EFFECT OF EMPLOYEE RELATIONS ON PERFORMANCE OF MANUFACTURING FIRMS IN KENYA

Amos Sila Mwangangi¹
Doctoral Student
Jomo Kenyatta University of Agriculture and Technology,
P.O. Box 62000-00200, Nairobi, Kenya

Dr. Rukia Atikiya², PhD
Lecturer
Jomo Kenyatta University of Agriculture and Technology,
P.O. Box 62000-00200, Nairobi, Kenya

ABSTRACT
Manufacturing sector occasionally conflicts with various stakeholders due to the consequences of their activities. Employees are nowadays considered as valuable organizational resources hence the ability to retain them is core for sustainable organizational performance. This study endeavored to determine the effect of employee relations on the performance of manufacturing firms in Kenya. The research design was quantitative survey of a population of 853 manufacturing firms registered with Kenya Association of Manufacturers (KAM). A sample of 202 firms was selected by purposive sampling, and obtained 112 responsive respondents. A self-administered questionnaire was used to collect primary data and secondary data obtained from the firms’ reports and websites. Regression analysis was used to test the relationship between employee relations and firm performance, by use of SPSS, and data presented in descriptive and inferential statistics. The study established that employee relations had a positive and significant effect on firm performance. It was recommended that manufacturing firms need to promote employee relations through health and safety, training and development, and staff welfare as a strategy to enhance employee productivity for competitive advantage.

Keywords: Employee Relations, Manufacturing Firms, Performance, Strategy, Competitive Advantage
INTRODUCTION
Organizations are obliged to commit resources to stakeholder relations to manage the expectations of various stakeholder group-based on stakeholder theory (Bagh, Khan, Azad, Saddique& Khan, 2017; Manyasi&Masinde, 2014; Sweeney, 2009; Tilakasiri, 2012). The manufacturing sector is a critical component in the development of a nation (Shen, Govindan& Shankar, 2015; Togun&Nasieku, 2015). Engagement with stakeholders enhances and sustains a firm's revenue generation through an improved relationship with employees, customers and other stakeholders (Harrison & Wicks, 2013). Many firms nowadays subscribe to the triple bottom line (TBL); people, planet and profit firm performance measures (Bagh et al., 2017; Bremner, 2016), hence the endeavor to commit themselves to responsible business practices (Yin, Rothlin, Li &Caccamo, 2013). The growing stakeholder clamor and bargaining power put pressure on businesses to balance economic, social and environmental concerns in their operations, by incorporating stakeholder relations as a business strategy (Cruz & Ramos, 2015; Mwangi&Oyenje, 2013; Safwat, 2015).

Employees are considered as valuable organizational resources hence the ability to retain them is core for sustainable organizational performance based on resource-based view theory (Sweeney, 2009; Tilakasiri, 2012). Employees and employers are engaged in a social contract that affects the firm’s performance where employees provide labour for the firm and employers compensate them for their contribution of skill and productivity. The social contract involves numerous social, legal and public issues including safe and healthy workplace, job security and fair labour standards (Lawrence & Weber, 2011). According to Sweeney (2009), amiable employee relations provide the firm with sustained competitive advantage based on the attraction, motivation, and retention of employees and controls the cost involved in recruiting and training staff based on the social identity theory. This study considered voluntary commitments to occupational safety and health administration, training and development and staff welfare to constitute critical employee relations that enhance and sustain the firm’s performance.

The study sought to examine the effect of employee relations on the performance of manufacturing firms in Kenya and hypothesized as follows:
**H₀**: Employee relations have an insignificant effect on the performance of manufacturing firms in Kenya.

**Hₐ**: Employee relations have a significant effect on the performance of manufacturing firms in Kenya.

**LITERATURE REVIEW**

**Employee Relations**

Organizations are often subjected to pressure from various stakeholders to allocate resources to enhance stakeholder relations. Today’s employees are widely conversant with their rights at the workplace. This includes fair wages, working conditions, health care, social security and fair labour practices. Public clamor also rouses corporate attention to employee relations like in the case of Nike which faced extensive consumer boycott after media outlets reported abusive labour practices in Indonesia in the early 1990s (Porter & Kramer, 2006). Employee relations serve as a tool to attract, motivate and retain a productive workforce by improved working conditions and labour practices (Bremner, 2016; Newman, Rand, Tarp & Trifkovic, 2016; Sweeney, 2009; Tilakasiri, 2012). This increases employee morale, loyalty, commitment and satisfaction hence leading to improved employee productivity, and averts labour turnover and disputes (Manyasi & Masinde, 2014; Sweeney, 2009; Tilakasiri, 2012). Innovative policies concerning occupational health and safety, workplace diversity, career development opportunities, work-life balance, recognition and reward to employees guarantee higher productivity (Orange, 2013; Volkswagen, 2014).

Staff training enhances employee skill and expertise which enables them to be more productive and invokes innovation and creativity, a core competitive advantage in the fierce market competition (Fu & Shen, 2015). Employee retention reduces cost in staff recruitment, training and knowledge retention (Sweeney, 2009). Firms with friendly employee relations have a lesser risk of negative publicity and therefore increase a company's ability to attract and retain employees hence reduced costs of labour turnover, recruitment, training, and development. Training provides engaged and committed employees who perform better and less likely to leave the company (Ching, Yin, Pei, O., Zhi & Pei, Y., 2015; Tilakasiri, 2012).
Fair labour practices are critical to business success (Mugun, 2013). Employees’ welfare enhances job satisfaction and organizational commitment which leads to greater productivity and low employee turnover (Ching et al., 2015; GIZ, 2013; Mwangi&Oyenje, 2013). Digitization, automation, and mechanization are important tools to boost employee productivity, where machines would be used to relieve employees of onerous, monotonous, dangerous and non-ergonomic tasks (Volkswagen, 2014). Organizations undertake friendly employee relations to protect and guarantee rights, interests, benefits and working conditions of workers to realize employee job satisfaction (Hilson, 2014). This includes an elimination of sweatshop practices which engage workers for extremely long hours in very poor working conditions at meager pay (Faulkner & Segal-Horn, 2010). Employees whose welfare is guaranteed would be satisfied with their job and feel proud to work for the company (Ching et al., 2015).

**METHODOLOGY**

This study adopted a quantitative survey research design where the quantitative approach was used to examine the relationship between the study variables. A self-administered questionnaire was used to obtain cross-sectional data from the respondents. Secondary data was obtained from company websites and records to complement the primary data. The study population consisted of 853 manufacturing firms registered with KAM, stratified in 14 sectors and 8 geographical regions (KAM, 2015), with a sample size of 202 respondents selected using Kothari formula (Kothari, 2004) from 427 firms in the sampling frame picked by purposive sampling.

\[
n = \frac{z^2 \cdot p \cdot q \cdot N}{e^2 (N - 1) + z^2 \cdot p \cdot q}; \quad n = \frac{1.96^2 \cdot 0.5 \cdot 0.5 \cdot 427}{0.05^2 (427 - 1) + 1.96^2 \cdot 0.5 \cdot 0.5}; \quad n = 202
\]

This study was limited by resistance from respondent firms to disclose information required for the study. This was managed by seeking prior consent from respondent firms to participate in the study, use of introduction letters from the researcher, JKUAT and NACOSTI, engagement of a research assistant to follow up the questionnaires, use of both email and drop-and-pick methods, availability of the researcher to respondents whenever clarification was required, use of a simple, generic and carefully phrased questionnaire, use of a large sample size, and the use of perceived measures of employee relations and firm performance as opposed to explicit measures of each construct.
This study was also limited to the information obtained from the perception of the respondents on the subject matter. Respondents are inclined to give a positive image of the company, overestimate their employee relations, and may not be able to identify negative attributes, hence biased response (Ching et al., 2015; Sweeney, 2009). In other firms, the questionnaire was attended by subordinates who did not have a broad view of the organization. This challenge was mitigated by the consideration of secondary data from company websites, publications, and newsletters to authenticate the received responses.

**FINDINGS**

**Descriptive Analysis**

The literature review showed a positive relationship between employee relations and firm performance (Ching et al., 2015; Newman et al., 2016; Sweeney, 2009; Tilakasiri, 2012). This study explored various ways in which organizations cultivated good relations within the workforce. The study findings showed that organizations extended concerns to employees, based on the mean ranked from highest to lowest, through health and safety (4.72), workforce diversity (3.93), training (3.62), skills development (3.54), knowledge sharing (3.43), rewards (3.29), staff welfare (3.13), work-life balance (3.09), and employee consultation (2.70).

<table>
<thead>
<tr>
<th>Table 1: Employee Relations Activities</th>
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<tbody>
<tr>
<td></td>
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<tr>
<td>Percentage</td>
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<tr>
<td></td>
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<td>VL</td>
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<td>-----</td>
</tr>
<tr>
<td>Health and safety</td>
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<td>-</td>
</tr>
<tr>
<td>Diversity</td>
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<tr>
<td>-</td>
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<tr>
<td>Training</td>
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<tr>
<td>-</td>
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<tr>
<td>Knowledge sharing</td>
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<tr>
<td>-</td>
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<tr>
<td>Skills development</td>
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<tr>
<td>-</td>
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<tr>
<td>Consultation</td>
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<tr>
<td>6.3</td>
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<tr>
<td>Work-life balance</td>
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<tr>
<td>-</td>
</tr>
<tr>
<td>Welfare</td>
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<tr>
<td>3.6</td>
</tr>
</tbody>
</table>
The findings of this study concur with past studies. Sweeney (2009) found that companies in Sri Lanka mainly extended favours to their employees through the development of skills, health and safety, consultation of employees on important company issues, and control of discrimination. Newman et al. (2016) identified employees’ health and safety concerns as significant corporate practice. The studies by Ching et al. (2015) and Tilkasiri (2012) identified employee relations to comprise: Training and development; health and development; equal and impartial employment policies; rewards; improved communication and consultation; grievance handling procedure; and counselling programmes.

Majority of manufacturing firms (55.4 percent) train their staff on product quality and safety. Other firms (43.8 percent) combine product quality and safety with product use. Ching et al. (2015) found that employee training and education have a significant positive relationship with employee performance. This study found that majority of firms reward employees for their exemplary performance through a combination of ways including bonuses, presents, and promotions, which corroborates with the findings of the study by Ching et al. (2015) that compensation and benefits increase employees’ quality of work life.

Table 2: Type of Employee Training

<table>
<thead>
<tr>
<th>Training</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality and Safety</td>
<td>62</td>
<td>55.4</td>
</tr>
<tr>
<td>Product use</td>
<td>1</td>
<td>0.9</td>
</tr>
<tr>
<td>Combined 1 and 2 above</td>
<td>49</td>
<td>43.8</td>
</tr>
<tr>
<td>Total</td>
<td>112</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Inferential Analysis

As shown in Table 3, the coefficient of correlation, \( r^2 = 0.310 \), which means that 31% of the variation in firm performance is explained by employee relations, other factors held constant.

Table 3: Employee Relations Regression Model Summary
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The ANOVA summary in Table 4 shows the F statistic as 49.324, with the corresponding p-value = 0.000. The null hypothesis, $H_0$ is therefore rejected and an inference was drawn that employee relations has a statistically significant effect on firm performance.

**Table 4: Employee Relations Simple Regression ANOVA**

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>1997.552</td>
<td>1</td>
<td>1997.552</td>
<td>49.324</td>
<td>.000*</td>
</tr>
<tr>
<td>Residual</td>
<td>4454.868</td>
<td>110</td>
<td>40.499</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>6452.420</td>
<td>111</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Y

b. Predictors: (Constant), $X_1$

The coefficients in Table 5 show that, $B_0 = 19.260$ and $B_1 = 0.774$, hence;

$\hat{Y} = 19.260 + 0.774X_1$

For a unit increase in employee relations, other factors held constant, firm performance is expected to increase on average by an additional 0.774 of a unit, which is statistically significant since the p-value = 0.000, at 5% level of significance as shown in table 5.
Table 5: Employee Relations Simple Regression Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
<th>95.0% Confidence Interval for B</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B Std. Error Beta</td>
<td></td>
<td></td>
<td></td>
<td>Lower Bound</td>
</tr>
<tr>
<td>(Constant)</td>
<td>19.260 4.017 .556</td>
<td></td>
<td>4.795</td>
<td>.000</td>
<td>11.300</td>
</tr>
<tr>
<td>X1</td>
<td>.774 .110 .556</td>
<td></td>
<td>7.023</td>
<td>.000</td>
<td>.555</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Y

These findings corroborate previous studies that have argued that the relationship is significant (Sweeney, 2009; Tilakasiri, 2012). This is because employee relations help to attract, motivate and retain employees, which makes the firm more competitive owing to attraction and retention of the human resource (Al-Ansari, 2014; Freeman, Harrison, Wicks, Parmar&Colle, 2010). Attraction, motivation, and retention of high-quality employees represent a strategic imperative for many firms in today's highly competitive business environment (Sweeney, 2009). This is also consistent with the social identity theory, which indicates that employees are attracted, motivated and retained in firms with friendly employee relations (Ching et al., 2015). Though firms observe the rules and regulations of the host country, certain employee relations are undertaken by the firm voluntarily to satisfy employees for greater productivity and performance.

DISCUSSION

The study showed a significant relationship between employee relations and firm performance. The literature review showed that most studies found a significant relationship between employee relations and firm performance by establishing that friendly employee relations create employee attraction, motivation and retention hence enhancing firm performance (Bremner, 2016; Ching et al., 2015; Sweeney, 2009).

The findings were consistent with the stakeholder theory that the firm must balance a multiplicity of interested parties (Sweeney, 2009; Tilakasiri, 2012) and the resource-based view theory of the firm, that sustained competitive advantage is based on attraction, accumulation, and retention of
scarce resources (Al-Ansari, 2014; Freeman et al., 2010). The findings were also consistent with
the social identity theory, which indicates that employees are attracted, motivated and retained in
firms with friendly employee relations (Ching et al., 2015).

CONCLUSIONS AND RECOMMENDATIONS

The study identified that employee relations have a significant effect on the performance of
manufacturing firms. Based on the findings, it can be implied that manufacturing firms would
derive significant improvement in firm performance from investments in employee relations.
When firms invest in employee relations such as health and safety, diversity, training, knowledge
sharing, skill development, consultation, work-life balance, welfare, and rewards, they benefit
from improved productivity and performance in the long run.

This study recommends that organizations exercise-friendly employee relations because
employees are the most valuable stakeholder in a company. The success of firms is contingent on
employee motivation and job satisfaction which determines job performance and the product
quality. Training and education enable employees to be more skilled and productive, hence
enhances innovation and creativity which create and sustain competitive advantage.
REFERENCES

Al-Ansari, Y. (2014). *Innovation practices as a path to business growth performance: A study of small and medium-sized firms in the emerging UAE market* (Doctoral thesis), Southern Cross University, Lismore, NSW.


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