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## Influence of Economic Factors as Determinants of Collective Bargaining Agreement on the Performance of State Corporations in Kenya

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### **Abstract:**

*Collective bargaining agreements (CBA) are basic for any organization development and the nation's monetary advancement. Industrial unrests have been known to create disturbances at the work place and sometimes affect the entire operations thereby suppressing or stopping productivity. The industrial actions seem unending since most of their solutions are temporary. CBA are known to be useful in minimizing or ending industrial unrests. The study adopted descriptive survey since it sought to ascertain respondent's perceptions on the determinants of collective bargaining agreement in a structured manner. The objective populace of this investigation incorporated each of the 187 state companies in Kenya as of 27th April 2015. The unit of investigation was all the State Corporations in Kenya while the unit of perception was the Heads of Human Resources in every enterprise. The investigation utilized an example of 95 state organizations and gathered essential information utilizing a self-managed survey. The data was analysed using descriptive statistics comprising of mean, standard deviations, frequency distribution, percentages, factor analysis, correlation analysis as well as regression analysis. The study established that economic factors had a significant and positive influence on the performance of state corporations in Kenya. The study concluded that as a result of economic factors, performance of the corporations was affected. The study recommended that organizational leaders should embrace employee involvement and lead by example to promote employee performance.*

**Keywords:** Economic factors, Collective bargaining agreement, state corporations, tripartism, firm performance

## 1. Introduction

### 1.1. Background of the Study

Collective bargaining is a social process that continually turns disagreements into agreements (Blyton, Bacon, Fiorito & Heery, 2008). Armstrong (2012) adds that it provides a framework within which the views of management and unions about disputed matters that could lead to industrial disorder can be considered with the aim of eliminating the causes of the disorder. Nzuve (2010) adds that the process is collective because issues relating to terms and conditions of employment are solved by representatives of employees and employer in groups rather than as individuals.

The process of collective bargaining is bipartite in nature involving negotiations between employers and the employees, usually, without a third party's intervention (Bronwyn, 2010). Carrell and Heavrin (2012) note that State corporations are common with natural monopolies and infrastructure, such as railways and telecommunications, strategic goods and services natural resources and energy, politically sensitive business, broadcasting, demerit good, among others. At the level of local government, territorial or other authorities may set up similar enterprises which are sometimes referred to as Local Authority Trading Enterprises to participate in commercial activities on behalf of the government with activities include, establishment services, such as water supply as separate corporations or as a business unit of the authority participating in commercial activities.

Collective bargaining contributes to a solid foundation for the industrial relations systems in the EU Member States. Eurofound (2015) notes that it deals not only with wages and working conditions, but also supports mutual trust between the actors, provides a rule-governed arena for channeling industrial disputes, and contributes to general macroeconomic progress at national level and to business performance. Collective bargaining systems, frameworks and practices especially in the EU have come under some pressure in recent years (Glassner & Keune, 2010). State Corporations, commonly referred to

as Parastatals (in Kenya), are established within the provision of State Corporations Act Cap 446 of the laws of Kenya (GoK, 2011).

According to Njiru (2008), the Kenyan government forms State Corporations and gives them autonomy to meet both commercial and social goals. These corporations are useful in improving service delivery to the public. There are approximately 187 state corporations in Kenya today which are divided into eight broad functional categories based on the mandate and core functions: Financial Corporations, Commercial/ manufacturing Corporations, Regulatory Corporations, Public universities, Training and research Corporations, Service Corporations, Regional development authorities, Tertiary education and Training Corporations. The total number of State Corporations may have changed owing to time lapse and creation of new ones (GOK, 2012). Recently, there has been a move by the government to merge and dissolve some state corporations to improve efficiency and reduce the wage bill (mobi.nation, 2017).

Responsibility without authority is frustrating and authority without responsibility is pernicious (Tannenbaum, 2008). Unless a superior is willing to exercise less control and trust a subordinate, delegation is not possible in anything other than name. Effective leadership is seen as a potent source of management development and sustained competitive advantage for organizational performance improvement (Rowe, 2001). For instance, transactional leadership helps organizations achieve their current objectives more efficiently by linking job performance to valued rewards and by ensuring that employees have the resources needed to get the job done (Zhu, Chew & Spengler, 2005).

Mehra, Smith, Dixon and Robertson, (2006) argue that when some organizations seek efficient ways to enable them outperform others; a longstanding approach is to focus on the effects of leadership. a command and control approach to leadership uses top-down approach, which fits well in bureaucratic organizations in which privilege and power are vested in senior management (Kramer & Pittinsky, 2016). It uses standards, procedures, and output statistics to regulate the organization. Mello (2007) argues that transforming organizations are led by transforming leaders who appeal to human characteristics that lift their sights above the routine, everyday elements of a mechanistic, power-oriented system. Transformational leadership exhibits passionate inspiration (Kramer & Pittinsky, 2016) and visibly model appropriate behaviors.

### *1.2. Statement of the Problem*

According to Kenya's Vision 2030 (RoK, 2007), Kenya aims to create a globally competitive and adaptive Human Resource (HR) base through proper management, rewarding and steering towards global competitiveness, but at its current economic growth there is still need for boosted strategies to achieve sustained growth of 10%. There are currently 187 state corporations in Kenya (SCAC, 2017); state corporations are entities formed and owned by the government to meet both commercial and social goals, correct market failure, exploit social and political objectives, and redistribute income or develop marginal areas (Njiru, 2008). Corporations' performance may be hampered by poor relations, poor leadership, organizational structure among others hence the current institutional setup and the work ethics must embrace CB in order to achieve quality results.

CBA have the capacity to increase organizational performance which in turn leads to Gross Domestic Product (GDP) growth. According to Nyambura (2014), a percentage increase in sectoral performance in terms of productivity leads to an increase in wages by 0.05% while a percentage increase in Kenya's GDP leads to an increase in annual wages by 0.48%. According to Kamau (2017), the rising number of strikes across Africa, especially in the public sector, is a cause for concern given their operational scale, the costs involved, their length of time and their effect on organizational performance and GDP since many of the strikes in the public sector are driven by wage disputes; which may affect the ability of the country's GDP growth. If well executed, CBA are necessary to settle on the best rewards, benefits, working conditions and policies for employee development and consistent economic growth hence should be in the forefront in any organization. As pointed out, many of the CBA executed do not last long, industrial actions keep recurring and functioning of state corporations is affected hence it is the purpose of this study to establish the influence of economic factors as a determinant of collective bargaining agreement on the performance of State Corporations in Kenya.

### *1.3. Objective of the Study*

1. To determine the extent of economic factors as determinants of collective bargaining agreement of the performance of State Corporations in Kenya.

### *1.4. Research Hypotheses*

- H<sub>A</sub>: Economic factors in collective bargaining agreement have a significant effect on the performance of State Corporations in Kenya.

## **2. Literature Review**

### *2.1. Theoretical Framework*

#### 2.1.1. Efficiency Wage Theory

Classical traditions view individuals and entities as largely responsible for their own destiny (Sloane & Witney, 2004). The concept of 'sub-cultures of on traditions and economic status' implies that deficiencies may continue over time, owing to lack of appropriate role models, micro and macro factors and lack or inadequate state intervention, attitude among others. During negotiations, all members want to get to a better economic state so that they can improve their living standards while organizations would rather become capitalist to amass wealth for themselves and grow (Powell,

2002). Bewley (2004) notes that the unemployment benefits might affect the employment mechanism in that, if they are high enough, workers might be equal between being employed and unemployed hence it will in turn diminish the queues at the gates. He concludes that, many observations are predicted by models other than the efficiency wage model, and even within it, many phenomena can be explained by more than one sub-model.

According to Powell (2002), economic factors was viewed from their role to alleviate poverty, market responses in terms of demand and supply as well as the controls in place which may cause certain adverse choices to be rational. Thus, the efficiency wage theory links well with the objective on economic factors.

## 2.2. Conceptual Framework

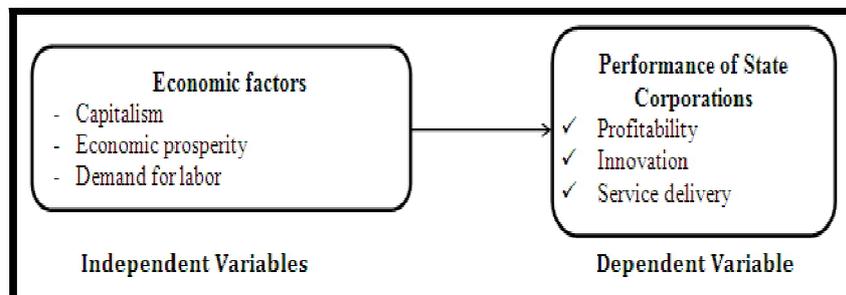


Figure 1: Conceptual Framework

## 2.3. Empirical Literature Review

Studies by Granato, Inglehart and Leblang (2006), Li, Poppo and Zhou (2008), Barro (2009), Bourguignon and Verdier (2010), Easterly (2011), among many others, report that countries with civil liberties have lower levels of income inequality compared to those experiencing civil strife. Currently, the bulk of the research on the determinants of economic performance concentrates on the role of institutions in the discussion and its focus has shifted from macroeconomic variables to the quality of institutions (Dawson, 2013). Empirical evidence from several studies (Osman, Alexiou & Tsaliki, 2012; Rodrik, Subramanian & Trebbi, 2012; Acemoglu, Aghion, Griffith & Zilibotti, 2003; Easterly, 2011) suggests that the positive correlation between good economic policies and development is the result of good institutions, which, once they are introduced into the analysis, make the correlation disappear.

Schneiberg and Bartley (2008) commented that researchers have amassed evidence for the proliferation of regulation and new forms at the national and transnational levels, the extent to which new forms actually reshape markets and organizational behavior on the ground. Understanding and explaining the impact of different regulatory developments in an independent and rigorous way is also an important aspect of policy evaluation and accountability of regulatory capitalism without evidence of its impacts (Jordana & Levi-Faur, 2004). Regulatory capitalism privileges business rather than state provision of goods and services with a concomitant emphasis on business responsibility for how goods and services are provided (Braithwaite, 2008). The fact that businesses are responsible to a large degree by the policy goals and values set by regulation means that compliance is an exceedingly broad concept.

## 3. Research Methodology

### 3.1. Research Design

This study adopted descriptive research design which used an exploratory approach. Exploratory approach merely intends to explore the research questions, both quantitative and qualitative, and does not intend to offer final and conclusive solutions to existing problems. It helps to gain new insights, discover new ideas and for increasing knowledge of the phenomenon.

### 3.2. Target Population

The target population comprised all the State Corporations in Kenya which are 187 (SCAC, 2017), this is necessitated by the researcher's desire to study the determinants of CBA on the performance of all the State Corporations. These State Corporations are subdivided into five categories which include: Commercial State Corporations (34); Commercial State Corporations with Strategic Functions (21); Executive Agencies (62); Independent Regulatory Agencies (25); and Research Institutions, Public Universities, Tertiary Education and Training Institutions (45). The interest in this population was driven by the fact that state corporations, due to the perceived weaknesses and actions of the parties to CBA, are vulnerable to industrial unrests which in effect affects their performance. The unit of analysis was all the 187 State Corporations in Kenya while the unit of observation was the Heads of Human Resources in the sampled 95 State Corporations

### 3.3. Sampling

The essence of stratification was to ensure inclusion, in the sample, of each subgroup which otherwise would be omitted entirely by other sampling methods because of their numbers. The strata comprised: i) Commercial State Corporations (34); ii) Commercial State Corporations with Strategic Functions (21); iii) Executive Agencies (62); iv)

Independent Regulatory Agencies (25); and v) Research Institutions, Public Universities, Tertiary Education and Training Institutions (45), as per the total population of 187 State Corporations.

The researcher selected a sample of 50% of the state corporations in Kenya using stratified random sampling method. Each sector (stratum) contributed 50% of its total number of corporations to the overall sample. The final respondents were picked randomly from each stratum. The heads of departments was the respondents in the study. 95 state corporations were selected which formed 50.8% of the target population.

### 3.4. Data Collection

Structured questionnaires were used to collect the data for the study. The choice of questionnaires was informed by the fact that they gather information over a large sample and are more appropriate when addressing sensitive issues since it offers greater anonymity. The questionnaire consisted of both structured and open ended questions, and Likert rating scales relating to leadership, economic factors, employer policies and organization structure.

### 3.5. Data Analysis

The completed questionnaires were checked for completeness and consistency to ensure that all questions are answered and also for any false or inconsistent information. The collected data was edited to eliminate errors and omissions in order to ensure accuracy, completeness and clarity. The collected data was then tabulated and coded. This reduced them to small number of classes that enabled the researcher to tabulate and identify relevant themes. A descriptive analysis was then done. Descriptive statistics (mean, median, mode, range, variance, and standard deviation) was used to summarize the data.

## 4. Findings

### 4.1. Response Rate

The study surveyed 95 respondents from state corporations in Kenya using a structured questionnaire. A total of 92 questionnaires were filled and returned for analysis. This implied that a response rate of 96.8% was obtained. On the other hand, 3 questionnaires were not returned, returned while not fully filled or returned completely blank. This represented a non-response rate of 3.2%. According to Mugenda and Mugenda (2003) as cited by Theuri, Mugambi and Namusonge (2015) and Duncan et al. (2015), a response rate of 50% is adequate, 60% good while 70% response rate is very good. This implies that the 96.8% response rate obtained in this study is adequate for analysis and making conclusions and recommendations of the study.

### 4.2. Economic Factors

The study sought the extent to which economic factors as key determinants of collective bargaining contribute to organizational performance among state corporations in Kenya. The main measures of the variable were capitalism, economic prosperity and demand for labour.

#### 4.2.1. Capitalism

The respondents' views on their levels of agreement or disagreement with specific statements on capitalism as an economic factor and its influence of organizational performance were sought. The findings revealed that the company management was forceful, majority of the respondents disagreed with the statement as evidenced by a mean of 2.67 and a standard deviation of 1.05. Union and its representatives have very little voice in the company, the respondents agreed with the statement as evidenced by a mean of 3.87 and a standard deviation of 0.86. Employees were not free to engage in union activities and in this, majority of the respondents agreed with the statement by a mean of 3.93 and a standard deviation of 0.91. All communication from the company must be copied to management, the respondents agreed with the statement as shown by a mean of 3.57 and a standard deviation of 1.02.

Statements	Mean	Std. Dev.
The company management is forceful	2.67	1.05
Union and its representatives have very little voice in the company	3.87	0.86
Employees are not free to engage in union activities	3.93	0.91
All communication from company must be copied to management	3.57	1.02

Table 1: Capitalization

#### 4.2.2. Economic Prosperity

The study sought to prove the respondents' level of agreement on the statements regarding the economic prosperity as an economic factor determining the collective bargaining agreement. Many employees' standards of living were high, majority of respondents agreed with a mean of 3.90 and a standard deviation of 0.77, also on the second statement that the salary and perks in the company were industry competitive, majority agreed with the statement as evidenced by a mean of 4.05 and a standard deviation of 0.85. The respondents further agreed that the organizations provided sufficient benefit packages to employees as evidenced by a mean of by a mean of 3.78 and a standard deviation of 0.91 while on the last statement that there was adequate job security, majority of the respondents disagreed with the statement as shown by a mean of 2.48 and a standard deviation of 0.79.

The findings imply that the state corporations were well rewarding and promoting the economic status of the employees but at the same time did not assure the employees of their job security. The findings compare with those by Easterly (2011) who found that the state of the employees and the ability of the firm to ensure the staff members are well kept and capable to afford their basic and economic needs steers their productivity and so to the organizational performance. According to Peterson (2012), the economic prosperity of employees determines their ability to get committed to the organization and avail their abilities for firm performance.

Statements	Mean	Std. Dev.
Many employees' standards of living is high	3.90	0.77
The salary and perks are industry competitive	4.05	0.85
Organizations provide sufficient benefit packages to employees	3.78	0.91
There is adequate job security	3.48	0.79

Table 2: Economic Prosperity

#### 4.2.3. Demands for Labor

The views of the respondents on their agreement level of the statements regarding demands for labor were sought in the study. The findings revealed that majority of the respondents disagreed with the first statement that labor market is very stable by a mean of 2.22 and a standard deviation of 1.82. On the statement that there is high supply of labor in the market, majority of the respondents agreed as evidenced by a mean of 3.89 and a standard deviation of 0.99. The third statement was that employees are highly skilled where majority of the respondents agreed with the statement by a mean of 3.70 and a standard deviation of 0.94, while on the last statement that the employees turnover is low, majority of the respondents disagreed with the statement as evidenced by a mean of 2.87 and a standard deviation of 1.26. The findings imply that as much as there is high supply of labor and skills in the market, the ability of the market to absorb this labour is not withstanding where there is more saturation of skilled labour than the job market can absorb. The findings reap support from the argument by Kugler and Pica (2009) that due to increasing labour supply and declining of labour demand as a result of unfavourable economic trends leading to organizations retrenching to save operational costs, companies increase the bargaining power hence the employees are not properly maintained and motivated for retention and promoting productivity.

Statement	Mean	Std. Dev.
The labour market is very stable	2.22	1.82
There is high supply of labour in the market	3.89	0.99
Employees are highly skilled	3.70	0.94
The employee turnover is low	2.87	1.26

Table 3: Demands for Labour

#### 4.4. Influence of Economic Factors on Firm Performance

- Ha: Economic factors in collective bargaining agreement have a significant effect on the performance of State Corporations in Kenya

To identify the statistical relationship between economic factors as collective bargaining determinants and firm performance, multiple regression using the following model was adopted:

$$Y = \beta_0 + \beta X + \varepsilon$$

The model summary as shown in Table 4.34 below revealed that the R-value is 0.714. Therefore, R-value (.714) for the economic factors suggested that there is a strong effect of the independent variable on performance of state corporations in Kenya. It can also observed that the coefficient of determination, the adjusted R-square ( $R^2$ ) value is 0.491, which represents 49.1% variation of the dependent variable (organizational performance), which is due to the change in independent variable (economic factors).

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.714 <sup>a</sup>	.509	.491	.20128

Table 4: Model Summary

a. Predictors: (Constant), Economic Factors

b. Dependent Variable: Performance of State Corporations

From the ANOVA results on economic factors and organizational performance, it is evident that an F statistic of 405.259 which is greater than the F-critical of 15.660 was observed which indicated that the model was significant. This was supported by a P-value of (0.000). The reported P-value of (0.000) was less than the conventional P-value of (0.05) thus implying that model applied can significantly predict the change in the performance of state corporations in Kenya as a result of economic factors. The study, therefore, accepted the alternative hypothesis  $H_A$  at 95% confidence interval, meaning there was a significant relationship between economic factors and organizational performance of state corporations in Kenya.

	Model	Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	15.660	1	15.660	405.259	.000 <sup>b</sup>
	Residual	28.048	91	.308		
	Total	43.708	92			

Table 5: ANOVA

a. Dependent Variable: Performance of State Corporations

The coefficients for economic factors and performance of state corporations are as shown in Table 4.36. From the coefficients, the new model now becomes;

$$Y = 0.133 + 0.784X_2 + \varepsilon$$

This implies that at a p-value of 0.000, a unit increase in economic factors results to 78.4% increase in the performance of the state corporations in Kenya. The findings further revealed that the t-calculated was 27.034 which greater than the t-critical of 3.093 an indication that the economic factors statistically significantly influences performance of state corporations. The alternative hypothesis is hereby accepted and the inculcation made that economic factors have a positive and significant effect on performance of state corporations in Kenya.

	Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.133	.043		3.093	.021
	Economic Factors	.784	.029	.509	27.034	.000

Table 6: Coefficients

a. Dependent Variable: Performance of State Corporations

Based on these findings, the study accepts the alternative hypothesis that economic factors in collective bargaining agreement have a significant effect on the performance of State Corporations in Kenya. The findings compares with those by Hennessey (2014) who found that as a result of improved level of activities and control as well as role modeling, firm performance was enhanced hence the scholar concluded that economic factors have a positive and significant influence on firm performance.

## 5. Conclusion

The study concluded that economic dimension of firm was a key factor in determining the performance of the firm. Through enhanced lifestyles of the employees and keeping them comfortable and motivated, their productivity is enhanced thus promoting firm performance. However, the study concluded that the state corporations had high bargaining power as far as labour was concerned since the supply of labour was high with most of the employees having skilled labour which is readily available. This makes the employees underperform since their benefits are not adequately catered for as a result of increased labour supply.

## 6. Recommendations

The study recommends that the management of state corporations should ensure effective rewarding and promotion of employees as a way of making them comfortable and economically empowered so as to perform better. Employees should be steered towards aligning their goals to those of the organization so as to not only contribute to firm growth but also to their personal growth and development.

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