THE RELATIONSHIP BETWEEN EMPLOYEE RETENTION PRACTICES AND ORGANIZATIONAL PERFORMANCE OF FINANCIAL STATE CORPORATIONS IN KENYA

BY:

ONTERI KEMUMA MARY

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OCTOBER, 2013
DECLARATION

This Research Project is my original work and has not been presented for a degree in any other University.

Signed _______________________ Date ______________________

Onteri Kemuma Mary

This Research Project work has been submitted for examination with my approval as University Supervisor.

Signed _______________________ Date ______________________

Dr. S. N. M. Nzuve
Senior Lecturer, Department of Business Administration
School of Business, University of Nairobi
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Behind all the success and accomplishments and behind all the glory and greatness lie several people whose contribution in terms of support and encouragement cannot go un-recognized.

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I appreciate my parents, my husband, my son, all friends and colleagues for their direct and indirect contribution and support of this project.
DEDICATION

I dedicate this research project to my dear parents Mr. and Mrs Onteri, who laid a good foundation for me to reach where I am. To my lovely husband Keller who has been a great source of inspiration and joy in my daily endeavours to better my best. I mostly admire your patience, love and generous heart. To our son Malik, who endured my absence in the course of my study. May you live to read this project.
ABSTRACT

Many previous studies suggest that organizations with effective employee retention practices tended to have positive organizational performance. This study seeks to investigate whether this applies to financial state corporations in Kenya. The study conducted a census survey of all fifteen financial state corporations in Kenya. Data was collected through questionnaires and analyzed using descriptive statistics. The objective of this study was to find out the relationship between employee retention practices and organizational performance in financial state corporations. The findings of the study revealed the relationship between employee retention practices and organization performance of the financial state corporations was mostly strong where employees had the right knowledge and skills for the job. This led to more customer satisfaction. Conducive work environment and employees undertaking career development programs were also found to have a strong relationship to organizational performance as they made employees to perform better and resulted to a positive organizational performance respectively. It is recommended that further studies be carried out to determine employee retention practices used in specific financial corporations and its performance. Limitations and challenges encountered included time and financial constraints and lack of cooperation from some respondents who were not willing to share information as they considered it confidential. It was therefore not possible to collect data from the whole population which was already small.
# ABBREVIATIONS

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<tr>
<td>NSSF</td>
<td>National Social Security Fund</td>
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<td>Balance Score Card</td>
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<td>BPR</td>
<td>Business Process Reengineering</td>
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<td>KRA</td>
<td>Kenya Revenue Authority</td>
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CHAPTER ONE: INTRODUCTION

1.1 Background of the study

Organization can be defined as a structure for carrying out a particular social activity on a regular basis. Fulcher and Scott (1999) stated that an organization is composed of a specific goal, a defined membership and rules of behaviour or conduct and authority relationships. We live in a dynamic world, therefore change is inevitable. Organizations which want to be successful notwithstanding financial state corporations should be able to anticipate change and use technological innovations to remain competitive. Securing and retaining skilled employees which is a big challenge in the 21st century play an important role in this process, because employee’s ‘knowledge and skills’ are central to the companies’ ability to be economically competitive. Ideally, employee retention is keeping the employees that have already been hired. Herman (1999) believes that when you have hired good people, trained them and built them into high-performing teams, you don’t want to lose them.

In the present set up, the challenge of attracting, retaining and motivating people have never been greater than before (Shushan, 2008). However, knowing what employees want and need is a step in the right direction. Employees today are different. As soon as they feel dissatisfied with the current employer or the job, they switch over to look for another job. It is the responsibility of employers to retain their best employees. A good employer should know how to attract and retain its employees. This is because companies continue to grow and globalization gives the opportunity for employees to find jobs elsewhere. To avoid this situation the organization needs to plan ahead and look at retention management in the long term. In addition, organizational performance models should always be put in place to check the rate of by employees’ performance and customer satisfaction. Most organizations use balance score card, benchmarking, business process reengineering, international standards and strategic planning to check performance. Organizations that report positive performance attract many job applicants and their customers receive value for their money.
Whereas organizations that report negative performance spoil their image, less people will want to be associated with them and chances of such organizations collapsing are high. Senior managers are therefore striving to have employees who perform exemplary in the organization. It is therefore safe to say that there is a strong positive relationship between organizations’ performance and the rate of employee retention.

1.1.1 Employee retention

Employee retention refers to the policies and practices which let the employees stick to an organization for a longer period of time. The world today has become very competitive; therefore it is not surprising that the biggest challenge facing human resource management today is employee retention (Deshpande & Golhar, 1994). If managers do not pay attention to retention, high staff turnover will damage the business severely, especially if it hits factors that provide competitive advantage. This could in turn inhibit economic growth. Another reason for keeping retention high on the agenda is the difficulty in replacing talents. Capelli, 2000 observed that in tough labor markets talent can be hard to replace. Consequently organizations suffer when talent is lost. This is because high turnover increases training costs, recruitment costs and loss of talent and organizational knowledge.

Reed (2001) asserted that every worker is five minutes away from handing in his or her exit notice, and 150 working hours away from walking out of the door to a better offer. There is no such a thing as a “job for life” and today’s workers have few qualms about leaving employers for greener pastures. Organizations are deriving ways to retain their employees. One of the ways being the introduction of psychological contract. This is usually a discussion between the employer and the employee in the recruitment process. It represents the beliefs about the job from parties, their perceptions and informal obligations. This eventually helps in their relationship at work and consequently reduces employee’s turnover because as they partake the job they are aware of what is expected of them by the organization. Based on the above mentioned arguments, it is critical for a firm to concentrate efforts towards retaining talented people.
1.1.2 Organizational performance

The ILO (2005) defines organizational performance as “the achievement of high levels of performance, profitability and customer satisfaction by enhancing skills and engaging enthusiasm of employees”. A survey carried out in the United Kingdom, joined commitment to a series of principles (the success of the enterprise, respect of legitimate interest of different parties and building trust) and a number of practices, direct participation in work related decisions and representative participation on wider policy issues) have a link with “employee attitudes and behavior, internal organization performance and external criteria of sales and profits”. According to Wallace, 1986 overall performance is seen as a function of the interplay of the organization’s unique motivation, its organizational capacity, and forces in the external environment. The ability to assess and demonstrate organizational performance is a key issue in most organizations.

Since organizations are unique, organizational performance can be judged by many different constituencies, resulting in many different interpretations of “successful performance”. Each of these perspectives are different because organizations have different ways of doing things. Cameron & Whetton, (1983) stated that performance measurements in organizations are inherently situational. The days of measuring organizational performance solely with financial quantities are long gone. Financial reports, such as the “profit and loss”, look backward. They are, in the language of performance measurement, lagging indicators that foretell little if anything of an organization’s ability to meet objectives going forward, Furnham, 1993. In recent years, many organizations have attempted to manage organizational performance using the balanced scorecard methodology where performance is tracked and measured in multiple dimension that include financial performance (e.g. shareholder return), customer service, social responsibility (e.g. corporate citizenship, community outreach) and employee stewardship. Others opt for benchmarking, strategic planning, while some construct their custom made organizational performance measures. All measures used help managers determine the actual output or results of an organization measured against its intended outputs (or goals and objectives).
1.1.3 Financial state corporations

A government-owned corporation, state-owned company, state-owned entity, state enterprise, publicly owned corporation, government business enterprise, commercial government agency, public sector undertaking or parastatal is a legal entity created by a government to undertake commercial activities on behalf of an owner government. They are established within the provisions of State Corporations Act Chapter 446 of the Laws of Kenya, and given autonomy to run and concentrate on specific mandates in order to improve service delivery to the public. Although they have Boards of Directors or equivalent governing bodies to oversee the day-to-day operations, they operate within the general supervision of respective ministries under which they are created. Opinions are divided on how active and influential a participant government should be in a country’s economic and social life (Brautigam, 1996). How much output should be produced in the public sector? The way the public deals with this question depends on the appropriate size, role, functions and structure of the public sector.

A financial state corporation is a legal entity that is typically formed to generate a profit. It is granted a charter that establishes its privileges and liabilities separate from its members or founders. State financial corporations are governed by a board of directors duly elected and nominated. Financial corporations have a number of different parties involved. Shareholders own part of the corporation by purchasing shares; in fact, the main function of a financial corporation is to return a profit to shareholders. A board of directors supervises the activities of a corporation according to the organization’s bylaws. Creditors lend money to corporations and charge interest. Currently in Kenya, financial state corporations include National Social Security Fund, National Hospital Insurance Fund, National Bank of Kenya, Kenya Tourist Development Corporation, Kenya Roads Board, Kenya Revenue Authority, Kenya Re-Insurance Corporation, Kenya Post Office Savings Bank, Kenya National Assurance Co. (2001), Kenya Industrial Estates, Industrial Development Bank, Industrial and Commercial Development Corporation, Deposit Protection Fund
1.2 Research problem

As economic globalization has become more pronounced, the ability of organizations to compete in the global market place is tied to the quality of their human resources. They need to select the best employees because many organizations rely on the expertise of their employees to report better performance and gain competitive advantage in the global economies. In this economic environment, the retention of valuable employees becomes an extremely important strategy for human resources managers and organizational leaders (Barney, 1991; Price, 2003; Sinangil, 2004; Woods, Heck, & Sciarini, 1998) which eventually becomes an increasingly important aspect of building organizational capabilities to ensure sustained competitiveness (Holland, Sheehan, & De Cieri, 2007). Challenges in retaining employees are essentially linked with compensation, job satisfaction, work environment, career growth and development and cultures within an organization (Lok & Crawford, 1999; Pamela, 2003; Sheridan, 1992). Such challenges are further complicated by the need for organizations to perform well. Organizations need to use relevant performance measurement models to detect if they are reporting financial growth and satisfying their customers. Retaining talented employees and performing well is challenging in organizations because highly skilled employees are often poached by large-scale international organizations. Organizations need effective managers and committed employees to achieve their objectives. Many organizational managers are adequately aware of these challenges and they know they need to retain talented and committed employees who will contribute significantly to the success and achievements of the organization, but they may lack the resources to initiate changes that will address their problems. Effort should however be made to curb these problems.

Financial state corporations in Kenya work under tight schedules and deadlines. They train its staff on different skills to enhance organizational performance. Measures like attractive monetary compensation, training and career development, job satisfaction,
good working environment, etc enhance delivery from employees. This also leads to employee retention. However, majority of the financial state corporations have been accused for incidences of corruption, stories of denied or delayed benefits to its members, misappropriation of scheme funds, questionable investments, poor service to its customers and other problems. For instance, National Social Security Fund had voluntary turn over scheme. Though voluntary turnover can be beneficial, it has potential negative financial consequences. This indicates that the National Social Security Fund needs to reassess its position and hence the need for strategic change process for better organizational performance and staff retention. Ethics and Anti-corruption Commission arrested a senior Kenya Revenue Authority officer for claims of receiving bribe equivalent to five million shilling dollars. To curb these issues, employee retention practices should be addressed. This will ultimately help in establishing positive organizational performance in financial state corporations.

A number of related studies have been done on this topic. Ajwang (2009) studied relationship between corporate culture and organizational performance: A survey of the Kenyan State Corporations, Lepilale (2006) studied the relationship between employee retention management practices and voluntary labor turn over in five star hotels in Kenya while Mohammed (2009) studied the impact of performance contracting on organizational performance: A case of Kenya Revenue Authority. Lepilale (2006) study found out that organizational culture and management style of managers greatly influence the employees’ decision to stay in the organization or resign. Employee empowerment, a practice that allows employees to make and participate in decision making was found to reduce voluntary labor turnover as it gives employees greater responsibilities, increased flexibility, autonomy and a sense of belonging. Ajwang (2009) reported that in all regulatory and service state corporations, a good subordinate is one who is vitally interested in the development of his/her own potential and is open to learning and to receiving help. He also established that specific factors which have a great influence in the performance of an organization include; management constantly looking for ways to improve products and services, management being quick to deal with problem of
employees/performance, management actively seeking feedback from clients and customers with a view to improving service and finally management measuring business performance against objectives. To the best of my knowledge no similar study has been done on the relationship between employee retention practices and organizational performance of financial state corporations in Kenya. This study therefore seeks to fill the knowledge gap that exists. Therefore the proposed study is, how do the employee retention practices contribute to the overall performance of financial state corporations in Kenya?

1.3 Research objective
The objective of the study is to establish the relationship between employee retention practices and organizational performance of financial state corporations in Kenya.

1.4 Value of the study
The researcher looks forward to the findings of this study. This is a field that has not been widely looked at in Kenya, therefore other researchers and academicians in institutions of higher learning will use the findings of this study to answer and gather more information or knowledge about employee retention versus organizational performance.

The research findings will also be useful for policy makers within the country and within organizations, who need to come up with better policies and key performance indicators to improve and measure the overall organizational performance and Kenya’s economy.

Employers working in financial state corporations within the country will be glad to understand and know how to retain the employees and how their individual contribution results to better organizational performance. This survey will also be a form of basis for further studies.
2.0 Introduction
This chapter consists of theories on retention practices, organizational performance, prominent organizational performance models (systems) and relationship between employee retention practices and organizational performance.

2.1 Theories on retention practices
Many scholars have come up with theories which explain what motivates employees to stay in organizations. Herzberg (1959) proposed motivation-hygiene theory. In this theory, he identified motivators and hygiene factors. He stated that factors as company policy, supervision, interpersonal relations, working conditions, and salary are hygiene factors rather than motivators. He asserted that absence of hygiene factors can create job dissatisfaction, but their presence does not motivate or create satisfaction. In contrast, motivators were elements that enriched a person’s job; achievement, recognition, the work itself, responsibility, and advancement were strong determiners of job satisfaction. These motivators (satisfiers) were associated with long-term positive effects in job performance while the hygiene factors (dissatisfiers) consistently produced only short-term changes in job attitudes and performance, which quickly fell back to its previous level. Whitsett and Winslow (1967) support Herzberg’s theory and said there is little empirical evidence for doubting the validity of this theory. However, Simons and Enz (1995) pointed out that hygiene factors, such as good wages and job security, are more important than motivators, such as interesting work and full appreciation of work done, in satisfying employees. In addition, according to Chitiris (1988), when an organization did not allow employees an opportunity to satisfy most of their needs, hygiene factors became more powerful sources of motivation than motivators, and they led to improved performance and productivity.

In 1954, Maslow introduced the theory on motivation and personality. Based on his observations as a humanistic psychologist he postulated that there is a general pattern of needs recognition and satisfaction that people follow. He theorized that a person
could not recognize or pursue the next higher need in the hierarchy until his or her currently recognized need was substantially or completely satisfied, a concept called prepotency. For instance, you cannot motivate someone to achieve their sales target (level 4 need in the hierarchy) when they're having problems with their marriage (level 3 need in the hierarchy). Researchers support this model, for instance Mustafa, (1992) stated that the model helped leaders to better understand how to create workplace conditions to satisfy employee needs. Pfeiffer (1995) conducted a research on Christian perspective of Maslow’s hierarchy of needs. The findings indicated that many Christian educators have accepted the hierarchy of needs theory because they find it sensible and easy to understand.

Vroom (1964) established expectancy motivation theory which assumes that behavior results from conscious choices among alternatives whose purpose it is to maximize pleasure and to minimize pain. He realized that an employee's performance is based on individual factors such as personality, skills, knowledge, experience and abilities. He stated that effort, performance and motivation are linked in a person's motivation. This theory works on perceptions so even if employers think they have provided everything appropriate for motivation, and even if this works with most people in that organization, it doesn't mean that someone won't perceive that it doesn't work for them. This theory is important and employers get to know how employees’ perceived the organization during exit interview. D. Buchanan & A. Huczynski (2004) suggested that an employee has a role to play for example, if an employee still wants more money from the organization, and all he or she thinks working hard will get him or her is smiles from the boss, then he or she should work hard to put a high value on smiles from the boss.

2.2 Employee retention practices
According to Heneman & Judge (2006), the morale of employees, and productivity, are both damaged by improper retention practices. Organizations that want to succeed should satisfy their employees and derive measures to retain them. Different organizations use different factors to retain employees, for the purpose of this study
the factors are: work environment, employee personal value match with job, training & development, compensation and career advancement opportunity.

Employee Personal Value Match with Job. This means jobs matching with employees in terms of skill, knowledge, qualifications, ability and other characteristics of employees which match and are suitable for the job (Lofquist & Dawis, 1969; Edward, 1999). To gain competitive advantage, managers have to search for employees with useful knowledge and skills and people who are motivated to use them for the benefit of the organization. Many people have left their jobs because they found their skills were underutilized, this demotivates them and they eventually quit. To curb turnover rate, managers should ensure employees are using their skills to the maximum to benefit individuals and organizations.

Compensation is critical in attracting and retaining good employees, especially those employees who give outstanding performance or unique skill which is indispensable to the organization because company invest heavy amount on their training and orientation. According to Lawler (1990); companies pay low wages if the work is simple and requires little training and companies competing in high labor markets pay high wages. High house et al, (1999) recommended that only pay is not sufficient to retain the employees. He argues that low pay package would drive workers out the organization but it is not necessary that high pay package bring and keep the workers in the organization. Ultimately, the workers stay in the organization due to others factors as well i.e. work environment, co-workers behavior and supervisor support etc. which compels the employee to retain in the organization.

Some researchers argue that competitive compensation package is the only strong commitment and also build strong commitment on the workers side. However, the contribution of compensation towards retention, help in retention of employee irrespective of their skill and contribution to the company and it likely affects both turnovers that are desirable and undesirable. Employees compare what other organizations are giving in terms of compensation and total amount of compensation offered by other organizations affects the turnover. Researchers have done studies to
determine if attractive pay in money terms is enough to retain employees or not. Smith (2001), stated that money brings the workers in the organization but not necessary keep them. Brannick (1999) had similar findings that supported Smith (2001), he found out that money is not considered as primary retention factor. Organizations often offer high pay packages i.e. stock options, special pay, retention pay, gain share pay, performance base pay and bonus etc. for attraction and retention of talented employees of the market.

Training and Career Development. Training provides specialized technique and skills to an employee and also helps to rectify deficiencies in employee performance, while development provide the skills and abilities to employee which will help the organization in future, Gomez et al, (1995). Investment on employee Training and career development is considered important factor in employee retention. Therefore organizations should investment in training and development especially to those workers, from whom organization expect to gain hefty returns. Training enhances the skills of employees and this increases work effectiveness. Training programs are expensive but when organizations anticipate positive result outcome, they will not see it as a costly program. Employees who undergo training pass the knowledge directly or indirectly to their fellow colleagues and hence the organization’s results become better. It is perceived by many people that organizations show their commitment when they train their employees, Storey and Sisson (1993) .Training also reflects organization strategy that is based on value adding rather than cost lowering. Top organizations are aware of the benefits of training their employees. This has reduces employee turnover.

Career Advancement Opportunities. Greller, (2006) stated that people always work for a reason and the cause should be provided by work, organization, co-workers or from within. Employee’s career advancement is a phenomenon which is formalized, organized and it is a planned effort to accomplish the balance between requirement of organization workforce and individual career needs.
It is a challenge for today’s HR managers to identify the organization developmental strategies which ensure employees are committed to the organization’s vision and values to motivate the employees and help the organization to gain and sustain the competitive advantage. Also it helps in succession planning. In addition, it creates promotion opportunities within organization and provides training opportunities and skill development to improve employee’s employability on the internal and/or external labour market. To gain and maintain competitive advantage organizations require productive employees and these employees need career development to enhance and cultivate their competencies in their work places.

Work Environment. According to Ramlall, (2003) people strive to work and to stay in those corporations that provide good and positive work environment, where employees feel that they are valued and making difference. A number of studies have conducted to explain the work environment with different aspects such as job satisfaction, (laffaldano & Muchinsky, 1985) and employee retention (Martin 1979), employee turnover, organizational commitment and job involvement, (Sjoberg & Sverke 2000). Work environment is considered one of the most important factors in employee’s retention (Zeytinoglu & Denton, 2005). Work environment focuses on issues like spacing, ventilation, noise, toxic substances exposure etc. In work places psychological work environment is also necessary and it consists of support from immediate supervisors or employers, stressors, decision making etc. It is of much importance to know and recognize the emerging needs of employees and providing good work environment in order to keep the employees committed with the organization. In work places today, attractive ambience creates a homely work environment that contributes to the effectiveness of performance of employees. Consequently, customers feel the value of their money when they walk in such organizations.

2.3 Organizational performance

Every time we review existing literature on the effect of management methods on organizational performance, we find it hard to compare results across studies. The contradictions between studies are mostly caused by different concepts and
measurement approaches of organizational performance. If, due to completely different concepts and measurement systems, we are not able to combine study results, how can we as researchers even pretend to contribute to management research by the newest study applying a new construct measurement approach on organizational performance? Following Combs, Crook, and Shook (2005) we distinguish between operational and organizational performance. In this framework operational performance combines all non-financial outcomes of organizations. Furthermore, the conceptual domain of organizational performance is limited to economic outcomes. On this basis, we identify four organizational performance dimensions: profitability, liquidity, growth, and stock market performance.

Secondly, Higgins (1977) introduced the concept of a sustainable growth rate that must be in alignment with overall organizational performance, the financial policy, and the dividend payout ratio. If an organization grows at a rate above its sustainable growth rate, the other aspects (e.g., other dimensions of organizational performance) will eventually decrease. Further there are many approaches that are used to measure organizational performance. Most organizations also customize measures according to the nature of their organizations.

2.4 Prominent organizational performance models (systems)

There are many approaches that are used to measure organizational performance. Most organizations also customize measures according to the nature of their organizations, but those measures cannot be formalized for management literature. The most commonly used models are Balanced Scorecard, Business Process Reengineering, ISO 9000 certification and Strategic Planning.

Balanced score card (BSC). BSC focuses on four indicators that include the customer perspective, internal-business processes in the organizations, learning and growth and financials, to monitor progress toward organization's strategic goals. Since it was developed in the 1990's by Robert Kaplan and David Norton (1992), it has gained in popularity amongst academics and practitioners. Many organizations in both the private and public sectors have embraced it. Due to stiff competition in today’s world,
many organizations have implemented it in an attempt to improve performance. By BSC going beyond traditional measures of financial performance, it has given a generation of managers a better understanding of how their companies are really doing. The scorecard is known to assist in the business’ decision making process, especially in the areas of leadership in organizations.

Business Process Reengineering (BPR). BPR aims to increase performance by radically re-designing the organization's structures and processes, including by starting over from the ground up. Continuous Improvement focuses on improving customer satisfaction through continuous and incremental improvements to processes, including by removing unnecessary activities and variations. In the United States in mid-1990s, many companies claimed to either have initiated reengineering efforts, or to have plans to do so. The results were reported to be positive. Other researches also report that BPR is primarily a Business Initiative that has broad consequences in terms of satisfying the needs of customers and the firm's other constituents (Davenport & Stoddard 1994).

ISO 9000 certification. It is an internationally recognized standard of quality, and includes guidelines to accomplish the ISO9000 standard. It can be simply defined as criteria used in the management of an organization to determine customer’s needs and expectation and supplying product and services that are intended the customers. The standard provides guideline for organizations for establishing of their quality management systems hence focusing on procedures, control, and documentation to enhance efficiency.

Organizations in Kenya strive to attain ISO 9000 certification because studies have shown that customers prefer products from suppliers that are ISO 9000 certified. Benefits of ISO 9000 certification include improvement in documentation and improvement in efficiency of the quality system, Magd (2008).
Strategic Planning. This is a measure widely used currently. It is used to identify strategic direction, including vision, mission, values and overall goals. Direction is pursued by implementing associated action plans, including multi-level goals, objectives, time lines and responsibilities. Numerous researchers and executives advocate strategic planning. Armstrong (1982), for example, argued that an explicit planning process rather than haphazard guesswork results in the collection and interpretation of data critical to creating and maintaining organization-environment alignment. Similarly, Ansoff (1991) argued that planning generally produces better alignment and financial results than does trial-and-error learning. However, others have argued that, bureaucratic features of large firms can promote dysfunctional inertia by inhibiting underlying organizational capacity for adaptation to changes that are necessary. Many studies indicate that strategic planning positively influences firm performance.

2.5 The relationship between employee retention practices and organizational performance

Many studies conducted indicate a positive relationship between retention practices and organizational performance. Microsoft, Sun, Oracle, Yahoo, and Amazon.com all have one thing in. They generated great business results in a short period of time. They experience high company profitability, well-recognized brand names, high growth, wealth creation for company shareholders, and a lot of happy employees. These resulted because the companies built their wealth through customer loyalty and employee satisfaction. Due to technological changes, training and development help organizations to compete competitively. A research done in the United States indicated that one out of ten IT jobs remains vacant because of an insufficient number of skilled workers (American Conference Institute, 1998). As the Internet economy speeds corporate growth, the mobility of the workforce continues to rapidly escalate. In the United States, employee tenure at companies has decreased to 3.6 years from 5.2 years only 18 months ago (U.S. Dept. of Labor, 2000). These affects the talent shortage today.
Employers and managers have long asserted that the way in which an organization manages people can influence its performance. Peters and Waterman’s (1982) description and assessment of ‘excellent’ organization, are those which value progressive retention practices. In particular employee training, performance contingent incentive compensation positively improves performance in organizations, Pfeffer, 1994. Many other researchers have also reported positive associations between firms level of retention practices and organizational performance. (Arthur, 1994; Cutcher Gershennfeld, 1991; Delaney, forthcoming; Huselid, 1995; Huselid & Becker, 1994; Ichniowski, Shaw, & Premushi, 1994; MacDuffie, 1995). However there is uncertainty as to which practices affect organizational outcomes, whether some practices have stronger effects than others, and whether complementary among such practices can further enhance organizational performance (Baird & Meshoulam, 1988; Jackson & Schuler, 1995; Lado & Wilson, 1994; Milgrom & Roberts, 1995; Wright & McMahan, 1992). Although many studies have reported a positive association between various retention practices and organizational performance, some authors (Levine & Tyson, 1990; Wagner, 1994) have expressed concern that results may be biased because of methodological problems.

Senior managers of today’s most productive and profitable companies need to take an active role in developing strategies to retain their top talent because they cannot create sustainable value and wealth for their respective companies without these people. The role of the human performance technologist in these circumstances is to educate and support senior management in structuring and implementing the programs and processes that keep valuable people on the job. There is an intimate connection between successful employee retention and greater continuity of productivity, efficiency in executing work processes, effective use of intellectual capital, speed to market, consistent customer service, and, perhaps most important, increased customer retention and loyalty. By improving employee satisfaction through streamlining frustrating work processes, giving better training on customer needs, and focusing on management development, customer satisfaction with the company financial results
will improve. Inevitably, this connection leads to both short- and long-term successes in the marketplace.

Effective organizational systems (for example, compensation and benefits, career movement systems), managers’ behavior with employees, and managers’ accountability for their retention (or attrition) rates are required for positive organizational performance. Unfortunately, many organizations do not implement that. The result is that the organization experiences mediocre results or no results at all. When managerial behaviors are utilized to retain top talent, the results are rewarding. The reasons why people stay in organizations, on average, is an important goal, but also contend that it may be more valuable to examine how these retention factors differ for high performers and those that are low performers in the organization. Since blanket retention policies may be disadvantageous if they appeal to employees at all levels of performance, and organizations would want to adopt particular strategies that contribute to the retention of their most valued and talented employees while avoiding methods that would appeal to average or low performers.

In terms of job level differences, many talent management programs emphasize developing and retaining the group of employees who have potential to occupy the top leadership positions within the organization in the near future.

Therefore, organizations can benefit from knowing whether retention reasons differ based on job level, which might then call for different retention strategies depending on where individuals reside within the organization’s hierarchy. Organizations need to know if employees’ turnover is beneficial or not. Dalton, 1979 argued that turnover is functional when high performers stay (and low performers leave) and dysfunctional when low performers stay (and high performers leave). Thus, an effective approach to retention management involves understanding why employees stay, but also examines differences in reasons based on what the organization is trying to accomplish from a talent management perspective (e.g., retaining high performers).
CHAPTER THREE: RESEARCH METHODOLOGY

3.0 Introduction

This chapter discusses how the proposed study was carried out. It covers research design, population of the study, data collection and data analysis.

3.1 Research design

The study was carried out though a descriptive census survey, this is due to the cross sectional nature of the data that was collected. OHRP (2013) defines a descriptive study as one in which information is collected without changing the environment and conducted to demonstrate relationships between things. The survey involved the collection of data from all members of the population. The design chosen is the most appropriate for this study because all the fifteen financial state corporations were targeted.

3.2 Population

The population for this study consisted of all the fifteen financial state corporations according to www.office of public communication as par the date 24th July 2010, as attached in appendix 111.

3.3 Data collection

A semi structured questionnaire was used to collect data through drop and pick mode. OHRP (2013) states that descriptive studies, in which the researcher interacts with the participant, may involve surveys or interviews to collect the necessary information. The questionnaire was divided into four sections. The first section of the questionnaire had background information about the respondents. The second section was concerned with questions on retention practices, followed by organizational performance models and lastly relationship between retention practices and
organizational performance. The respondents were human resource managers because they were considered custodians of vital information for this study.

3.4 Data analysis

The data collected was analyzed using descriptive statistics, particularly mean scores, standard deviations, percentages and frequencies for presentation of findings to summarize and relate the relationship between employee retention practices and organizational performance which was obtained from the questionnaire. Prem, 2005 established that descriptive studies provide simple summaries about the sample and the observations that have been made.
4.0 Introduction
This chapter covers data analysis, findings and discussions of the research. Data was collected from human resource managers of the fifteen financial state corporations in Kenya. Out the 15 questionnaires distributed, 12 were completed and returned representing a response rate of 80.0% which was considered satisfactory for subsequent analysis. The data was analyzed using descriptive statistics tools. The analysis and study findings were then summarized into mean scores, standard deviations, percentages and frequencies. These were subsequently presented in tables and chart.

4.1 Duration of Service
The respondents were asked to indicate the duration they had worked in their organizations. From the study, it was established that 66.67 percent of them had worked between 6 to 10 years while 16.67 percent of them had worked for either between 1 to 5 years or for more than 10 years as shown in chart 4.2.0 below. This suggested that most human resource managers had worked for between 6 to 10 years.

Chart 4.1 Duration of Service

Source: (Researcher, 2013)
4.2 Employee retention practices used to retain employees

The study sought to establish the degree to which employee retention practices had been used to retain employees (1=strongly disagree, 5=strongly agree). From the research findings, it was established that employees having necessary knowledge had the highest mean of 4.67 followed by employees having necessary skills with a mean of 4.58. Organization providing other compensation like special pay, performance base pay had the least mean of 3.17 as shown in table 4.2.1 below. This suggested that equipping employees with necessary knowledge was the most common employee retention practice in the financial state corporations in Kenya.

Table 4.1 Employee retention practices used to retain employees

<table>
<thead>
<tr>
<th>Retentions Practices</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees have the necessary knowledge</td>
<td>12</td>
<td>4.67</td>
<td>.492</td>
</tr>
<tr>
<td>Employees have the necessary skills</td>
<td>12</td>
<td>4.58</td>
<td>.515</td>
</tr>
<tr>
<td>Organization has put in place conducive physical work environment for its employees</td>
<td>12</td>
<td>4.25</td>
<td>.866</td>
</tr>
<tr>
<td>Organization has training programmes that encourage employees to attain new skills</td>
<td>12</td>
<td>4.25</td>
<td>.866</td>
</tr>
<tr>
<td>Organization has career advancement opportunities</td>
<td>12</td>
<td>4.08</td>
<td>.793</td>
</tr>
<tr>
<td>Organization has career development programmes</td>
<td>12</td>
<td>4.08</td>
<td>.793</td>
</tr>
<tr>
<td>Employees are satisfied with monetary compensation given to them</td>
<td>12</td>
<td>4.08</td>
<td>.793</td>
</tr>
<tr>
<td>Organization involves employees’ in decision making</td>
<td>12</td>
<td>3.83</td>
<td>1.193</td>
</tr>
<tr>
<td>Organization provides other compensation like special pay, performance base pay etc</td>
<td>12</td>
<td>3.17</td>
<td>1.467</td>
</tr>
<tr>
<td>Valid N (listwise)</td>
<td>12</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: (Researcher, 2013)
4.2.1 Other employee retention practices used to retain employees

Respondents were also asked to list any other employee retention practices used to retain employees in their organizations but were not included in the questionnaire. From the research findings it was established that they included staff loans at subsidized rates, mortgages, Christmas bonuses, medical facilities and internal promotions. This implied that the list of employee retention practices cannot be comprehensively covered.

4.3 Organization performance systems used by organizations

The respondents were asked to indicate the degree to which some performance systems had been used in their organizations (1=strongly disagree, 5=strongly agree). According to the research findings, organizations reporting positive financial growth in the past five years had the highest mean of 4.42 followed by organizations putting in place internal business processes to improve organizational performance with a mean of 4.33. It was noted that low employee turnover had the least mean of 3.58 as shown in table 4.3.0 below. This showed that most organizations had reported positive financial growth in the past five years.

Table 4.2 Organization performance systems used by Organizations

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organization reported positive financial growth in the past five years</td>
<td>12</td>
<td>4.42</td>
<td>.515</td>
</tr>
<tr>
<td>Organization has put in place internal business processes to improve organizational performance</td>
<td>12</td>
<td>4.33</td>
<td>.492</td>
</tr>
<tr>
<td>There are organizational structures and processes placed in the effort to increase organizational performance</td>
<td>12</td>
<td>4.33</td>
<td>.492</td>
</tr>
<tr>
<td>Customers are satisfied with the services</td>
<td>12</td>
<td>4.25</td>
<td>.452</td>
</tr>
<tr>
<td>There is organizational learning</td>
<td>12</td>
<td>4.08</td>
<td>.793</td>
</tr>
<tr>
<td>Employee turnover is low</td>
<td>12</td>
<td>3.58</td>
<td>1.240</td>
</tr>
<tr>
<td>Valid N (listwise)</td>
<td>12</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: (Researcher, 2013)
4.3.1 Other organization performance systems used by Organizations
Respondents were also asked to list any other organization performance systems that were used by their organizations but were not included in the questionnaire. From the research findings it was established that they included key performance indicators and performance contracting.

4.4 Relationship between retention practices and organizational performance
The study sought to establish the relationship between employee retention practices and organizational performance. From the research findings, it was established that customers being more satisfied when being attended by employees who had the right knowledge and skills for the job had the highest mean of 4.75 followed by both a having a conducive work environment that made employees to perform better and having a positive organizational performance when employees undertake career development programmes with a mean of 4.67 as shown in table 4.4.0 below. This suggested that having right skills had the greatest effect on organization performance.

Table 4.3 Relationship between retention practices and organizational performance

<table>
<thead>
<tr>
<th>Statement</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers are more satisfied when they are attended by employees who have the right knowledge and skills</td>
<td>12</td>
<td>4.75</td>
<td>.452</td>
</tr>
<tr>
<td>Conducive work environment make employees perform better</td>
<td>12</td>
<td>4.67</td>
<td>.492</td>
</tr>
<tr>
<td>There is positive organizational performance when employees undertake career development programmes</td>
<td>12</td>
<td>4.67</td>
<td>.492</td>
</tr>
<tr>
<td>Training programmes contribute to positive organizational performance</td>
<td>12</td>
<td>4.58</td>
<td>.515</td>
</tr>
<tr>
<td>Career advancement opportunities lead to internal promotion/placement</td>
<td>12</td>
<td>4.33</td>
<td>.888</td>
</tr>
<tr>
<td>ISO 9000 certification award creates a good image for the organization</td>
<td>12</td>
<td>4.17</td>
<td>1.337</td>
</tr>
<tr>
<td>Good monetary compensation of employees contribute to better financial growth of the organization</td>
<td>12</td>
<td>3.67</td>
<td>1.073</td>
</tr>
<tr>
<td>Employees who have exemplary academic qualifications perform their job better</td>
<td>12</td>
<td>3.67</td>
<td>.888</td>
</tr>
<tr>
<td>Valid N (list wise)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: (Researcher, 2013)
4.5 Discussions

From the research findings, 66.67 percent of the human resource managers had worked for between 6 to10 years. This was interpreted to mean that most human resource managers in the fifteen financial state corporations in Kenya were well versed with the information that they were being requested to provide.

It was noted that employees having necessary knowledge was the most common employee retention practice that was used by the fifteen financial state corporations in Kenya with a mean of 4.67. Employees’ having necessary skills was the second employee retention practice that was in use. Peters and Waterman’s (1982) description and assessment of ‘excellent’ organization, are those which value progressive retention practices. In particular employee training, performance contingent incentive compensation positively improves performance in organizations. The other employee retention practices that were in use but not reflected in the questionnaire included staff loans at subsidized rates, mortgages, Christmas bonuses, medical facilities and internal promotions.

Additionally, organizations reporting positive financial growth in the past five years were the most common organization performance system with a mean of 4.42 followed by organizations putting in place internal business processes to improve organizational performance with a mean of 4.33. It was noted that low employee turnover had the least mean of 3.58. The other organization performance systems that were in use but not reflected in the questionnaire included Key Performance Indicators, performance contracting and strategic planning Ansoff (1991) argued that planning generally produced better alignment and financial results than trial-and-error learning.

Finally, an employee having the right knowledge and skills for the job was found to be having the greatest effect on organizational performance by making customers more satisfied. It had a mean of 4.75. Herman (1999) believed that when you have hired good people, trained them and built them into high-performing teams, you don’t
want to lose them. It was established that having a conducive work environment and employees undertaking career development programs had the same effect on organizational performance as they had a mean rank of 4.67 and a standard deviation of 0.492.

A conducive work environment was found to make employees perform better while employees undertaking career development programs resulted to a positive organizational performance. According to Ramlall (2003) people strive to work and to stay in those corporations that provide good and positive work environment, where employees feel that they are valued and making difference.
CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary
The study was to establish how employee retention practices contributed to the overall performance of financial state corporations in Kenya. As economic globalization has become more pronounced, the ability of organizations to compete in the global marketplace is tied to the quality of their human resources. Reed (2001) asserted that every worker is five minutes away from handing in his or her exit notice, and 150 working hours away from walking out of the door to a better offer. Employee retention practices should be addressed in order to ensure the financial state corporations in Kenya achieve their goals. By establishing the relationship between employee retention practices and organizational performance, policy makers in the country and within organizations, would be able to come up with better policies and key performance indicators. Moreover, employers working in financial state corporations will be glad to understand and know how to retain their employees and how their individual contribution result to better organizational performance.

The research study utilized primary data. The data was collected from human resource managers of the fifteen financial state corporations in Kenya. These sources were preferred as they were authoritative. The questionnaires consisted of both closed and open ended questions and were dropped to be picked later. Such questions were preferred as they were easier to analyze since they were in immediate usable form.

In summary, the response rate of the survey was 80.0 %. The objective of the discussion was to establish the relationship between employee retention practices and organizational performance of financial state corporations in Kenya. The discussions and presentations were guided by the objective of the study.
5.2 Conclusions
From the study findings it would be safe to conclude that, most human resource managements in the financial state corporations were authoritative sources of the required information since they had worked for between 6 to 10 years. The conclusion is supported by the results of the descriptive and inferential statistics.

Majority of the respondents indicated that their organizations mostly equipped their employees with necessary knowledge in order to retain them. Moreover, staff loans at subsidized rates, mortgages, Christmas bonuses, medical facilities and internal promotions were the other employee retention practices that were in use but had not been captured in the questionnaire. Most respondents also indicated that the most common organization performance system was that of organizations reporting positive financial growth in the past five years. The other organizational performance systems in use but were not captured in the questionnaire included Key Performance Indicators, performance contracting and strategic planning.

The relationship between employee retention practices and organization performance was mostly strong where employees had the right knowledge and skills for the job. This led to more customer satisfaction. Conducive work environment and employees undertaking career development programs were also found to have a strong relationship to organizational performance as they made employees to perform better and resulted to a positive organizational performance respectively.

5.3 Policy recommendations
The policy makers within the country and within organizations, who need to come up with better policies, need to ensure employees have right knowledge and skills for the job to improve organizational performance. Understanding the knowledge that employees needed determined the organizational performance. Additionally apart from policy makers using this research to improve on their policies, employers working in financial state corporations need to understand that to retain their employees they should offer good salaries, staff loans at subsidized rates, mortgages, Christmas bonuses, medical facilities and internal promotions
5.4 Limitations of the study
The researcher encountered quite a number of challenges related to the research and most particularly during the process of data collection. Due to inadequate resources, the researcher conducted this research under constraints of finances. In addition the human resource managers of the fifteen financial state corporations had to be pushed to assist with data. This was done through many calls and visits to remind them. Others thought that the information they were requested to volunteer was confidential.

Time allocated for the study was insufficient while holding a full time job and studying part time. This was encountered during the collection of material as well as the data to see the study a success. However the researcher tried to conduct the study within the time frame as specified.

5.5 Suggestions for further research
Arising from the study, the following directions for future research in Human Resource Management were recommended: First, this study focused on the general financial state corporations in Kenya. Therefore, generalisations could not adequately be extended to the specific financial state corporations as they have varying challenges and resources. Based on this fact among others, it is therefore recommended that a narrow based study covering a specific financial state corporation be done to determine their retention practices and their performance. Similar surveys to this can also be replicated in a few years to come to assess if the relationship between employee retention practices and organizational performance in the financial state corporations in Kenya have changed.
REFERENCES


Chicago, IL.


APPENDICES

Appendix I

LETTER OF INTRODUCTION

September, 2013

Dear Sir/Madam,

Ref: REQUEST FOR RESEARCH DATA COLLECTION

I am a student at the University of Nairobi studying Masters in Business Administration (MBA). I am conducting a management research on the relationship between retention practices and organizational performance: a survey of Kenyan state corporation. In order to undertake the research you have been selected to be one of the respondents.

This is therefore to request you for your assistance in collecting information to facilitate carrying out of research of the study, the information you will provide will be treated with confidentiality and will only be used for academic purposes. Consequently your name will not be mentioned in my report. Findings of the study shall upon request be availed to you.

Your assistance and cooperation will be highly appreciated

Thank you in advance

Mary Kemuma Onteri

MBA student-Researcher

University of Nairobi
Appendix II

QUESTIONNAIRE

Disclaimer

The following information will be used for analysis by Mary Kemuma Onteri of the University of Nairobi (MBA-Researcher). No response will be attributed to individuals. All responses will be looked at in strict confidence, with the results made in aggregate form only.

Topic of study: The relationship between employee retention practices and organizational Performance of financial state corporations in Kenya

PART A. Biographical data

1. What is your job title?

2. How long have you worked in your present position?

PART B. Retention practices

a) In the table below please tick your response to the statement in the space provided

1=strongly disagree 2=disagree 3=not sure 4= agree 5=strongly agree

<table>
<thead>
<tr>
<th>No</th>
<th>Statement</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Employees have the necessary knowledge for their jobs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Employees have the necessary skills for their jobs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>All employees are satisfied with monetary compensation the organization gives</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>The organization provides other compensation like special pay, performance base pay etc</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>The organization has training programmes that</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
encourage employees to attain new skills

6. The organization has career development programmes

7. The organization has put in place conducive physical work environment for its employees

8. The organization involves employees’ in decision making

9. There is career advancement opportunities in the organization

b) What other employee retention practices do you use to retain your employees that have not been captured in part a above?

1………………………………………………………………………………………… ……..

2………………………………………………………………………………………… ……..

3………………………………………………………………………………………… ……..

4………………………………………………………………………………………… ……..

5………………………………………………………………………………………… ……..

PART C: ORGANIZATIONAL PERFORMANCE MEASURES

a) In the table below please tick your response to the statement in the space provided

1=strongly disagree 2=disagree 3=not sure 4= agree 5=strongly agree

<table>
<thead>
<tr>
<th>NO</th>
<th>Statement</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Customers are satisfied with the services you provide</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>The organization reported positive financial growth in the past five years</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>There is organizational learning</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>The organization has put in place internal business processes to improve organizational performance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>There are organizational structures and processes placed in the effort to increase organizational performance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6.</td>
<td>Employee turnover is low</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
b) List other organizational performance measures (systems) your organization uses apart from the ones captured in the above table.

1…………………………………………………………………………………………
2…………………………………………………………………………………………
3…………………………………………………………………………………………

PART D. Relationship between retention practices and organizational performance

a) In the table below please tick your response to the statement in the space provided
1=strongly disagree 2=disagree 3=not sure 4= agree 5=strongly agree

<table>
<thead>
<tr>
<th>No.</th>
<th>Statement</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Training programmes contribute to positive organizational performance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>There is positive organizational performance when employees undertake career development programmes</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Career advancement opportunities lead to internal promotion/placement</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>Customers are more satisfied when they are attended by employees who have the right knowledge and skills for the job</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>ISO 9000 certification award creates a good image for the organization</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6.</td>
<td>Conducive work environment make employees perform better</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7.</td>
<td>Employees who have exemplary academic qualifications perform their job better</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8.</td>
<td>Good monetary compensation of employees contribute to better financial growth of the organization</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Thank you for your time and cooperation
Appendix III

LIST OF STATE FINANCIAL CORPORATIONS

1. National Social Security Fund
2. National Hospital Insurance Fund
4. Kenya Tourist Development Corporation
5. Kenya Roads Board
6. Kenya Revenue Authority
7. Kenya Re-Insurance Corporation
8. Kenya Post Office Savings Bank
10. Kenya Industrial Estates
11. Industrial Development Bank
12. Industrial and Commercial Development Corporation
13. Deposit Protection Fund Board
14. Consolidated Bank
15. Agricultural Finance Corporation

Source: [www.office of public communication](http://www.office) 24th July, 2010