International Journal of Management and Commerce Innovations ISSN 2348-7585 (Online)
Vol. 4, Issue 2, pp: (186-197), Month: October 2016 - March 2017, Available at: www.researchpublish.com

INFLUENCE OF STRATEGIC EMPLOYEE RELATIONS PRACTICE ON ORGANIZATION PERFORMANCE OF NAIROBI SECURITIES EXCHANGE LISTED COMPANIES IN KENYA

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Abstract: **The general objective of this study was to assess the influence of strategic employee relations practice on organization performance of Nairobi Securities Exchange listed companies in Kenya. The study also sought to determine the moderating effect of organization size on the relationship between strategic employee practices and performance of the organizations. The study utilized a descriptive survey research design that incorporated quantitative and qualitative approaches. The target population for this study consisted all the 62 companies listed at the Nairobi Securities Exchange (NSE) as at December 2014 from which primary data was collected using questionnaires administered to human resource and finance managers alongside secondary data on performance collected using a data collection sheet. Descriptive statistics was used aided by Statistical Packages for Social Sciences version 24 to compute percentages of respondents' answers. Also, analysis was conducted using quantitative approach. The study found out that strategic employee relations practice influence positively organizational performance. The study identified commonly practiced employee relations in organizations such as provision of benefits, training and development, staff welfare facilities like transport, insurance and sports facilities, team building activities, equal and impartial employmeny policies, suitable working conditions, work life balance initiatives and salary design and structures. The study therefore recommends that organizational managers should initiate and reinforce various employee relations to enhance their performance and value.**

Keywords: **Strategic employee relations practice, Organization performance, NSE.**

1. INTRODUCTION

The World Business Council for Sustainable Development defines corporate social responsibility as a business commitment to contribute to sustainable economic development, working with employees, their families, the local community, and the society at large to improve their quality of life. From this perspective, the Corporate Social Responsibility (CSR) rests on the fundamental pillars of both the economic growth and the quality of life as an engine for sustainable development. A company‘s success depends on its long-term benefits, growth and survival. The factors important for the long-term success of a company may be identified by testing the long-term relationships between CSR practice and the organization's performance, CSR and stock market performance, and CSR and non-financial performances. Freeman (1983) pointed out that CSR is directly affected by company stakeholders such as employees, customers, and communities, as well as by the organization itself. In addition, Margolis and Walsh (2013) noted that there is a positive association, and certainly very little evidence of a negative association between a company's social performance and its financial performance.

However, policies and practices towards union relations, employees' participation in decision making, remuneration policy, working conditions, and elimination of forced/child labor, portray a firm's CSR towards employees. By adhering to such standards, firms can satisfy employees, enhance their job performance, and improve financial performance and non- financial performance. Working conditions that respect human dignity, equality, and social protection result in a productive workplace (Somavia, 2010). Social responsibility of a company is a reputation factor and is an attractive force for potential and current employees (Turban & Greening, 2007). In Kenya, the cultural context is an important factor in defining CSR. The communal culture is captured in the indigenous concept of "Harambee" which embodies and reflects the strong ancient value of mutual assistance, joint effort, social responsibility and community self-reliance. This concept means that collective good outweighs individual gain. According to (Gathii, 2008), the Kenya Bureau of Standards (KEBS) has been involved in drafting guidelines on CSR. These guidelines, in addition to those voluntarily adopted by companies and the current ISO standards, form a backdrop against which to measure CSR in Kenya. A number of companies in Kenya have embraced CSR and have engaged in a myriad of responsive activities. Standard Chartered Bank Kenya Limited (SCB) for instance, has an elaborate Corporate Social Responsibility policy that guides its operations.

The Nairobi securities exchange (NSE, 2011) was established in 1954 as a voluntary association of stock brokers with the objective of facilitating mobilization of resources to provide long term capital for financing investments. Through stringent listing requirements, the market promotes higher standards of accounting, resource management and transparency in the management of business. The NSE is regulated by Capital Markets Authority (CMA, 2011) which provides surveillance for regulatory compliance. The exchange has continuously lobbied the government to create conducive policy framework to facilitate growth of the economy and the private sector to enhance growth of the stock market (Ngugi, 2005).

Statement of the Problem

Business organizations have a great capacity to influence society and to create positive or negative impact. Besides business organizations have a duty to their stockholders to be profitable and remain competitive. The challenge is how businesses can increase their competitiveness while at the same time create sustainable development as an impact on society. CSR is one of the ways that has emerged as a means of meeting these targets. However, scholars such as Kailis (2004) argue that CSR risks becoming yet another fashionable notion that fails to deliver long-term benefits but distracts businesses from pursuing their proper and vital economic role. This would make it seem that CSR is destined to fail. Obstacles to CSR are found to be ad hoc approach by the top management towards CSR, lack of consensus on priorities within the firm, and problems related to measurement and evaluation of CSR activities (Krishna, 2012). Hakimi, Zeinaddini and Soltan Nejad (2016) underscore that empirical studies have indicated that there are contradictory findings on the relationships between CSR and corporate financial performance. Despite these contradictions, there still is a bigger role for CSR to play especially in the developing world. In Kenya, certain companies are showing the way to a better model for CSR. They include: Safaricom with the financially inclusive product called MPESA, Equity bank with the financial product innovations that included segments of society that were previously ignored like wings to fly models that caters for bright students who cannot afford their school fees (Society initially ignored these groups). This study's focus was to determine the effects of strategic employee relations practice on an organization's performance.

Objective of the study

The objective of this study was to determine the influence of strategic employee relations practice on organization performance of Nairobi Securities Exchange listed companies in Kenya.

Hypothesis

H_0 Strategic employee relations practices influence the organization performance of NSE listed companies in Kenya

2. LITERATURE REVIEW

The study was supported by the following theory and reviewed literature:

Corporate Governance Theories

Corporate governance is explained by a group of theories which include agency theory, stakeholder theory, stewardship theory and resource dependence theory. According to Kiel and Nicholas (2003), the common aim of many of the theories has been to posit a link between corporate governance and organizational performance. A review of various theories demonstrate how the two theories come out as really contrasting with reference to how corporate governance should be constituted in order to positively impact on performance of an organization. Two such theories which form the basis for the study are the Agency Theory and Stewardship Theory. Agency Theory is founded on the idea that, in a modern corporation there is a separation of ownership and management, resulting in agency costs associated with resolving the conflict between the owners and the agents (Jensen and Meckling, 1976). This implies that management cannot be trusted, thereby calling for strict monitoring by the Board in order to protect shareholders' interest. The main concern of Agency Theory therefore, is effective monitoring which is achieved when Board have majority of outside and ideally independent directors. The position of Chairman and CEO should be held by different persons.

The implication of this theory is that corporate Boards would reflect the environment of the Firm (Hillman, et al, 2000) and that corporate directors will be chosen to maximize the provision of important resources to the Firm. Each director may bring different linkages and resources to a Board. Board composition will thus theorize to reflect a matching of the dependencies facing an organization to the resources acquisition potential of its Board members (Hillman, et al, 2000). From the foregoing discussion, it can be seen clearly that unlike the Agency Theory, Resource Dependency Theory ignores alternative activities of the Board such as providing advice and strategizing (Kesner & Johnson, 1990).

Corporate Social Responsibility Theories

The basic idea of CSR is that business and society are interwoven rather than separate entities (Wood, 1991). As discussed, a number of theories have been identified in the literature to explain CSR. For example, stakeholder theory explains how CSR is important, and the social contract and legitimacy theories explain why CSR is important (Moir, 2001). CSR includes a number of theories and many studies have discussed agency, stakeholder and social contract that are behind the concept of CSR; these theories and CSR approaches under the themes of economics, politics, social integration and ethics (Parsons & Sociales, 1961; Garriga & Melé, 2004; Jamali & Mirshak, 2007).

Strategic Employee Relations Practices and Organization Performance

Proactive policies and practices towards employees reflect a company's intention to address the interests of its employees and satisfy their needs. Policies and practices towards union relations, employees' participation in decision making, remuneration policy, working conditions, and elimination of forced/child labor, portray a firm's CSR towards employees. By adhering to such standards, firms can satisfy employees, enhance their job performance, and improve financial performance and non- financial performance. Working conditions that respect human dignity, equality, and social protection result in a productive workplace (Somavia, 2010). Social responsibility of a company is a reputation factor and is an attractive force for potential and current employees (Turban & Greening, 2007).

Ethical reputation contributes to job satisfaction and lower employee turnover by evoking positive reactions from employees' families and friends (Riordan et al., 2007). Because satisfied employees have higher morale and job motivation, they will work more effectively and efficiently (Berman et al., 2009) and contribute to higher levels of organizational effectiveness (Koys, 2011). Past studies establish that better human resource management practices such as training and development of employees, their participation in problem solving, progressive remuneration policies, and grievance procedures reduce employee turnover, increases their productivity and financial performance (Huselid, 2005). A better CSR towards employees which includes wider issues compared to human resource management issues also improves a firm's financial performance (Berman et al., 2009).

Economic theory reflects the degree of association of CSR and financial performance by taking consideration of cost-related advantages, market advantages and reputation advantages (Chamhuri & Wan Noramelia, 2004). In the business, CSR is concerned with employment, lifelong learning, consultation and participation of workers, equal opportunities and integration of people towards restructuring and industrial change. Employees who feel protected and appreciated will increase their productivity in production and thus, achieving economies of scale. Basically, the formation of policies is influenced by the authority employment strategies, the initiative on social responsible restructuring, the initiatives to promote quality and diversity in the workplace and health and safety strategy (Chamhuri & Wan Noramelia, 2004).

Organizational Performance

Organizational performance comprises the actual output or results of an organization as measured against its intended outputs (or goals and objectives). Mutindi, Namusonge and Obwogi (2013) underscore that Organizational performance is concerned with the overall productivity in an organization in terms of stock turnover, customers, profitability and market share. Competition in the global economy has intensified the importance of identifying the drivers of sustainable performance.The search for such drivers is no longer restricted to tangible factors but has expanded to include intangibles. Performance may be measured by both quantitative and qualitative methods.

According to Richard (2009) organizational performance encompasses three specific areas of firm outcomes. Financial performance (profits, return on assets, return on investment; product market performance (sales, market share); and shareholder return (total shareholder return, economic value added). An organization performance is tested against the commitment that the management made in management system. It measures the management plans of whether social, economic and ecological goals are being achieved.

Return on assets (ROA), return on equity, asset age, and return on sales are the frequently used financial performance measures. Particularly, ROA is consistently claimed to be an authentic measure of financial performance (Berman et al., 2009; McGuire et al., 2008).Unlike other accounting measures such as return on equity or return on sales, ROA is not affected by the differential degree of leverage present in firms. Because ROA is positively correlated with the stock price, a higher ROA implies higher value creation for shareholders. Moreover, in asset-heavy firms such as the manufacturing firms, ROA is a better indicator of firm performance.

Financial performance measures are lag indicators and capture historical performance arising from mostly tangible assets (Ong, 2003). They often fail to properly record performance from intangible assets such as: customer relationships, employee satisfaction, innovation, investment in research and development, and the like that have become significant sources of competitive advantage for firms in recent times (Lev, 2010). In contrast, non-financial performance measures focus on a firm's long-term success factors such as: research and development, customer satisfaction, internal business process efficiency, innovation, and employee satisfaction, and capture performance improvements from intangible assets (Kaplan & Norton, 2011).

3. RESEARCH METHODOLOGY

The study utilized a descriptive survey research design that incorporated quantitative and qualitative approaches. The target population for this study consisted all the 62 companies listed at the Nairobi Securities Exchange (NSE) as at December 2014 from which primary data was collected using questionnaires administered to human resource and finance managers alongside secondary data on performance collected using a data collection sheet. Descriptive statistics was used aided by Statistical Packages for Social Sciences version 24 to compute percentages of respondents' answers. Also, analysis was conducted using quantitative approach.

4. RESEARCH FINDINGS AND DISCUSSION

Response Rate

As presented in table below, a total of 62 questionnaires were distributed, 51 (n=51) were correctly filled and returned. This represented a response rate of 82.25%. According to Hart (1987) response rate in business survey vary from 17 percent to 60 percent with an average of 36 percent. However, Olsen (2004) observed that a response rate of 50 percent in a survey is adequate. The response rate of this study of 82.25% is therefore considered adequate as it was above the benchmarks of 36% and 50%. This implied that the findings of this study were representative of the overall population.

Table 4.1 Analysis of the response rate

Response rate	Frequency	Percentage
Questionnaire sent	62	100
Questionnaire returned	51	82.25

Source: Primary data

Strategic Employee Relations Practices

Ten likert question items were applied to investigate the strategic employee relations practices in the organizations. The respondents were requested to rate items on a five pont likert scale ranging from 1 strongly disagree to 5 strongly agree.

Table 4.2: Descriptive Results on Strategic Employee Relations

Opinion	N	Mean	Std. Deviation
1. Our company designs employees' salary while taking consideration of the employees' level of job satisfaction and commitment	51	3.216	1.474
2. The working conditions in the company are intended to enhance employees' level of job satisfaction and commitment	51	3.235	1.408
3. The nature of work life balance within our company is supposed to influence the level of job satisfaction	51	3.431	1.285
4. The company provides for employees benefits such as insurance, medical and education so as to influence the employees level of job satisfaction	51	4.020	.510
5. The company organises team building activities which are useful in influencing the levels of job satisfaction	50	3.940	.586
6. Employees in our company engage in CSR activities which are considered suitable in influencing job satisfaction levels	50	3.920	.396
7. Employees in our company are taken through training and development so as to influence the job satisfaction levels	51	4.020	.469
8. There exists welfare facilities such as transport, insurance and participation in sports functions which are intended to influence employee job satisfaction	51	3.980	.424
9. Equal and impartial employment policies in our company influence the level of job commitment among employees	51	3.647	.716
10. Organization's indulgence in CSR activities influence the employees' attitude towards the organization	51	4.020	.547

The responses as summarized in Table above show that the practices ranked highly. The respondents agreed that employer provision of benefits (mean = 4.020, SD = 0.510), training and development (mean = 4.020, SD = 0.469) and indulgence in CSR activities to influence attitude (mean = 4.020, SD = 0.510) are practices within the organizations. The other identified employee relations practices that scored highly in influencing job satisfaction and committment included; staff welfare facilities like transport, insurance and sports facilities (mean = 3.980, SD = 0.424), team building activities (mean = 3.940, SD = 0.586), engagement in CSR initiatives (mean = 3.920, SD = 0.396), equal and impartial employment policies (mean = 3.647, SD = 1.285), work life balance (mean = 3.431, SD = 1.285), suitable working conditions (mean = 3.235, SD = 1.408), salary designs and structure (mean = 3.216, SD = 1.474).

Test of hypothesis

The researcher conducted regression analysis so as to establish the influence of Strategic employee relations practices influence the organization performance of NSE listed companies in Kenya. The hypothesis tested was:

H_0 Strategic employee relations practices influence the organization performance of NSE listed companies in Kenya.

The linear regression model shows R^2= 0.255 which means that 25.5% change of organizational performance can be explained by a unit change of strategic employee relations practice. The result is shown in table below. Out of the results there is an indication that one unit change in strategic employee relation practice translates to 25.5% change in organizational performance of NSE listed companies in Kenya therefore, strategic employee relations practice has a positive influence on organizational performance of NSE listed companies in Kenya.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.517[a]	.267	.255	.83134

a. Predictors: (Constant), SER

Further test on ANOVA shows that the significance of the F-statistic (20.809) is less than 0.05 since p value, p=0.00, as indicated in table below. This implies that there is a positive significant relationship between strategic employee relations practice and organizational performance. Thus, strategic employee relations practice influence on organizational performance of NSE listed companies in Kenya.

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	14.381	1	14.381	20.809	.000[b]
	Residual	39.394	57	.691		
	Total	53.775	58			

a. Dependent Variable: SER

b. Predictors: (Constant), SER

Further, the regression model below indicate that there is a positive relationship between strategic employee relations practices and performance of the firms listed at the NSE though the relationship is not statistically significant (β=22.694, t=1.280, p>0.05). Since the study establishes a positive relationship between the employee relations practices and firm performance it confirms the proposition that strategic employee relations practices influence the performance of companies listed at the NSE in Kenya. This finding supports Chamhuri and Wan Noramelia (2004) arguments that employees who feel protected and appreciated will increase their productivity in production and thus, achieving economies of scale. The finding is consistent with Bashir, Cheema and Hassan (2012) conclusion that organizations' indulgence in corporate social responsibility activities positively impacts employees' attitude towards the organization resulting into better level of organizational belongingness and job satisfaction among the employees that improve organizational productivity. Though the relationship is not significant, it alludes to a positive relationship between employee relations practices and performance that was established by Ali, Rehman, Ali, Yousafand Zia (2010) in Pakistan.

Coefficients of Strategic Employee Relations

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.154	.458		1.280	.015
	SER	.799	.175	22.694	4.562	.000

a. Dependent Variable: Organizational performance

4. CONCLUSION AND RECOMMENDATIONS

The acceptance of the hypothesis (H_0) which explored the influence of strategic employee relations practices on organization performance implies that the employee relations practices adopted by the organizations do positively influence their levels of performance. The findings therefore confirms the arguments by Chamhuri and Wan Noramelia (2004) and Ali, Rehman, Ali, Yousaf and Zia (2010) that employees who feel protected and appreciated increase their productivity and efforts to attaining economies of scale. The findings confirms Bashir, Cheema and Hassan (2012) conclusion that organizations adoption of corporate social responsibility initiatives positively influence employee attitude towards the organization and results into better levels of organizational belongingness and job satisfaction. The identified commonly practised employee relations initiatives in the study include provision of benefits, training and development, staff welfare facilities like transport, insurance and sports facilities, team building activities, equal and impartial employmeny policies, suitable working conditions, work life balance initiatives and salary design and structures.

Managers of firms require information for enhancing their performance and enhancing firm value. Since employee relations practices relate positively with firm performance, the study recommends that firm managers should reinforce their employee relations practices to enhance firm performance. Some of the notable practices are the provision of benefits for staff, training and development, staff welfare facilities e.g transport, insurance and sports facilities, team building activities, equal and impartial employment policies, suitable working conditions, work life balance initiatives and salary design and structures.

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