more a firm uses commodity derivatives, the more the value decreases. This could be due to the fact that there exists no structured derivatives market in Kenya.

The third study objective was to establish the effect of interest rate derivative hedging on the performance of NSE listed non-financial firms. The coefficient of the interest rate derivatives is -0.0063618 with a t value of -0.15 and a P value of 0.883. The t value was less than the critical t of 1.96 and the p value was greater than 0.05. This therefore meant that the study fail to reject the null hypothesis and conclude that interest rate derivatives usage is not statistically significant at 5% significance level. The regression results in Table 4.7 indicate there is a negative relationship between interest rate derivatives hedging and the value of NSE listed non-financial firms. A unit increase in the level of interest bearing instruments leads to a 0.636% decrease in the value of the firm. Such a decrease could be seen as arising from the perception of investors that a geared firm is a high risky business and so, it can easily default on interest payment. The study findings were consistent with the findings by Lenee and Oki (2017) as well as Alam and Afza (2017) who found that interest rates negatively affect the firms as well as being not statistically significant. Also, the capping of interest rates in Kenya in 2016 could have had an impact on the interest rate usage as the study covered two years after the introduction of the caps. The study findings showed that currency derivatives hedging, commodity derivatives hedging and interest rate derivative hedging before moderation were not statistically significant at 5% significance level.

The fourth and the final study objective was to establish the moderating effect of exchange rates on the relationship between the components of derivatives hedging and the performance of non-financial firms listed in the NSE. The null hypothesis was that exchange rates do not have significant moderating effect on the relationship between derivatives hedging and the performance of non-financial firms listed in the NSE. To attain this objective, the fitness of the model was tested. Step-wisely, the exchange rates were regressed on currency derivatives, commodity derivatives and interest rate derivatives as suggested by Muller, Judd & Yzerbyt (2005), Field (2009) and Hayes (2009).

Table 4.5: Summary of Moderation Effect of Exchange rates on the relationship between the derivative hedging components and performance of non-financial firms

	Model 3.3	Model 3.4	Model 3.5	
	Regression before moderation	Moderator alone	Regression during moderation	Change on moderation (Model

				3.5 – 3.3)
R^2	0.7863	0.0001	0.7864	0.0001
F	34.34	0.00	24.85	-9.49
P- Value	0.0000	0.9465	0.0000	0.000
β_0 Const	20.613 (0.000)	0.556 (0.963)	21.4413 (0.010)	
β_1 cud	-.0803 (0.269)		-.0799 (0.280)	
β_2 cod	-.8423 (0.000)		-.8432 (0.000)	
β_3 ird	-.0461 (0.642)		-.0459 (0.650)	
β_4 exr		-.1761 (0.946)	-.1809 (0.912)	

Source: Survey Data (2018)

According to Mackinnon *et. al. (2002),* if β_0 in model 3.5 is not statistically significant, but β_4 in model 3.4 is statistically significant, then the exchange rate is an explanatory variable. However, if β_4 in model 3.5 is statistically significant, then the exchange rate is a moderator variable whereby the effect and direction are presented by the β_{is} from the estimated regression model in table 4.4. From the Table 4.4, in model 3.5, the exchange rate is not statistically significant and so, the exchange rate is not a moderating variable between the components of derivatives hedging and the performance of non-financial firms listed in the Nairobi Stock exchange. Therefore, the study fail to reject the null hypotheses and concluded that the exchange rates did not have any moderating effect on the derivatives hedging and the value of the non-financial firms listed in the Nairobi securities exchange.

The study results on the moderation effect of the exchange rates on the relationship between derivative hedging components and the performance of non-financial firms, contradict the findings by Mantari and Nuryasman (2017), who studied the impact of Exchange rate as a moderator to signalling theory. The study found that, the exchange rates had a moderation effect on the pre-existing relationship between the predictor variables of capital structure, company's growth rate and the profitability of the firm value. However, the study findings agree with the findings by Semuel and Teddy (2014), who found that exchange rates did not have any moderation effect. Inflation was found to have a statistically significant moderation on the relationship between interest rates and the gross domestic product.

4. Conclusion and Recommendations

Derivatives hedging is an important risk management tool that helps improve the performance of non-financial firms. All the derivatives hedging components were found to jointly and independently affect the performance of the non-financial firms listed in the NSE. The study concluded that, in the absence of the derivative hedging, the firms' performance is negatively affected. The first study objective was found have a positive statistically insignificant effect on performance of the non-financial firms listed in the NSE. Secondly, the study concluded that commodity derivatives did not affect the value of NSE listed non-financial firms as measured by the Tobin Q ratio. This is because a negative statistically insignificant effect was found. and had a negative relationship with the performance of the Nairobi Securities exchange listed non-financial firms.

Furthermore, the study established that interest rate derivatives were negatively related to the performance of the non-financial firms and were statistically not significant. Lastly, the study found there was no moderating effect of the exchange rates on the relationship between derivatives hedging dimensions and the performance of Nairobi Securities exchange listed non-financial firms. Unlike commodity derivatives and interest rate derivatives, the currency derivatives were positively correlated to the value of non-financial firms. Therefore, NSE listed non-financial firms should use more of currency derivatives for hedging purposes and find a better hedging tool to commodity and interest rate risks.

The study findings have significant policy implications to non-financial firms and other stakeholders. The study showed a negative relationship between the derivative hedging components and the performance of the non-financial firms. This means that, in the absence of derivative hedging, the performance of the non-financial firms is likely to drop. Therefore, the study recommends non-financial firms to utilise currency derivatives and find a better alternative to manage commodity and interest rate risks. The non-financial firms should also hold in-house trainings and expose their staff to the derivatives instruments as this will enhance their knowledge and

enable them to make informed decisions when selecting the best derivative hedging instrument mix that favour their firms. Secondly, it is high time the Central Bank of Kenya and the Capital Market Authority popularize the derivatives as a hedging option of risk mitigation. They can hold seminars and conferences to sensitize the firms and individuals on the importance and the security of derivative hedging. It is also the high time the derivatives market is established and operationalized in Kenya. Finally, the study noted that the derivatives hedging uptake has increased over the years. Therefore, it recommends that the government through the Capital Market Authority, finance the creation of the derivatives market and ensure a conducive political environment in which such a market can thrive seamlessly.

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Risk Mitigation for Mini-Grids
by using the PUMA concept
as an appropriate business model

Danny Friedrich / Elmar Steurer / Bernard Wagemann

Regional service centers enhancing decentralized electrification to ensure successful replication and scaling-up of Mini-Grids by reducing risks.

ABSTRACT

For the time being, only few applications of mini-grids have fulfilled the expectations from an economic perspective. Main reasons for these failures can be traced back to improper or incomplete business models – not necessarily in the technology used. In other words, most of the mini-grids do not work properly. At a first glance the most two important reasons for that are as followed:

- Inadequate tariff design
- Lack of appropriate productive use to generate long-term incomes
- Conflict of interests due to overlapping targets of the stakeholders

For this reason, an extended scope on the business models could provide additional value and help to achieve long term success, in the areas of finance and sustainability.

Empirical evidence tells us that mini-grids may be designed perfectly with regard to technical features and functionality, but this does not at all ensure financial viability and a mid-term or even long-term economic sustainability. Of course, technical efficiency and functionality is absolutely necessary but it is not the sufficient condition for the success of a mini-grid. The article on hand concentrates therefore on the question,

- how an appropriate tariff design can be achieved
- how the necessary qualification development can be ensured and
- how stakeholders can be integrated successfully

with the target that finally these mini-grids fulfill more of the expectations being connected to them.

1. The PUMA Concept as an integrated approach

Rural electrification by using mini-grids has been the objective of many development policies over the past years. Most mini-grid projects turned out as failures because of poor suitability to user needs, local conditions and expectations of investors and several other risks. (CAT (2013)). In other words: Usually inadequate business models are the reason why most of the mini-grids do not work properly. Thus the most important lesson emerging is that mini-grids need a coherent and comprehensive business model from the beginning on.

In addition practical experience shows that hybrid mini-grids, powered chiefly by renewable energy with a Diesel generator ("diesel genset") are generally the most competitive technical solution. Usually photovoltaic is chosen for the renewable source due to the objective of availability. However, translating this great technical potential into a real business success story has turned out to be extremely challenging. Deployment of hybrid mini-grids involves complex financial and organizational questions which can be assigned to challenges in the fields of sales, technology and finance [Figure 1]. A successful business model satisfies the demand of the customers with high quality and 24/7 availability based on sound pricing models, relies on an adequate funding. Ideally the funding should be both from the private and public sector, and regarding the technology it should operate reliably and be easy to maintain.

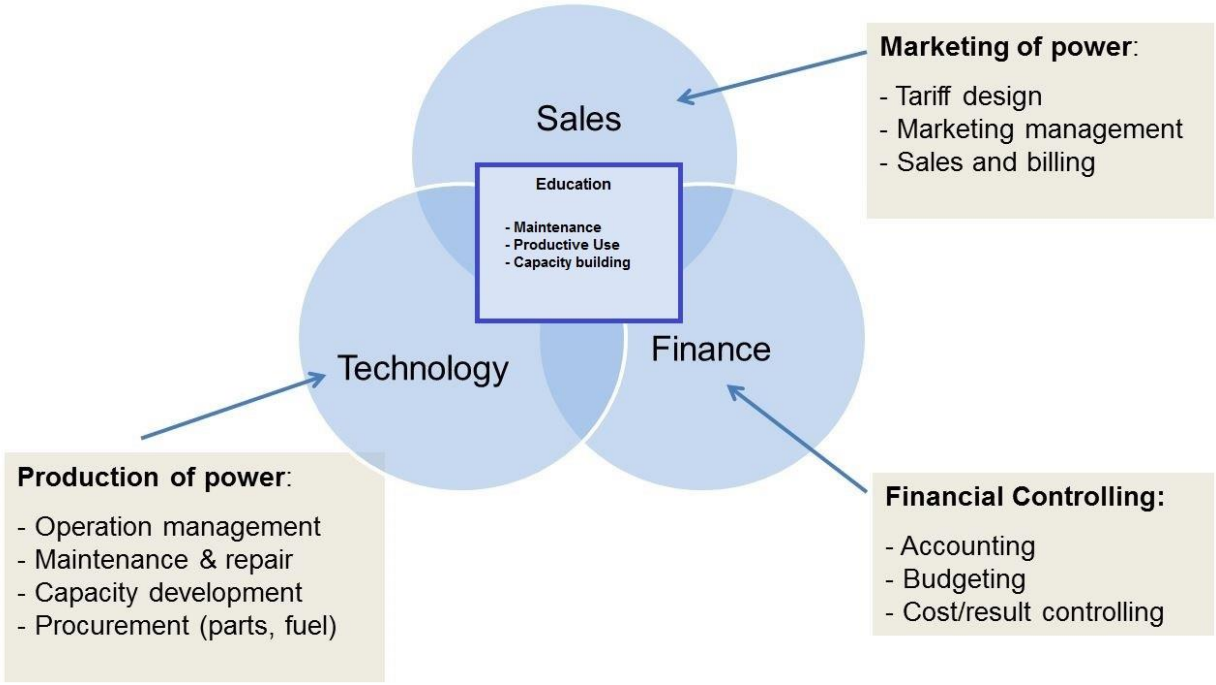

Figure 2: Key functions of local mini-grid utilities

As a result the major stakeholders are:

- Consumers and small and medium sized enterprises (SME) are willing to pay economically meaningful tariffs
- Suppliers for the technological equipment including operation & maintenance as well as communities for capacity building, training and education
- Public and private investors responsible for funding the mini-utility.

In order to master these manifold financial and organizational challenges a central management function – the poly utility management agency (PUMA) – should be established from the beginning on. According to the stage

of organizational development of the HMG, PUMA is in charge to carry out trainings for the people involved in the operation or the electrification process, to monitor the operation, and even to intervene/steer in case of need [Figure 2]. The idea is to build up this kind of parenting function as flexible as possible with regard to different needs according to geographical conditions, legal

requirements and cultural attitudes. To achieve such a tailor-made solution, an effective alignment of the key stakeholders is needed as well as the tight involvement of qualified third party players such as NGOs, universities or other consulting entities, which should be part of the project management. This is in the center piece of our approach.

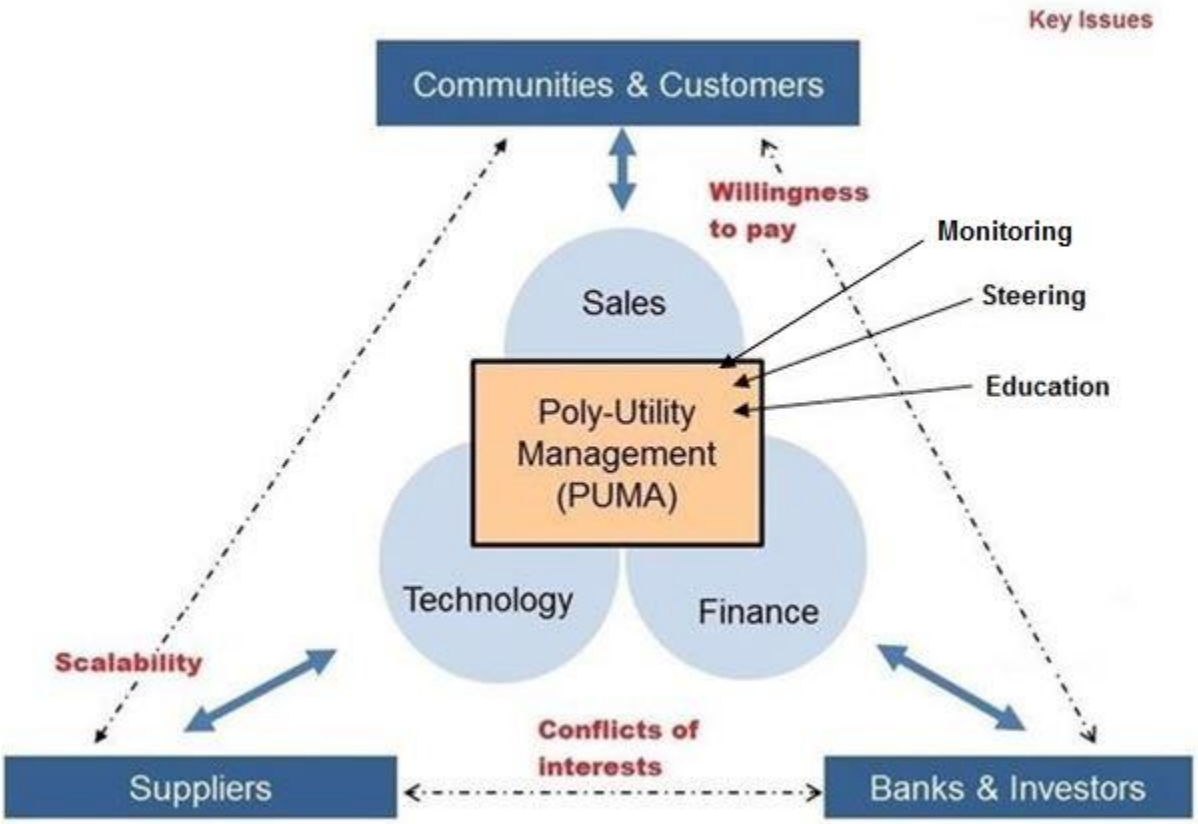

Figure 3: Mini-grid utilities and their major challenges to achieve profitability

The over-all importance of the PUMA will become clear in the later parts of the concept note when we speak about the scale-up process of HMG installation. In chapter 2 we highlight the main challenges in the fields of sales, technology and finance with the respective major threat topics. Chapter 3 is dedicated to introduce the PUMA concept striving for implementing measurements and organizational aspects to master these challenges.

Additionally, the threefold task of the PUMA (Education, Monitoring, Steering or Intervention) may also be important to reduce the danger of corruption. The same is expected by the "Unbundling of Functions" as described in paragraph 3.4. According to this principle intransparent organizational black boxes are avoided by splitting the operation of a HMG into its single functions and by assigning them to different people or institutions acting with a direct responsibility.

2. Main economic challenges for mini-grids

2.1. Willingness to pay

The success factors in the field of **sales** are most important in order to attract suppliers and investors over the long term. That means that stable electricity must be available at all times, so that the demand can be met. This aspect is a unique selling proposition of the mini-grid with the consequence that this service could be sold with a higher price compared to the national utility price (CAT (2013)). Furthermore the size of the demand thus determines the cost per kWh of expanding the grid. A critical mass is necessary for a project to be viable. Usually the use of energy limited in rural areas is very limited. In cases where there is no access at all to electricity, the potential demand must be calculated precisely to match a sufficient supply and to enforce consumers' willingness to pay which is one of the crucial subjects with regard to long-term operations (ARE (2011)).

(a) Customers' education and customer encouraging

As end-users will be the ones using and paying for electricity, project success depends on their satisfaction as consumers. First of all, there must be a real demand for electrification from the village, and people must welcome the project. Promotional programs and monthly meetings will raise awareness among the beneficiaries. Many consumers involved in the rural electrification project chain do not know how to deal with renewable energies, or may not be used to obtain and pay for electricity. Hence, education, trainings and information about the benefits of access to energy and of renewables are necessary part of any project from the beginning on.

(b) Tariff design

The determination of the tariff is a central question to ensure project sustainability. Setting appropriate tariffs, i.e. fixing the right energy price, is the most important factor influencing the profitability of a project and therefore plays a major role in the business model. A sustainable rural electrification tariff must cover the system's total costs. The total costs consist of the variable costs, i. e. the OPEX costs (operational expenditure, mainly for fuel) as well as the capital expenditures (CAPEX), i.e. mainly the investment costs. Usually the commitment of the consumers to pay operative expenditures is much more given than the willingness to compensate CAPEX by monthly payments. The CAPEX, however, are born by the private operators meaning it will be challenging to convince consumers not to waive these fixed payments. In general two different basic types of tariff designs are thinkable which are mentioned in the following:

- Consumption-based tariff
- Fee for Service

Considering a consumption-based tariff, project developers and mini-grid operators have to take into account that significantly higher tariffs, compared to the national grid, could cause a lack of willingness to pay if this fact is not properly communicated within the community.

To overcome this restriction a fee for service tariff model could be implemented. In contrast to the consumption-based model, the fee for service model did not exhibit the direct costs of electricity from customers' perspective. At this, there are different models used as for example flat-rate tariffs, energy blocks or pay for end user application.

Assuming a total cost compensating tariff, the necessary payments often exceed the tariff offered by a national utility providing urban grids substantially.

These facts can be comprehended using the assumptions as of the IEA for their Ain Ehel Taya Solar Diesel mini-grid located in Mauritania (IEA (2013)). The HMG is equipped with a 15 kWp PV system and a 40 kW Diesel genset serving 220 clients (Table 1). As it is typical for most of these HMG's peak load demand is in the evening and completely covered by the Diesel genset running roughly 3 hours daily which are not considered in the calculation below to ensure comparability. For the comparative calculation underlies a 10kW genset with similar kW/h output than the PV mini-grid produces. The base load during the daytime requires for power of roughly 9 kW and is entirely provided by the PV system in combination with a battery bank of 145 kWh which is considered to be replaced every 10 years and to considered be reduced by the underlying respective PV-output to 50kWh for the calculation to ensure a common accounting base for the calculation. The capacity of the battery bank is given by the average base load energy demand of one day. We assume sector-typical weighted average capital costs (WACC) of 10% and a lifetime of 20 years. Fixed costs are given by the investment in the solar modules, inverters, lead-acid batteries, chargers and the diesel generator.

OPEX costs are mainly given by the assumption of payments for two workers in charge of operation & maintenance and wages of 3,600 USD annually per head and country-specific fuel costs of 43 ct/kWh for the Diesel engine which corresponds to a fuel price of 1,3 USD per liter. Replacement costs are assumed after 10 years for the inverter and the batteries and classified as fixed costs. Furthermore the calculation underlies a depreciation rate of 30% to the respective project time. The outcome shows clearly the opposite cost structure of the solar component and the Diesel genset [Figure 3]. The levelized cost of energy (LCOE) for the solar & battery component is given by 29 ct/kWh, whereas 27 ct/kWh are given by the fixed costs and 2 ct/kWh cover the variable costs. On the other hand the Diesel genset generates comparable total costs of 32 ct/kWh are split in extremely high variable costs of 29 ct/kWh and low fixed costs of 3 ct/kWh. Please be aware, that any investments in transmission, metering and capacity building of local service providers are not considered.

HMG Solar & Diesel	Price USD	Invest USD	Fixed costs ct/kWh	Variable costs ct/kWh	Total costs (LCOE) ct/kWh
Solarpanels	1,300 USD/kW	19,500	12.6	1.6	14.1
Inverter 9 kW	2,600 USD/unit	6,742	4.3	0.0	4.3
Solar 15 kWp total			16.9	1.6	18.5

Batteries 50 kWh	225 USD/kW	14,625	9.4	0.4	9.8
Charger / kW	22 USD	1,100	0.7	0.0	0.7
Battery total			10.1	0.4	10.5
Solar & Battery total		**41,967**	**27**	**2**	**29**
Diesel 10 kW	400 USD/kW	**4,500**	**3**	**29**	**32**

Table 27: Example of a cost structure of a PV-Diesel mini-grid

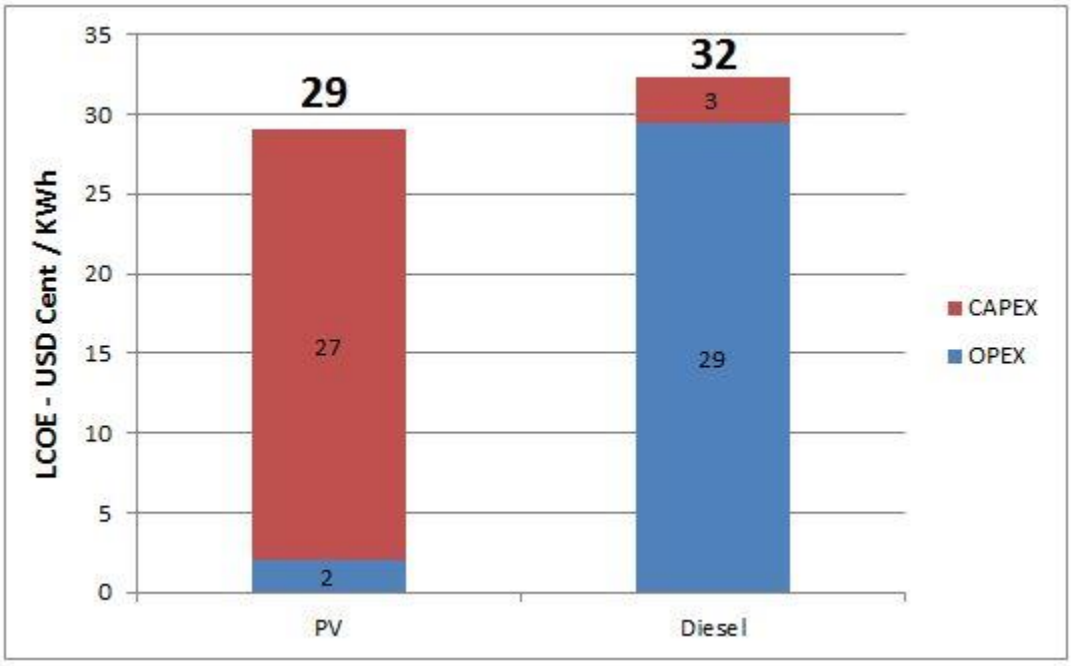

Figure 4: CAPEX / OPEX comparison Diesel versus PV

As demonstrated in figure 3 PV mini-grids are of high economic importance when considering long termed project schemes. On the financial perspective PV mini-grids contain one structural disadvantage. Due to high CAPEX, stronger efforts have to be taken to reach the necessary early break even points. As a result the break-even point of the PV system comes later than compared to the Diesel genset. Reaching an early break-even point is of major importance considering a scale-up process (SBI (2013)). As private investors or banks often claim maturities significantly below 20 years the reaching of early break even could be looked upon as one of the central issues of the economics of hybrid mini-grids. Consequently a large baseload demand is necessary to make a PV system profitable. This fact underlines the importance of productive use to achieve such a steady high demand for electricity by small enterprises as customers.

2.2. Scale-up process

Sustainable solutions for operations and maintenance (O&M) on a local level providing high quality are an essential key to overall system success generation. Transmission and distribution equipment has to be regularly maintained to operate efficiently, to satisfy consumers' demand and ensure the sustainability of the system (ESMAP (2009)).

(a) Technological Scalability

An important economic topic a mini-grid operator has to overcome is the question of technological scalability. When demands are increasing the used hardware has to be able to meet the requested energy. In case of non-observance of this crucial topic the whole project runs the risk to fail due to a potential declining of willingness to pay of the customers.

(b) Operation and maintenance (O&M)

The availability of companies capable of providing technical equipment and replacement parts at the local level as well as operation and maintenance is critical to the sustainability of the supply side. The challenges are manifold: Entrepreneurs face high business costs in rural areas because of long travel distances, poor transportation infrastructure, low literacy rates, poor communications, and lack of trained personnel. Therefore O&M has to be carefully integrated into the project business planning right from the inception in order to receive a cash flow sufficient to cover all costs. Thus continuing education is a key success factor for a reliable O&M.

2.3. Conflict of interests

Attracting the private sector into power generation on a sustainable basis has been a continuous challenge in developing countries both for governments and international organizations (UNDP (2011)). In most cases, private investors fear to invest in projects with low returns and high risks. Nevertheless the private sector should play an important role in investing and implementing mini-grid systems. As investment will be scaled up after a successful introduction challenges to system sustainability can be overcome in a more efficient way with private participation.

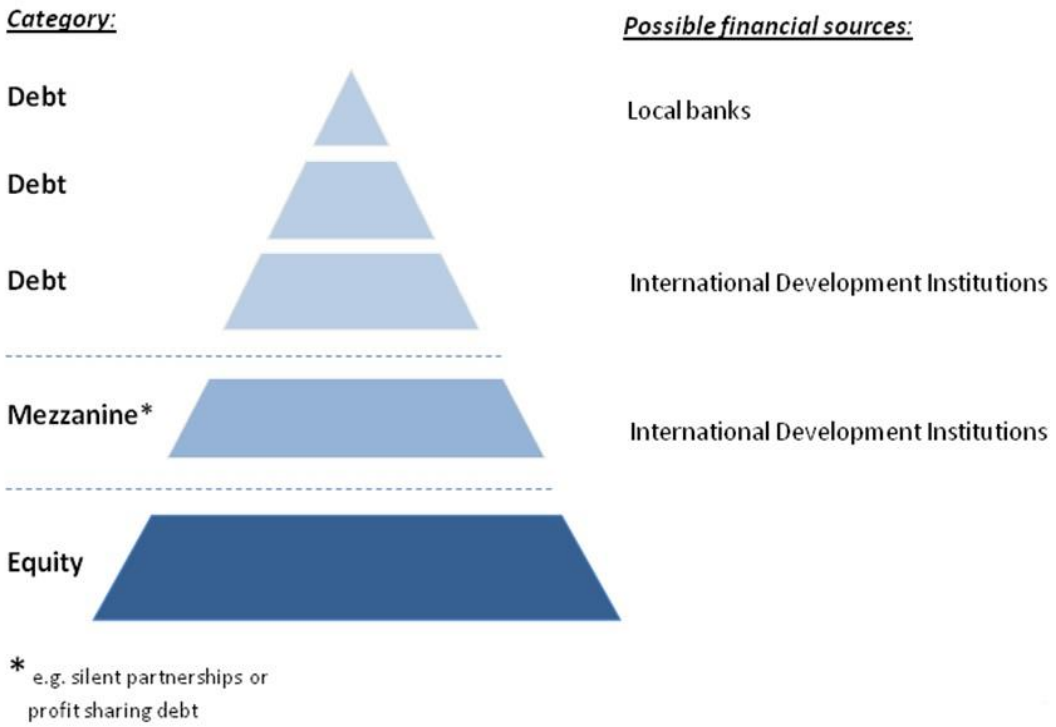

Figure 5: Basic structure of a mixed funding model

The key parameter for attracting the private sector is the expected profitability of the projects with calculated risks (ARE (2011)). A specific funding vehicle, the mezzanine, incorporates characteristics of equity and debt. Usually mezzanine is subordinated to other debt; and contains a profit sharing component in addition to a fixed interest payment. As many structures are possible to meet the risk/return expectations of a private investor this funding instrument is suitable to encourage private investors to invest in a mini-utility [Figure 6]. Especially a mezzanine tier is flexible enough to grow with later funding needs of the mini-grid. In the case of a successful development, mezzanine can be converted easily to full equity later enabling a full-risk participation of the private sector. This should explicitly happen when it turns out that the business case is successful.

In principle, different types of capital providers have different interests. Financiers providing debt capital require usually stable cash-flows while equity based capital financiers call for elaborated risk mitigation strategies and relatively high equity returns.

3. The Poly Utility Management Agency (PUMA)

The PUMA established as an agency shall take over the role of the coordination of the different key functions to tackle the major challenges willingness to pay, conflict of interests and scalability. Furthermore the PUMA serves as a know-how center supporting and supervising the sites within a certain regional proximity [Figure 7].

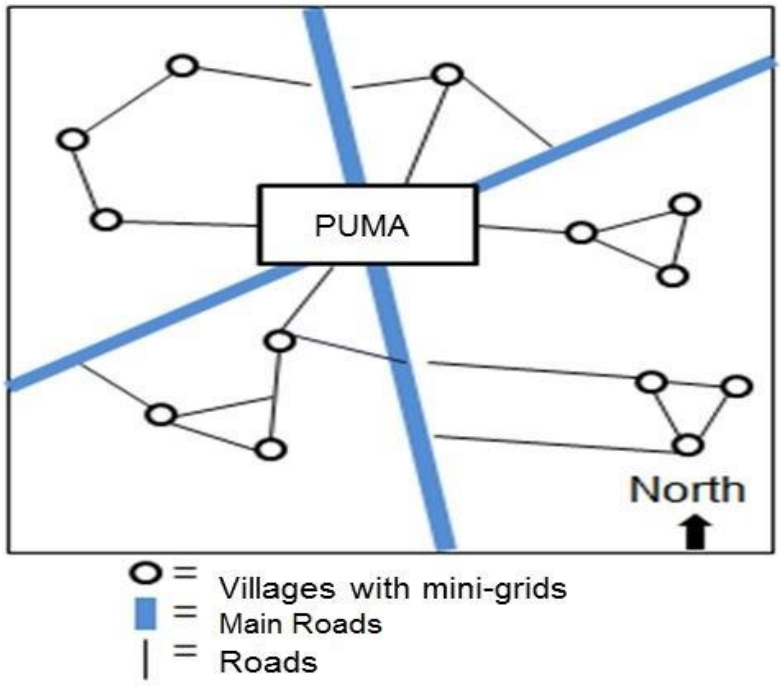

Figure 6: The location of a PUMA agency as a kind of technology hub

In its function, the PUMA resembles the idea of a cluster management. Ideally placed at a logistic crossing, the PUMA agency should be thought of as a nucleus of a developing training and know-how center and over time attract further activities and business.

To reduce travel costs the PUMA should logistically be located at a place, from where the different village HMGs can as easy as possible be reached to carry out the regular tasks of the agency.

Already at this point of the explanation it is important to understand the difference between Rural Electrification Authorities (REAs) as already established in a number of developing countries and the roles of the PUMA as suggested here.

Rural Electrification Authorities (REAs):

In general, REAs are public bodies established e.g. by a Ministry of Electrification or of Infrastructure Development. They are in charge to support the ministry to develop a Rural Electrification Programme (REP) or if already existing to support the roll-out of such a programme. In this sense, its role is more on a superior level than the activities of the PUMA.

Poly-Utility Management Agencies (PUMA):

In line with the concept as presented here, the PUMA should act as a private or public agent to control and support a number of nearby HMGs especially during the first years of operation. In contrast to the REA it acts at a lower level ("grass roots") and regionally restricted. Their purpose is to support both, the regional roll-out of the Rural Electrification Programme as well as the initiation and growth of rural businesses as essential key costumers for the economically still weak HMGs (Business Costumer Development.

The Relation of REA and PUMA:

Summarized it can be said that the role of the PUMA is to support the REA on a grass roots level to achieve and ensure a successful roll-out of the Rural Electrification Programme. Depending on the given specific circumstances, it may always be considered whether the PUMA should be controlled by the national REA or by a third body, e.g. a PPP).

3.1. The PUMA as a central management function and a knowledge hub enabling productive use

The implementation of a community network manager (CNM) may help to achieve basic goals of holistic rural electrification projects such as increasing willingness to pay, trainings, education and capacity building in general.

Such a network manager may either be mandated by the PUMA, a Village Power Committee or the District Power Committee (DPC) as common body of several villages.

The network manager is in charge of organizing training events and coordinating the experience and knowledge-transfer between the communities. Strong and targeted public campaigns explaining rural electrification programs will also encourage the awareness about the possibilities delivered by mini-grids and the duties of caretaking as well as the willingness to pay for the offered services.

At the end the consumers' willingness to pay has to be encouraged to compensate the LCOE of the mini-grid. The awareness and motivation to achieve this is one of the main tasks of the sales function of a HMG, the community network and its manager [Figure 4].

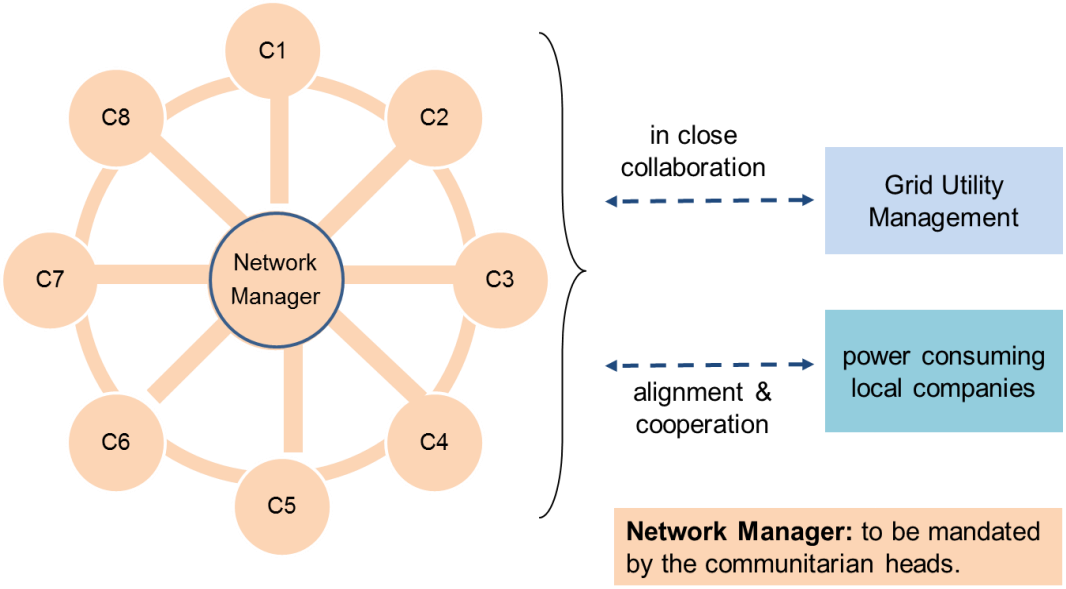

Figure 15: A network model for the involved communities

3.2. Encouraging of productive use to support willingness to pay

The success of a HMG depends to a very high degree on the customers' ability and willingness to pay (Gaudchau, E., et. al. (2013)). As this is true for private, for public and also for commercial customers, the issues of job creation and income development come in to focus. The main opportunities for the development of local business opportunities are agro processing, small scale service providers as shops, repair workshops or carpenters and diversified domestic applications as rice cookers or blenders [Figure 7]. To achieve effective results in the field job creation and taking into account the challenging and time consuming process for capacity building, a very early point of the project development phases should be used to support local entrepreneurship. This is a task which can be assigned to the Main contractor (MC) at least with respect to technical trainings (see for more following section 3.3). The commercial part of within such trainings may also be taken over by the MC (if he has the demanded capacity) or may be delegated to a suitable third party. - The training itself should include

- the training of farmers, craftsmen and service providers to use electricity within their running activities and to enlarge their business.
- A basic operational maintenance and repair training

Examples of Power Application

field of use	power from HMGs
private use	• refrigerators • washing machines • computers
public use	• medical equipment • computers • pumping stations
productive use	• grain milling • metal processing • food processing • wood processing

Figure 8: Application opportunities of hybrid mini-grids

3.3. The role of the main contractor to ensure scalability

In general, access to information and to training is fundamental to ensure long-term program success especially in the field of power supply. Capacity building for local service providers (LSPs) is the success factor for that. The technical training of the local SPs should be carried out by the main contractor who coordinates all component suppliers during the first phase of the project (installation of the HMG). The main contractor should be elected by a project steering committee which is composed of all project relevant stakeholders. On the basis of this networking model the main contractor is not only in charge to coordinate the supply chain and the complete construction process, but also managing the work force for O&M. Thus he takes care of capacity building as well as education and training of the local service providers. The operative education in this case should be overtaken by NGOs or other non-profit organizations in close collaboration with the MC. This procedure is necessary on the one hand for avoiding additional costs and to increase the effectiveness of the overall training due to positive synergy effects arising between all parties.

To ensure a sustainable long term operation a direct involvement of local companies could provide support in terms of mini-grids acceptance. It is conceivable, beside the inclusion of local authorities or villagers in general, to entrust power consuming companies with daily operational tasks (e.g. maintenance) whereas the PUMA is responsible for the overall functional management with a slightly higher strategically character. The ownership rights and the role of each partner also must be clarified, to determine who is going to be responsible for the respective tasks of O&M.

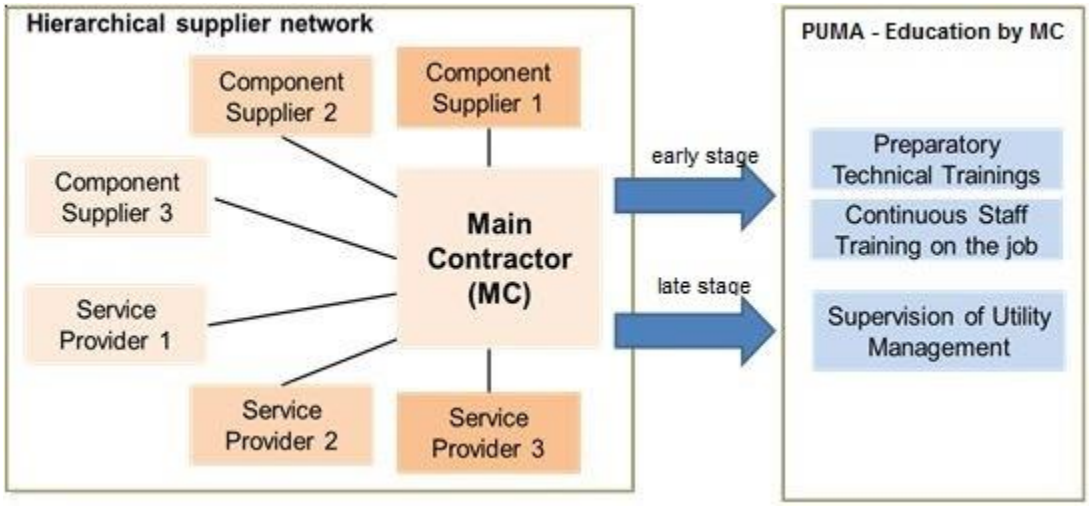

Figure 9: A networking model for the tasks of the main contractor (MC)

There are several types of eligible companies for selection. First of all the company with the highest amount of power consumption can be chosen. But also smaller consuming company with a higher affinity to technology can act as daily operation care taker. As can be seen at [Figure 9], the other local enterprises and village households, which all are only optionally supplied, did not take part in mini-grid operations in a direct manner.

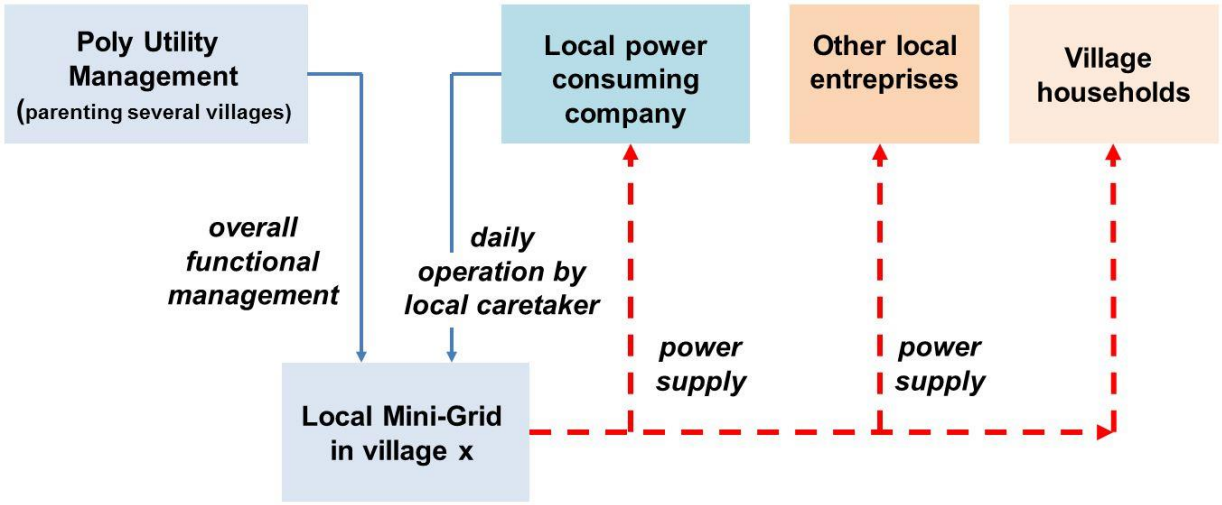

Figure 10: Site Management – the local operation

3.4. Unbundling of functions and the implementation of a Village Power Committee as key tools to avoid conflict of interests

Different solutions of public-based, private-based and utility-based models for finance are possible. The objective is to balance out the targets of the funding side with those of the mini-utility. For example, a utility implements a mini-grid (the power generation unit), a community-based organization manages the distribution unit and takes care of O&M and a private company provides the technical back-up and management advice. The collaboration enjoys the financial investment, the technical expertise and experience of the utility with the possibility to realize economies of scale in the realization of big infrastructure grids, the local involvement of the community-based organization and the technical expertise and efficiency of a private company.

Given the widespread development of liberalization of energy markets in many developing countries unbundling could be an option for a mini-utility by taking into account a sustainable cooperation between a private entity and a public body. With such an approach the activities of the mini-utility are split in a generation and a distribution unit [Figure 10]. On the one hand the private sector takes direct participation into the profit-orientated generation unit with the outlook for dynamic growth. On the other hand the local community takes care of the distribution unit to provide electricity in the villages with regulated tariffs. The close connection to the distribution unit opens up the possibility to employ local service providers responsible for operation and maintenance.

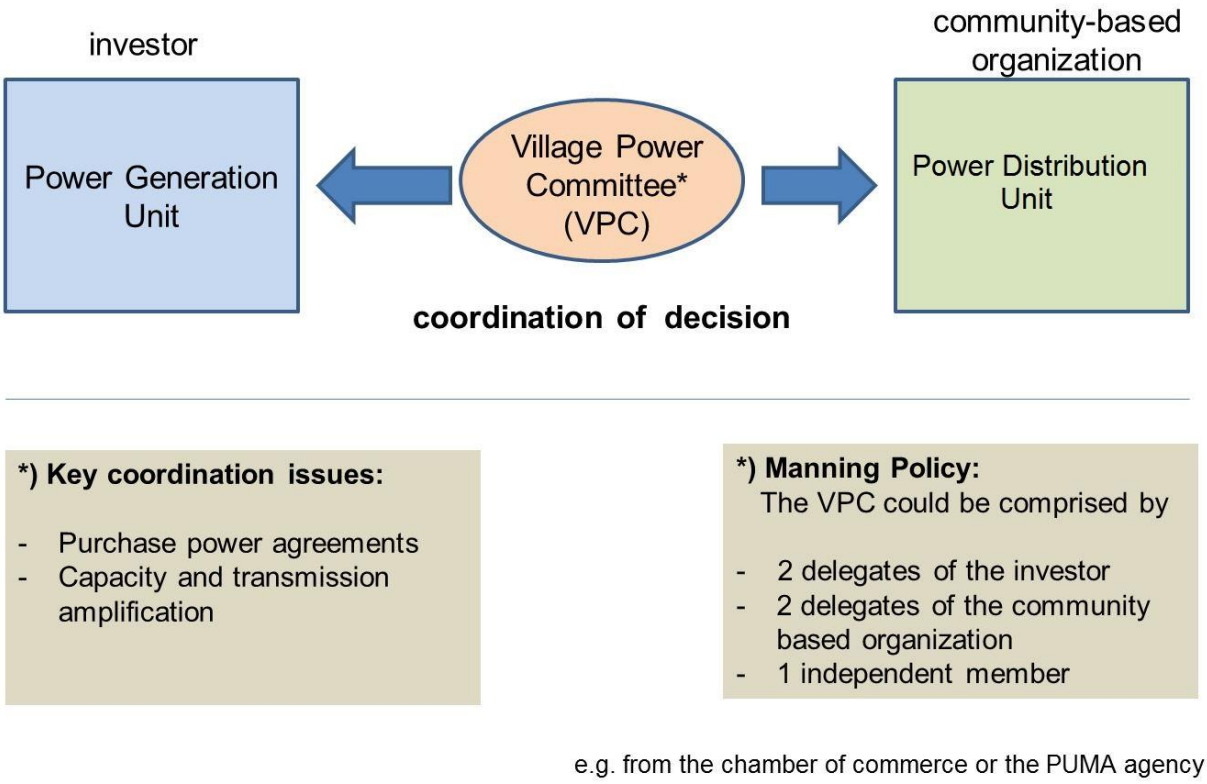

Figure 11: The Village Power Committee and its role (VPC)

Other cooperation are possible of course, especially if the public body shows-up a reduced business profile with regard to efficient processes and financial reliability.

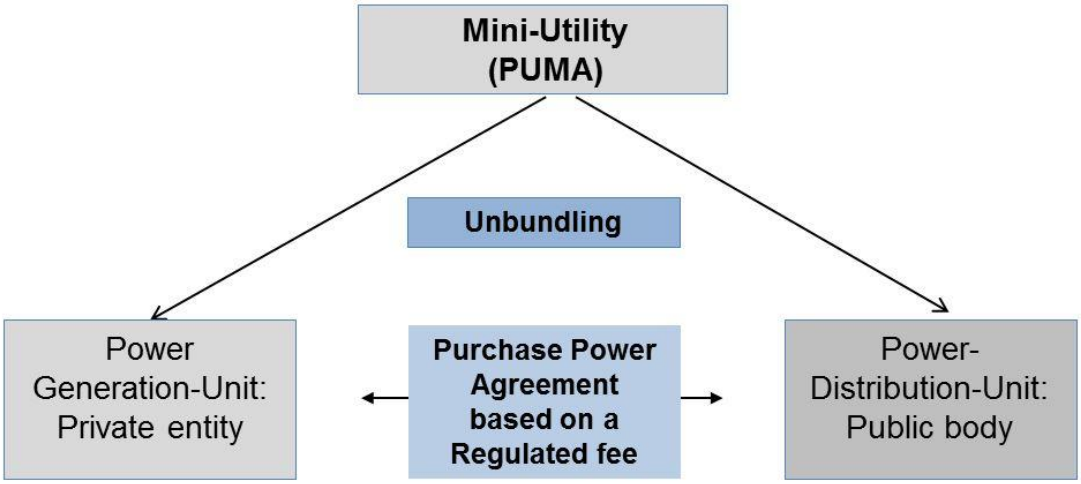

Figure 12: The unbundling of the operational functions of a Mini-Utility

Power purchase agreements (PPAs) are an especially important feature, since these contracts are ensuring reliable relations between the different parties involved in a long- term rural electrification project with mini-grids [Figure 11]. In this way PPAs give enough confidence to the private and banking sectors to invest in a project. PPAs should be fair, binding, ban unilateral changes and protect every actor equally.

Another organizational aspect comes up if the state owned utilities are targeted for participation, with the effect that they start to have an interest in rural electrification. This is particularly attractive for mini-grids with the potential of a future linkage to the national grid and a corresponding later participation of the national utility. Involvement of utilities requires a larger scale of regulations, policies and the legal framework. The introduction of regulation has to be used as instrument for later favoring the inclusion of the national utilities. This framework needs to be standardized and flexible for small power producers in terms of standards and tariffs, and at the same time, it has to protect rural consumers.

Unbundling of the operational functions does not mean to eliminate the need of coordination, which can be achieved as shown in Figure 10 by the introduction of a Village Power Committee. After a scaled-up installation of HMGs, the Village Power Committees of several villages in proximity may be merged into a common enlarged coordination body which might then e.g. be called District Power Committee (DPC). The know-how available in this committee could be used to deliver important impulses to the sustainability of the electrification process as well as to the whole economic development of the region.

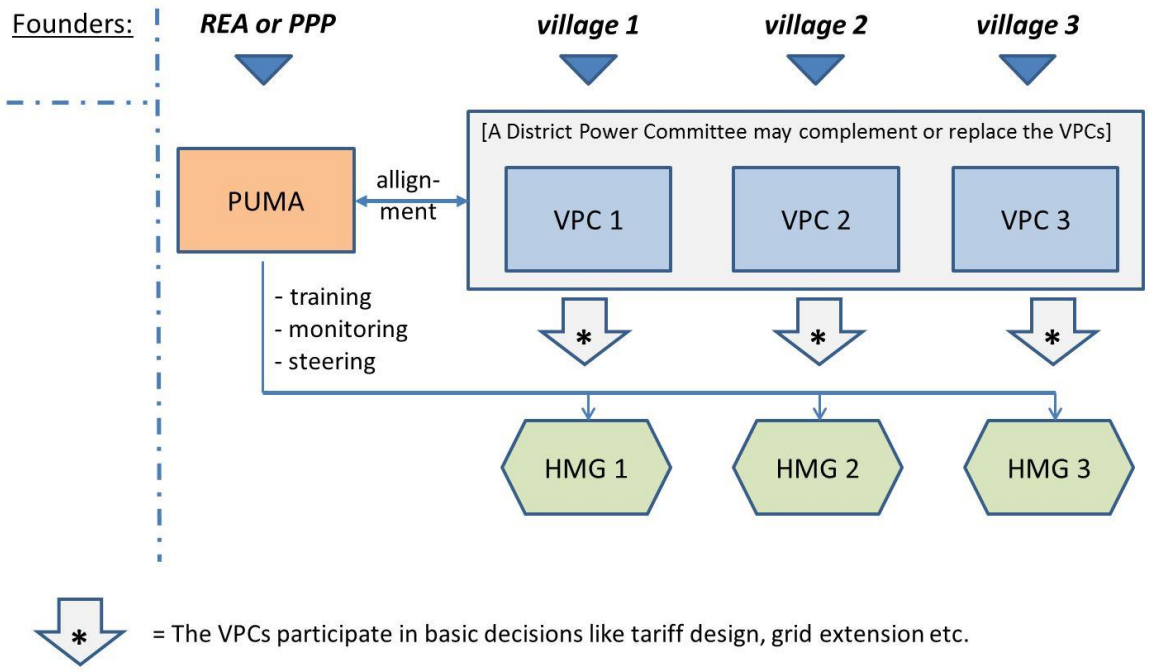

Figure 13: Overview of important stakeholder relations

Our PUMA approach could be a promising way to develop mini-grids in this sense further. The specific challenges are to involve the end-user, the community bodies and to develop local technical capacities [Figure 12]. The PUMA model can even incorporate a partnership between the national state- owned utility and local distribution entities. This approach is based on the options of the unbundling of generation, transmission and distribution. Under this arrangement, the utility typically sells power at a wholesale rate to local distribution entities, which may be private operators or communities. These entities, in turn, resell it at retail prices to the rural users. This allocation of responsibilities increases the willingness to pay.

4. Conclusion

For either of the considered approaches, there are financial, social and technical, factors which need to be kept in mind. The success or failure of HMGs will mainly depend on a positive combination of all of these factors. Rural electrification programs by mini-grids are institutionally complex, but they also appear to have rather large benefits when managed in a proper way. There are still many challenges to be overcome, but an expansion of electricity coverage that is equitable and operationally and financially viable will have significant development benefits in rural areas of developing countries and will support economic growth in these countries as a whole.

To sum up, two basic rules have to be kept in mind when considering doing rural electrification business by mini-grids in a sustainable manner.

- Sustainability depends highly on the rural populations' direct benefits

- Economic viability could only be achieved by encouraging and ensuring local micro-entrepreneurship or by having anchor loads

The first basic rule means that the overall acceptance of the rural populations is just given when they are convinced that they will take benefits out of the project. The second basic rule means that long-termed operations could only be viable when ensuring a stable cash flow which can be created by whether a significant amount of local micro entrepreneurs or by providing energy to an anchor customer.

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Glossary: Communication and management bodies (overview)

These bodies are optional functionalities. They may be adapted in number and size to the specific needs of the overall electrification project.

Body	Function
Rural Electrification Authorities (REA)	In general, REAs are public bodies established e.g. by a Ministry of Electrification or of Infrastructure Development. They are in charge to support the ministry to develop a Rural Electrification Programme (REP) or if already existing to support the roll-out of such a programme.
Poly Utility Management Agency (PUMA)	A know-how center with the functions of technology, sales & marketing as well as financial controlling to support and supervise the HMGs of nearby villages.
Community-based Organization (CBO)	Body of a community or a private mandated entity (local service provider, NGO or other) to take over responsibility of the operational functions.
Village Power Committee (VPC)	A body to align the interests of an investor as owner of the power generation unit and a community-based organization as owner of the power sales unit.
District Power Committee (DPC)	This body can comprise the Village Power Committees of several villages and serve to have comparable standards within a region or to promote aspired village development activities. The DPC ma be coordinated by a Country Network Manger (CNM).
Project Steering Committee (PSC)	The PSC is in charge to appoint a project manager and to supervise the progress of the installation and rollout.
Community Network Manager (CNM)	A manager mandated by involved villages to arrange meetings for incidental meetings of village delegates to exchange experience and learning outcomes from the electrification process.

List of abbreviations

CBO Community-based Organization

CNM Community Network Manager
DEG Deutsche Investitions- und Entwicklungsgesellschaft
DPC District Power Committee

HMG Hybrid Mini-Grid

LCOE Levelized Cost of Energy

LSP Local Service Providers

MC Main Contractor
O&M Operation & Maintenance

PSC Project Steering Committee

PUMA Poly Utility Management Agency

REA Rural Electrification Authorities

VPC Village Power Committee

FINANCING DECISIONS AND SHAREHOLDER VALUE CREATION OF NON- FINANCIAL FIRMS QUOTED AT NAIROBI SECURITIES EXCHANGE, KENYA

Kariuki Muthoni, Ambrose Jagongo and Joseph Muniu

ABSTRACT

Shareholder value creation and profit making are among the basic objectives of a firm. The shareholder value creation focuses more on long term sustainability of returns and not just profit maximizing. Rational investors expect good long term yield of their investment. Corporate financial decisions play a very imperative role in general performance of the company and eventual value creation. There have been a number of firms facing financial crisis among them Mumias sugar Ltd, Uchumi Supermarkets Ltd and Kenya Airways Ltd. All these companies are quoted at Nairobi Securities Exchange. Due to the declining performance of these companies, the share prices have been dropping and shareholders do not receive dividends. This study investigated the effects of financing decisions on shareholder value creation of non financial firms quoted at NSE for the period 2007-2014. The study was guided by various finance models; which include, Modigillian and Miller, Pecking Order Theory, Agency Free Flow Theory, Market Timing Theory and Capital Asset Pricing Model. The study used general and empirical models from previous studies as basis for study specific model which was modified to suit the current study. The study was guided by positivism philosophy. The study employed explanatory design which is non-experimental. The study used census design as the number of non- financial firms at the time of the study was 40 companies. The data was gathered from NSE handbooks and CMA comprising of annual financial statements, income statements and accompanying notes. The un- balanced panel data model was used. Hausman's specification test was used to choose between fixed effects and random effects model. Ordinary Least Square regression analysis was conducted to examine the effect of various financing decision variables on shareholder value creation. The step wise regression technique was used to test for moderating effect of Gross Domestic Product growth rate. The results revealed that equity financing has a statistically significant positive effect on EVA. Debt financing had a positive and statistically significant effect on EVA. Working capital financing had a positive and statistically significant effect on the measure of shareholder value creation. Dividend financing revealed a positive and statistically significant effect on shareholder value creation. The study further analyzed the sector based differences among companies listed at NSE. The results indicate significant differences among various sectors in respect to effect of financing decisions on shareholder value creation. The study found that the moderating effect between financing decisions on shareholder value creation and GDP growth rate had a positive and statistically significant effect. The study used feasible generalized least squares to estimate the model. Diagnostic tests were conducted to ensure non-violation of the assumptions of Classical Linear Regression Model. Among the tests conducted; includes panel unit root test, Autocorrelation, Homoscedasticity and Multicollinearity tests. The model tests showed that, there was non-violation the assumptions and hence the model found fit for further analysis. Upon conducting diagnostic tests of the variables in the panel data model the results were analyzed using STATA 14 software and descriptive statistics. The results were presented in tables and graphs.

Key terms: financing decisions, shareholder value creation, panel data and profit maximizing.

INTRODUCTION

1.1 Background of the study

The main purpose of any firm is to enhance its shareholders' wealth. Investors, management and other stakeholders need to be aware of the company's performance to enable them make informed decisions about the future. Rational investors expect good long term return of their investment. Chauhan and Patel (2013) observe that maximizing shareholders' value is becoming the new co-operate standard. Managers strive to achieve this objective by making rational financing decisions regarding financial structure which would minimize its cost of funds. Hartomo (2014) opines that, creation of shareholder value is becoming increasingly challenging as owner and managers are forced to make appropriate financial decisions that contribute to the management of operations that create value and also identify activities that destroy value. In addition it is necessary to implement effective instruments which are able to evaluate real value created.

Capital markets are becoming increasingly global and this has made it possible and easy for investors to shift investments to higher yielding, often foreign opportunities. Sharma and Grover (2010) observe that, there has been increasing pressure on corporate executive to measure, manage and report the creation of shareholder value on regular basis. Variety of performance measures and the diversity of companies make the process complex. Different firms have unique characteristics and thus measures decided on by a firm are dependent on business objectives and the performance being measured.

Value creation occurs in a company when its business is able to generate returns above the demands of investors or returns of capital invested are more than the cost of company's capital (Hartomo, 2014). According to Oladele (2013), shareholder value creation occurs when the company generates more wealth for shareholder than they could be able to generate for themselves. Jalaja (2010) observes that value creation involves much more than merely monitoring firms' performance; rather value is created when managers are actively engaged in the process of identifying good investment opportunities and taking steps to capture their potential value. Vijayalakshmi and Manoharan (2013) note that, equity shareholders as the owner of the company expect high and stable return on the capital supplied by them and are more concerned with utilization of funds by the company. Their keen interest is on whether the firm is creating value for them or destroying it. Furthermore, creating sustainable value is viewed as a way for companies to advance business priorities, drive innovation and achieve competitive advantages. Lukayu and Mukanzi (2015) posit that shareholders' perspective could have a bearing on how well the management of a company articulates the creation of shareholder value.

Most financing decisions are dictated by the necessity which requires in-depth analysis of the financing options, costs and long-term implications. Chauhan and Patel (2013) argue that, firms' shareholder value creation is based on firms' earnings ability and firms return on its net worth. Seidu and Andani (2013) assert that, a firm financing policy may be to choose from alternative sources, which may be internal or external. Internal financing includes use of retained earnings while external financing constitutes borrowing by issuing debt instruments and issue of new shares. Theoretical literature postulates that, financing decisions focus on the right side of the firm's statement of financial position and involves two major areas. First the levels of short-term and long-term financing must be established. A second and equally important concern is determining the optimal sources of financing at any given point.

The choice between debt and equity aims at finding the right capital structure that will maximize stockholders wealth. Oladele (2013) opines that organizations seek to improve performance and create value in terms of additional wealth for their shareholders and increase satisfaction to their customers and other stakeholders. The

company value is determined by means of future cash flows and the new value is created only when the income obtained from capital invested cover the attracted capital expenses (Alaxei 2015). Chauhan and Patel (2013) note that, shareholders' wealth is measured in terms of returns received on investments which could either be in form of dividends, capital appreciation or both. Capital appreciation depends on the changes in the market value of stocks. The market value of stock depends upon a number of factors ranging from company specific to market specific (Sharma, 2010).Changes in shareholders wealth are inferred mostly from changes in stock prices, dividend paid and equity raised during the period. Andrei and Oleg (2013) observe that stock prices reflect investors' expectations about future cash flows which reflect the intrinsic value of the firm. Creating wealth for shareholders' requires firms to undertake investments decisions that have a positive net present value (NPV). Projects are expected to earn return above the cost of fund and cumulative appreciation in value.

1.1.1 Shareholder Value Creation

Since 1990 there has been a strong interest toward shareholders value among practitioners academicians, regulators, investors and other stakeholders. In the contemporary globalised economic landscape, competition for shareholders funds are becoming increasingly intense thus companies must strive to offer adequate rate of return to investors in order to remain relevant and ensure continuous funding. Capital markets are becoming increasingly global and investors can rapidly shift their investment in higher yielding opportunities. In addition, investors are becoming socially responsible by limiting their investment funds to companies that care about all stakeholders. According to Hall (2012) the move towards shareholder value has been driven by continued globalization of capital markets, increased focus on co-operate governance, rising shareholders activism and investors move towards cash flow based evaluation. Furthermore, a company that is destroying value always fights to attract further funding to finance growth. Most competitive management teams are responding to the pressure to create value by embracing new metrics and new models for managing companies. Kumar and Tawari (2015) note that, investment funds are scarce and are more mobile, thus, to attract these funds, the firms should submit themselves to the scrutiny of all stakeholders. Jalaja (2010) observed that satisfying the shareholders is the best way of ensuring that other stakeholders are served as well.

Available empirical and theoretical literatures argue that, historically, the assessment of a company's performance was based on annual profit returns. But in recent years this has been viewed as a short-term and subjective assessment of organizational performance; providing a poor indication of long term financial return. Hall (2013) notes that due to financial climate the world market experienced after the 2008 economic turmoil, it has become apparent for companies to identify and refine ways of determining value, value drivers and improve returns from investments. Some of the financial changes noted include investment returns, which are more uncertain, volatile and relatively lower than they were a decade ago. Jalaja (2010) observes that, value creation involves much more than merely monitoring firm performance value; rather, value is created when managers are actively engaged in the process of identifying good investment opportunities and taking steps to capture their potential value, which promotes growth and sustained improvement.

The concept of shareholder value creation is based on several factors such as capital appreciation, market value, regular income return on investment, leverage, dividend payout ratio profit consistency among other variables. Every company strives to achieve success, yet success can be defined in many different ways. As a result, management teams of companies must make decisions based on a set of goals and values that aims at maximizing value for different groups that have a stake in the company. Oladele (2013) notes that maximization of shareholders wealth is considered as the most appropriate goal as it encompasses the incentive for efficiency, long-term development and value creation. Shareholders wealth is represented in the market price of the company's common

stock which in turn is a function of the company's investment, financing and dividend decisions (Marouan & Moez 2015). Floarea (2008) asserts that, appropriate financing choices allow corporations to increase their net income thus satisfying shareholders. The residual income above shareholders expectations represents value created. The excess is believed to be reflected within the share price of the company, thus in assessing value creation it is important to consider the market perception towards the company.

Shareholder value analysis should be employed since it provides a framework for linking management decisions and strategies of creating value. Panigrahi, Zainuddin and Azizan (2014) argue that management is required to pay attention to decisions that can create value for shareholders while making investments and financing strategies as they have an impact on value generated for the shareholder. There is sufficient literature that supports the shareholder value approach, however there is confusion as to how shareholder value should be measured (Shayan, 2013).The companies may employ accounting measures or value based measures. The accounting measures are viewed to be short term, subjective and prone to manipulation. The value based measures are objective, and focuses on long term multilateral perspective on company's performance. There are a number of shareholder value creation indicators; including Economic Value Added (EVA) and Market Value Added (MVA). They offer basis for comparison between companies and incorporate cost of capital which accounts for the degree of risk of the company. The value based management models are more correlated with economic profit unlike the accounting based ratios (Sirbu, 2012).

1.1.2 Financing Decisions

Finance plays a very crucial role in modern economy, it is considered as the bloodline of any organization. Milka Carlos and Arturo (2015) observe that, sound financing decisions enable businesses create economic value. Conversely, unsound financing decisions destroy value which threatens survival and the continuity of an enterprise. Alsawalhah (2012) posits that financing decisions are important because of the need to maximize returns to various organizational segments. These decisions have impact on organization's ability to deal with competitive environment. Financing decisions results in a given financial structure and sub-optimal financing decisions can lead to corporate failure (Floarea, 2008). However, a great dilemma for managers and other stakeholders is whether there exists an optimal financial structure; at a point where return is maximized while minimizing the risks. Thus, in making financing decisions managers should bear in mind the cost of raising funds as it has an impact on the shareholder value created (Bertomeu, Beyer and Dye 2009).

Equity financing involves acquisition of funds by issuing shares of common or preferred stock. Firms usually use equity financing when they are unable to raise sufficient funds through retained earnings or when they have to raise additional equity capital to offset debt. However, the most critical assumption accountants make is that equity finance is a free resource (Lukayu & Mukanzi 2015).Abor (2008) observes that listed companies are in a better position to raise equity finance from securities market whilst large scale unquoted firms source equity finance from institutional investors usually through private placement.

Debt finance may be either long term or short term; a company may prefer long-term debt because of the tax deduction on interest payment which is a distinct advantage over equity. The amount of debt a firm uses to fund its activities depends on the interest charged on debts, corporate income taxes rates, withholding taxes, and cost of financial distress and covenant restrictions in financial agreements (Floarea ,2008) .The lower the rates of interest on long term debt the higher will be the desire of the firm to incline to that option. Sagwa (2013) notes that, organizations that use an optimal amount of debt in their capital structure enhance their value through improved efficiency. On the other hand firms with sub-optimal use of debts in their capital structure usually suffer from a variety of financial ailments among them; high taxes, high proportions of accounts payables, large deficits in the

firms' cash flow and some cases corporate failure. The company management should continuously monitor their leverage level to avoid financial crisis which can negatively affect the shareholder value.

Working capital management involves the financing and management of current assets of the companies. Ebenezer and Asiedu (2013) observe that, a sound working capital management is supported by two fundamental decisions; the determination of the optimal level of investment in current assets and appropriate mix of short-term financing used to support this investment. Efficient working capital management involves managing short term assets and short term liabilities in a way that provides a balance between eliminating potential inability to cope with short term debts and avoiding holding unnecessary assets (Napompech, 2012). Management of working capital is crucial for short term corporate solvency and survival as it allows a company to use the hidden cash and limit working capital requirements. Bellouma (2010) opines that, efficient working capital management has a positive impact on shareholder value creation. The available literature shows that management of current assets and current liability is important in creating value for shareholders. When a firm minimizes its investment tied up in current assets, the resulting funds can be invested in value creating projects resulting in increasing the firm's growth opportunities and shareholder return. Moreover, efficient working capital management is one of the crucial characteristic of financially sound firms. (Nazir and Afza 2007; Napompech, 2012; Ajanthan 2013).

Dividend decisions of a company determine what proportion of earnings is distributed to the shareholders by way of dividends and what proportion is ploughed back for reinvestment purposes. Kapoor (2009) posits that dividend policy involves the options which managers pursue in deciding the size and pattern of cash distribution to the shareholders overtime. The best dividend policy is the one that maximizes the company's stock price which leads to maximization of shareholders wealth and also ensures quick economic growth. The management should determine a dividend policy that drives shareholder value creation. The dividend policy adopted by a company determines the amount to be shared by the shareholders as well as the portion to be retained which form dividend financing.

1.1.3 Financing Decisions and Shareholder Value Creation

Companies are created to benefit their owners by providing them with maximum return. Hall (2010) observes that, increasing shareholder value requires knowledge about the sources of value creation and destruction within the company and industry. The value drivers can be classified as either financial variables or non financial variables. Firms have different characteristic and if management of firm can identify the unique variables that have higher influence on market value, then a firm will eventually increase shareholder value (Tiwari and Kumar, 2015). Chauhan (2012) notes that organizations measure value creation for different reasons, the key among them; formulating and assessing strategy, influence peoples' behaviors and to externally validate firm performance. According to Kumar (2015), the identification of financial factors with highest impact on value creation in a business can facilitate establishment of criteria for appropriate strategy. Moreover, the strategies adopted have varying effect on shareholder value creation which depends on metrics in the model (Atiyet 2012; Kapoor 2009).

Hartomo (2014) observes that, Indonesian companies with operational excellence and strong competitiveness succeeded in value creation in long term. Furthermore, the companies' ability to properly manage the financial structure produced low cost of capital which supports the process of value creation. In Russia, Ankudinov and Oleg (2014) assert that, investment in long-term financial assets is negatively related to both company market value and return for its shareholders .Atiyet (2012) opines that, French firms' shareholder value creation is dependent on the measure taken. Oladele, 2013 notes that, in Nigeria, Shareholder value creation is highly dependent on operating expenses profit margins return on capital employed and expenses ratio. Hall (2010) observes that, efficient financing, efficient fixed asset and working capital management becomes top priorities in South Africa companies. Empirical literature shows that shareholders value orientation builds more attractive companies not only for

investors, but for employees' customers and also other stakeholders. The studies observed different variables affecting the shareholder value creation both financial and non financial.

1.1.4 Non Financial Firms Quoted at Nairobi Securities Exchange

In Kenya, the idea of the Nairobi Stock Exchange was facilitated by the birth of the Company Act 1948 (Cap 486). The Nairobi Securities Exchange voluntary association of stockbrokers in the European community was constituted in 1954 as registered under the societies Act. The Nairobi Securities Exchanges is a full service securities exchange which supports trading, clearing and settlement of equities, debts derivatives and other investment tools. The securities market and financial sector plays an important role in the development of any economy. Empirical studies confirmed that a well-functioning capital market increase economic efficiency, investment and growth. NSE has classified the companies listed into ten sectors which includes; agricultural sector, automobiles and accessories, banking sector, commercial and services sector, investment sector, manufacturing and allied sector and telecommunication and technology sector. (See appendix 1). These sectors cans further grouped into two main categories; financial firms and non financial firms. The financial firms are highly regulated by the central bank on issues of liquidity, asset and capital holding and provisions among other factor. The current study will therefore exclude the financial firms due to their unique nature in as far as financing decisions are concerned.

The share prices of companies listed at the NSE has a substantial impact on the investors' decision as to whether to buy, sell or hold their shares. Oyuga (2014) notes that some investors especially long term investors are interested in capital gains and are keen on the movement of shares prices. An increase in the share prices for an investor would mean a growth in the value of their investment and a share price decrease would be viewed as decrease in the value of their investment. An analysis of the NSE performance for the period between 2008 and 2010 revealed that the macro-economic environment has been very volatile slowing down a sustained stable financial market for long term resource mobilization (Aroni, 2011). Reddy (2012) opines that the stock prices of quoted companies are affected either positively or negatively by a number of factors occurring within or without the economic system. Factors affecting market returns could be micro-economic such as profits, business growth dividend announcements among other factors or macro economic factors such as inflation, GDP, interest rates which also affect the overall return in the market.(Omondi &Muturi,2012).

The operating loss reported by Kenya Airways co.Ltd went up by 69.8% from 2012/13 to 2013/14 financial year. The capital reserve went down by 9.8% in the same period while loss per share went up by 68.6% from 2013/14 to 2014/15 financial year. (CMA, 2015). Mumias sugar company Ltd the dividend per share was 0.40 in 2010 and 00 in 2014. The earnings per share dropped from Ksh 1.03 in 2010 to (1.77) in 2014. (NSE, 2015). A number of companies that were delisted or suspended from 2005 to 2015, caused financial loses to their shareholders since they could not transact or liquidate their share holdings (Capital Market Authority 2015). The majority of financially distressed companies are non financial firms; this motivated the contextual choice of the study.

1.2 Statement of the Problem

The primary objective of the firm is to maximize the shareholders value. Companies are formed to benefit their owners by providing them with maximum returns and capital appreciation. The company's shareholder value creation is a function of financing decisions and investment decisions made by the management. However, in a value driven economy there are companies that create value while others destroy it (Narang and Mandeep 2014). Whenever value is destroyed there is always threat of hostile takeover, drop of stock price, failure to meet financial obligations which could lead to receivership and consequent liquidation. This has a negative impact on shareholders stake in the company, loss of employment, inadequate supply of consumer products, failure to contribute to economic activities among others.

From 2007 to 2014 Kenya has witnessed number of companies facing financial crises; some of which are listed at the NSE. Kenya Airways Ltd reported huge losses in their 2013/14 financial year ending March 2015, to a tune of 25.7billion. Mumias Sugar Company Ltd has been struggling financially; in June 2015 the government bailed it out to a tune of one billion to try and stem a 6 billion cash crunch. During this period, investors lost in terms of value of their investments to a tune of close to ksh 84 billion (NSE 2014). As a result majority of investing public have lost confidence with the stock market and they would rather invest where they perceive growth and value addition. The average individual holdings at NSE dropped from 26.9% in 2007 to 13.0% in 2014. (CMA, 2015).

Mwenje and Olweny (2016) studied the impact of private equity on value creation among listed firms in Kenya. The study found that financial modification had no or little impact on shareholder value creation while strategic and operational indicator demonstrated significant impact. Mbuvi (2015) studied the effect of dividend policy on value creation for shareholders of companies listed in the NSE. The study found that all variables analyzed, positively affect shareholder value creation. Lukayu and Mukanzi (2015) conducted a study to assess firm attributes on shareholder value in listed Banks in Kenya. The study found that risk and profitability had a strong influence on shareholder value creation. Mafouan and Moez (2015) investigated the impact of corporate governance on shareholder value creation in Tunisia. The study results showed that, capital concentration have a negative effect on performance and value creation. Atiyet (2012) analyzed impact of financing decisions on shareholder value creation in France; self financing was found to positively influence shareholder value, while debt and equity negatively influence shareholder value. Available studies analyzed financing variables separately, thus making it extremely difficult for cumulative effect on shareholder value creation to be ascertained. Limited research studies are available on the effect of financial decisions on shareholder value creation in developing economies. Furthermore, the moderating effects of various financing decisions were not considered. In addition most of these studies used accounting ratios which focus more on historical aspect and do not incorporate the cost of capital. The present study therefore, sought to fill this gap by combining equity finance, debt finance working capital finance and divided finance and analyze the combined financing decisions effect on shareholder value creation using EVA, which is an economic value based metric as an indicator of shareholder value creation. GDP growth rate was used as a moderator while the company market capitalization was used as control variable.

1.3 General Objective

To determine the effect of financing decisions on the shareholder value creation of non-financial firms quoted; at Nairobi Securities Exchange, Kenya.

1.3.1 Specific Objectives

The study sought to achieve the following specific objectives:

i. To determine the effect of equity financing on shareholder value creation of non-financial firms quoted at Nairobi Securities Exchange, Kenya.

ii. To establish the effect of debt financing on shareholder value creation of non-financial firms at Nairobi Securities Exchange, Kenya.

iii. To determine the effect of working capital financing on shareholder value creation of non-financial firms quoted at Nairobi Securities Exchange, Kenya.

iv. To establish the effect of dividend financing on shareholder value creation of non-financial firms quoted at Nairobi Securities Exchange, Kenya.

v. To determine the moderating effect of GDP on the relationship between financing decisions and shareholder value creation of non financial firms quoted in Nairobi Securities Exchange, Kenya.

1.4 Research Hypotheses

The study sought to test the following null hypotheses.

$H_{01:}$ Equity financing does not have a significant effect on shareholder value creation of non-financial firms quoted at Nairobi Securities Exchange, Kenya.

H_{02}: Debt financing does not have significant effect on shareholder value creation of firms quoted at Nairobi Securities Exchange, Kenya.

$H_{03:}$ Working capital financing does not have significant effect on shareholder value creation of firms quoted at Nairobi Securities Exchange, Kenya.

H_{04}: Dividend financing does not have significant effect on shareholder value creation of firms quoted at Nairobi Securities Exchange, Kenya.

$H_{05:}$ Moderation of the GDP on equity financing, debt financing, working capital financing and dividend financing does not have significant effect on shareholder value creation of firms quoted at Nairobi Securities Exchange, Kenya.

H_{06}: Equity financing debt financing, working capital financing and dividend financing are not significant difference among sectors of firms quoted at Nairobi Securities Exchange, Kenya.

1.5 Significance of the study

This study offers valuable contribution to theory and practice. There is limited literature in Kenya Securities market on effect of different types of financing decisions on shareholders' value creation. The study sheds light on matters regarding financing decision and effects on shareholder value creation.

The study will provide insights to fund providers such as commercial banks and other financial institutions in understanding the financing behavior of non-financial firms in Kenya. In addition the trade creditors who provides funds in kind will have an insight on how different sectors create or destroy value as they use short term financing

The study will help managers in assessing how different financing decisions impact on the value of the firm in general and specifically on creation of shareholder value. It will act as a guide in planning for optimal financial structures and issues regarding dividend payout ratio.

The study results form basis under which investor can make informed choices regarding the firms to invest in. It will also help investors to develop a model for use in forecasting earnings and making investment decisions.

1.6: Scope of the study

The study covered the period from 2007 to 2014, targeting companies listed at Nairobi Securities Exchange, Kenya. The period recorded share prices fluctuations, delisting and suspension of some firm quoted at NSE, Kenya. The study focused on the quoted companies since they are legally allowed to invite public to subscribe equity share as part of internal funds. Companies in banking, insurance and investment sectors were excluded from the study due to their unique characteristics. Financing and liquidity requirements are highly regulated by the central bank and Banking Act. The study examined financing decision, both long term and short term restricted to debt financing,

equity financing working capital and dividend policy. The moderating variable composes of selected firms characteristics.

1.7 Organization of the study

The study is organized into five chapters. Chapter one covers the background of the study, the statement of the problem, the objectives of the study research hypotheses, scope of study , and the limitation of the study. The chapter two reviews the theoretical and empirical literature on the study topic and the conceptual framework. Chapter three outlines research philosophy and methodology to be used to achieve the study objective. Chapter four presents and discusses the results of the study. Chapter five outlines the summary, the conclusion and recommendations based on the conclusions from the study.

LITERATURE REVIEW

2.1 Introduction

This chapter presents the literature review. It provides an overview of theories underpinning the study and critical review of empirical research relating to financing decisions and shareholder value creation. The relationship between financing decisions and shareholder's value is presented in a conceptual framework. It is divided into three main sections; theoretical review, empirical review and conceptual framework.

2.2 Theoretical Literature Review

The theories of underpinning the study includes; Modigliani and Miller Theory; Agency cost Theory; Agency cost free cash flow Theory; Pecking Order Theory and Capital Asset Pricing Model(CAPM).

2.2.1 Modigliani and Miller Theory

Modigliani and Miller (1958) advocated capital structure irrelevancy theory. The model suggested that the valuation of a firm is irrelevant to capital mix of a company. The theory states that value of the firm is not dependent on choice of capital structure or financing decisions of the firm. They further stated that the market value of a firm is affected by its future growth prospect apart from the risk involved in investment. However, in a subsequent paper Modigliani and Miller (1963) relaxed the conditions in Modigliani and Miller (1958) and showed that under capital market imperfection where interest expenses are tax deductible, firm's value will increase with higher financial leverage. Models based on impact of tax, suggest that profitable firms have more need for tax management in corporations profits. This approach acknowledges tax savings and thus infers that a change in debt equity ratio has an effect on Weighed Average Cost of Capital (WACC). Implying that the higher the debt the lower the WACC. The major drawback however is that increasing debt results in an increased probability of bankruptcy. Hence the optimal capital structure represents a level of leverage that balances bankruptcy costs and benefits of debt finance. The study considered the argument put across by this theory in that the value of the firm is determined by the choice of finances and the argument that, the more the debt the lower the WACC.

2.2.2 Agency Cost Free Cash Flow Theory

The free cash flow argument advanced by Jensen (1986) states that when top managers have free cash flow available, they tend to invest it in projects with negative Net Present Value (NPV) instead of paying it out to shareholders as dividends. This is due to the fact that managers' salary increase with increase in turn over and thus managers have an incentive in operations to increase the size of the company, even when these investments have a negative NPV. According to Jensen (1986) free cash flow is that amount of money left after the firm has invested in all available projects with positive NPV value. However calculating the exact amount of free cash flow is extremely

complicated because it involves a perfect knowledge of all available investment opportunities of a firm. Boodhoo (2009) posited that using free cash flows to invest in negative NPV projects results to an increase in agency cost.

The theory concludes that cash flow increases the agency costs of the firm with poor investment opportunities. Owele (2013) asserts that efficient working capital management is crucial in order to avoid situations whereby managers mismanage the resources of the organization for their own interest. This supported by the argument that shareholders may choose various working capital approaches (conservative or aggressive) bearing in mind the agency costs. The present study considers the free cash flow as part of financing to caution working capital and wish to investigate whether the theory holds in as far as non financial firms trading in NSE are concerned.

2.2.3 Pecking Order Theory

The pecking order theory was developed by Myers in 1984 and its extensions by Lukas and Mac Donald (1990). According to this theory firms prefer internal funding over the external funding. In case the firm requires external funding they would prefer debt over equity and equity is generated as a last resort. So the firms do not have predetermined or optimum debt to equity ratio due to information asymmetry. Firms adopt conservative approach when it comes to dividends and use debt financing to maximize the value of the firm. One of the aspects of pecking order theory implies that when it comes to profitable firms, they would always prefer internal financing rather than taking up new debts or equity.

Myers (1984) observes that it is because the value of firm wealth of shareholders associated with firm is distributed by asymmetry of information. This argument was supported by Famma and French (2000) study found that profitable firms were less levered as compared to non-profitable firms. The theory stands on the presumptions that debt issuance sends a market signal that the firm is confident in its ability to service debt regularly while equity issuance sends a market signal that the firm may be overvalued, potentially leading to a share price drop. Frank and Goyal (2003) observe that greatest supports for pecking order theory are the large firms that are expected to face the least severe adverse selection problems because they receive better coverage by equity analysts. The current study investigated whether the non financial firms follow the assumptions of the theory while making their financing decisions.

2.2.4 Capital Asset Pricing Model (CAPM)

Capital Asset Pricing Model (CAPM) was developed by Sharpe (1964); Lintner (1965) and Mossin (1966). CAPM is based on the assumption that not all risks should affect asset price. In particular a risk that can be diversified away when held along with other investments in a portfolio is considered not risky. The CAPM gives insight about what kind of risk is related to asset return. Moreover, the theory argues that, the returns both received and expected by the investor are related to the risk incurred by owing particular financial assets. The main insight of the CAPM model which is central to the shareholder view is that, there is a risk weighted discount factor which allows investor assess the value today and tomorrow's development profits and cash flows. (Mossin 1969; Weston 1973; Copeland& Weston 1988). CAPM allows for investment valuation at the firm level without consideration of investor preferences and gives the expected return for any asset or portfolio as a function of a measure of risk called beta.

Numerous contributions have been devoted to verifying whether real life decision makers comply with the CAPM paradigm and it was noted that managers and practitioners often violate the stance while making capital budget decisions. (Graham and Harvey 2002). The only aspect that determines the preference of risk is weight (share). A risk free rate is fixed, only market risk is relevant for predicting return. The risk return relation (trade-off) is linear. The model combines linear risk and return trade off with the beta to find the price of risk. The optimal risk- return trade-off

is shown by Capital Market Line (CML). The CAPM formula is often graphed as the Security Market Line (SML) which shows the relationship between expected rate of return of a project and its beta. The current study is based on shareholder value creation whose main focus in appreciation of invested capital. The cost of equity, which is part of WACC, was estimated using CAPM formula.

2.2.5 Market Timing Theory

The theory was proposed by Barker and Wurgler (2002). The theory states that the current capital structure is the cumulative outcome of past attempts to time the equity market. Market timing implies that firms issue new shares when they perceive that the equity are overvalued and that firms repurchase own shares when they consider them undervalued. Barker and Wurgler (2002) observe that there is evidence that equity market timing has a persistence effect on the capital structure of the firm. Barker and Wurgler (2002) note that, certain factors influence security decisions such as; past stock prices, interest rate conditions and time-varying adverse selection cost of equity issuance.

The theory argues that, managers are able to identify certain window of opportunity during which equity issuance is less costly due to mispricing. Furthermore, managers time the securities they issue. Given this argument, when the market values of equities are high, relative to book value and past market valuations, managers will tend to prefer equity financing over debt financing and vice versa. This also indirectly implies that managers would purchase equity when their valuations are low. Effectively managers are able to increasing the value of the firm by lowering the overall cost of capital. This study sought to establish the timing effects of equity financing decisions on the overall cost of finance on non financial firms quoted at NSE.

2.3 Empirical Literature Review

2.3.1 Financing Decisions and Shareholder Value Creation

Sharma and Grover (2015) conducted a study on 'creating and measuring shareholders' value in India companies. The study examined 30 companies within a period of five years (2009- 2013). The study took dividend and capital structure as independent variable and shareholder value creation measured by EVA. The study used regression analysis technique to examine the impact of dividend and capital structure on shareholder value creation. The results show that most of the companies under review recorded a positive EVA an indication that they created value within the study period. The current study included the working capital variable to represent short term finance and moderated the variables with GDP growth rate.

Abdoli and Pourkazeni(2013) examined the relationship between capital structure and ownership with the created shareholders value in Teheran stock exchange. The study examined ninety five firms for a period 2008-2011. Separate and simultaneous role and effect of the focus and type of ownership as well as the capital structure on the created shareholders value was examined. The study used simple and multivariate model, in addition stepwise modeling was applied to examine the effect and sign of most independent variables. The results revealed that, a direct and significant linear relationship between capital structure and the created shareholders value and inverse and significant relationship between ownership and created shareholders value.

Korankye(2013) examined the determinants of shareholders value creation of listed Banks in Ghana. The analysis were performed using panel data derived from the financial statements of listed banks on the Ghana stock exchange (GSE) the results of analysis show statistically significant positive correlation between shareholders value (as measured by the market value to book value and each of the leverage, dividend policy and return on equity. The result showed that increase (or decrease) in leverage, dividend payout and profitability respectively enhances or (attenuates) the wealth of shareholders.

Atiyet, (2012) explored an optimal capital structure to maximize the shareholders wealth. The study also tried to determine the most significant determinants for shareholders value creation. The researcher utilized panel data on French firms 1999-2005. The result revealed that the self- financing explains positively and significantly on shareholder value creation for both (EVA and MVA). The equity issue supplies explained negatively and significantly shareholder value creation for both measures. Financial debt contributes positively to EVA and negatively to MVA. The study observed that the impact of financial factors on shareholders values depends on measure taken and the financial structure added to the model. The current study added more variable as part of financing decisions which included dividends and working capital financing

Shahveisi *et al*., *(*2012) studied the correlation between capital structure and the variables of value based performance assessment. The study employed descriptive analysis and ex post facto methodology. The result revealed that there is negative and meaningful relationship between the capital structure and the variables of value-based performance assessment including EVA, MVA and CVA in 219 companies listed in Tehran Stock Exchange within a time period of 5 years from 2007 to 2011. The current study combined the capital structure, working capital financing and dividend financing to constitute financing decisions. The financing decision was regressed against the shareholder value creation.

Chowdhury and Chowdhury (2010) examined the impact of capital structure on the value of firm in the context of Bangladesh economy or industrial sector. The study gathered secondary data of publicly listed company traded in Dhaka Stock Exchange (DSE) and Chittangong Stock Exchange (CSE) and used various statistical tools to analyze all the financial information. The share price was considered as proxy for value and various ratios. The findings revealed that maximizing the wealth of shareholders requires a perfect combination of debt and equity, whereas the cost of capital had a negative correlation and it had to be as minimal as possible. The study also found that by changing the capital structure composition a firm can increase its value in the market. Furthermore the utilization of debt to form optimal capital structure was found to be important in maximizing shareholders wealth. The study focused on one component of financing decision that is capital structure. This study added dividend financing and working capital financing as well as GDP growth rate as a moderating variable.

2.3.2 Equity Financing and Shareholder Value Creation

Mwenje and Olweny (2016) studied the impact of private equity on value creation among firms listed at NSE Kenya. A causal research design was adopted and the return on equity and return on assets were used as value creation proxies. The independent variables generated from three central pillars of private equity model comprised of financial, operational and strategic segments were analyzed. The findings of the study showed that financial modifications in capital structure had little or no impact on value creation metrics. On the other hand both operational and strategic indicators demonstrated predominantly significant causal association with value creation. The study sought to evaluate value creation using accounting metrics. The present study employed value based ratio to analyze the effect of shareholder value creation.

Zhu and Wang (2013) sought to analyze equity financing constraints and corporate capital structure in China. The purpose of the study was to investigate how uncertainty of equity financing brought about by equity financing regulations in emerging capital markets affects the company's capital structure decisions. The study developed a

theoretical model that tried to introduce equity financing uncertainties into the company's capital structure decision making. The findings showed that the firm value would decrease with the uncertainty of equity financing because of the relationship between firm's future cash- flows and the financing policies. The numerical solution of the model suggested that the uncertainty of equity financing is an important factor affecting the choice of optimal capital structure. The present study sought to analyze the effect of equity financing on the shareholder value creation.

Bougatef and Chichi (2010) investigated the relevance of market timing considerations on debt and equity choice using panel of Tunisian and French firms. The study showed that firms tend to issue equity when their market valuations are relatively higher than their book values and after market performance improves. This is in consistent with market timing theory. As a consequence these firms become under leveraged in the short-term and this impact of equity market timing on capital structure persists beyond eight years. (Elliot et al. 2009) observes that the equity market timing theory of capital structure proposes that managers should be able to identify times when equity is less costly compared to other types of external financing due to the markets overvaluation of the firm's stock.

2.3.3 Debt Financing and Shareholder Value Creation

Onwumere, Imo and Izhoh (2012) investigated the impact of outsiders' funds on firms' shareholders wealth maximization. Used indicators; Net profit margin, dividend per share and current ratio from 2004 to 2008 in Nigeria economy. The results revealed that outsiders fund has a positive though not significant relationship. Dividend per share and current ratio was negative and significant on net profit margin. The study examined one of the financing decisions and used accounting ratios. The present study considered additional variables such as equity financing dividend financing and working capital financing. The study used EVA and MVA as indicators of shareholder value creation.

Olokoyo (2012) observed that, firm's leverage had a significant negative impact on the firms (ROA). The study revealed that, all the leverage measures had a positive and highly significant relationship with market performance measure (Tobin's Q). It also established that the maturity of debt structure affects the performance of firms significantly and the size of the firm has a significant positive effect on the performance of firms in Nigeria. Floarea (2008) sought to identify the shareholder value creation strategies of Anglo-Saxon and European countries. The study results showed that corporate debt does not necessarily lead to high created shareholder value despite the claim of higher return. Cost minimization strategies as well as controlled asset expansion relative to employees numbers were identified as significant in shareholder value creating process.

2.3.4 Working Capital Financing and Shareholder Value Creation

Oseifuah and Gyekye (2017) examined the relationship between working capital management and shareholder wealth creation from non financial firms quoted in Johannesburg Stock Exchange, South Africa. The study used panel data regression methodology to analyze accounting data obtained from I-Net Bridge/ BFA for 75 firms for the 10 year period 2003-2012. The study revealed that, there exists a significant positive relationship between firm value and both inventory conversion period and receivables conversion period. The study also shows a significant and positive relationship between account payables deferred period and profitability. In addition the study revealed a significant and negative relationship between leverage and firm value.

Ajanthan (2013) sought to investigate the relationship between working capital management and corporate profit and to identify the variables that most affect corporate profitability and corporate value in Sri Lanka. The sample was selected from manufacturing, Beverage and food and tobacco; and chemical and pharmeutical industry from 2007-2011. The

profitability was measured in terms of Net profit margin, ROE and ROA. The result showed that managers can create value by increasing their firm's number of day's account payables than increasing number of day's account receivables and inventories. Shortening the cash conversion cycle was found to improve the firm's corporate profitability. The study analyzed one of the shareholder value creation driver using accounting ratios. The present study sought to determine combined effect of equity financing, debt financing, working capital financing, dividend financing and GDP as moderating variable on shareholder value creation.

Ogundipe *et al*., (2012) examined the impact of Working capital management on firm's performance and market value of the firms in Nigeria. A sample of fifty four non-financial quoted firms in Nigeria listed on the Nigeria Stock Exchange was used in the study. Data was collected from annual reports of sampled firms for the period 1995-2009. The results showed a significant negative relationship between cash conversion cycle (CCC) and market value and firms' performance. It also shows that debt ratio is positively related to market valuation and negatively related to firms' performance. The findings confirm that there is a significant relationship between market valuation profitability and working capital components.

2.3.5 Dividend Financing and Shareholder Value Creation

Boujjat (2016) study examined the impact of dividend policy on firm performance among 44 quoted firms in Morocco. The study sought to determine how dividend policy can be used as a source of finance and its effect on the shareholders' wealth maximization. To achieve the objective the study used two models using dividend payments as proxy for dividend policy and net profit after tax and market capitalization for financial performance and shareholder wealth respectively. The total asset was used as a control variable. The data extracted from the financial statements of sampled firms were analyzed using panel data regression model. The findings show that dividend affect firm performance and had strong and positive relationship. The current study combined equity financing debt financing working capital financing and dividend payout as independent variable and GDP growth rate as a moderating variable.

Tahir and Raja (2014) in the study aimed at analyzing the impact of divided policy on shareholder wealth of oil and gas exploration companies of Pakistan during the year 1999 to 2006.The study employed statistical tools such as regression and correlation methods to ascertain best fitted model for predicting the impact dividend policy on shareholders wealth. The study used dividend, payout ratio, price/earnings ratio and book value/market value equity ratio as independent variables and holding period yield as dependent variable. The co-efficient of determination was tested with the help of F-test to determine the proportion of explained variation in dependent variable. The result indicates very low correlation between independent variable and dependent variables for all companies showing insignificant relationship between variable. The study investigated one sector and dividend policy as its independent variable. The present study investigated all non financial sectors and additional financial decision variables using value based variables.

Yegon, Cheruiyot and Sang (2014) studied the effect of dividend policy on firm's performance of manufacturing firms listed at NSE Kenya. The study sought to ascertain the relationship between dividend policy and firms' profitability, investment and earnings per share. Data for the study was extracted from annual reports and accounting reports. The study analyzed the data using regression analysis with aid of E-views software. The findings showed that there is significant positive relationship between dividend policy and investment; and negative relationship between dividend policy and earnings per share. The study investigated one sector and dividend policy only as variable affecting shareholder value creation. In addition the researcher used the accounting measures as proxy for performance. The

present study covered all non financial sectors and added more variables affecting shareholder value creation. Furthermore, value based measures were used as proxy for shareholder value creation.

Asogwa (2009) sought to investigate empirically the determinants of shareholders value creation of banks listed in the Nigeria Stock Exchange from 2004-2008. The study used random effect probit model. The hypothesis such as financial policy hypothesis, dividend policy hypothesis, profitability and earnings hypothesis as well as variables such as size, age and structure in capturing firm value creation of the listed banks supplemented by information financial publication were used. The results showed that dividend policy is more important for value creation than profitability. The study focused on variables that affect shareholder value creation earnings growth. The financial debt policy variables, bank size and structure do not effect value creation but unobservable bank characteristics such as management quality or strategy may be important in banking sector. The current study analyzed how these factors affect the shareholder creation plus additional variables in non- financial sector using value based methods.

2.3.6 Gross Domestic product variables and shareholder value creation

Al-Abedellat and Al-Shabib (2012) sought to investigate the effects of change in investment and GDP on the Amman Stocks Exchange Index. The study examined the relationships between the change in the investment and the rate of growth in GDP and the movement of the Amman Stock Exchange Index for the period 1990-2009. The hypotheses and multiple regression analysis were tested using SPSS. The study results showed that there is relationships between the two macro economic variables (investment and GDP) and the Amman Stock Index and between each of them separately and stock Index. The result shows that the movement of prices in the Amman Stock Exchange Index is affected by the movement of the two variables. The impact of investment was greater than impact of GDP. The study examined the effect of the selected macro economic variables on the market index, which showed that affects the market dynamics. The current study used the GDP as a moderating variable to test its effect on shareholder value creation.

Reddy(2012) investigated the impact of real gross domestic product, interest rate and inflation on stock prices of quoted companies in India from 1999 to 2009. The stock prices were presented by stock market value index in the model. A regression analysis showed that the explanatory variable accounted for 95.6% of the variation in stock prices. A reduction in interest rate and inflation resulted in increased stock prices, while increase in GDP, showed a positive impact. The results are consistent with finance and economic theories since when economic is expanding the GDP growth rate is positive and households generally have more dispensable income to invest. In addition economic units are able to borrow fund cheaply and expand their businesses.

Most of the studies focused on effect of financing decisions effect on financial performance of firms, while others studied the impact of dividend policy on the shareholders value creation. Furthermore other studies investigated the effect of macro -economic variables on share prices and shareholders' value. The studies used accounting ratio as proxies for shareholders value.

2.5 Conceptual Framework

The conceptual framework is the researcher's conceptualization of the interactions between the variables of the study. It is a concise description of phenomenon under study accompanied by a graphical or visual depiction of the major variables of the study. Kothari (2004) posits that the conceptual framework of the study is developed from research objectives. The general objective of the study was to investigate the effects of financing decisions on shareholder value creation. The specific objectives included; determine the effect of equity finance on shareholder value creation, establish the effect of debt financing on shareholder value creation, determine the effect of working capital financing on shareholder value creation; dividend financing on shareholder value creation and the moderating effects of GDP growth rate on financing decisions on shareholder value creation.

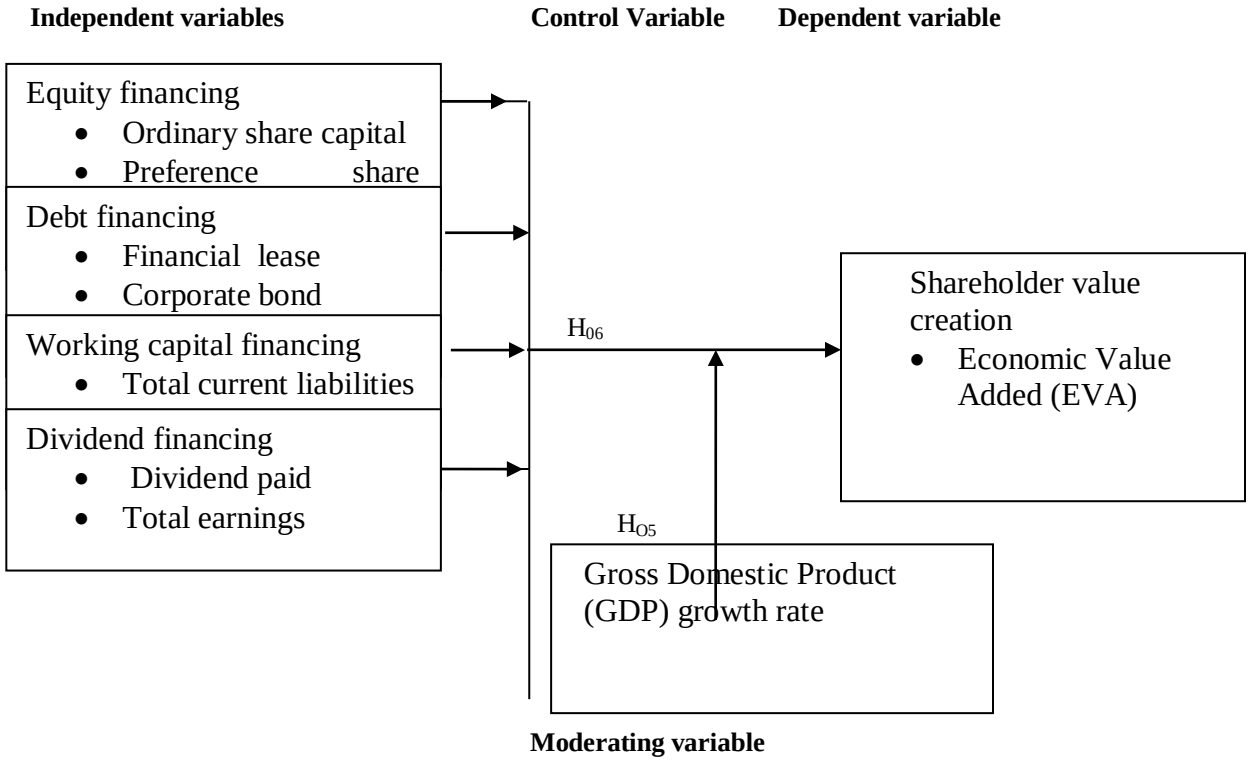


Figure 2.1 Conceptual Framework

Source: Researcher (2015)

The study conceptualizes independent variable as financial decisions consisting long term finance represented by equity finance and debt finance and short term finance or represented by working capital financing and dividend financing. The dependent variable is shareholder value creation, conceptualized as Economic Value Added (EVA). The moderating variable is represented by macro economic variables as informed by empirical literature. The study used GDP as an indicator of macro-economic variable. The other macro economic factors such as inflation and interest rates are assumed to be incorporated in the cost of capital. The company market capitalization was used as the control variable. Control variables are factors not part the researcher's main concern. They are included to ensure that the regression reflect the reality as much as possible.

The dependent variable was measured using EVA a concept developed by Stern Stewart in 1998 which seeks to measure efficiency of an enterprise in value creation. In addition EVA recognizes the cost of capital and hence the riskiness of a firm's operations.(Shil 2009; Floarea 2008; Sharma 2010; Bhunia 2012;Hall 2013; Norouzi and Samadi 2013;) observed that EVA, is an alternative performance measure used to overcome the limitations of traditional measurements whose criteria correlate with shareholders wealth and actions of a company managers. The shareholder value creation methodology is highly flexible approach to assist management in the decision making process. Its application includes performance monitoring, capital budgeting, output pricing and market value of the equity. Bhasin (2013) opines that EVA can be a powerful tool when properly applied as it allows firms to concentrate on firms' productivity in order to maximize the value created. The researcher employed EVA measure to examine the companies that created value and those that destroyed values for the shareholders within the study period.

RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the research philosophy, research design, empirical model, operationalization of variables, target population, sampling design data collection instruments and procedures, data analysis approach and presentation. It will also present the normality test to be performed in the study.

3.2 Research Paradigm

The study was founded on positivism paradigm. The research paradigm of the study reflects the nature and approach taken when conducting research. Research philosophies differ on the goal of the research and the way to achieve their objectives. Gephart (1999) classified research paradigm into three philosophically distinct categories as positivism, interpretivism and critical postmodernism. Furthermore there are two research paradigms that may underpin a research, which are, positivism and social constructivism. Positivism believes that reality is stable and can be observed and described from an objective view point. The positivist is grounded on the theoretical belief that there is an objective reality that can be known to the researcher if correct methods are applied in a correct manner, (Saunders, Lewis & Thornhill 2009).

Positivists claim there is a single, objective reality that can be observed and measured without bias using standardized instruments. Dedes (2010) argued that in positivist paradigm, the researcher sees himself as a neutral and objective and that knowledge is quantifiable. Bryman and Bell (2003) opined that positivism assumes an understanding of the world environment and that events of interest are objective, external and independent of the researcher. Social constructivism, however, assumes that the understanding of the environment and events therein are socially constructed and subjective from researcher's point of view (Bryman and Bell, 2003). The current study followed the positivism stance within epistemology which involves perception of knowledge. Furthermore the result was generalized and the researcher had no direct influence on the variables.

3.3 Research Design

A research design is the overall plan for connecting conceptual research problem to the pertinent and achievable empirical research. It articulates what data is required, what methods are going to be used to collect and analyze the data and how the research question will be answered, (Kothari 2004). Zikmund (2009) posits that research design begins with selection of the topic and a paradigm. This study adopted explanatory, which is non-experimental. The objective was to test the theories underpinning the study as well as hypotheses in an attempt to validate the theories

(Bell, 2008). An explanatory non-experimental research design was adopted to establish how financial decisions variables affect shareholders' wealth creation of selected companies quoted in NSE, Kenya.

3.4 Empirical Model

To analyze the effect of financing decisions on shareholder value creation of listed companies at the NSE, the study will adopt and modify the basic static model as proposed in (Radic, 2015) $\mathbf{Y_{it} = \beta_0 + X^1_{it}\beta + \varepsilon_{it}; \ i=1\ldots N, \ t=1\ldots T}$ .The independent variables and moderating variables are expressed in a multiple regression equation, where the shareholder value creation is measured using EVA expressed as:-

$EVA_t = NOPAT_t – (WACC* IC_{t-1})$

Where, $NOPAT_t$= Net Operating Profit after Tax at time t

WACC= Weighted Average Cost of Capital.

$$WACC=\frac{Debt}{Debt+Equity}Rd \times (1 - tax\ rate)+\frac{Equity}{Debt+Equity}Re$$

Where: Rd = interest rate

Re = investors cost (investors expected return).

IC_{t-1} = Invested Capital at time (t-1)

The cost of equity finance was estimated using CAPM formula. The model was adopted and modified as proposed in (Stewart, 1990; Mamun and Mansor ;2012). Expressed as follows;

Re = Rf + βi ((Rm) – Rf)

$$\beta =\frac{\Delta R}{\Delta Rm}$$

Where; Re =Cost of equity

βi = Market beta; representing a coefficient of the change of the company's share price compared to overall market index.

Rm= Market return

Rf = Risk free rate (Treasury bond rate of return).

The data include both time series and cross section dimension; hence, a linear panel regression was estimated as proposed by Baltagi (2005).

The study general empirical model will be defined as follows.

$$\mathbf{Y_{it} = \beta 0 + X^{'s}_{it}\beta + \varepsilon_{it}} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \mathbf{(3.1)}$$

Where $Y_{it\ is}$ independent variable denoting shareholder value creation of company *i* at time t. Where *i* denotes the target companies, *I* =1… 40 while t represents the observed time period t= 2008… 2014; X_{it} denotes a vector of independent variables β are coefficients to be estimated, α is a constant term and ε_{it} is a composite error term.

The equation 3.1 is expanded to obtain equations 3.2 which was used for estimation.

$$\textbf{Log EVA}_{it} = \beta_0 + \beta_1 \textbf{ Log EQ}_{it} + \beta_2 \textbf{ LogDT}_{it} + \beta_3 \textbf{ LogWC}_{it} + \beta_4 \textbf{ LogDIV}_{it} + \varepsilon_{it} \ldots\ldots\ldots \textbf{(3.2)}$$

Where;

$\textbf{EQ}_{it}$ = equity finance of company *i* at time t

$\textbf{DT}_{it}$= debt finance of company i at time t

$\textbf{WC}_{it}$= working capital of company i at time t

$\textbf{DIV}_{it}$ = Dividend paid out ratio of company i at time t

$\textbf{GDP}_{it}$ = Gross Domestic Product rate

ε_{it} = composite error term.

$\boldsymbol{\beta}$ **s**, = coefficients of explanatory variable

β_0, = constant term

3.4.1 Moderating Effect Model

To determine the moderating effect of the GDP growth rate on the relationship between the financing decisions (equity financing, debt financing, working capital financing and dividend payout ratio) and shareholder value creation, the study specified equations 3.1 and 3.2 as follows:

$$\textbf{Log EVA}_{it} = \beta_0 + \beta 1 \textbf{ LogEQ}_{it} + \beta_2 \textbf{ LogDT}_{it} + \beta_3 \textbf{ LogWC}_{it} + \beta_4 \textbf{ LogDV}_{it} + \beta_5 \textbf{GDP}_{it} + \beta_6 \textbf{ LogFDV}_{it} \textbf{*GDP}_{it} + \varepsilon_{it} \ldots\ldots\ldots\

information about cases for study. The total number of non- financial companies listed at NSE, as at 31st December 2015 were 41. However one firm was not analyzed because the data was incomplete. Hence, 40 companies were analyzed.

3.8 Data Collection Procedure

The researcher obtained a research permit (Appendix 1) from National Commission for Science, Technology and Innovation to allow use of data from published financial statements of non-financial companies listed at the NSE, Kenya. The study utilized panel data consisting of time series and cross-sections dimension in such a way that there were N entities over T time periods. The panel data was appropriate because the data contained data across firms and overtime (2008-2014).The data for all variables in the study was extracted from published annual reports and financial statements of the listed companies in the NSE covering the year 2008 to 2014. The data was obtained from the NSE hand books. Data extracted included the income statement, statement of financial position and notes to the accounts. The researcher used a document review guide as shown in appendix 2.

The study used unbalanced panel data since time periods for the companies under observation vary. The panel data allows the researcher to control for variables that cannot be observed or measured and can include variables at different levels of analysis (Greene, 2012). In addition panel data allows several data points to be pooled on each variable which increases the degree of freedom necessary in realizing more robust economic estimates (Baltagi 2005; Ogundipe *et al.*, 2012). Lee (2006) affirmed that panel data have the ability to control unobserved individual-specific or time specific effect which could be correlated with unobserved explanatory variables thus ensuring consistent estimation for parameters of interest. The data for all variables in the study were extracted from published annual reports and financial statements of non-financial firms quoted in NSE, covering the year 2007 to 2014. This period registered fluctuation in market share prices, poor performance of some firms resulting to deregistration from the NSE. As a result shareholders lost value of their investment. This discouraged potential investor which is witnessed by reduced market activities and low capitalization. The researcher extracted data using document review guide to extract and compile the required secondary data. Data extracted included the income statement, statement of financial position and notes to the account.

3.9 Data Analysis and presentation

The secondary data extracted from the financial statements were used to compute the relevant ratios as defined in Table 3.1.The secondary data encompass panel data which consists of time series and cross- sections. Ratio analysis provides method for assessing the types of financing decisions adopted by firms and their effects on shareholder value creation. The panel obtained was analyzed using descriptive statistics, correlation analysis and panel multiple regression analysis. The panel methodology was aided by STATA 14 software, Excel program was used to calculate various relevant ratios for each company across time. The data was then formatted in STATA 14 from excel worksheets.

Descriptive statistics was used to summarize the status of equity finance, debt finance, working capital finance, dividend policy and the shareholder value creation among the non financial companies listed at NSE. The study used panel data which was estimated using various models among them; pooled effect, random effects and fixed effect. The key consideration in company fixed effects and random effects estimator was based on whether the unit effects are correlated with any of the explanatory variables and therefore the random effect biased. (Hausman, 1978; Wooldridge, 2012; Baum, 2005).

3.10 Diagnostic Tests

Most statistical tests assume that the data sample is approximately normally distributed; however this is not the case in some situations. The study used panel data which is linear. As a result there was a possibility of violations of classical linear regression assumptions. Estimating the study equations when the assumptions of linear regression are violated runs a risk of obtaining biased, inefficient and inconsistent parameter estimates (Bruce 2015). It was therefore necessary for the researcher to ensure non-violation of the assumptions of classical linear regression model (CLRM) before estimating equations 3.2 and 3.3. The study performed various tests in order to correct the basic assumption.

The study used Hausman specification test to determine the most appropriate model for estimating the panel data. The Hausman-statistic tests state the null-hypothesis that; there is no difference between the estimated coefficients fixed effects and a random effects estimator The Hausman statistic is distributed asymptotically as chi^2. The fixed effects estimator is consistent under both the null hypothesis and the alternative hypothesis. The random effects estimator is however inconsistent under alternative hypothesis but more efficient under null hypothesis. The null was rejected if the p-value was less than 0.05. The results are presented in form of tables and graphs for easy understanding. The study adopted fixed effects estimator.

3.10.1 Multicollinearity

Multicollinearity occurs when two or more independent variable in a regression model are highly corrected implying that one can be linearly predicted for the others with some degree of accuracy (Cooper and Schilder,2014).Failure to account for perfect multicollinearity, result into poorly determined regression coefficients and infinite standard errors. Large standard errors affect the precision and accuracy of rejection or failure to reject the null hypothesis. Field (2009) notes that severe cases of perfect correlations between explanatory and explained variables can imply that, a unique least square solution to a regression analysis cannot be computed. In this study, the researcher used Variance Inflation Factor (VIF) to test for multicollinearity. A value exceeding 0.8 and a VIF exceeding 10 was regarded as indicator of multicollinerity, as proposed in (Gujarati, 2003).

3.10.2 Autocorrelation

Panel data models are suspicious of serial correlation biases the standard error that causes the results to be less efficient, the estimate of confidence level also became less reliable. The study sought to identify serial correlation in idiosyncratic error term. Wooldridge test for serial correlation was conducted. Drukker (2003) observed that the model has advantage because it can be applied under general condition and is easy to implement. The test has good size and power properties with samples of moderate size and has fewer assumptions. It can also be used in both balanced and unbalanced panel data. The test was performed to find out if there exists mutual statistical independence for the different disturbance terms. If the residuals do not fulfill this condition, then linear dependence exists between the residuals and hence they are said to be auto- correlated. The null hypothesis of this test was that the data had no serial autocorrelation. The hypothesis was rejected and a conclusion made that the study data had serial auto correlated, this condition was accounted for using the Feasible Generalized Least Square (FGLS) estimation procedure was adopted as recommended in (Woodridge, 2012).

3.10.3 Homoskedasticity

Heteroskedasticity is an assumption of Classical Linear Regression model (CLRM) that needs to be tested and properly accounted for if present. According to Bruce (2015) Heteroskedasticity implies that the conditional variance δ^2 (χ) depends on observables. The error term is Homoskedasticity, that is, it has a constant variance. Heteroskedasticity occurs when error variance is not constant. Running a regression model without accounting for heteroskedasticity would lead to unbiased parameter estimates but the invalid standard errors. The error may increase as the value of independent variable increases (William, 2015). The study tested heteroskedasticity using likelihood Ratio (LR) test (Woodridge, 2002). The null hypothesis of this test was that the error variance is

homoskedastic. Should the null hypothesis of this test be rejected and a conclusion made that there exist heteroskedasticity then, further tests will be run.

3.10.4 Panel unit root test

Unit root test was conducted to determine whether the variables are stationary or non-stationary. Panel unit root test was applied to all variables used in the analysis in order to avoid spurious regression results. Chen (2013) posits that testing for unit root has become a standard procedure in time series analyzes. Non stationary would affect the behavior of a series and hence resulting to spurious regression results. If data is non –stationary it will go for differencing, the method used for testing for unit roots. The study employed Levin and Lin (1992) extended model which allows for fixed effect individual deterministic trends and heterogeneous serially corrected errors. The main advantage of this test is that it works well with an unbalanced panel. Levin –Lin Chu test (LLC) suggest the following hypothesis;

H_0: Each time series contains a unit root

H_1: Each time series is stationary

If any of the variables has unit root, the researcher would differentiate it and run equations 3.1, 3.2 using the differenced variables.

3.10.5 Test for Random or Fixed effect

When using panel data analysis it is important to determine whether to run a fix effects model or a random effect model. To choose between fixed effect and random effect model for the multiple regression models, Hausman test which is a standard procedure used in empirical panel data analysis to discriminate between the fixed effect and random effect model was employed. Hausman (1978) shows that under appropriate assumptions, under H_O the statistic h based on (u_r-u_e) have a limiting chi-square distribution.

$h = (Ur - Ue)1[Var\,(Ur - Ue)] - 1(Ur - Ue) \sim X^2k$

If this statistic lies in the upper tail of the chi-square distribution H_o will be rejected otherwise the study fail to reject H_o. if the variance matrix is consistently estimated the test will have power against alternative under which Ur is robust and Ue is not.(Hausman 1978; Baltagi 2005 and O'Brien & Patacchini 2006). Hausman test identified the fixed effects model as appropriate, thus the study tested for inclusion of time-fixed effects in the study estimation. The time fixed effects tests if the dummies for all years are equal to zero and if they are, then, there will be no need for time fixed effects in the specification of the model estimated. To test whether the dummies for all years are equal to zero, F-test was used as proposed Greene (2012). On the other hand, if the Hausman test identifies the Random effects model as more suitable, then, there would be need to test whether to run a simple Ordinary Least Square (OLS) regression or the random effects model. There was no need to run an OLS since fixed effect model was found appropriate.

3.10.6 Test for Moderating Effect

Moderation refers to a situation in which a relationship between an independent variable (X) and dependent variable (Y) is strengthened, weakened or even reversed by a third variable (M). In order to confirm whether, the GDP growth rate have moderating effect, the researcher performed tests to show that the nature of this relationship changes as the values of the moderating variable changes. (STATA, Elite Research, 2013). The researcher further checked to find out if the interaction was significant and whether it helped to explain variations in shareholder value creation better than before.

Figure 3.1

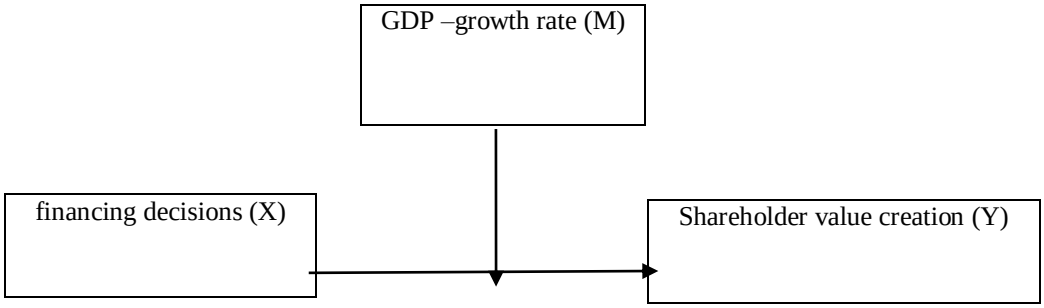


Figure 3.1 moderating financing decisions and shareholder value creation

First the researcher standardized all variables to make interpretation easier and to avoid multicollinearlity. The study variables were expressed in ratio form. The second step was to use regular regression menu item in STATA software and develop a dummy code-categorical variable. The third step involved fitting the regression model predicting the shareholder value creation from both the financing decisions variables and GDP growth rate. Both effect as well as the model in general (R^2) were significant. The final step was to add the interaction variable to the previous model and check the significant R^2 changes as well as a significant effect by the new interaction term. Generally if both are significant then the moderation is occurring. The test was conducted at 95% level of confidence.

3.11 Test for Differences in Financing Decisions among Sectors

The study examined whether there is significant differences in financing decisions of various sectors of non-financial companies in the NSE. The study employed the t-test for group means and panel graphs. Hall (2013) observed that, different value creation measures explain shareholder value creation best for different categories of firms. The study data is in panel form, the sectors as shown in table 3.2 are seven. Upon analysis the results were plotted for the period ranging between 2008 and 2014. In order to determine the existence of significant difference in financing decisions among different sectors, pairs of sectors were created and the mean differences tested for statistical significance. The study used the two- group mean comparison test where the test statistic is the *t*-test. The null hypothesis of the t-test was that mean difference of a pair of sector is equal to zero as proposed in (Greene, 2012). Further the study used the two –tail test to examine whether there was a significant mean difference between the means of a pair of sector. The summary of the data analysis techniques that was employed to achieve the objective of this study are presented in table 3.3.

Table 3.3 Hypothesis testing techniques

	Hypothesis	method
1	H_{01}: Equity financing decisions have no statistically significant effect on EVA of non financial firms listed at the NSE, Kenya. .	Panel regression (FGLS regression)
2	$H_{02:}$ Debt financing decisions have no statistically significant effect on EVA of non-financial firms listed at the NSE, Kenya.	Panel regression (FGLS regression)

3	H_{03}: Working capital financing decisions have no statistically significant effect on EVA of non-financial firms listed at the NSE, Kenya.	Panel regression (FGLS regression)
4	H_{04}: Dividend financing have no statistically significant effect on EVA of non-financial firms listed at the NSE, Kenya. .	Panel regression (FGLS regression)
5	$H_{05:}$ GDP do not moderate the relationship between the equity finance, debt finance, working capital finance and dividend finance and the EVA of the non-financial firms listed at NSE, Kenya.	Stepwise –regression.
6	H_{06}: there is no statistically significant difference in Equity financing, debt financing, working capital financing and dividend payout among financial firms listed at NSE, Kenya.	ANOVA

Source: Researcher (2017)

RESEARCH FINDINGS, INTERPRETATION AND DISCUSSIONS

4.1 Introduction

This chapter presents data analysis, empirical findings, interpretation and discussions of the results. The findings are presented in form of tables and narrations.

4.2 Descriptive Statistics

Descriptive statistics were summarized in tables and figures. Cooper and Schilnder (2014) posit that, descriptive statistics allows the researcher to digest and understand large volumes of data and enhance effective communication to users.

Table 4.1: Descriptive Statistics

Variable	obs	Minimum	Maximum	Mean	Std. Deviation
EVA(billions)	272	-939895.550	0.61504807	-478.814	59992.529
Equity Financing (millions)	272	1232910	474687545	16393280	55739246
Debt Financing	272	1.09	259854000	10189677	30256338
Working Capital Financing (millions)	272	0.3412	52635049	1360793	6859514
Dividend financing (Millions)	272	0.00	214376102550	1306372996	12683129895
GDP (%)		1.60	7.10	5.13	1.63

Source :(study data 2017)

As indicated in the table 4.1, the total mean of EVA for the period 2008 to 2014 was ksh -478.814 billion with a standard deviation of ksh 59992.529 billion indicating a large variability in EVA over time. The negative mean show that, on average the companies listed at NSE decreased shareholders' value within the period of study. The Minimum and maximum, values of EVA over the same period of time were ksh – 939895.55 billion and ksh 0.61504807 billion respectively. The positive return indicates that some companies created shareholders value. The negative EVA shows there were companies that destroyed shareholder value within the period of study as observed in Narang and Mandeep (2014). The huge negative as compared with small positive indicates that investors' hard earned investments were destroyed. This is an indication that the capital invested did not fetch enough return to cover cost of that capital, thus shareholder wealth destruction. Unfortunately most of these companies reported good profits as recorded in the income statement over the period under review.

The results on equity financing show an average of ksh16393280 billion and a standard deviation of ksh 55739246 billion for the period 2007 to 2014. At the same period the maximum equity financing was ksh 474687545 billion and a minimum, value of ksh 1232910 billion. The results indicate a wide variation in equity financing among the firms reviewed over the study period. The huge difference is attributed to new equity issues, IPOs, and additional companies listing within review period. Moreover, on average, non-financial companies quoted on NSE, used equity financing for their operations.

The results also show that the total mean of Debt financing for the period 2008 to 2014 was ksh 10,189,677 billion with a standard deviation of ksh 30,256,338 billion indicating a large variability in debt financing over time. The Minimum and Maximum, values of debt financing over the same period of time were ksh1.09 billion and ksh 259,854, 000 billion respectively. Working capital financing mean, for the period 2008 to 2014 was ksh1, 360,793billion with a standard deviation of ksh 6,859,514 billion indicating a large variability in working capital financing over time. The Minimum and Maximum, values of working capital over the same period of time were ksh 0.3412 billion and ksh52, 635, 049 billion respectively.

The total mean of Dividend for the period 2008 to 2014 was ksh 1,306,372,996 billion with a standard deviation of ksh 12,683,129,895 billion indicating a large variability in dividend over time.The Minimum and Maximum values of dividend over the same period of time were 0.00 and ksh 214,376, 102,550 billion respectively. The minimum

value (0.00) indicates that some companies did not issue dividends to the shareholders. The companies probably retained profits within the period observed. However, on average non- financial companies quoted in NSE, paid out dividends on their shareholders. Furthermore, it shows that, some companies did not generate profits within the study period.

The mean GDP growth rate for the period (2008 to 2014) was 5.13 % with a standard deviation of 1.63% indicating a small variability in GDP over time. According to world Bank Kenya Economic Update (KEU, 2013) GDP growth rate was affected by both internal shocks and external shocks. The Minimum and Maximum, values of GDP growth rate over the same period of time were 1.63% and 7.10% respectively. The GDP growth rate was used as a moderating variable which revealed positive and significant effect on shareholder value creation. According to past studies economic variables have a positive and significant affect on financing decision variables.

4.3 Trend Analysis

This section presents the trend analysis of the variable; EVA, Equity Financing, Debt Financing, Dividend financing and Working Capital Financing and GDP. The study conducted trend analysis, based on secondary data, to establish the movement of the variables under study while controlling market capitalization variable. This a crucial test as it assists in performing unit root analysis as the trend analysis graphically indicates the pattern and direction of movement in the variables.

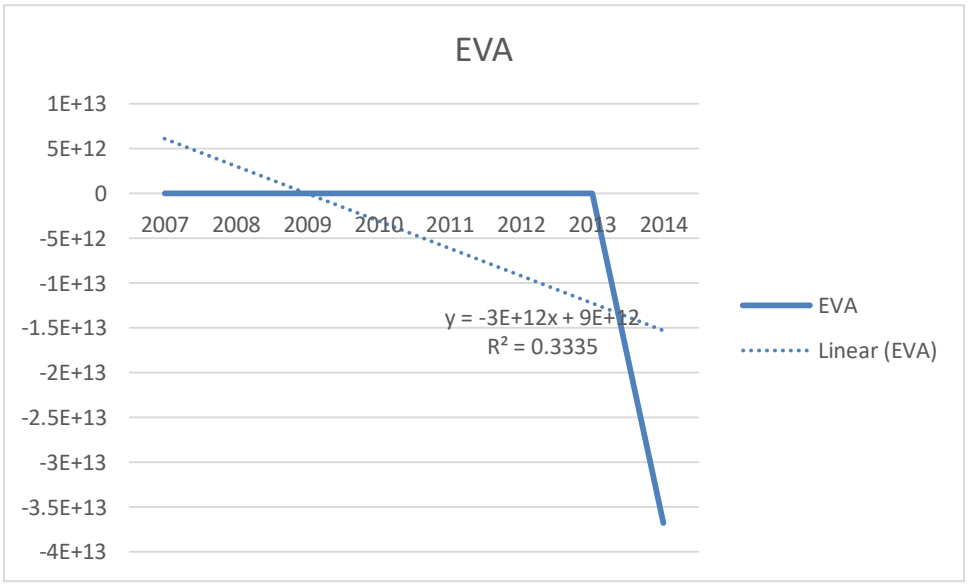


Figure 4.1: Trend of EVA for the year 2007-2014
Source: study data (2017)

Figure 4.1 shows the EVA trend for the 40 companies from the year 2007 to 2014. The trend line indicates that EVA has been consistent from the year 2007 to 2012. The values remain zero or almost zero indicating in general the firms quoted at NSE did not create any value for their shareholders. It then dropped sharply in the year 2013. The results indicate decrease in value creation among the firms under observation. From 2013 to 2014 result show that most companies destroyed shareholders' value. Gaunder and Venkateshwarlu (2017) observed that the higher the EVA the higher the shareholder value created. According to Stewart (1991) positive EVA companies provide

higher returns than they can earn investing the same funds elsewhere. The investors could sell their investments for a premium- book- value. When EVA is zero it implies that the firm just met investors' expectation, the shares sell at book value. The negative EVA indicates that, firms destroy investors value thus should sell at a discount to book value.

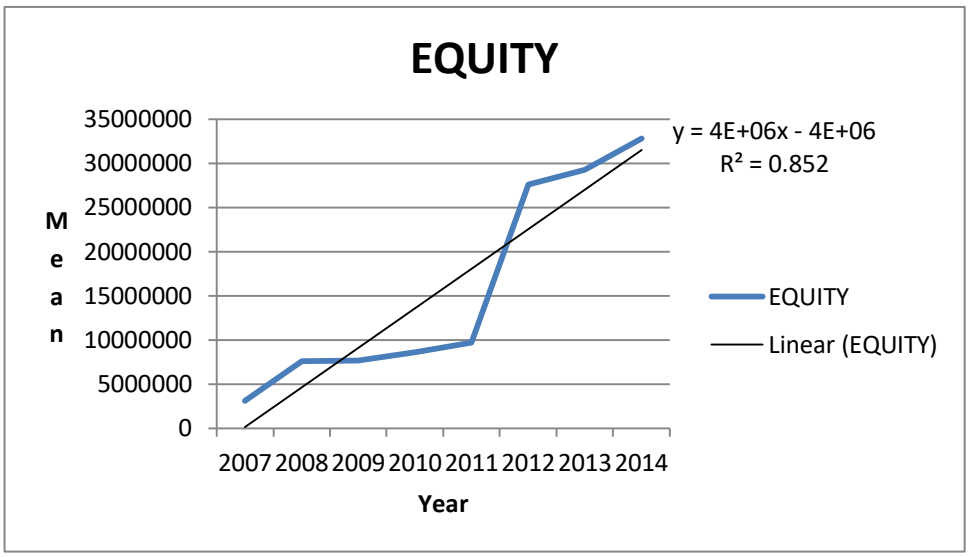


Figure 4.3: Trend of EQUITY for the year 2007-2014
Source study data (2017)

Figure 4.3 shows the equity trend for the 40 companies from the year 2007 to 2014. The trend indicates that equity has been on the increase from the year 2007 to 2014. This shows an increase in equity financing among the firms under consideration.

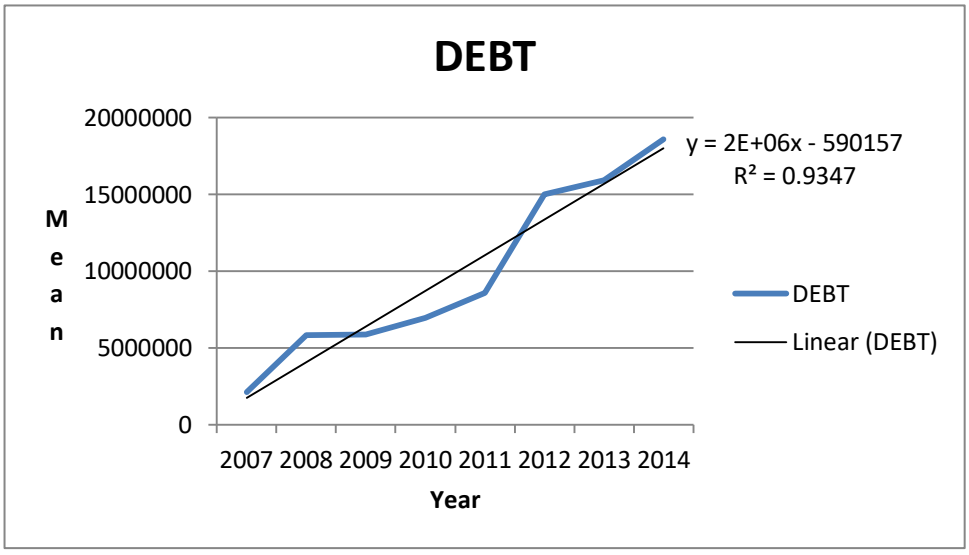


Figure 4.4: Trend of DEBT for the year 2007-2014
Source: study data (2017)

Figure 4.4 shows the total asset trend for the 40 companies from the year 2008 to 2014. The trend line indicates that the debt has been increasing overtime since 2008 to 2014 .The result shows an upward trend an indication of increased debt financing among the firms under consideration.

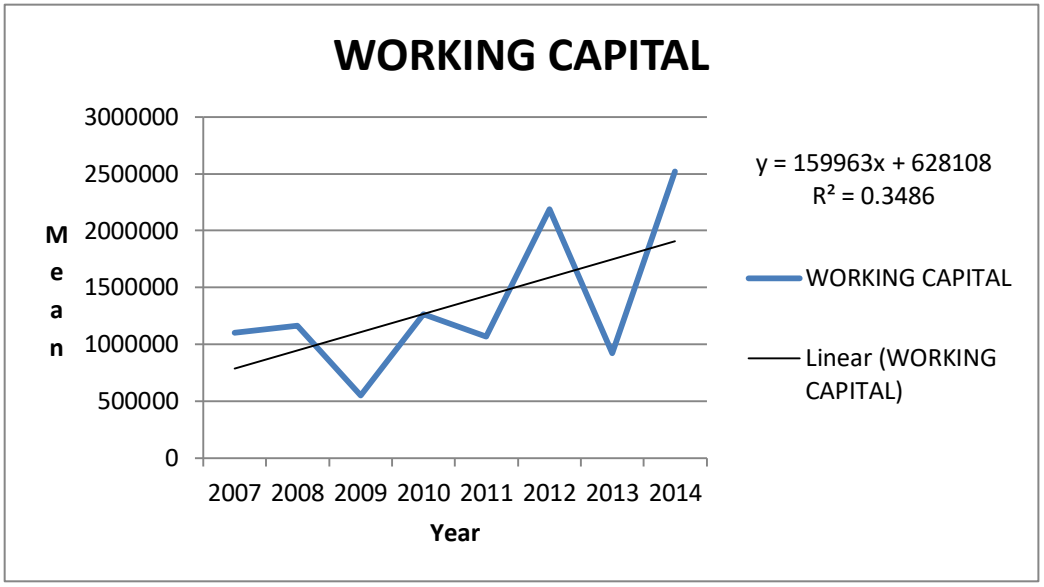
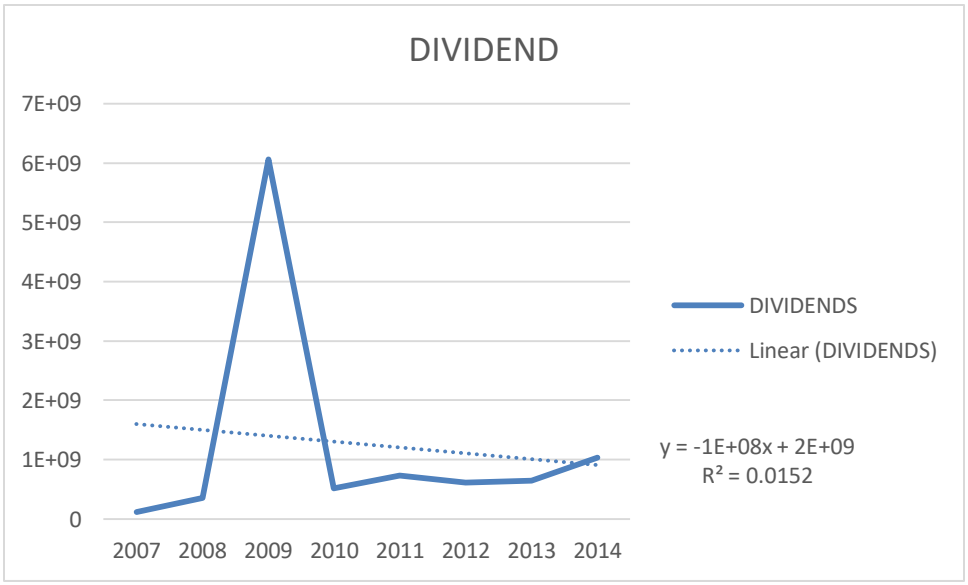


Figure 4.5: Trend of Working Capital for the year 2007-2014
Source study data 2017

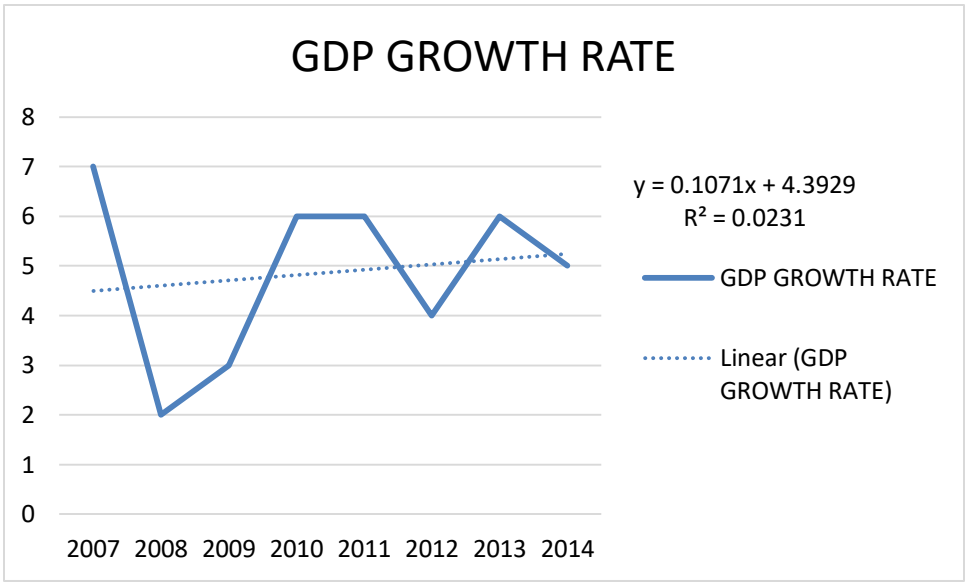
The working capital represented short term financing which show an increasing trend. Figure 4.5 shows the working capital trend for the 40 companies from the year 2008 to 2014. The trend line indicates that working capital has been increasing overtime since 2008 to 2014.



Source: study data (2017)

Figure 4.6: Trend of Dividends for the year 2007-2014

Figure 4.6 shows the dividends trend for the 40 companies from the year 2008 to 2014. The trend indicates that the dividends increased sharply in the years 2008 and 2009 and then dropped in the year 2010. The tread line shows that generally the dividends have been on a decrease. The result implies that the total dividend decreased among non financial companies listed at NSE, over the observed period.



Source: study data 2017

Figure 4.7: Trend of GDP for the year 2007-2014

Figure 4.7 shows the GDP trend for the 40 companies from the year 2008 to 2014. The results indicated that in the subsequent year i.e. from 2008 to 2009, the real GDP significantly dropped. This drastic decline in the real GDP was mainly due to the low performance within the economy due to the post-election violence which occurred in the years 2007/2008. This trickled down to individual sectors which negatively impacted on the real GDP of the country. Following the recovery of the economy the real GDP rose in 2009 to 2011 and a slight decline in 2012 and this decline was mainly attributable to the state of affairs in the country which was awaiting its general elections. At this time the investors' confidence was negatively impacted for fear of a repeat of state of political instability in the country. However, the GDP stabilized in the year 2014 after the election (CMA, 2015)

4.4 Diagnostic Tests Results

Prior to running a regression model pre-estimation and post estimation tests were conducted. The pre-estimation tests conducted in this case were multicollinearity and unit root tests while the post estimation tests were normality test, heteroskedasticity and autocorrelation. The researcher conducted the tests to ensure that the assumptions of CLRM were not violated.

4.4.1 Multicollinearity Test Results

Table 4.2: Multicollinearity results

Variable	**VIF**	**1/VIF**
Equity Financing	1.87	0.535854

Debt Financing	1.85	0.539472
Working capital financing	1.04	0.962078
Dividend financing	1.02	0.981683
Mean VIF	1.36	0.800763

Source: study data (2017)

Multicollinearity inflates the standard errors and confidence intervals leading to unstable estimates of the coefficients for individual predictors (William 2015). Multicollinearity was assessed in this study using the variance inflation factors (VIF). According to Field (2009), a VIF value in excess of 10 is an indication of the presence of Multicollinearity. The results in Table 4.2 present variance inflation factors results and were established to be 1.36 which is less than 10 and thus according to Field (2009) indicates that there was no Multicollinearity, thus the model deemed fit for further analysis.

4.4.2 Stationary Tests

Panel Unit root tests were conducted using the Augmented Dickey Fuller (ADF) test to establish whether the variables were stationary or non-stationary. In ADF, test lags of first difference are included in the regression equation in order to make the error term ε_t white noise. The purpose of this is to avoid spurious regression results which are a situation in which there appear to be a statistically significant relationship between variables whereas the variables are unrelated (Green, 2012). The study employed Fisher-type test because it has more advantages than other panel unit root tests. The null hypothesis of this test was that all panels had unit root. The alternative hypothesis was that at least one panel did not have unit roots or some panels did not have unit root.

Table 4.3: Unit root results

Variable name	**Statistic**	**P-value**	**Comment**
EVA	8.9845	0.0000	Stationary
Equity	6.5998	1.0000	Non Stationary
1st Difference of Equity	-14.0506	0.000	Stationary
Debt	108.5772	0.0035	Stationary
Working Capital	93.3170	0.0464	Stationary
Dividend	7.5348	0.0000	Stationary
GDP	-12.1142	0.000	Stationary

Source: study data (2017)

Results in Table 4.3 indicated that all variables are stationary (i.e. absence of unit roots) at 5% level of significance with exception of Equity which became stationary on its 1st difference. The researcher used log D (equity financing) for subsequence testing, otherwise the basic equity financing would give spurious results as noted in Chen (2013).

4.4.3 Test for normality

To test for normality the study employed two approaches; the graphical method and the Jarque-Bera test. The results from the graphical method are presented in the figure 4.8, indicating that the residuals are not normally distributed.

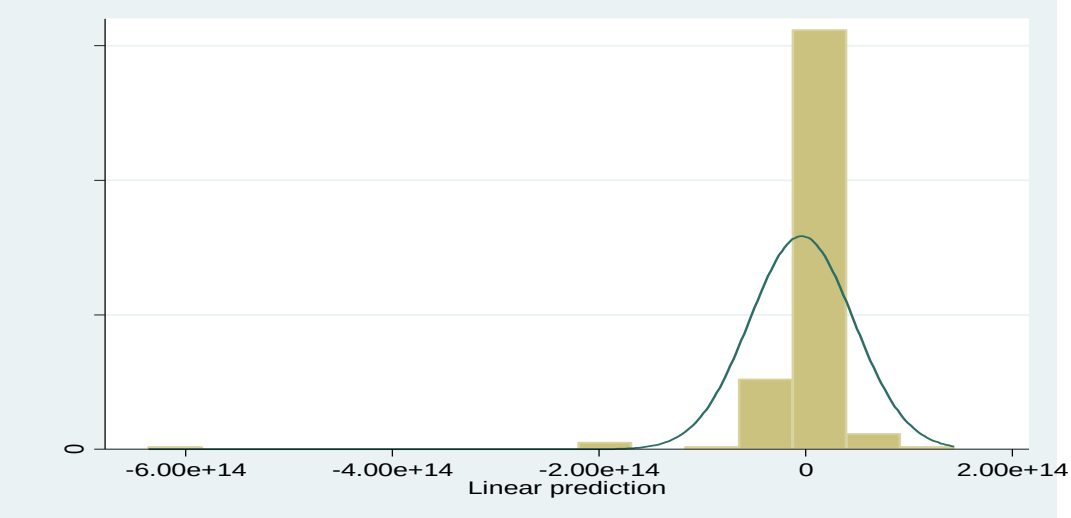


Figure 4.8: Histogram before using log of residuals

The residuals were transformed into their natural logs. The results from the graphical method are presented in the figure 4.9; indicate that the natural logs of the residuals are normally distributed.

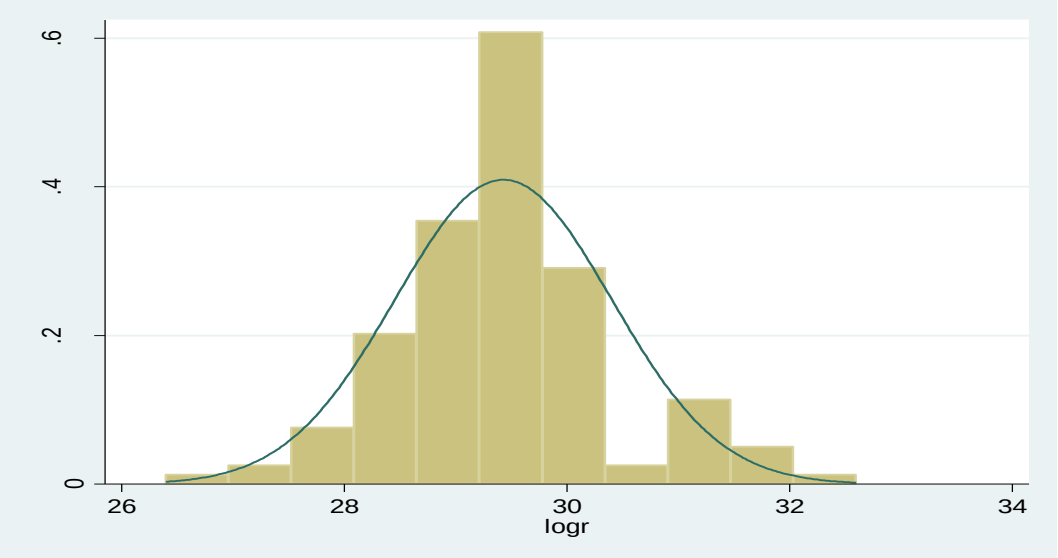


Figure 4.9: Histograms of residuals

To further verify the above results, Jarque-Bera test which is a more conclusive test than the graphical method was conducted. The results are as presented in table 4.4.

Table 4.4: Jarque-Bera test/Skewness test for Normality

Variable	**Obs**	**Pr(Skewness)**	**Pr(Kurtosis)**	**adj chi2(2)**	**Prob>chi2**
Log residual	140	0.1815	0.0192	6.8	0.0334

Source: (study data 2017)

The null hypothesis under this test is that the disturbances are not normally distributed. If the p-value is less than 0.05, the null hypothesis of normality at the 5% level will be rejected. Given that the p-value = 0.0334 which is less than 5% for the residual, the null hypothesis was rejected and thus the conclusion that the residuals are normally distributed.

4.4.4 Heteroskedasticity test

Modified Wald test was used to test for heteroskedasticity. The null hypothesis in the test is that error terms have a constant variance (i.e. should be Homoskedastic).

Table 4.5: Heteroskedasticity Test Results

Modified Wald test for group wise heteroskedasticity in fixed effect regression model
H0: sigma(i)^2 = sigma^2 for all i
chi2 (35) = 1.0e+34
Prob>chi2 = 0.0000

Source: Study data (2017)

The results in the Table 4.5 above indicate that the error terms are heteroskedastic, given that the p-value = (0.000) which is less than the 5%.

4.4.5 Test for autocorrelation

Table 4.6: Serial correlation Results

Wooldridge test for autocorrelation in panel data
H0: no first-order autocorrelation
F(1, 34) = 0.564
Prob > F = 0.4577

Source: (study data 2017)

To establish whether or not the residual are serially correlated over time, Wooldridge test for autocorrelation was conducted. The null hypothesis was that no first order serial /auto correlation exists. The results are as indicated in Table 4.6 and therefore the null hypothesis of no autocorrelation is not rejected and that residuals are not auto correlated (p-value=0.4577).

4.4.6 Test for Fixed or Random Effects

When performing panel data analysis, there is need to determine whether to run a fixed effects model or a random effects model. Whereas the fixed effect model assumes firm specific intercepts and captures effects of those variables which are specific to each firm and constant over time, the random effect model assumes that there is a single common intercept and it varies from firm to firm in a random manner (Baltagi, 2005). To determine which of these two models is appropriate, coefficients were estimated by both fixed and random effects. Hausman's specification test (1978) was used to determine whether fixed or random effect should be used as presented in table 4.7.The null hypothesis of the Hausman test
was that the random effects model was preferred to the fixed effects model. Hausman test reported a chi-square of 0.10 with a p-value of 0.7483 implying
that at 10 percent level, the chi-square value obtained was statistically insignificant.

The study therefore failed to reject the null hypothesis that random effects model was preferred to fixed effect for the study model.

Table 4.7: Hausman results for EVA

	(b)	**(B)**	**(b-B)**	**sqrt(diag(V_b-V_B))**
Variable	**fixed**	**random**	**Difference**	**S.E.**
Equity Financing	-2967168	-1629859	-1337310	624261.3
Debt Financing	-14850.09	802919.5	-817770	526114.2
Working Capital	-546373.1	1000607	-1546980	865732.7
Dividend financing	-214.8741	-242.881	28.00722	133.6836
GDP	4.12E+12	3.83E+12	2.84E+11	8.84E+11
b = consistent under Ho and Ha; obtained from xtreg				
B = inconsistent under Ha, efficient under Ho; obtained from xtreg				
Test: Ho: difference in coefficients not systematic				
chi2(1) = (b-B)'[(V_b-V_B)^(-1)](b-B)=0.10				
Prob>chi2 = 0.7483				

Source (study data 2017)

4.5 Correlation Analysis

Table 4.9: Correlation matrix results

Variable	**EVA**	**Equity Financing**	**Debt Financing**	**Working Capital**	**Dividend financing**	**GDP**
EVA	1.000					
Equity Financing	-0.2889*	1.000				
Debt Financing	-0.019	0.6668*	1.000			
Working Capital	0.1435*	-0.070	0.106	1.000		
Dividend financing	-0.095	0.060	0.002	-0.036	1.000	
GDP	0.085	0.083	0.068	-0.020	-0.090	1.000

Source: study data (2017)

Before running regression models as per the objectives, correlation analysis was conducted for the various variables so as to examine the nature of the statistical association between each pair. The results are as presented in the correlation matrix in table 4.9. Only those variables which were statistically significant were reported. Results revealed that Equity Financing is negatively and significant associated with EVA while Working Capital financing is positively and significantly associated with EVA. The results indicate that an increase in Equity finance results in a decrease in shareholder value creation as measured by EVA. The results corroborate Atiyet 2012, findings. Moreover, an increase in working capital finance results in an increase in shareholder value creation as measured by EVA.

4.6 Effect of Equity financing on Shareholder Value Creation

The first objective of the study was to determine the effect of equity financing on shareholder value creation of non-financial firms quoted at NSE; Kenya. Shareholder value creation was measured using EVA as the indicator. The model used as indicated in the sub sections below.

4.6.1 Relationship of Equity financing and EVA

Table 4.10: Regression results

LOG EVA	Coefficient.	Std. Err.	z	P>|z|
Log D(Equity Financing)	0.7814692	0.1106063	7.07	**0.000**
Constant	3.817358	1.460191	2.61	0.009
RSquared =.0.4146				

Source: Study source (2017)

The optimal model is;

Log EVA=3.817 + 0.7815X +e

Where,

X_I=Log D (Equity financing)

The regression results in the table 4.10 show that equity financing is positively and significantly related with EVA (r=0.7815, p=0.000). This means that a unitary increase in equity financing results in an increase in EVA by 78.15% per unit. The equity financing explain 41.46% of the variation in the dependent variable (EVA). The results corroborates Abor (2008) study that, listed companies are in a better position to raise equity finance from stock market and large scale unquoted firms are also able to access equity finance from institutional investors usually through private placement. The study further concurs with Zhu and Wang (2013) study which revealed that uncertainties in equity financing decrease firm value. However, the study results contradict Mwenje and Olweny (2016) study that financial modifications have little or no value creation.

4.6.1.1 Equity financing on EVA

The null hypothesis was that there is no statistically significant effect between equity financing and EVA of non-financial firms quoted in NSE Kenya. Since equity financing had a p value= (0.000) which is less than 0.05 as shown in table 4.10, the hypothesis was rejected. Therefore there is a statistically significant effect between equity financing and EVA of non-financial firms quoted at NSE Kenya.

4.7 Debt financing on Shareholder Value Creation

The second objective of the study was to determine the effect of debt financing on shareholder value creation of non-financial firms quoted at NSE; Kenya. Shareholder value creation was measured using EVA as the indicator; EVA model was used as indicated in the sub sections below.

4.7.1 Debt financing on EVA

Table 4.11: Regression results

LOG EVA	Coefficient.	Std Err.	z	P>|z|
Log Debt Financing	0.5472673	0.0722291	7.58	**0.000**

Constant	6.357656	1.020925	6.23	0.000
RSquared =0.4301				0.000

Source: Study data (2017)

The optimal model is;

Log EVA=6.357656 + 0.547X+e

Where,

X_I=Log debt financing

The regression results in the table 4.11 show that debt financing is positively and significantly related with EVA (r=0.547, p=0.000). This means that a unitary increase in debt financing results in an increase of 54.7% EVA. R squared (.4301) implies that debt finance explains 43.01% variation of independent variable(EVA).The study finding is consistent with Onwumere, Imo and Izhoh (2012) in a study whose results indicates that outsiders fund has a positive and significant relationship. According to Sagwa (2013) an optimal amount of debt enhances company's value. The findings are consistent with Adenugba, Ige and Kesimo (2016) study which observed that debt is good source of finance as it enables firms to carryout long term projects and reduces tax liability. In addition Olokoyo (2012) study revealed positive and highly significant relationship with market performance measures. However, the results contradict Floarea (2008) study that indicates that, debt financing does not necessarily lead to shareholder value creation. The finding supports Myers (1977) theory that argues that debt may have a strengthening effective on firm's value creation as lender monitor the amount of debt in a firm's capital structure and consequently increases firm value. However as observed in Oladele (2013) a trade –off between return and risk must be established to determine the appropriate level of debt financing.

4.7.1.1 Hypothesis test for debt financing and EVA

The null hypothesis was that there is no statistically significant effect between debt financing and EVA of non-financial firms quoted in NSE Kenya. Since debt financing had a p value of less than 0.05 (0.000) as shown in table 4.12 above, the hypothesis was rejected. Therefore there is a statistically significant effect between debt financing and EVA of non-financial firms quoted in NSE Kenya. .

4.8 Effect of Working capital financing on Shareholder Value Creation

The third objective of the study was to determine the effect of working capital financing on shareholder value creation of non-financial firms quoted at NSE; Kenya. Shareholder value creation was measured using EVA as the indicator; EVA model was used as indicated in the sub sections below.

4.8.1 Working capital financing and EVA

Table 4.12: Regression results

LOG EVA	**Coefficient.**	**Std Err.**	**z**	**P>|z|**
Log Working capital financing	0.7501867	0.1044255	7.18	**0.000**
Constant	3.59949	1.445084	2.49	0.073

RSquared=0.4650				0.000

Source: Study data (2017)

The optimal model is;

Log EVA=3.60 + 0.75X +e

Where,

X_I=Log Working capital financing

The regression results in the table 4.12 show that working capital financing is positively and significantly related with EVA (r=0.75018, p=0.000). This means that a unitary increase in working capital financing leads to an increase in EVA by 75.02%.The model R^2=0.4650, this implies that the regression equation explains 46.5% variation in the dependent variable.

The results concur with Ajanthan (2013) study whose result revealed that managers can create value by increasing their firm's number of day's account payables than increasing number of day's account receivables and inventories. The results also agree with (Lai, 2012, Ogundipe *et al*., 2012) study that indicated that, market value and performance are affected by working capital cash conversion cycle. The result reveals that use of working capital has a huge effect on shareholders' value creation. The proper management of working capital component, such as, accounts receivables, accounts payables and inventories will result in continued operations and consequence creation of value. The financial managers should study the components of working capital and effectively apply those that work best to create shareholder value.

4.8.1 Relationship between Working capital financing and EVA

The null hypothesis was that there is no statistically significant effect between working capital financing and EVA of non-financial firms quoted in NSE Kenya. The hypothesis was tested using the ordinary least square regression. Working capital financing had a p value= (0.000) as shown in table 4.12, the hypothesis was thus rejected. Therefore there is a statistically significant effect between working capital financing and EVA of non-financial firms quoted in NSE Kenya.

4.9 Effect of dividend financing on Shareholder Value Creation

The forth objective of the study was to establish the effect of dividend financing on shareholder value creation of non-financial firms quoted at NSE Kenya. Shareholder value creation was measured using EVA and thus the model used is as indicated in the sub sections below.

4.9.1 Dividend financing and EVA

Table 4.13: Regression results

LOG EVA	**Coefficient.**	**Std Err.**	**z**	**P>|z|**
Log dividend financing	0.282314	0.0733634	3.85	**0.000**
Constant	8.919595	1.354881	6.58	0.000
RSquared = 0.1942				0.000

Source: Study data (2017)

The optimal model is;

Log EVA=8.92 + 0.282X+e

Where,

X_I=Log dividend financing

The regression results in the table 4.16 show that dividend financing is positively and significantly related with EVA (r=0.282, p=0.000). This means that a unitary increase in dividend financing leads to an increase in EVA by 28.2%. R^2 = 0.1942 indicated that the model explain variation of dependent variable (EVA) 19.42%, the rest is explained by variables not captured in the model. Dividend decisions of a company determine what proportion of earnings is distributed to the shareholders by way of dividends and what proportion is ploughed back for reinvestment purposes. The findings corroborates Tiwari and Kumar (2015) study that observed that, high payout ratio is perceived as low level of investment opportunities available to firms and vice versa in the market and hence will lead to higher or lower market value. The results are in consistent with findings of Yegon *et al.* (2014) study, that found a positive and relationship between dividend policy and investment, and negative relationship between dividend policy and earnings per share. Furthermore the results confirm Asogwa (2009) study that revealed dividend policy is more important for value creation than profitability in banking sector.

4.9.2 Testing dividend financing and EVA

The null hypothesis was that there is no statistically significant effect between dividend financing and EVA of non-financial firms quoted in NSE Kenya. The hypothesis was tested by using the ordinary least square regression. Dividend financing had a p value of less than 0.05 (0.000) as shown in table 4.16, thus, the hypothesis was rejected. Therefore there is a statistically significant effect between dividend financing and EVA of non-financial firms quoted in NSE Kenya.

The result corroborates Yegon, *et.al.* (2014) study findings that showed that there is significant positive relationship between dividend policy and investment; and negative relationship between dividend policy and earnings per share. Furthermore the study results corroborate Mbuvi (2014) study findings that indicate that a decrease or omission of a dividend payout is usually accompanied by a decrease in share price, which affects the market value of a firm. The company failure to pay dividend is normally viewed as company inability to generate profits.

4.10. The overall Regression Equation

To the determine variable that have the highest influence a multiple regression was analyzed as shown in the table 4.14.

Table 4.14: Multiple Regression results

Log EVA	**Coef.**	**Std. err**	**Z**	**P>|Z|**
Log DEquity	0.2057353**	.1195783	1.72	0.085
Log debt	0.2312834*	.0776117	2.98	0.003
Log working Capital	0.5057653*	.131126	3.86	0.000
Log dividend	0.167146*	.052558	3.18	0.001

constant	-2.024647	1.463634	-1.38	0.167
R Squared=.6517				**.**000

Source: study data 2017 ****** rep 10%; * rep 5% sig level

The optimal model;

Log EVA= -2.02465 + 0.206DEQ +0.231DT+0.506WC+0.16DIV+ε_{it}

Where,

DEQ= DEquity financing

DT= Debt financing

WC= Working capital financing

DIV=dividend financing

ε =error term

Equity financing, debt financing, working capital financing and dividend paid out explain 65.17% of the variation in the dependent variable (EVA). 34.83% represents other variables not captured in the model. The overall model was found to be statistically significant as indicated by p value= (0.000) <0.05. This implies that all the independent variables jointly explain the dependant variable (EVA). Equity financing indicates positive and statistically significant effect on EVA, the p =0.085<0.10 and r=0.2057. The equity financing was analyzed as DEquity as it was stationary at 1st difference. Debt financing and EVA is positive and statistically significant (r=0.2313, P=0.003). This implies that a unitary increase in debt financing results in an increase of 0.2313 units EVA. The results further indicate that, working capital financing has the highest effect on shareholder value creation (r=0.5058, p=0.000). A unitary increase in working capital financing will result in 0.5058 unit increase in EVA. Dividend financing and EVA are positive and significant (r=0.167, P=0.001). The study results indicate a unitary increase of dividend paid out to the shareholders increase the dependant variable EVA by 0.16 units.

4.11 Moderating effect of GDP

To determine the moderating effect of the GDP on the relationship between the financing decisions (equity financing, debt financing, working capital financing and dividends) and shareholder value creation, the study interacted financial decision variables with GDP.

4.11.1 Moderating effect of the GDP growth rate on EVA.

The null hypothesis was that there is no statistically significant effect on the moderation of the GDP on equity financing, debt financing, working capital financing and dividend financing and EVA of firms quoted at NSE Kenya.

Table 4.15: Moderation effect results

log EVA	**Coefficient**	**Std. Err.**	**z**	**P>|z|**
log D(equity)	-0.0833443	0.1297797	-0.64	0.521
log Debt	-0.6983099	0.2331962	-2.99	0.003
log working capital	-0.569085	0.2920193	-1.95	0.051

log dividends financing	-0.5715547	0.1990615	-2.87	0.004
GDP	-0.2430769	0.0972665	-2.5	0.012
Log FDV*GDP (interaction term)	0.7556416	0.1906094	3.96	0.000
Constant	-3.180346	1.327317	-2.4	0.017

Source: Study data (2017)

Log EVA= -3.180 -0.0833 Log D (EQ) -0.698Log DT-0.569LogWC + 0.571 Log DV-0.243GDP + 0.756Log FDV*GDP

Results in Table 4.15 show that the interaction term (FDV and GDP) is statistically significant since the p value of the interacting term is 0.000<0.05, therefore the null hypothesis was rejected and thus there is a statistically significant effect on the moderation of the GDP on equity financing, debt financing, working capital financing and dividend financing and EVA of firms quoted at NSE; Kenya. The market capitalization variable was controlled. This implies that GDP growth rate has affects the direction of shareholder value creation depending on financing decisions made by non-financial firms quoted at NSE. The findings are in line with Reddy (2012) study results.

4.12 Test for Differences in Shareholder Financing Decisions among Sectors

To test whether there is statistical difference in financing decisions among sectors; analysis of variance (ANOVA) test was used. ANOVA was suitable since there were more than two sectors (six sectors) otherwise t test would have been used if the sectors were two.

4.12.1 Analysis of variance of equity financing decision among sectors

Analysis of variance was conducted to determine if there was a significant difference among sectors in respect to equity financing decisions. The null hypothesis was that there is no significant difference among sectors in respect to equity financing decision while the alternative hypothesis was that there is a significant difference among sectors in respect to equity financing decision.

Table 4.16: Analysis of variance between equity financing decision among sectors

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	9.166E+16	5	1.833E+16	6.390	**.000**
Within Groups	8.1467E+17	284	2.87E+15		
Total	9.063E+17	289			

Source: study data (2017)

The results in table 4.16 shows that the p value 0.000<0.05 thus leading to rejection of the null hypotheses and thus there is a significant difference among sectors in respect to equity financing decisions. The result indicates that different sectors have different composition of equity finance and the ratio to total finance show a comparative different unique to a given sector.

4.12.2 Analysis of variance between debt financing decisions among sectors

Analysis of variance was conducted to determine if there was a significant difference among sectors in respect to debt financing decisions. The null hypothesis was that there is no significant difference among sectors in respect to debt financing decisions while the alternative hypothesis was that there is a significant difference among sectors in respect to debt financing decisions. The rule of thumb is that reject null hypothesis if the calculated p-value is less than 5% (0.05).

Table 4.17: Analysis of variance between debt financing decisions among sectors

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	8.16E+16	5	1.63E+16	25.242	**.000**
Within Groups	1.86E+17	287	6.47E+14		
Total	2.67E+17	292			

Source: study data (2017)

The results in table 4.23 shows that the p value 0.000<0.05 thus leading to rejection of the null hypotheses and thus the study concluded that, there is a significant difference among sectors in respect to debt financing decisions. The results revealed that different sectors had different types of debt as well as percentage share over the total finance.

4.12.3 Analysis of variance between working capital financing decisions among sectors

Analysis of variance was conducted to determine if there was a significant difference among sectors in respect to working capital financing decisions. The null hypothesis was that there is no significant difference among sectors in respect to working capital financing decisions while the alternative hypothesis was that there is a significant difference among sectors in respect to working capital financing decisions.

. Table 4.18: Analysis of variance between working capital financing decisions and sectors

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	8.60E+14	5	1.72E+14	3.835	**.002**
Within Groups	1.28E+16	286	4.49E+13		
Total	1.37E+16	291			

Source: study data (2017)

The results in table 4.18 showed that the p value 0.002<0.05 thus leading to rejection of the null hypotheses and thus there is a significant difference among sectors in respect to working capital financing decisions. The companies listed at NSE have different components of working capital and the proportions as compared with total firm's finances were significantly different.

4.12.4 Analysis of variance between dividend financing decisions among sectors

Table 4.19: Analysis of variance between dividend financing decisions and sectors

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	9.31E+20	5	1.86E+20	1.161	**.329**
Within Groups	4.56E+21	284	1.60E+20		

Total	4.65E+22	289			

Source: study data (2017)

Analysis of variance was conducted to determine if there was a significant difference among sectors in respect to dividend financing decisions. The null hypothesis was that there is no significant difference among sectors in respect to dividend financing decisions while the alternative hypothesis was that there is a significant difference among sectors in respect to dividend financing decisions.

The results in table 4.19 showed that the p value 0.329>0.05 thus leading to not rejecting the null hypotheses and thus there is no significant difference among sectors in respect to

Table 4.20: Analysis of variance between dividend financing decisions among sectors

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	2.031	5	4.062	5.511	**.000**
Within Groups	2.116	287	7.371		
Total	2.319	292			

Source: study data (2017)

The results in table 4.20 shows that the p value 0.000<0.05 thus leading to rejection of the null hypotheses and thus there is a significant difference among sectors in respect to combined financing decisions. The results are inconsistence with study by Hall (2013) that sought to investigate effects of various drivers on shareholder value creation. The results show a significant difference between sectors. The results imply that, financial managers should analyze and measure the effect of various financing options. Proper planning is essential in determining an optimal financial mix which will ensure profitability, growth, survival and continuous shareholder value creation. However it is worth noting that financing needs varies over time, thus firms may not always be at optimal level. The managers should therefore weigh the benefits of being on target versus the cost of being off target.

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents summary of the study, it also presents the conclusions drawn, and recommendations made and suggested areas for further research.

5.2 Summary

Corporate financial decisions play a very imperative role in general performance of the company and shareholder value creation. The main purpose of any company is to enhance its shareholders wealth. It is not automatic which variable creates company value, thus each and every company and sector must discover for itself which variable is more effective. Creating value is demanding thus management should clearly define. what they are targeting and how to measure and interpret real value created. Furthermore the integration of markets and mobility of capital have had a dramatic impact on investing environment by exposing investors to large opportunities. In the recent past there have been a number of firms facing financial crisis some of which are quoted at NSE. Most of these firms recorded declining performance, the share prices have been dropping and shareholders do not receive dividends. According to past studies economical frameworks set quality standards in measuring performance and it is necessary to create value for shareholders.

This study sought to empirically determine the effect of financing decisions and shareholders' value creation of non-financial companies listed at the NSE, Kenya. The study used explanatory non-experimental research design. A census of 40 non- financial companies listed in the NSE, Kenya was taken. Panel data of the companies covering 2008-2014 was analyzed. The researcher lagged one year from the proposed scope period in order to get the finances invested to create the value the following year.

Firstly, the study sought to determine the effect of equity financing on shareholders' value creation of the non-financial firms quoted at NSE Kenya. The study employed ordinary least square technique and established that equity financing is positively and has a significant association with EVA. The equity financing was not stationary on the normal data; however, it normalized on first differential. The findings imply that equity finance has positive effect on shareholder value creation as presented in EVA.

Secondly, the study sought to establish the effect of debt financing on shareholders' value creation of the non financial firms at NSE Kenya. The study measured debt to represent long term financial obligation to outsiders. Using OLS the study established that debt financing has a positive and significant relationship with EVA of non-financial firms quoted in NSE Kenya. The results indicate that there is positive relationship between the debt financing and shareholder value creation. However the management should be cautious since higher leverage often increases the overall cost of capital. This may lead to a reduction in value because of increasing possibility of financial distress and possible degrading firm's credit rating.

Thirdly the study sought to determine the effect of working capital financing on shareholder value creation of non-financial firm quoted at NSE Kenya. The working capital was measured in terms of short term financial obligation in the financial year of analyzes. The study results showed that working capital financing is positively and significantly related to shareholder value creation as measured by EVA. The study findings indicate positive effect of working capital financing on EVA as a measure of shareholder value creation.

The fourth objective was to establish the effect of dividend financing on shareholder value creation of non-financial firms quoted at NSE Kenya. The dividend financing was measured in terms of undistributed profits. The study results revealed that dividend financing is positively and significantly associated with EVA. These findings imply that the dividend financing has a positive effect on shareholder value creation. However management should be cautious on dividend policy applied and the psychological effect on the shareholders.

The fifth objective was to determine the moderating effect of GDP on the relationship between equity financing, debt financing, working capital financing and dividend financing and shareholder value creation of non- financial firms quoted in NSE; Kenya. The GDP was measured in terms of annual growth rate. The study established that there is a statistically significant effect on the moderation of the GDP growth rate on equity financing, debt financing, working capital financing and dividend financing and shareholder value creation of firms quoted in NSE. These results indicate GDP positively affects the financing decisions and the shareholder value creation of the firms quoted at NSE, Kenya. The results imply that, macro-economic factors play an important role in the decision making process of the enterprise and their investments.

The study also sought to examine sector differences among firms listed at NSE. The sectors under review were seven; therefore, Analysis of Variance (ANOVA) was used. The results indicate that, there is a significant among sectors in respect to equity financing decisions. The study also indicates significant difference among sectors in respect to debt financing as well as working capital financing. However the study results show no significant difference among sectors in respect to dividend financing decisions.

5.3 Conclusions

The study concluded that financing decisions have a positive effect on shareholder value creation as measured by EVA of non-financial companies listed at the NSE, Kenya. The study findings show that the shareholder value creation is dependent on the financing choices adopted by a company. This implies that capital structure irrelevancy theory which postulates that value of the firm is not dependent on the choice of capital structure or financing decisions of the firm is not applicable among the firms listed at NSE, Kenya. The market timing theory that suggests identification of window of opportunity for the issuance of equity is applicable among the firms listed at NSE. The timings affect cost of overall financing which influences shareholder value creation. The CAPM concept and insights proved useful and practical in measuring Weighted Average Cost of Capital as well as cost of equity.

The study established that various financing decisions affect shareholder value creation differently. The working capital financing recorded the highest influence as measured by EVA, whilst the dividend financing was found to have least influence on EVA. The study established that equity is positively and statistically significantly on shareholder value creation. The study therefore concluded that use of equity financing has a positive effect on shareholder value creation. However, the finance managers should incorporate the cost of equity as it affects the overall cost of finance. In addition, the management should establish an optimal financial structure that minimizes cost and maximize shareholder value creation.

The debt financing indicate positive and statistically significant effect on shareholder value creation among firms quoted at NSE, Kenya. The findings indicate that, debt financing affect shareholder value creation positively. This implies that debt financing create shareholder value. The financial managers should consider the implication of financial leverage in making capital structure policies. However the management should analyze taxation policies in place and benefits accrued thereof. Moreover, the management should consider cost implication which is dependent on equity debt ratio. In addition the management should not assume equity finance is free. The CAPM formula is a practical tool to estimate cost of equity and a good basis for estimating WACC.

Working capital financing showed a positive and statistically significant effect on shareholder value creation among the firms quoted at NSE, Kenya. The findings indicate that the working capital finance has an effect on shareholder value creation (EVA). The findings imply that working capital financing is critical in creating shareholder value. The company management should identify the short term financing that work best in there industry in a bid to

maximize shareholder value creation. The company management is duty bound to source for and properly employ working capital variables as this type of finance has a very high influence on shareholder value creation.

Dividend financing had a positive and statistically significant effect on the shareholder value creation among firms quoted at NSE, Kenya. Different companies have varying dividend policies and hence dividend paid out and retained earnings are not easy to standardize. The findings indicate that dividend paid out has an effect on shareholder value creation. The dividend financing is generally cheapest source of funds; however, it has a psychological effect on the investors and other fund providers. The management should therefore be keen on the implication of the dividend policy adopted and its effect on long term shareholder value creation.

5.4 Policy Implication and Recommendations of the Study

The results of this study draw significant policy implication at macro and micro economic levels. To enhance and maintain the value creation, management should aim at minimizing weighted average cost of capital, analysis of inherent risks associated with various capital and investment projects and aim at maintaining firm's credibility. This will ensure continuous supply of both short term and long term finances and boost investors confidence in a firms going concern.

5.4.1 Recommendation for Practice

The study recommends that, companies listed at NSE, should start disclosing EVA statement as part of financial information in their annual reports. The management should endeavor to improve the quality of annual reports in terms of content and disclosures. In addition they should endeavor to study and gain understanding on value based measures which include EVA as a measurement tools for value creation as well as performance. EVA serves as an analytical framework for evaluating alternatives and can be used to identify a set of variables creating value and those that destroy value. EVA could also be used as benchmark performance for evaluation and correction purposes. Moreover, EVA acts as a guide to investors and other stakeholders in decision making process. Furthermore the choice of performance measure being one of the most critical challenges facing organizations should be studied and tested before it's fully adopted.

5.4.2 Recommendation for Policy

The Capital Market Authority (CMA) which is mandated by the Kenya government to come up with regulatory framework that guides firms listed at NSE should ensure that regulations are enacted to enhance firms' disclosure of accurate information. The accuracy of the information will thus improve the quality of financial statements and other disclosures. The improved quality of financial information will enhance accuracy and credibility of data. Moreover, analyzed information and reports will be more representative for better decision making and ensure investors and other stakeholder protection.

Generally, investors buy securities from an enterprise in order to have more claims on its appreciated value. Shareholders expect management to generate value over and above the cost of all resources utilized. EVA being a value based measure would be instrumental in assisting investors with wealth discovery and company selection process. The investors and other stakeholders will have an opportunity objectively to assess whether the company they consider as an investment vehicle is creating value or destroying value entrusted to them. The management should therefore develop and support research and development department to come up with creative and competitive strategies to generate and maintain shareholders value. In addition management should be keen while evaluating corporate projects and invest on those that give positive NPV thereby generating sufficient earnings which can be used to pay out dividends as well as retain a portion for business use.

The study findings underscore the importance of various types of finances employed by companies. Firms should device ways and means for continuous shareholder value creation and sustainable mechanisms. The study observed

that, various sectors in the economy have unique characteristic and thus managers should be keen on variables that create most value. A clear understanding of the meaning of value, value drivers in respective company and how to measure such value is essential to the management of the company. In additionally managers should endeavor to periodically analyze financing decisions in their environment to ensure sustainable growth and development; this will promote continuous shareholder value creation.

The government of Kenya should be take keen interest on their efforts towards general economic development. In particular, the government should aim at improved GDP growth rate, competitive interest rates and other macro economic factors. Moreover, both national and county government should ensure necessary conducive and enabling working and investment environment. Furthermore, central bank of Kenya on its monetary policy should aim at a stable and competitive interest rate since it has a direct effect on the cost of capital.

5.5 Limitations of the Study

The current study has been carried out exclusively with published financial data, which is qualitative in nature. Many other factors can affect shareholder value creation including quantitative variables.

5.6 Suggestion for Further Research

The researcher recommends an in-depth analysis on more variables that affect the shareholder value creation. The study found an overall R-squared = 65.17 which implies that there is a possibility of other variables which explains shareholder value creation. The researcher recommends analysis of both qualitative and quantitative variables. In addition a comparative study should be undertaken to compare various variables as consumed in specific sectors in the economy and their impact on shareholders' value creation.

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APPENDICES

APPENDIX 1: DATA COLLECTION PERMIT

APPENDIX 2: DOCUMENT REVIEW GUIDE- DATA ENTRY SHEET

Name of the company: ……

Sector ……..

year	Ordinary shares	Retained earnings	Financial lease	Corporate bond	Bank loan	Current assets	Current liabilities	Dividend payout	GDP	EVA	MVA
2008											
2009											
2010											

2011											
2012											
2013											
2014											

Source: Researcher (2016)

APPENDIX 3: LIST OF COMPANIES QUOTED AT THE NSE

SECTOR/SEGMENT	COMPANY
AGRICULTURAL	1. Eaagads ltd 2. Kakuzi ltd 3. Kapchorua Tea co.ltd 4. The limuru Tea co.ltd 5. Rea vipingo plantation ltd 6. Sasini ltd 7. Williamson Tea Kenya ltd
Automobiles and Accessories	8. Car & General (k) ltd 9. Marshalls (E. A.) ltd 10. Sameer Africa ltd
Banking	11. Barclays bank 12. CFC stanbic of Kenya holdings 13. Diamond Trust Bank 14. Equity Bank Holdings 15. Housing Finance 16. I&M Holdings 17. Kenya Commercial Bank 18. National Bank of Kenya 19. NIC Bank 20. Standard Chartered Bank 21. Co-op Bank of Kenya
Commercial & Services	22. Express kenya ltd 23. Hutchings Biermer ltd 24. Kenya Airways ltd 25. Longhorn Kenya ltd 26. National Media Group ltd 27. WPP Scangroup ltd 28. Standard Group ltd 29. TPS Eastern Africa ltd 30. Uchumi Supermarket ltd 31. Atlas Development & support services
Construction & Allied	32. ARM Cement ltd 33. Bamburi Cement ltd

	34. Crown Paints Kenya ltd 35. E.A. Cables ltd 36. E.A Portland Cement Co. ltd
Energy & Petroleum	37. KenGen Co. ltd 38. KenolKobil ltd 39. Kenya Power & Lighting Co. ltd 40. Total Kenya ltd 41. Umeme ltd
Insurance	42. Britam Holdings 43. CIC Insurance group 44. Jubilee Holdings 45. Kenya Re corporation 46. Liberty Kenya Holdings 47. Pan Africa Insurance ltd
Investment	48. Centum investment company ltd 49. Home Africa ltd 50. Kurwitu ventures ltd 51. Olympia Capital Holdings ltd 52. Trans-Century ltd 53. Stalib Fahari ltd
Investment services	54. Nairobi Securities Exchange
Manufacturing & Allied	55. A. Baumann & Co. ltd 56. B.O.C Kenya ltd 57. British American Tobacco Kenya ltd 58. Carbacid investment ltd 59. East African Breweries ltd 60. Eveready East Africa ltd 61. Kenya Orchard ltd 62. Mumias Sugar co. ltd 63. Unga Group ltd 64. Flame Tree Group Holdings ltd
Telecommunication & Technology	65. Safaricom ltd

1

Source: https://www.nse.co.ke/(2015)

STATA OUTPUT

Random effect for EVA

```
. xtreg EVA Equity_Financing Debt_Financing Working_Capital_Financing Dividend_financing GDP,re

Random-effects GLS regression                   Number of obs     =        262
Group variable: Firm1                           Number of groups  =         35

R-sq:                                           Obs per group:
     within  = 0.0671                                         min =          3
     between = 0.6607                                         avg =        7.5
     overall = 0.1581                                         max =          8

                                                Wald chi2(5)      =      48.09
corr(u_i, X)   = 0 (assumed)                    Prob > chi2       =     0.0000
```

EVA	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
Equity_Financing	-1629859	268047.9	-6.08	0.000	-2155223	-1104494
Debt_Financing	802919.5	223086.2	3.60	0.000	365678.5	1240160
Working_Capital_Financing	1000607	695173.9	1.44	0.150	-361909	2363123
Dividend_financing	-242.8813	251.6881	-0.97	0.335	-736.1809	250.4183
GDP	3.83e+12	2.07e+12	1.85	0.064	-2.21e+11	7.89e+12
_cons	-1.41e+13	1.11e+13	-1.27	0.205	-3.59e+13	7.69e+12
sigma_u	0					
sigma_e	5.542e+13					
rho	0	(fraction of variance due to u_i)				

Fixed effect for EVA

```
. xtreg EVA Equity_Financing Debt_Financing Working_Capital_Financing Dividend_financing GDP,fe

Fixed-effects (within) regression               Number of obs      =       262
Group variable: Firm1                           Number of groups   =        35

R-sq:                                           Obs per group:
     within  = 0.1007                                         min =         3
     between = 0.3194                                         avg =       7.5
     overall = 0.0883                                         max =         8

                                                F(5,222)           =      4.97
corr(u_i, Xb)  = -0.8393                        Prob > F           =    0.0002
```

EVA	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
Equity_Financing	-2967168	679376.1	-4.37	0.000	-4306020	-1628317
Debt_Financing	-14850.09	571457.5	-0.03	0.979	-1141026	1111325
Working_Capital_Financing	-546373.1	1110297	-0.49	0.623	-2734444	1641698
Dividend_financing	-214.8741	284.9881	-0.75	0.452	-776.5022	346.754
GDP	4.12e+12	2.25e+12	1.83	0.069	-3.16e+11	8.55e+12
_cons	4.76e+12	1.35e+13	0.35	0.725	-2.19e+13	3.14e+13
sigma_u	4.104e+13					
sigma_e	5.542e+13					
rho	.35415821	(fraction of variance due to u_i)				

```
F test that all u_i=0: F(34, 222) = 0.57                     Prob > F = 0.9736

. estimates store fixed
```

Hausman for EVA

```
. hausman fixed random

Note: the rank of the differenced variance matrix (1) does not equal the number of coefficients
        being tested (5); be sure this is what you expect, or there may be problems computing the
        test.  Examine the output of your estimators for anything unexpected and possibly consider
        scaling your variables so that the coefficients are on a similar scale.
```

	Coefficients (b) fixed	(B) random	(b-B) Difference	sqrt(diag(V_b-V_B)) S.E.
Equity_Fin~g	-2967168	-1629859	-1337310	624261.3
Debt_Finan~g	-14850.09	802919.5	-817769.5	526114.2
Working_Ca~g	-546373.1	1000607	-1546980	865732.7
Dividend_f~g	-214.8741	-242.8813	28.00722	133.6836
GDP	4.12e+12	3.83e+12	2.84e+11	8.84e+11

```
                b = consistent under Ho and Ha; obtained from xtreg
    B = inconsistent under Ha, efficient under Ho; obtained from xtreg

Test:  Ho:  difference in coefficients not systematic

          chi2(1) = (b-B)'[(V_b-V_B)^(-1)](b-B)
                  =        0.10
        Prob>chi2 =      0.7483
```

Random effect for MVA

```
. xtreg MVA Equity_Financing Debt_Financing Working_Capital_Financing Dividend_financing GDP,re

Random-effects GLS regression                   Number of obs     =       272
Group variable: Firm1                           Number of groups  =        36

R-sq:                                           Obs per group:
     within  = 0.1727                                         min =         3
     between = 0.3678                                         avg =       7.6
     overall = 0.3538                                         max =         8

                                                Wald chi2(5)      =     68.73
corr(u_i, X)   = 0 (assumed)                    Prob > chi2       =    0.0000
```

MVA	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
Equity_Financing	975.184	151.0995	6.45	0.000	679.0345	1271.334
Debt_Financing	47.50947	124.4345	0.38	0.703	-196.3776	291.3965
Working_Capital_Financing	259.7461	260.6548	1.00	0.319	-251.1279	770.6201
Dividend_financing	.2748234	.0701851	3.92	0.000	.137263	.4123837
GDP	-3.00e+08	5.50e+08	-0.54	0.586	-1.38e+09	7.79e+08
_cons	8.53e+09	5.67e+09	1.50	0.133	-2.59e+09	1.96e+10
sigma_u	2.685e+10					
sigma_e	1.321e+10					
rho	.80523416	(fraction of variance due to u_i)				

```
. estimates store random
```

Fixed effect for MVA

```
. xtreg MVA Equity_Financing Debt_Financing Working_Capital_Financing Dividend_financing GDP,fe

Fixed-effects (within) regression               Number of obs     =       272
Group variable: Firm1                           Number of groups  =        36

R-sq:                                           Obs per group:
     within  = 0.1845                                         min =         3
     between = 0.2228                                         avg =       7.6
     overall = 0.2355                                         max =         8

                                                F(5,231)          =     10.46
corr(u_i, Xb)  = 0.0825                         Prob > F          =    0.0000
```

MVA	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
Equity_Financing	736.4442	161.8854	4.55	0.000	417.4836	1055.405
Debt_Financing	258.4279	136.1484	1.90	0.059	-9.823392	526.6792
Working_Capital_Financing	555.4836	263.117	2.11	0.036	37.06772	1073.899
Dividend_financing	.2648094	.0679021	3.90	0.000	.1310228	.398596
GDP	-3.70e+08	5.31e+08	-0.70	0.487	-1.42e+09	6.77e+08
_cons	8.57e+09	3.18e+09	2.69	0.008	2.30e+09	1.48e+10
sigma_u	3.601e+10					
sigma_e	1.321e+10					
rho	.88144925	(fraction of variance due to u_i)				

```
F test that all u_i=0: F(35, 231) = 27.14                     Prob > F = 0.0000

. estimates store fixed
```

Hausman results for MVA

	Coefficients			
	(b) fixed	(B) random	(b-B) Difference	sqrt(diag(V_b-V_B)) S.E.
Equity_Fin~g	736.4442	975.184	-238.7398	58.10183
Debt_Finan~g	258.4279	47.50947	210.9184	55.2489
Working_Ca~g	555.4836	259.7461	295.7375	35.91129
Dividend_f~g	.2648094	.2748234	-.010014	.
GDP	-3.70e+08	-3.00e+08	-7.00e+07	.

b = consistent under Ho and Ha; obtained from xtreg
B = inconsistent under Ha, efficient under Ho; obtained from xtreg

Test: Ho: difference in coefficients not systematic

chi2(1) = (b-B)'[(V_b-V_B)^(-1)](b-B)
= -0.24 chi2<0 ==> model fitted on these

Correlation analysis

```
. pwcorr EVA MVA Equity_Financing Debt_Financing Working_Capital_Financing Dividend_financing GDP,s
> tar(0.05)
```

	EVA	MVA	Equity~g	Debt_F~g	Workin~g	Divide~g	GDP
EVA	1.0000						
MVA	-0.4809*	1.0000					
Equity_Fin~g	-0.2889*	0.6129*	1.0000				
Debt_Finan~g	-0.0191	0.1201*	0.6668*	1.0000			
Working_Ca~g	0.1435*	-0.2136*	-0.0697	0.1055	1.0000		
Dividend_f~g	-0.0954	0.1599*	0.0604	0.0020	-0.0364	1.0000	
GDP	0.0852	0.0673	0.0831	0.0681	-0.0196	-0.0904	1.0000

```
. xtgls logEVA logDequity

Cross-sectional time-series FGLS regression

Coefficients:  generalized least squares
Panels:        homoskedastic
Correlation:   no autocorrelation

Estimated covariances      =         1          Number of obs     =        90
Estimated autocorrelations =         0          Number of groups  =        33
Estimated coefficients     =         2          Obs per group:
                                                              min =         1
                                                              avg =  2.727273
                                                              max =         5
                                                 Wald chi2(1)      =     61.50
Log likelihood             =  -172.064           Prob > chi2       =    0.0000
```

logEVA	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
logDequity	.7846962	.1000586	7.84	0.000	.588585	.9808074
_cons	3.739505	1.298213	2.88	0.004	1.195054	6.283955

```
. xtgls logMVA logDequity

Cross-sectional time-series FGLS regression

Coefficients:  generalized least squares
Panels:        homoskedastic
Correlation:   no autocorrelation

Estimated covariances      =         1          Number of obs     =        169
Estimated autocorrelations =         0          Number of groups  =         33
Estimated coefficients     =         2          Obs per group:
                                                              min =          2
                                                              avg =   5.121212
                                                              max =          7
                                                Wald chi2(1)      =      77.96
Log likelihood             = -341.5838          Prob > chi2       =     0.0000
```

logMVA	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
logDequity	.7210175	.081659	8.83	0.000	.5609688	.8810662
_cons	12.6323	1.063303	11.88	0.000	10.54827	14.71634

```
. xtgls logEVA logDebt

Cross-sectional time-series FGLS regression

Coefficients:  generalized least squares
Panels:        homoskedastic
Correlation:   no autocorrelation

Estimated covariances      =         1          Number of obs     =        125
Estimated autocorrelations =         0          Number of groups  =         34
Estimated coefficients     =         2          Obs per group:
                                                              min =          1
                                                              avg =   3.676471
                                                              max =          7
                                                Wald chi2(1)      =      92.75
Log likelihood             = -237.2144          Prob > chi2       =     0.0000
```

logEVA	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
logDebt	.588038	.0610582	9.63	0.000	.4683662	.7077098
_cons	5.752574	.8497575	6.77	0.000	4.08708	7.418068

```
. xtgls logEVA logworkingcapital

Cross-sectional time-series FGLS regression

Coefficients:  generalized least squares
Panels:        homoskedastic
Correlation:   no autocorrelation

Estimated covariances      =         1          Number of obs     =        101
Estimated autocorrelations =         0          Number of groups  =         30
Estimated coefficients     =         2          Obs per group:
                                                              min =          1
                                                              avg =   3.366667
                                                              max =          7
                                                Wald chi2(1)      =      95.70
Log likelihood             = -181.3162          Prob > chi2       =     0.0000
```

logEVA	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
logworkingcapital	.9081944	.0928379	9.78	0.000	.7262355	1.090153
_cons	1.306516	1.283009	1.02	0.309	-1.208134	3.821167

```
. xtgls logMVA logworkingcapital

Cross-sectional time-series FGLS regression

Coefficients:  generalized least squares
Panels:        homoskedastic
Correlation:   no autocorrelation

Estimated covariances      =         1          Number of obs     =        195
Estimated autocorrelations =         0          Number of groups  =         31
Estimated coefficients     =         2          Obs per group:
                                                              min =          1
                                                              avg =   6.290323
                                                              max =          8
                                                Wald chi2(1)      =      40.83
Log likelihood             = -422.4314          Prob > chi2       =     0.0000
```

logMVA	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
logworkingcapital	.5920751	.0926592	6.39	0.000	.4104663	.7736839
_cons	13.57687	1.267627	10.71	0.000	11.09236	16.06137

```
. xtgls logEVA logdividendsfinancing

Cross-sectional time-series FGLS regression

Coefficients:  generalized least squares
Panels:        homoskedastic
Correlation:   no autocorrelation

Estimated covariances      =         1          Number of obs     =        123
Estimated autocorrelations =         0          Number of groups  =         34
Estimated coefficients     =         2          Obs per group:
                                                              min =          1
                                                              avg =   3.617647
                                                              max =          7
                                                Wald chi2(1)      =      30.72
Log likelihood             = -254.8027          Prob > chi2       =     0.0000
```

logEVA	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
logdividendsfinancing	.309481	.0558396	5.54	0.000	.2000374	.4189246
_cons	8.301829	1.011231	8.21	0.000	6.319852	10.28381

```
. xtgls logMVA logdividendsfinancing

Cross-sectional time-series FGLS regression

Coefficients:  generalized least squares
Panels:        homoskedastic
Correlation:   no autocorrelation

Estimated covariances      =         1          Number of obs     =        248
Estimated autocorrelations =         0          Number of groups  =         33
Estimated coefficients     =         2          Obs per group:
                                                              min =          6
                                                              avg =   7.515152
                                                              max =          8
                                                Wald chi2(1)      =     522.67
Log likelihood             = -422.4148          Prob > chi2       =     0.0000
```

logMVA	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
logdividendsfinancing	.7685203	.0336156	22.86	0.000	.702635	.8344056
_cons	7.713547	.6174979	12.49	0.000	6.503274	8.923821

```
. xtgls logEVA Log_combined_financing

Cross-sectional time-series FGLS regression

Coefficients:  generalized least squares
Panels:        homoskedastic
Correlation:   no autocorrelation

Estimated covariances      =         1          Number of obs     =         96
Estimated autocorrelations =         0          Number of groups  =         30
Estimated coefficients     =         2          Obs per group:
                                                              min =          1
                                                              avg =        3.2
                                                              max =          7
                                                 Wald chi2(1)      =     187.47
Log likelihood             = -152.1846           Prob > chi2       =     0.0000
```

logEVA	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
Log_combined_financing	.5636197	.0411644	13.69	0.000	.4829389	.6443005
_cons	-.9850781	1.079416	-0.91	0.361	-3.100695	1.130539

```
. xtgls logMVA Log_combined_financing

Cross-sectional time-series FGLS regression

Coefficients:  generalized least squares
Panels:        homoskedastic
Correlation:   no autocorrelation

Estimated covariances      =         1          Number of obs     =       191
Estimated autocorrelations =         0          Number of groups  =        31
Estimated coefficients     =         2          Obs per group:
                                                              min =         1
                                                              avg =   6.16129
                                                              max =         8
                                                 Wald chi2(1)      =    261.86
Log likelihood             = -351.1719           Prob > chi2       =    0.0000
```

logMVA	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
Log_combined_financing	.6390908	.0394941	16.18	0.000	.5616838	.7164978
_cons	4.887594	1.03985	4.70	0.000	2.849526	6.925662

```
. xtgls logEVA logDequity logDebt logworkingcapital logdividendsfinancing GDP LogFDV_GDP

Cross-sectional time-series FGLS regression

Coefficients:  generalized least squares
Panels:        homoskedastic
Correlation:   no autocorrelation

Estimated covariances      =         1          Number of obs     =         75
Estimated autocorrelations =         0          Number of groups  =         29
Estimated coefficients     =         7          Obs per group:
                                                              min =          1
                                                              avg =   2.586207
                                                              max =          5
                                                 Wald chi2(6)      =     178.54
Log likelihood             = -113.9644           Prob > chi2       =     0.0000
```

logEVA	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
logDequity	-.0833443	.1297797	-0.64	0.521	-.3377078	.1710192
logDebt	-.6983099	.2331962	-2.99	0.003	-1.155366	-.2412538
logworkingcapital	-.569085	.2920193	-1.95	0.051	-1.141432	.0032623
logdividendsfinancing	-.5715547	.1990615	-2.87	0.004	-.9617081	-.1814013
GDP	-.2430769	.0972665	-2.50	0.012	-.4337158	-.052438
LogFDV_GDP	.7556416	.1906094	3.96	0.000	.3820541	1.129229
_cons	-3.180346	1.327317	-2.40	0.017	-5.78184	-.5788515

```
. xtgls logMVA logDequity logDebt logworkingcapital logdividendsfinancing GDP LogFDV_GDP

Cross-sectional time-series FGLS regression

Coefficients:  generalized least squares
Panels:        homoskedastic
Correlation:   no autocorrelation

Estimated covariances      =         1          Number of obs     =       138
Estimated autocorrelations =         0          Number of groups  =        30
Estimated coefficients     =         7          Obs per group:
                                                              min =         1
                                                              avg =       4.6
                                                              max =         7
                                                 Wald chi2(6)      =    345.57
Log likelihood             = -215.7615           Prob > chi2       =    0.0000
```

logMVA	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
logDequity	-.0164236	.0981318	-0.17	0.867	-.2087584	.1759112
logDebt	-.3520102	.1872177	-1.88	0.060	-.7189501	.0149297
logworkingcapital	-.3673671	.2210679	-1.66	0.097	-.8006521	.065918
logdividendsfinancing	.2305148	.1787168	1.29	0.197	-.1197638	.5807933
GDP	-.1527549	.0769082	-1.99	0.047	-.3034922	-.0020176
LogFDV_GDP	.399585	.1565459	2.55	0.011	.0927608	.7064093
_cons	3.435357	1.136313	3.02	0.003	1.208225	5.66249

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