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THE JOINT INFLUENCE OF ETHICAL HUMAN RESOURCE PRACTICE, ETHICAL INVESTOR RELATIONS, ETHICAL CONSUMER RELATIONS AND ETHICAL ADVERTISING ON THE FINANCIAL PERFORMANCE OF LISTED FIRMS IN KENYA.

Daniel Ogwoka, Dr. Juliana Namada and Dr. Damary Sikalieh

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THE JOINT INFLUENCE OF ETHICAL HUMAN RESOURCE PRACTICE, ETHICAL INVESTOR RELATIONS, ETHICAL CONSUMER RELATIONS AND ETHICAL ADVERTISING ON THE FINANCIAL PERFORMANCE OF LISTED FIRMS IN KENYA.

[1*] Manduku Daniel Ogwoka
Post graduate student: United States International University – Africa
*Corresponding Author's Email: danielmanduku@yahoo.com
[2] Dr. Juliana Namada
United States International University – Africa
[3]Dr. Damary Sikalieh
United States International University – Africa

Abstract

Purpose: The general objective of this study was to establish the joint influence of ethical human resource practice, ethical investor relations, ethical consumer relations and ethical advertising on the financial performance of listed firms in Kenya.

Methodology: Primary data was collected through a semi-structured questionnaire. Secondary data was collected from both the listed firms in the Nairobi Securities Exchange (NSE), and information from the sector regulator, the Capital Markets Authority (CMA). The target population of this study was 64 companies listed in the Nairobi Securities Exchange (NSE) with consistency being evaluated between the years 2011 to 2015. Data analysis was done using the Statistical Package for Social Scientists (SPSS).

Results: The study did a joint regression test for the combined effects of ethical human resource practices, ethical advertising practices, ethical consumer practices and ethical relation practices. In the regression, it was established that, acting jointly, these practices have a positive relationship with the financial performance of listed firms.

Unique contribution to theory, practice and policy: This study recommends that listed firms need to religiously adhere to conducts of ethical leadership. The departments of human resource should at all times implement their human resource policies with great caution as their mandates, as outlined in the HR policy, influence their organizational performance. The marketing departments should uphold zero tolerance to unethical advertising practices. Also, a feedback platform needs to be included in all advertisements so that profitability is achieved. To the consumers, quality is of priority. Listed firms should formulate ways of always adhering to provision of quality services to consumers. On ethical investor relations, there is need to involve truthful disclosure of information, especially regarding financial statements of the firms. Truthful disclosure of information will uphold investor trust, and subsequently inject more incentives (majorly in the form of financial) for the benefit of the firms. Overally, the study recommends that, by practicing ethical leadership, the firms' financial performance will greatly improve. The study also suggested that ethical leadership practices should be replicated in non-listed firms and in government agencies.

Keywords: *Ethical consumer relations, Human resource, Investor relations,* advertising practices *Ethical leadership, financial performance, Listed Firms*

1.0 INTRODUCTION

The relationship between moral power and ethical leadership is mind boggling. Schminke et al. (2005) established that the moral reasoning for both the leader and follower is positively related to follower commitment and satisfaction and negatively related to employee turn-over. Morally serious circumstances attract attention regarding the leader's ability to make wise choices. Individuals who exhibit ethical thought benefit from high levels of mutual trust and communications (Edwards & Cable, 2009). These circumstances can be considered demonstrating justification for moral leadership. At the point when morally exceptional circumstances are taken care of accurately, moral force will be decidedly connecting with the impression of ethical leadership (Brown & Treviño, 2006). Be that as it may, if these circumstances are misused, then they never yield expected results.

Ethical leadership is all about acting morally and doing what is required for the overall benefits of not just the stakeholders, but to the company as a whole (Oates and Dalmau, 2013; Osemeke, 2014 and; Omondi, & Muturi, 2013). By this argument, ethical leadership should thus be able to contribute to the overall profitability of the company. In addition, the researchers argue that ethical leadership is more or less about balancing the company's short term objectives and longer term goals in ways that enable the achievement of positive result for all those who could be affected by the organization and the decisions of its leaders. While demonstrating moral management behaviour, ethical leaders do not compromise both ethical standards in pursuit of short-term performance and bottom-line organizational performance (Oates and Dalmau 2013; Osemeke, 2014; Omondi, & Muturi, 2013).

An ethical customer relation refers to the way a business communicates and interacts with the public to gain and retain customers (Tallontire et al., 2001; Otuya, Onyango, Ofafa, Ojera, and Wachana, 2013). It is important as a requirement for organizations to inculcate appealing customer relations within the workforce to attract and maintain loyal customer base. A customer's relation is key to understanding consumer motivation. Without assessing customer relations, it is difficult for a company to know how visible it is concerning its client base. It is also hard to figure out how to grow the company without understanding the relationships it has with current customers (Shaharudin et al., 2009).

The components of ethical leadership which this study focuses on are Ethical Human Resource Practices, Ethical Advertising Practices, Ethical Consumer Relations and Ethical Investor Relations. Each is discussed. Ethical Human Resource Practices are policies and values that serve as operational guidelines for the management of people at work (Bedicks, & Arruda, 2005; Liao and Teng, 2010). Ethical Human Resource Practices deal with various moral challenges; being one of the departments that engage directly with company employees, HR Managers have numerous moral pitfalls which can interfere with the organization's reputation or even the sustainability of its financial standing (Mathenge, 2012; Bedicks, & Arruda, 2005).

A positive relationship between ethical leadership with good decision making among top administrators and productivity experienced among the lower ranking employees in an

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organization (Fehr, Kai Chi, & Dang, 2015). This affirms the notion that ethical leadership creates an environment that condition Organizational Citizenship Behaviour (OCB) and other ethical practices. Financial performance is established on the idea that an organization is a voluntary association of productive assets to accomplish a common goal. These productive assets consist of human, physical and capital resources (Alchian & Demsetz, 1972). The financial performance for the firms listed in the Nairobi Securities Exchange (NSE) was measured by use of ROA. This is because ROA is both suitable and reliable method for such measurement (Achian & Demsetz, 1972; Barney, 2001; Jensen & Meckling, 1976).

In the Kenyan scenario, majority of firms listed on the Nairobi Securities Exchange (NSE) have been experiencing declining performance, and forecasts have indicated a similar trend in future. In one of the cases, seven listed agricultural firms have an average price to earnings (P/E) ratio of 4.74. This is below a third of the average stock market P/E of 16.70 (Omboi, 2011; Maina and Sakwa, 2010; Hutchings Beimer, 2010; Mwangi, Makau and Kosimbei, 2014). The companies that have of late witnessed declined financial performance in Kenya include: Eaagads Limited, Kapchorua Tea Company Limited, Kakuzi, Limuru Tea Company Limited, Rea Vipingo Plantations Limited, Sasini Limited and Williamson Tea Kenya Limited. These companies have reported frequent negative reports for the last ten years compared to other listed companies (Omboi, 2011; Mathenge, 2012).

Besides the above-mentioned firms, analysts have also cited firms such as Mumias Sugar Company, Uchumi Supermarket and Sameer Africa as also experiencing poor performance (Munda, 2015; Osemeke 2014; Bedicks, & Arruda, 2005 and Mathenge, 2012). Besides, some firms such as CMC Holdings Limited have also failed to practice ethical leadership. The suboptimal performance would have been caused by unethical management practices in human resource, advertising, consumer relations and investor relations. However, others have done well, e.g. Safaricom Company and Equity Bank (Munda, 2015; Osemeke 2014; Bedicks, & Arruda, 2005 and Mathenge, 2012). For those that have seen better performance, their ROA have been either steadily been rising or have relatively stayed in a constant value within the last five years, measured over the duration 2010-2015. The data on performance was obtained from the 2016 NSE handbook as well as information contained in the Capital Markets Authority (CMA).

The Capital Markets Authority of Kenya was established to oversee the orderly development of Kenya's capital markets. It is the government’s regulator mandated to license and regulate the capital markets in Kenya. It also approves public offers and listings of securities traded at the Nairobi Securities Exchange (NSE). The NSE has a double responsibility for growth and regulation of the financial market operations to ensure efficient and reliable trading (Almajali et al., 2012; Liargovas, and Skandalis, 2008). Based on the data from both the CMA and NSE, this study sought to unravel whether ethical leadership has a role in the performance of firms listed on the NSE. From the perspective of governance, this research believed that ethical consumer relation is responsible for the financial peformance of firms listed in the Nairobi Securities Exchange. This study thus aimed to ascertain the relationship between ethical consumer relations and financial performance of firms listed in the Nairobi Securities Exchange.

1.1 Problem Statement

Ethical leadership is crucial for the performance of organizations (Breene & Nunes, 2006). This is because ethical leadership implies that there is a focus on the triple bottom line which is profits, people and planet. By considering profits, ethical leadership ensures that the shareholders are taken care of as they can get a good return on investment. With regard to people, ethical leadership ensures that the stakeholders such as suppliers and customers are satisfied with the activities of the company. Acting wholesomely, ethical leadership ensures that there is environmental sustainability (Nel & Beudeker, 2009). Theory suggests that ethical leadership may have an influence on performance (Bandura 1977).

The human resource model suggests that satisfied employees due to ethical human resource practices lead to improved financial performance (Osemeke 2014; Bedicks, & Arruda, 2005 and Mathenge, 2012). Happy customers due to ethical customer relations give repeat business and this leads to an improvement in the financial performance (Avtonomov, 2006; Deshpandé, 2000; Shaharudin *et al.*, 2009). Ethical human resource practices have benefits on performance. However, reviewed literature (Osemeke 2014; Bedicks, & Arruda, 2005 and Mathenge, 2012) fail to operationalize and link ethical human resource practices to performance. The current study addressed this gap by considering the human resource practices as one of the variables affecting financial performance.

Various studies have been conducted to examine the factors that affect the financial performance of listed firms at the Nairobi Securities Exchange (NSE). Studies such as Osemeke (2014), Bedicks, & Arruda, (2005), Mathenge, (2012) and Tabassum (2011) also did not give a good breakdown of what entails ethical human resource practices. Similarly, Avtonomov (2006), Cragg (2002), Lorraine et al., (2004), Kim, (2010), Pauwels, Risso, Srinivasan, and Hanssens, (2004) all conducted studies on the influence of advertising on performance, but they failed to give a conceptual breakdown of ethical advertising. In addition, Avtonomov (2006), Webster (1992), Deshpandé (2000), and Shaharudin *et al*. (2009) did not operationalize the ethical customer relations into its sub components.

On their part, Bedicks and Arruda, (2005), Siti (2000), Lorraine et al. (2004), Berrone, *et al.*, (2007) and Bayoud *et al.*, (2011) looked at the influence of investor relations with respect to financial performance but failed to break it down into the sub components of ethical investor relations. Contextually, Mweta (2014) conducted a study on the effect of sin activities on the financial performance of companies listed at the NSE. The study by Iraya and Musyoki (2013) evaluated the performance of socially screened portfolio at the NSE. Maina and Sakwa (2010) selected firms in five sectors and sought to understand the financial distress of listed companies. They analyzed the financial statements and noted that the financial health of listed companies needed to be improved and that there is a missing link between surveillance and the ethical leadership of these firms, which if not rectified, the public could lose interest in investing at the bourse.

The study by Paul, Hannah and Linda (2016) evaluated the effect of strategy oriented competitive intelligence practice on the performance of listed firms. This study, which incorporated all the sixty listed firms, revealed that strategy oriented competitive intelligence practice had a positive and statistically significant relationship with the performance of firms listed on the NSE. Lucy, Muathe and George (2014) conducted a study on the relationship between capital structure and the performance of non-financial listed companies. Kungu, Ayako &Githui (2015) conducted a study to analyse the factors affecting the performance of 41 non-financial companies listed on the NSE using panel data over the period 2003 to 2013. Their study however used panel data and also failed to break down the role of ethical leadership in the realization of the firms' financial performance.

A study by Nikolaus (2015) examined the determinants of firm performance of Indonesian and Dutch firms over the period of 2009-2013. His study was however focused in Netherlands. Mwangi and Murigu (2015) conducted a study to establish the factors that affect the profitability of general insurers in Kenya and the study presented a contextual research gap since it focused on insurance. Jeannine, Gregory, Namusonge and Silas (2016) conducted a study to establish the effects of capital structure on financial performance of firms listed on the Rwanda Stock Exchange. Their study also presented a contextual gap since it was done outside the scope of the NSE. Ogilo (2015) conducted a study on determinants of bear market performance at the NSE. He employed both quantitative and qualitative research design in which he administered questionnaires to 500 investors. The data analysis showed that cultural values, financial literacy, transaction cost and mobilization of resources by retail investors all influenced market performance. The study suggests further research on other variables to establish their influence on bear market performance (Ogilo, 2015).

Other studies such as Arnott & Asness (2003), Amidu (2007), Zhou & Rouland (2006) e.t.c. have similarly been conducted that only look into other factors other than ethical leadership as the primary determinants for poor financial performance of listed firms. From the studies above, none has ever focused on effects of ethical leadership on financial performance and thus a contextual gap was created. This study therefore marked a departure from previous studies by focusing on the ethical leadership of listed firms and correlating it with the decline in financial performance of listed firms. This study thus took into account that it is challenging to appreciate the importance of the ethics in the emerging market because of the large number of poorly informed and unsophisticated investors, weak legal, regulatory and institutional framework and operational bottleneck. With regard to ethical leadership addressed in this study, four key parameters were considered: (1) Ethical human resource practices; (2) Ethical advertising practices; (3) Ethical consumer relation practices and; (4) Ethical investor relation practices.

1.2 Research Objectives

To establish the joint influence of ethical human resource practice, ethical investor relations, ethical consumer relations and ethical advertising on the financial performance of listed firms in Kenya.

2.0 LITERATURE REVIEW

2.1Theoretical Framework: Cognitive Moral Development Theory

Cognitive Moral Development Theory argues that if organizations do not include concerns about ethical behaviour into performance appraisals, then organizations will be unable to articulate a values-orientation that is integrated across the organization. Ethical behaviour involves principles such as fairness, integrity, honesty and concern for others. Ethical leadership thus benefits others and refrains from any concerns that may cause harm to others (Toor & Ofori, 2009). When unethical situations arise, there might be suspicion among employees that some individuals aren't accountable to ethical ideals postulated in the company's policy. With leaders being key figure for the achievement of organizational goal, they should thus set the tone for ethical behaviour including promotions, appraisals and strategies (Brown & Mitchel, 2010).

Kohlberg's theory focuses on how people reason through ethical dilemmas and how they decide what is right (Kohlberg, 1969). Human beings reason at three stages that can be categorized into pre-conventional, conventional and post-conventional (principled level) Kohlberg (1969). Pre-conventional individuals (the lowest level) are concerned with avoiding punishment and the law of reciprocity works in this level. Principled individuals (the top-most level) make decisions autonomously by looking at themselves and are led by the principles of rights and justice (Crain, 1985).

Conventional-level individuals look outside themselves to rules, laws and expectations of significant others in their environment for direction when deciding on the ethically right thing to do. This makes ethical leaders the most important source of moral guidance as followers look to leaders for clues about what behaviour is appropriate and inappropriate. This theory informs the ethical human resource practices, ethical advertising practices, ethical consumer relations and ethical investor relations in this study. This is because it explains how people reason through ethical dilemmas and how they decide what is right.

Employees' level of moral reasoning is a significant predictor of their altruistic behaviour (Ryan, 2001). Accordingly, Tang et al. (2008) established that both intrinsic motives and extrinsic motives contribute significantly towards altruistic behaviour. Also, McWilliams, Teo, & Rodwell (2006) revealed that job control and social support were essential predictors of altruistic behaviour. For listed firms in Kenya, the debate is whether the country has moral leaders whose reasonings can be depended on to provide ethical leadership. Human Resource (HR) is most likely to adopt an employee development method to ethics training. Cognitive Moral Development Theory (Kohlberg, 1969) proposes that moral judgment can be enhanced with explicit training processes designed to challenge the thinking of individuals by establishing cognitive conflict.

From the theory, what people believe, think and feel affect how they behave (Bandura, 1986). With the function of culture creation and management falling under HR policies, the affected leaders need to create and manage ethical cultural environment (Schein, 2004). Thus managers should create enabling environments that seek to encourage and mentor employees. Employees who are most likely to find themselves needing to make autonomous decisions in ethically abstruse situations (e.g. during overseas assignments) likely could profit from similar training methods. Organizational policies should be well defined both in the organizational and psychological climates (James & Jones, 1974; Jensen, 2003).

To promote a values-oriented and integrated ethics program, organizations should incorporate concerns for ethics and fairness in the appraisal processes. Without ethical considerations in HRM, becomes impossible to have a sense of fairness among employees. Obviously, the performance goals used in the evaluation process must be unswerving with, and supportive of, overall ethical goals and principles. For example, performance goals should focus on means as well as ends. Most scholars such as Lampe and Finn (1992), Ponemon (1990), and Trevino (1986) attribute this theory for adequate explanation of human behaviours.

The theory in its end is considered as gender biased (Gilligan, 1982) and does not exhaustively take into account what influences human behaviour. According to the theory, what people believe, think and feel influence how they behave (Bandura, 1986), hence not taking into account other external factors such as those brought about by external stakeholders. For the purpose of this dissertation, these stakeholders include consumers and investors.

2.2 Empirical Review

Becker & Huselid (2006) found out that there are complex challenges involved with creating the right human resource systems that are congruent and aligned with the strategic mission of an organization. Additionally, such strategies will have to produce high levels of trust and commitment from employees to sustain an environment capable of creating wealth in the long term. Stone and Lukaszewski (2009) assert that we can justify the need to employ ethical HRM in organizations when we consider the argument raised by the Herzberg's two-factor motivation theory. The theory emphasizes on differentiating motivation factors from hygiene factors within the work environment. Herzberg believed that both motivation and hygiene factors play a significant role in determining the productivity of employees.

Qureshi et al., (2010) and Khan (2010) both established a positive correlation between university performance and Ethical Human Resource Practices involving recruitment and selection, performance appraisal, compensation and training and development. Singh & Kassa (2016) similarly conducted research to establish the impact of Human Resource Practice on organizational performance: a case study of Debre Brehan University. Their study revealed that human resource practices have a significant relationship with university performance. Their scope was however limited to the universities and they failed to break down the various components of human resources and analyze them individually for financial performance. The current study thus sub-divided the human resource policies into sub-components and individually analyzed the components to reveal their relationship with financial performance.

In line with Landy (1983) and Larson (1989), the study established that organizations continue to do things that undermine the effectiveness of the appraisal process. Their studies used desktop study/literature review thus presenting a methodological gap. The current study uses survey/administration of questionnaire. Reber & Wallin (1984) conducted a study on the effects of training on financial performance. The study found out that investment in training can improve a company's financial standing. The study established that poor performance often results when employees do not know exactly what they are supposed to do, how to do their jobs or why they need to work a certain way.

Otuya et al. (2013) conducted a study on the influence of ethical treatment towards customers on the enterprise performance in Mumias Sugar Belt, Kenya. Findings showed that ethical treatment indicators are predictors of enterprise performance among the cane transport companies in Mumias Sugar belt. Their revelations were in tandem with those established by Cragg (2002) and Lorraine et al. (2004) who established that cooperate ethics enhanced the appeal of the firms share. The study by Tallontire *et al.,* (2001) however, focused on mumias sugar belt thus presenting a knowledge gap. This current study focused on the firms listed at the Nairobi Securities Exchange (NSE).

Bodla & Naeem (2008) conducted a study on impacts of HRM practices on pharmaceutical sales employee's performance. The study found out that motivators such as recognition work itself, growth and promotion opportunities produces job satisfaction (as determined by researchers such as Cho et al., 2005; and Paul & Anantharaman, 2003) whereas absence of hygiene factors causes job dissatisfaction of pharmaceutical sales. The important non-financial motivators for the pharmaceutical sales employees can be good relationships with customers including physicians, job security, high ethical standards in my company and job, being well informed and strong products and brands, recognition for my efforts and skills, having power over other people and being the senior representative in the team (Wiese & Coetzee, 2013). But competing against others was identified as the least important motivational factors by Wiese & Coetzee (2013).

Consumers are quite skeptical regarding corporate ethics and firms should be more effective in communicating their ethical stand. Some researchers have stressed the fact that sufficient information is important in making ethical judgments and that consumers need more information to make ethical purchase (Carrigan, & Attalla, 2001; Uusitalo & Oksanen, 2004). Ethical consumption implies that consumers have an important role through their purchasing activities in promoting ethical corporate practices. Ethical consumerism also implies that the consumer considers not only individual but also social goals, ideals and values (Uusitalo & Oksanen, 2004). Ethical behaviour can also be affected by the nature of the product. For low involvement products (bath soaps) consumers are less ethically orientated.

Pauwels et.al (2004) conducted a study on new products, sales promotions and firm value. The study found that both marketing actions increase top-line firm performance However, their bottom line effects differ significantly from the long-term effects. First, the introduction of new products enhances the firm value as well as the long-term performance of the firm. However, promotions do not result in the same (Peloza & Shang, 2011). Secondly, the way investors react to new product introductions grows over time. This indicates that the most important information unfolds in the first two months after product launch (Peloza & Shang, 2011).

3.0 RESEARCH METHODOLOGY

The study used the causal research design. A causal design plays an instrumental role regarding identifying reasons behind a wide range of processes, as well as, assessing the impacts of changes in existing norms, processes (Olusola et al., 2013). The target population of this study was 64 companies listed in the Nairobi Securities Exchange (NSE) with consistency being evaluated between the years 2011 to 2015. The justification for the choice of NSE listed firms was that public firms have a duty of care to the public and hence ethical leadership is a major concern for these firms (Mweta, 2014). In addition, these firms have come to the spot light regarding poor ethical practices such as CMC holdings (Mweta, 2014). Senior managers were chosen to be the unit of analysis because these are the key personnel who have key information about the companies. The unit of analysis of this study was the top financial managers of the firms listed in the NSE.

The study used a census approach due to the small number of the listed companies in the NSE. The total number of firms that were used in the research was 64 firms in which each questionnaire was filled by either the Chief Finance Officer (CFO) or the Chief Executive Officer (CEO) from each of the 64 firms. Secondary data from the listed firms was collected on ROA. This secondary data was collected from the firms listed at the Nairobi Securities Exchange. Primary data was collected through semi-structured questionnaires. The questionnaire contained both the Likert scale and closed questions. The questionnaire was in form of a Likert scale. Simple regression analysis was conducted to establish the relationship between the ethical consumer relations and financial performance.

The regression model was as follows:

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

Where:

Y = Financial Performance (ROA)

α = Constant

β, = Regression coefficients of the independent variables

X=Combination of Ethical human resource practice, Ethical investor relations, Ethical consumer relations and Ethical advertising practice

ε = Error term.

4.0 RESULTS AND DISCUSSIONS

The study sought to establish the combined effect of ethical human resource (hr) practices, ethical advertising practices, ethical customer relation practices and ethical investor relation practices on the financial performance of listed firms in NSE. The following hypothesis was therefore tested:

$H_{0:}$ Ethical human resource practice, ethical investor relations, ethical consumer relations and ethical advertising do not have a joint influence on the Financial Performance of listed firms in Kenya.

Results in Table 1 indicate the regression model summary showing the extent to which ethical HR practices, ethical advertising practices, ethical customer relation practices and ethical investor relation practices influence financial performance. From the results, based on the coefficients, the predictor variables (ethical hr practices, ethical advertising practices, ethical customer relation practices and ethical investor relation practices) explained 71.5% of the variation in financial performance of listed firms in NSE. This is as represented by the R^2 coefficient of 0.715. This therefore reveals that other factors not studied in this research contribute to 28.5% of the variability in the financial performance of listed firms in NSE.

Table 1: Combined Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.824[a]	.715	.702	.11604108

a. Predictors: (Constant), ethical investor relation practice, ethical customer relation practice, ethical advertising practice, ethical hr practices

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From Table 2, the significance value in testing the reliability of the model for the relationship between ethical HR practices, ethical advertising practices, ethical customer relation practices and ethical investor relation practices and financial performance was obtained as 0.007 which is less than 0.05 the critical value at 95% significance level. Therefore the model is statistically significant in predicting the relationship between ethical HR practices, ethical advertising practices, ethical customer relation practices and ethical investor relation practices and financial performance in the listed firms in the Nairobi Securities Exchange (NSE).

The model was significant for the relationship as given by the regression coefficients F (1, 4) = 16.20, p = .007. This showed that the overall model was statistically significant and reliable in explaining the influence of the predictor variables to the financial performance of listed firms in NSE. The study therefore concludes that ethical human resource practice, ethical investor relations, ethical consumer relations and ethical advertising have a joint influence on the financial performance of listed firms in Kenya.

Table 2: Combined ANOVA Table

Model		**Sum of Squares**	**df**	**Mean Square**	**F**	**Sig.**
1	Regression	7.785	4	1.946	16.20	.007[b]
	Residual	495.195	1	9.710		
	Total	502.980	5			

a. Dependent Variable: financial performance

b. Predictors: (Constant), ethical investor relation practice, ethical customer relation practice, ethical advertising practice, ethical hr practices

The estimates of the regression coefficients, t-statistics and the p-values for the relationship between ethical HR practices, ethical advertising practices, ethical customer relation practices and ethical investor relation practices and financial performance are as shown in Table 3. These coefficients answer the regression model relating the dependent and the independent variables.

Based on these, the regression model; $Y = \alpha + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + X + \varepsilon$ Where:

Y = Financial Performance (ROA)

α = Constant

Term β1, β2, β3, and β4 = Regression coefficients of the independent variables

X1= Ethical human resource practice

X2= Ethical advertising practice

X3=Ethical consumer relations

X4= Ethical investor relations

ε = Error term

Multicollinearity test was also done in the study to determine whether the ethical HR practices, ethical advertising practices, ethical customer relation practices and ethical investor relation practices and financial performance were highly correlated, meaning that one can be linearly predicted from the other with a substantial degree of accuracy. If the VIF value lies between 1 – 10, then there is no multicollinearity. If the VIF value is less than 1 or more than 10, then there is multicollinearity.

As shown in Table 3, the VIF values were above 1 which indicate that there were no multicollinearity issues in the study. Ethical HR practices has a VIF value of 1.877, ethical advertising practices had a VIF value of 1.126, Ethical Customer Relation Practice had a VIF value of 1.517 while ethical investor relation practice had a VIF value of 1.209.

Table 3: Regression Coefficients for the Combined Model

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	2.263	1.238		4.363	.008		
	Ethical HR Practices	.767	1.549	.694	3.495	.023	.533	1.877
	Ethical Advertising Practice	.574	.688	.523	3.835	.003	.888	1.126
	Ethical Customer Relation Practice	.474	1.236	.466	2.383	.003	.659	1.517
	Ethical Investor Relation Practice	.117	.902	.120	2.129	.018	.827	1.209

a. Dependent Variable: Financial Performance

The regression model will become;

FP = 2.263 + 0.767EHRP + 0.574EAP + 0.474ECRP + 0.117EIRP + 1.238

(0.008) (0.023) (0.003) (0.003) (0.018)

In testing the relationship, ethical HR practices, ethical advertising practices, ethical customer relation practices and ethical investor relation practices were used to run the multiple regression against the financial performance of listed firms in NSE as the dependent variable. From Table, 3 , ethical HR practices has a coefficient ($\beta = .694$, $t = 3.495$, $p < .05$). Ethical advertising practices has the coefficient ($\beta = .523$, $t = 3.835$, $p < .05$), ethical customer relation practices has a coefficient of (β = .466, t = 2.383, p < .05) while ethical investor relation practices had a coefficient of (β = .117, t = 2.129, p < .05). The results show that all these ethical leadership styles had a significant influence on financial performance of the firms. The coefficients also showed a positive relationship between all the variables and Financial Performance.

5.0 DISCUSSION CONCLUSIONS AND RECOMMENDATIONS

5.1 Findings

In testing the combined relationship, ethical human resource practices, ethical advertising practices, ethical customer relation practices and ethical investor relation practices were used to run the multiple regression against the financial performance of listed firms in the Nairobi Securities Exchange (NSE) as the dependent variable. Ethical human resource practices had a coefficient (β = .694, t = 3.495, p < .05). Ethical advertising practices had the coefficient (β = .523, t = 3.835, p < .05), ethical customer relation practices has a coefficient of (β = .466, t = 2.383, p < .05) while ethical investor relation practices had a coefficient of (β = .117, t = 2.129, p < .05). The results show that all these ethical leadership aspects had significant influence on financial performance of the firms. The coefficients also showed a positive relationship between all the variables and financial performance.

A positive relationship between the constructs of ethical human resource practices and financial performance have been documented, in line with the findings of the present findings. For instance, Osemeke (2014) revealed that there existed a positive relationship between effective recruitment and selection practices, effective performance appraisal practices and performance. Other findings supporting this study include Abdulla, Ahsan and Alam (2009) and for Bal, Bozkut and Ertemsir (2014).

In line with these findings, Tamburro, Gordon, Apolito and Howard (2004) observed that unethical advertising promotes lowers organizational performance through materialism, consumerism and thus, financial stress. Other critics such as Arrington (2004) also hold unethical advertisements responsible for causing people to buy what they cannot actually afford and that finally has a relationship with the financial performance of firms.

In addition, Starkman and Klingbail (2004) explained that a firm that nurtures its relation with its shareholders is more often rewarded for such investments. This is in line with the present study. Ethical information disclosure improves stakeholder satisfaction. By this, it communicates the organization’s ethical posture, bringing with it its identity with the expectation of stakeholders, as recorded by Berrone, Surroka and Tribo (2005). Lorraine *et al*. (2004) supports these findings when their study argued that when a firm discloses its ethical values and objectives on its corporate statements, it equates them in importance to other organizational goals.

5.2 Conclusions

The study findings showed that ethical human resource practices had a significant influence on financial performance of listed firms in Nairobi Securities Exchange (NSE). Ethical human resource practices had a strong correlation with financial performance. It also significantly

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influenced financial performance from regression results and had a significant value with financial performance from chi square tests. The study concluded that the firms' recruitment practices always fully adhered to labour laws. Also, recruitment practices have fairy often affected the historical financial performance of the firms, the firm's recruitment policy is always based on academic qualifications, the firm's recruitment policy is always skill/talent-based and that firms always considered experience when hiring employees.

The study findings showed that ethical advertising practices had a significant influence on financial performance of listed firms in NSE. Ethical advertising practices had a strong correlation with financial performance, significantly influenced financial performance and had a significant value with financial performance. The study concluded that listed firms always adhered to ethical advertising, the advertisements always satisfied customer requirements profitably and that the firms always employed ethical advertising practices for its commodities.

Consumers have been characterized as the lifeblood of any business. The relationship between quality customer service and loyalty has been observed by a number of researchers, who insist on the quality of customer service as that which is not just reliable but also ethical. Ethical customer satisfaction and loyalty are positively correlated as have been determined by this research. It is also possible that firms can fulfill their customers' demands while remaining ethical themselves. Well serviced customers are likely to remain part and parcel of a business. In other words, it suffices to say that ethical customer service, in the long run, brings about good financial returns that enables an organization to flourish.

Satisfaction of investors is a center business challenge which has pulled in significant research consideration. Linking from the findings of this dissertation, a firm's profit chain places a positive relationship between the satisfaction of the investors, board characteristics, information disclosure, governance, and financial performance. Both the empirical investigation and results have demonstrated that, not just are the activities of firms' management basic for a high caliber conveyance of administration, additionally they impact trust and satisfaction of the investors. However, the underlying principle is the ethics that come will these benefits. Investors tend to align with organizations that upholds ethical values with regard to information disclosure, board characteristics and governance.

5.3 Recommendations

The study findings indicated that financial performance is high when firms always adhere to labour laws, recruitment practices and firm's policy when recruiting employees. The study therefore recommends that the firms' should always adhere to their labour laws, recruitment practices, the firm's recruitment policy which should be based on academic qualifications, skill/talents and experience when hiring employees.

The study findings indicated that financial performance was high when firms adhered to ethical advertising, when advertisements satisfied customer requirements and when the firms employed ethical practices for their products. The study therefore recommends that firms need to ensure that there is adherence to ethical advertising, they satisfy their customer requirements and employ ethical advertising practices for their products. The study also recommends that listed firms should fully harness the use of internet services during advertising to help them accomplish quick developments, versatility, productivity, and thus, positive financial returns.

The study determined that financial performance is high when firms endeavored to provide quality services to the customers and when the services delivery was on time. The study therefore recommends that firms should always endeavor to provide quality services to the customers and to ensure that service delivery is done within the required time.

The study determined that financial performance was highest when firms practiced corporate ethics, when they truthfully disclosed information to their stakeholders, and whenever their ownership structure affected their relationship with their customers. The study therefore recommends that the firms need to always practice corporate ethics; the firms need to always truthfully disclose information to stakeholders and their ownership structure need to affect their relationship with their key stakeholders.

5.4 Suggestions for Further Studies

This study was only conducted in the listed firms by NSE in Kenya. This limited the study to one the listed firms. The study also only measured the viewpoints of top managers only; therefore, the views of other employees were not taken into account. The researcher recommends that other studies be conducted on the ethical leadership aspects and financial performance in listed firms using the views of the junior employees in the firms. Other researchers could carry out a similar research in other firms other than the listed firms studied in this research and the results be compared so as to establish whether there is consistency among the firms. Other researchers could also introduce moderating variables such as size of the firm, which the present study did not cover.

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