Effects of Training and Compensation on the Retirement Preparedness of Employees in State Corporations in Kenya

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ABSTRACT

The purpose of this study is to examine the effects of training and compensation on the retirement preparedness of employees in State Corporations in Kenya. The study utilizes a descriptive survey research design. The population of this study comprises all the employees in State Corporations in Kenya. A sample of 384 respondents is randomly selected from 32 State Corporations which are systematically sampled from the total of 262 gazetted State Corporations in Kenya. The study uses questionnaire to obtain quantitative and qualitative data for analysis which is further validated by pilot study. Information gotten are sorted, coded and inputted into the Statistical Package for Social Sciences (SPSS 21). Tables, descriptive statistics and inferential statistics are tools for data analysis. A multiple odd ratio regression model is used to test the significance of the effects of the independent variables (training and compensation) on the dependent variable (retirement preparedness). The findings show among others that training, employee compensation positively and statistically affect the retirement preparedness of employees in State Corporations in Kenya. The study also find that leadership style moderates the relationship between training, compensation and the retirement preparedness of employees in State Corporations in Kenya. Therefore, it recommends that the management of State Corporations should consider putting in place measures such as improved training and compensation as probable ways of ensuring that there is improved employee retirement preparedness.
Keywords: *Training, compensation, leadership style, retirement preparedness.*

INTRODUCTION

Retirement is the exit from active employment by an employee. Financial retirement planning involves making financial plans for one's retirement whereby employees deposit money into their retirement account. In some cases, employees are provided with a retirement plan by their employer, and contributions to the plan are deducted from the employee's pay cheque. Some employers will match a certain percentage of an employee's contributions, adding more money to their account (Raichura, 2008). In the modern period, society has viewed retirement as a part of the life course, and older workers considered it a normal process of the employment cycle (Kosloski, Ekerdt and DeViney, 2001). Until recently,

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society's dominant view of retirement was that it is a onetime event rather than a journey; however, the perception and the reality of retirement are undergoing an unprecedented transformation from the traditional view of voluntary disengagement from the labour force at the traditionally accepted age of 65 (Adams and Beehr, 2003; Quinn, 2010). Instead, workers are delaying their retirement beyond the traditional retirement age of 65. The growing financial pressures on retirement systems around the world are forcing individuals, families, employers and policy makers to change the way they think and plan for retirement. Retirement as a concept is rapidly being redefined. While the onus is on individuals to plan ahead, there remains a vital and essential role for the government and employers (Loretto, 2010). The combination of such factors as ageing of the population, rapidly increasing household debt, a declining personal savings rate and the presence of elevated uncertainty in the global economic outlook makes the financial preparedness for retirement a highly-discussed topic within all levels of governments and the broader public policy community.

In Kenya, there are generally low levels of pension awareness. Language is a key barrier as the pension subject is not understood by ordinary people. General lack of financial awareness impacts negatively on the general saving culture. Approximately 3 million Kenyans mostly in formal employment (15% of workforce) are covered in pension schemes. More than 80% of those in the informal sector (Jua Kali) are not covered but efforts to reach out to the informal sector are ongoing (Cheteni, 2014). There are generally low replacement rates (20%) meaning that people are not saving enough to increase income replacement ratios at retirement (Rajoro, 2010).

The Consumer International survey 2011 reports very low levels of preparedness for retirement in Kenya and Tanzania. In Kenya, over 80% of all respondents did not have a sound retirement plan. Retired public servants including teachers and civil servants live in poverty just months after their retirement despite receiving their retirement benefits as provided for under the Pension Act Cap 189, Laws of Kenya (Mwangi, & Sichei, 2011).

Majority of Kenyan workers are not financially and psychologically prepared for retirement (Lusardi and Mitchell, 2011). The statistics shows that up to 15% of new retirees die within their first five years after retirement while more than 60% are left frustrated and continuously look for other jobs as source of income (Gitari, 2012). Refusing to retire stretches the national resources and also creates unemployment. This brings a burden to the government, hence, the introduction of old age safety nets (Njuguna, 2010). Kenyans appear to be woefully under-informed about basic financial literacy with serious implications for saving, retirement planning, mortgages, and other decisions. Due to financial illiteracy, the result is that no proper savings plan for their retirement is done (Habib, 2007). The pre-retirees and workers are sorrowfully unprepared for their golden retirement years.

Moorthy et al (2012) study on the retirement planning behaviour of working individuals in Malaysia find out that they save just one-third of what they needed to retire comfortably. Warshawsky and Ameriks (2000) investigate how prepared are Americans for retirement? Their findings indicate that half of the individuals aged between 25 and 71 years will not have sufficient savings to support themselves in retirement. In many developing countries, the retirement has not been completely institutionalized (Szinovacz, 2003). Many

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households are unfamiliar even about the most basic economic concepts needed to make saving and investment decisions (Lusardi and Mitchell, 2007). The younger generation of working individuals today, think that retirement planning is a burden for them because it involves long-term planning (Brannen, & Nilsen, 2002). This is compounded by high inflation rates and high cost of living which become more of a priority than saving for retirement (Moorthy et al, 2012). According to Life Insurance Association of Malaysia (LIAM) 2014 annual report, those people in 20's think that they are too young to think about retirement, while those in 30's and 40's tend to believe they are prepared because they have their Employee Provident Fund (EPF) savings, at 55 years of age, most people realize they cannot afford to retire, since they prepared late for retirement (Habib, 2007).

Previous studies on retirement in Kenya look at the effect of financial literacy on financial preparedness for retirement among permanent and pensionable employees in State owned Corporations; the impact of financial literacy on retirement planning in the informal sector; age and marital status of respondents on financial preparation for retirement; the levels of financial and pension literacy on retirement preparedness and the extent to which retirement goal clarity and planning activities influence retirement saving tendencies (Agunga, 2016; Githui and Ngare, 2014; Lubega, 2012; Njuguna and Otsola, 2011; Stawski, Hershey and Jacobs-Lawson, 2007). None of these studies examine the effects of training and compensation on the retirement preparedness of employees in State Corporations. The statistical trends on employees' unpreparedness and the need to proffer workable solution to the problems of retirement unpreparedness of employees in State Corporations necessitated this study. Specifically, the objectives of this study are:

i. To determine the effect of training on the retirement preparedness of employees in State Corporations in Kenya.
ii. To examine the effect of employee compensation on the retirement preparedness of employees in State Corporations in Kenya
iii. To assess the moderating effect of leadership style on the relationship between training, compensation and the retirement preparedness of employees in State Corporations in Kenya.

Three hypotheses were formulated for the study. They are:

1. There is a positive significant relationship between training and the retirement preparedness of employees in State Corporations in Kenya.
2. There is a positive significant relationship between compensation and the retirement preparedness of employees in State Corporations in Kenya.
3. There is a positive significant moderating relationship between leadership style on training, employee compensation and the retirement preparedness of employees in State Corporations in Kenya.

Theoretical Framework

This study adopts human capital theory and Keynesian consumption and savings theory as appropriate analytical theories. Human capital theory rests on the assumption that formal education is highly instrumental and necessary to improve the productive capacity of a

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population. Human capital theory stresses the significance of education and training as the key to participation in the new global economy (Olaniyan, and Okemakinde, 2008). In short, human capital theorists argue that an educated population is a productive population. Human capital theory emphasizes how education increases the productivity and efficiency of workers by increasing the level of cognitive stock of economically productive human capability, which is a product of innate abilities and investment in human beings (Almendarez, 2010). The provision of formal education is seen as an investment in human capital, which proponents of the theory have considered as equally or even more worthwhile than that of physical capital (Almendarez, 2010). The theory supports training variable since training impacts financial knowledge and individuals who undergo training and education are more likely to plan for retirement. Educational resources such as seminars and workshops, written communication and websites educate employees about retirement savings. Also, good reading culture is a serious stimulant to having a good saving culture. This is so because most information about saving are in written form that need to be read and absorb as applied as suffices. These educational resources can influence an individual's retirement saving intentions and behaviour.

Keynesian Consumption and Savings Theory

Aggregate expenditure (in the opinion of Keynes) is the key to economic activity. That is, what households, businesses and government plan to buy will be the determinant of what firms will eventually produce (Davidson, 2011). In the first step of the analysis, a simplified model excludes government, assumes that no foreign sector is present, and the level of real income (not prices) is the major determinant of aggregate expenditure. Aggregate expenditure (AE) is the sum of what household's plan to buy (or consumption C), and what businesses plan to buy in terms of capital (or investment I) (Hudson, and Jorgenson, 1974). Consumption is what individuals (or households) want to (or plan to) buy. Their ability to consume is entirely dependent on their income. What is not consumed or surplus fund (in income) is set aside for future consumption; this is savings (Dholakia, and Firat, 2003). What is of interest is not the physical consumption, such as the use of a car, but the time pattern of purchases. If members of a family need to drive to work, they will have a car, either they buy a new or old car. The purchase of the car can be postponed. What prompts a family to buy a car now is a great interest to economists: such purchase is consumption (Lee, 2000). The Keynesian Consumption theory links retirement preparedness with employee compensation, consumption and saving patterns of individuals. The employee compensation determines the consumption and the savings towards retirement preparedness. The objective of the average consumer is to satisfy a normal consumption over a lifetime in which employee income compensation fluctuates substantially depending on age (Kakarot-Handtke, 2013).

Mboga (2014) analyzes the impact of social and cultural changes brought about by retirement on the quality of life of the average retirees from public service in Kenya, with focus on the retirees from Kenyatta National Hospital. The findings of the study indicate that there were insufficient training programmes on preretirement planning as more

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than 50% of the respondents indicate that they had never attended any. Bayer, Bernheim, and Scholz (2009) examine the effects of education on financial decision-making skills by identifying an interesting source of variation in pertinent training. During the 1990s, an increasing number of individuals were exposed to programmes of financial education provided by their employers. If, as some have argued, low savings frequently result from a failure to appreciate economic vulnerabilities, then education of this form could prove to have a powerful effect on behaviour. The study found that both participation in and contributions to voluntary savings plans are significantly higher when employers offer retirement seminars. The effect is typically much stronger for non-highly compensated employees than for highly compensated employees. The frequency of seminars emerges as a particularly important correlate of behaviour.

Elsa (2015) studies the relationship between trustee compensation and financial performance of retirement benefit schemes in Kenya between 2011 and 2014. The study observes a positive relationship between trustee compensation and financial performance of retirement benefit schemes in Kenya in that as the value of trustee compensation increases, financial performance increases as well. Muchai (2012) studies the performance based compensation practices among commercial banks in Kenya. Their findings are that the managers disagree that on stock ownership, employees are rewarded with company stock as an outright grant. They also agree that the piece rate system did not pay a higher piece rate wage if employees produced more than the standard. The working individuals who received workplace financial education and advice earlier help them to have more confidence toward retirement planning (Power and Hira, 2004).

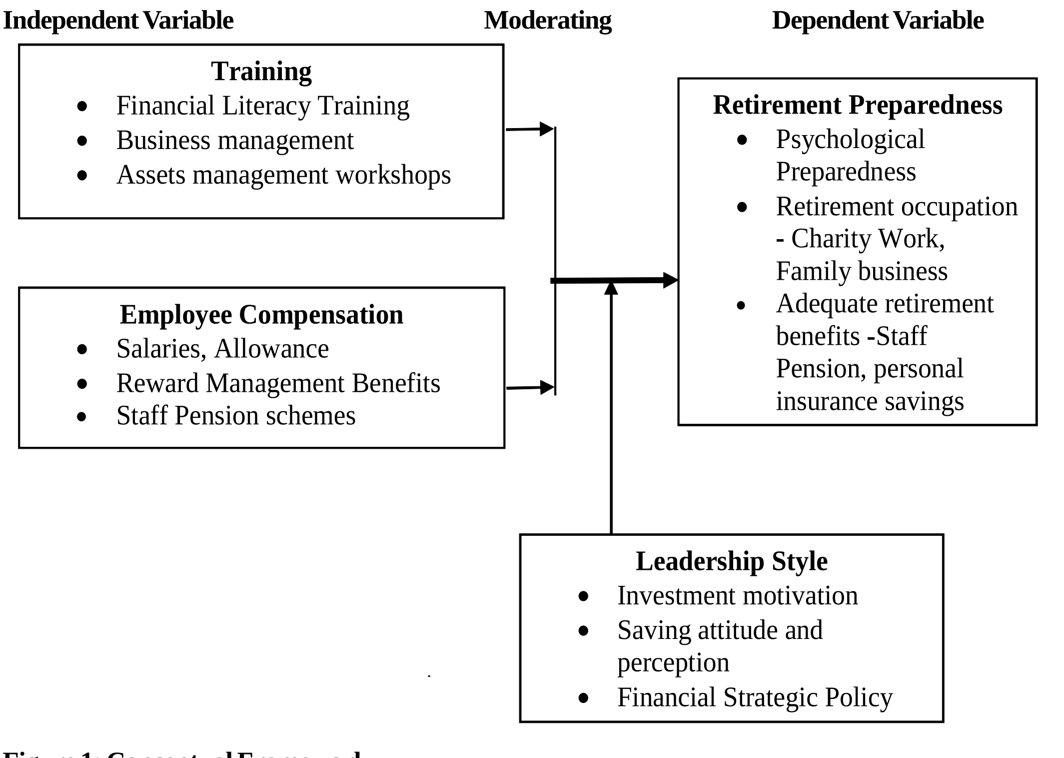

Figure 1: Conceptual Framework

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METHOD

The study utilized a descriptive survey research design. The population for this study constituted the 86,000 employees in State Corporations. A sample of 384 respondents was randomly selected from 32 State Corporations. The 32 State Corporations were systematically selected from the total of 262 gazetted State Corporations in Kenya. The study used questionnaire to obtain quantitative and qualitative data for analysis which was further validated by pilot study. Information gotten are sorted, coded and inputted into the Statistical Package for Social Sciences (SPSS 21). Graphs, tables, descriptive statistics and inferential statistics were the data analytical tools. A multiple odd ratio regression model was used to test the hypotheses formulated for the study as regards the effects of the independent variables on the dependent variable.

RESULTS AND DISCUSSIONS

A regression model was first run before moderation. The results in Table 1 present the fitness of model used in explaining the relationship between employee training, compensation and retirement preparedness. The independent variables (employee training and compensation) were found to be satisfactory variables in determining retirement preparedness. This was supported by the coefficient of determination also known as the R-square of 0.551. This means that employee training and compensation explain 55.1% of the variations in the dependent variable which is the retirement preparedness. These results further mean that the model applied to link the relationship of the variables was satisfactory.

Table 2 provides the results on the analysis of the variance (ANOVA). The results imply that the model was statistically significant and with goodness of fit of the model. Further, the results imply that the independent variables (employee training and compensation) were good predictors of retirement preparedness. This was also supported by the reported p=0.00 which was less than the conventional probability of 0.05 significant level. Multiple linear regression analysis was used to test the hypothesis that there is a positive significant relationship between training and the retirement preparedness of employees in State Corporations in Kenya. Training was jointly regressed on retirement preparedness of employees in State Corporations in Kenya before moderating using firm characteristics. The results of coefficients to the model estimates were significant at the 0.05 level of significance. This was because the significant level was 0.019, which was less than 0.05. This indicates that the hypothesis was accepted hence there is a positive significant relationship between training and the retirement preparedness of employees in State Corporations in Kenya.

Regression of coefficients results in table 3 shows that training significantly affects retirement preparedness positively. The table also indicates that compensation significantly affects retirement preparedness positively. The table further shows that p= 0.032 which is less than 0.05. The alternative hypothesis was therefore accepted hence there is a positive

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significant relationship between training and the retirement preparedness of employees in State Corporations in Kenya. This finding is consistent to that of Bayer, Bernheim, and Scholz (2009), who examine the effects of education on financial decision-making skills by identifying an interesting source of variation in pertinent training. Their findings indicate that both participation in and contributions to voluntary savings plans are significantly higher when employers offer retirement seminars.

Clark and Urwin (2008) show that trustee education and professional qualifications were related to the degree of trustee decision-making consistency. Training was relevant but less important. It also shows that trustees were more consistent than undergraduates when asked to solve a problem that drew upon specific knowledge derived from the context of their roles and responsibilities. However, when asked to solve problems that depended upon specific knowledge of demography and pay as you go (PAYG) State pension funding, both groups of respondents recorded a wide range of responses.

Table 3 also shows that the p= 0.012 which is less than 0.05, the alternative hypothesis was therefore adopted hence there is a positive significant relationship between employee compensation and the retirement preparedness of employees in State Corporations in Kenya. This finding also conforms with Bayer, Bernheim, and Scholz, (2009) and Elsa (2015), who find relationship between compensation and financial performance of retirement benefit schemes in Kenya. Their study also establish a positive relationship between compensation and financial performance of retirement benefit schemes in Kenya in that as the value of compensation increases, financial performance increases as well. Kim, Kwon and Anderson (2005) assert that individuals' retirement confidence tends to be higher than others as they calculated their retirement fund needs and had more savings. The level of confidence will increase as the higher household income provided that they are with better health. Multiple regression analysis was performed to determine regression after moderation. The results as presented in Table 4 show the fitness of model used in explaining the study phenomena. The composite variables were found to be satisfactory variables in explaining retirement preparedness in State Corporations in Kenya. This is supported by coefficient of determination (R2) of 0.733. This means that composite variables explain 73.3% of the variations in the dependent variable which is retirement preparedness in State Corporations. This implies further that the model applied to link the relationship of the variables was satisfactory.

Table 5 provides the results on the analysis of the variance (ANOVA). The results indicate that the model was statistically significant. Further, the results imply that the independent variables are good predictors of retirement preparedness in State Corporations. This was supported by an F calculated statistic of 121.386 and the reported p=0.00 which was less than the conventional probability of 0.05 significant level.

Regression of coefficients results after moderation in table 6 shows that the interaction between the independent variables and moderating variable (leadership style) positively and significantly influenced the retirement preparedness. Therefore, it is on point to infer that leadership style moderates the relationship between training, compensation and retirement preparedness. Moderation is supported. Since the calculated p value of the

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interaction is 0.005<0.05, the alternative hypothesis is accepted and thus there is a positive significant moderating relationship of leadership style on training, employee compensation and the retirement preparedness of employees in State Corporations in Kenya is accepted. A regression analysis was also done to determine the effect that leadership style had on the relationship between training and retirement preparedness of employees in State Corporations in Kenya. The results of coefficients show that the coefficient of training intersection with leadership style was significant since it had a p-value of 0.012 which was less than 0.05. Since the coefficient of intersection was significant, it implies that leadership style has a moderating effect on the relationship between training and retirement preparedness of employees in State Corporations in Kenya.

Table 1: Model Fitness

R	R Square	Adjusted R Square	Std. Error of the Estimate
0.742	0.551	0.544	0.515368

Source: Descriptive survey, 2017

Table 2: Analysis of Variance

	Sum of Squares	df	Mean Square	F	Sig.
Regression	68.860	2	34.430	61.121	0.000
Residual	89.566	320	0.282		
Total	**158.425**	**322**			

Source: Descriptive survey, 2017

Table 3: Beta Coefficient

	â	Std. Error	Beta	t	Sig.
(Constant)	0.791	0.176		4.506	0.019
Training	0.159	0.033	0.225	4.860	0.032
Compensation	0.145	0.031	0.215	4.714	0.012

Retirement Preparedness = $0.791 + 0.159X_1 + 0.145X_2$

Where;

X_1 = Employee Training

X_2 = Employee Compensation

Source: Descriptive survey, 2017

Table 4: Model Fitness

Indicator	Coefficient
R	0.856
R Square	**0.733**
Adjusted R Square	0.729
Std. Error of the Estimate	0.4815618

Source: Descriptive survey, 2017

Table 5: Analysis of Variance

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	84.449	2	42.224	121.386	**.000**
Residual	73.977	320	0.232		
Total	158.425	322			

Source: Descriptive survey, 2017

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Table 6: Regression model after moderation

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	2.203	0.108		20.371	0.000
$X_1{*}X_3$	0.019	0.009	0.139	2.118	0.035
$X_1{*}X_3$	0.024	0.010	0.166	2.296	0.022

Dependent Variable: Retirement Preparedness

Where,

Y= Retirement Preparedness;
X_1= Employee Training
X_2= Employee Compensation;
X_3= Leadership Style

Source: Descriptive survey, 2017

CONCLUSION AND RECOMMENDATIONS

The focal point of this study was to investigate the effects of training and compensation on retirement preparedness of employees in State Corporations in Kenya. The study found that there exist a relationship between training and the retirement preparedness of employees in State Corporations in Kenya. The results showed that training management had a positive and statistically significant effect on retirement preparedness of employees in the study area. The results of coefficients show that leadership style had a moderating effect on the relationship between training and retirement preparedness of employees in State Corporations in Kenya. From the forgoing, it can be concluded that an improvement in training leads to a positive improvement in retirement preparedness of employees in State Corporations in Kenya. It was also found that there was a relationship between employee compensation and retirement preparedness of employees in State Corporations in Kenya. The results also provided sufficient statistically significant evidence to signify a moderation of leadership style on the relationship between compensation and retirement preparedness of employees in State Corporations in Kenya.

Based on the findings, it is, therefore, recommended that the management of State Corporations should consider putting in place measures such as improved trainings and compensation as probable ways of ensuring that there is improved employee retirement preparedness. They should enhance their training models to include financial knowledge on savings culture, borrowings and different ways of investing, improve the compensation structure to reflect and improve motivation to save since improved income encourages more savings and hence better retirement. Furthermore, the State Corporations should be encouraged to come up with internal ways of encouraging more savings towards the retirement of its employees. This could include pension schemes, employee saving Saccos and employee welfare groups.

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