Factors Affecting Management of Finances in Kenya's Public Sector: A Survey of Parastatals in Nakuru Town

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Abstract: *The main objective of the research study was to assess factors affecting management of finances in Kenya's public sector. It was not very clear what really caused public sector to present unaccounted for spending bearing in mind that they operated using tax payers' money and were therefore accountable for any misuse. The researcher carried out the study amongst the various Parastatals in Nakuru town since they were entrusted with serving citizens in Kenya. The researcher adopted a descriptive nature of research where survey research design was employed in carrying out the investigations. The researcher used structured questionnaires comprising of close-ended and open-ended questions for collecting primary data. Data collected was processed with the aid of the Statistical Packages for Social Sciences (SPSS) software and was analyzed quantitatively. Summary statistics including tables were used to present the findings of the study with Pearson's correlation coefficient to establish the relationship between dependent and independent variables.*

Keywords: Parastatals management, Public Sector, Financial management, Bureaucracy, Government support

1. Introduction

1.1 Background of the study

Since the 1980s, many developed and developing countries were embarking on public sector management reforms. The main reasons for commencing public sector reforms were public sector inefficiency and ineffectiveness (ECA, 2003). Governments were constantly under pressure to improve public services quality while containing costs and enhancing public accountability at the same time (Barret, 2004). Several countries, such as New Zealand, Australia, the UK, undertook significant public sector changes to break from the traditional bureaucratic model of public administration (Hood, 1991). Historically, the public sector faced capacity constraints compounded by inadequate information processes and systems. In addition, non-compliance with internal controls had led to poor predictability of government expenditure and a lack of analytical capacity. Similar to other African countries, the public sector also struggled to attract qualified professional accountants to the sector. In Kenya, the level of accountability among public officials in the management of public affairs had consistently declined since independence. The rate of annual economic growth of the country had generally declined over the period. Management of public finances is absolutely crucial to improving the quality of public service outcomes. It affects how funding is used to address national and local priorities, the availability of resources for investment and cost-effectiveness of public services. Parastatal organizations according to ECSAFA (2004) have been established with financial resources from tax-payers. Strong financial management provides the platform for three of the five building blocks (or criteria) that underpin our decentralised model of the public management system. These three are accountability, effective assessment of performance, and adequate information flows the other two being the freedom to manage and clarity of objectives.

1.2 Statement of the Problem

In Kenya, as in most of sub-Saharan Africa, a major portion of investment was channeled through government owned corporations, called Parastatals. In spite of the fact that the public sector played a very important role in economic development of any country including Kenya, the governance and management of the departments, corporations and Parastatals that constituted this sector left many questions begging for answers. Recent survey by the Auditor general in Kenya showed that there was a wide gap between the finances received by state corporations and the results provided as to how this finance had been used. For instance, the audit of the financial statements for the year ended 30 June, 2012, indicated that out of the 252 financial statements audited; only 6% had a clean (unqualified) audit reports while 51%, 10% and 33% had qualified, adverse and disclaimer of opinion reports respectively. Parastatals just like any other public entities are established and run using the tax-payers' money. As such, therefore, taxpayers have a right to demand prudential management of finances in the public sector. Against this backdrop, the management of finances in the public sector is more often than not questionable.

1.3 Objectives of the Study

The main objective of this study will be to assess the factors affecting management of finances in Kenya's public sector.

1.3.1 Specific Objectives

1. To establish how bureaucracy affects management of finances in the public sector
2. To assess the effect of staff's skills to management of finances in the public sector

3. To examine how government's support affect management of finances in the public sector

1.4 Research Questions

1. How does bureaucracy affect management of finances in the public sector?
2. What is the effect of staff's skills to management of finances in the public sector?
3. How does the government's support affect management of finances in the public sector?

2. Literature Review

2.1 Theoretical Framework

Indeed there were a number of theories that this study relied on in order to achieve its objectives and answer the research questions. The relevant theories include agency theory, stewardship theory and resource dependency theory.

2.3 Conceptual framework

The framework outlined the variables of the study and how they interacted. There were two categories of variables that included: independent and dependent variables. The independent variables were bureaucracy, corruption, staff skills and government support. The dependent variable was factors affecting management of finances in public sector which was influenced by the independent variables.
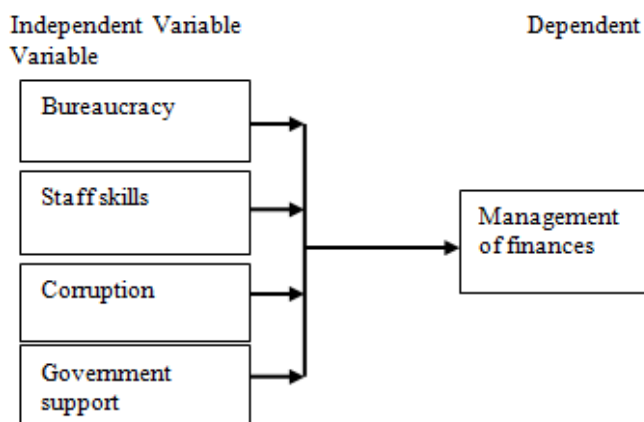

Figure 2.1: Conceptual framework

2.3 Empirical Review

1) Finance management

Financial management and control is the bedrock of government management and its framework should provide the principal source of reference for guiding managers and their financial advisers in the efficient, effective and proper use of public resources (McCrindell 1999). Proper Financial Management Regulations should be adhered to (EFA, 2003). According to Cole, (1996) management is the process of working with and through others to effectively achieve an organizations stated objectives by efficiently using resources in the ever changing environments. Strong financial management ensured that public money is safeguarded at all times and used appropriately, economically, efficiently, and effectively. Having a strong system of financial management underpinned sustainable decision making, delivery of services, and achievement of outcomes in public sector entities, as all decisions and activities have direct or indirect financial consequences.

2) Public Sector Management

Even though the public sector in African countries was expected to spearhead socioeconomic development to reduce poverty, it had proved largely ineffective in performing this task. Some of the reasons for this ineffectiveness were excessive politicization, lack of accountability and representation, inability to promote the public interest and authoritarian tendencies. The ineffectiveness had led to the call for a redefinition of the role of the public sector. According to Schultz (1998), the public service could be defined as a body of government officials employed in civil occupations that were neither political nor judicial. Well-ordered societies usually recruited and promoted officials on the basis of a merit-and-seniority system, which may include examinations; elsewhere, corruption and patronage were more important factors. The public sector played a major role in society. The basic function of the public sector, which comprises a number of institutions for the making and implementation of decisions with regard to interests of various kinds, was to provide goods and services to citizens based on "realization and representation of public interests and its possession of unique public qualities compared to business management" (Haque, 2001: 65). However, the public sector was not able to perform its function effectively because of its "accumulation of excessive power, lack of accountability and representation, indifference towards public needs and demands, official secrecy and inaccessibility, and role in depoliticizing the public sphere" (Haque, 1994).

3) Parastatal management

Parastatals are deeply implicated in most fiscal problems of African governments because of their inefficiency, losses, budgetary burdens, and provision of poor products and services. Occasionally, they achieve some non-commercial objectives, which are used to justify their poor economic performance. Parastatals were first established in Kenya by the colonial government to provide services that were not provided by the private sector. They control key sectors such as agricultural exports, transport and communications, manufacturing and agricultural trade." The government exercises immense control over Parastatals, as it has powers to appoint directors and issue directives of a general nature. The need for privatization is attributable to the failure of the State, as an owner of enterprises, to motivate the firms to realize competitive business standards.

2.4 Research Gaps

Government Parastatals were a very important asset in the government of any particular country. It symbolized the effectiveness and efficiency of those entrusted with the responsibility of serving the nationals. Various research

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works had been conducted by different scholars such as ACCA, Pretorius and Pretorius, ECSAFA amongst others emphasizing on the role of financial management in the public sector. Pretorius and Pretorius (2009) noted that the inefficient and poor management of finances in the public sector could be dealt with by introduction of PFM systems. Nevertheless, the two scholars observed that no work has been carried out recently to synthesize either the PFM systems' main theoretical approaches or evaluation findings.

3. Research Methodology

3.1 Research design

The researcher adopted a descriptive nature of research with an object of gathering data on management of public finances. This data was objected to help the researcher to establish the factors affecting management of finances in the public sector. Under descriptive research, the researcher adopted a survey research design in carrying out the investigations. The fact-finding mission of the researcher was to establish the factors affecting management of finances in the public sector at the stipulated time of collecting, processing and analyzing the data, and interpreting and presenting the findings.

3.2 Data Processing and Analysis

Data analysis of this study incorporated descriptive statistics which was concerned with development of certain indices from the raw data with a view of analyzing the findings. Measures of variability (standard deviation and variance) and measures of central tendency such as the mean amongst others were used to analyze the data collected. The statistical packages for social sciences (SPSS) program was used to electronically analyze the data collected. The data collected was analyzed using Pearson's correlation.

4. Results and Discussion

4.1 Introduction

The chapter illustrates how the findings of the data collected were presented after they were analyzed. The findings were in form of both descriptive and inferential statistics and were accompanied by pertinent discussions.

a) Staff skills

The results of the study were as shown in Table 4.1

Table 4.1: Staff skills

	N	Min	Max	Mean	Std. Deviation	Variance
Sources of income other than government support in this organization are published and scrutinized	54	1	5	3.85	1.250	1.563
Senior positions in the organization are based on objective selection criteria and subject to investigation on their suitability and prior conduct	54	1	5	4.04	1.098	1.206
Citizens, civil society and the media can have access to financial statements of the organization readily available	54	2	5	4.20	1.105	1.222
Auditing is done by both internal and external auditors and reports availed to the public for scrutiny	54	1	5	4.04	1.414	1.999
Policies to curb corruption are well outlined in the organization and are constantly reviewed	54	1	5	3.76	1.331	1.771
Valid N (listwise)	54					

The responses generally returned means inclined towards 4.00 (Disagree). It is notable that on average, respondents disagreed that sources of finances other than the government support were published and scrutinized and that senior positions in the organizations were occupied based on objective selection criteria and as well information was readily available to the public. The findings also indicated that on average auditing was not done by both internal and external auditors and that policies to curb corruption were not well outlined and were not constantly reviewed. The researcher also realized that the standard deviations across all factors were between 1.0 and 1.4. However, it is worth noting that the respondents had a varied opinion regarding auditing being done by both internal and external auditors where its standard deviation is to the extreme end (1.414) which was relatively large.

b) Bureaucracy

The results of the study were as shown in table 4.2.

Table 4.2: Bureaucracy

	N	Min	Max	Mean	Std. Deviation	Variance
Employees in the private sector strive to implement policies decided upon them by top political leadership	54	1	5	2.54	1.463	2.140
Once one is recruited as public sector employee one stays as a public sector employee for the rest of one career	54	1	5	2.20	1.459	2.128
Decision making comes from top level management with minimal consultation	54	1	5	1.89	1.341	1.799
There are rules and regulations governing operations of the organization which rarely change	54	1	5	1.96	1.331	1.772
Communication and feedback to employees follows a specified pattern	54	1	5	1.76	1.148	1.318
There is high level of specialization in different tasks	54	1	5	1.56	1.058	1.119
Valid N (listwise)	54					

The findings indicated that almost all the responses were inclined towards the mean of 2.00 (agree). It was, therefore, rational to argue that respondents generally opined that bureaucracy affected management of finances in Kenya's public sector. However, it was noted that on average the respondents were indecisive on whether or not employees strived to implement policies decided upon them by top political leadership. The findings returned a mean of 2.54 which tended towards 3.00 (neutral) in respect to the aforementioned proposition. The standard deviations of all responses as shown in Table 4.2 are greater than 1.000. This implied that the responses though normally distributed the data values were relatively dispersed.

c) Government support

The results of the study were as shown in table 4.3.

Table 4.3: Government support

	N	Min	Max	Mean	Std. Deviation	Variance
The provision of public services is funded by user fees or private insurance rather than taxes	54	1	5	2.30	1.298	1.684
Financial performance and position of the organization is always prepared published and availed to the public annually	54	1	5	3.74	1.277	1.630
The organization provides services that are beneficial to the public	54	1	5	3.65	1.469	2.157
There is frequent monitoring and evaluation of the organization activities conducted by the government agents	54	1	5	4.13	1.260	1.587
The government provides feedback to the organization on public complaints and concerns	54	1	5	4.04	1.258	1.584
Valid N (listwise)	54					

According to the findings as illustrated in Table 4.8 the mean of all the responses was between 2.00 (agree) and 4.00 (Disagree). This drew the assertion that the respondents generally agreed with the proposition that the provision of public services was funded by user fees or private insurance rather taxes. It was noteworthy, that respondents disagreed specifically to the arguments financial performance and position of the organization is always prepared published and availed to the public annually, the government provided feedback to the organization on public complaints and concern, there was frequent monitoring and evaluation of the organization activities conducted by the government agents and that the organization provides services that are beneficial to the public. The standard deviations of all responses as shown in Table 4.3 are greater than 1.000. This implied the responses though normally distributed the data values were relatively dispersed. Interpretatively, there were some respondents who held extreme opinions in regard to government supporting the public sector. In particular, responses were most widely dispersed on the aspect of the organizations provided services that were beneficial to the public. The standard deviation for this factor was 1.469.

d) Management of finances

The results of the study were as shown in table 4.4.

Table 4.4: Management of finances

	N	Min	Max	Mean	Std. Deviation	Variance
The organization prepares budget and adheres to it to the later	54	1	5	3.67	1.259	1.585
The organization has implemented the necessary controls to ensure that financial resources are used in the right way	54	1	5	4.04	1.387	1.923
The organization allocates funds based on the cost effectiveness and its value for money	54	1	5	3.93	1.344	1.806
There is frequent monitoring and evaluation of the organization activities conducted by independent agents	54	1	5	3.93	1.330	1.768
The organization publishes audited reports to the public and its responsible for any misappropriations	54	1	5	3.93	1.286	1.655
Valid N (listwise)	54					

From the findings as indicated in Table 4.9, the responses were inclined to a mean of 4 (Disagree). This meant the respondents disagreed with the propositions that organizations prepared budgets and adhered to them, the organizations implemented the necessary controls to ensure that financial resources were used in the right way. The further disagreed that the organization allocated funds based on the cost effectiveness and its value for money, the organization published audited reports to the public and it was responsible for any misappropriations and that there was frequent monitoring and evaluation of the organization activities conducted by independent agents. This depicted that in deed there was a problem with the management of finances in Kenya's public sector. The researcher also realized that the standard deviations across all factors bordering on the organization had implemented the necessary controls to ensure that financial resources are used in the right way were conspicuously wide (std. deviation > 1.25) given that the means were in the range of 4.04 and 3.93. This meant that the responses were widely spread out.

4.2 Discussion

a) Relationship between bureaucracy and management of finances in the public sector

The findings of the analysis are presented in Table 4.5.

Table 4.5: Relationship between bureaucracy and management of finances in the public sector

Bureaucracy		Management of finances in public sector
Employees in the public sector strive to implement policies decided upon them by top political leadership	Pearson Correlation	-.398[**]
	N	54
Once one is recruited as a public sector employee one stays as a public sector employee for the rest of one career	Pearson Correlation	-.556[**]
	N	54
Decision making comes from top level management with minimal consultation	Pearson Correlation	-.633[**]
	N	54
There are rules and regulations governing operations of the organization which rarely change	Pearson Correlation	-.488[**]
	N	54
Communication and feedback to employees follows a specified pattern	Pearson Correlation	-.147
	N	54
There is high level of specialization in different tasks	Pearson Correlation	.005
	N	54
**. Correlation is significant at the 0.01 level (2-tailed).		

According to the findings, it was evident that in general, bureaucracy had negative relationship to the management of finances. This is evidenced by the fact some factors that explained bureaucracy returned strong negative relationships (-0.633≥r≤-0.556) when correlated against management of finances while others had relatively weak relationships (-0.488≥r≤0.147). It was inferred, therefore, that in respect to bureaucracy it contributed greatly to the management of finances in the public sector in respect of those factors with strong relationship while those with weak correlation marginally affected management of finances in the public sector.

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b) Relationship between staff skills and management of finances in the public sector

The findings are illustrated in Table 4.6.

Table 4.6: Relationship between staff skills and management of finances in the public sector

Staff skills factor		Management of finances in public sector
The organisation attracts the most qualified personnel to work in this organization	Pearson Correlation	.679**
	N	54
There is frequent collection of information to establish problem solving techniques	Pearson Correlation	.868**
	N	54
Work activities gives satisfaction compared to one's knowledge and skills and give an opportunity for improvement	Pearson Correlation	.694**
	N	54
Good customer relationship is initiated and maintained	Pearson Correlation	.835**
	N	54
Employees discuss and work together to think up new skills and systems of working	Pearson Correlation	.836**
	N	54
Training is offered to help improve work efficiency	Pearson Correlation	.857**
	N	54
**. Correlation is significant at the 0.01 level (2-tailed).		

A general conclusion was drawn that staff skills greatly affected management of finances in the public sector. This was supported by the findings as illustrated in Table 4.11 where all correlations were inclined between $(0.679 \geq r \leq 0.868)$ (strong relationship). This could be argued to imply that the level of staff skills contributed to the effectiveness of finance management where if employees' skills were improved management of finances would as well improve.

c) Relationship between government support and management of finances in the public sector

The findings were summarized in Table 4.7.

Table 4.7: Relationship between bureaucracy and management of finances in the public sector

Government support factors		Management of finances in public sector
The provision of public services is funded by user fees or private insurance rather than taxes	Pearson Correlation	-.582**
	N	54
Financial performance and position of the organization is always prepared published and availed to the public annually	Pearson Correlation	.707**
	N	54
The organization provides services that are beneficial to the public	Pearson Correlation	.792**
	N	54
There is frequent monitoring and evaluation of the organization activities conducted by the government agents	Pearson Correlation	.907**
	N	54
The government provides feedback to the organisation on public complaints and concerns	Pearson Correlation	.830**
	N	54
**. Correlation is significant at the 0.01 level (2-tailed).		

The findings indicated that a significant relationship existed between government support and management of finances in the public sector which was inclined between $(0.707 \geq r \leq 0.907)$. However, the researcher noted that there was a negative relationship between the argument that provision of public services was funded by user fees or private insurance rather than taxes. Interpretively, majority of the respondents agreed to that factor and hence no government support. Therefore, the more user fees were used the lesser management of finances and the lesser the user fees the more management of finances problems.

4.3 Conclusions

a) Establishment of how bureaucracy affects management of finances in Kenya's public sector

It was evident the respondents agreed to the factors about bureaucracy where the mean was inclined to 2.000 (agree). It was inferred that employees in the public sector marginally strived to implement policies decided upon them by top political leadership and that communication and feedback followed a specified pattern marginally. However, it was inferred that all other factors greatly affected management of finances in the public sector and hence bureaucracy contributed to poor performance of the public sector.

b) Effect of staff skills to management of finances in the public sector

The respondents disagreed with the factors that organisation attracted the most qualified personnel to work in this organisation, there was frequent collection of information to establish problem solving techniques, work activities gave satisfaction compared to one's knowledge and skills and give an opportunity for improvement, good customer relationship was initiated and maintained and that training was offered to help improve work efficiency. Moreover, it was noted that the respondents had varied opinion regarding the Parastatals attracting the most qualified personnel as well as whether work activities gave satisfaction compared to one's knowledge and skills. It was also inferred that there was a strong relationship between factors of staff skills and the management of staff skills in that if they were improved management of finances would improve.

c) Extent to which corruption affected management of finances in Kenya's public sector

It was concluded that respondents disagreed with the factors that sources of income other than government support in organisations were published and scrutinized, senior positions in organisation were based on objective selection criteria and subject to investigation on their suitability and prior conduct, policies to curb corruption were well outlined in the organisation and were constantly reviewed, auditing was done by both internal and external auditors and reports availed to the public for scrutiny, and that citizens, civil society and the media had access to financial statements of the organisation readily available. More so, it was inferred that there was a strong positive correlation between corruption factors and management of finances.

d) How government support affected management of finances in Kenya's public sector

It was admissible that the provision of public services was funded by user fees or private insurance rather than taxes. Further, the respondents were in disagreement to the ideas that financial performance and position of the organization was always prepared published and availed to the public annually, the organization provided services that were beneficial to the public, the government provides feedback to the organisation on public complaints and concerns and that there was frequent monitoring and evaluation of the organization activities conducted by the government agents. It was further rationally concluded that the provision of public services was funded by user fees or private insurance rather than taxes had a negative correlation to management of finances. Moreover, it was inferred that lack of government support greatly affected management of finances in the public sector.

4.4 Further Research

The researcher recommends the following areas for further study:

An analysis of cause of poor performance in the public sector, other factors other than staff skills, corruption, bureaucracy and government support affecting management of finances in the public sector, public finance management systems which can be introduced to enhance accountability and transparency, finance management reforms that can be undertaken and hypothesizing of the research findings.

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