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GOVERNANCE ON THE RELATIONSHIP BETWEEN  
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PARASTATALS IN KENYA**

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Strategy

# THE MODERATING EFFECT OF CORPORATE GOVERNANCE ON THE RELATIONSHIP BETWEEN EMPLOYEES SEPARATION PERFORMANCE OF SELECTED PARASTATALS IN KENYA

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## Abstract

**Purpose:** Most organizations effect employee separation programme with an aim of improving productivity and performance, increase competitiveness, decrease costs and improve quality. However, a number of separation processes in several Parastatals have negated this position. Some unexpected undesirable results have attracted both theoretical and practical experts' attention to the output of separation and the main questions involved in managing separation. The aim of this study was to probe employee separation effects on the performance of the selected Parastatals in Kenya. The study sought to determine the moderating effect of corporate governance on the relationship between employee separation and performance of the selected Parastatals in Kenya.

**Methodology:** The study analyzed six Parastatals in Kenya. Qualitative data was collected using questionnaires from 96 employees of the affected Parastatals. Regression analysis and independent t-test was used to analyze the data. A questionnaire was used to collect data from ninety six employees sampled through stratified random sampling. Linear regression and independent t-test were used to test the relationship between the independent and dependent variable.

**Results:** The study found evidence of positive association between corporate restructuring after separation with performance. From the findings the benefits of separation as envisioned in the structural adjustment programme are yet to be met by the affected Parastatals. Majority of Parastatals employed a mix of voluntary and involuntary methods of separation, the study finds no evidence of relationship between method of separation and organization performance.

**Unique Contribution to Theory, Practice and Policy:** The study recommends that employers manage the separation strategy in such a way that it minimizes disadvantages, whereas employee separation may be desirable in instances where employees underperform or whose skills are not matched with the organization's mandate or goals, managers should limit the turnover rate of employees and ensure key employees are retained in the organization. Further the new employers should undergo a thorough vetting to ensure organizations tap best talent that can be retained in the long run in the organization.

**Key Words:** *Corporate Governance, Performance, Parastatals*

## 1.0 INTRODUCTION

Despite the fact that many change programs require cultural change and need to be transformational, there are circumstances where the emphasis has to be on rapid reconstruction where, in its absence, a business could face closure, enter terminal decline or be taken over. This is commonly referred to as a turnaround strategy, where the emphasis is on speed of change and rapid cost reduction and/or revenue generation. Managers need to be able to prioritize the things that give quick and significant improvements (Johnson, Scholes & Whittington, 2005).

One major organizational response to a declining economy is separation or downsizing. This response incorporates the basic reduction of assets and expenses within the firm and necessitates many turbulent actions such as layoffs, and other forms of separation which management initiates believing, that these measures will help the organizations perform better in the long run. According to Gomez-Mejia, Balkin and Cardy (2008), a company may choose lay-offs as one of several ways of reducing costs or improving profitability. Fisher and White (2000), advanced that firm's costs increase due to separation as a result of the package given during separation and taking care of the re-training needs of those retained by the firm. Cascio (1993) confirms this position by asserting that despite the fact that downsizing is intended to bring down the expenses, other costs such as the severance package, outplacement benefit, pension and administrative costs may increase. Cascio's frame work showed that the cost bill decrease as a benefit of selection is not achievable. Geralis and Terziovski (2003) stated that the result of selection is in the near future (Levine, 1984).

Neubert and Cady (2001), view separation as an exercise whereby management decides to reduce the number of employees due to an economic downturn or the poor financial performance of the company. However, according to Cooper (1987), separation is a dismissal or long term lay off of one or more workers for a reason of an economic, structural or technological character, intended either to reduce the number of workers employed in the undertaking or to alter the composition of work force.

Organizational performance cannot be viewed as a simple sum of individual performance. Although the research result of many studies suggest the existence of positive correlation between job satisfaction, individual performance and organizational performance. Regarding the studies that address employee separation and organization performance, is it clear generally does not bring some direct reward or benefit to a particular worker.

In several research done recently on organisational success; managers often point out that employee morale is one of the crucial factors for success. Even Napoleon said: the effectiveness of the army depends on its size, training, experience and morale and morale is worth more than all other factors together. Focusing on the recent times, it could be stated general that managers want to have satisfied employees who feel good in their work place; they prefer to work with people who have positive view of the job.

According to Eiser (2011), an organization would achieve productivity with proper human resource management techniques that go beyond pay incentives. These management tools and tips will help them get the productivity and performance they deserve while giving employees the rewards they want. Employees do not necessarily need to work harder to increase productivity (Figart, 2010) since working more efficiently and effectively can achieve the same

result. One of the key management techniques that have helped managers achieve employee productivity is job evaluation concept. When the number of employees in a company grows, many companies find they need to do a job evaluation as it is difficult for Human resources to know each job in detail. This helps the management to decide on the importance of individual jobs within the company (Eiser, 2011; Figart, 2010).

Brown (2011) and Atifet *al.*, (2010) and Campion and McClelland (2013) noted that it was anticipated that at least for some specific tasks, jobs would become rather flexible and contain boundaries that were vague or dynamic. Some authors have criticized job evaluation process because they view it as legalistic and serving to increase boundaries rather than to reduce them. Sanchez and Levine, (2009) observed that the problem was not job evaluation itself, but rather some of the purposes that job evaluation serves, such as too narrow job descriptions. In addition, Sanchez (2004); Sanchez and Levine, (2009) suggested that the term work analysis should replace job evaluation process. Others have used the term work profiling to substitute for job evaluation process.

Sanchez (2004); Sanchez and Levine (2009) identified numerous emerging trends in the business and organizations that have implications for job evaluation. Evidence has been provided by Merino (2013) and McBride (2011) to suggest that job evaluation decisions are influenced by departmental power and in terms of process it affects compensation. Roslender, Stevenson, and Kahn (2006) however contradicted this suggestion by showing that job evaluation process can affect an organization's productivity.

Figart (2010) viewed job evaluation as a systematic process that is used to determine the relative level, importance, complexity, and value of each job in an organization. It is an open system and a transparent document, and its results are available for inspection, reviewing and appealing against its results, if needed. This is because the aim of job evaluation is to establish an acceptable and above all an equitable pay to determine fairness and employees' rights. Figart (2010) further pointed out that management need to inform employees because it is their right and this would create good level of trust between management and employees and implant confidence in job evaluation.

With a successful job evaluation system, Gilbert (2005) noted that organizations are able to compare each job to other jobs within the organization. Gilbert felt that job evaluation being an analytical technique; it would concentrate on the value of the competences needed to do the work effectively in different roles and at different levels of the organization. Thus it does not base or concentrate on the job but on the job occupier's competences and roles that would make the job occupier more productive.

### **1.1 Statement of the Problem**

Although separations are purposed to cut costs, there is a general belief that that if firms remain with the best employees and managers during separation, the firm should realize better performance. However, a number of separation activities in several organizations negate this thought. Some negative outcomes have drawn both theoretical and practical experts' attention to the outcomes of separation and the main questions involved in managing separation. Despite many institutions and organizations adopting separation as a management strategy, a bulk of

separation related literature is based on the result of studies conducted in the developed countries (Opiyo, 2006).

It has been reported that Parastatals in Kenya are facing decline in productivity within a span of 5 years, most of the corporations have had to change the chief Executive officers at least twice which contributed to a negative effect on the productivity of employee. However, most of the Parastatals have maintained their workforce despite the complex nature of their jobs (Opiyo, 2006).

Casio (2005) investigated the effect of changes in employment on financial performance of the organizations and concluded that there was lack of evidence to give credence to the premise that separation leads to increased financial performance as measured by return on investment. Critics have cited results of separation done during economic boom as different from separation carried out during recessions. In additions, results of other studies available including Makawatsakul and Kleiner (2003) point out that separation has a negative impact on the retained staff and concludes that massive downsizing often seems to result into more problem than give solutions to them and for sure rarely achieve its original financial objectives.

Margues, Pinheiro and Ferreira (2011), highlighted that lay-offs have direct affect on both organizational commitment and innovative conduct. However, the trio further indicated that a planned approach to the implemented process could lead to continued and long term advantages to the organization. Furthermore, past studies such as those of Kobia and Mohamed (2012) and Sakunasingha (2006), indicate that most of Parastatals have experienced declining quality of service delivery and such spends money on recruiting and training new employees yet the organizations have talent within that can be topped into without incurring much expenditure. Lack of substantial literature and the fact that few studies have been carried out on the effects of separation in Africa, makes 'selection' a key strategy to be examined further. Therefore the research focused on the moderating effect of corporate governance on the relationship between employee separation and performance of the selected Parastatals in Kenya.

## **2.0 LITERATURE REVIEW**

Agency Theory by Ross (1972) points out that shareholders interest require protection by separation of incumbency of role of board of chair and the CEO. The theory argues shareholders interests are maximized by shared incumbency of these roles. Agency Theory helps in understanding of the relationship between the agents and the Principal in a particular organizational set up and the expectation is that the interest of the principal is fully taken charge off without regards to self interest to avoid conflict. In regards to this study employee are expected to take to heart the interest of the employer and deliver as per the guiding polices and procures. The theory contributes positively to the study as it provides role and guidance of the oversight authority that controls guide and directs the Parastatals to act in certain way especially in regards to employee separation as hypothesized as moderating variable.

Contingency theory (Fiedler, 1964) has its essence in the paradigm that organizational effectiveness result from fitting character of organization structure to different scenario such as environment, organizational size and strategy. The theory emphasizes on the task programmability to the choice of control strategy. The theory contributes to the study as it fits between the

organizational structure, organizational size, technology used and the requirement of the business environment as it gives clear perspective of contents and optimal organizational and leadership style in regards to the decided organizational performance.

Organizational theory studies organization as whole, the way they adapt, the strategies and the structures that guide them. Earnhardt (1985) considers organizational theory to be rational, information based, efficiency oriented, concerned with determinants of control strategy and distinguish between two type of performance evaluation control that is behavior based and outcome based. The theory contributes positively to the study as it provides knowledge on organizational structure, policies regarding the employee separation process and making organizational performance the point of interest.

Zatzick, Marks, and Iverson, (2009) in their research on which way to downsize in crises, noted that as many organizations have been crumbling to figure out how best to restructure and cut cost without jeopardizing the valuable human capital that they had built and managers have been inundated with advice on the does and the don'ts of laying off employees but the truth is that there is no one size fit all approach to downsizing. It was concluded that global economic downtime has forced many companies to make deep cut to their work forces.

Individuals affected by selection process are always in shock, but then later get relieved and ultimately get relaxed. The stages a worker passes through could be compared to the stages explained in the general loss model of Kubler-Ross. Kubler-Ross advances that the individual passes through stages similar to those of losing someone to death or contemplating one's own death (Dawson, 1993). Such stages include; denial, anger, bargaining, depression and eventually acceptance (Morris, 1988). It is inevitable that the individuals responsible for engaging workers on change processes such as re- engineering, rightsizing, downsizing and selection strategies be trained in the necessary skills and knowledge to deal with it professionally. Van Rama-Rao (2010) conducted a study on dismissal and separation effect where he lamented that dismissal likely to result in harmful psychological and health outcome for retrenched employees who lose their job. Their experience leaves the retained staff with a negative mindset noting that their co-workers, mentor, coaches and friends are going through uncertainty and discomfort after rendering a meritorious service.

Makawatsakul and Kleiner (2003), point out that that for a long period, there exist a strong practice to perpetuate a downsizing strategy to handle economic pressures in the environment. Though it has been treated in the past as a short term measure, downsizing has been adopted as way to improve organizational performance. In addition, there are many expected benefits of downsizing, in terms of the economic level and increase operational efficiency of the organization. It can increase productivity, the value of the companies share.

Relevant skills, strategies and tactics are required to implement and manage employee separation. The main reason for this is that, selection goes with organizational change and resistance to change is a common occurrence in many organizations. Meier (2011) conducted a research on changing recruitment landscape. Based on his finding he stated that separation could be devastating, it affects not only the financials security of the individual and it also distorts personal worth and separation exposes the sacked staff to uncertainties, since they cannot be certain for how long they remain unemployed.

With corporate strategy for instance, successful selection and reorganization of the shipping and ship building industry in Sweden during the crisis of the 1970s were ensured. In 1988, Behn found that in order to ensure selection work, there are primary responsibilities of downsizing management which include making decision on what to downsize, ensuring maintenance of the level of motivation, avoiding mistakes, building support of important constituencies or stake holders, providing opportunities for innovation, attracting and maintaining talented workforce. Behn (1988), further advanced that selection has stages. The stages include: analyzing economies required to implement employee separation, taking a forecast view, creating performance standard, developing incentives for team-work, and having good relationship with the stakeholders.

### **3.0 METHODOLOGY**

The study used causal design. According to Sekaran and Bougie (2016), the design seeks to delineate the cause and effect relationship of one or more problems. The design was key in helping the researcher examine whether various aspects of separation significantly affects the performance of Parastatals in Kenya. The target populations of the study were employees in Parastatals in Kenya that had effected separation in the last 10 years. These Parastatals include selected branches of the Kenya Commercial Bank, Telkom, Kenya Broadcasting Corporation, National Bank of Kenya, Railways and Posta operating in Nairobi County. The Parastatals were preferred as the majority had reported series of losses before separation processes commenced.

The study used a mixed multistage sampling method; the purposive stratified sampling method to select a representative sample from the identified population. In this technique, the researcher identifies the subgroups of the population of interest and then selects cases from each subgroup in a purposive manner (Teddlie & Tashakkori, 2009). A sample of retained employees was selected from six Parastatals institutions that filled the questionnaires. The Parastatals were preferred since the researcher had prior knowledge of their relative loss making history. In each firm, the respondents included one manager from key departments of Planning, Operations, Marketing and Finance and three employees from each department making up to 96 respondents.

The study used likert scale questionnaires as a major tool for data collection. The questionnaires were dropped to respondents' offices by both the researcher and 2 research assistants, and later collected after one week. This study was conducted in a normal setting and the research questionnaires were coded to exclude the names of the respondents hence protecting their anonymity. Consent of the respondents was sought and an assurance of confidentiality affirmed. All the questionnaires used in data collection were locked in undisclosed location and destroyed after they have served their purpose. Data was collected, coded and analyzed using SPSS version 20.0. The findings were presented in form of tables and pie charts and discussions and interpretation of the same given.

### **4.0 RESEARCH FINDINGS**

#### **4.1 Response Rate**

The study initially targeted 96 respondents. However the questionnaires that were dully filled, returned on time and used for data analysis were 78. The study therefore had a response of

81.25%, according to Kothari (2004), Mugenda and Mugenda (2003) a suitable response should be 60% or more of the intended sample population. The response rate was therefore considered satisfactory for data analysis.

#### 4.2 Descriptive Statistics

Governance structures was evaluated in two scenarios, companies that divested in terms of acquisitions and mergers and those that maintained their governance structures (non-divestures) The companies that divested had a relatively higher mean (1.48) than those that did not consider divesture (mean 1.29). This difference was statistically insignificant ( $t=1.522$ ;  $df=37.578$ ;  $P>0.05$ ) Hence the study concludes that there is no statistically significant difference between performance of divested firms and those that did not divesture.

**Table 1: Corporate Governance**

Dummy Divesture		N	Mean	Std. Deviation
Led to improved profitability	DIVESTURE	23	1.48	0.511
	NON DIVESTURE	55	1.29	0.458

Paired t-test was used to test the relationship between governance structures after employee separation and organisation performance. Governance structures was evaluated in two scenarios ,companies that divested in termers of acquisitions and mergers and those that maintained their governance structures (non-divestures) The companies that divested had a relatively higher mean (1.48) than those that did not consider divesture (mean 1.29). This difference was statistically significant ( $t=1.522$ ;  $df =37.578$ ;  $P<0.05$ ). Hence the study concludes that there is statistically significant difference between performance of divested firms and those that did not divesture.

**Table 2:Corporate Governance**

		Independent Samples Test							95% Confidence	
		Leven e's Test for	t-test for Equality of Means							
Led to improve profitability	Equal variance assumed	F	Sig	t	df	Sig (2-Tailed)	Mean Difference	Std.Error Difference	Lower	Upper
	Equal variance assumed	4.622	.035	1.591	76	.116	.187	.118	-.047	.422
	Equal variance not assumed			1.522	37.578	.047	.187	.023	-.062	.437

Baron and Kenny (1986) proposed to test a mediation model through a series of regression analyses. However Lacubocci (2008) presents a similar test of mediation using Structural Equation Model. The test was carried as follows, the dependent variables were submitted and mean derived to obtain a unified variable referred to as 'Employee Separation' The findings were as follows; regressing using separation versus performance, the beta value was significant



(0.02365, P-Value 0.000). The estimated paths for the indirect effect were statistically significant, while the estimate of the direct effect from separation to performance was 0.0023 and not significant. Therefore, corporate governance sufficiently mediates the path between separation and performance. The model showed reasonably good model fit according to multiple SEM fit statistics and indices:  $\chi^2(df=76)=135, p \leq 0.001$ .

Lastly, corporate governance restructuring after separation was examined. The variable was treated as a moderating variable. The restructured firms (56.3%) indicated that profitability improved while 70.9% of the non-restructured firms indicated that firms made profit. The H<sub>04</sub> hypothesis states that; there is no statistically effect of the moderating effect of corporate governance issues on employee separation and performance of the selected Parastatals. The test statistics for the four performance measures, operational efficiency, staff morale, team work and performance stability were significant at 0.05 P-value hence shows an evidence of positive influence between performance and corporate governance restructuring hence there is evidence to reject the null hypothesis.

## **5.0 SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

### **5.1 Summary**

The study finds no association between separation management and organization performance hence there is no statistically significant relationship between the separation management and organizational performance. Out of the selected Parastatals that retrenched their workers, 56.3% restructured their organization structure. The study found significant association between corporate governance practices after separation and organization performance therefore there is statistically significant relationship between the corporate governance issues and organizational performance.

### **5.2 Conclusion**

Therefore it can be concluded that separation programme at first instance does not influence organization performance rather it gives way for other organizational processes such as restructuring that in turn affect organization performance. Then the key driver for improving performance could not be identified from the singled out separation issues.

### **5.3 Recommendation**

The study found significant association between corporate restructuring practices after separation and organization performance. Therefore separation alone may not realize improved profits in the near future. Therefore, it is important that firms pursue supplementary restructuring programmes such as change of organization structures, systems and processes and sale of business lines that are not optimally profitable.

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