Human Resource and Leadership Journal
(HRLJ)

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Manduku Daniel Ogwoka[1], Dr. Juliana Namada[2], Dr. Damary Sikalieh[3]

[1] Doctor of Business Administration candidate, United States International University-Africa, Nairobi, Kenya

[2] Assistant Professor of Strategic Management, United States International University-Africa, Nairobi, Kenya

[3]Associate Professor of Management, United States International University-Africa, Nairobi, Kenya

ABSTRACT

Introduction: Despite the vast research on ethical leadership, so little is revealed concerning a quantified relationship between ethical human resource practices and enterprise financial performance commensurate to the associated moral practices presented throughout the literature.

Purpose: Accordingly, this study sought to evaluate the direct impact of ethical human resource practices on the financial performance (measured by ROA) in the listed firms in Kenya by propounding a directly proportional relationship respectively, with the rather being the dependent variable.

Research Methodology: A causal research design was adopted, and the relationships were evaluated through correlation and regression analysis. Sixty-four CEOs from the listed firms in Kenya participated in the research by filling online questionnaires while data analysis was done using the Statistical Package for Social Scientists (SPSS).

Findings: The results revealed a significant relationship between ethical human resource practices and financial performance which was quantified through a linear regression model. The study recommended scrupulous adherence to the ethical HR practices and suggested replication of the study to other non-listed firms and the public sector.

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

Keywords: *Ethical Compensation and Remuneration, Ethical Human Resource Management, Ethical Selection & Recruitment, Ethical Training, Financial Performance, Human Resource (HR), Human Resource Management (HRM), Nairobi Securities Exchange (NSE)*

INTRODUCTION

Human resource policies define the operational and relationship patterns within different firms. The policies give the standards for achievement of the various human resource functions. Also, defined in the standards is the fundamental behavioral philosophy required of employees (Mullins, 2006; Wagner, 2010). Additionally, internal ethics encourages a justice atmosphere within an organization enabling employees to feel more significant concerning their responsibilities within and without the firm (Mullins, 2006).

Human Resource Management (HRM) systems are expected to communicate ethical values and so improve company performance. Relevant outcomes of firms are substantially impacted by how firms manage their human resources (Collins & Clark 2003). HR management consists of systems, policies and practices that directly influence employees' behavior, attitude and eventually performance (Armstrong, 2010). Organizations that are characterized by an effective human resource management exhibit more innovation, better performance, and creation of better reputation in the community (Koch & McGrath, 1996)

HRM focuses on the administration of employees to achieve the goals of an organization, a similar function as strategic management. Human resource policies should align with organizational strategies to provide a foundation for achieving organizational goals (Ghoshal, 2005). Unethical HRM practices impede the implement action of organizational strategies which depend on the efficiency of the hiring process and employee motivation (Dowling et al., 2008). It is important for organizations to utilize multidisciplinary approaches to managing their human resources (Salaman et al., 2005). The utilization of multidisciplinary approaches helps organizations to gain sustained competitive advantages in the long run through the deployment of an efficient and committed labor force (Aguilar, 1994), who then reciprocate to improve the organizational performance.

Prior studies propound that ethical human resource practices are vital to enhancing enterprise financial performance. Ethical leaders impart the significance of ethical human resource guidelines and utilize the performance framework to consider employees responsible for their behavior. Employees, on the other hand, can master ethical leadership qualities by emulating their leaders at the workplace. This points how important an ethical culture is to organizational performance (Brown & Treviño, 2006). The various dimensions of Human Resource (HR) management include ethical training, compensation, remuneration, selection, and recruitment have an effect on the motivation of employees thus may translate to influencing the financial performance of the firm. As a key stakeholder of organizations, the satisfaction of employees has an influence on organizational outcomes. Such outcomes may include financial turnover (Berrone et al., 2007).

HRM focuses on the management of employees to achieve the goals of an organization, a similar function as strategic management. Human resource policies should link with organizational strategies to provide a foundation for achieving organizational goals (Ghoshal, 2005). Unethical HRM practices impede the implement action of organizational strategies which depend on the efficiency of the hiring process and employee motivation (Festing & Engle, 2008). It is important for organizations to utilize multidisciplinary approaches to managing their human resources (Storey, 2007). The utilization of multidisciplinary approaches helps organizations to gain sustained competitive advantages in the long run through the deployment of an efficient and committed labor force (Aguilar, 1994), who then reciprocate to improve the organizational performance. However, this study deviated from the previous studies that did not consider a synthesized break down the various HR functions, and delved into the various roles of the HR department, thus seeking to find a link between the HR functions and financial performance.

Being a measure of how effectively a firm meets its objectives, firm performance holistically involves employee attraction, retention, and relation, as well as the satisfaction of other firm stakeholders (Bontis et al., 1999). Employees are one of the vital assets of firms (Danish & Usman, 2010) and should always be kept satisfied to enable their companies to have a competitive advantage yet, empirical studies quantifying the relationship ethical HR practices and financial performance remains scant. Some approaches to the implementation of policies have been established to support the positive correlation between human resource management and organizational performance (Evans & Davis, 2005; Wan & Huang, 2005) yet, none has modeled ethical HRM and financial returns (ROA).

This study sought to establish how the organizational environment caused by various components of HR policies influence financial performance of listed firms. It marked a departure from previous studies by evaluating the critical effect of the ethical human resource practice on enterprise financial results. The study considered the challenge of appreciating the importance of the ethics in the emerging markets confronted by a plethora of moral issues. It addressed the literary gap of operationalizing the importance of ethical human resource practices on financial performance by evaluating ethical compensation and remuneration, ethical human resource management, ethical selection & recruitment, and ethical training.

The general objective of this study was to establish the influence of Ethical Human Resource Management (HRM) practices on the financial performance of listed firms in Kenya. The specific objectives were: (1) To evaluate how ethical selection and recruitment affect the financial performance of a firm; (2) To evaluate how ethical training affect the financial performance of a firm; and (3) To examine how ethical remuneration and compensation affect the financial performances of a firm.

LITERATURE REVIEW

Organizational leaders are the primary influence on ethical conduct in any organization. Within the HRM arrangement of any organization, the virtues of those in leadership affect the ethical direction of those that follow them (Jansen & Von Glinow, 1985). According to Wickramasinghe and Gamage (2011), managers should implement human resource practices in an ethical, coherent and integrated manner. Weaver & Trevino (2001) argue that HRM can train managers on the best ways to reward ethical standard, for example using performance to promote fairness. This enhances the performance of employees and by extent the financial performance of the organization.

Mackay (1986) asserts that identifying the key factors that motivate employees is critical in helping employers influence the behaviors of their employees. Stone & Lukaszewki (2009) claims that knowing the best ways of motivating employees helps boost productivity. HRM responsibilities such as training, selection, development, and job analysis are among the most significant for employee motivation (Lado & Wilson, 1994). Employee selection by fairness determines the response of employees to duties and instruction. Brown and Treviño (2006) found out that ethical leadership emphasizes fair treatment, shared values and integrity in common personnel and business transactions. They add that ethical leaders inspire favorable behaviors among employees, encourage high levels of pride and commitment to the organization, and shape the way employees perceive the work content.

Selection refers to a natural or artificial process that results or tends to result in the survival and propagation of some individuals or organisms but not of others with the result that the inherited traits of the survivors are perpetuated (Osemeke, 2014). Recruitment refers to processes involved in choosing individuals for unpaid positions, such as voluntary roles or unpaid trainee roles. Managers, human resource generalists, and recruitment specialists may be tasked with carrying out recruitment, but in some cases, public-sector employment agencies, commercial recruitment agencies, or specialist search consultancies are used to undertake parts of the process (Tabassum, 2011).

From the view of Bratton & Gold (2007), recruitment is the 'process of generating a pool of capable people to apply to an organization for employment' while selection involves managers using specific instruments to choose from a pool of applicants the individual most likely to succeed in the job(s), given management goals and legal requirements. Both Pfeffer (1998) and Huselid (1995) determined that firms that have ethical selection criteria usually get the skilled and qualified personnel for the given jobs. Researchers like Koch and McGrath (1996) established that there exists a positive relationship between human resource recruitment and selection process and labor productivity.

Mathenge (2012) conducted a study on Ethical Considerations in Human Resource Management in Kenya: Theory and Practice. He examined the application of various ethical theories and the administrative challenges confronting Human Resource Managers in Kenya and other countries. The findings suggest that the current Human Resource Management Policies are weak and should hence employ ethical consideration to re-engineer and define them. Osemeke (2014) conducted a study on the impact of HRM practices on the private sector in Nigeria. His results revealed a positive relationship between effective recruitment and selection practices, effective performance appraisal practices and performance.

The workplace ethics training assists the company in realizing its goals as set in the strategic plan. Apart from the set business goals, training also instills on the employees the impetus to have self-set goals. Such self-set goals are effective for the enhancement of job attendance (Latham & Frayne, 1989), their becoming re-employed (Latham & Budworth, 2006) and improvement of their team playing capabilities. These developmental mechanisms may come in two forms: mentoring and coaching. Training includes handy, objective centered types of direct learning and, in a perfect world, behavioral change. It can be a fleeting mediation proposed to create particular leadership aptitudes or a broader procedure including an arrangement of groups after some time.

Previous studies by Bandura (1986), found out that the more the trainees' familiarity with the training contents, the more self-efficacy was generated. 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.

Reber and Wallin (1984) asserts that training can help solve performance problems by explaining the details of the job. This is in line with researchers conducted by Adeniji et al., (2013) and Wooten (2001). Better performance from employees typically creates less need for supervision and brings increased worker output (Reber, & Wallin, 1984). The workplace ethics training assists the company realizes its goals as set in the strategic plan. Apart from

Human Resource and Leadership Journal
ISSN 2520-4661 (Online)
Vol.2,Issue No.3,p 9 - 25, 2017 www.carijournals.org

the set company goals, training also instills on the employees the impetus to have self-set goals. Such self-set goals are effective for the enhancement of job attendance (Latham & Frayne, 1989), their becoming re-employed (Latham & Budworth, 2006) and improvement of their team playing capabilities (T. C. Brown & Latham, 2006). These developmental mechanisms may come in two forms: mentoring and coaching. Training includes handy, objective centered types of direct learning and, in a perfect world, behavioral change. It can be a fleeting mediation proposed to create particular leadership aptitudes or a broader procedure including an arrangement of groups after some time. Liao & Teng (2010) conducted a study on "*The Relationship between Ethics Training, employee satisfaction and gender balance: A Mediator of Corporate Responsibility Practices*". The study examined the mediating role of social corporate responsibility practices on the relationship between ethics training, gender balance and employee satisfaction. Their findings indicated that ethics training positively influenced social corporate responsibility practices and that these practices positively influenced employee satisfaction.

Compensation is the remuneration that one receives in exchange for the work or services performed. Typically, this consists of monetary rewards, also referred to as wage or salary. Some complementary benefits, however, are increasingly popular remuneration mechanisms. Remuneration is one component of reward management (Marwat, Qureshi & Ramay, 2007). With regard to employees, compensation is one of the most important parts of cash flows. It is mostly equal to half of cash flows of the firms, but a little more than half in the service sector. It is majorly administered to attract employees and motivate them to increase their performance (Ivanceikh & Glueck, 1989). Huselid (1995) conducted a study on the impact of human resource management policies and practices on firm performance. His research established that these practices have a significant impact on employee outcomes regarding turnover and productivity, and on the overall organizational performance. Marwat, Qureshi & Ramay (2007) examined the impact of human resource management (HRM) practices on employees' performance. The study explored the contribution of human resource management practices including selection, training, career planning, compensation, performance appraisal, and job definition and employee participation on perceived employee performance. Results highlighted that all the tested variables are positively correlated but the correlation of compensation (0.67) and training (0.66) are highest respectively.

In particular, literature synthesis revealed scanty discussions on the role of ethics I n HRM at a micro level via individual level. Studies that are conducted at a macro-level concentrate on the relationship between performance and HRM (Aguilar, 1994). Therefore, this consequence exposed a need to carry out more research targeting the effects of HRM practices at the micro-level to make a wholesome conclusion about the financial performance of a firm. Tension often exists between the financial goals of a firm and strategies towards the enhancement of profits and ethical considerations with concerns for right behavior. There is limited research that elaborates on how to strike the right balance between behaving ethically and achieving the goals of a firm in a human resource management setting. There is need to establish the level of ethical compromise in HRM practices that will not affect the financial performance of business.

2.4 Conceptual Framework

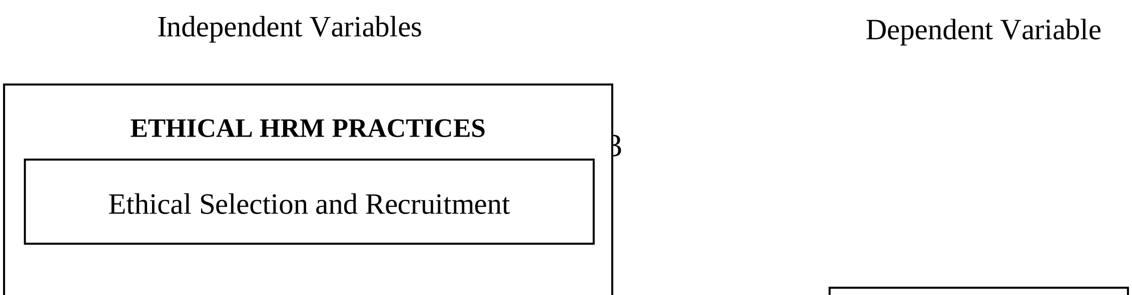

Figure 1: *The Relationship Between Ethical HRM and Financial Performance (ROA)*

The human resource practices define the operational and relationship patterns within a firm. The policy gives the standards for the achievement of different human resource functions. Also, defined in the standards is the structural behavioral philosophy required of employees (Mullins, 2010; Wagner, 2010). Besides, internal ethics encourages a justice atmosphere within a business or corporation, and this makes employees feel more significant concerning their responsibilities within and without an organization (Mullins, 2010). Therefore, the present studies present a deciphered measurement of HRM ethics (involving compensation and remuneration, ethical training, and selection and recruitment), and their effect on the financial performance of firms.

METHODOLOGY

The study collected primary data from 64 respondents from the listed firms in NSE. The conceptual sample for this study was composed of organizational Chief Executive Officers (CEOs) and Chief Finance Officers (CFOs). The study developed a census approach because of the small number of the listed firms in the NSE. It achieved a response rate of 100% since there were no non-response incidences where the researcher could not access all the population targeted. Out of the 64 respondents targeted for the actual data collection, all gave adequate information through answering the hard and soft copy questionnaires completely and thereafter sending the filled questionnaires either as hardcopy printouts, or soft copy forms. However, 7 of the respondents who had participated in the pilot study were not involved in the proceeding data collection. Validity and reliability tests were done to verify consistency of the data.

Secondary data was collected both from the listed firms and information from the sector regulator, the Capital Markets Authority (CMA). Descriptive analyses were used to generate quantitative reports through tabulations, percentages, and measures of central tendency for enhanced visualization and discussions. Data analysis was done using the Statistical Package for Social Scientists (SPSS). The descriptive statistics were used to examine the critical factors. They were the mean, standard deviation, standard error, Kurtosis, and Skewness while the inferential statistics were used to establish relationships. They were the Correlation and Linear Simple Regression analysis. Other analyzed including the Factor Analysis and the KMO and Bartlett's Test were used to test the regression assumptions.

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ISSN 2520-4661 (Online)
Vol.2,Issue No.3,p 9 - 25, 2017 www.carijournals.org

FINDINGS

The descriptive findings were as displayed in ***Appendix II***. The Mean (M) and Standard Deviation (SD) were used as descriptive measures of central tendency while the Coefficient of Variation (CV) was used to describe the amount of variability relative to the mean. The coefficient of Variation was used to establish the critical ranking of the variables by considering the lowest CV as the highest critical factor. The perceived ethical values on recruitment practice ranked in the order of recruitment practices' adherence to the labor laws (M=4.91, SD=0.28, CV=0.06); recruitment policy is skill/talent-based (M=4.55, SD=0.53, CV=0.12); recruitment is based on academic qualifications (M=4.31, SD=0.78, CV=0.18), and recruitment practices affect historical financial performance (M=3.68, SD=1.39, CV=0.38). The results revealed that respondents perceived ethical values on the actual employee absorption practices to be critical with regards to whether the firm conducts formal interviews (mean=4.84, SD=0.41, CV= 0.08), a firm considers experience when hiring employees (mean=4.33, SD=0.47, CV=0.11), a firm conducts reference checks for employees before offering employment (mean = 4.71, SD=0.59, CV=0.13), a firm provides ethical training to newly hired staff to prepare them for their new positions (mean=4.39, SD=0.89, CV=0.20), and whether a firm provides job previews for employees before the job offer is made (mean=3.86, SD=1.15, CV=0.30).

Results on perceived ethics training's effect on financial performance showed that respondents perception of these practices was critical (CV<0.5). The ranking of the factors followed the order of the ethics training positively influences corporate social responsibility and productivity (M=4.26, SD=0.64, CV=0.15); and the ethics training positively influences corporate social responsibility and productivity (M=4.05, SD=0.91, CV=0.22).

Results revealed a critical perception on the assetion that employees' roles in the firm determined their training needs (M=4.64, SD= 0.67, CV=0.14); ethical compensation and remuneration affected their productivity(M=4.44, SD=0.73, CV=0.16); a firm had ethical policies for reviewing salaries of the employees (M=4.47, SD=0.81, CV=0.18); and staff members were periodically given opportunities through workshops and seminars to discuss the ethical issues they are experiencing (M=3.71, SD=0.78, CV=0.21).

Kaiser-Meyer-Olkin (KMO) Test was used to determine whether the data was suited for factor analysis. Therefore, adequacy for each model was measured and compared with the complete model. As a rule of thumb, the lower the proportion, the higher the suitability of the data for factor analysis. Therefore, KMO values were close to zero, implying that there were large partial correlations compared to the sum of correlations. The study found that KMO had a value of 0.834 and Bartlett's test, $x2(8, N = 57) = 709.330$, $p = .000$. This implies that sampling was adequate for Ethical Human Resource Practices in the study. The findings are as in Table 2 below.

Table 1: KMO and Bartlett's Test for Ethical HR Practices

Kaiser-Meyer-Olkin Measure of Sampling Adequacy		**.834**
Bartlett's Test of Sphericity	Approx. Chi-Square	709.330
	Df	231
	Sig.	.000

Factor Analysis

Factor analysis was used to describe variability among observed and correlated variables regarding a potentially lower number of unobserved variables. The analysis was important to reveal the factors that had the highest variability of the data among the 21 variables examined under ethical HRM practices. This statistical procedure involved an orthogonal transformation for the observed 21 components to a set of uncorrelated principal components. Each principal component was orthogonal to the successive and the first contributed the highest variability to the data.

Accordingly, In the first component, "*Ethics training improves financial performance*" had the highest factor loading, contributing to about 70.2% of data variability. "*The firm provides job previews for employees before the job offer is made*" had the highest factor loading of 65.2% in the second component. "*The firm's recruitment policy is based on academic qualifications*" had the highest factor loading of 72.8% in the third component. "*Recruitment practices have affected the historical financial performance*" had the highest factor loading of 67.3% in the fourth component.

On the other hand, '*The firm's ethical considerations focus on organizational success*', '*The human resource policies directly influence employee behavior*', '*The firm's recruitment fully adheres to labor laws*' and '*The firm provides ethical training to newly hired staff to prepare them for their new positions*' had the lowest factor loading of 57%, 64.9%, 43.3% and 44.3% in the fifth, sixth, seventh and eighth factor loadings respectively. The results are as displayed under ***Appendix I.***

Correlation Analysis

The study sought to establish a correlation between the dependent variable and each of the ethical HR components. The dependent variable for the study was financial performance. The correlation test was conducted at the 5% level of significance with a 2-tailed test. Thus, the critical significance value is 0.025 above which the association is deemed to be insignificant and vice versa. The strength of the correlation is measured based on the Pearson correlation scale. The correlation coefficient ranges from -1.0 to +1.0 and the closer the coefficient is to +1 or -1, the more closely the two variables are related.

The findings illustrated in Table 2 below show that the components under ethical human resource practices had a positive and significant relationship with Financial Performance. The correlation coefficient for ethical selection and recruitment is 0.737 with a significance value of 0.014 which is less than 0.025 at the 5% level. Ethical training has a correlation coefficient of 0.709 with a significance value of 0.003 which is less than 0.025 at the 5% level. Also, ethical compensation and remuneration have a correlation coefficient of 0.706 with a significance value of 0.07. This implies a strong positive correlation between ethical human resource practices and financial performance of listed firms in NSE.

Table 2: Correlation between HR practices and financial performance

		Financial Performance
Financial Performance	Pearson Correlation	1

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ISSN 2520-4661 (Online)
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	Sig. (2-tailed)	
	N	57
Ethical Selection and Recruitment	Pearson Correlation	.737
	Sig. (2-tailed)	.014
	N	56
Ethical Training	Pearson Correlation	.709
	Sig. (2-tailed)	.003
	N	56
Ethical Compensation and Remuneration	Pearson Correlation	.706
	Sig. (2-tailed)	.007
	N	54

Hypothesis Testing

The study was guided by the null hypothesis:

H_0: *Ethical human resource practice does not have a significant influence on the financial performance of listed firms in NSE.*

The study conducted regression analysis to determine the effect of Ethical HR Practices on the Financial Performance of the firms listed in Nairobi Securities Exchange (NSE). The regression was carried out at 0.05 level of significance. Results in Table 3 indicate the regression model summary showing the extent to which ethical HR practices influence financial performance. Based on the coefficients, the predictor variable (ethical HR practices) explained 78.2% of the variation in financial performance of listed firms by NSE. This is as represented by the R^2 coefficient of 0.782. This, therefore, reveals that other factors not studied in this research contribute to 7.5% of the variability in the financial performance of firms listed on NSE.

Table 3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.812[a]	.782	.718	0.05173487

a. Predictors: (Constant), Ethical HR Practices

b. Dependent Variable: Financial Performance

The model was significant for the relationship as given by the regression coefficients given by F = 3.008, p = .003. Table 4 gives the results of the coefficients. Therefore, the null hypothesis is rejected, and the study concludes that there is a significant relationship between ethical human resource practices and financial performance of the listed firms in NSE.

Table 4: ANOVA Table

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.073	1	.073	3.008	.003[b]

	Residual	502.907	2	9.313		
	Total	502.980	3			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Ethical HR Practices

Table 5: Coefficients Table

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.276	4.789		2.220	.009		
	Ethical HR Practices	.398	1.107	.312	3.389	.003	1.009	1.023

The findings imply that for every unit increase in Ethical HR practices, financial performance increases by Kshs. 0.398. This is a significant and positive influence of Ethical HR Practices on Financial Performance.

The regression findings indicated that ethical HR practices had a coefficient (β = .312, t = 3.389, p <.05) showing a significant influence of the HR practices on financial performance. Correlation analysis results also showed a strong and significant association between HR practices and financial performance, r (57) = .930, p< .012. The results for Chi-square test showed that there was a strong association between Ethical HR Practices and Financial Performance, $x^2(8, N=57) = 15.000$, p = .000.

The estimates of the regression coefficients, t-statistics and the p-values for the relationship between ethical HR Practices and financial performance are as shown in Table 8. These coefficients answer the regression model relating the dependent and the independent variable. The following linear regression model can, therefore, be used to predict the relationship between ethical HR Practices and financial performance in listed firms in NSE.

Based on these, the regression model; Y = β0+ β 1X1

Y = 0.276 + 0.398 X1

The findings imply that for every unit increase in ethical HR practices, financial performance increases by Kshs. 0.398 which revealed a significant and positive influence of ethical HR practices on financial performance.

DISCUSSION

The findings of the present study agree with Evans and Davis (2005), and Wan and Huang (2005) who linked ethical human resource practices such as behaviors, attitude, skills and innovation to financial performance. They also agree with Pfeffer (1998) who determined that high-performance work practices including ethical recruitment and selection, training, incentive compensation, information sharing and employee satisfaction positively contribute to financial results in organizations. Specifically, the study determined that the practice of ethical HR practices among the listed firms was critical under the examined variables. These findings corresponded to Jansen and Von Glinow (1985) who contend that the virtues of those in leadership affect the ethical direction of those that follow them. In line with researchers like Koch and McGrath (1996) who established that there exists a positive relationship between human resource recruitment and selection process and labor productivity, the study established that recruitment practices' adherence to the labor and being skill/talent-based was critical. These findings further conferred with the assertion of Tabassum (2011) who propounded that extensive selection process consisting of curriculum vitae screening, employment tests, interviews and background checks positively relates to the recruitment of a talented and educated workforce with high moral standards. The results of this study also revealed that recruitment practices significantly affect historical financial performance which is consistent with Sneha, M. (2014) and Ayesha (2011) that have both exclusively studied the banking sector. Their current study revealed that recruitment and selection to determine the influence on the financial performance of listed firms in the Nairobi Securities Exchange.

The results revealed that respondents perceived ethical values on the actual employee absorption practices to be critical for firms considering working experience during the section, provision of job previews before job offers are made, and provision of ethical training before hiring. Thus, it is important to provide such information as this enables employees to know what is expected of them as they start the job. The findings were well in tandem with previous studies that explored strategies for employee retention, with honesty, a virtue of ethical training, being a key consideration (Coleman and Irving, 1997; Parker, 1997; Thorsteinson et al., 2004). The perception reference checks, ethical training to newly hired staff to prepare them for their new, provision of job previews for employees before the job offer is made, conducting formal interviews and consideration of experience when hiring employees were found to be critical. These findings corresponded with Kimani and Njue (2013) who postulated that job previews, ethical training on orientation and objective interviews affect employee retention. These findings complement Rao’s (2008) assertion that ethical HRM enables organizations to develop unique and valuable talents among employees thus enabling organizations to maintain sustainable competitive advantages. The findings also established Lado and Wilson’s (1994) said that organizations would be inefficient when talented persons fail to penetrate into the organization and if recruitment is not based on talent, they may spend a lot of money in training and capacity building. Such endeavor would bring value to organizations but presents a financial burden as opposed to having a skill/talent-based recruitment policy.

Results revealed that perceived ethics training’s effect on financial performance showed that respondents perception pf these practices was critical. Specifically, ethics training for enhanced corporate social responsibility and productivity was found to be critical. This was consistent with Liao and Teng (2010) revealed a mediating role of social corporate responsibility practices on the relationship between ethics training and found that ethics training positively influenced social corporate responsibility practices and that these practices positively influenced employee satisfaction hence enhanced financial performance.

Results on perceived practice of ethical policy for reviewing salaries of the employees, determination of training needs, ethical compensation and remuneration affects the employees’ productivity were critical. These findings were consistent with Marwat, Qureshi and Ramay (2007) who conducted a study on the impact of human resource management practices on employees' performance and established a positive correlation between the practices (such as selection, career planning, training, performance appraisal, compensation, job delegation and employee participation on perceived employee performance) and employee performance. The results also indicated that provision of opportunities for personal development is alignment with the strategic mission of the firm, ethical considerations focus on organizational success, management encourages role modeling for junior employees and considers the moral outcome of management decisions and a firm's ethical considerations focus on societal success were critical. Critical Findings on efficacy for employee personal were consistent with Wooten (2001) who contends that providing employees with opportunities for ethical training strengthens job-related skills and competencies, encourages good performance, and helps employees to keep up more comfortably with the ever-changing working environment, for example, the introduction of new technology. With regards to strategic objectivity, the results were consistent with Weaver and Trevino (2001) who argue that HRM should train managers on the best ways to reward ethical standard, for example using performance to promote fairness and align a firm to its strategic mission. This enhances the performance of employees and by extent the financial performance of the organization.

CONCLUSIONS

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

The HR practices also significantly influenced financial performance from regression results and had a significant value with a financial performance from chi-square tests. The study concluded that the firms' recruitment practices always fully adhered to labor laws. Also, recruitment practices have fairly 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 firms always consider experience when hiring employees.

IMPLICATIONS FOR PRACTICE AND POLICY MAKERS

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

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ISSN 2520-4661 (Online)
Vol.2,Issue No.3,p 9 - 25, 2017
www.carijournals.org

Appendices

Appendix I: ***Component Factor Loadings for Ethical HR Practices***

	Component							
	1	2	3	4	5	6	7	8
The firm's recruitment fully adheres to labor laws	.139	-.464	.495	-.200	-.058	.101	.433	.233
Recruitment practices have affected the historical financial performance	.108	-.036	.231	.673	.517	.095	-.136	-.111
The firm's recruitment policy is based on academic qualifications	.394	.072	.728	.067	-.227	-.087	.295	-.077
The firm's recruitment policy is skill/talent-based	.582	-.073	.660	-.168	-.045	.178	.073	-.057
The firm considers experience when hiring employees	-.082	.513	-.209	-.160	-.506	.449	-.004	-.324
The firm conducts formal interviews	.357	.633	.206	.220	.193	.241	.178	-.077
The firm conducts reference checks for employees before offering employees	.352	.499	.140	-.151	.478	-.278	.067	.367
The firm provides job previews for employees before the job offer is made	.466	.652	-.039	-.061	.185	-.128	-.010	-.052
The firm provides ethical training to newly hired staff to prepare them for their new positions	.506	-.087	-.294	.349	-.359	-.096	-.093	.443
The ethics training positively influences corporate social responsibility and productivity	.691	-.015	-.237	.269	-.346	-.027	.262	.042
Ethics training improves financial performance	.719	.474	.172	.204	-.170	.088	-.186	-.018
Employees role in the firm determines their training needs	.541	-.069	-.248	-.314	-.004	.285	-.372	.351
Staff members are periodically given opportunities through workshops and seminars	.594	.576	-.215	-.186	-.142	-.056	.050	.022
The firm has an ethical policy for reviewing salaries of the employees	.544	-.252	.292	-.250	.216	-.132	-.418	-.062
Ethical compensation and remuneration affects the employees' productivity	.631	-.224	.279	-.368	.061	.282	-.242	.038
The firm management considers the moral outcome of management decisions	.631	-.070	-.398	-.003	.177	-.388	.304	.107
The firm management encourages role modeling for junior employees	.643	-.430	-.227	-.042	-.055	-.111	-.022	-.267
The firm's ethical considerations focus on societal success	.443	-.208	.026	.710	.090	.078	-.253	-.126
The firm's ethical considerations focus on organizational success	.548	-.284	.136	.162	-.570	-.241	-.091	-.021
The firm provides opportunities for personal development	.579	-.236	-.283	-.112	.252	-.175	.200	-.475
The current human resource system is aligned with the strategic mission of the firm	.640	-.220	-.387	-.322	.293	.286	.112	-.145
The human resource policies directly influence employee behaviour	.189	-.255	-.258	.284	.210	.649	.324	.236

Human Resource and Leadership Journal
ISSN 2520-4661 (Online)
Vol.2,Issue No.3,p 9 - 25, 2017
www.carijournals.org

Appendix II: ***Descriptive results for Ethical Human Resource (HR) Practices***

$c_v = \frac{\sigma}{\mu}$ *The coefficient of variation (CV) is the ratio of the standard deviation σ to the mean μ*	Mean	Standard Error	Standard Deviation	Kurtosis	Skewness	Sum	Count	CV	Rank
The firm's recruitment practices fully adhere to the labor laws	4.912	0.038	0.285	7.217	-2.994	280	57	0.010	1
The firm's recruitment practices have affected the historical financial performance	3.684	0.186	1.404	-0.713	-0.774	210	57	0.043	3
The firm's recruitment policy is based on academic qualifications	4.309	0.107	0.791	-1.116	-0.619	237	55	0.023	2
The firm's recruitment policy is skill/talent-based	4.545	0.073	0.538	-0.937	-0.557	250	55	0.118	6
The firm considers experience when hiring employees	4.333	0.063	0.476	-1.527	0.726	247	57	0.110	5
The firm conducts formal interviews	4.842	0.055	0.414	7.067	-2.678	276	57	0.085	4
The firm conducts reference checks for employees before offering employment	4.709	0.081	0.599	2.705	-1.950	259	55	0.127	8
The firm provides job previews for employees before the job offer is made	3.860	0.153	1.156	-0.588	-0.578	220	57	0.300	21
The firm provides ethical training to newly hired staff	4.386	0.119	0.901	1.334	-1.464	250	57	0.206	18
The ethics training positively influences corporate social responsibility and productivity	4.263	0.085	0.642	-0.633	-0.297	243	57	0.150	10
Ethics training improves financial performance	4.053	0.121	0.915	-0.698	-0.542	231	57	0.226	20
Employees role in the firm determines their training needs	4.636	0.091	0.677	6.656	-2.380	255	55	0.146	9
Staff members are periodically given opportunities ethical issues	3.709	0.106	0.786	-0.322	-0.140	204	55	0.212	19
The firm has an ethical policy for reviewing salaries of the employees	4.473	0.110	0.813	1.636	-1.517	246	55	0.182	15
Ethical compensation and remuneration affects the employees' productivity	4.439	0.097	0.732	2.581	-1.476	253	57	0.165	13
The firm management considers the moral outcome of management decisions	4.333	0.091	0.690	-0.752	-0.551	247	57	0.159	12
The firm management encourages role modeling for junior employees	4.316	0.097	0.736	-0.922	-0.581	246	57	0.170	14
The firm's ethical considerations focus on societal success	3.877	0.100	0.758	-0.113	-0.300	221	57	0.195	17
The firm provides opportunities for personal development	4.456	0.090	0.683	-0.376	-0.881	254	57	0.153	11
The current human resource system is aligned with the strategic mission of the firm	4.623	0.077	0.562	0.480	-1.182	245	53	0.122	7
The human resource policies directly influence employee behavior	4.211	0.102	0.773	-1.213	-0.387	240	57	0.184	16