



**AN ASSESSMENT OF THE IMPACT OF HUMAN RESOURCE,  
ORGANIZATIONAL AND INSTITUTIONAL DEVELOPMENT ON  
THE FINANCIAL PERFORMANCE OF THE MUNICIPALITY OF  
KARIBIB**

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EDWINS ODERO

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Supervisor: Prof. John Odada

**An Assessment of the Impact of Human Resource, Organizational and Institutional  
Development on the Financial Performance of the Municipality of Karibib**

**ABSTRACT**

For more than a decade, human resource, organizational and institutional developments have become indispensable dimensions of Namibia's socio economic development agenda, particularly of her system-wide financial performance. This study was set out to explore and establish the human resource, organizational and institutional development challenges facing the Municipality of Karibib within the context of financial performance. The central argument of the study is that human resource, organizational and institutional development is in theory and practice, a means to improving local governance and provision of high quality public services that citizen's value.

Adopting an exploratory case study design, the study triangulated both secondary and primary sources of data. Primary data was collected using self –completing questionnaire and interview schedule tools covering 105 employees .Semi structured interviews also solicited views from senior officers and managers in the Municipality of Karibib. These primary sources were complemented with relevant secondary data from the organization investigated.

The study result shows that the Municipality of Karibib's human resource, organizational and institutional development policies has influenced the strategic direction of financial performance policies of the local government. Major human resource, organizational and institutional development challenges manifest three-dimensionally as policy, task organization and performance motivation induced. Addressing the human resource, organizational and institutional developments challenges has enormous strategic and financial performance implications for policy makers in the Municipality due to its reliance on external donors for funding.

## **DECLARATIONS**

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## TABLE OF CONTENTS

<b>ABSTRACT</b> .....	ii
<b>DECLARATIONS</b> .....	iv
<b>ACKNOWLEDGEMENTS</b> .....	vii
<b>CHAPTER1: INTRODUCTION</b> .....	1
1.1 Background of the Study .....	1
1.1.1 Orientation .....	1
1.1.2 Performance of the Municipality of Karibib .....	4
1.2 Problem Statement .....	8
1.3 Research Question .....	9
1.4 Research Objectives .....	9
1.5 Research Hypothesis .....	10
1.6 Significance of the Study .....	10
1.7 Scope of the Study .....	11
1.8 Limitations of the Study .....	11
1.9 Chapters Outlay .....	11
<b>CHAPTER 2: LITERATURE REVIEW</b> .....	12
2.1 Introduction .....	12
2.2. Theoretical Literature Review .....	12
2.3 Empirical Literature Review .....	40
<b>CHAPTER 3: RESEARCH METHODOLOGY</b> .....	46
3.1 Introduction .....	46
3.2 Data, Data Measurements and Data Sources. ....	46
3.3 Research Instruments .....	47
3.4 Data Analysis .....	48
3.4.1 Data Triangulation .....	49
3.4.2 Ratios Selected for this Study .....	50
3.4.3 Motivation for using Ratio Analysis as a basis to Determine Financial Performance .....	51
<b>CHAPTER 4: IMPIRICAL FINDINGS</b> .....	53
4.1 Introduction .....	53
4.2. Results and Discussions .....	53
4.2.1 Findings Based on Primary Data .....	53
4.2.2 Findings Based on Secondary Data .....	62
<b>CHAPTER FIVE: CONCLUSION</b> .....	80
5.1 Introduction .....	80
5.2 Conclusion .....	80
5.3 Policy Recommendations .....	81
<b>REFERENCES</b> .....	83
<b>ANNEXURE 1: QUESTIONNAIRE</b> .....	91

## **List of Tables**

<b>Table 1</b> Dimensions of Capacity Building (adapted from Grindle in Harrow 1997 and Wakely, 1997) .....	16
<b>Table 2:</b> Employees' Views on Human Resource, Organizational and Institutional Policies and Programs .....	55
<b>Table 3:</b> Employees' Rating of the Human Resource, Organizational and Institutional Performance .....	57
<b>Table 4:</b> Ranking of Major Problems affecting financial Performance .....	58
<b>Table 5:</b> The results of operations and transactions on the Revenue Account for the year were as follows:.....	64
<b>Table 6:</b> The results of the operations of, and transactions on the Revenue Account for the year were as follows:.....	66
<b>Table 7:</b> The results of the operations of, and transactions on the Revenue Account for the year were as follows:.....	66
<b>Table 8:</b> The results of operations were as follows: .....	68
<b>Table 9:</b> Income and Expenditure Statement for the Years Ended 30 June .....	70
<b>Table 10:</b> Balance sheet.....	71

## **List of Figures**

<b>Figure 1:</b> Data Sources and Methods .....	48
<b>Figure 2:</b> Integrated Human Resource, Organisational and Institutional Challenges facing The Decentralized Local Governments in Namibia.....	61

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# **AN ASSESSMENT OF THE IMPACT OF HUMAN RESOURCE, ORGANIZATIONAL AND INSTITUTIONAL DEVELOPMENT ON THE FINANCIAL PERFORMANCE OF THE MUNICIPALITY OF KARIBIB**

## **CHAPTER1: INTRODUCTION**

### **1.1 Background of the Study**

#### **1.1.1 Orientation**

The Municipality of Karibib is found in Erongo Region of Namibia, situated 183 km from Windhoek, almost mid-way on the 353 km main road from Windhoek to Swakopmund. The earliest settlers in the Karibib District were missionary Johannes Rath and his family, who arrived in Otjimbingwe on 11 July 1849 (Barnett, 1997) .In 1855, rich copper deposits were discovered in the Khomas highlands, particularly around the Karibib area (Barnett, 1997). In order to exploit the copper deposits, the Walwich Bay Mining Company was formed with its headquarters in Cape Town and a branch in Otjimbingwe in Namibia.

Originally Karibib was nothing more than a waterhole belonging to the West-Hereros. In 1899 a second waterhole was dug to cater for the increased demand by the growing population. In 1900, the town's population was 10 people, and further developments occurred at the expense of Otjimbingwe, as the ox-wagons which used to travel via Otjimbingwe to Swakopmund, now travelled via Karibib. By the time the railway from Swakopmund to Windhoek had reached Karibib, the government moved the district council from Otjimbingwe to Karibib ( Gewald, 2003).



During the Herero uprising of 1904, the importance of the town as a military hub grew rapidly. Eventually, the status of Karibib District was raised to that of a county, and expanded to include the governance of the district of Omaruru. By 1909, there were 339 white people in Karibib. The latest statistics available that were collected in 2006 indicate that the population of Karibib was estimated in late 2006 at 6,898. Once one of Namibia's rich municipalities due to its gold resources, the Municipality of Karibib continues to struggle financially in spite of the many interventions that have been put in place both at the national level and at the municipality level. One of the mechanisms that were put in place to safeguard against such anomalies is the Local Authority Councils Act (Act 23 of 1992), which provided the legislative framework for managing local authorities and the institutionalizing of the decentralized government. This laid down the implementation guidelines, resource strategies and the choice of the form of management. Local authorities in Namibia report to the Ministry of Regional, Local Government and Housing which was established in 1990 to run the local governments of the new Namibia. The ministry is committed to facilitating the establishment of an effective regional and local government system that brings government closer to the people, and that is capable of delivering services to the satisfaction of all communities. Notwithstanding, the report on the accounts of the Municipality of Karibib for the Financial Year ended 30 June 2004 showed that the ever increasing balance of consumer debtors remained a cause of concern. Reconciliation of the municipality of Karibib's financial records was not done or was not up to date. According to the report, the overall control and quality of accounting records had deteriorated badly. The report

went on to state that the municipality had a net accumulated shortfall of N\$ 5 401 292 in 2004 and N\$ 4 376 167 in 2003 which strongly indicated that the municipality was not able to continue as a going concern under these conditions

Audit report on the accounts of Municipality of Karibib for the financial year ended 30 June 2004 indicated that temporary advances of N\$ 2 059 454 in 2004 and N\$ 1 643 230 in 2003 were made from the Fund accounts to the Revenue Account to finance running expenses. This situation underlined the cash flow problem, in particular, and financial performance problem, in general, of the Municipality of Karibib (The Namibian, 2004 10/07/2007). The municipality, therefore, received a qualified audit report indicating that the auditor had failed to satisfy him or herself on any of the points that the law requires which explicitly stated that the municipality activities are dependent upon the support of the Government, bankers and creditors.

The need to pay attention to financial performance equation in the Municipality of Karibib comes from the historical fact that Namibia as a country has been ruled from the center by non-democratic institutions for years; the local bureaucracy that had been part of a centralized scheme of things needs to be re-formed to fit into the decentralized way of local governance. Thus, building capacity of the Municipality of Karibib officials for effective administration and management must therefore, be of high priority, “recognizing that inadequacy of capacity in terms of trained and competent technical and generalists’ human resources on the part of local authorities to carry out their

responsibilities has in the past been a significant contributory factor in the centralization of public services” (Wood, 2000: 90).

### **1.1.2 Performance of the Municipality of Karibib**

It is generally accepted that proper management of physical development of the Municipality of Karibib precinct and sustainable provision of infrastructural and social services to the citizenry of Karibib Municipality both depend to a large degree on the efficiency of the municipality as an institution, as well as its human resource, organizational and financial viability (The Namibian, 2007). This acknowledgement has been given further impetus by the Local Authority Councils Act (Act 23 of 1992), which provided the legislative framework for managing local authorities and the institutionalizing of decentralized government. According to The Namibian (2004 10/07/2007) the analysis of municipality of Karibib’s human resource, organizational, financial and institutional status quo acknowledge among others that:

- (a) The financial viability and sustainability of the Karibib Municipality is presently under threat.
- (b) The administrative “red tape” of the Municipality limits communication, access to information and the speed at which decisions can be taken.
- (c) There is a grave shortage of resources (human, financial, physical, technological etc.) that inhibits Karibib Municipality’s capacity to deliver.
- (d) Karibib Municipality is ill-prepared to deal with the challenges of developmental local government, for a number of reasons.

(e) HIV/AIDS constitutes a massive threat to the Karibib Municipality's future.

Although the above indicates the status quo of human resource, organizational, financial performance and institutions of the Municipality of Karibib, the municipality has prioritized broad challenges in trying to address some of the above-mentioned problems.

This includes:

- (a) The drafting of new, universal financial policies and the articulation of financial strategies taking into consideration the whole of Karibib Municipality;
- (b) The establishment of an Integrated Information Management System (IIMS);
- (c) The establishment of accessible customer service throughout Karibib Municipality;
- (d) The establishment of modernized HR management technology and systems;
- (e) The drafting of a new, integrated suite of HR policies;
- (f) The upgrading of the skills profile of the municipal staff corps, in line with the Skills Development Act.

There has been action by the Karibib Municipality in terms of functional structure. For example, the municipality has already embarked on the process of administrative restructuring, based on the legal imperative contained in [Local Authority Act \(1992\)](#). This Act requires, inter alia: (i) that a municipality must, within its financial and administrative capacity, establish and organize its administration in a manner that would enable it to be responsive to the needs of the local community; (ii) That a Municipal Manager should develop an economical, effective, efficient and accountable administration that is equipped to carry out the task of implementing the municipality's

Integrated Development Plan ( IDP); and (iii) That a Municipal Manager, within a policy framework determined by the Council, be responsible for the approval of a staff establishment for the municipality.

The functional structure of the Municipality of Karibib has furthermore been formally approved by Council, and is in the process of being staffed progressively through a combination of the placement of existing staff as well as, in certain instances, the recruitment and selection of staff from the external labour market. Important innovations in the new functional structure are to be found in the establishment of specific capacity to deal with critical matters such as local economic development, legal support, HIV/AIDS and employee well-being

In terms of financial and institutional set up, one of the most essential concrete steps that the Karibib Municipality has taken, is the establishment of a series of Customer Service Centres throughout Karibib Municipality. This is in line with legislative requirements for a new customer-orientated local government. These centres are envisaged to be an integral part of new multi-purpose facilities that would serve a variety of community needs, e.g. libraries, ward committee offices, health care facilities etc. However, the major short-term challenge is the seamless integration of the financial systems as well as the extension of these financial systems to cater for areas that previously fell under the management of the previous apartheid systems.

The major challenges is that of internal transformation pertaining to human resources, institutional and organizational development including the implementation of employment equity and skills development plans in terms of relevant legislation. This is in retrospective of ensuring that the municipal administration not only is transformed to ultimately reflect the demographics of the area, but also continues to function efficiently and in a manner that guarantees the uninterrupted provision of essential services to all communities. In addition to this, it is regarded as vital that the integration of HR-related information systems should be expedited, with a view to modernizing and streamlining the archaic present systems that are seen as inefficient.

The municipality is presently languishing in the doldrums of inefficiency with regard to internal communication and access to information, with archaic technological facilities in many areas constituting a serious constraint on service delivery, administrative efficiency and the general morale of staff. In the more medium-term, the municipality has recognized that the disintegrated nature of its administration constitutes a constraint that limits the efficiency of communication and the cohesiveness and cost-effectiveness of the organization. Finally, it is regarded as a major challenge of Karibib Municipality to establish proper institutional and organizational capacity to deal with special programmes that would focus on the institutional and organizational management of HIV/AIDS, the mainstreaming of the gender issues, and issues pertaining to the interests of the disabled and young people.

In terms of financial and institutional transformation as well as the integrated development plan's cross cutting issues, Karibib Municipality's human resource, organizational and institutional development framework has been articulated with the furtherance of the concerns identified as cross-cutting always in mind. The institutional management of the HIV/AIDS epidemic has been dealt with both from the point of view of developing the necessary organizational and institutional capacity and programs to manage the crisis insofar as it impacts upon the institution, but has also been considered from the point of view of ensuring the sustainability of employee benefits.

The management of the municipality's indigent policy is aimed at ensuring that the poorest of the poor in Karibib Municipality continue to receive their rightful due, namely a free basic supply of essential municipal services. Furthermore, the municipal administration's programs of transformation, chiefly detailed in its employment equity and skills development projects, continue to be a tangible sign of the Council's commitment to the advancement of designated groups, and the redressing of historical patterns of discrimination and injustice.

## **1.2 Problem Statement**

The fact that the Municipality of Karibib should be enjoying a lot of revenue generated by the business activities in its vicinity such as gold mining besides tourism, the municipality has had financial difficulties. This creates a gap in understanding reasons as to why the municipality is struggling financially (Economic News, (2004-10-19). The

Municipality of Karibib has engaged consultants to train its staff on customer care and local economic development. These measures have not assisted to change the situation either. The background information presented thus far raises questions about the potential difficulties and challenges of financial performance in the Municipality of Karibib.

### **1.3 Research Question**

Research questions to be addressed by this study are:

1. How well suited are the Municipality of Karibib's human resource, organizational and institutional development policies to the improvement of their financial performance?
2. What are the factors that are responsible for the continued poor financial performance of the Municipality of Karibib?
3. What is the impact of Municipality of Karibib's human resource, institutional and organizational development on its financial performance?

### **1.4 Research Objectives**

The broad research objective is to investigate the effect of human resource, organizational and institutional development policies on financial performance of the Municipality of Karibib.

The specific research objectives are:



- i. To assess (evaluate) the impact of Municipality of Karibib's human resource, organizational and institutional development policies on its financial performance.
- ii. To recommend what should be done to improve the financial performance of the Municipality of Karibib.

### **1.5 Research Hypothesis**

**Ho:** There is no relationship between human resource, organizational and institutional development policies and financial management performance.

**Ha:** There is relationship between human resource, organizational and institutional development policies and financial performance.

### **1.6 Significance of the Study**

This study adds to the body of literature on financial performance of local authorities. It identifies the relationship between financial performance, organizational and institutional factors responsible for the decline in the financial performance of the Municipality of Karibib. These will benefit various stakeholders in local authority and public sector reforms since strong financial management systems are essential for improved service delivery, poverty reduction and for the achievement of a municipality's goals. Effective financial management systems maximise financial efficiency, improve transparency and accountability, and – in theory –contributes to long-term economic success. Activities range from the preparation and fulfillment of the budget cycle, budget oversight and control, tax and debt management and procurement, to resource allocation and income distribution, and are increasingly seen as a set of inter-

related sub-systems (human resource, institutional, organizational and financial management), rather than as stand-alone activities.

### **1.7 Scope of the Study**

The study covers the period 2004 – 2008, and focuses on the human resource, organizational and institutional development policies of the Municipality of Karibib. Its primary concern is to establish factors that impact on their financial performance, and to suggest ways of solving identified problems.

### **1.8 Limitations of the Study**

The study was conducted at the Municipality of Karibib and a self-completing questionnaire was administered in English. This precluded those members of the Municipality of Karibib with no basic English knowledge from participating. Against this background, the interpretation of results was to some extent compromised. Due to financial constraints, travelling to conduct interviews with the administrators was limited to locations that were fairly close to each other.

### **1.9 Chapters Outlay**

The rest of the thesis is organized as follows:.. Chapter two places the study in theoretical context through theoretical and empirical literature review. The third Chapter presents the methodology of the study, Chapter four explains the empirical findings how Karibib is doing in terms of the independent variables (human resource, organizational and institutional development) whilst Chapter five presents the conclusion, discussions of the key findings and the conclusions, as well as the implications of the key findings for policy on human resource, organizational and institutional development practices.

## **CHAPTER 2: LITERATURE REVIEW**

### **2.1 Introduction**

This chapter discusses the literature review. It is divided into three sections. Section 2.2 presents the theoretical literature. The section addresses the key theoretical concepts related to the determination of financial performance and the relevant financial calculations that can be applied to measure this performance, with a particular focus on financial statements as sources of performance information. The empirical literature is discussed in section 2.3. The conclusion of the chapter is presented in section 2.4.

### **2.2. Theoretical Literature Review**

Linking financial performance with the wider issues of human resource, institutional and organizational development involves consideration of the political mandate and role of municipality, the processes by which its authority is exercised and its capacity for formulating and implementing policies. The role for municipal financial performance arises at a number of points when considering improvements to governance (Sharp and Jetha, 2000). They further argue that financial performance involves the application of doctrines, principles and techniques, but it is wrong to conceive of a financial management performance reform programme as a technical solution in its own right. Any initiative in which improved techniques are appended to a municipality structure without careful consideration of the wider issues of the roles, functions and structures of the municipality and the key priorities that the municipality seeks to address is unlikely to promote those objectives (Sharp and Jetha (2000)).

The public financial performance system must be integrated into the total human resource, institutional and organizational framework if it is to contribute as part of an organic whole to enhancing a municipality's development prospects. There are examples around the world of failures to achieve this integration, which show that it can result in wasted expenditures at best and dysfunctional management systems at worst (Local, 2007). Any particular financial performance regime cannot be judged entirely on the basis of whether its various components conform to best practice. Rather, a successful financial management performance system is a core component of a total system of management and needs to work in harmony with the other elements (human resources, institutional and organizational etc.) that are employed to achieve the objectives of municipality (Kaufman, 2001).

Girma and Shortland (2004) also argue that lack of integration between the financial performance system and the elements (human resources, institutional and organizational) of total management system can make administrative reforms fail or even represent a step backwards. For example, systems of central financial control that prohibit flexibility and innovation in public service provision are common. Similarly, drawing on the modern management philosophy of staff empowerment and granting managers freedom over the use of resources can be a risk in reform programmes in which such freedom is not balanced against those managers' explicit financial accountability (Public Service Commission of Kenya, 2007).

It is useful to think of successful financial performance as involving attention to both the "hard" and the "soft" sides of human resources, institutional and organizational development. The "hard" side of human resources, institutional and organizational development involves setting goals, structures, systems, personnel policies, information technologies, internal controls and procedures etc.; such systems are sometimes known by management experts as "hygiene" factors, which establish goals, allocate resources, measure performance, control production and reward staff. The "soft" side of human resources, institutional and organizational development involves motivational factors, such as organizational values, leadership, empowerment of staff, team-building, compliance ,personal development, and strategic thinking in assessing and shaping the environment. It is generally thought by management experts that these softer elements of human resources, institutional and organizational development make the key difference between satisfactory and high-financial performance in organizations (Public, 2007).

The broad perspective on human resources, institutional and organizational development systems and current trends in management reform yields a particular perspective on financial performance and its potential contribution to a municipality's development. Located on the "hard" side of management, financial performance is about implementing concepts, systems and processes that establish essential hygiene factors in an organization or in a government as a whole, enabling satisfactory accountability for resources to be achieved. The financial performance system, therefore, needs to be

implemented alongside and in harmony with the other basic elements of human resources, institutional and organizational development (Jackson, and Schuler, 1999).

These systematic approaches to management will not, however, ensure innovation and high financial performance by a government in delivering quality public services and meeting national objectives. They are necessary but not sufficient conditions for that. Good financial performance systems can bring major improvements in government-wide budgeting, reporting and fiscal policy, but the softer aspects of management can be seen to have the greater effect at the individual organization level (Sharp and Jetha 2000).

There is general agreement that the growth and development of a municipality should take place on an individual, organizational and institutional level. Olander (2007) describes four inter-related elements that need to be considered when assessing and developing financial management performance capacity. The first, resources, includes the quantity and quality of staff, adequate and timely financial resources, equipment and facilities. The second aspect looks at management, which comprises leadership and political will, operational management and change management of the local authorities reform programme. The third element, institutional framework, takes account of legislation, procedures and organizational culture. The final element relates to support structures including the role of tertiary education institutions and professional bodies, the upgrading of skills through training and the role of consultants.

**Table 1 Dimensions of Capacity Building (adapted from Grindle in Harrow 1997 and Wakely, 1997)**

<b><u>Capacity Building</u></b>	<b><u>Description</u></b>	<b><u>Interventions</u></b>
<b>Human Res. Devp.</b>	Equipping individuals with the understanding, skills, training access to information, knowledge and training that enables them to perform effectively	e.g. recruitment
<b>Organizational</b>	Elaboration of management structures, processes and procedures, not only within organizations but also the leadership, communications management of relationships between the different organizations and sectors (public, private and community).	e.g. incentive systems
<b>Directive Reform</b>	Making legal and regulatory changes to enable organizations, institutions and agencies at all levels.	e.g. policy change

Table 1 above presents an analysis of various dimensions of capacity building, their description and methods of interventions.

Typically termed ‘institutional reform’ however renamed here to avoid confusion with broader and/or different understandings of institutional ideas on institutionalism.

Arguments made in related research are that a firm’s current and potential human resources are important considerations in development and execution of its strategic

business plan. This literature although largely conceptual, concludes that human resource management practices can help to create a source of sustained competitive advantage and sound financial management performance, especially when they are aligned with firm's competitive strategy (Begin, 1991).

In both this largely theoretical literature and the emerging conventional wisdom among human resource professionals, there is a growing consensus that organizational and human resource policies can, if properly configured, provide a direct and economically significant contribution to a firm's financial management performance. The presumption is that more effective systems of human resource management practices, which simultaneously exploit the potential for complementarities or synergies among such practices and help to implement a firm's competitive strategy, are a source of sustained competitive advantage and increased financial performance.

The belief that individual employee performance has implications for a company's financial management performance has been prevalent among academics and practitioners for many years. Interest in this area has recently intensified; however, as scholars have begun to argue that collectively, a company's employees can also provide a unique source of competitive advantage in terms of financial performance strategy (Taylor, 2001).



Human resource development practices influence employee skills through the acquisition and development of a firm's human capital. Recruiting procedures that provide a large pool of qualified applicants, paired with reliable and valid selection regiment, will have a substantial influence over the quality and type of skills new employees possess. Providing formal and informal training experience, such as basic skills training, on the job experience, coaching, mentoring, and management development, can further influence employees' development (Barney's, 1991).

The effectiveness of even highly skilled employees will be limited if they are not motivated to perform, however, and human resource development practices can affect employee motivation by encouraging them to work both harder and smarter. Examples of firm efforts to direct and motivate employee behavior include the use of performance appraisals that assess individual or work group performance, linking these appraisals tightly with incentives compensation systems, the use of internal promotion systems that focus on employee merit, and other forms of incentives intended to align the interests of employees with those of shareholders (Bailey,1993).

Bailey, (1993) also noted that the contribution of even a highly skilled and motivated workforce will be limited if jobs are structured, or even programmed, in such a way that employees, who presumably know their work better than anyone else, do not have the opportunity to use their skills and abilities to design new and better ways of performing their roles. Thus, human resource development practices can also influence a firm's financial performance through provision of organizational structures that encourage

participation among employees and allow them to improve how their jobs are performed.

The theoretical literature clearly suggests that the behavior of employees within firms has important implications for organizational and financial management performance, and that human resource management practices can affect individual employees' skills and motivation through organizational structures that allow employees to improve how their jobs are performed. If this is so, a firm's human resource management practices should be related to at least two dimensions of its performance. First, if superior human resource management practices increase employees' discretionary effort, one would expect their use to directly affect intermediate outcomes, such as turnover and productivity, over which employees have direct control. Second, if the returns to investments in superior human resource management practices exceed their true costs, then lower employee turnover and greater productivity should in turn enhance corporate financial management performance.

People are obsessed with measuring performance in every field of human endeavor (Lothian, 1987). Mothers are concerned with their infants' development (usually measured in weight and length) or their children's marks at school, athletes are concerned about their time recorded, and shareholders are concerned with the share price of a company that they have invested in. These are but a few examples of the attempt to evaluate performance through measurement, and organisational performance is no exception to this rule.

Peters and Waterman, (1982) state that keeping a large organisation vital and responsive is becoming increasingly difficult as competition and globalisation become the order of the day. Many organisations try to respond by implementing new strategies and plans, restructuring and changing their budgets accordingly. Ultimately, if the organisation is to survive in the long run, sound financial performance is required in order to keep the organisation running. If the organisation cannot sustain itself financially, its losses will eventually lead to its demise.

In evaluating the performance of an organization there are various approaches used. Before dwelling into the great details on how it works. There is a need to understand the various aspects of financial performance as outlined below.

(a) The Fundamental Principles of Financial Management Performance

When considering whether a firm is performing at its optimum level financially, several factors should be taken into consideration. Damodaran (2003) states that financial management performance is based on the following key principles of cost-benefit, risk-return and the time-value-of-money.

(b) The Cost-Benefit Principle

Sound financial decision making requires an analysis of the total costs and the total benefits. The benefits should be greater than the costs for any financial decision. This principle is useful to obtain clarity about the objective to be attained, to explore alternatives, and to calculate the costs and benefits of those alternatives in order to make a decision about the most appropriate course of action .

(c) The Time-Value-of-Money Principle

The time-value-of-money principle invokes the concept of opportunity cost. If a person invests money in a business, he or she forfeits the opportunity of earning interest on that amount of money elsewhere. This principle plays a critical role in virtually every type of financial decision, including investment decisions, financing decisions, working capital management and valuation .

(d) The Risk-Return Principle

Risk is the probability that the actual result of a decision may deviate from the planned end result and may entail an associated financial loss or waste of funds. The risk-return principle is thus the trade-off between risk and return. The higher the risk, the higher the required rate of return. As far as possible, the return should exceed the risk in any business decision .

(e) Financial Statements as Sources of Performance Information

According to Haller (1985), the collecting, verifying and presenting of financial information about the many transactions that compose the business functions in the conversion cycle are the main subjects of accounting. Regardless of the size of an organisation, the keeping of elementary financial records, commonly referred to as the books, is necessary in order to account for the effects of business decisions that were made in the past. Their formats are aimed at measuring the costs and revenues associated with past decisions, changes in the composition and amounts of resources, and changes in the financing approach. Business decision making involves the utilisation of available skills and resources, or the acquisition thereof, for continued economic activity. The

financial information helps to guide future decisions about the use and availability of resources and the financing strategy. Gitman (1991) indicates that every organisation has many and varied uses for the standardised records and reports of its financial activities. Periodically, reports should be prepared for regulators, creditors, owners and management. Regulators, such as government and securities commissions, enforce the proper and accurate disclosure of corporate financial information. Creditors use financial data to evaluate the organisation's ability to meet scheduled debt payments. Owners use the information to assess the organisation's financial position and in deciding whether to buy, sell or hold shares. Management is concerned with regulatory compliance, satisfying creditors and owners, and monitoring the firm's performance.

Accountants summarize the financial information in reports known as financial statements. The income statement, balance sheet, cash flow statement and equity statement are the four primary financial statements. These statements summarize the business transactions for a specific period and show the financial position at a specific date at the end of that period (Gitman, 1991). The guidelines used to prepare and maintain financial records and reports are known as generally accepted accounting principles (Haller 1985). These accounting practices and procedures are authorized by the accounting profession's rule-setting body, the Financial Accounting Standards Board. These principles provide not only a unifying standard for the profession, but also allow users to assume conformity to certain accounting standards.

(i) The Income Statement

According to Marx et al (1999), the income statement provides a financial summary of the firm's operating results over a period of time by comparing revenue with expenses. If revenue exceeds expenses, the firm is operating at a profit and therefore ensures its survival. Most commonly, an income statement covers a one-year period ending at a specified date; however, monthly or quarterly income statements are also prepared by most organisations.

This is essential in order for management to know on a monthly basis whether income is increasing or decreasing, whether expenses and losses are being held at the anticipated level, and how net income compares with that of the preceding month and the corresponding month of the preceding year. Campsey and Brigham (1985) specify that net sales, from which various costs are subtracted to obtain gross profit, are reported at the top of the income statement. Gross profits are then reduced by all operating expenses to obtain operating profits. Operating profits are further reduced by interest payments on debt, which should be paid whether the company is profitable or not. Taxes further reduce this amount. Financial managers often refer to net income as the bottom line, denoting that, of all the items on the income statement, net income draws the greatest attention. The net income is either paid to the shareholders in the form of dividends or retained by the organisation to support its growth. Haller (1985) emphasises the fact that cost determinations in the income statement are based on an accrual basis. This means that they are abstracted from when they are incurred or obligated, rather than when they are paid, and are therefore not always an accurate reflection of cash flows.

## (ii) The Balance Sheet

According to Campsey (2007) the balance sheet may be thought of as a snapshot of the firm's financial position at any point in time. The left-hand side of the balance sheet shows the organisation's assets and the right-hand side shows the claims against those assets. These claims are divided between funds supplied by the owners, namely owner's equity, and the money the company owes to non-owners (liabilities). According to Marx et al (1999), when examining a balance sheet, it is important to bear in mind that the rand amounts listed indicate neither the prices at which the assets could be sold, nor the cost at which they could be replaced. Thus, one useful generalisation that can be made from this is that a balance sheet does not show the real value of the business at all times

Haller (1985) highlights that the word balance comes from the fact that resource or asset values on the financial statement always equal the amount of financing for them. The value of resources is entered into the books at the cost of acquisition. The balance sheet is always based on the relationship that asset value equals the cost provided by financial sources, namely the owner's equity and liabilities.

## (i) The Cash Flow Statement

According to Marx et al (1999), the cash flow statement deals with cash receipts and payments between two consecutive balance sheets. The objectives of the cash flow statement are to provide information regarding cash utilised or generated by operating, investing and financing activities. Examples of cash inflows from investment activities include cash received from the sale of properties and cash outflows include cash paid to

purchase property. Financing activities generally include the cash effects of transactions and other events involving long-term creditors and owners, that is, those activities resulting in changes in the size and composition of the debt and capital of the reporting entity. Drawing up a cash flow statement requires information from the consecutive balance sheets, income statements for the financial year, details of fixed assets and information on the gross movement of cash that may not be reflected on other financial statements

(ii) The Equity Statement

According to Grobbelaar, Van Schalkwyk, Stegmann and Wesson (1999), the equity statement deals with the residual value of assets over liabilities. The classification and application of the different subdivisions of equity are to a great extent governed either by law, or by the memorandum and articles of association of a company. The objective of the equity statement is to show changes in the shareholders' equity by highlighting income received (including capital injections by minorities) and expenses incurred (including payments to shareholders). This is done by reflecting the share capital of ordinary and preference shares, the share premium, and the distributable and non-distributable reserves.

Larson (1990) indicates that the income statement reports the revenues and expenses of the organisation and that the resulting net income is reported in the equity statement. The resulting shareholders' equity from the equity statement, carried over and reported in the balance sheet, effectively represents the owners' claims on the organisation. The literature reviewed on financial statements indicates that these statements display the



results of the organisation and are thus indicative of key financial management decisions regarding financing, investment, liquidity and risk. It is through the results displayed in these statements that the organisation is able to assess whether it has been successful in pursuing its financial management strategy.

The financial statements described above provide a wealth of data that is available for further interpretation. In order to make the financial results meaningful and easily understandable at a glance, several techniques can be employed. This is what is referred to as measuring financial performance by means of the financial statements.

(a) Ratio Analysis

According to Collier et al (1989), many groups outside a business enterprise (such as investors, creditors, trade unions, employees, government and regulatory bodies) are interested in its financial affairs. Management within an organisation is interested in monitoring the performance of the business and has a great advantage over outsiders because they have more detailed financial information about the organisation. Outside groups must rely on published financial statements and other corporate information bulletins to make decisions.

A business system continuously generates data. Although some data can be directly used as information, in most cases further processing is required to bring out the information content of the data (Bhattacharya, 1995). Various methods are available for the processing of information, but data processing by the ratio method has the ability to bring out the maximum information content if the variables that produce ratios are

correctly chosen with regard to the purpose at hand. Ratios enjoy remarkable simplicity and the information revealed by them is so direct to a particular decision-control situation that movement of a ratio or set of ratios gives an indication of the movement of an actual business process. Marx et al (1999) indicate that the basic inputs in ratio analysis are the organisation's income statement, balance sheet and equity statement for the periods under scrutiny. The data provided by these statements can be used to calculate various ratios that permit the evaluation of certain aspects of financial performance and condition. Collier et al (1989) highlights that any figure from the accounts taken in isolation is not particularly meaningful. A profit figure, for example, does not indicate how well the organisation has performed unless it is related to another variable such as assets. By comparing one item in the accounts with another, a relationship is established in the form of a ratio. However, a ratio in isolation is of limited value unless we have something to compare it against. One method of comparison is past performance, or time-series analysis, which is applied when a financial analyst evaluates performance over time. A comparison between current and past performance, using ratio analysis, allows the firm to determine whether it is progressing as planned. Cross-sectional analysis is another method whereby the organisation's performance is compared relative to other organisations in the same industry.

This enables an organisation to compare its financial performance against its key competitors or against an industry average. Bhattacharya (1995) highlights a third

method of comparison which is the comparison of performance against predetermined budgetary standards derived from the business plan of the organisation. Gitman (1991) highlights that ratio analysis is of interest to both current and prospective shareholders who are interested in the organisation's actual and future levels of risk and return. The organisation's creditors are interested in its short-term liquidity and its ability to make interest and other principal payments. They are, however, also interested in the profitability of the organisation and its continued success.

Marx et al (1999) indicate that financial ratios can be divided into four basic groups, each of which is discussed below.

#### (b) Profitability Ratios

According to Morley (1984), every business in the private sector must be profitable if it is to survive in the long run. Investors and lenders are only likely to provide continued support to a profitable business. However, profitability cannot be assessed by simply considering the annual profit figure, as these figures reveal little about whether the company is well run, whether it is worth investing in or whether it is likely to continue trading in the foreseeable future. To make informed decisions about these matters, it is necessary to relate the profits to other accounting figures. These ratios are described below ..

##### (i) Gross Profit Margin

The gross profit margin indicates the percentage of each sales rand remaining after the firm has paid for its goods. It is calculated by dividing gross profits (profits less expenses) by sales and the higher the profit margin, the better. The gross profit should be

sufficient to enable the firm to pay its operating expenses and to earn a profit (Marx et al, 1999). This figure is always expressed as a percentage, and highlights the difference between the cost of producing or purchasing goods and the price at which they are sold (Steyn, Warren and Jonker ,1998). This percentage usually remains fairly constant as businesses tend to have fixed guidelines regarding the mark-up of their goods in order to cover selling and administrative costs, whilst ensuring sufficient return on investment in the undertaking. Any changes in the gross profit percentage can generally be traced back to the mark-up, the sales mix, stock levels, theft and trade discounts.

(ii) Net Profit Margin

The net profit margin measures the percentage of each sales rand remaining after all expenses, including taxes, have been deducted. It is calculated by dividing the net profit after tax by sales and the higher the net profit margin, the better. The net profit margin is a commonly cited measure of a firm's success with respect to earnings on sales. There is no single quantum amount that can be used as an indicator of a successful company, as the definitions of a good net profit margin will differ considerably across industries (Marx et al, 1999).

(iii) Return on Investment

Return on investment measures how efficiently the organisation is utilising its available assets to generate income. According to Collier et al ( 1989) ,higher values of return on investment are good indicators. It is calculated by dividing net profit after taxes by total assets

(iv) Return on Equity

According to Steyn et al (1998), the object of any business activity is the production of a profit commensurate with the amount of investment by the entrepreneur and the risks involved. Morley (1984) indicates that the return on equity measures the return earned on the owner's investment. It is calculated by dividing the net profit after tax by the shareholders' equity. Generally, the owners are better off the higher the return on equity.

(v) Earnings per Share

Earnings per share measures the return earned on behalf of each ordinary share that has been issued and is thus of interest to prospective shareholders and management. It can be calculated by dividing earnings after tax less preference dividends by the number of ordinary shares issued. It represents the rand amount earned on behalf of each share outstanding and does not represent the amount of earnings actually distributed to shareholders (Collier et al, 1989).

(vi) Return on Sales

The return on sales ratio is often referred to as the net profit on sales or net profit margin. It measures how much of each sales rand the organisation is able to keep after recording all expenses in the process of doing business. It is calculated by dividing net income by sales and depends largely on operating costs and pricing policies. This ratio helps to determine which products or areas are profitable (Gallinger and Poe, 1995).

#### Operating Expenses/Operating Income

Operating expenses refer to the sum of all expenses incurred from operations. Operating income encompasses all revenue derived from operations, including interest and noninterest revenue. This ratio is calculated by dividing operating expenses by operating income and seeks to measure how well an organisation can cover its costs with operating revenue (Consultative Group to Assist the Poorest, Inter-American Development Bank and U.S. Agency for International Development, 2002). This has been used in the banking industry as a key measure to determine how well a particular organisation can control its costs and thus operate in a cost-efficient manner.

#### (vii) Net Interest Income/Operating Income

This ratio is calculated by dividing net interest income (NII) by operating income. Net interest income is income derived from interest earned less any interest related expenses. The purpose of this ratio is to determine the percentage of operating income that can be attributed to interest earnings and is thus widely used in the banking sector (University of Pennsylvania, 2001).

#### (viii) Non-interest Revenue/Operating Income

This ratio is calculated by dividing non-interest revenue (NIR) by operating income. Non-interest revenue is revenue derived from all sources other than interest earnings. The purpose of this ratio is to determine the percentage of total operating income that can be attributed to non-interest earnings (University of Pennsylvania, 2001). This ratio is used predominantly in the banking sector.

(ix) Net Income after Interest and Taxes/Operating Income

Net income after interest and taxes (NIAT) is the income that an organisation has made after all expenses, taxes and interest payments have been paid (Grobbelaar, et al, 1999). The purpose of this ratio is to examine net income after interest and taxes in proportion to total operating income. This helps to determine whether taxes and interest payments are eroding income. The higher this ratio, the better the financial position of the organisation.

(c) Liquidity Ratios

According to Steyn et al (1998), the liquidity of an enterprise revolves around its ability to meet its short-term liabilities out of short-term assets and cash flows. Essentially, liquidity is the solvency of the organisation. The liquidity ratios are not only of concern to the short-term creditors but also to the long-term creditors, as the ability to remain liquid will directly affect the ability of the organisation to repay long-term funds. Key liquidity ratios are explained below.

(i) Current Ratio

According to Steyn et al (1998), this ratio indicates the organisation's ability to pay its current liabilities out of current assets, and is of interest to short-term creditors and bank managers. A standard for this ratio which has been successfully used for many years is 2:1, meaning that there are two rands worth of current assets for each rand of current liabilities. This standard may, however, vary across industries. The current ratio is always expressed as a ratio and never as a percentage. Campsey and Brigham (1985)

indicate that it is computed by dividing current assets by current liabilities. Current assets usually include cash, marketable securities, accounts receivable and inventories. Current liabilities consist of accounts payable, short-term notes payable, current maturities of long-term debt, accrued income taxes and other accrued expenses. If an organisation is getting into financial difficulty, it begins paying its accounts payable slowly, often with the assistance of bank loans. If these current liabilities are rising faster than current assets, the current ratio will fall and this could be an indicator that the organisation may be heading for trouble. Accordingly, the current ratio is the most commonly used measure of short-term solvency.

(ii) Acid-test Ratio

The acid-test ratio is similar to the current ratio except that it excludes inventory, which is generally the least liquid current asset. This ratio indicates the ability of the enterprise to pay all its current liabilities out of quick assets, that is, assets which are either cash or quickly convertible into cash. This ratio is calculated by subtracting inventory from current assets and then dividing the amount by current liabilities. The usually acceptable norm for this ratio is 1:1, meaning that each rand of current liabilities is covered by a rand of quick assets (Steyn et al, 1998).

(d) Activity Ratios

Activity ratios are used to measure the speed with which various accounts are converted into sales or cash. Measures of overall liquidity are generally inadequate because differences in the composition of a firm's current assets and liabilities may significantly affect the firm's true liquidity. It is therefore important to look beyond measures of



overall liquidity to assess the activity of the most important current accounts, which include inventory, accounts receivable and accounts payable (Gitman, 1991).

(i) Average Collection Period

the average age of accounts receivable, also known as the average collection period, measures the average length of time a business waits to receive a cash payment for credit sales, and thereby measures the internal credit and collection effectiveness of the credit department (Bradshaw and Brooks ,1996). The average collection period is meaningful only in relation to the organisation's credit terms. It is important to bear in mind that, due to the time-value-of-money and the opportunity cost concept, the organisation is losing interest if the cash is tied up in accounts receivable. This interest could have been earned if the money was invested elsewhere or, alternatively, the organisation could be paying interest on an overdraft to finance the accounts receivable. The average collection period is calculated by dividing the average daily credit sales by the accounts receivable balance.

(ii) Average Payment Period

Gitman (1991) points out that the average payment period, or average age of accounts payable, is calculated in the same manner as the average collection period. It measures the average length of time a creditor must wait to receive payment for supplies purchased from him. It is calculated by dividing the creditors or accounts payable by the average purchases per day. If the average age of creditors is high, then it could be a sign of liquidity problems; if it is too low, it could mean that this source of finance is being overlooked.

#### (e) Debt or Solvency Ratios

Debt management ratios are measures that show how the use of debt affects the organisation's ability to repay its obligations in the long term. Financial leverage is a term used to describe the magnification of risk and return introduced through the use of fixed cost financing such as debt and preference shares (Marx et al, 1999).

Correia et al (2000) indicate that debt management plays an important role in financial management and that the extent of financial leverage of the organisation has a number of implications. Firstly, the more financial leverage the organisation has, the higher its financial risk. As debt finance incurs interest, which is a fixed cost to the organisation every month, earnings become more volatile with debt finance. However, additional risk yields additional return and if the firm earns more on the borrowed funds than it pays in interest, the return on owner's equity is magnified. Finally, by raising funds through debt, the shareholders can obtain finance without losing control of the organisation. There are thus basically two aspects to financial leverage: firstly, a change in financial risk and, secondly, some implications for the returns attributable to shareholders. The debt management ratios try to assess the impact of financial leverage on risk and attempt to determine if the firm has overextended itself through the use of financial leverage, while the profitability ratios will indicate the impact of financial leverage on shareholders' returns.

##### (i) Debt Ratio

The debt ratio is the ratio of total debt to total assets and measures the percentage of total funds provided by creditors. Total debt includes current liabilities and, in most instances,

preference shares. The higher the debt ratio, the higher the financial risk. Creditors thus prefer low debt ratios since the lower the ratio, the greater the security against creditors' losses in the event of liquidation. The owners, on the other hand, may seek high leverage, either to magnify earnings or because selling new shares means giving up some degree of control (Correia et al, 2000).

(ii) Times Interest Earned

According to Finkler (1992), the times interest earned ratio is also known as the interest coverage ratio. It compares the funds available to pay interest to the total amount of interest that has to be paid. The funds available for interest are the organisation's profits before interest and taxes. As long as profit before interest and taxes is greater than the amount of interest, the organisation will have enough money to pay the interest owed.

Correia et al (2000) highlight that this ratio measures the extent to which earnings can decline without causing financial losses to the organisation, and an inability to meet the interest cost. Failure to meet this obligation could result in legal action and ultimately insolvency. According to Finkler (1992), this ratio is determined by dividing earnings before interest and taxes by the interest charges. The higher this ratio, the more comfortable creditors will feel. This is the type of ratio that should be maintained at a certain level, dependent on the organisation's strategic objectives and the industry's norms.

In applying ratio analysis there are important factors that should be taken into account. Morley (1984) provides some caution relating to the use of financial ratios. He indicates that ratio analysis is a useful tool for those who base decisions on financial accounts;

however, the tool can sometimes be dangerous as it can mislead decision makers and result in bad decisions. Firstly, such danger can occur when the ratio user ignores a company's accounting policies. Ratio users should always bear in mind that the reliability of a ratio is no better than that of the accounting figures comprising its numerator and denominator. The figures may be misleading if changes to a company's accounting policies are not taken into account.

Similarly, the ratio user can also be misled if they compare the ratios of two companies which use dissimilar accounting policies. This danger is especially great if two companies are incorporated in different countries, since then it is highly likely that different accounting policies will exist. The way to avoid these dangers is to read through the notes of the accounts and to make comparisons only between ratios constructed from figures which are based on similar accounting policies. Secondly, the ratio user should consider why the organization concerned has chosen the date used for the accounting year-end, and whether trade is seasonal or steady throughout the year. In trades with seasonal fluctuations the yearend figures for stocks, debtors and creditors may give a false impression of their average values over the year. It follows that ratios based on these untypical figures will be misleading. Thirdly, the purpose of calculating a ratio is often to compare it with the same ratio for other organizations. Caution should be exercised in selecting comparable organizations and, as the crude industrial classification is not always sufficient, it is often necessary to determine the core focus of the institutions by reading through the statement of principal activities in the financial

report. Fourthly, the ratio user should consider whether any technical errors have been made in the calculation of the ratios. The definitions of the numerator and denominator should be compatible in that their coverage should be the same. Fifthly, whilst ratio analysis offers help and guidance, it is not a magic panacea and organizational decisions should never be solely based on ratios.

#### *Comparative Financial Statements and Trend Analysis*

Financial statements are compared by setting up balance sheets, income statements, equity statements or cash flow statements side-by-side and reviewing the changes that have occurred from year to year. The most important factor that is revealed from a comparative analysis is the trend because it will indicate the direction, rate and amount of change that has occurred. A meaningful trend can only be established if financial information is available for five to 10 years. This information is very important to analysts as it helps them to project future results (Correia et al, 2000).

#### *Common-size Statement Analysis*

According to Gallinger and Poe (1995), common-size statement analysis is a technique that enables the make-up and patterns of a organization's balance sheet, income statement and equity statement to be determined. The analysis can either be horizontal across years or vertical within a year. Common size analysis reduces absolute numbers to percentages of components at one point in time or to percentages of change in components over time, thereby revealing possible trends. Correia et al (2000) highlight that, in a common-size balance sheet, the capital employed is expressed as 100 percent and each item is expressed as a percentage of the total. In the common-size income

statement, the turnover is expressed as 100 percent and every other item is expressed as a percentage of the turnover. Gallinger and Poe (1995) point out that with horizontal analysis, several balance sheets, income statements and equity statements are arranged in vertical columns so that the annual changes in related items can be compared from year to year.

This comparison of the accounts generally reveals a pattern that may suggest management's underlying philosophies, policies and motivations. The annual financial statements are no longer simple snapshots but, instead, become important messages of management decisions and actions. Vertical analysis is the process of finding the proportion that an item, such as inventory, represents of a total group, such as assets. This method is used when the financial results of one year are analysed.

### *Funds Flow Analysis*

According to Gallinger and Poe (1995), accrual accounting concepts recognise that it is the economic substance of a transaction that determines the timing of accounting recognition rather than the activity of receipt or payment of cash. However, investors use cash flows to value the firm as they wish to assess the actual cash inflows and outflows of the business. Many organisations report positive net income amounts, yet have negative cash income. Funds flow analysis is thus important for understanding the true cash flows of the business. It restates the organisation's flow of funds from an accrual accounting basis to a cash accounting basis, and thus excludes all non-cash reserves and

expenses recorded by accrual accounting. Generally, the funds flow analysis is split to indicate the net cash flow from operations or productive activities, the net cash flow from investments, and the net cash flow from financing the business. Financial performance can thus be analysed through ratio analysis, comparative financial statements and trend analysis, common-size statement analysis and funds flow analysis.

### **2.3 Empirical Literature Review**

There is voluminous empirical literature that has quantified and assessed the relationship between organizational and institutional development and financial management performance.

Harold D. F. and Darlene, B.S. (2004) conducted a quantitative study on organizational and institutional development and financial management performance. Harold D. F. and Darlene, B.S. (2004) measured organizational and institutional development by individual perceptions of organisational practices. The data was drawn from the Survey of Organisations archives at the University of Michigan's Institute for Social Research. The Survey of Organisations used a 125-item questionnaire on organizational and institutional climate, work design, leadership, group functioning and satisfaction. It focused on the respondents' perceptions about the way their organisation was managed. The study was based on the answers of 43 747 respondents in 34 organizations across 25 industries. Organisational and institutional performance was measured by return on investment, return on equity and return on sales. To eliminate the effects of the economic climate, a standardised measure of financial performance was calculated. Financial performance was measured for five years, following the organizational and

institutional survey. The results show that a well-organised work environment is positively related to return on investment and to returns to sales. Participative decision-making practices are related to a high standardised return on investment and to return on sales, and the positive relationships increased during the subsequent five-year period. Harold D. F. and Darlene, B.S. (2004) also tested for relationships between the consistency of responses across groups within the organisation and institutional culture and financial performance. High consistency was associated with high current financial performance and short-term financial performance, but high consistency was also associated with low long-term financial performance. This was possibly due to the ability to adapt to long-term changes in the environment. Calori and Sarnin (1991) mention that this study has definitely made an important contribution for testing relationships between management practices and financial performance. However, the survey questionnaire did not cover all the possible dimensions of organizational and institutional development, such as the organization's relation to its external environment. In addition, many items measured the respondents' evaluation of the quality of working life, which is only one aspect of organizational and institutional development.

In another study, Peters and Waterman (1982) identified 36 companies which had displayed excellent performance between 1961 and 1980. Six performance measures were used, namely compounded asset growth, average turnover growth, average ratio of market to book value, average return on total capital, average return on equity and average return on sales. Among the eight lessons drawn from this empirical study, at



least five have a direct link with organizational, institutional and human resource development or the way people work in the company. The cement of those excellent organisations was a bias for action, closeness to the customer, autonomy and entrepreneurship, productivity through people's motivation and, finally, a strong organizational, institutional and human resource development. However, Calori and Sarnin (1991) highlight that Peters and Waterman (1982) could not prove empirically that these attributes did not exist in less successful organizations and there was no statistical test of the relation between financial management performance and organizational, institutional and human resource development.

Hansen and Wernerfelt (1989) used part of the same database and added further cases in their study of the relative importance of economic and organisational factors in explaining a firm's performance. Sixty firms were studied and four economic variables were measured, namely industry profitability, the firm's relative market share, the firm's market share and the firm's size. Two measures of organisational climate were selected, namely the employee's perception of how concerned the organisation is with his or her welfare, work conditions and efforts, and the firm's emphasis on goal accomplishment. The firm's performance was measured by return on assets averaged over five years. The results show that both factors are significantly correlated with return on assets, especially the response to employee needs.

Kotter and Heskett (1992) conducted four studies to determine whether a relationship exists between corporate culture and long-term financial performance for the period between 1987 and 1991. The results of their studies indicated that:

- **Corporate culture can have a significant impact on long-term economic performance.**

They found that firms with cultures that placed an emphasis on customers, shareholders, employees and leadership from managers at all levels outperformed firms that did not have those cultural traits by a huge margin. Over an 11-year period, the former increased revenues by an average of 682 percent, expanded their workforces by 282 percent, grew their share prices by 901 percent and improved their net incomes by 756 percent. Firms that did not have those cultural traits, on the other hand, increased revenues by an average of 166 percent, expanded their workforces by 36 percent, grew their share prices by 74 percent and improved their net incomes by one percent.

- **Corporate culture will probably be an even more important factor in determining the success or failure of firms during the next decade.**

Performance-degrading cultures have a negative financial impact for a number of reasons, the most significant being their tendency to inhibit firms from adopting needed strategic or tactical changes. In a world that is changing at an increasing rate, one would predict that unadaptive cultures will have an even larger negative financial impact during the coming decade.

- **Corporate cultures that inhibit strong long-term financial performance are not rare.**

They develop easily, even in firms that are full of reasonable and intelligent people.

Once these cultures exist, they can be enormously difficult to change because they are often invisible to the people involved and help support the power structure of the firm.

- **Although tough to change, corporate cultures can be made more performance enhancing.** Such change is complex, takes time and requires leadership, which is something that is quite different from excellent management. Leadership should be guided by a realistic vision of what kinds of cultures enhance performance.

In South African Van der Post et al (1998) conducted a study involving 128 organisations listed on the Johannesburg Stock Exchange in an attempt to understand the relationship between organizational development and financial management performance. The financial management performance measures used in the study were return on average equity, return on average assets, total asset growth and share return. Their findings indicated that not all elements correlate significantly with financial management performance; however, the elements of culture that were found to have a positive impact on financial performance are as follows:

- (i) strategic visions that include organisational values which are widely accepted by organisational members;
- (2) alignment of culture and core values to the business strategy and the regular assessment of its appropriateness, and
- (iii) recruitment,

orientation and initial training programmes that are designed to communicate the core values of the organisation to the employees.

There are numerous lessons that can be drawn from both theoretical and empirical literature. In terms of theory, the proposition we can deduce is that there is a positive relationship between the variables. The fact that organizational and institutional interventions to change organizational and institutional design and behavior lead to improved financial performance supports the view that organizational and institutional design and behavior cause sound financial management performance. In terms of empirical literature, much of the literature on organization and performance can be interpreted as suggesting that human resource, organization and institutional variables can have a significant positive economic value for a firm (Barney, 1986).

### **Summary**

The results of the studies reflected above tend to indicate that many positive correlations have been found between certain elements of organizational and institutional development and the financial measures. The key financial measures for which several positive correlations were established are return on assets, return on investment, return on sales and market share.

## **CHAPTER 3: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter provides a discussion of the methodological approach used in this study.

The chapter is divided into three sections. Section 3.2 provides details on data, data measurements and data sources. Section 3.3 briefly discusses the research instrument.

The discussion on how the data was analyzed is presented in section 3.4. The conclusion of the chapter will be discussed in section 3.5.

### **Research Design**

Adopting an exploratory case study design, the study triangulated both secondary and primary sources of data which was collected from the municipality of Karibib. This was important because it linked the data collected and conclusions drawn to the initial questions of the study – it provided a conceptual framework and an action plan for getting from questions to set of conclusions.

### **3.2 Data, Data Measurements and Data Sources.**

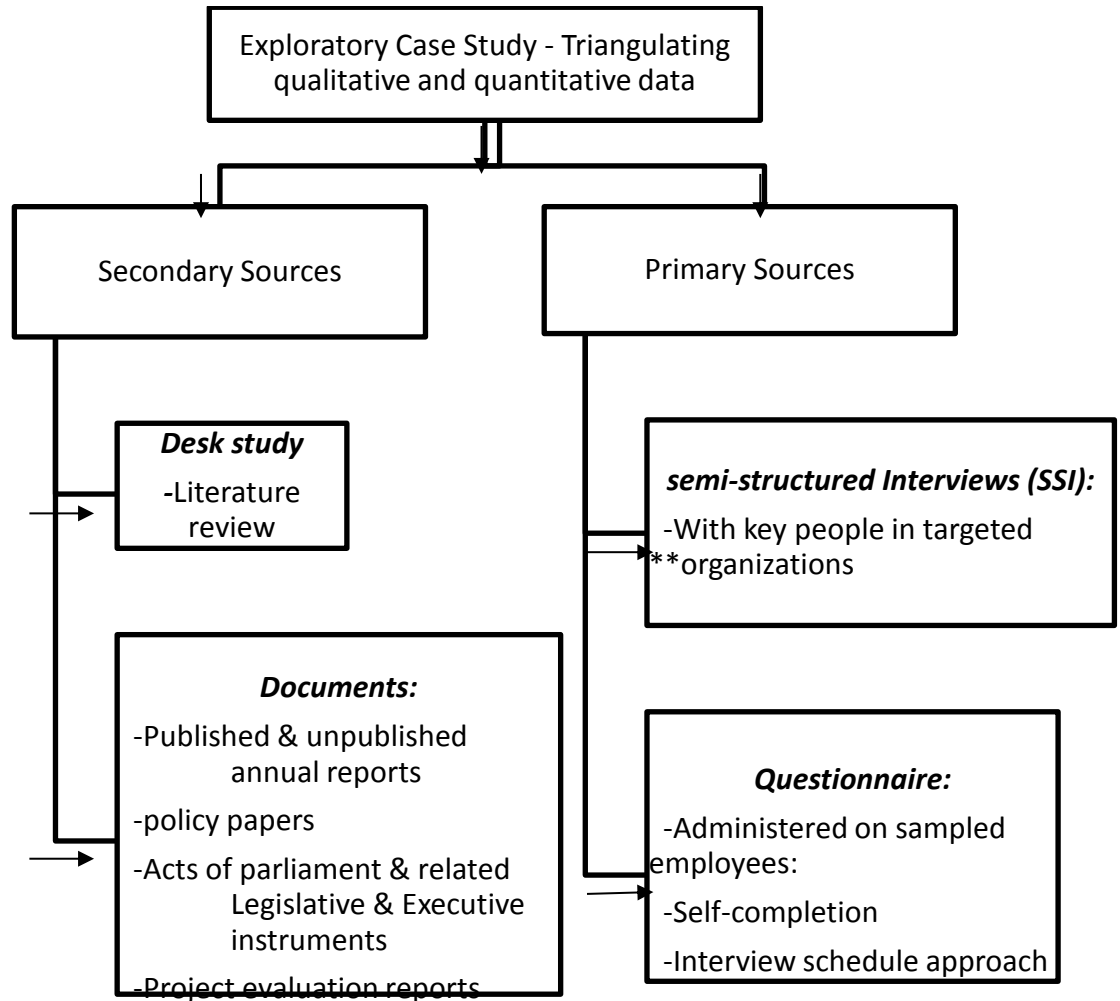
This study made use of both primary and secondary data. Annual data was collected for the period 2004 – 2008. Secondary data was collected from the annual financial statements of the Municipality of Karibib. Primary data was collected from a selected sample.

### **3.3 Research Instruments**

Primary data was collected by means of self-completing questionnaire and interview schedule tools was used to elicit data from 105 local government employees selected from the various departments at the municipal level. A semi-structured interview guide was also employed to seek the views from 10 senior officers and managers in the Municipality of Karibib.

Relevant secondary documents complemented the two primary data types. Figure 1 brings together the summary details of the sources of data.

**Figure 1: Data Sources and Methods**



### 3.4 Data Analysis

Triangulating sources and data, both qualitative and quantitative methods were used to for the analysis. Qualitative analysis took the form of transcribing recorded tapes and content analysis of interviews and documents, whilst quantitative analysis took the form of descriptive statistics such as frequencies, percentages, mean, mode, median standard deviation supported with relevant charts and graphs. In addition ratio analysis was utilized further for more robust results. This method was also used in the study by Grant

(2006) on organizational and financial performance where Grant (2006) stated that the implications of human resource, organization and institutional practices for financial performance were profound.

#### **3.4.1 Data Triangulation**

Data triangulation involves using different sources of information in order to increase the validity of a study. These include the municipal staff and community members, and so on. In-depth interviews were conducted with each of these groups to gain insight into their perspectives on impact of Human Resource, Organizational and Institutional Development on the Financial Performance of the Municipality of Karibib. During the analysis stage, feedback from the groups was compared to determine areas of agreement as well as areas of divergence.

This type of triangulation, where the researchers use different sources, is perhaps the most popular because it is more reliable to implement. Triangulation is the application and combination of more than one research perspective in the study of the same phenomenon,(Patton (2002). To gain helpful insights in business, it is common for an organization to survey its clients or customers. By nature, this one-way research is not triangulated because the customers are responding directly to the organization that is fulfilling a stated need. The firm executing the survey with its clients is a single observer. However, when an independent third party asks questions of both an organization and its customers as the case with Municipality of Karibib, it creates a triangulation of perspectives that helps clarify issues better than one-way, single-observer research.



A brief explanation of how ratio analysis work is presented below.

### **3.4.2 Ratios Selected for this Study**

According to Malan (personal communication, 31 July 2002) the use of ratios should be consistent with the nature of the organisation concerned and the classification of financial performance in the context of the organisation. The organisation selected for this study was Karibib Municipality and thus ratios used in the manufacturing industry did not apply, as the organisation generated a substantial portion of its income through interest as opposed to sales of goods. In addition to this, income and expenses reflected in the income statement were monitored more closely than assets and liabilities reflected in the balance sheet, as the organisation concerned did not have to make large investments in capital equipment in order to generate sales. Balance sheet ratios were generally viewed at an organisational level and not at a departmental level as some of the input was based on figures at the organisation level. The following ratios were thus selected for this study:

#### *Profitability Ratios*

- net interest income/operating income
- non-interest revenue/operating income
- operating expenses/operating income

#### *Liquidity Ratios*

- Current ratio
- Acid test ratio
- Net working capital

### *Activity Ratios*

- Inventory turnover
- Average collection period
- Average payment period

### **3.4.3 Motivation for using Ratio Analysis as a basis to Determine Financial Performance**

After considering the various aspects of financial performance above, a choice had to be made as to which analysis technique should be used for the purposes of this study. Current measures of financial performance were selected. The method of trend analysis was thus automatically excluded as an option. The cash flow was not considered as a critical measure of performance for the Municipality of Karibib and thus funds flow analysis was rejected as an analysis technique. Furthermore, financial performance should not be viewed within the context of turnover alone and thus the common-size income statement analysis was rejected.

For the purposes of this research an objective method is preferred and the information required should be readily available. The data required to calculate ratios is often publicly available in the audited financial reports from the Auditor General's office and would thus not pose a risk to the organisation concerned if the ratios were to become publicly available.

Other components of financial performance are not always readily available on the surface and require an in-depth knowledge of the organization's policies and practices in order to analyze them effectively. Audited financial results are generally more reliable,

as the financial data being used has been checked for accuracy by an outside auditing firm. It is against this background that ratio analysis was thus selected as the indicator of financial performance due to the fact that ratios are a summary measure of effectiveness and refer to the holistic performance of the organisation. In addition to this, they are indicators of the organisation's performance that are widely recognised by those who manage and invest in organisations, and are able to provide sufficient information at a glance for investors and the management of an organisation to make decisions. The ratios used in this research should be provided by the Finance Department of the organisation concerned and should have been subject to an audit in order to ensure the reliability of the data.

## **CHAPTER 4: IMPIRICAL FINDINGS**

### **4.1 Introduction**

This chapter provides detailed information on the empirical findings. It is divided into three sections. Section 4.2 presents the empirical results and discussions. The discussion is sub-divided into that of findings on primary data and secondary data. The findings based on secondary data will be discussed in two parts. First, findings based on the audited financial statements of the Municipality of Karibib and Second, Ratio analysis. The interpretations of the results are presented in section 4.3. Section 4.4 concludes the chapter.

### **4.2. Results and Discussions**

#### **4.2.1 Findings Based on Primary Data**

The questionnaire was comprised of different questions aimed at obtaining specific information that speaks to the objectives of the study. On the question of how well suited were the human resource, organizational and institutional development policies to the financial performance of Municipality of Karibib? The study found that as part of the on-going Municipality of Karibib's reforms, human resource, organizational and institutional development unit has been created, headed by trained resourceful professionals. The ministry has also established an Institute for Local Government Studies (ILGS), whose mandate is to train both the political and bureaucratic workforces of the local governments.

The research explored current human resource, organizational and institutional development policies and programs with the view to understanding how they impact on financial performance. Table 2 gives a summary of the respondents' views on an ordinal scale from the perspective of work location. The data generally shows that on average, employees considered three factors as the most important, namely: (a) current human resource, organizational and institutional development policies are relevant to my work (2.77); (b) human resource, organizational and institutional policies have full management support (2.59); and (c) human resource, organizational and institutional policies are formulated with line managers (2.48).

On the other hand, the researcher found two factors as important obstacles for human resource, organizational and institutional development. They were: (i) members of staff are aware of the human resource, organizational and institutional policies of this organization (2.12); and (ii) management spend time and money to ensure the development of all staff (2.16). These views were generally reflected as follows.

**Table 2: Employees' Views on Human Resource, Organizational and Institutional Policies and Programs**

Human Resource Policy Issues	MEAN SCORES (N=105)			
	Finance	Technical	HR	
a. Current human resource, organizational and institutional policies are relevant to my work.	2.77	3.06	3.29	
b. Human resource ,organizational and institutional policies has full management support.	2.59	2.76	3.22	
c.Human resource, organizational and institutional policies are formulated with other line managers	2.48	2.73	2.87	
d. All members of staff are aware of the human resource, organizational and institutional policies of this organization.	2.12	1.69	1.90	
e. Management regard peoples' development as one of the important policy issues	2.81	1.92	2.79	
f. Management makes sure all	2.53	1.79	2.58	

staff enjoy their work				
g. Management see people as the most important resource	2.84	2.03	2.68	
h. Management spend time and money to ensure the development of all staff	2.16	1.73	2.40	
I. This organisation has a policy to reward the contributions made by members of staff	2.56	1.91	2.89	
<i>Survey Scale: Strongly Disagree (1); Disagree (2); Agree (3); Strongly Agree (4); Don't Know (0)</i>				

*Source: Author*

On the performance of the human resource, organizational and institutional function or departments, the respondents evaluated ten key roles. A careful observation of the overall mean scores on the ten roles in Table 3 suggests that the performance of the human resource, organizational and institutional policies were rated as generally fair. These observations have a lot of implications for the need to nurture the human resource, organizational and institutional function at all levels of the Municipality of Karibib. The results can be interpreted as an indication of how slow municipal sector reforms takes to mature and to trickle down to the lower levels of operation in a technically, materially and financially under-resourced developing country such as Namibia.

**Table 3: Employees' Rating of the Human Resource, Organizational and Institutional Performance**

HRD Roles	AVERAGE (Median Score =3.0) (N = 105)			
	Financial	Technical	HR	Total
a. Keeping of Employees financial Records	2.85	2.83	2.59	2.79
b. Advocating for Employee's Rights	2.56	1.67	2.14	2.11
c. Helping Staff to Manage Change	2.49	1.60	2.09	2.05
d. Working in Partnership with Management	2.61	2.02	2.77	2.41
e. Working in Partnership with Line Managers	2.80	2.40	2.77	2.64
f. Promoting Team Work Among Staff	2.98	2.45	2.41	2.65
g. Providing Advice and Counsel to Staff	2.85	1.95	1.95	2.30
h. Provision of funding for Staff Training	2.10	1.69	2.55	2.03
I. Providing equal Opportunity to the Training of All Staff	2.12	1.48	2.00	1.84
j. Prompt payment of staff Retirement	2.80	2.17	2.59	2.50



Benefits				
<i>Survey Scale: Poor (1), Fair (2), Good (3), Very Good (4), Excellent (5)</i>				

*Source: Author*

Focusing on problems facing financial performance of the Municipality of Karibib, the respondents did affirm that all is not well. To understand the nature of the problems in the context of human resource, organizational and institutional, the respondents stated three major problems that affect the financial performance in their organization (see Table 4). The results have been presented in the form of simple ranking depending on which concern or challenge was identified by most of the respondents. The top three challenges identified are: low job-satisfaction due to poor salaries, inadequate funds for training and development for political office bearers on financial matters, and unequal training and development opportunities for all financial managers.

**Table 4: Ranking of Major Problems affecting financial Performance**

Important Issue of Most Concern	Municipal
Unclear career development path	4(5th)*
Lack of people with required skills and competence	2(7th)
Inadequate funds for T and D of	24(1st)

political office bearers on financial matters	
Unequal T and D opportunity for all financial managers	8(4th)
Poor interpersonal relationship among staff.	3(6th)
Individual Interest in jobs with financial gains	0(8th)
Inadequate recognition delays in promotions	2(7th)
Low job satisfaction due to poor salaries	18(2nd)
No HR department with trained professionals	2(7th)
Other	12(3rd)

*Note: T and D – Training and Development*

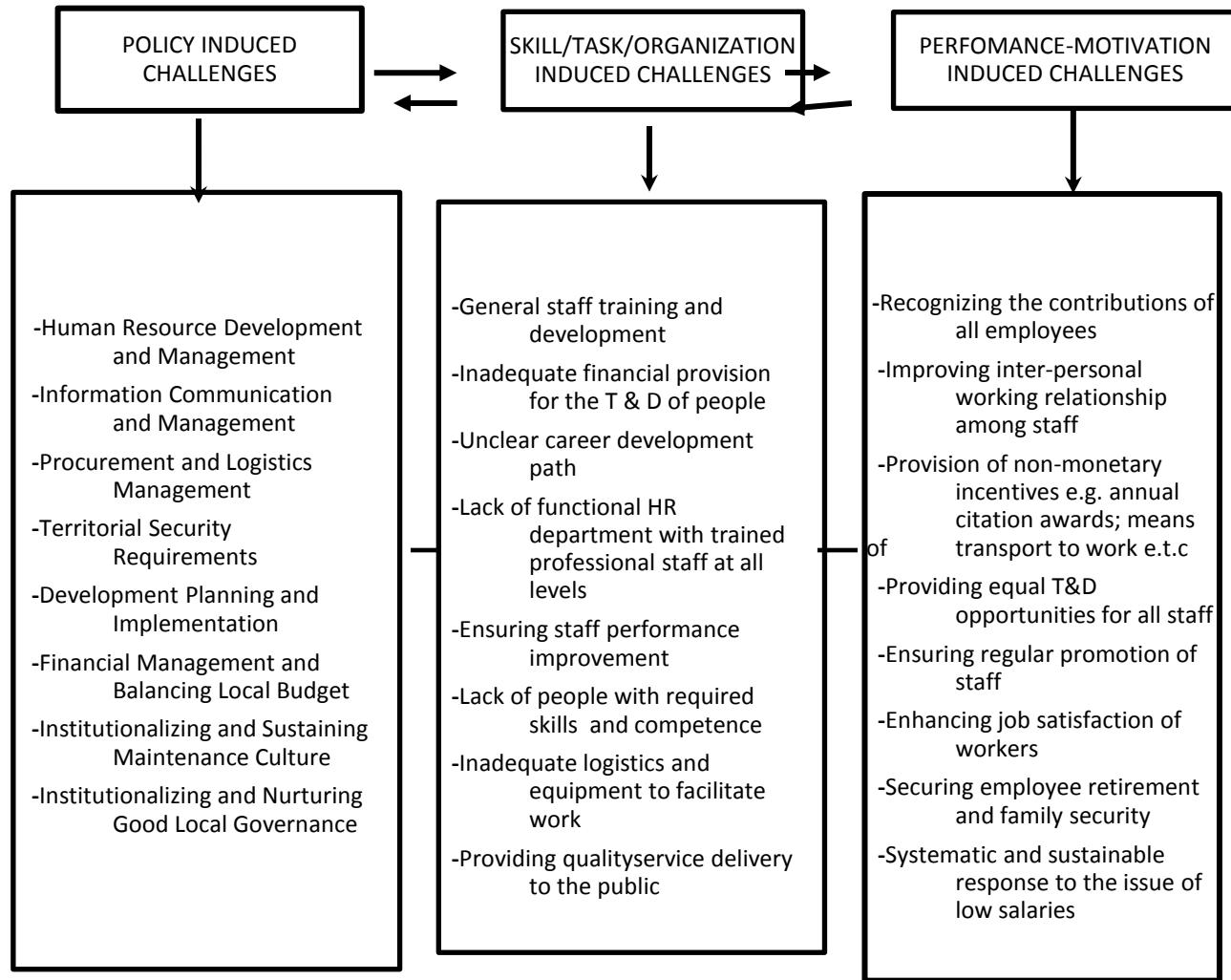
*Source: Author*

This finding can be interpreted as emphasizing the challenge of poor salaries for public sector employees in an economy where the daily minimum wage is about US\$4.1. One may argue that this perception probably holds some water because anecdotal evidence suggests that clients who do business with public service organizations in Namibia

sometimes provide some kind of financial incentives as an inducement to fast-track their work.

The study found that the financial performance challenges facing Namibia's Municipality of Karibib are multi-faceted or integrated in character. Accordingly, the results showed that they could be conveniently categorized three-dimensionally as illustrated in Figure 2. They comprised policy-induced challenges; skill, task and organization induced challenges; and performance motivation induced challenges.

**Figure 2: Integrated Human Resource, Organisational and Institutional Challenges facing The Decentralized Local Governments in Namibia**



*Source: Author*

The policy-induced challenges are essentially due to the design and implementation of the present municipal system and the associated problems that come with it. Whilst the other two broad challenges are a synthesis of the concerns and needs of the respondents (employees) and key person's interviewed during the study.

#### **4.2.2 Findings Based on Secondary Data**

The findings based on secondary data will be discussed in two parts. First, findings based on the audited financial statements of the Municipality of Karibib and Second, Ratio analysis

It is important at this juncture to narrate the findings on the principles and procedures governing the financial statements of the Municipality of Karibib. This is to establish whether it is in conformity with international practice. The accounts of the Municipality of Karibib for the financial years ended 30 June 2004 ,2005 and 2006 were reported on in accordance with the provisions set out in the State Finance Act,1991 (Act 31 of 1991) and the Local Authorities Act,1992 (Act 23 of 1992). The firm Messrs. KPMG of Walvis Bay was appointed in terms of section 26(2) of the State Finance Act, 1991, to audit the accounts of the Municipality on behalf of the Auditor General and under his supervision. The **2007-2008** financial statements were not yet audited hence could not be used in this report. The figures in this report are rounded off to the nearest Namibian Dollar.

The Municipality's Financial Statements were submitted to the Auditor General by the Accounting Officer in compliance with section (87(1) of the Local Authorities Act,1992.The audited financial statements are in agreement with general ledger and are filed in the office of the Auditor General. The scope of the audit is designed such that the accounting officer of the Municipality is responsible for the preparation of the financial statements and for ensuring the regularity of the financial transactions. It is the

responsibility of the Auditor General to form an independent opinion, based on the audit, on those statements and on the regularity of the financial transactions included in them and to report his opinion to the National Assembly. The audit as carried out by the said firm, included:

- a) Examination on a test basis of the evidence relevant to the amounts, disclosure an regularity of the financial transactions included in the financial statements;
- b) Assessment of the significant estimates and judgments made by the Accounting Officer of the Municipality in the preparation of the financial statements and whether the accounting policies are appropriate to the council's circumstances, consistently applied and adequately disclosed; and
- c) Evaluation of the overall adequacy of the presentation of information in the financial statements:

The audit was planned and performed so as to obtain all the information and explanations considered necessary to provide sufficient evidence to give reasonable assurance that:

- The financial statements are free from material misstatement, whether caused by error, fraud or other irregularities;
- In all material respects, the expenditure and income have been applied to the purposes intended; and
- The financial transaction conforms to the authorities which govern them.

The audit's observations and comments were on two issues. First, long outstanding consumer debtors and bad debts provision. In this regard there is a concern on the ever increasing balance for consumer debtors. Debtors outstanding for longer than 120 days amount to N\$ 1 843 197 and 2005:N\$ 1 751 474 (2004: N\$ 804 602) while the provision for bad debts amounts to N\$ 550 000 and 2005: N\$ 500 000 (2004: N\$ 500 000).The auditors were thus of the opinion that the provision for bad debts by the Municipality is inadequate. Second, the comments and observations were on accounting records and information. The overall control and quality of accounting records for the years under review were not up to standard. Much reconciliation was not done or up to date and various reports that were requested could not be presented to the auditors.

In addition to the audit comments further analysis on financial results were conducted in order to establish the financial position of the municipality.

**Table 5: The results of operations and transactions on the Revenue Account for the year were as follows:**

	Revenue	Expenditure	(Defecit)/Surplus	Balance
Accumulate loss:01/07/2003	N\$	N\$	N\$	N\$
<b>General Accounts</b>				(4 376 167)
Non- remunerative services	1 037 558	1 462 448	(424 890)	
Self-supporting services	6 88 718	779 728	(91 010)	
<b>Trade Accounts</b>				
Water	1 481 936	1 455 001	26 935	

Electricity	<u>1 797 615</u>	<u>2 190 401</u>	<u>(392 786)</u>	
Subtotal	<u>5 005 827</u>	<u>5 887 578</u>	<u>(881 751)</u>	
Loss for the year				<u>(881 751)</u>
Adjustment and utilizations to the financial statements				<u>(143 374)</u>
Accumulated surplus 30/6/04				<b><u>(5 401 292)</u></b>

*Source: Author*

Table 5 above shows that the municipality had a net accumulated shortfall of N\$ 5 401 292 (2003: N\$4 376 167) which strongly indicates that the Municipality is not able to continue as a going concern under the present situation. The Municipality would have to take drastic actions to become financially viable. It would need to arrange funding, make its operations profitable and to ensure that its debts collection is effective.

The unfavourable cash book balance at 30 June 2004 amounted to N\$ 328 442 (2003: N\$ 334 862) which has not been reconciled with the favourable balance on the bank statement. The savings account linked to the bank account reflected a favourable balance of N\$ 21 737. There is an unexplained difference of N\$ 89 300 on the bank reconciliation. The total outstanding cheques at 30 June 2004 amounted to N\$ 244 859.44 (2003: N\$ 73 688). Deposits not entered in the cash book amounted to N\$ 4676 (2003: N\$ 7920). There were no cheques drawn after 30 June 2004 which were backdated to 30 June 2004.



**Table 6: The results of the operations of, and transactions on the Revenue Account for the year were as follows:**

	Revenue	Expenditure	(Defecit)/Surplus	Balance
	N\$	N\$	N\$	N\$
Accumulate loss:01/07/2004				(5 401 292)
<b>General Accounts</b>				
Non- remunerative services	2 083 801	2 263 605	(179 804)	
Self supporting services	727 855	608 451	(119 404)	
<b>Trade Accounts</b>				
Water	2 017 590	1 903 421	114 169	
Electricity	<u>2 730 527</u>	<u>2 356 572</u>	<u>(373 955)</u>	
Subtotal	<u>7 559 773</u>	<u>7 132 049</u>	<u>(427 724)</u>	
Loss for the year				<u>(427 724)</u>
Adjustment and utilizations				<u>(767 943)</u>
to the financial statements				<b><u>(5 741 511)</u></b>
Accumulated surplus 30/6/05				

*Source: Author*

**Table 7: The results of the operations of, and transactions on the Revenue Account for the year were as follows:**

	Revenue	Expenditure	(Defecit)/Surplus	Balance
	N\$	N\$	N\$	N\$
Accumulate loss:01/07/2005				(5 741 511)

<b>General Accounts</b>				
Non- remunerative services	2 148 505	2 403 035	(254 530)	
Self supporting services	883 569	684 793	(198 776)	
<b>Trade Accounts</b>				
Water	2 924 504	2 968 543	(44 039)	
Electricity	<u>34 607</u>	<u>386 946</u>	<u>(352 339)</u>	
Subtotal	<u>5 991 185</u>	<u>6 443 317</u>	<u>(452 132)</u>	
Loss for the year				<u>(452 132)</u>
Adjustment and utilizations to the financial statements				<u>(114 809)</u>
Accumulated surplus 30/6/06				<b><u>(6 078 834)</u></b>

*Source: Author*

The municipality had a net accumulated shortfall of N\$ 6 078 834 and 2005: N\$ 5 741 511 (2004: N\$ 5 401 293), see tables 7 and 8. This strongly indicates that the Municipality is not able to continue as a going concern under the present situation. The Municipality would have to take drastic actions to become financially viable. It would need to arrange funding, make its operations profitable and to ensure that its debts collection is effective.

The unfavourable cash book balance at 30 June 2006 amounted to N\$ 32 306 and 2005:N\$ 79 095 (2004: N\$ 328 442) which has been reconciled with the favourable

bank balance of 2005: N\$ 1 787 (2004:Favourable N\$ 1 047) on the bank statement.

There is an unexplained difference of N\$ 48 028 on the bank reconciliation for 2004/2005 financial year regarding the outstanding cheques .

**Table 8: The results of operations were as follows:**

	<u>Electricity</u>	<u>Electricity</u>	<u>Water</u>	<u>Water</u>
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
	N\$	N\$	N\$	N\$
Sales	2 730 527	1 797 616	2 017 590	1 481 936
Bulk purchases	<u>1 749 402</u>	<u>1 481 036</u>	<u>1 518 182</u>	<u>1 024 533</u>
Gross Profit	981 125	316 580	499 408	457 403
Other expenses(net)	<u>607 170</u>	<u>709 366</u>	<u>385 239</u>	<u>430 468</u>
<b><u>NET SURPLUS/LOSS</u></b>	<b><u>373 955</u></b>	<b><u>(392 786)</u></b>	<b><u>114 169</u></b>	<b><u>26 935</u></b>
Gross Profit on bulk				
Purchases	56.08%	21.38%	32.90%	44.65%
NET profit % on bulk				
purchases	21.38%	(26.52%)	(7.52%)	2.63%

	<u>Electricity</u>	<u>Electricity</u>	<u>Water</u>	<u>Water</u>
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	N\$	N\$	N\$	N\$
Sales	34 607	2 730 527	2 924 504	2 017 590

Bulk purchases	=	<u>1 749 402</u>	<u>2 570 636</u>	<u>1 518 182</u>
Gross Profit	34 607	981 125	353 868	499 408
Other expenses(net)	<u>386 946</u>	<u>607 170</u>	<u>397 907</u>	<u>385 239</u>
<b><u>NET SURPLUS/LOSS</u></b>	<b><u>(352 339)</u></b>	<b><u>373 955</u></b>	<b><u>(44 039)</u></b>	<b><u>114 169</u></b>
Gross Profit on bulk				
Purchases		56.08%	13.77%	32.90%
NET profit % on bulk				
purchases		21.38%	(1.71%)	7.52%

### Ratio Analysis

The information presented in the previous subsection can be analyzed further using some quantitative methods or simply put ratio analysis. The ratios necessary for this study include profitability, liquidity and activity ratios. The results are presented and discussed below.

#### *Profitability Ratios*

From the above statements, we can compute the following profitability ratios:

(i) **Return on Sales = Net Income** hence

**Sales**

<b>2004</b>	<b>2005</b>	<b>2006</b>
<u>(-392 786+ 26 935)</u>	<u>(373 955+114 169)</u>	<u>(-352 339+ -44 039)</u>
(1 797 616 + 1 481 936)	(2 730 527+2 017 590)	(34 07+2 924 504)

=	<u>-365 851</u>	<u>488 124</u>	<u>-396 378</u>
	3 279 552	4 748 117	2 959 111
=	-11.16%	10.28%	-13.40%

Source: Author

Using the following financial statement, we are able to compute the following ratios:

**Table 9: Income and Expenditure Statement for the Years Ended 30 June**

	<b>2006</b>	<b>2005</b>	<b>2004</b>
	<b>N\$</b>	<b>N\$</b>	<b>N\$</b>
<b>Income</b>	4 636 716	6 268 751	5 023 528
<b>Expenditure</b>	<u>5 007 835</u>	<u>5 738 119</u>	<u>5 884 100</u>
<b>Net operating (loss)/income</b>	(371 119)	485 632	(860 572)
<b>Interest earned on fund accounts</b>	<u>39 756</u>	<u>63 767</u>	<u>16 716</u>
<b>Net (loss)/income for the year</b>	(331 363)	549 399	(843 856)
Transfer to/from internal funds	(120 769)	(121 675)	(37 895)
Appropriation account adjustment	<u>114 810</u>	<u>(767 943)</u>	<u>(143 374)</u>
Retained income for the year	(337 322)	(340 219)	(1 025 125)
<b>Accumulated income</b>			
-at beginning of the year	<u>(5 741 511)</u>	<u>(5 401 292)</u>	<u>(4 376 167)</u>
- at the end of the year	<u><b>(6 078 833)</b></u>	<u><b>(5 741 511)</b></u>	<u><b>(5 401 292)</b></u>

(ii) Operating expenses/operating income = operating expenses hence

**Operating income**

The split is not provided. The expenses given are net i.e. they include an element of income hence giving a false position as far as the formula is concerned. However one can assume that it is immaterial and therefore we cannot determine the operating expense/income.

(iii) Net Interest Income/operating income = Interest Income- interest relate

expense

**Operating income**

<b>2004</b>	<b>2005</b>	<b>2006</b>
<u>16 716</u>	<u>63 767</u>	<u>39 756</u>
(860 572)	485 632	(371 119)
= <b>-1.94%</b>	<b>13.13%</b>	<b>-10.71%</b>

We can analyze that the investment has increased from 2004 to 2005 resulting in increase in interest income and high return.

### *Liquidity Ratios*

Using the following balance sheet, we can compute the liquidity ratios as follows:

**Table 10: Balance sheet**

	<b>2006</b>	<b>2005</b>	<b>2004</b>

	N\$	N\$	N\$
<b>ASSETS</b>			
<b>Noncurrent assets</b>	6 468 724	6 328 967	4 637 440
Property plant and equipment	4 802 708	4 404 677	4 404 677
Investments	388 199	606 688	3 668
Loans(assets)	1 277 817	1 317 602	229 095
<b>Current Assets</b>	3 111 325	2 454 504	1 733 636
Accounts receivable	2 801 015	2 161 748	1 733 324
Cash	310 310	292 756	312
<b>Total Assets</b>	<b>9 580 049</b>	<b>8 783 471</b>	<b>6 371 076</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Funds and reserves</b>	746 284	748 682	(1 107 269)
<b>Noncurrent liabilities</b>	2 223 000	2 324 567	2 420 450
Long term liabilities	6 610 765	5 710 222	5 057 895
<b>Current liabilities</b>	6 578 459	5 631 127	4 751 191
<b>Accounts payable</b>			

<b>Bank overdraft</b>	32 306	79 095	306 704
<b>Total equity and liabilities</b>	<b><u>9 580 049</u></b>	<b><u>8 783 471</u></b>	<b>6 <u>371 076</u></b>

(i) **Current Ratio = current assets**

**Current liabilities**

<b>2004</b>	<b>2005</b>	<b>2006</b>
= <u>1 733 636</u>	<u>2 454 504</u>	<u>3 111 325</u>
5 057 895	5 710 222	6 610 765
= 0.34	0.43	0.47



This reflects the fact that the Municipality of Karibib has no sufficient liquid assets to meet its immediate liabilities. However the position is improving from year 2004 to 2006.

**a. Acid Test Ratio**

The Municipality of Karibib has no stock at year end hence the acid test ratio will be the same as current ratio.

**b. Net working capital**

2004	2005	2006
1 733 636 – 5 057 895	2 454 504 – 5 710 222	3 111 325 – 6 610 765
= (3 324 259)	(3 255 718)	(3 499 440)

This is a clear indication that the Municipality of Karibib does not have sufficient cash/cash equivalents to meet its obligation due within a year. This is due to the fact that accounts payable are increasing faster than increase in accounts receivable from year 2004 to 2006.

*Activity Ratios*

**a. Inventory turnover**

Since the municipality has no inventory at year end, this ratio is not applicable in any of the years.

**b. Average collection period = accounts receivable**

**Annual sales/365**

2004	2005	2006
$\frac{1\,733\,324}{(1\,797\,616 + 1\,481\,936)/365}$	$\frac{2\,161\,748}{(2\,730\,527 + 2\,017\,590)/365}$	$\frac{2\,801\,015}{(34\,607 + 2\,924\,504)/365}$
= <b>192.1 days</b>	<b>166.18 days</b>	<b>345.50 days</b>

This is a vivid indication that the average collection days are too high. In 2006 it took almost a year to collect from their debtors. This is probably the main reason for a negative working capital. As such there is no cash to pay its creditors.

**c. Average Payment Period = accounts payable**

**(Average purchases)/365**

2004	2005	2006
$\frac{4\,751\,191}{(1\,481\,036 + 1\,024\,533)/365}$	$\frac{5\,631\,127}{(1\,749\,402 + 1\,518\,182)/365}$	$\frac{6\,578\,459}{(2\,570\,636)/365}$
= <b>692.13 days</b>	<b>629.02 days</b>	<b>934.06 days</b>

The high average payment period is not surprising since it takes the Municipality of Karibib close to a year to collect debts from its customers. This is the main reason as to why payment days are too high.

### Interpretation of Results

Systems theory thrives on the assumption that it is the collective interaction of individual parts that makes the whole unique (Hanna, 1997; von Bertalanffy, 1950). In that respect, it is useful to discover that the Municipality of Karibib has in place a human resource, organizational and institutional development plan. It thus demonstrates the conceptual and empirical intentions of an organization that seeks to develop the knowledge, skills and competencies of the human resources, organizational and institutional development hence a sound financial performance (Pffeper and Veiga, 1999; Guest, 1987; 1989). However, the human resources, organizational and institutional development plan

appears to be an imposition despite management's good intentions because there was little or no input from Municipality of Karibib personnel.

To a large extent this is contrary to the principles of participatory management (Kaufman, 2001) as well as decentralization theory and practice (Cohen and Peterson, 1997; and Kalin, 1997). It equally undermines the fundamental assumption of the system theory, which considers every part or element of the organisation as critical to its survival and sustainability (Hanna, 1997; von Bertalanffy, 1950).

One interesting human resource and institutional capacity concern that is mentioned several times in the study and featured in the skill, task and organization-induced dimension, is the over-emphasis on 'staff training' by the employees. The emphasis on yearning for more and perhaps fair access to training underscores a comment that 'training has become the most popular prescription for curing all organizational pathologies in many developing countries (Analoui, 1996, 1993; Kiggundu, 1994). Others have also argued that training is the most preferred option to solving chronic human resource human resources and institutional inadequacies and organizational weaknesses (Kerrigan and Lake, 1987). However, Reichard (1998), believes that training is only one factor in the successful development of the human side of new public financial managers. Reichard's observation is supported by Kowu's (2001) study in one of Ghana's public sector organizations (The Environmental Protection Agency – EPA). That study has found that training alone is not enough to produce effectiveness in the workplace, especially among senior managers. Rather, there is the need to create

conducive work environment aimed at providing a high level of job satisfaction and to recruit enthusiastic, broad-minded individuals prepared to disregard their personal prejudices for the good of the organization, resulting in sound financial performance.

A careful assessment of the key financial performance motivation-induced challenges tends to conflict with Reichard (1998) and Hasenbolhler's (1995) argument that for public financial managers and employees to be able carry out public sector vision with improved financial performance, public sector reformers have to be circumspect with regard to: (i) selection and recruitment of suitable public financial managers and workforce; (ii) career development and promotion for public employees; (iii) provision of a motivating incentive system for public employees; (iv) adequate interaction between the entire public workforce, managers and their superiors in the organization; and (v) building of a team of employees taking into consideration leadership, communication and control.

Reichard and Hasenbolhler's argument is in conformity with Chalofsky and Reinhart (1988: 31) performance-oriented 'financial performance effectiveness model', which argues that the overriding goal of an effective human resource, organizational and institutional function is to 'build a responsive resource (workforce)'

## **Summary**

The study therefore analyses that the following are important, professional human resource personnel; top management support for human resource, organizational and institutional development policies; a high level of teamwork among staff; close working relationship with line and staff management; and a track record of high quality products and/or services'. This study supports the view that a professional human resource personnel with a high level of teamwork, is a prerequisite to an effective human resource, organizational and institutional function of a responsive workforce.

## **CHAPTER FIVE: CONCLUSION**

### **5.1 Introduction**

This chapter provides information on the conclusions and policy recommendations. It is divided into two sections. Section 5.2 discusses the conclusion. The policy recommendations are presented in section 5.3.

### **5.2 Conclusion**

This exploratory case study investigated the human resource, organizational and institutional development capacity challenges facing the Municipality of Karibib in a developing country, Namibia. The overall purpose of the study was to explore, describe and understand how well suited are the Municipality of Karibib's human resource, organizational and institutional development policies to the enhancement of sound financial performance. In particular, it sought to explore the major human resource, organizational and institutional development capacity building challenges facing the Municipality of Karibib administration.

The main research conclusions suggest that financial performance challenges at the Municipality of Karibib manifest in three-dimensions as: policy-related, task/skill/organization-related and performance motivation-related. Confronting these challenges has far reaching implications for human resource, organizational and institutional development practices.

One policy conclusion is that human resource, organizational and institutional development practices have the potential to improve local public service delivery, ensure good governance and sound financial performance.

### **5.3 Policy Recommendations**

However, for this dream to materialize, several human resource, organizational and institutional development policy actions and interventions are required, including: establishing functional, well re-tooled and professional human resource, organizational and institutional development structures at all levels of the Municipality of Karibib administration.

In respect of the implications for human resource, organizational and institutional development, it might be useful to focus on the following issues:

- Improving the core competencies of staff and management in financial management of municipality of Karibib:- by promoting an integrated approach to human resource, organizational and institutional development learning that would require the development of three inter-related capabilities, including: human capital (knowledge, skills and competencies); social capital (network of reciprocal relationships and support); and corporate capital (embedded culture, assets and information system).
- Synchronising the nature and content of training offered by the different stakeholders contributing municipal of Karibib human resource, organizational and institutional development *capacity building*:- This would imply designing strategies to focus on four dimensions of the municipality of Karibib or what is commonly referred to as the ‘organisational human resource strategy’, including its: (i) Culture – the beliefs, values,



norms and management style; (ii) Organisation – the structure, job roles, and reporting lines; (iii) People – the skill levels, staff potential and management capability; and (iv) Human Resources System – the people focused mechanisms which deliver the strategy: communications, training, rewards, career development.

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## **ANNEXURE 1: QUESTIONNAIRE**

Hello, my name is Edwins .I am a Master of Science in Accounting and Finance student at the University of Namibia. I am seeking to determine the impact of Human Resources, Institutional and Organizational development on the financial performance of the Municipality Karibib. To help me do this I am seeking the views of the employees of Municipality Karibib as well as its residents,. I would be grateful if you could spend a few minutes answering this questionnaire.

### **Human Resource Components**

On a scale of 1 (weak) to 5 (strong), please rate the extent to which the following factors are practiced at the Municipality of Karibib.

1= Weak, 2= Below Average, 3= Average, 4= above average, 5 = Strong

#### **1. Role Analysis(Goal Setting)**

- a. Rate the extent to which management communicates to the rest of the employees what they expect them to achieve.

1	2	3	4	5
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

- b. Rate the level of clarity your role as an employee is communicated to you by the management.

1	2	3	4	5
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

- c. Are there mechanisms for periodic dialogue between the management and the rest of the employees to give direction?

Yes	No
<input type="checkbox"/>	<input type="checkbox"/>

- d. What are the strengths, weaknesses and suggestions for improvement in your work planning system?

Strengths\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Weaknesses\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Suggestions\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

## 2. Induction

- a. How would you rate the level of induction that you were given for your present position?

1	2	3	4	5
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

- b. How would you rate the adequacy of your induction into the organization?

1	2	3	4	5
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

- c. If any, what else could have been done?

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

### 3. Performance Appraisal

a. Is there a system of performance appraisal in Municipality of Karibib?

Yes	No
<input type="checkbox"/>	<input type="checkbox"/>

b. Rate the extent to which the performance appraisal system is taken seriously by the management.

1	2	3	4	5
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

b. Are the objectives of performance appraisal clearly communicated to you?

Yes	No
<input type="checkbox"/>	<input type="checkbox"/>

d. To what extent are the managers adequately trained to carry out performance appraisal?

1	2	3	4	5
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

e. To what extent is your remuneration linked to your performance?

1	2	3	4	5
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

- f. What are the strengths, weaknesses and suggestions for improvement on performance appraisal?

Strengths\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Weaknesses\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Suggestions\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

#### **4. Training and Development**

- a. Does Municipality of Karibib have training and development plan for you?

Yes	No
<input type="checkbox"/>	<input type="checkbox"/>

- b. Rate the extent to which training is taken seriously by the Municipality of Karibib.

1	2	3	4	5
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

- g. What are the strengths, weaknesses and suggestions for improvement on training and development?

Strengths\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Weaknesses\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Suggestions\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

- c. To what extent do you think your performance is compromised by training?

1	2	3	4	5
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

## 5. Counseling

- a. Does the organization have a system of giving performance feedback and counseling?

Yes                  No

☐                  ☐

- b. To what extent are the feedback and counseling sessions conducted seriously?

1                  2                  3                  4                  5

☐                  ☐                  ☐                  ☐                  ☐

- c. Rate the adequacy of the time, infrastructure (e.g. meeting rooms) and other facilities provided for the feedback and review sessions.

1                  2                  3                  4                  5

☐                  ☐                  ☐                  ☐                  ☐

- h. What are the strengths, weaknesses and suggestions for improvement on infrastructure and other facilities provided for the feedback and review sessions ?



Strengths\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Weaknesses\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Suggestions\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

## **Institutional Components**

### **Rules and Regulations**

1. To what extent would you rate the **administrative/legal** environment within which the Municipality operates in terms of policy, legislative and legal framework?

1	2	3	4	5
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

## Technology

2. To what extent would you rate the **technological** environment within which the Municipality operates in terms of infrastructure technological literacy and information technology?

1	2	3	4	5
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

What are the strengths, weaknesses and suggestions for improvement on technological environment?

Strengths\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Weaknesses\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Suggestions\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

### **Leadership**

3. To what extent would you rate strategic leadership in Municipality of Karibib in terms of leadership, strategic planning and governance?

1                      2                      3                      4                      5

1                      2                      3                      4                      5

☐                      ☐                      ☐                      ☐                      ☐

- a. What are the strengths, weaknesses and suggestions for improvement on strategic leadership?

Strengths\_\_\_\_\_

---

---

Weaknesses\_\_\_\_\_

---

---

Suggestions\_\_\_\_\_

---

---

### **Policies**

4. To what extent would you rate how effective the Municipality is moving toward fulfillment of its mission?

1	2	3	4	5
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

5. To what extent would you rate the manner in which municipal resources are used?

1	2	3	4	5
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

### **Organizational Components**

#### **Management Style**

1. Does Municipality of Karibib have an explicit commitment or contractual agreement to serve all racial, ethnic, and cultural groups?

Yes	No
<input type="checkbox"/>	<input type="checkbox"/>

2. How is this demonstrated in your institutional policies and practices?\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

3. Does Municipality of Karibib's governing and administrative staff proportionately reflect the race, gender, age, and other cultural differences of your community and consumer population?

Yes                  No

☐☐

Describe how or how not.

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4. To what extent would you rate Municipality of Karibib's efforts to utilize the skills, knowledge, and talents of your ethnically and culturally diverse staff, particularly in the areas of program planning and policy development?

1

2

3

4

5

☐☐☐☐☐

**Strategic Plan**

5. To what extent would you rate the translation of municipality's policy and strategy into simple plans and actions?

1	2	3	4	5
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

6. To what extent would you rate the alignment of municipality's strategy and plans with the purpose (vision and mission) of the organization?

1	2	3	4	5
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

7. Are the employees informed and aware of the part of the organizations strategy and plans that affects them and their work?

Yes	No
<input type="checkbox"/>	<input type="checkbox"/>

8. Does the municipality make strategic decisions (implementation action plans) based upon the strategic plan?

Yes	No
<input type="checkbox"/>	<input type="checkbox"/>

10. To what extent would you rate the different types of evaluation used to assess strategic plan progress.

1	2	3	4	5
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

### **Municipal Structure**

11. Are the employees encouraged and can make changes that will improve their work.

Yes	No
<input type="checkbox"/>	<input type="checkbox"/>

12. To what extent would you rate fairly how new ideas are considered in this organization

1	2	3	4	5
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>



13. Do the employees know how to measure their work quality?

Yes                  No

☐                  ☐

14. To what extent would you rate employee's knowledge in making the required changes

and /or improvements to their work quality?

1                  2                  3                  4                  5

☐                  ☐                  ☐                  ☐                  ☐

### **Management Information**

15. Does the municipality and leaders ask for employee ideas and input as it plans for the future.

Yes                  No

☐                  ☐

16. Are the employees provided with the required information to be effective and efficient in their work and duties?

Yes	No
<input type="checkbox"/>	<input type="checkbox"/>

Thank you very much for your time.

### **Interview Questions**

1. Which of the following do you believe is the real key to creating the most successful and dynamic organisation?
2. Describe the approaches that help you as a service provider to devise ways of reaching poorer households.

3. Is there effective leadership throughout the organisation with the capacity to manage change?
4. What are the key external drivers? How are these likely to impact on the organisation? Does the organisation recognize these?
5. What does top management see as the organization's mission and strategy? Is there a clear vision and mission statement?
6. How do managers use human and material resources to carry out the organization's strategy?
7. What do staff value in their work? What are the psychological factors that would enrich their jobs and increase job satisfaction?
8. What is the level of performance in terms of productivity, customer satisfaction, quality, etc? Which factors are critical for motivation and therefore performance?
9. What are the numbers of management levels in the organisation?

10. What measures or indicators of output or performance does the organisation have? How often are these reviewed? Do they include non-financial as well as financial measures?
11. What indicators or measures of user satisfaction does the organisation use? Do these show an improving trend?
12. How often do you discuss the financial reports before they are authorized for issue?
13. How vigorously do you follow up on the auditor's report and comments?