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Stakeholders' Involvement in Monitoring and Evaluation and Financial Performance of Parastatals with Liquidity Gaps in Kenya

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ABSTRACT : *Parastatals have embraced participatory budgeting to ensure proper utilization of available resources. Despite the approach, parastatals still experience challenges, which lead to poor financial performance.The main objective of this study was to evaluate the effect of stakeholders' involvement in monitoring and evaluation on financial performance of parastatals with liquidity gaps in Kenya. Theories that guided were; budget theory, resource dependence theory and agency theory. Pragmatism philosophy was adopted. Correlational research design was used on a population of 424 officers. A purposive sampling technique was used to obtain the sample size. Primary data was collected by use of questionnaires while secondary data was collected through analysis of audited financial statements. Data were analyzed using Statistical Package for Social Sciences (SPSS). Reliability of research instruments was tested through Cronbach's Alpha and construct validity was assessed through factor analysis. Stakeholders' involvement in monitoring and evaluation had a significant relationship with financial performance. The study provides information to the government and policymakers especially the executives by assisting them in analyzing and utilizing the benefits that come with involving stakeholders' in monitoring and evaluation. It also recommends that parastatals should ensure the priority of stakeholders is taken into consideration during the budgeting process.*

KEYWORDS –*Evaluation, Financial Performance, Liquidity Gaps, Monitoring, Parastatals*

I. INTRODUCTION

Participatory budgeting is the level of influence and involvement that individuals feel in the process of designing a budget. This is founded on the belief that the more subordinates participate in the budgeting process, the greater their sense of responsibility for meeting targets in each of their job areas since they are active in budgeting. It is feasible for subordinates to bargain with superiors about budget targets that they believe can be met when subordinate aspirations are important in the budgeting process (Tahang, Usman, & Indrijawati, 2018).

Evaluating a budget entails contrasting actual expenditures with those projected. To guarantee financial success, participation of stakeholders' in monitoring and evaluation is essential. The budgets must be monitored and evaluated after they are implemented to guarantee that they continue to achieve their long-term objectives. One may contend that tracking the budget's performance is one of the best ways to maintain budgetary control because it enables the identification of where and when discrepancies and gaps occur. Since it is an endless process that takes place over a set period of time, it must deliver reports on time so that the organization's management may remedy any discrepancies (AL Mahroqi & Mutriano, 2021).

Parastatals in Kenya for instance Kenya Power and Kenya Railways are categorised as loss-making due to their high levels of on-lending debt, enormous liabilities, and severe liquidity problems. Ineffective budgeting procedures are to blame. As a result of declining customer bases, the Kenya Broadcasting Corporation, East African Portland Cement Company, the Postal Corporation of Kenya, and the Kenya Post Office Savings Bank have all been labelled as loss-making businesses. The 18 are a subset of Kenya's more comprehensive list of 260 State Corporations, and they include four profitable parastatals: the Kenya Ports Authority, the Kenya Pipeline Company, the Kenya Airports Authority, and KenGen (Muiruri, 2021).

1.1 Statement of the Problem

Participatory budgeting is the process of involving subordinates and stakeholders in decision making regarding the distribution of the organizations' funds. Individuals are more likely to collaborate on decisions regarding income and expenditures if they have a hand in creating the budget. Parastatals use budgets and budget process just like any government institutions to help in ensuring there is effective financial management in order to avoid wastage of public financial resources. According to (Kandie, 2020), participatory budgeting if well implemented could help improve the financial performance of an entity. Despite the implementation of the budget processes and participatory budgeting in parastatals, the National Treasury in its 2021 sectoral report cited 8 out of 18 key State parastatals to be unable to meet their financial obligations. Even though participatory budgeting is used, a financial analysis of the parastatals finds a Ksh.382 billion imbalance between liquid assets and liabilities for all parastatals over the next five years even as exchequer faces competing needs. In a warning, Treasury cites specific parastatals whose mismatch between liquid assets and liabilities mirrors financial troubles that, if left unchecked, might develop into serious fiscal threats to the economy. Despite the Ksh.70 billion budget gap over the next five years, participatory budgeting has been promoted for the 18 specified parastatals (Muiruri, 2021). Studies conducted on participatory budgeting and financial performance in Kenya focused in county governments and city councils. Moreover, most studies showed mixed results between participatory budgeting and financial performance. Therefore, the need to evaluate the effect of stakeholders' involvement in monitoring and evaluation on financial performance of parastatals with liquidity gaps in Kenya.

1.2 Research Question

To establish the effect of stakeholders' involvement in monitoring and evaluation on financial performance of parastatals with liquidity gaps in Kenya

1.3 Research Hypothesis

$H0_1$: There is no significant effect of stakeholders' involvement in monitoring and evaluation on financial performance of parastatals with liquidity gaps in Kenya.

II. LITERATURE REVIEW

2.1 Empirical Review

Nyong'a and Gachanja (2021) carried out a study on public participation in the policy making process: An evaluation of Makueni county, Kenya. The study adopted a descriptive research design and targeted 884, 527 residents of Makueni and 217 county public service departmental staff in the county. 117 staff was delineated through stratified sampling and simple random sampling was used to get 396 residents. Primary data was collected through focus groups discussions and questionnaires. Both descriptive statistics and linear regression were utilized to assess the qualitative data.

Ronoh (2020) examined public participation for sustainable development in a devolved system of governance in Kenya. The study used a contemporaneous triangulation research design and the pragmatism philosophical paradigm. The study's target population was 807,372, and a sample size of 383 respondents was chosen using multistage cluster and simple random selection procedures. To gather primary data, interview schedules and questionnaires were used. Thematic analysis was used to evaluate qualitative data, while descriptive and inferential analysis was used to analyze quantitative data. The public involvement process and demographic features were significantly correlated, according to the chi-square test for independence from the value at 0.000, which is less than 0.5, which is significant. Public participation enhances sustainable development

Rwigi (2018) carried out a study on the effect of participatory budgeting on healthcare services in Makueni sub-county. The study adopted a case study approach to examine the participatory budgeting process in Makueni sub-county. Purposive sampling and snowball sampling were used to select relevant respondents for the study. 22 semi-structured interviews and 2 unstructured interviews were conducted. The research employed both primary data collected through interviews and secondary data which were collected through survey of documents and records. Iterative approach was involved in data collection process. Data was analyzed through descriptive statistics, theoretical propositions and pattern matching techniques. The study concluded that formal participatory frameworks do ensure the formulation of pro-poor fiscal policies. It has also encouraged the involvement of citizens in budget making process.

2.2 Theoretical Review

2.2.1 Budget Theory

The theory was propounded by Carter (1985).This theory explains the social motivation behind government budgeting. Today's budgets work as the organization's nerve center, coordinating and guiding operations and allowing for greater oversight. Budgeting, at both the managerial and operational levels, looks to the future and lays out what needs to be accomplished.

The budget is the government's blueprint. It is a compilation of projections for future income and expenditures, suggesting a plan for future endeavors and the means to fund them. Just by looking through the budget, one can gain a better sense of the government's long-term financial strategy as a whole (Wildavsky& Jr 2014).

This theory examines the guidelines which have to be followed during the budget making process. Budget theory focuses on ensuring that budgets are prepared and implemented on time. This theory is thus relevant for the study as it helps explain to stakeholders and subordinates what budgeting entails and this ensures that targets are achieved.

2.2.2 Resource Dependence Theory

This theory was proposed bySalancik and Pfeffer (1978).Resource dependence theory (RDT) states that the organization for instance a business firm must involve in transactions with other actors and organizations in its environment so as to acquire resources. The central tenet of Resource Dependency Theory is that an organization's decisions and behaviors may be understood in the context of the degree to which they are dependent on a certain resource. Resource dependency theory focuses on the function of managers in delivering or securing important resources to a company through their connections to the outside world. It has been hypothesized that providing resources would boost organizational effectiveness, business success, and chances of survival.

Resource dependency theorists provide focus on the selection of representatives of self-governing organizations as a means for gaining access in resources crucial to firm success. According to Resource Dependency Theory, an organization's success depends on its ability to identify and secure the "essential" resources that are provided by its external environment.

Resource dependence theory thus complements the study of participatory budgeting in parastatals. The managers are able to distribute the sourced resources to the various departments during the budget making process.

2.2.3 Agency Theory

Jensen and Meckling put forth the agency theory (1976). They proposed a philosophy of corporate governance predicated on the inherent tension between shareholders, executives, and creditors. The goals and concerns of each of these subsets vary. The agent acts on behalf of the principal in an agency relationship. Decisions are made by agents on behalf of their principals. The goal of agency theory is to organize the contractual connection between these groups such that agents work in the best interests of their principals. Relationships between individuals who deliver agency services and those who provide funding to service providers are at the heart of public budgeting. Low administration practices such as revenue mismanagement may increase if the principal-agent concerns are not resolved.

The organization, according to the notion, is made up of owners of economic resources and agents who manage the principal's resources. The agents may not always share the principal's aims and may seek to promote their own interests at the expense of the owner. The separation of ownership and policy execution authority, which is given on the agents, exacerbates this. The pursuit of self-centeredness by agents is the primary agency problem (David, 2012).

Agency theory is important in the study of stakeholders' involvement in parastatals. It helps in ensuring that the priority of these two parties is taken into consideration.

III. RESEARCH METHODOLOGY

The study adopted a correlational research design. The target population consisted of eight (8) profit-making parastatals with liquidity gaps in Kenya. Primary data was obtained using questionnaires while secondary data was acquired from audited financial statements for financial year 2019/2020. Both descriptive statistics and inferential statistics were obtained. Descriptive statistics comprised percentages and frequencies. Inferential statistics include correlation analysis, regression analysis and ANOVA.

The regression model is as shown;

$Y_1 = \beta_0 + \beta_1 X_1 + + \varepsilon$

Where;

Y is the Financial Performance

β_0 is the intercept that measures financial performance

β_1 is the slope coefficient

X_1 is stakeholders' involvement in budget implementation

$\varepsilon$is the error term

IV. RESULTS AND FINDINGS

This section outlines the data analysis and findings of the study. It presents the descriptive statistics and inferential statistics results.

4.1 Response Rate

Table 1: Response Rate

Targeted Respondents	Returned Questionnaires	Response Rate (%)
202	172	85.15%

The research targeted 202 respondents from 8 parastatals with liquidity gaps in Kenya. A total of 202 questionnaires were delivered to the particular respondents in the parastatals under study. 172 respondents filled and returned their questionnaires while 30 respondents did not return their questionnaires. This shows a response rate of 85.15%.

4.2 Descriptive Statistics

Generally, the office of the auditor general audits parastatals and awards them opinions as either qualified, unqualified, adverse or disclaimer on their books of accounts. Results show that out of the respondents questioned on whether the auditor general audits and gives financial reports on their books of accounts, 68 (39.5%) strongly agreed, 69 (401%) agreed, 26 (15.1%) remained neutral, 8 (4.7%) disagreed and 1 (0.6%) strongly disagreed. The findings indicate that most parastatals are usually audited every financial year and reports given by the auditor general. Auditing helps in fraud detection and prevention and also it helps in ensuring compliance with policies and regulations, this improves financial performance. On the other hand, some parastatals may not go through this process hence may lead to poor performance since some variances may not be detected in advance.

The respondents were asked whether the internal auditors prepare and release internal audit reports regularly. Findings show from the sample of 172 respondents, 4 (2.4%) strongly disagreed, 11 (64%) disagreed, 41 (23.8%) remained neutral, 75 (43.6%) agreed and 41 (23.8%) strongly agreed. From the findings it is clear that in most parastatals internal audit is done regularly so as to identify areas of concern and present them to the management for action in time, this helps improve financial performance. However, in few parastatals internal audits are not done regularly this indicates that internal auditors do not prepare audit reports hence may risk having major financial problems at the end of the financial year.

From the research findings it shows that regular preparation of internal audit reports influences financial performance of the parastatals with liquidity gaps in Kenya. Findings indicate that, 5 (2.9%) of the respondents strongly disagreed, 12 (7.0%) disagreed, 47 (27.3%) remained neutral, 63 (36.6%) agreed and 45 (26.2%) strongly agreed. Regular preparation of the audit aids in determining areas of concern, the management can correct this and hence it will influence good financial performance.

Respondents were asked whether timely internal audit reports are submitted to the management for corrective measures to be taken. Results show that 4 out of 172 respondents strongly agreed, 26 agreed, 43 remained neutral, 52 disagreed and 43 strongly disagree some parastatals the management takes corrective action. Findings of the study show that in most of the parastatals, the management does not take any action to variances that they could even be aware. This can lead to the poor performance experienced in most of the parastatals. On the other hand, in few of the parastatals internal audit reports are taken to the management for corrective, this means that any variances are corrected early enough to avoid bigger financial issues in future and this enhances financial performance.

A question was asked to determine whether management in these parastatals takes corrective action to variances noted. Results show that from a population of 172, 8 (4.7%) strongly agreed, 22 (12.7%) agreed, 38 (22.1%) were neutral, 61 (35.5%) disagreed and 43 (25.0%) strongly disagreed. According to the research output, in most of the parastatals the management does not act on the variances noted by internal auditors. This implies that they are prone to challenges in the future and this could affect financial performance.Results also show that in some parastatals, the management does take corrective measures if notified about any variances by the internal auditors which enhance financial performance.

The main aim of this variable was to determine whether these parastatals had sufficient audit staff. Findings of the study indicate that 10 (5.8%) of the 172 respondents strongly disagreed, 37 (21.5%) disagreed, 49 (28.4%) remained neutral, 61 (35.5%) agreed and 15 (8.7%) strongly agreed. The findings of the study indicate that most parastatals have sufficient internal audit staff in that department. This indicates that they are able to carry out their duties effectively that is audit each department in the organization and provide audit report to the management to take action, if need be, in time. On the other hand, few parastatals have insufficient number of staff. This implies that the available staff might have a lot of workloads which could hinder them from carrying out their duties effectively and act independently hence poor performance.

The results of the study were an extension of the previous question on whether parastatals' audit departments have sufficient staff. Results show that, out of the 172 respondents who returned their questionnaires 5 (2.9%) strongly disagreed, 22 (12.8%) disagreed, 40 (23.3%) remained neutral, 57 (33.1%) agreed and 48 (27.9%) strongly agreed. The respondents agreed that sufficient staff in the internal audit department enhances financial performance. From the results, it is certain that most parastatals have sufficient internal audit staff which is able to carry out their work efficiently and effectively and this could lead to good financial performance.

The purpose of this question was to help the researcher find out if participation of subordinates in budgeting process helps enhance financial performance. Results show that including the subordinates during the budget making process in parastatals enhances financial performance. This is according to the results shown where out of 172 respondents 13 (7.5%) strongly disagreed, 21 (12.2%) disagreed, 39 (22.7%) were neutral, 51

(29.7%) agreed and 48 (27.9%) strongly agreed that public participation enhances financial performances. This indicates that including subordinates in the budget making process enhances performance since this can motivate workers.

Table 2: Descriptive Statistics

Statement	SA	A	N	D	SD
	5	**4**	**3**	**2**	**1**
The office of the Auditor-General audits and gives financial reports.	80	52	23	15	2
Internal audit reports are prepared and released regularly by the internal auditors.	5	10	37	87	33
Regular preparation and release of internal audit reports facilitates financial performance	12	21	45	43	41
Timely reports are submitted to the management to take corrective measures if any variances are discovered.	37	52	48	23	12
Management acts and takes corrective measures on the reports submitted to them by internal auditors.	43	47	49	22	11
The internal audit department is equipped with sufficient staff.	19	27	49	50	27
Sufficient staff of internal audit department enhances financial performance.	24	43	42	35	8
Public participation in the budget process boosts financial performance.	27	55	53	30	7

4.3 Inferential Statistics

Inferential statistics was carried out to assess the link between the study variables and establish how the independent variables influence the dependent variable.

4.3.1 Model Summary

The findings of the study showthat stakeholders' involvement in monitoring and evaluation explain 23.6% of the variation in financial performance in parastatals with liquidity gaps in Kenya. R square is 0.298 while adjusted R square is 0.298.

Table 3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.486[a]	.236	.298	.612

4.3.2 ANOVA

The Analysis of Variance (ANOVA) was determined to find out the relationship between the independent variables and the dependent variable.

Table 4: ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1.134	3	0.3654	3.735	.0002[b]
	Residual	13.786	168	0.0802		
	Total	14.920	171			

The F statistics was 3.735 which is more than the f critical value of 2.65, this indicates that there is a significant correlation between stakeholders' involvement in monitoring and evaluation and financial performance of parastatals with liquidity gaps in Kenya. The p-value of 0.002 also shows significance since it is less than 0.05.

4.3.3 Multiple Regression Coefficients

Multiple Regressions was conducted to establish the relationship between the variables.

		Unstandardized Coefficients		T	Sig.
Model	(Constant)	B	Std. Error		
		.180	.039	4.615	.000
	SIME	-.040	-.0124	-3.221	.001

V. CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

The study concluded that an increase in stakeholders' involvement in monitoring and evaluation would lead to an improvement in return on assets by reducing the net thus improving the financial performance of the parastatals.

5.2 Recommendations

The study also recommends that managers in the parastatals ensure that they monitor and evaluate the budget implementation process so that corrective measures can be taken in case of any variances in advance.

The study recommends that monitoring and evaluation be improved in order to increase financial performance by reducing the net loss.

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