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RELATIONSHIP BETWEEN EMPLOYEE RELATIONS STRATEGIES AND PERFORMANCE OF COMMERCIAL BANKS IN KENYA

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This paper examines the relationship between employee relations strategies and performance of commercial banks in Kenya

ABSTRACT

The current technological advanceement and more friendly regulations in the banking sector have made it very attractive for many institutions to offer financial services which in turn has led to increased competition. Due to increased competition and globalisation in the banking sector there is need for commercial banks to develop strategies that will improve performance. This study sought to investigate the relationship between employee relations strategies and the performance of commercial banks. The study adopted a mixed method approach. Data was collected using self-administered questionnaires and interviews. Data analysis involved statistical computations for averages, percentages, and correlation and regression analysis. Statistical computer software (SPSS and Ms Excel) were used in data analysis. From the study it was found employee relations strategies have a significant positive effect on performance of commercial banks in Kenya. Therefore, the proposed direct relationships between a set of employee relation practices and employee performance were empirically validated. It is recommended that commercial banks should develop and document strategies that are linked with the overall banks strategy.

KEY WORDS

Employee relations strategy, human resource management strategy, organizational performance, globalization, competitive advantage

INTRODUCTION

With the growth in technology over the last decade there has been an increase in the number of banks in the country as well as the number of institutions offering financial services. This has increased the level of competition for the few customers in need of financial services. To survive and thrive in a globally competitive marketplace, organizations must adopt a broad strategy that gives them a sustainable competitive advantage. The rapid technological growth and increased competition have forced commercial banks in Kenya to aggressively compete for employees in order to remain competitive (*Central Bank of Kenya, 2010*). This trend has created a lot of interest on the effect of HRM strategies on performance.

The increasing significance of people to organizational success has been observed to have corresponded with the rise of Strategic Human Resource Management (SHRM) as a field of study on a global scale (Hartel et al (2007). Research has shown that human resource management practices have the ability to create firms that are more intelligent, flexible, and competent than their rivals through the application of policies and practices that concentrate on recruiting, selecting, training skilled employees and directing their best efforts to cooperate within the resource bundle of the organization (Rawashdeh & Al-Adwan, 2012).

There is ongoing debate on how HRM strategies affect the performance of banks. Current researches have shown that human resources management (HRM) practices are important for enhanced corporate performance (Rawashdeh & Al-Adwan, 2012; Adegoroye & Moruf, 2012). Despite this research findings, the emerging field of HRM on performance suffers from lack of unity in theory and inconsistency in research methodology hence has led to many opposing findings and rich competing theoretical perspectives especially among the different sectors of the economy. Very little has been reported on the effect of HRM and corporate performance in the banking industry. According to Cook (2000) and Som (2008), most of the work on HRM and performance has been undertaken in the manufacturing sector mainly in the US and recently in the last decade in UK and as such may not be suitable to explain the relationship in a developing economy (Adegoroye & Moruf, 2012). Thus it is very difficult to generalize findings from one country to another or even from one sector to other sectors. There is need for a theoretical link on exactly how specific human resources management strategies and performance are related.

Furthermore, there is a great need for additional evidence to support the HRM-performance relationship and show exactly how the different strategies affect each other. The present study is therefore, an attempt to fill part of this gap using the Kenyan Banking sector. The study targets 46 commercial banks in Kenya, which were in operation during the period of the research. The commercial banks were categorized into Large-size, Medium-size and Small-size banks based on the total net assets as per CBK's classification.

Study objective

To establish the extent to which employee relations strategies affect the performance of commercial banks in Kenya.

Research hypotheses

Ha: Employee relations strategies have a significant effect on the performance of commercial banks in Kenya.

Significance of the study

The study results will enable the management to establish the effects of employee relations strategies on employee performance, hence identify the areas where improvements can be done. It will also help the management in planning for the development and implementation of effective and efficient employee relations strategies that will lead to improved performance of the banks. This will in turn help in ensuring economic growth and stability of the country. Other researchers who may need reference to information on role of employee relations strategies on employees' performance will also benefit by being able to assess previous approaches used to solve similar management questions.

Scope of the study

The study was done covering all the commercial banks in Kenya. However the headquarters of each bank branch was purposively sampled for the study. The study was done mainly in Nairobi province where the researcher was able to get all the relevant officers. The study was only limited to employee relations strategies and their effect on performance in the banking sector in Kenya.

Limitations of the study

Most banks were not willing to provide data related to their employees' problems and inner details of the banks. Some respondents may also have given false information/ responses to the questions asked.

Banks that may not actually have written the employee relations strategies per se may also have tried to infer that they actually have them. It was very hard to convince them of the intention of the research in a bid to collect information from them based on the sensitivity of the sector. However, with the assistance of friends working in the sector and with the introduction letter from the university the researcher was given the opportunity to undertake the research.

LITERATURE REVIEW

Human resources are a significant organizational asset if properly used and managed. The application of appropriate strategies for the development of human resources can lead to improvement of corporate performance both in the short and long term. Tyson (1995) as quoted in Torrington et al (2005) described human resource management strategy as the intentions of the corporation both explicit and covert, towards the management of its employees, expressed through philosophies, policies and practices. Effective human capital strategy and practices are directly related to higher levels of financial and market success. Strategic human resource management has three theoretical approaches (Torrington et al, 2005; Armstrong, 2009). The first is founded on the concept that there is one best way of managing human resource in order to improve business performance. The second is based on the need to align employment policies and practices with the requirements of the business strategy in order that the later will be achieved and the business will be successful. The third is derived from the resource based view of the firm and the perceived value of the human capital. This approach is grounded in the nature of the reward–effort exchange and, more specifically, the degree to which managers view their human resources as an asset as opposed to a variable cost.

An further analysis of the literature on the HRM-performance relationship by Boselie, Dietz and Boon (2005), found that the theoretical frameworks which dominate this field are the resource-based view (i.e., HRM influences performance according to the human and social capital held by the organization) (Barney, 1991), the AMO theory (i.e., HRM influences performance in relation to employees' Ability, Motivation and Opportunity to participate) (Appelbaum, Bailey, Berg, & Kalleberg, 2000; Katou, 2008) and the "contingent framework" (i.e., HRM influences performance in relation to contingent factors such as business strategies).

Social Exchange Theory

Social exchange theory is a social psychological and sociological perspective that explains social change and stability as a process of negotiated exchanges between parties. Social exchange theory posits that all human relationships are formed by the use of a subjective cost-benefit analysis and the comparison of alternatives (Gould-Wiliams, 2007). The theory has roots in economics, psychology and sociology. Social exchange theory is reliant on voluntary actions rather than formal contracts (Pearce & Peters, 1985; Tsui et al., 1997; Aryee et al., 2002). According to this theory, individuals regulate their interactions with other individuals based on a self-interest analysis of the costs and benefits of such an interaction. SET argues that when workplace relationships are effective, then the organization benefits. The social exchange theory explains social change and stability as a process of negotiated exchanges between parties. Thus people calculate the overall worth of a particular relationship by subtracting its costs from the rewards it provides. Outcome is defined to be the difference between the benefits and the costs:

$$\text{Worth} = \text{Rewards} - \text{Costs}$$

People seek to maximize their benefits and minimize their costs when exchanging resources with others (Molm, 2001). Individuals engage in an interaction with the expectation of reciprocity (Gouldner, 1960). These benefits need not be tangible and include things such as material or financial gains, social status, and emotional comforts. Costs generally consist of sacrifices of time, money, or lost opportunities.

Social exchange theory is used as a framework for predicting the effects of management practice on worker attitudes. According to Stafford (2008), social exchanges involve a connection with another person; social exchanges involve trust, not legal obligations; they are flexible; and rarely involve explicit bargaining. Positive social exchanges can result in mutual benefits to both the employing organization and the workforce.

According to empirical findings, the practices of high-commitment HRM can affect employee motivation (Whitener, 2001), and a positive relationship exists between supportive HRM and POS (Allen et al., 2003; Hsu-Hsin Chiang, Tzu-Shian Han & Ju-Sung Chuang, 2011). There is also emerging evidence that trust affects the relationship between HRM practice and employee commitment (Guest & Conway, 1997;

Aryee et al., 2002; Gould-Williams, 2003), with a lack of trust identified as the 'primary culprit in the failures of management activities and human resource activities' (Whitener, 1997). Trust is regarded as a critical factor underpinning social exchanges in that the act of initiating social exchange relationships requires the originator to trust that the recipient will respond in kind (Aryee et al., 2002). Lack of trust leads to dysfunctional outcomes, such as low commitment, low motivation and a lack of confidence between parties.

According to Flynn (2005) employees with relational identity orientation prefer reciprocal exchange, i.e. these employees may reciprocate an organization when they are in an interdependent task environment. Organizations adopt high-commitment HR practices making employees perceive organizational support and feel that they are important in the interdependent organization. Based on social identity theory, employees who feel they are appreciated by their organization may perceive high status in the organization (Fuller et al, 2003). Employees who experience mutual reciprocity of resources, information, respect and power with management experience high perceptions of autonomy hence, they would be satisfied with the resources, information and support offered by the supervisor, as well as the job generally – hence, they would be committed to staying in the organization and also perform well.

Performance of Commercial Banks

Various scholars have defined performance management in different ways, for example, Armstrong (2006) defines performance management as a systematic process for improving organizational performance by developing the performance of individuals and teams. According to Bohlander and Snell (2007) organizational performance comprises the actual output or results of an organization measured against its intended outputs (organizational goals and objectives). Armstrong and Baron (2004) view performance management as a discipline of acting upon intelligence and reported information in planning ahead and in managing service operations both directly and through partnerships with other service delivery agents. They describe it as a process which contributes to the effective management of individuals and teams in order to achieve high levels of organizational performance. It establishes a shared understanding of what is to be achieved and an approach to leading and developing people which will ensure that it is achieved. Supported by joint strategies, shared outcomes and shared targets performance management should be exercised at all levels of the organization (Armstrong, 2008). It is a holistic process bringing together many of the elements which go to make up successful people management including learning and development.

To successfully face the increasing uncertainty and competitiveness what is required is performing employees to build performing organizations (Pattanayak, 2008). Efforts have been made by human resources management theorists to try to establish a causal link between human resource management and performance (Cook, 2000). Managers should develop a targeted employee performance coaching plan that will identify the unique development needs of team members and holds them accountable for their performance. Performance management and governance is therefore an essential feature of modern organizational management (Armstrong, 2006). It enables an organization to continuously monitor and improve its performance in order to achieve its strategic goals (Dessler, 2005). Research has shown that a company emphasizes performance when a substantial portion of its employees pay is tied to individual or group contributions and the amount received can vary significantly from one person or group to another (Gomez-Meija et al, 2008).

There is need for a theoretical link on how human resources management and performance are related. According to Cook (2000) performance is enhanced by systems of practices (bundled human resource practices) that support each other and have a mutually reinforcing effect on employee contribution to performance. There is a symbiotic relationship between human resources strategy and performance in the manufacturing sector (Cook, 2000; Barney, 2000; Paterson et al, 2006). However we may not conclusively generalize this to the banking sector due to the fragility of banking.

HRM strategies can improve productivity by: 1) increasing employee skills and abilities; 2) promoting positive attitudes and increasing motivation, and 3) providing employees with expanded responsibilities so that they can make full use of their skills and abilities. Performance indicators include: financial (profits), market share, efficiency, reliability, flexibility among others. The aim of human resource strategy is to devise ways of managing people in order to assist in achievement of organizational objectives. Participation of individuals and team transforms exchanges from economic to social. According to Mahoney and Watson (1993) employee involvement has a beneficial impact on performance.

Employee relations strategies

The term employee relation has been used synonymously with industrial relations and employment relations. According to Lewis et al (2003) Industrial Relations is associated with the declining " Smokestack" industries and blue collar workers and the accompanying emphasis upon Collective Bargaining Agreements between employers and Trade Unions. Employee relations suggests a wider employment canvas being covered with equal importance attached to non union employment arrangements and white collar jobs. It is concerned with the social economic relationship that forms and revolves around a contract between the parties to perform work in return for employment benefits such as remuneration (Perkins & Shortland, 2006). The emphasis on both employee relations and industrial relations is on participation, process and practices (Salamon, 2000; Lewis et al.*,* 2003).

The employment relationship is an economic, social and political relationships in which employees provide manual and mental labour in exchange for rewards by employers (Lewis, Thornhill & Suanders, 2003). Due to increased global competition over the last three decades, organizations have emphasised on labour efficiency and cost control (Perkins & Shortland, 2006). This has called for effective employee relations strategies that enable the employees to dedicate their energy to the achievement of organizational goals.

Employee relations shows the existence of a psychological contracts that is different from any other relationships (Lewis *et al,* 2003). There is a non formalized kind of psychological contract which is based on what each party expects from the other and is different from the normal written and legal expectations of the parties from each other. Perkins and Shortland (2006) argue that the socio political relations around employment are not static hence it is important to consider the future of the bipartite and/or tripartite employment systems context for determining the employment relations outcomes.

According to Pearce and Robinson (2009) firms actively seek good employee relations whether or not they are bound by union contacts. Proactive steps in anticipation of employee needs and expectations are therefore characteristic of strategic managers. Organizations should strive to satisfy their employees with good pay, good supervision and good stimulating work (Pearce & Robison, 2009). Employee satisfaction is related to customer satisfaction. Managers believe that productivity is linked to loyalty and to appreciation of manager's interests in employee welfare.

According to Harzing and Ruysseveldt (2004) there are many national characteristics that influence the way in which firms are organized and managed, for example, as put forward by Porter; attitudes towards authority, norms of interpersonal relationships, social norms of individual or group behavior, and professional standards. Porter places special emphasis on labour management relationships because he believes they are central to the ability of the firm to improve and innovate.

Employee participation involves direct participation of employees and also trade union representation. According to Lewis at al (2003) the direct part personally involves employees directly in decisions that go beyond their immediate work tasks. Employee involvement is based on the fact that participation in goal setting has been found to be related to the acceptance and subsequent commitment to the established goals, leading to favourable outcomes in terms of performance and attitudes (Harzing & Ruysseveldt, 2004). Lewis et al (2003) advocates a managerial policy where employees and employers share goals and agree on the means to achieve them. This he believes will elicit employees commitment which in turn will yield both better economic performance and greater human development.

Managers should give employees responsible autonomy (Lewis et al*,* 2003). This involves giving employees the opportunity to have control over their own work situations in a manner that benefits the organization (Lewis *et al*, 2003). Managers give employees status, authority and responsibility. This is based on McGregor theory Y which assumes that employees are responsible people who seek responsibility and are creative. This helps to win employees loyalty and attempts to get employees to adopt the organizational goals. According to Lewis *et al* (2003) direct control has declined with the realization by employers that greater productivity can be achieved using a strategy of responsible autonomy (Lewis *et al*, 2003).

Related to employee relations is employee communication which helps in communicating the strategies of the organization to all the employees. In the era of increasing public accountability it is imperative that organizations can communicate vision and strategy and demonstrate progress and outcomes in achieving that vision. According to Ivancevich *et al* (1997) top management should play a role in communicating the strategy to the organizations employees and other stakeholders. Effective communication makes sure people have the information they need and is the foundation for any good relationship. Being honest and open with employees is especially important at a time when they may be dealing with serious concerns outside of the office. According to Harzing and Ruysseveldt (2004) communication of tasks to be performed should occur with extensive employee involvement and in the context of both immediate positions and the whole organization. As their leader you have the responsibility to lessen any stress they might be feeling by communicating openly. Effective communication is absolutely critical to successful integration of employee**.** Performance expectations, if not properly communicated, are far more difficult to re-work after the fact. Management's openness to staff members' input, feedback, ideas and suggestions is the cornerstone of good communications and strong employee relationships. Everybody wins when they are all part of a supportive team.

RESEARCH DESIGN AND METHODOLOGY

Research design

The method adopted by this study was specifically a survey research**.** This adopted the mixed method approach utilizing both qualitative and quantitative methods. Qualitative approach was used to supplement and strengthen the quantitative aspects and provide an opportunity for the researcher to observe the application of employee relations strategies first hand. The characteristics of the banks and their employees were completely and accurately described to minimize bias and ensure reliability.

Study population and sample

The population of the study was all the headquarters of the 46 banks in Kenya with a total of 2,738 employees. This is because most of the strategic decisions of banks are made at the headquarters and then cascaded down to the branch levels. The study targeted the CEOs, HR managers, Operations managers and other employees of the commercial banks in Kenya.

It was not possible to study all members of the population since it would have involved tremendous amounts of time and resources. As a result a sample was selected and studied to represent the entire population. An optimum sample of 349 employees, which fulfils the requirements of efficiency, representativeness (Kothari, 2004; Mugenda & Mugenda, 1999), reliability and flexibility, was selected based on cost, accepted confidence level and size of the population.

Sampling was done using the multi stage approach involving purposive sampling and stratified sampling methods. Due to the small number and the importance of the managerial cadre in this study, a census was adopted in which all the said managers were purposively selected and involved in the study.

Other employees were selected using stratified random sampling because this method enables the researcher to achieve the desired representation from the various subgroups in the population (Mugenda & Mugenda, 1999; Kothari, 2004; Cooper & Schindler, 2006). This according to Mugenda and Mugenda (1999) gives the researcher confidence that if another sample of the same size is selected the findings from the two samples will be similar to a high degree. This method also gives each employee in the organization an equal chance to be selected.

Data collection instruments and procedures

Both primary and secondary data were collected. The major primary data collection instruments (information collected for the first time) that were used are questionnaires and interviews which were self administered. Secondary data (the already available data which had been collected and analyzed by someone else) was collected from relevant documentaries as well as company publications.

Questionnaires were distributed to the respondents and duration of two weeks given to fill them. The researcher then made follow-up calls to ensure that adequate response was obtained from the respondents. In cases where the questionnaire had not been received after follow up telephone calls, additional copies of the questionnaire and a reminder letter were send to the respondents, followed by a final follow up telephone call. Interviews were conducted by the researcher only.

Data analysis procedures

The collected data was processed and organized for statistical analysis. During the process age, gender and academic were treated as control variables and were therefore tested to establish how they affect performance. Data analysis involved first coding the responses; tabulating the data; and performing several statistical computations (i.e. averages, frequencies, percentages and regression coefficients). Cronbach's Alpha test was used to test internal reliability. The Pearson's correlation coefficient was used to show the direction and magnitude of the interrelationship between variables. SPSS (Statistical Package for Social Sciences) software program was used for in-depth data analyses. Analyzed data was then presented using tables, pie charts, percentages and text.

Ethical Issues

According to McNamara (1994) ethical concerns in research deal with voluntary participation, no harm to respondents, anonymity and confidentiality, identifying purpose and sponsor, and analysis and reporting. To help eliminate or control any ethical concerns the researchers made sure that participation was completely voluntary but this can sometimes lead to low response rate which can in turn introduce response bias (McNamara, 1994). To encourage a high response rate, Dillman (2000) suggests multiple contacts. For this study, up to five contacts were made per potential participant. To avoid possible harm such as embarrassment or feeling uncomfortable about questions to respondents, the study did not include sensitive questions that could cause embarrassment or uncomfortable feelings.

DATA ANALYSIS AND PRESENTATION OF FINDINGS

Data were analyzed to identify, describe and explore the relationship between Human resources management strategies and performance of commercial banks in Kenya. Data were obtained using a semi structured interview and a self administered questionnaires, completed by 314 people (n=314) out of a sample of 349 employees.

Every data set contains some errors which can significantly affect the final statistical results and lead to drawing wrong conclusions if the errors have not been rooted out. In this study, data cleaning involved firstly examining and correcting the key variables. This involved detection and then correction of errors in the data set. Cleaning involved using SPSS to conduct consistency checks in order to identify the data, which are out of range, logically inconsistent or have extreme values. The missing responses were treated carefully to minimize their adverse effects by assigning a suitable neutral value or discarding them methodically. Errors that were easily detectable including data entry and respondent errors were also corrected. Data entry errors included mistyping responses, entering data out of range or leaving an answer blank when a valid response was included in the questionnaire. Respondent errors included failing to accurately follow a skip pattern, writing a response that is difficult to interpret or providing false answers.

Response rate

Out of a total of 349 questionnaires a total of 325 questionnaires were filled and returned. However, only 314 questionnaires were usable for this study and met the required inclusion criteria. This represented 89.7% response. According to Mugenda and Mugenda (2003) a response rate of more than 10% of the sample is adequate for data analysis. Cooper and Schindler (2003) also argues that a response rate exceeding 30% of the total sample size provides enough data that can be used to generalize the characteristics of a study problem as expressed by the opinions of few respondents in the target population. This also meets the acceptable response rate, 40%, as suggested by Sekaran (2000).

Therefore, the 89.7 % response rate was adequate for the researcher to proceed with data analysis and interpretation.

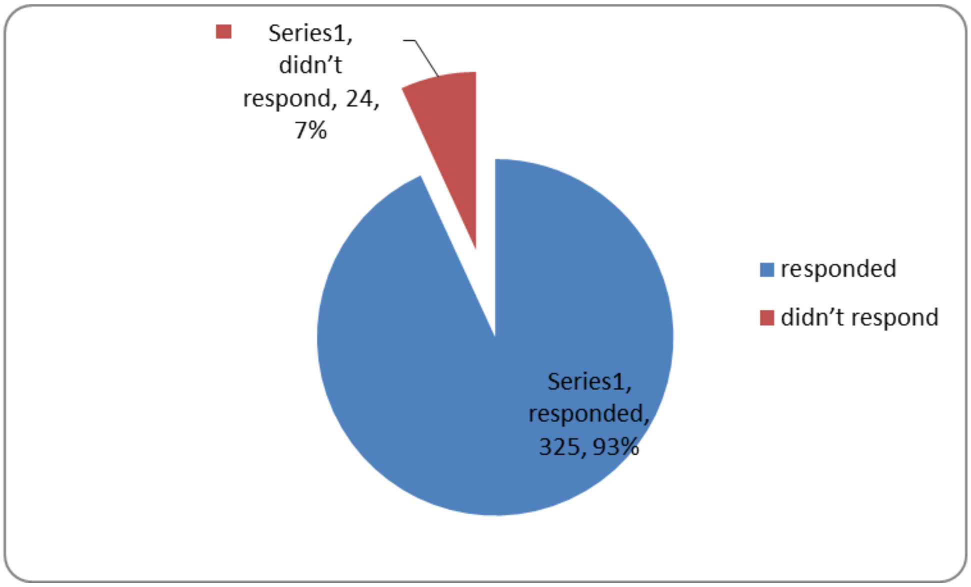


Figure 1. Response rate

Demographic characteristics

Although it was not part of the purpose of the study, this set of data was intended to describe demographic characteristics of the sample and to assess for any influence on the research findings. The study found it crucial to ascertain the broad information of the respondents since it plays a great role in determining the nature of information provided in terms of accuracy. The analysis relied on the information of the respondents to classify the different results according to their knowledge and responses. The demographic data consisted of age, sex, years of experience, educational level, monthly salary working capital and size of the bank. For this study age, gender and academic were treated as control variables.

When descriptive analysis was done on the demographic characteristics, it was found that gender had a mean of 1.4586 and a standard deviation of 0.49908, age had a mean of 2.9682 and a standard deviation of 0.89671, academic qualification had a mean of 3.2930 and a standard deviation of 0.98397, number of years worked had a mean of 2.5064 and a standard deviation of 1.41927, monthly salary had a mean of 4.0701 and a standard deviation of 1.18357, bank ownership had a mean of

2.8662 and a standard deviation of 0.14225, number of employees had a mean of 5.6083 and a standard deviation of 1.96846, annual turnover had a mean of 2.8949 and a standard deviation of 0.30717, registered capital had a mean of 2.6338 and a standard deviation of 0.54475 while the dependent variable (performance) had a mean of 2.3863 and a standard deviation of 0.77725. The results of this analysis are shown in Table 1.

Table 1. Descriptive analysis on the demographic characteristics

Descriptive Statistics

	Mean	Std. Deviation	N
Gender	1.4586	.49908	314
Age	2.9682	.89671	314
Academic qualification	3.2930	.98397	314
Number of years worked	2.5064	1.41927	314
Monthly salary	4.0701	1.18357	314
Bank ownership	2.8662	1.14225	314
Number of employees	5.6083	1.96846	314
Annual turnover	2.8949	.30717	314
Registered capital	2.6338	.54475	314
Performance	2.3863	.77725	314

Factor analysis on employee relations strategies

When factor analysis on employee relations was done only one component was extracted for the 13 items. However three items were dropped from further analysis because they had loading values that were lower than 0.4. Analysis of the factor loading revealed that good employee relations lead to increased performance in this bank had the highest loading value of 0.888. The loading values of other items were as follows: employee relations affects the profits of your bank had a loading value of 0.877, employee relations affects your banks market share by attracting customers had a loading value of 0.865, employee relations affects the rate of growth of this bank had a loading value of 0.824, a formal environment is sustained between employees and managers/ supervisors had a loading value of 0.816, the nature of relationship between employees and the managers affects the employee performance had a loading value of 0.697, the bank involves the employees and unions in making decisions that affect employees had a loading value of 0.648, employee performance affects the performance of this bank had a loading value of 0.571, employees are provided opportunity to suggest improvements in the way things are done here had a loading value of 0.529 while the employees in the bank are asked by their superiors to participate in operations related decisions had a loading value of 0.406. The following items were dropped from further analysis because they had loading values of less than 0.4: employees in the bank are allowed to make decisions related to cost and quality matters with a loading value of 0.330, an informal / family like environment is sustained between employees and managers/ supervisors in this bank with a loading value of 0.179 and the bank strives to maintain a harmonious work environment with a loading value of 0.143. This information is presented in table 2.

Table 2. Component matrix showing Factor loading on employee relations strategies

Component Matrix[a]

	Component
	1
Good employee relations lead to increased performance in this bank	.888
Employee relations affects the profits of your bank	.877
Employee relations affects your banks market share by attracting customers	.865
Employee relations affects the rate of growth of this bank	.824
A formal environment is sustained between employees and managers/ supervisors	.816
The nature of relationship between employees and the managers affects the employee performance	.697
The bank involves the employees and unions in making decisions that affect employees	.648
Employee performance affects the performance of this bank	.571
Employees are provided opportunity to suggest improvements in the way things are done here.	.529
Employees in the bank are asked by their superiors to participate in operations related decisions.	.406
Employees in the bank are allowed to make decisions related to cost and quality matters.	**.330**
An informal / family like environment is sustained between employees and managers/ supervisors in this bank	**.179**
The bank strives to maintain a harmonious work environment	**.143**

Note: The bolded item was dropped from further analysis

Reliability analysis for employee relations strategies

When reliability analysis was done using Cronbach's Alpha for the items, before removing and after removing the inadequate indicator, it was found that the value was 0.885 before removing while it reduced to 0.669 after removing the inadequate indicator. This information is shown in Table 3.

Table 3. Reliability analysis for employee relations strategies

Reliability Statistics

Cronbach's Alpha	**Cronbach's Alpha Before Extracting a**	**Number of Items**
Before removing the inadequate Indicator	0.885	13
After removing the inadequate Indicator	0.669	10

Reliability analysis for performance

When reliability analysis was done using Cronbach's Alpha for the items, before removing and after removing the inadequate indicator, it was found that the value was 0.939 before removing while it increased to 0.943 after removing the inadequate indicator. This indicates that the data was reliable since a coefficient value of between 0.939 was obtained on the research variables. This was above 0.75 and an alpha coefficient higher than 0.75 signifies that the gathered data has a relatively high internal consistency and could be generalized to reflect the respondents opinions on the study problem. This information is shown in Table 4.

Table 4. Reliability analysis for performance

Reliability Statistics

Cronbach's Alpha	**Cronbach's Alpha Before Extracting a**	**Number of Items**
Before removing the inadequate Indicator	0.939	18
After removing the inadequate Indicator	0.943	16

Factor Analysis on specific performance indicators

When factor analysis was done on the factors that were used to show performance, it was discovered that out of the all the items, only one factor/ component was selected. From the given table, the component comprises of the following items: Profitability, Return on assets, Growth rate of sales revenue, Return on investment, Return on equity, Market share and Financial strength e.g. liquidity. The associated probability in the Bartlett's test of Sphericity is lower than 0.05 (0.000) therefore it is small enough to reject the null hypotheses. This means that the correlations matrix is not an identity matrix. This information is shown in Table 5.

Table 5. KMO and Bartlett's Test

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.915
Bartlett's Test of Sphericity	Approx. Chi-Square	2135.007
	Df	21
	Sig.	.000

Further analysis revealed that profitability had the highest extraction value at 0.852, return on assets had an extraction value of 0.851, growth rate of sales revenue had an extraction value of 0.830, return on investment had an extraction value of 0.797, return on equity had an extraction value of 0.767, market share had an extraction value of 0.660 and financial strength e.g. Liquidity had the lowest extraction value of 0.439. This information is shown in Table 6.

Table 6. Commonalities on specific performance indicators

Commonalities

	Initial	Extraction
Market share	1.000	.660
Growth rate of sales revenue	1.000	.830
Financial strength e.g. liquidity	1.000	.439
Return on equity	1.000	.767
Return on assets	1.000	.851
Profitability	1.000	.852
Return on investment	1.000	.797

Extraction Method: Principal Component Analysis

Analysis was also done to show all the factors extractable from the analysis along with the Eigen values, the percent of variance attributable to each factor and the cumulative variance of the factor and the previous factors. From the analysis it was found that the first factor (profitability) accounts for 74.2% variance. All the other factors are not significant. These results are shown in Table 7.

Table 7. Total variance of performance explained

Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	5.196	74.232	74.232	5.196	74.232	74.232
2	.757	10.808	85.040			
3	.399	5.703	90.744			
4	.196	2.799	93.542			
5	.178	2.548	96.091			
6	.150	2.145	98.236			
7	.123	1.764	100.000			

Extraction Method: Principal Component Analysis

Rotation was also done to reduce the number of factors on which the variables under investigation have high loadings. From the analysis it was found that all the items were substantially loaded on the one factor (component). Profitability and return on assets had the highest loading of 0.923, growth of sales revenue had a loading of 0.911, Return on investment had a loading of 0.893 , Return on equity had a loading of 0.876, Market share had a loading of 0.812 while Financial strength e.g. liquidity had the lowest loading of 0.663. These results are presented in Table 8.

Table 8. Component matrix on specific performance indicators

Component Matrix[a]

	Component
	1
Profitability	.923
Return on assets	.923
Growth rate of sales revenue	.911
Return on investment	.893
Return on equity	.876
Market share	.812
Financial strength e.g. liquidity	.663

Extraction Method: Principal Component Analysis.
a. 1 components extracted.

Descriptive statistics analysis

Analysis of the responses to the statement that employees in the bank are asked by their superiors to participate in operations related decisions revealed that 12.4% of the respondents strongly agreed, 38.2% agreed, 30.9% were neutral, 14% disagreed while 4.5% strongly disagreed. Further analysis revealed a mean of 2.5987 and a standard deviation of 1.01968, meaning that the majority of the respondents agreed that employees in the bank are asked by their superiors to participate in operations related decisions. This means that there is involvement of employees in the affairs of the banks.

When the responses to the statement that the employees are provided opportunity to suggest improvements in the way things are done here were analyzed it was found that 1.3% of the respondents strongly agreed, 66.2%, agreed, 24.8% were neutral, 7.6% disagreed while none strongly disagreed. Further analysis revealed a mean of 2.3885 and a standard deviation of 0.64595, meaning that the majority of the respondents agreed that employees are provided opportunity to suggest improvements in the way things are done here. This means that banks consult their employees on how to improve the performance.

Analysis of the responses to the statement that the bank involves the employees and unions in making decisions that affect employees revealed that 22% of the respondents strongly agreed, 42% agreed, 15.3% were neutral, 18.2% disagreed while 2.5% strongly disagreed. Further analysis revealed a mean of 2.5032 and a standard deviation of 0.96006, meaning that the majority of the respondents agreed that the bank involves the employees and unions in making decisions that affect employees. This means that there is involvement of employees in the running of the banks either individually or through unions.

When the responses to the statement that the nature of relationship between employees and the managers affects the employee performance were analyzed it was found that 24.8% of the respondents strongly agreed, 47.5% agreed, 20.7% were neutral, 0.6% disagreed while 6.4% strongly disagreed. Further analysis revealed a mean of 2.3726 and a standard deviation of 1.09224, meaning that the majority of the respondents agreed that the nature of relationship between employees and the managers affects the employee performance. Therefore it is important to keep good relations between management and employees in order to improve performance.

Analysis of the responses to the statement that employee performance affects the performance of this bank revealed that 21.3% of the respondents strongly agreed, 60.5% agreed, 18.2% were neutral, none disagreed or strongly disagreed. Further analysis revealed a mean of 2.1624 and a standard deviation of 1.01540, meaning that the majority of the respondents agreed that employee performance affects the performance of this bank. If the employees perform well then the bank also performs well and vice versa.

When the responses to the statement that a formal environment is sustained between employees and managers/ supervisors were analyzed it was found that 17.2% of the respondents strongly agreed, 54.1% agreed, 20.4% were neutral, 1.3% disagreed while 7% strongly disagreed. Further analysis revealed a mean of 1.9682 and a standard deviation of 0.62861, meaning that the majority of the respondents agreed that a formal environment is sustained between employees and managers/ supervisors

Analysis of the responses to the statement that good employee relations lead to increased performance in this bank revealed that 22.9% of the respondents strongly agreed, 62.4% agreed, 7.6% were neutral, 7% disagreed while none strongly disagreed. Further analysis revealed a mean of 2.3057 and a standard deviation of 4.07856, meaning that the majority of the respondents agreed that good employee relations lead to increased performance in this bank.

When the responses to the statement that the employee relations affects the profits of your bank were analyzed it was found that 22.9% of the respondents strongly agreed, 54.1% agreed, 19.7% were neutral, 3.2% disagreed while none strongly disagreed. Further analysis revealed a mean of 2.2675 and a standard deviation of 0.99444, meaning that the majority of the respondents agreed that employee relations affect the profits of the bank. This means that employee relations affect profits of commercial banks.

Analysis of the responses to the statement that employee relations affects a banks market share by attracting customers revealed that 21.7% of the respondents strongly agreed, 48.7% agreed, 27.1% were neutral, 2.5% disagreed while none strongly disagreed. Further analysis revealed a mean of 1.9873 and a standard deviation of 0.76661, meaning that the majority of the respondents agreed that employee relations affect the banks market share by attracting customers. If the bank has good employee relations the image of the bank is improved leading to more customers been attracted to open accounts.

When the responses to the statement that the employee relations affects the rate of growth of this bank were analyzed it was found that 23.6% of the respondents strongly agreed, 52.9% agreed, 14%

were neutral, 9.6% disagreed while none strongly disagreed. Further analysis revealed a mean of 2.0318 and a standard deviation of 0.74491, meaning that the majority of the respondents agreed that employee relations affect the rate of growth of this bank. Therefore from analysis of this section it is found that good employee relations affect the performance and growth of commercial banks. The response to the statements is presented in Table 9.

Table 9. Descriptive statistics on employee relations strategies

	Strongly agree	Agree	Neutral	Disagree	Strongly Disagree	Mean	SD
Employees in the bank are asked by their superiors to participate in operations related decisions.	12.4%	38.2%	30.9%	14.0%	4.5%	2.5987	1.01968
Employees are provided opportunity to suggest improvements in the way things are done here.	1.3%	66.2%	24.8%	7.6%	.0%	2.3885	.64595
The bank involves the employees and unions in making decisions that affect employees	22.0%	42.0%	15.3%	18.2%	2.5%	2.5032	.96006
The nature of relationship between employees and the managers affects the employee performance	24.8%	47.5%	20.7%	.6%	6.4%	2.3726	1.09224
Employee performance affects the performance of this bank	21.3%	60.5%	18.2%	.0%	.0%	2.1624	1.01540
A formal environment is sustained between employees and managers/ supervisors	17.2%	54.1%	20.4%	1.3%	7.0%	1.9682	.62861
Good employee relations lead to increased performance in this bank	22.9%	62.4%	7.6%	7.0%	.0%	3.3057	4.07856
Employee relations affects the profits of your bank	22.9%	54.1%	19.7%	3.2%	.0%	2.2675	.99444
Employee relations affects your banks market share by attracting customers	21.7%	48.7%	27.1%	2.5%	.0%	1.9873	.76661
Employee relations affects the rate of growth of this bank	23.6%	52.9%	14.0%	9.6%	.0%	2.0318	.74491

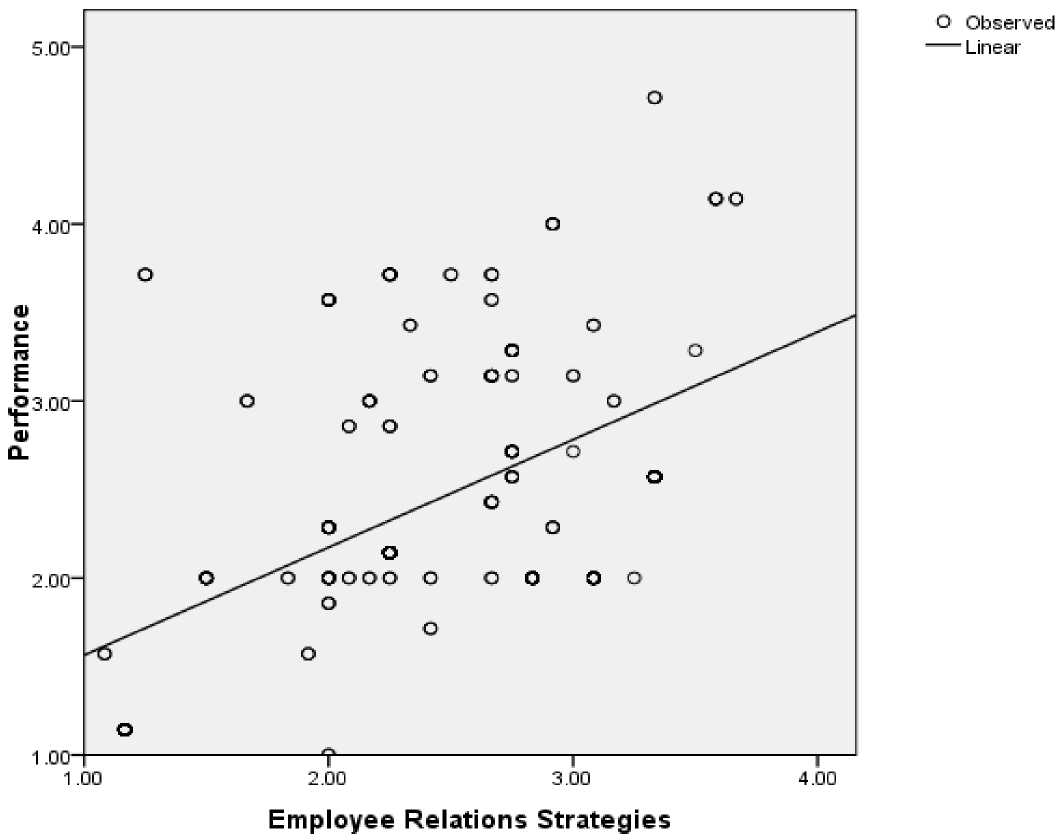
Research hypotheses test results

In order to achieve the objectives designed for this study, the research hypotheses were tested. The statistical test results (regression and correlation analyses) of each null hypothesis at 95% confidence level are as shown in the hypotheses that follow:

H4: Employee relations strategies have a significant effect on the performance of commercial banks in Kenya.

From the research it was found that there is a positive linear relationship between employee relations strategies and Performance of commercial banks in Kenya. This shows that the two variables co-vary. Therefore as employee relations strategies are used by commercial banks the performance also improves. These results are shown in Figure 2.

Figure 2. Scatter Plot and Regression Line showing the relationship between employee relations strategies and performance



Correlation analysis was done in order to determine the existence of a relationship and the nature of relationship between employee relations strategies and Performance of commercial banks in Kenya. A Pearson correlation coefficient of 0.513 (p-value = 0.000) was obtained. This confirms that there is a significant positive linear relationship between employee relations strategies and Performance of commercial banks. This means that the variables co-vary. The results of the analysis are shown in Table 10.

Table 10. Correlations coefficient showing the relationship between employee relations strategies and performance

Correlations

		Performance	Employee relations strategies
Performance	Pearson Correlation	1	.513**
	Sig. (2-tailed)		.000
	N	314	314
Employee relations strategies	Pearson Correlation	.513**	1
	Sig. (2-tailed)	.000	
	N	314	314

**. Correlation is significant at the 0.01 level (2-tailed).

Regression analysis was done to determine the effect of employee relations strategies on the performance. This analysis of the employee relations strategies obtained an adjusted R^2 of 26.1%. This implies that the simple linear model with employee relations strategies as the independent variable explains 26.1% of the variations in performance. This means that when employee relations strategies were used the performance of commercial banks changed by 26.1%. These results are shown in Table 11.

Table 11. Model summary showing employee relations strategies

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.513[a]	.263	.261	.66832

a. Predictors: (Constant), Employee relations strategies

Table 12. ANOVA results showing the effect of employee relations strategies on performance

ANOVA[b]

Model		Sum of squares	Df	Mean square	F	Sig.
1	Regression	49.737	1	49.737	111.358	.000[a]
	Residual	139.353	312	.447		
	Total	189.091	313			

a. Predictors: (Constant), Employee relations strategies

b. Dependent Variable: Performance

A regression analysis was done to determine the effect employee relations strategies on performance of commercial banks in Kenya. From the analysis a P-value less than 0.05 (p-value = 0.0000) was obtained. This implies that the simple linear model with employee relations strategies as the only independent variable is significant. These results are shown in Table 12.

Table 13. Coefficient results showing the relationship between employee relations strategies and performance

Coefficients(a)

Model		Unstandardized coefficients		Standardized coefficient		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.956	.141		6.790	.000
	Employee relations strategies	.609	.058	.513	10.553	.000

a Dependent Variable: PERFORMANCE

Correlation coefficients show that employee relations strategies is significant (p-value = 0.0000) in influencing performance. The results of the analysis are shown in Table 13. The fitted model from this analysis is:

$$Y = 0.956 + 0.609X_3$$

Hypotheses test results suggest that employee relations strategies positively affect business performance. The regression results support this hypothesis. This finding is consistent with studies by Lee and Lee, (2007); Ahmad and Schroeder, (2003) and Abdullah, Ahsan and Alam, (2009) which found that employee relations strategies have a significant relationship with business performance.

Effect of gender on the perception of employees about the effect of employee relations strategies on performance of commercial banks in Kenya.

A Chi square test was done to test if there is a significant effect of gender on the perception of employees about the effect of employee relations strategies on performance of commercial banks in Kenya. Since p (0.000) is less than alpha (α = .05) we conclude that with the obtained data there is evidence of a significant effect of gender on the perception of employees about the effect of employee relations strategies on performance of commercial banks in Kenya. The chi square value is 20.733. This means that gender affects the way the employees perceive employee relations strategies affects performance of commercial banks in Kenya. These findings are presented in Table 14.

Table 14. Chi square test showing the effect of gender on employee perceptions about the effect employee relations strategies on performance.

Chi-Square Tests

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	20.733[a]	2	.000
Likelihood Ratio	20.939	2	.000
N of Valid Cases	314		

a. 2 cells (33.3%) have expected count less than 5. The minimum expected count is 3.21.

Effect of age on the perception of employees about the effect of employee relations strategies on performance of commercial banks in Kenya.

A Chi square test was done to test if there is a significant effect of age on the perception of employees about the effect of employee relations strategies on performance of commercial banks in Kenya. Since p (0.000) is less than alpha (α = .05) we conclude that with the obtained data there is evidence of a significant effect of age on the perception of employees about the effect of employee relations strategies on performance of commercial banks in Kenya. The chi square value is 78.650. This means that age affects the way the employees' perceive employee relations strategies affects performance of commercial banks in Kenya. These findings are presented in Table 15.

Table 15. Chi square test showing the effect of age on employee perceptions about the effect employee relations strategies on performance

Chi-Square Tests

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	78.650[a]	8	.000
Likelihood Ratio	51.183	8	.000
N of Valid Cases	314		

a. 7 cells (46.7%) have expected count less than 5. The minimum expected count is .09.

Effect of number of years worked on the perception of employees about the effect of employee relations strategies on performance of commercial banks in Kenya.

A Chi square test was done to test if there is a significant effect of number of years worked on the perception of employees about the effect of employee relations strategies on performance of commercial banks in Kenya. Since p (0.000) is less than alpha ($\alpha = .05$) we conclude that with the obtained data there is evidence of a significant effect of number of years worked on the perception of employees about the effect of employee relations strategies on performance of commercial banks in Kenya. The chi square value is 135.896. This means that the number of years worked affects the way the employees perceive employee relations strategies affects performance of commercial banks in Kenya. These findings are presented in Table 16.

Table 16. Chi square test showing the effect of number of years worked on employee perceptions about the effect employee relations strategies on performance

Chi-Square Tests

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	135.896[a]	8	.000
Likelihood Ratio	74.302	8	.000
N of Valid Cases	314		

a. 5 cells (33.3%) have expected count less than 5. The minimum expected count is .36.

Discussion of Findings

From the study, it was found that there is a significant positive effect of employee relations strategies on the performance of commercial banks in Kenya. From the study results it was found that when employee relations strategies were used the performance of commercial banks changed by 26.1%. The result is consistent with the argument of Whitener (2001) social exchange theory and social identity theory, indicating that employees who feel they are appreciated by their organization may perceive high status in the organization and may reciprocate an organization by increasing their contribution to the achievement of the goals of the organization (Flynn, 2005; Fuller et al., 2003). This in turn leads to improved individual as well as organizational performance.

The performance of commercial banks that have maintained good employee relations (according to the responses from employees and based on number of conflicts reported, communication, involvement in decision making e.t.c.) over the last five years was compared with that of the banks that did not have good employee relations. It was found that banks that have good employee relations had higher performance in terms of market share, loan sales, revenue, financial strength (e.g. Liquidity), return on equity, return on assets, profitability and return on investment. For instance interviews with the CEO of one bank which has maintained constant communication and involvement of employees in decision making was found to have improved its performance by over 40% during the last 5 years.

From this research it was found that, employee relations leads to intrinsic motivation and motivational practices affect employee performance positively. The performances of commercial banks were employees said they “felt motivated” was compared with that of other banks. It was found that banks with “motivated” employees had higher performance in terms of market share, loan sales, revenue, financial strength (e.g. Liquidity), return on equity, return on assets, profitability and return on investment. Motivated employees are inclined to be more productive than non-motivated employees. These findings are consistent with previous studies by Khan, (2012); Chaudhary and Sharma, (2012) and Chaudhry, Sohail and Riaz, (2013).

FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

Summary of Findings

From this research, it was found that there is a positive correlation between employee relations strategies used and performance of commercial banks in Kenya. Employee relations were found to contribute to a 26.1% variance in performance of commercial banks. This is consistent with findings from a similar study by Chenevert and Trembly (2009) who found that good employee relations have a positive effect on performance. The study found out that existence of poor employee relations between the junior staff and the senior management staff in many banks affected participation of junior staff in decision making process. This negatively affected realization of increased banks financial performance since most of the skilled and experienced junior staff were not given an opportunity to guide and participate in formulation of key decisions on strategic execution of organization job task functions. If employee relations were positive, the employees were found to commit themselves to achieve the goals of the bank which in turn led to improved bank performance. It was also found that with improved employee relations there was no time wasted in unnecessary conflicts between the employees and the employer.

The results of this study show a positive effect of quality of communication between managers and staff and between employees among themselves on performance. When there was proper, continuous and efficient communication between employees and management and also with the unions it was found that the levels of trust increased and this in turn led the employees to be ready and willing to undertake their duties responsibly. The employees were also willing to accept changes aimed at improving the performance of the bank. It was also found from this study that despite the fact that there was a union serving the interest of bank employees, most unionisable bank employees do not belong to any union. Interviews with the affected employees revealed that the affected banks do not allow their employees to join unions for fear of the possible "incitement" of the employees by union officials.

The study noted that existence of poor employee relations negatively affects participation of all the employees in implementation of the banks strategic objectives that were meant to support achievement of increased bank performance. These findings were in agreement with findings by Cowling (2009) that lack of good employee relations with senior management hinders participation of junior staff in decision making process on matters relating to implementation of organization strategic objectives and this negatively affects realization of increased organization performance. These findings also supported findings by Ulrich (2007) that working environment characterized with poor employee relations influences application of poor leadership styles that negatively affects realization of organization performance. It was identified that poor employee relations hindered recognition and utilization of employee talents and this affected effective contribution of the talented staff towards realization of banks performance. From the obtained data it was also found that there is evidence of a significant effect of gender, age and number of years worked on the perception of employees about the effect of employee relations strategies on the performance of commercial banks in Kenya.

Conclusions

From this study it is concluded that employee relations strategies affect the performance of commercial banks to a great extent. Employee relations contribute to a significant 26.1% variance in performance of commercial banks. This is consistent with findings from a similar study by Chenevert and Trembly

(2009), Ivancevich *et al* (1997) as well as Harzing and Ruysseveldt (2004) who found that employee relations have a positive effect on performance. Overall findings of this study are also in support of Qureshi et al (2010) study which found organizational commitment as having a positive effect on performance among Pakistani bankers. The study found out that if employee relations were positive, the employees were found to commit themselves to achieve the goals of the bank which in turn led to improved bank performance. It is concluded that involvement, appreciation and recognition of employees and employees' tasks fulfillment stimulates them towards working with more energy and dedication to the organization. Employees who feel they are appreciated by the bank perceive high organizational status thus producing positive cognition and role behavior. The motivated employees' work best in the interest of the organizations which leads them towards growth, prosperity and productivity. From this research, it was found that there is a positive correlation between employee relations strategies used and performance of commercial banks in Kenya.

From the results of this study it is concluded that there is a positive effect of quality of communication between managers and staff and between employees among themselves and through unions on performance. This supports previous arguments by Ivancevich *et al* (1997) and Harzing and Ruysseveldt (2004) that effective communication is absolutely critical to successful integration of employees**.** These is also supported with findings by Ulrich (2007) that working environment characterized with poor employees relation influences application of leadership styles that negatively affects realization of organization performance. The study noted that existence of poor employee relations negatively affects participation of all the employees in implementation of the banks strategic objectives that were meant to support achievement of increased bank financial performance. These findings were in agreement with findings by Cowling (2009) that lack of good employee relations with senior management hinders participation of junior staff in decision making process on matters relating to implementation of organizational strategic objectives and this negatively affects realization of increased organization performance. According to Pearce and Robinson (2009) firms actively seek good employee relations whether or not they are bound by union contacts. Organizations should strive to satisfy their employees with good pay, good supervision and good stimulating work (Pearce & Robison, 2009). According to Lewis *et al* (2003) direct control has declined with the realization by employers that greater productivity can be achieved using a strategy of responsible autonomy and good working relations.

Recommendations

Based on the findings and conclusions of the study, the researcher provides the following recommendations aimed at ensuring that the employee relations strategies adopted by commercial banks in Kenya play a positive role in ensuring the improved performance and competitive advantage of the commercial banks that adopt them.

Commercial banks that want to improve their performance should therefore ensure that the way they use employee relations strategies is unique in order to ensure that they are able to have a competitive edge over their competitors. Commercial banks also need to create and sustain cultures that enhance employee attachment to the service goals of the bank. Employees are bound to be much more productive when they work in a positive, supportive environment. Managers must strive to maintain an enjoyable, family-oriented atmosphere in which all employees focus on achieving team goals.

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