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Moderating Effect of Competitive Strategy on the Relationship between Employee Outcomes and Performance of Firms Listed on the Nairobi Securities Exchange

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Abstract

The role of competitive strategy in the relationship between employee outcomes and firm performance has not been established with the selected set of variables, yet theory has demonstrated that competitive strategy can have an effect on this relationship. This study was motivated by the desire to fill this gap in knowledge. The objective of the study was to assess the moderating effect of competitive strategy on the relationship between employee outcomes and firm performance. The research design was cross sectional descriptive survey. Data was collected using a self-administered questionnaire, from a population of 60(100%) Nairobi Securities Exchange listed firms. The response rate was 36(60%).

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Descriptive statistics, correlation and regression techniques were used to analyze the data. The results indicate that competitive strategy moderates the relationship between employee outcomes and firm performance. The study has empirically confirmed that competitive strategy moderates the relationship between employee outcomes and firm performance. It was recommended that firms have to align employee outcomes to the competitive strategy adopted by the firms in order to attain and sustain a superior competitive advantage in their operations.

Keywords: Competitive Strategy; Employee Outcomes; Performance of Firms

1. Introduction

1.1. Background Information

Theoretical literature supports the claim that competitive strategy affects the relationship between employee outcomes and performance of firms. Employee outcomes [8] like competence, empowerment and commitment can have a significant effect on firm performance especially when they are aligned to the respective firm's competitive strategy on aspects like cost leadership, differentiation and focus strategies. Several works on the resource based view [3] have suggested the importance of developing rare and in-imitable human resources that can be aligned to a firm's strategy that are specific to an entity [3,18,26]. Employee outcomes can enhance a firm's competitive advantage when they are aligned with a firm's competitive strategy [24,25,29].

Some of the firm's that are listed on the Nairobi Securities Exchange (NSE) have encountered challenges in regard to their performance contrary to the expectations their stakeholders who span across shareholders, employees, consumers, and government among others. These firms are expected to increase their sales growth rates, expand their market share, increase productivity and productivity, which have not been realized by some of the firms. The performance of the NSE listed firms is crucial to the realization of [9] Kenya Vision 2030. Underpinning factors that influence [2,14] firm performance may be attributed to employee outcomes and competitive strategy that a firm adopts. Hence the focus of study that set out to shade light on the effect of employee outcomes on the relationship between competitive strategy and firm performance from a perspective that had hitherto not been included in any known previous firm performance empirical studies.

1.2. Problem Statement

In the current business environment, organizations are striving for ways and means of attaining and sustaining a competitive advantage over their competitors through the uniqueness of their resources, activities, processes and systems. Employee outcomes that are created by a firm and the competitive strategy the firm adopts can affect firm performance. This can be manifested in terms of sales growth rate, market share, productivity and profitability attained by the firm. Employee outcomes as exhibited [17] by the level of employee competence, commitment and empowerment in a firm are expected to have an effect on the competitive strategy - firm performance relationship. The competitive [4,11] strategies that an organization adopts usually provide a direction to organization efforts. These may take the form of cost leadership, differentiation or focus strategy to compete in the market.

The firms listed on the NSE compete in a dynamic business environment that affects their performance. The firms have to formulate and implement sound HRM Practices in order to make optimum use of a workforce that can make the firms build a sound human resource base. This can be used to build an inimitable human resource that can assist a firm provide goods and services that cannot be easily imitated by competitors. Due to the liberalization of the market in Kenya, the firms have encountered several challenges that affect their ability to operate effectively due to micro and macro-economic factors that are adversely affecting business. The NSE listed firms are grappling with reduced sales volumes, declining market share, low levels of productivity and reduced profitability. These challenges can be traced to the kind of employee outcomes realized and competitive strategies adopted by the firms, hence the need for the current study.

Most of the empirical studies [6,10,22,26,27] have shown a positive relationship in the employee outcomes, competitive strategy and firm performance link. The question that is still unanswered is how HRMP affects firm performance. Most of the empirical studies [7,13,30] have shown a positive relationship between employee outcomes and firm performance. Literature suggests that using employee outcomes and competitive strategy make a contribution to firm performance, yet the variables have not been used in any single study known to the researchers. The researchers used the variables in an attempt to explain the effect of employee outcomes in the competitive strategy – firm performance link. Previous studies [1,15] have been conducted in the West, Europe, America and Asia with no known study in Kenya. Hence the need to undertake the current study, which set out to answer the question; what is the effect of employee outcomes in the relationship between competitive strategy and firm performance.

1.3. Objective of the Study

The specific objective of the study was to assess the moderating effect of competitive strategy on the relationship between employee outcomes and firm performance.

1.4. Hypothesis of the Study

The hypothesis that guided the study was:

H: The relationship between employee outcomes and firm performance is moderated by competitive strategy.

1.5. Justification of the Study

The study may be of benefit to;

1.5.1. Researchers who may seek to contribute further to existing empirical studies made in the area of competitive strategy, employee outcomes and firm performance to generate new frameworks and conduct further research relating to the link between the variables and firm performance.

1.5.2. Human resource management practitioners and decision makers in firm who may be responsible for formulating and implementing policies with an intention to improving and sustaining the competitive advantage of their firms through their employees or workers.

1.5.3. The firms listed on the Nairobi Securities Exchange may adopt the study to enhance their decisions on strengthening of internal resources as assets that can make them to attain and sustain competitive advantages in their spheres of operation.

1.6. Limitations of the Study

The survey questionnaire was a structured self-reported and self-administered instrument that relied upon the integrity of the respondents, employee outcomes, competitive strategy and firm performance indicators were purely based on a survey on the perception of the respondents; hence they were highly subjective in nature. There still remains an issue of whether the respondents presented intended or realized employee outcomes, competitive strategy and firm performance indicators. The researchers nevertheless believe that respondents were realistic in their responses to the survey.

2. Materials and Methods

2.1. Introduction

The research utilized methods which included research design that was suitable to facilitate the investigation, the target population, data collection instrument, data collection procedures, pilot test and data processing.

2.2. Research Design

After considering the various research designs described by research experts such as, [5,16,19] as well as the purpose of the study, the positivism philosophical tradition was adopted. The research design adopted for this study was a cross-sectional descriptive survey.

2.3. Target Population

The target population for the study comprised all (census) the 60 firms that were listed on the Nairobi Securities Exchange [12] as at 10/10/2012 www.nse.co.ke

2.4. Data Collection Instrument

A self-administered questionnaire was preferred for the purpose of the study because the respondents were expected to be highly literate. The instrument also accorded the researchers a chance to collect data from a diverse population at the same point in time. Given that the study was seeking for perceived opinion of the respondents regarding employee outcomes, competitive strategy and firm performance, the tool was the most suitable for the purpose. Employee outcomes (Independent Variable) was measured using 5 perceptual measures of 1-5, and was measured using 10 employee outcome items rated on a continuum scale. Competitive strategy (Moderation Variable) was measured using 5 perceptual measures of 1-5, and was measured using 9 competitive strategy items, rated on a continuum scale. Firm performance (Dependant Variable) was measured using 5 perceptual measures of 1-5, and was measured using 4 firm performance items, rated on a continuum scale.

2.5. Data Collection Procedure

The researchers administered the data collection instrument through the drop and pick method. Each questionnaire was delivered in person or emailed for the human resource manager or the manager responsible for the human resource function in the respective firm to complete. The completed questionnaires were collected or received back through email. The researchers made a follow in person, made mobile phone calls or emailed to confirm that the questionnaires were received, collect or confirmed progress of completion of the questionnaires.

2.6. Pilot Test

A pre-test was done by administering the instrument to sixteen conveniently selected human resource managers to fill. The sixteen human resource managers were requested to evaluate the statement items for relevance, meaning and clarity. On the basis of their response, the instrument was adjusted appropriately.

2.7. Instrument Validity and Reliability

Instrument validation was achieved through validity and reliability. Validity which indicates whether the instrument is testing what it should was done through examination of content to determine whether it covered a representative sample of measurement items. Validity can be assessed using expert opinion and informed judgment [16]. The Cronbach Alpha was calculated to test for reliability. The Cronbach’s Alpha coefficient was used to measure the internal consistency of measurement scales. This is a scale measurement tool, which is commonly used in social sciences to establish the internal consistency of items or factors within and among variables of study. [21] Argues that an alpha coefficient of .700 or above is an acceptable measure. Employee outcomes showed reliability level of 0.765, competitive strategy 0.761 and 0.835 for firm performance which were above the 0.700 measure that was recommended as evidence that the measurement items have a high measure of internal consistency for underlying constructs [21]. This indicates that the data collected using the above mentioned instruments was reliable for analysis. The tests were conducted using SPSS.

2.8. Data Processing and Analysis

The study used both descriptive and inferential statistics to analyze data from the questionnaires.

2.8.1. Descriptive Statistics

Descriptive statistics such as frequencies and percentages were computed for organizational data and multiple choice questions in order to describe the main characteristics of the variables of interest for the study. Mean scores were computed for likert type questions. Data was presented in the form of figures and tables.

2.8.2. Inferential Statistics

Multiple linear regression analysis was used to establish the nature and magnitude of the relationship between variables and to test hypothesized relationship. The regression model is presented as follows;

$$\mathbf{Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_1 X_2 + \varepsilon}$$

Where,

β_0 = Intercept
$\beta_1, \beta_2, \beta_3$ = Coefficients
X_1 = Employee Outcomes (Independent Variable)
X_2 = Competitive Strategy (Moderator Variable)
X_1X_2= Interaction term
Y= Dependent variable (Firm Performance)
ε = Error term

3. Results and Analysis

3.1 Survey Response Rate

The study targeted the 60 firms listed on the Nairobi Securities Exchange. A total of 36 firms responded, a response rate of 60 percent. This response rate was considered to be appropriate, compared to previous studies done in the same area abroad. In earlier studies, [30] had 26% response rate. According to [20] a response rate of 50% or more is considered adequate.

3.2 Demographic Profile of Respondents

The study sought to find out about the designation of the respondents. Study findings in Table 1 indicate that majority 52.8% were human resource manager while 47.2% were from other departments. This indicates that a majority of the respondents were designated as human resource managers to handle the human resource function. Such managers would be expected to have a wealth of knowledge in handling human resource issues.

Table 1: Designation of the Respondents

Designation	Frequency	Percent
Human Resource Manager	19	52.8
Others	17	47.2
Total	**36**	**100**

Source: Research Data (2014)

3.3 Demographic Profiles of Firms

The study sought to establish the distribution of employees in the firms. Each manager was asked to indicate the total number of employees the firm had as at the time of the study. Table 2 shows that 2.8% of the firms have employee population of up to 100 employees; 2.8% of the employee population ranging between101 – 200; 11.1% of the employees ranging between 201 – 300; 11.1% of the employee between 301 – 400; while 72.2% of the firms employ more than 400 employees. These findings imply that most of listed firms (over 83.3%) have employee population ranging between 301 and above 400. Such large firms would be expected to formulate and implement management practices and strategies for the effective utilization of its human resources as drivers of the activities in the firms.

Table 2: Distribution of Firms by Number of Employees

Number of Employees	**Frequency**	**Percent**
Up to 100	1	2.8
101 to 200	1	2.8
201 to 300	4	11.1
301 to 400	4	11.1
Above 400	26	72.2
Total	**36**	**100**

Source: Research Data (2014)

The study sought to establish the classification of the company. Table 3 shows that majority of the firms, 88.9 % were Kenyan owned, while 8.3% were foreign owned and another 2.8% were others. The findings imply that ownership of a listed company may have an influence on human resource management practices and firm performance.

Table 3: Distribution of Firms by Ownership

Classification	**Frequency**	**Percent**
Kenyan	32	88.9
Foreign	3	8.3
Other	1	2.8
Total	**36**	**100**

Source: Research Data (2014)

The respondents were asked to indicate the number of years their firms had operated. The number of years of operation was used to measure age. The results in Table 4 show that 2.8% of the firms had operated for less than

10 years; 8.3% had operated for 11-20 years; 2.8% had operated for 21-30 years; 13.9% had operated for 31-40 years; while 72.2% had operated for 40 and above years. Thus, most of the NSE listed firms (97.2%) are well established, having operated for more than 11 years and must have developed appropriate human resource management practices to support management of employment relationship and hence had knowledge about the issues that the researcher was looking for.

Table 4: Distribution of Firm by Age

Years of Operation	Frequency	Percent
Up to 10 Years	1	2.8
11 to 20	3	8.3
21 to 30	1	2.8
31 to 40	5	13.9
Above 40 Years	26	72.2
Total	**36**	**100**

Source: Research Data (2014)

The findings in Table 5 show the distribution of firms according to their listing category on the Nairobi Securities Exchange. Out of the 36 firms that participated in the study, 13.9% were in the Agricultural sector; 8.3% were in the Commercial and Services sector; 5.6% were in the Telecommunication & Technology sector; 8.3% were in the Automobiles and Accessories sector; 22.2 % were in the Banking sector; 2.8% were in the Insurance sector; 2.8% were in the Investment sector; 25% were in the Manufacturing and Allied sector; 2.8% were in the Construction and Allied sector; and 8.3% were in the Energy and Allied sector. Thus, most of the NSE listed firms in Kenya (over 61%) are agricultural, banking, and the manufacturing and allied sectors. These sectors play a crucial role in the Kenyan economy and are major employers in the Kenyan labour market.

3.4 Test of Hypothesis

The objective of the study was to assess the moderating effect of competitive strategy in the relationship between employee outcomes and firm performance. Conceptual and empirical literature suggests a moderation effect of competitive strategy in the relationship between employee outcomes and firm performance. The hypothesis was tested using multiple regression analysis. In the regression model, firm performance factor was the dependent variable, employee outcomes the independent variable and competitive strategy the moderating variable.

From literature review, it was anticipated that competitive strategy would moderate the relationship between employee outcomes, namely employee commitment, competence and empowerment, and the performance of firms. Each respondent to the questionnaire was expected to indicate perceived levels of employee competence, commitment and empowerment in their respective organizations. Employee outcomes were measured on a scale ranging from 1 to 5, where 1 represented 'Strongly Disagree' and 5 represented 'Strongly Agree.' The results are presented in table 6.

Table 5: Distribution of Firm by Nairobi Securities Exchange Listing

Listing Category	Frequency	Percent
Agricultural	5	13.9
Commercial and Services	3	8.3
Telecommunication & Technology	2	5.6
Automobiles and Accessories	3	8.3
Banking	8	22.2
Insurance	1	2.8
Investment	1	2.8
Manufacturing and Allied	9	25
Construction and Allied	1	2.8
Energy and Allied	3	8.3
Total	**36**	**100**

Source: Research Data (2014)

Table 6: Regression Results for the Effect of Competitive Strategy on the Relationship between Employee Outcomes and Firm Performance

Model Summary

Model		R	R Square	Adjusted R Square	Std. Error of the Est.	Change Statistics				
						R Square Change	F Change	df	df	Sig. F Change
1	EO	.254	.064	.037	.76528	.064	2.344	1	34	.135
2	EO*CS	.453	.205	.157	.71598	.205	4.260	2	33	.023

ANOVA[b]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1.373	1	1.373	2.344	.135
	Residual	19.912	34	.586		

	Total	21.285	35			
2	Regression	4.368	2	2.184	4.260*	.023
	Residual	16.917	33	.513		
	Total	21.285	35			

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.060	1.175		1.754	.089
	Employee Outcomes	.455	.297	.254	1.531	.135
2	(Constant)	.987	1.185		.833	.411
	Employee Outcomes	.119	.311	.066	.381	.705
	Competitive Strategy	.629	.260	.419	2.417*	.021

*$p < 0.05$

a. Predictors: (Constant), Employee Outcomes (EO)
b. Predictors: (Constant), Employee Outcomes and Competitive Strategy (CS)

Dependent Variable: Firm Performance

Model 1: Represents regression model with only the independent variable

Model 2: Reflects regression model with both independent and moderating variables (Employee Outcomes * Competitive Strategy)

The regression results for model 1 presented in Table 6 show that the relationship between employee outcomes and firm performance was not significant R Square = 0.064, F = 2.344, p > 0.05. The results show that 6% of the changes in firm performance were attributed to employee outcomes. The F ratio shows that the regression of employee outcomes on firm performance was not significant. The model did not explain 94% of the variation in firm performance, implying that there were other factors associated with firm performance. The beta was not significant (β = .254, t = 1.531, p > 0.05). The beta value implies that for one unit increase in the use of employee outcomes, firm performance increase by .254 or 25%.

To establish the moderating effect of competitive strategy on the relationship between employee outcomes and firm performance, the multiple regressions were used to establish the interaction effects. As shown in Table 6, regression results for model 2, show that the combination of the predictors (employee outcomes and competitive strategy) was positive and significant (R Square = 0.205, F = 4.260, p < 0.05). The results show that 21% of the changes in firm performance are attributed to employee outcomes and competitive strategy. The F ratio shows that regression of employee outcomes and competitive strategy on firm performance is significant at p < 0.05. However, the model did not explain 79% of the variation in firm performance, implying that there are other factors associated with firm performance that were not captured in the model. Though the beta for employee outcomes was not significant $\beta = .066$, $t = .381$, $p > 0.05$), the beta for competitive strategy was significant ($\beta = .419$, $t = 2.417$, $p < 0.05$). The beta coefficients imply that the introduction of competitive strategy in the model moderates the influence of employee outcomes on firm performance.

These results imply that competitive strategy has a positive and statistically significant moderating effect on the relationship between employee outcomes and firm performance. Hence, the hypothesis stating that the relationship between employee outcomes and firm performance is moderated by competitive strategy was supported.

4. Discussion

The objective of the study was to assess the moderating effect of competitive strategy relationship between employee outcomes and firm performance. The finding was that competitive strategy has a positive and statistically significant influence on the relationship between employee outcomes and firm performance. This means that with the introduction of competitive strategy into the regression model, the ability of employee outcomes to predict firm performance increased to (R Square = 0.205, $F = 4.260$, $p < 0.05$) from (R Square = 0.064, $F = 2.344$, $p > 0.05$). These finding implies that competitive strategy enhances the influence of employee outcomes on firm performance amongst the NSE listed firms.

Theoretical and empirical literature supports the claim that competitive strategy moderates the relationship between employee outcomes and firm performance [24] [28]. This finding of the current study is consistent with previous studies. Employee outcomes like competence, empowerment and commitment have a significant effect on firm performance especially when they are aligned with the firm's competitive strategy on aspects like cost leadership, differentiation and focus strategies as evidenced in the findings of the current study. Resource based view [23] has suggested the importance of developing rare and in-imitable human resources that can be aligned to a firm's strategy that are specific to an entity [3].

5. Conclusion

The research study assessed the moderating effect of competitive strategy on the relationship between employee competitive strategy on the relationship between employee outcomes and firm performance of firms listed on the Nairobi Securities Exchange. The study set to find out how competitive strategy moderates the relationship between employee outcomes and firm performance in organizations. This was with emphasis to the existing gap in knowledge on how competitive strategy affects the relationship between employee outcomes and firm performance in the Kenyan context. The study adopted a cross sectional survey. Data was collected in month of July 2013. The study adopted descriptive and inferential statistics to analyze the data. Multiple linear regression analysis was used to assess the nature and magnitude of the effect of competitive strategy on the relationship between employee outcomes and firm performance. The research study specifically sought to test the hypothesis that; the relationship between employee outcomes and performance firm is moderated by competitive strategy. The study established that there was empirical support for the hypothesis that the relationship between employee outcomes and firm performance is moderated by competitive strategy. In light of this finding, the study concludes that competitive strategy positively moderates the relationship between employee outcomes and firm performance. This implies that firms have to ensure that they align their employee outcomes with the competitive strategy that their firms' adopt in order to achieve and sustain a competitive advantage to be able to outperform their competitors.

6. Limitations for the Study and Suggestions for Further Research

The study adopted perceived measures for the variables. The researchers suggest that future studies may consider using actual measures of performance as opposed to perceptual measures.

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