

**RELATIONSHIP BETWEEN LABOUR PRACTICES
AND FIRM PRODUCTIVITY IN THE EXPORT
PROCESSING ZONES IN KENYA**

STEPHEN OLUTEYO ANDAI

**DOCTOR OF PHILOSOPHY
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**Relationship Between Labour Practices and Firm Productivity
in The Export Processing Zones in Kenya**

Stephen OluteyoAndai

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iii

DECLARATION

This thesis is my original work and has not been presented for a degree in any other University.

Signature..... Date.....

Stephen Oluteyo Andai

This thesis has been submitted for examination with our approval as the University Supervisors.

Signature..... Date.....

Dr. Mike A. Iravo
JKUAT, Kenya.

Signature..... Date.....

Dr. Margaret A. Oloko
JKUAT, Kenya.

DEDICATION

This thesis is dedicated to my wife Judith Naliaka, children; David Andai, Patience Rinah and Joseph Andai whose love you continued giving me, encouragement and inspiration throughout my studies even when I felt like giving up May God bless you.

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TABLE OF CONTENTS

DECLARATION -----	ii
DEDICATION -----	iii
ACKNOWLEDGEMENT -----	iv
TABLE OF CONTENTS -----	v
LIST OF TABLES -----	ix
LIST OF FIGURES -----	xi
LIST OF APPENDICES -----	xii
DEFINITION OF TERMS -----	xiii
ACCRONYMSAND ABBREVIATIONS -----	xvi
ABSTRACT -----	xviii
CHAPTER ONE INTRODUCTION -----	1
1.1 Background of the Study-----	1
1.2 Statement of the Problem-----	6
1.3 Objective of the Study-----	7
1.4 Specific Objectives-----	7
1.5 Hypothesis-----	8
1.6 Significance of the Study-----	9
1.7Scope of the Study-----	10
1.8 Limitation of the Study-----	11
CHAPTER TWOLITERATURE REVIEW -----	12
2.1 Introduction -----	12
2.2 Theoretical Framework -----	12
2.2.1 Model of the Firm -----	12
2.2.2 Firm Productivity-----	13
2.2.3 System-Based Approach-----	15
2.2.4 Human Capital Theory-----	16
2.2.5 Workers as Assets-----	17

2.2.6 Human Capital and Other Aspects of Intellectual Capital Theory-----	18
2.2.7 The Significance of Human Capital-----	18
2.2.8 Unitarism-----	20
2.2.9 Scientific Management Theory-----	21
2.2.10 Human Relations Theory-----	22
2.2.11 Human Resource Management-----	22
2.2.12 Pluralism-----	23
2.2.13 Systems Theory-----	24
2.3 Conceptual Framework-----	25
2.4 Review of the Labour Practices-----	26
2.4.1 Labour Contract and Firm Productivity-----	27
2.4.2 Labour Relations and Firm Productivity-----	30
2.4.3 Labour Management and Firm Productivity-----	35
2.4.4 Labour Management and Firm Productivity-----	38
2.4.5 Labour Satisfaction and Firm Productivity-----	40
2.5 Other Factors of Production -----	42
2.6 Critique -----	43
2.7 Research Gaps -----	48
2.8 Summary-----	49
2.9 Critical Review-----	49
CHAPTER THREE RESEARCH METHODOLOGY-----	51
3.1 Introduction-----	51
3.2 Research Philosophy-----	51
3.2.1 Research Design-----	51
3.3 Target Population-----	52
3.4 Sampling Frame and Sample Technique -----	53
3.5 Data Collection Procedure-----	54
3.6 Pilot Test -----	54

3.7 Reliability and Validity-----	55
3.8 Data Analysis and Presentation-----	56
3.9 Measurement Scale-----	58
3.9.1 Labour Input-----	58
3.9.2 Multiple Regression Analysis-----	58
3.9.3 Productivity Measurement-----	59
3.9.4 Quality of the Workforce-----	61
3.9.5 Firm Productivity Growth-----	62
3.9.6 Efficiency -----	62
CHAPTER FOUR RESEARCH FINDINGS AND DISCUSSION-----	64
4.1 Introduction-----	64
4.2 Response Rate-----	65
4.3 Reliability Analysis-----	65
4.4 Demographic Data -----	66
4.5 First Objective on Labour Contract -----	74
4.5.1 Firm Productivity-----	78
4.6 Second Objective on Labour Relations-----	89
4.7 Objective Three Labour Management -----	92
4.8 Fourth Objective on Labour Satisfaction-----	105
4.9 Analysis Multiple Regression Model to Test $H_{0x1} LC_{X1}$ -----	124
4.10 Analysis Multiple Regression Model to Test $H_{0x2} LR_{X2}$ -----	126
4.11 Analysis Multiple Regression Model to Test $H_{0x3} LM_{X3}$ -----	128
4.12 Analysis Multiple Regression Model to Test $H_{0x4} LS_{X4}$ -----	130
4.13 Linear Regression Model using Standardized Coefficient-----	131
4.14 Model Elasticity-----	135
CHAPTER FIVE SUMMARY, CONCLUSIONS AND RECOMMENDATIONS-----	137
5.1 Introduction-----	137

5.2 Summary of the Findings-----	137
5.2.1 Relationship Between Labour Contact and Firm Productivity-----	138
5.3 The Overall Effects of the Variables-----	141
5.4 Conclusion-----	141
5.5 Recommendations-----	142
5.6 Recommendations for Further Research-----	144
REFERENCES-----	146
APPENDIXES-----	164

LIST OF TABLES

Table 2.1:	Marginal Revenue Product of Labour-----	14
Table 3.1:	Sampling Frame-----	53
Table 4.1:	Summary of Cronbach's Alpha Coefficient -----	66
Table 4.2:	Duration of Time Worked in the Same Firms -----	69
Table 4.3:	Year of Establishment of The Firms -----	70
Table 4.4:	Firms' Major Export Products-----	71
Table 4.5:	Work Experience-----	71
Table 4.6:	Duration of Technical Training-----	73
Table 4.7:	Training and Sponsorship-----	73
Table 4.8:	Labour Contract-----	74
Table 4.9:	Number of Skilled Workers-----	78
Table 4.10:	Number of Semi-Skilled Workers in Mombasa Zone EPZs 2013----	79
Table 4.11:	Average Earning per Day Per Skilled Worker in Ksh-----	80
Table 4.12:	Unskilled Earning Per Day Per Worker in Ksh-----	83
Table 4.13:	Comparison between LI EPZs and CI Firms-----	84
Table 4.14:	Labour Relation-----	89
Table 4.15:	Workplace Environment-----	97
Table 4.16:	Man Hour Pay-----	100
Table 4.17:	Employees' Benefits-----	106
Table 4.18:	In-Service Training-----	112
Table 4.19:	Am Satisfied with the Working Environment-----	114
Table 4.20:	Labour Satisfaction Summary-----	115
Table 4.21:	Summary of Qualitative Data-----	116
Table 4.22:	One-Sample Test-----	117
Table 4.23:	Goodness of the Fit-----	117
Table 4.24:	Correlation of the Independent Variable -----	118

Table 4.25:	Correlation between Independent and Dependent Variable -----	120
Table 4.26:	Model 1 Summary of the Predictor and Labour Contract-----	122
Table 4.27:	ANOVA 1 Predictor (Constant) Labour Contract and FP-----	122
Table 4.28:	Coefficients-----	123
Table 4.29:	Model 2 Summary-of the Predictor Labour Relations and FP -----	124
Table 4.30:	ANOVA 2 Relationship between Labour Relation and FP-----	125
Table 4.31:	Coefficients Firm Productivity-----	125
Table 4.32:	Model 3 Summary of the Predictor Labour Management and FP---	126
Table 4.33:	ANOVA 3 Labour Management-----	127
Table 4.34:	Coefficients Labour Management-----	127
Table 4.35:	Model 4 Summary of the Predictor Labour Satisfaction and FP-----	129
Table 4.36:	ANOVA 4 Labour Satisfaction-----	129
Table 4.37:	Coefficients- Firm Productivity-----	130
Table 4.38:	Model Summary of Independent Variable-----	132
Table 4.39:	ANOVA 5 Independent Variable-----	133
Table 4.40:	Coefficients Dependent Variable-----	134
Table 4.41:	ANOVA 6 Testing the Null Hypothesis Summary-----	136

LIST OF FIGURES

Figure 2.1:	Conceptual Framework -----	25
Figure 4.1:	Comparisons between Firms-----	68
Figure 4.2:	Duration of Experience -----	72
Figure 4.3:	Income/ Substitution Effect Curve of Labour-----	81
Figure 4.4:	Firm Productivity 2013 -----	85
Figure 4.5:	Capital Productivity 2013-----	86
Figure 4.6:	Technology Contributes To Productivity-----	92
Figure 4.7:	Organizational Achievements as a Measure of Productivity-----	93
Figure 4.8:	Employee Satisfaction Influence Organizational Productivity-----	94
Figure 4.9:	Monetary Incentives Provided-----	95
Figure 4.10:	Training-----	96
Figure 4.11:	Grievances Handling -----	98
Figure 4.12:	Work Life Balance-----	99
Figure 4.13:	Compensation-----	101
Figure 4.14:	Channel of Communication-----	102
Figure 4.15:	Pay versus Input-----	103
Figure 4.16:	Employees' Voice-----	106
Figure 4.17:	Benefits, Bonuses, House Allowance and Medical Care-----	107
Figure 4.18:	Labour Contract-----	108
Figure 4.19:	Compensation of Overtime-----	109
Figure 4.20:	Fairly and Equally Treatment-----	110
Figure 4.21:	Employees' Grievances-----	111
Figure 4.22:	Overtime is Adequately Paid -----	113

LIST OF APPENDICES

Appendix A: Introduction Letter -----	164
Appendix B: Managers/Labuorers-----	165
Appendix C: Labour Productivity-----	168
Appendix D: Capital Productivity-----	169
AppendixI: Labour Management -----	171
Appendix II: Labour Contract -----	172
Appendix III: Labour Relations-----	174
Appendix IV: Labour Satisfaction -----	176
Appendix V: EPZ Firms in Mombasa 2013-----	179

DEFINITION OF TERMS

Labour - It is any human activity, mental or physical involved in the process of production; it is the active principle factor in the absence of which there can be no production (AGOA, 2007)

Labour practices - can be defined as any experience guided by appropriate principles, objectives and procedures, and/or any advice able guidelines in line with a certain normative perspective or a consensus-based standard, as well as any experience that has produced positive results by proving to be effective and useful in a given context (EPZA, 2011).

Land - Aggarwal, (2007) denotes all natural resources e.g. rivers, forests, minerals etc

Labour contractIt is the process of choosing the right person chosen for the requisite qualifications and knowledge is placed in the appropriate job position to decrease the cost, and maximise the profits by means of their merit and talent (Vlachos, 2008).

Labour Relations: It is the study of job regulation, the making and administering of the rules which regulates employment relationships regardless of whether these are seen as being formal or informal, structured or unstructured Flanders in Guest (2002)

Labour Management: This is the day to day organization's style of handling, controlling and decision marking processes of the workers Guest (2002)

Labour Satisfaction: It refers to the way in which employers provides suitable and conducive work environment leading to maximum labour output Guest (2002)

Capital - It is a third factor of productivity. It is the derived factor of production resulting from the application of labour to the natural resources. Consists of all those all economic goods employed in the production of further wealth i.e. machines, money, buildings etc (Bedi, 2006)

Enterprise - Complexities of production requires the exercise of a function which include organization, management and the bearing of risks which arise when production is undertaken in anticipation of demand (Aggarwal, 2007).

EPZ - Johansson & Nilsson, (1997) Can be defined as a geographically or jurisdictionally bounded area, in which free trade, including duty free import of capital and intermediate goods, is permitted, provided that all or a significant share of the goods produced within the zone are exported

Efficiency of Labour EPZA, (2005). Depends upon and it is reflected in its ability to produce goods and services. Its productivity is governed in general by the following factors.

EPZ Garment Export Share- Ratio of EPZ garment exports to EPZ non-garment exports (EPZA, 2005).

Growth in Investment - Changes in investment over the years (Olley and Pakes 1996)

Growth in Labour - Changes in the number of employees working in the EPZ garment firms over the years (AGOA, 2007).

Growth in Wages – Aggarwal, (2007). Changes in amount employees were paid over the years.

Growth in Productivity- Changes in the output relative to the input (KAM, 2007)

Productivity - Amount produced by employees relative to their wages Changes in productivity relative to employees' salaries. (OECD 2008)

Production -Bellmann, Schank & Upward (2007)This involves the utilization and organization of human and material, resources i.e. factors of production

Partial - When more than one input is used, for each factor it is possible to compute by the same procedure its productivity, called in this case "partial" (EPZA, 2005).

The supply of labour – It is the number of people who at any given time are eligible to work and offer themselves for employment (EPZA, 2007).

The Mobility of Labour – The facility which labour can flow from one director to another is very significant in a number of ways to productivity(AGOA, 2007).

TotalFactor Productivity -is the attempt to construct a productivity measure for an aggregation of factors. The meaningfulness of such an aggregation requires additional hypotheses, thus it is not assured in a general framework (EPZA, 2005).

ACCRONYMS AND ABBREVIATIONS

AGOA	African Growth and Opportunities Act
APO	Asian Productivity Organization
AMO	Ability of Motivation of Opportunity
ALP	Average Labour Productivity
ATC	Agreement on Textile and Clothing
DEA	Data Envelopment Analysis
EAC	East African Community
EPPO	Export Promotion Programme Office
EPF	Export Processing Firms
EPZ	Export Processing Zones
ERS	Economic Recovery Strategy
EU	European Union
EC	European Community
FDI	Foreign Direct Investment
FP	Firm Productivity
GATT	General Agreement on Tariffs and Trade
GoK	Government of Kenya
GDP	Gross Domestic Produce
GNP	Gross National product
ISI	Import Substituting Industrialisation
KEPZA	Kenya Export Processing Zones Authority
KSh	Kenya Shillings
LaRRI	Labour Resource and Research Institute
LI	Labour Intensive
LC	Labour Contract
LM	Labour management
LS	Labour Satisfaction

LR	Labour Relations
MFA	Multi-Fiber Agreement
MNC	Multi National Cooperation
MUB	Manufacturing Under Bond
MOL&HRDMLHRD	Ministry of Labour and Human Resource Development
OECD	Economic Cooperation and Development
OEE	Overall Equipment Effectiveness
OLE	Overall Labour Effectiveness
OPM	Overall Productivity Measure
PPP	Productivity Performance Project
RAPMODS	Ramsay Productivity Models
RPED	Regional Programme Empirical
R&D	Research and Development
RoK	Republic of Kenya
SEZ	Special Economic Zones
SSA	Sub Saharan Africa
STD.DEV	Standard Deviation
TD	Training and Development
TEM	Trends Econometrics Models
TFP	Total Factor Productivity
TPM	Total Productivity Measure
UNIDO	United Nations Industrial Development
USA	United States of America
VAT	Value Added Tax
WB	World Bank
WTO	World Trade Organisation
ZCTU	Zimbabwe Congress of Trade Unions

ABSTRACT

The main purpose of this study was to test the relationship between labour practices and firm productivity in the export processing zones in Kenya. Specifically, the study investigated relationship between labour contract, labour relations, labour management and labour satisfaction practices and firm productivity which is obtained by additional unit of labour. A survey research design was used to get both primary and secondary data in Mombasa Export Processing Zone in Kenya. Structured questionnaires and oral interviews were administered to the respondents accordingly to provide data on firm productivity. An analytical research methodology was also used to analyze secondary data while an *ex post facto* research design used to report things as they are. A mixed research methodology was used during data presentation where both descriptive and inferential statistics were used to make inferences and draw conclusions. Reliability of instruments and the content validity were judged by the supervisors and the field experts during the pilot study where test and re-test method was used to obtain the reliability of instruments α alpha = 0.836. The null hypothesis formulated was that there is no relationship between labour practices and firm productivity in the EPZs in Kenya. The study sample was determined using Cochran sampling frame for the large population of above 10,000 characters yielding to a sample size of 384 respondents. Pearson Coefficient of Correlation was used to measure the degree of association among several (k) set of ranking (N) objects or items between independent variable and dependent variable. while the null hypothesis was tested using F- ratio 2 way Fisher's ANOVA Test at $p \leq 0.05$ Level of Significance Type 1 error ($\alpha = .05$) where p - value ($\beta = 0.95$) The research findings using the standardized coefficient revealed a positive relationship between labour practices and firm productivity in the EPZs in Kenya However, further analysis test was done using unstandardized coefficients which revealed only two attributes of the independent variable Labour Contract and Labour Management statistically predicted the firm productivity in the EPZs hence, the null hypothesis was rejected while, the two attributes of the independent variable Labour Relations and Labour Satisfaction did not statistically predict firm productivity in the EPZs. The researcher therefore, recommends further study on other forms of labour relations either formal or informal and their influence on firm productivity in firms with multiple and complex web structure of management. To conclude; firms driven by market pressures need to add in their goals improved quality and productivity, greater flexibility, continuous innovation, and the ability to change in responding rapidly to market needs and demands. Effective HRM is also very vital for the attainment of these goals with improved quality and productivity linked to motivation which can be achieved through training, employee involvement and improving both extrinsic and intrinsic rewards.

CHAPTER ONE INTRODUCTION

1.1 Background of the Study

It is recognised that the manufacturing sector historically has been the most important engine of sustained and rapid growth in a number of countries. Manufacturing in Sub-Saharan Africa (SSA) generally contributes to only a small share of Gross Domestic Product (GDP), and SSA's share of global light manufacturing has been declining rather than increasing (Dinh, Palmade, Chandra & Cossar, 2012). Africa as a whole has experienced a decline in manufacturing as a share of total GDP from 15percent in 1990 to 10percent in 2008 (UNCTAD, 2012). In developing countries high export growth especially of manufactured goods, has been closely correlated with high economic growth at the expense of labour practices. Furthermore, in the previous decades, labour-intensive manufacturing has contributed to structural transformation in a number of regions and countries with economic success, such as in East Asia and China, but has yet to take place in SSA countries (UNCTAD, 2012; Dinhet. *al.*, 2012).

Productivity growth is a central factor of economic growth. A transfer of labour and other resources to higher-productivity activities may hence have a substantial effect on economic growth, even if productivity levels within the different sectors do not increase (McMillan & Rodrik, 2011). Developing countries often have abundant and cheap unskilled labour and for this reason have a relative competitive advantage over developed countries in labour-intensive production, such as primary production and low-skilled manufacturing jobs (Todaro & Smith, 2009). Therefore, many see SSA as the key to economic growth in industrialization, and in an increase of higher-productivity activities. 'EPZ' is the most commonly used term among a variety of names and forms of a popular trade policy instrument that has been used in the last few decades. Other names used include: 'SEZs', such as those found in China, 'free trade zones' (FTZs), 'industrial development zones' (IDZs, in South Africa), and '*maquiladoras*' (in

Mexico). This study mainly uses 'EPZ' as a common term for the zones. ILO (2003) defines EPZs as "industrial zones with special incentives set up to attract foreign investors, in which imported materials undergo some degree of processing before being (re-)exported again. Baissac (2011) defines SEZs as "geographical areas contained within a country's national boundaries where the rules of business are different from those that prevail in the national territory".

Frequent job layoffs, low wages and unfavorable working conditions are among some of the practices that create a lot of anxiety, fear and loss of productivity in the EPZs in Kenya. Amiti and Konings (2007) and (Topalova & Khandelwal 2011) indicate that improved access to foreign inputs increased firm productivity in other several countries of the world, such as Indonesia, Chile, and India. Although EPZs play a substantial role in a country's Gross National Product (GNP) for export, the kind of labour Practices that exist in the EPZs in Kenya do not match global industrial norms. Labour Practices rooted in the industrial revolution in the 19th century in Europe, created modern employment by spawning free labour markets and large scale industrial organizations with thousands of wage workers. The results of such massive economic and social changes has been Industrial labour problems, characterized by low wages, long working hours, monotonous and dangerous work, industrial closures and abusive supervisory practices, hence, high employee turnover, violence, strikes, and threats of social instability eventually leading to low productivity in Export Processing Zones Authority (EPZA), 2012).

Utilization of best labour practices is likely to make a substantial gain to the firm's productivity since the concept of productivity covers both what has been achieved only rely extensively on qualitative assessments of organizational capability or effectiveness neglecting efficiency. Labour practices usage in this study is simply the sum of prescribed functional activities and interactions that are expected to manifest themselves

in the form of collaborative interactions between managers and employees, in the flexibility, skill and loyalty of employees, in the absence of workplace conflict and trade unions, in the high performance outcomes of firms, and so on. Secondly, literature also uses the term as a positivist and pluralist concept when describing the existing institutional and regulative settings in which the functional activities and interactions of HRM take place. This second usage is a simple recognition that trade unions and state intervention in the form of substantive labour laws and industrial tribunals are an inescapable part of the Kenya work scope. To this end the study seeks to establish the relationship between labour practices and firm productivity in EPZs in Mombasa County, Kenya; whose outcome will add knowledge to the field of Human Resource Management in firm production. A common characteristic of EPZs is the provision of special incentives to attract foreign investments for export production; however labour practices such as labour contract, labour relations, labour management and labour satisfaction have received little attention on firm productivity. EPZs incentives range from tax holidays, duty-free export and import, free repatriation of profits to the provision of infrastructure and the exemption from labour laws. Despite such investments a very limited number of specialized jobs have been created in most countries in Africa including Kenya which is likely to affect the level of productivity in the EPZs in the host countries (EPZ, 2014).

The Bataan EPZs in the Philippines required infrastructural investments of 190 million US dollars to create only 28,000 jobs, which made the cost per labour to be about 7000 US dollars which translated to the average wage per worker to be less than 40 dollars per month. If such investment costs are analyzed against this figure, a ratio of about 20:1 emerges between the investment per job and the average annual wage. Firm performance has been inked with Human Resource practices, which include good practices, best practices and the best fit; however an understanding of the labour practices on firm productivity has not been very clear. While most successful firm performance outcome

have been measured against financial gains; this has been done at the expense of the labour available. Labour practices around the world remain severely strained resulting in unprecedented increase in unemployment with nearly 206.7 million unemployed in 2009 (ILO Trends Econometrics Models (TEM), 2010). In the United States, an average annual labour productivity growth was measured as Gross Domestic Product (GDP) per hour of work accelerated from 1.2 percent in the 1973–1995 periods to 2.3 percent from 1995 to 2006. Conversely, the 15 European Union countries that constituted the union up to 2004 experienced productivity growth slowdown between these two time periods hence labour productivity growth declined from an annual rate of 2.4 percent during the period 1973–1995 to 1.5 percent during the period 1995–2006, (ILO TEM, 2010).

According to Kenya's EPZ (2011), the aim of the program is "to transform the economy from import substitution to a path of export led growth". Furthermore, "EPZs are designed to integrate Kenya into the global supply chain and attract export-oriented investments in the zones, thus achieving its economic objectives of job creation, diversification and expansion of exports, increase in productive investments, technology transfer and creation of backward linkages between the zones and the domestic economy." The program has contributed significantly to achieving these objectives with over 60 zones in place, close to 160,000 workers employed and contribution of 10.7 percent of national exports. Over 70 percent of EPZs output is exported to the USA under AGOA.

Firms in the EPZs employ more women than the Kenyan national average, although the proportion is less than the international average amongst EPZs. A weak trade union movement, inefficient and inadequate social security, lack of employment benefits, lack of opportunities for training and promotion and low pay are problems encountered by those working in an EPZ and more so in Mombasa County which has the highest number of the EPZs in Kenya (Mireri, 2013).

The garment manufacturing industry remains the dominant sector in the EPZs, constituting about 41 percent of the firms within the zone. A report released by the (EPZA, 2010) indicated that between 2004- 2006 EPZs contributed 92 percent of the local private industrial employment, 74 percent of total sales and 63 percent of local resource utilization, despite poor labour practices in the EPZs. If Kenya is to achieve the Vision 2030; then clear understanding of the relationship between a book marked and firm production in the export firms must be well addressed (Nkondi, Mukulu & Thuruwa, 2013)

Kenya's manufacturing and export firms have highly been criticized for failing to recognize labour laws, hence the introduction of EPZs designed under The African Growth Opportunity Act (AGOA) viewed as a solution to the current Kenya's situation of unemployment and poor labour relations in the manufacturing firms (EPZA, 2015). AGOA extends duty-free and quota-free benefits to imports of a number of apparel items, and textile products used to make those goods, produced in eligible Sub-Saharan African (SSA) countries. This gave the beneficiary Sub-Saharan countries a window period (2000 – 2007) to develop their own base for the textile raw materials, while allowing use of fabric and other materials on the apparel items from any part of the world.

It is widely acknowledged that Kenya is the regional hub for trade and finance in the East African region. It is a middle-income economy country with a population of 41.6 million people whose main exports is tea, horticultural products, and coffee, tobacco, and textile and apparel items. Agriculture still dominates and provides the main source of employment in the country. Although the country has witnessed an increase in both the manufacturing sector and the service sector thus reducing the dependency on subsistence agriculture (World Bank, 2013), labour practices in the export processing firms have been a major concern whose end result has been poor living standards where

46 percent of the population lives on less than one dollar a day at the end of the first decade of the 21st century. Inequality is also high especially between rural and urban areas according to International Monetary Fund (IMF), 2010 & (World Bank, 2013).

Although the country has implemented a number of Structural Adjustment Programmes (SAPs) since the mid-1970s to improve the economic growth rate and reduce government debt, Firm labour recognized practices still remain a problem in the export firms. Poor economic growth and a drop in GDP per capita at the beginning of 1990s resulted in several measures to improve economic performance. During the 1990s, reforms were implemented to increase private investment and to move from import substitution to an export-led growth strategy that necessitated numerous public owned companies be privatized. All administrative controls on international trade such as foreign exchange allocation, price controls, and import licensing were removed by 1993. The aim was to accelerate the process of industrialization, generate employment through good labour practices thus reduce poverty and further integrate the country into the global economy (Mwenga & Ndung, 2001). It is against this background that the study sought to test the relationship between labour practices and firm productivity in Mombasa EPZ in Kenya.

1.2 Statement of the Problem

Despite the poor labour relations in the EPZs, EPZA (2009), most of the Sub Saharan African countries still invest heavily in the Export Processing Firms. The dynamics and trends of employment in Kenya reveal that most employers, particularly those within the private sector have resorted to the increasing abuse of labour practices to ostensibly reduce labour costs, achieve more flexibility in management and exert greater levels of control over labour as revealed in the Economic Recovery for Wealth and Employment Creation (2003-2007). Such unfair labour practices are likely to negatively impact firm productivity in the EPZs in Kenya. The nature of labour practices in the EPZs do not

enable labour to enjoy the fundamental rights of workers and the outcome has been a demotivated labour force and increased shirking which decreases efforts in the firm's productivity and performance in the export firms. According to Kimuyu (2004), this partly explained the persistently low levels of firm performance, low enterprise competitiveness and the slow economic growth rates in Kenya. Additionally, EPZ firms have been heavily criticised for exploitation of workers, paying them negligible wages and providing poor working conditions. The prevalent violations of labour and social rights have contributed to making the zones unpopular in several countries where the policies have been adopted (Chinguno, 2009). The kind of labour practices that exist in the EPZs do not conform to the international industrial norms. It is mainly characterized by unclear labour contract, wage policies and salaries, education levels, training and development policies. On average EPZ firms contracts over 2,000 people whose skills do not align to best labour practices in the micro-economic labour market. Kenya is among the countries with low export in relation to the firm's productivity levels which is less than 10 percent of the Gross National Product (GNP). In terms of human resource, Kenya's productivity is 30 percent lower than the industry norm, caused by low technical skills, lack of in-house training activities, and the absence of local training institutions. McCallum (2011) says that as long as many of the investors in the zones are multinational companies they will be subject to more political awareness and pressure to pay at least the local minimum wages. Studies by McCallum (2011); Milberg and Amengual (2008) have found wages to often be higher and benefits to be better within zones than those in similar employment in the domestic economy. It is in this veneration in Mombasa EPZ in Kenya that the study sought to examine the relationship between labour practices and firm productivity in Zone (KEPZA, 2013).

1.3 Objective of the Study

The general objective of this study was to test the relationship between Labour Practices and Firm Productivity in The Export Processing Zones in Kenya

1.4 Specific Objectives

- 1) To establish the relationship between labour contract and firm productivity in Mombasa Export Processing Zone in Kenya
- 2) To assess the relationship between labour relations and firm productivity in Mombasa Export Processing Zone in Kenya
- 3) To determine the relationship between labour management and firm productivity in Mombasa Export Processing Zone in Kenya
- 4) To describe the relationship between labour satisfaction and firm productivity in Mombasa Export Processing Zone in Kenya

1.5 Hypothesis

- 1) There is no relationship between labour contract and firm productivity in Mombasa Export Processing Zone in Kenya.

There is a relationship between labour contract and firm productivity in Mombasa Export Processing Zone in Kenya.

- 2) There is no relationship between labour relation and firm productivity in Mombasa Export Processing Zone in Kenya.

There is a relationship between labour relation and firm productivity in Mombasa Export Processing Zone in Kenya.

- 3) There is no relationship between labour management and firm productivity in Mombasa Export Processing Zone in Kenya.

There is a relationship between labour management and firm productivity in Mombasa Export Processing Zone in Kenya.

4) There is no relationship between labour relation and firm productivity in Mombasa Export Processing Zone in Kenya.

There is a relationship between labour satisfaction and firm productivity in Mombasa Export Processing Zone in Kenya.

1.6 Significance of the Study

The export manufacturing and processing firms contribute significantly to the Kenya's economy. There are more than 40 EPZs in Kenya, employing close to 240,000 workers (KEPZA, 2014). Investments in the zones must be export-oriented within manufacturing, commercial activities, or export-related services and domestic sales are restricted. The EPZ firms are in general to locate within the existing zones in Kenya, which are situated in Nairobi, Voi, Athi River, Kerio Valley, Mombasa, and Kilifi. The country had 47 zones in 2012, but about half were single firms, or EPU's (McCormick, 2012). The largest zone by then was Athi River, one of two public zones controlled by the EPZ Authority (USITC, 2008). The Kipevu EPZ, by then was second largest public zone, is located close to Mombasa. The port of Mombasa is one of the busiest ports in Africa and also provides access by road and railway to Kenya's neighbouring countries. Kenya has a high unemployment rate, especially among youth, and employment and income creation are important targets for the EPZ programme, and in the country's development plan. Direct employment within the textile and apparel sector rose from 10,000 prior to the initiation of AGOA, to 36,600 in 2005. Total employment within the zones was about 39,000 in 2005. It is further estimated that about three times the number of employees benefited from the textile value chain and from complementary services through indirect employment (Chemengich, 2010; Omolu, 2006).

EPZ contributes 10.7 percent of national exports and more than 70 percent of EPZ's output is exported to the US under AGOA. EPZs provide investors with a predictable, attractive and efficient operation for tackling regional and global, EPZA (2009). The

governments of Southern African countries justify the establishment of EPZs claiming that they will bring foreign investment, new industries and improve labour productivity to their countries. It will also create employment to the Kenyan citizens hence, reduce the burden of unemployment. A World Bank report on Kenya Manufacturing Sector reported a 20 to 50 percent higher level of production in the per unit labour cost in the sector compared to other countries like Asia and China (KEPZA, 2009). It is against this backdrop in the current global economic order that the study sought to establish the relationship between labour practices and firm productivity in the EPZs in Kenya whose results would be beneficial to both industrial economist and the government in assessing the cost benefit analysis in establishing in them in the country. It is assumed that the benefits to the country's industrial development would be high productivity using AGOA as a catalyst. This will enable the policy makers to give direction on the impact of foreign direct investment on host countries' labour market on high productivity as well as establish the direct costs of establishing the EPZs compared to the costs of creating the labour market elsewhere in the country.

1.7 Scope of the Study

There are 9 zones in Nairobi, 20 zones in Mombasa, 3 zones in Athi River (Mavoko), 2 zones in Kilifi and 1 zone each in Kerio Valley, Thika and Isinya in Kajiado. The locale of the study was Mombasa Export Processing Zone in Kenya. The zone is the largest EPZ in Kenya with thirty five EPZ firms and twenty EPZ zones, therefore suitable for the study (KEPZA, 2013). It is situated in the South- Eastern part of Coast Region covering an area of 229.6 square kilometers. The water mass accounts for 65 Km² and it borders Kilifi to the North, Kwale to the South and West and the Indian Ocean to the East. The county lies between latitudes $3^{\circ} - 80^{\circ}$ and $4^{\circ} - 10^{\circ}$ South of the Equator and between longitudes $39^{\circ} - 80^{\circ}$ East of the Greenwich Meridian. According to Kenya National Bureau of Statistics, the city has a population of 939,370 as per the 2009

census. The administrative units within Mombasa County include: The Mombasa Island, Changamwe, Likoni and Kisauni. The Welfare Monitoring Survey 111 report of 1997 indicated that 38.32 percent (217,402) of the people are poor.

1.8 Limitation of the Study

Due to the nature of the study a cross sectional research design was used to obtain qualitative data from 32 top EPZ firms entrepreneurs (CEOs). The structure of the EPZs top management which is mostly private and foreign owned, avoided certain questions on suspicions and therefore required more time to adequately understand before responding to the questionnaires. A comprehensive production data was highly confidential and therefore the researcher had little control on such documents. The study was limited to cross-sectional research design and could not explore the following a particular zone understudy for a long period of time. Other firms in other zones did not form part of the sample for the study because of the complexity of the ownership and structure of the EPZs structure. Other factors of production like capital, land, material and infrastructure which equally play a significant role in the firm production did not form part of the research objectives therefore not included in the study variables. Measurement scales such as the time analyses that have interval data which assume absolute zero reading though not practical to find in the field or in everyday data manipulation; it was not used in the study therefore failing to give a comprehensive data analysis on the future production trends of EPZs firm in Kenya.

CHAPTER TWO LITERATURE REVIEW

2.1 Introduction

The first part discusses the theoretical literature review of labour practices and firm productivity from the formulated research objectives. The postulated labour practices include labour contract, labour management, labour satisfaction and labour relations practices associated with firm productivity of the processing enterprises. The second part of this chapter describes the conceptual framework, and the empirical findings related to labour practices and their implications in firm production in the EPZ enterprises.

2.2 Theoretical Framework

2.2.1 Model of the Firm

The first research objective was to establish the relationship between labour Contract and Firm Productivity in Mombasa Export Processing Zone in Kenya. This model which looks at an economy in which production requires labour and knowledge was found appropriate in bringing insight and knowledge gain in this objective. Labour as human recourse factor, requires the right skills and knowledge is also a factor production in the firm economics; if the firm has to yield high productivity. Garicano and Rossi-Hansberg (2011) agree that the model of the firm is knowledge-based hierarchies where managers deal with exceptions. In this production structure, workers (households) in the firm provide work time in exchange of wages from the employers. For each unit of work time supplied they can potentially produce goods. Problems have to be solved in order for output to be realized, this requires good labour practices for the managers to manage their firms well. In order to solve problems agents acquire knowledge which is costly, so in general, it is not efficient for the firm to make workers learn how to solve frequent problems instead, hierarchies are created where managers learn how to solve the less common problems. The exceptions have been that workers deal with the routine problems. When workers are confronted with a problem they do not know how to solve, they ask a manager. The organizational structure determines the knowledge acquired by

agents, the order in which divergent agents confront problems, and how they communicate with each other is important in creating sustainable labour relations and firm management especially when employees are satisfied with the working environment in the firms.

Firms economize on the use of knowledge by leveraging the knowledge of managers. A larger firm can have more than one layer of managers, where managers learn less common problems in the hierarchy. All firms are required to hire a top manager, Chief Executive Officer (CEO) or entrepreneur. Adding a layer of management is costly, since one has to pay managers that do not generate production possibilities, but only solve problems. As a result, adding a layer involves an extra cost that is only worth paying if the firm produces a high enough quantity. Adding an extra layer can be thought as reducing the marginal cost of the firm, in exchange for increasing the fixed cost and (KEPZA, 2012)

2.2.2 Firm Productivity

The dependent variable is explained by this theory which is firm productivity. Traditionally, firm productivity (output per worker) has been used to measure productivity growth; however, this measure exaggerates productivity gains as the textile industry becomes more capital intensive: stagnant output and a diminishing labour force would appear to be a productivity gain. According to Organization Economic Cooperation and Development (OECD) (2002), productivity is defined as the ratio of a volume measure of output to a volume measure of input. Productivity depends on the efficiency and technologies with which human, physical and natural resources are used in the process of production of goods and services hence sound labour-management partnership that is based on consultation, dialogue and employee-employer collaboration is critical for promoting and sustaining firms' productivity. This is consistent with the World Economic Forum's Report 2007-2008, which observes that the set of firms'

policies and factors determines the level of productivity of a country. It has been argued that poor productivity performance is one of the critical sources of stagnation of African manufacturing sector, although firm level empirical supports are limited.

Table 2. 1 Marginal Revenue Product of Labor

Labor Input (workers)	Total Product of Goods Produced in Tons)	Marginal Product of Labor in Tons (MPL)	Marginal Revenue Product of Labor(MRPL in \$)
00	00	—	—
10	90	90	\$900
20	170	80	\$800
30	220	50	\$500
40	250	30	\$300
50	260	10	\$100

The example provided in Table 2.1 in a perfectly competitive firm that uses labour as an input. The firm faces a market price of \$10 for each unit of its output. The total product, marginal product, and marginal revenue product that the firm receives from hiring 10 to 50 workers as reported is \$ 900 from 10 input of labour, \$ 800 from 20 input of labour , \$ 500 from 30 input of labour, \$ 300 from 40 input of labour and \$ 100 from 50 input of labour. While the marginal product of labour is in Tons (MPL) is 90 from 10 units of labour productivity, 80 Tons, 50 Tons, 30 Tons and 10 Tons.

$$MPL = \frac{\text{OUTPUT}}{\text{LABOUR IN PUT}} \quad MRPL = MPL \times MP@UNIT \text{ PRODUCUED}$$

Market Price @ x Production @ unit

The most comprehensive and up to date definition of productivity, is attributable to Asian Productivity Organization (2004) which defines productivity as “the optimized utilization of all available resources, investigation into the best known resources, and generation of new resources through creative thinking, innovation, technology, Research and Development, and by using all areas of knowledge improvement techniques, methods, and approaches for the production, marketing and distribution of customer-oriented quality goods and services at minimum unit cost, in an ethical and legal manner, with due regard for the environment, both physically and proactively motivational.

EPZs host countries need to undertake a careful cost-benefit analysis to determine the real productivity and profitability of such programmes. There are two types of costs the direct costs of establishing EPZ that need to be considered, namely: the indirect costs, infrastructures and the subsidized services provided, and in the form of foregone government revenue and national income as a result of tax exemptions, unfettered profit repatriation and other such provisions. The direct costs of establishing an EPZ enclave can be substantial, and host countries have to compare the costs of creating jobs in an EPZ with the costs of creating jobs elsewhere in the country (Sherburne, 1993). Large amounts of capital are required for basic investments like the purchase of land for the EPZ site, and the preparation of the site including the building of roads, providing water and electricity, waste water disposal facilities, telecommunications facilities, buildings, and warehouses (ILO & UNCTC, 1988).

2.2.3 System-Based Approach

In the study a system-based approach would also be required, which includes HRM practices and policies as input variables, HRM outcomes as intermediate variables although not included and firm productivity indicators as the dependent variables. The firm productivity indicators are viewed in terms of marginal physical productivity of

labour. Contingency variables such as size and technology need to be used as control variables but not incorporated in the study as well. as Michie, Sheeham, Metochi and Guest (2000) comment that HRM is essentially concerned with achieving results through full and effective utilization of human resources. This can only be achieved through a set of appropriate practices resulting in high quality, flexible and commitment of employers. Wood (1999) noted that the quality of the research based on supporting the relationship between HR and performance is weak. If it were stronger, it is not enough simply to produce evidence that HR practices lead to high performance. He says it is necessary to understand how they produce this effect. Wright and Rogers, (2008) on this subject suggested that HR affects performance by first influencing climate, which then determines performance. They also argued that the direct links between Human Resource practices and performance are relatively weak as it is not Human Resource (HR) practices themselves that affect performance, but rather the extent to which they lead to favourable climate. Purcell *et al.*, (2003) explored the unknown link between inputs and outcomes. Their conclusion was that HR practice feeds in as an ingredient in the workplace and, through various mechanisms, feeds out through the other side as improved performance. Vroom identified three factors that affect the level of individual performance as motivation, ability, and opportunity to participate. The effects of motivation on performance are dependent on the level of ability of the worker and the relationship of ability to performance is dependent on motivation of the worker. The ability and motivation on performance are not additive but interactive. The formulae: $Performance = f(Ability \times Motivation)$. Vroom also pioneered expectancy theory, which was developed by Porter and Lawler who proposes that high individual performance depends on high motivation plus possession of the necessary skills and abilities and an appropriate role and understanding of that role.

2.2.4 Human Capital Theory

The second objective which is to assess the relationship between labour relations and firm productivity in Mombasa Export Processing Zone in Kenya is explained by the human capital theory. The Human Capital Theory can be associated with the resources based view of the firm as developed by Barnet (1911). This theory purposes that sustainable competitive advantage is attained when the firm has a human resource pool that cannot be imitated or substituted by its rivals. Boxall (1996) refers to this situation as one that confers ‘human capital advantage’. But goes also to note (1996 & 1999) that a distinction should be made between ‘human capital advantage’ and ‘human process advantage.’ The former results from employing people with competitively valuable knowledge and skills, much of tacit. The latter, however, follows from the establishment of ‘difficult to imitate, highly evolved processes within the firm, such as cross-departmental cooperation and executive development. Accordingly, “human resource advantage”, the superiority of one firm’s labour management over another’s, can be thought of as the product of its human capital and human process advantages’

2.2.5 Workers as Assets

Similarly the third objective finds roots in the human capital theory which is to determine the relationship between labour management and firm productivity in Mombasa Export Processing Zone in Kenya. The added value that people can contribute to an organization is emphasized by human capital theory. It regards people as assets, and stresses that investment by organization in people will generate worthwhile returns. The theory therefore underpins human resource philosophy which was developed in the 1980s, stated that employees should be treated as assets rather than costs. However, Davenport (1999) maintains that, the concept is limited, indeed questionable because: Workers should not be treated as passive assets to be bought, sold and replaced at the whim of their owners. Increasingly, they actively control their own working lives. The notion that companies own human assets as they own machines is unacceptable in

principle and inapplicable in human resource practice. It short changes people by placing them in the same category as plant and equipment. No system of ‘human asset counting’ has succeeded in producing a convincing method of attaching financial values to human resources; in any case, this demeans the more intangible added value that can be delivered to organizations by people. Employers need to remember that workers, especially knowledge workers, may regard themselves as free agents who can choose how and where they invest their talents, time and category. Investments in employers by training and developing people are a means of attracting and re-training human capital as well as getting better returns from those investments.

2.2.6 Human Capital and other Aspects of Intellectual Capital Theory

Important though human capital theory may be, interest in it should not divert attention from the other aspects of intellectual capital-social and organizational capital – which are concerned with developing and embedding the knowledge possessed by as human capital of firm. Schuller (2000) contends that ‘The focus on human capital as individual attribute may lead – arguably has already led – to a very unbalanced emphasis on the acquisition by individuals of skills and competences which ignores the way in which such knowledge is embedded in a complex web of social relationships.

2.2.7 The Significance of Human Capital

Finally the fourth objective is described the significance of the human capital theory, which sought to describe the relationship between labour satisfaction and firm productivity in Mombasa Export Processing Zone in Kenya. It is the knowledge, skills and abilities of individuals that create value, which is why the focus has to be on means of attracting, developing and maintaining the human capital they represent. Davenport (1999) comments that ‘People possess innate abilities, behavior and personal energy and these elements make up the human capital they bring to

their work. And it is they, not their employers, who own this capital and decide when, how and where they will contribute it. In other words, they can make choices. Work is a two-way exchange of value, not a one way exploitation of an asset by its owner.' The point emphasized by Davenport, that workers as well as employers invest in human capital, is in accord with the economic theory of human capital. As expressed by Ehrenberg and Smith (1994) , human capital theory 'conceptualizes workers as embodying a set of skills which can be "rented out" to employers'. For the worker, the expected returns on human capital investments are a higher level of earnings, greater job satisfaction, better career prospects, and at one time, but less so now, a belief that security in employment is assured. In today's conditions however, investments by workers in developing transferable skills can be attractive as means of increasing employability. The cost of such investments take a psychological social and monetary form, as spelt out by Elliot (1991). Psychological costs are those borne by individuals. Perhaps the less able who may find learning difficult. Social costs take the form of foregone market opportunities (opportunity costs-the time spent devoted to investing in human capital could have been spent in other activities).Monetary costs include both direct financial outlays and foregone market opportunities. As suggested by Elliot, the decision to acquire skills is an investment decision. Individuals will invest in human capital if they believe that the benefits to them will exceed the cost they will incur. These benefits of the net addition to lifelong earnings that result from selling skilled rather than unskilled labour.

For the employer, the returns on investment in human capital are expected to be improvements in performance, productivity, flexibility and the capacity to innovate that should result from enlarging the skill base and increasing levels of knowledge and competence. Schuller (2000) suggests that 'The general message is persuasive: skills , knowledge and competences are the key factors in determining

whether organizations and nations will prosper'. This point is also made powerful by Reich (1991). Increased training of employees may lead to higher productivity and enhanced creativity (Bontis, 2002). Managerial skills must be combined with relational and structural elements in the organization, to create value (Cabrita & Bontis, 2008).

Schultz (1961) proposed and developed the Human Capital Theory and later developed extensively by Becker (1964). Argument by Schultz (1961) on "Investment in Human Capital" argues that both knowledge and skill are a form of capital, and that this capital is a product of firm production. This concept implies that an investment in people through education and training can significantly contribute to firm production. Schultz compares the acquisition of knowledge and skills to acquiring the means of production. The difference in earnings between people relates to the differences in access to education and health. Who goes on to suggest that that investment in education and training leads to an increase in firm productivity. The human capital theory emphasizes the importance that people contribute to firms. It regards people as assets and stresses that investments by organizations in people will generate firm productivity. Firms align themselves to this theory are likely to have a sustainable competitive advantage that is only attained when the firm as a human resource pool that cannot be imitated or substituted by its rival. For the employer investments in training and developing people is a means of attracting and retaining people. These returns are expected to be improvements in performance, productivity, flexibility and the capacity to innovate that should results from enlarging the skills base and increasing levels of knowledge and competence.

2.2.8 Unitarism

Unitarists start from a set of assumptions and values that hold workplace conflict is not an inevitable characteristic of relations between managers and employees. Conflicts in the workplace may periodically emerge between the two, but such occurrences are

believed to be aberrations in a relationship that is inherently prone to be cooperative. Those holding this perspective see managers and employees as having a common interest in the survival of their organisations, such that when conflicts occur it is unlikely to manifest itself to a point that will render the firm insolvent. Divisions that do exist are assumed to be the product of personality disorders, inappropriate recruitment and promotion practices, the deviance of dissidents, or poor communication. To ensure such division does not thwart the 'natural order' of things, it is thought that the rational management team must pay careful attention to removing the sources of potential conflict. To this end it must ensure that recruitment and promotion processes are fair and equitable. It must also ensure that communication systems are in place to alert employees of where their true interests lie, and that individuals who are 'difficult' or prone to personality conflicts are either suppressed or dismissed. It must finally ensure that the organisation is promoted amongst the workforce as the single source of authority, and that any alternative sources of authority, such as shop stewards and trade unions, are eliminated from the workplace (see Fox, 1966; Fidler, 1981; Armstrong, 2009).

2.2.9 Scientific Management Theory

Unitarists' assumptions and values have played a significant role in three schools of theoretical and practical thought. The first is Taylor's (1974) theory of scientific management. As a management practice, this particular theory holds that the employment relations choices of management must start from the assumption that employees are immature in the ways of work, are prone to avoid it whenever possible, and have limited, self-centered aspirations and time-horizons. In so far as these conflicts with the aspirations and time-horizons of organisations, efforts to reduce the outward manifestation of internal tension are to be undertaken by direct and highly rigid control of the workplace activities of employees. Indeed it is the task of management to show rational, leadership when recruiting and directing workers, to have a clear understanding

of the tasks employees are expected to perform, and to have untrammelled prerogatives to control the pace and processes under which they work. Companies subscribing to this form of management practice should reduce work to its basic elements, such that the skills of workers necessary to undertake tasks are kept to a minimum. Employees should be treated impersonally and collectively, with any workplace issues being referred to management. Under these conditions the management approach to employee relations is one that seeks to suppress internal tension over the distribution of organisational power by ensuring that management retains superior knowledge about the structure and organisation of work, and has the authority to direct workers as it sees fit.

2.2.10 Human Relations Theory

According to the human relations school of thought (see: Maslow, 1954; Mayo, 1933; Child, 1967) the reduction of organisational tension is held to rest on the ability of individuals to achieve self-fulfillment in the workplace. Workers are regarded as qualitatively different to other resources used in production. Thus, if workers are denied autonomy on the job, or are reduced to acting as mere extensions of the machinery they operate, or are given work that inhibits their capacity to create and think, it is argued that they will invariably find ways to subvert the methods of control that enforce these conditions. The principal task of management on this conception is to manipulate workplace relations in ways that enable employees to feel personal satisfaction with being involved with the organisation. To this end, companies operating on this basis are expected to recognize the right of employees to have a say in how they are governed. They are also expected to take an active interest in developing the skills of employees as a means of demonstrating a commitment to their personal well-being. In whatever form, the aim of this managerial approach to employee relations is one that seeks to reduce internal tensions by developing the sense of workplace satisfaction felt by employees through techniques that involve them in the organisation and regulation of work.

2.2.11 Human Resource Management

This theory refers to human resource management practices (see: Stone, 1995; Blyton and Turnbull, 1992; Guest, 1989; Armstrong, 2010). This form of management practice differs from the previous two in that it starts from the belief that organisational tensions can be completely resolved by nurturing a psychological contract based on cooperation. The employee relations' choices in this instance are predicated on the belief that the forces uniting managers and employees are far stronger than the forces dividing them. It is the task of management to facilitate these unifying forces by establishing workplace conditions that encourage autonomous individuals, whether employees or management, to work collaboratively for the common good. Companies taking this approach are expected to regard workplace relations holistically, whereby collaboration between management and employees is encouraged through the development of a unifying culture, strong and pervasive leadership, and a clear vision of organisational goals. The employee relations aim of these techniques is to resolve internal tensions by breaking down workplace social classes, developing open lines of communication lines different stake-holders, and promoting a collective understanding that the interests of all are better served by working together and avoiding conflict. Collaborative management practices in the form of workplace teams, as well as performance appraisals, performance related pay and individual contracts of employment are activities that are thought to give content to this approach.

2.2.12 Pluralism

Pluralists differ from unitarists in that they start from a set of assumptions and values that workplace conflict is inevitable. Typical of those holding this perception is the view that business organisations are complex social constructions made up of different interest groups. Management and employees constitute two such groups, who, because of the very nature of the factory system, are seen as invariably subscribing to different values and objectives. From this frame of reference it is also assumed that there will be

different sources of authority within an organisation, and that the potential for conflict between them will always exist over the organisation of work tasks and the allocation of rewards. By recognising the inevitability of workplace conflict, those holding this perspective tend to regard conflict as necessary for the health of an enterprise as it serves to bring grievances held by workers to the surface. It is also argued that the potential for conflict provides a spur to managers to explore innovative methods for handling it in a way that will produce the best results. Acknowledging the existence of competing sources of authority, most notably in the form of shop stewards or trade unions, is held by pluralists to offer benefits by allowing organisations to deal with industrial relations issues on a collective basis. In this regard it is argued to not only provide management with the most efficient means for institutionalising employment rules and minimising the level of workplace conflict, but to also encourage fairer outcomes by enabling employees to organise and counter-balance the power of managers when negotiating workplace contracts. It is on the basis of these conceptions that pluralists generally accept the legitimate right of employees to bargain collectively and trade unions to act in this capacity on their behalf (see: Fox, 1966, Clegg, 1975, Armstrong, 2009).

2.2.13 Systems Theory

The most famous theory drawing on a pluralist frame of reference is Dunlop's (1958) systems theory, which argues that industrial relations are best regarded as a sub-system of the wider social system. The theory holds work to be governed by a wide range of formal and informal rules and regulations, which cover everything from recruitment, holidays, performance, wages, hours, and a myriad of other details of employment. It asserts that these rules are what industrial actors try to determine, that their establishment is influenced by the wider environmental context in which the actors operate, and that the actors themselves share an interest in maintaining the processes of negotiation and conflict resolution. On the back of these assertions four elements are held to make up the system of industrial relations rule-making. The first is industrial

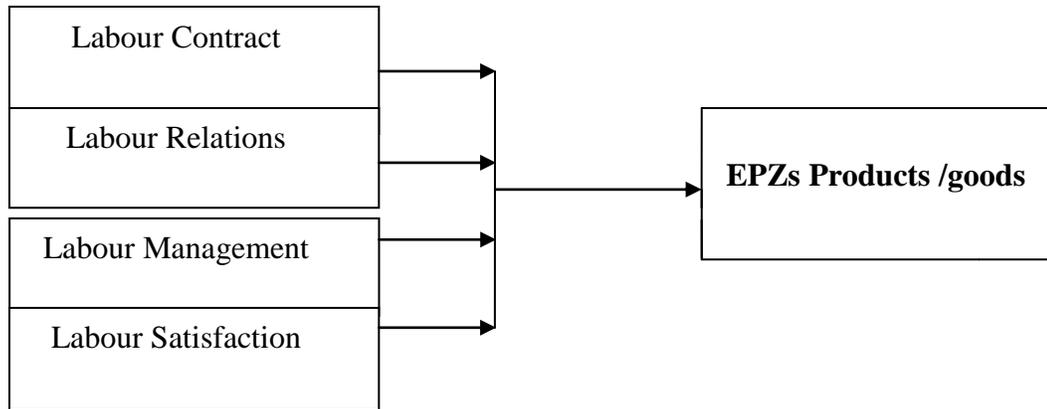
actors, which consists of employers and their representatives (i.e., employer associations), employees and their representatives (i.e., trade unions), and external agencies with an interest in industrial relations (i.e., government departments and labour courts). The second is the environmental context, which was made up of prevailing economic and technological conditions, as well as the distribution of power in wider society, each of which is thought to influence or constrain the actions of actors engaged in industrial relations. The third is a so-called 'web of rules' that governs the employment relationship and is held to be the outcome of interactions between the actors. The last is a 'binding ideology', which is a set of common beliefs and understandings that serve to encourage compromises on the part of each actor for the sake of making the system operable. An important aspect of this framework conceives the industrial relations system as self-adjusting towards equilibrium. In so far as change in one element had repercussions for the other elements, they are held to set in motion a range of processes that invariably restores a sense of order on the system

2.3 Conceptual Framework

A conceptual framework explains the relationship between the independent, moderating and dependent variables. However for this study, the conceptual framework shows only two categories namely the labour practices (labour contract,) labour relation, labour management and labour satisfaction) while the independent variable in the study is firm productivity. These variables were developed based on the literature review and the purpose of this study. A conceptualization of the relationship between independent variables, and the dependent variable is illustrated in Figure 2.1

Labour Practices

Firm Productivity



Independent Variable

Dependent Variable

Figure 2.1 Conceptual Framework

The dependent variable was considered as aggregate firm productivity which is viewed in terms of: Labour, Capital, Efficiency and Economic productivity. Firms that utilize labour practices are likely to be productive unlike those that do not. Productivity is seen in terms of what the firm produces with minimum costs to get the maximum profit. Efficiency, costs savings and cost margin are high productivity which depends on the utilization of labour practices in the firm such as labour contract, labour management, labour satisfaction and labour relations.

2.4 Review of the Labour Practices

Labour practices are the HR practices governing the employee and employers in an organization or firm in a working environment. According to Thompson (2002) who studied on the impact of high performance work practices such as team working, appraisal, job rotation, broad banded- grade structures and sharing of business information whose results indicated that the number of HR practices and the proportion of the workforce covered appeared to be the differentiating factor between more and less successful firms. Michie, Sheeham, Metochi and Guest (2003), found out an exploration

of relationship between HRM and firm productivity by use of objective and subjective performance data and cross-sectional and longitudinal data. Some guidance showed an association between HR practices but did not have convincing indication that greater application is in use and productivity, and there was no indication that greater application of HRM is likely to result in improved corporate performance. Boxall and Purcell (2003) conducted a longitudinal study to establish how people management affects organization performance whose outcome indicated that the most successful companies had a “big idea.” They had a clear vision and a set of integrated values. They were concerned with sustaining performance and flexibility. Clear evidence existed between positive attitudes towards HR policies and practices, levels of satisfaction, motivation and commitment and operational performance. Policy and practice implementation is the vital ingredient in linking people management to business performance and this is primarily the task of the line managers. Other views on HRM performance link studies, Paauwe and Wright (2004) based on input/output reasoning showed that there is a substantial negligence of the process itself, the administrative heritage and instructional values.

2.4.1 Labour Contract and Firm Productivity

a) Recruitment and Selection

To sustain the high level of competitive advantage a firm requires talented and skilled workers (Liao & Chu, 2006) this is because organisational productivity and high performance depends on labour contract between the employee and the employer. The process of Labour contracting starts during recruitment and selection process. The selection of the right person, which is a pathway to reduced turnover, Michie and Quinn (2001) were able to identify a positive link between hiring the right employees, and the creation of the right culture for organisational growth. This is done through the selection process of choosing a candidate from a group of applicants who best meets the selection criteria for a particular position. In this process the right person chosen for the requisite

qualifications and knowledge is placed in the appropriate job position to decrease the cost, and maximise the profits by means of their merit and talent (Vlachos, 2008). Woods, Jang, Erdem and Cho (2006), identified a positive and significant relationship among HRM practices and staffing (recruitment source, pre selection test, IQ test, structured interview, and biographical information bank for improving financial or profit performance). As a result, organizations are encouraged to attract qualified candidates for survival and growth.

b) Wages, Salaries and Earnings and Firm Production

Until recently, there was a consensus that foreign firms tend to provide better pay to workers than their domestic counterparts, particularly studies carried out in developed countries such as Mexico, the US and Venezuela. Aitken, Harrison and Lipsey (1996) compared average wages between domestic and foreign-owned firms, the findings showed that average wages in foreign-owned plants tend to be about 30 percent higher than in domestic plants. Moreover, a wage difference persists once one controls the firm size, geographical location, skill mix and capital intensity in Mexico and Venezuela, but not in the United States. This suggests that foreign-owned firms pay higher wages than their local competitors in developed countries. However, this does not necessarily mean that foreign ownership improves employment conditions as the workforces in domestic and foreign firms may be qualitatively different. The situation in Kenya's EPZs triggers employees to raise their concerns a number of them through human rights movements and trade unions in Kenya. In order to address the possibility that average wage differences between foreign and domestic firms merely reflect differences in the composition of the workforce, a number of studies have analyzed to what extent foreign wage premium persist after controlling for observable differences in worker quality. Lipsey and Sjöholm (2004) used a plant-level data set for Indonesia with detailed information on the composition of workers across educational categories. They found that, while differences in average labour quality account for a significant part of the raw

foreign wage premium, remains large. Wages in foreign-owned plants were 12 percent higher for production workers and 20 percent for non-production workers. Morrissey and Te-Velde (2003) presented similar findings for five Sub-Saharan African countries.

Policies set on wage earning are popular but contentious, Blanchard (2002) suggests, that the main reason for instituting minimum wages is to empower workers whose wages are constrained by the excessive market power of employers. Two other arguments in favor of minimum wage setting relate to efficiency-wages and the fact that minimum wages increase workers' purchasing power, which in turn can stimulate labour demand. The efficiency-wage argument states that higher wages can increase workers' productivity, which in turn allows employers to pay higher wages. One reason for an increase in productivity might be that higher wages allow workers to improve their human development. The standard competitive model predicts that forcing the price of labor above the market price leads to job losses in firms where regulations are enforced, and an increase in employment in the uncovered sector. In a model with fixed but imperfect level of enforcement, which better characterizes the labour market in Kenya (Omolo & Omitti, 2004), found a positive, negative or mute responses of employment to minimum wages which can prevail within well-defined ranges of minimum wages and enforcement intensities. Chand and Katou (2007) points out that the level of individual performance is a function of ability, motivation, and opportunity (AMO) which is highly determined by a competitive labour market.

The empirical evidence on the effects of minimum wages on employment is quite mixed; Neumark and Wascher (2007) for a review of the literature on this. In developed countries a number of studies have failed to find significant negative impacts. Yet others find sizeable negative effects (Neumark, Schweitzer & Wascher, 2000). Most of the evidence for developing countries points to negative employment effects, in particular when wages are set at relatively high levels in relation to the median wage. Maloney and

Nuñez (2004) find negative employment effects of an increase in minimum wages in Colombia. Gindling and Terrel (2005) find that an increase of multiple minimum wages –much like in Kenya—reduces employment in Costa Rica. In contrast, Lemos (2004) finds little evidence of adverse employment effects in Brazil.

Kenya has held an active minimum wage setting policy since independence. There are as many as seventeen minimum wage orders, setting a large number of minimum wage floors that vary by occupation, sector of activity and location. Minimum wages are updated annually and apply to all salaried employees who are at least 18 years old and work in the formal sector. The self-employed are not covered by statutory minimum wages. A different wage grid applies to agricultural employees and to workers in other activities.

Although Kenya's exports to the US have increased from US\$ 45 million in 2000 to US \$277 million by 2004, the productivity cost of labour has been sighted as uncompetitive compared to major competing countries like China, India and other newly industrializing countries of South East Asia. Kenya's labour costs average at US \$ 0.36 per hour, in comparison to China at US\$0.32, India at US \$ 0.27, and an average of US \$ 0.21-0.27 in Indonesia, Thailand and Malaysia (EPZA, 2011). The unit cost of labour in Kenya is also much higher when compared to the Asian countries in the 1960s and 70s when they were at per development wise. Over the years, real wages in Kenya have risen steadily between 1999 and 2003, by about 250 percent in the private sector and 228 percent in the public sector, without corresponding improvements in productivity, resulting into Kenyan enterprises becoming less competitive compared to South East Asian countries during the same period. For example, in garment manufacturing, the average production in Kenya is 20-25 T-shirts per day, while in China; the production by the total of 45,000 garment manufacturers are 310 garments per second. Further, value added per employee in Kenya for most of non-agricultural industries is quite low, ranged at an average of 5.9

percent compared to competitor countries like China at 33.7 percent and Mauritius at 7.4 percent. Part of the contribution to low value added is the low-level of skills development in Kenya due to lack of training facilities, and use of old and inefficient capital equipment. The monthly wage for local employment within the EPZ has been on a steady increase over the years, particularly after the industrial disharmony of early 2003. The average monthly wage increased from Kshs.5,156 in the year 2001 to Kshs. 6,608 in the year 2005, representing a 28.2 percent increase and recently 2011-2012 to Ksh.7, 030. (KEPZA, 2013)

2.4.2 Labour Relations and Firm Productivity

Labour Relations is the study of job regulation, the making and administering of the rules which regulates employment relationships regardless of whether these are seen as being formal or informal, structured or unstructured thereby raising the fundamental question of who regulates what and how in modern employment perspectives as defined by Flanders in Guest (2002) as a social process, which continually turns disagreements into agreements in an orderly fashion.. The application of pluralistic perspective is viewed relevant in this study in the modern employment perspective. In the modern employment, its aims are established by negotiation and discussion on agreed rules and decisions on matters of mutual concern to employers and unions as well as methods of regulating the conditions governing employment. It also provides a framework in a form of collective agreement, within which the views of management and unions about disputed matters that could lead to industrial disorder can be considered with the aim of eliminating the regulations of management in its relationships with work, people, as well as the trade unions on conditions of employment. In addition, it can be also regarded as an exchange relationship in which wage-work bargains takes place between employers and employees through the agency of a trade union.

a) Trade Unions as a Unitary Role

Traditionally, the role of trade unions as bargaining agents has been perceived as being to offset the inequalities of individual bargaining power between employers and employees in the labour market. Collective bargaining can also be seen as political relationship in which trade unions as Chaberbain and Kuhn in Armstrong (2008), note that industrial sovereignty or power over those who governed, the employees. Management and the trade union in the collective bargaining process hold the sovereignty jointly. Collective bargaining is a power sharing relationship between management and trade unions, although of the recent times the balance of power has shifted markedly in the direction of the management; whose words or decisions greatly influence the labour market. The extent to which industrial sovereignty is shared by management with its trade unions depends upon the relative bargaining powers of the two parties. They comment, that “power is the crucial variable which determines the outcome of collective bargaining”. Sigh cited in Armstrong (2008) notes that: Bargaining power is inherent in any situation where differences have to be reconciled”. Individuals involved in the bargaining process can appraise. Atkinson supported by Purcell (2007) assets that, what creates bargaining power in terms of subjective assessments; each side can guess the bargaining preferences and bargaining power of the other side. It is against this backdrop that various basic views have been expressed about the basis of the relationship between the management and trade unions in particular or employees in general: these are the unitary, plural, and radical views.

b) Trade Unions From Pluralistic View

Fox in Armstrong (2009) sees an individual organization as a plural society, containing many related but separate interests and objectives contrary to the unitary view that typically hold that management sees their function as that of directing and controlling the workforce to achieve economic growth objectives, which must be maintained in some view of equilibrium. In the modern employment if the management has to accept

the existence of oral sources of leadership and attachment. Durocher in Armstrong (2010) asserts that the phase of a business enterprise as one time is economic, political, and social institution. First, it produces and distributes incomes and secondly, it embodies a system of a government in which managers collectively exercises authority over the managed, but are also themselves involved in an intricate pattern of political relationships. Thirdly, personally is revealed in the plant community, which evolves from below out of face-to-face relations based on shared interests, sentiments, and values among various groups of employees. Pluralism regards the workforce as being ripping by an opposition that does not seek to govern Caves; Christensen and Diewert (1994) described pluralism view as that which involves a balance of power between two organized interests. The results has been a sufficient degree of first within the relationship usually for each side to respect and the others' legitimate and on occasions, separate interests, and for both sides to refrain from pushing their interest separately to the point where it becomes impossible to keep the show on the road.

Guest (1995) noted that the tradition of bargaining at plant or organization reinforced a pluralistic concept. The implication of this approach to employees' relation is that there has to be some process for reconciling different interests, this can be achieved through formal agreements where there are recognized trade unions or staff associations. The absence of these may be indicating that management adopts unitary philosophy. Nevertheless, it is hoped that in these circumstances management's efforts to increase mutuality and gain commitment adopt a stakeholder or partnership, approach that at least involves consultation with employees on how the joint interest of the organization and its members can best be satisfied. Purcell (2007) argues that the distinction between pluralist and unitary frames in management has proved a powerful impetus to the debate about management style. Moreover, wide variations can be found within both the unitary and the pluralist approach.

c) Trade Unions From Marxist Point of View

Labour relations scholarship points that labour markets are not perfectly competitive and thus, in contrast to mainstream economic theory, capitalists typically have greater bargaining power than labour suppliers. Industrial relations scholarship also assumes that there are at least some inherent conflicts of interest between employers and employees (for example, higher wages versus higher profits) and thus, in contrast to scholarship in human resource management and organizational behavior, conflict is seen as a natural part of the employment relationship (Armstrong, 2010).

Industrial relations scholars therefore frequently study the diverse institutional arrangements that characterize and shape the employment relationship from norms and power structures. This study is done on the shop floor, to employee voice mechanisms in the workplace, to collective bargaining arrangements at a company, regional, or national level, to various levels of public policy and labor law regimes, to "varieties of capitalism" (such as corporatism), social democracy, and neo-liberalism). When labour markets are imperfect, then one cannot rely on markets or managers to always serve workers' interests, and in extreme cases to prevent workers exploitation. Industrial relations scholars and practitioners therefore support institutional interventions to improve the workings of the employment relationship and to protect workers' rights. The nature of these institutional interventions, however, differs between two camps within industrial relations.

The pluralist camp sees the employment relationship as a mixture of shared interests and conflicts of interests that are largely limited to the employment relationship. In the workplace, pluralists therefore champion grievance procedures, voice mechanisms such as workers councils and labour unions, collective bargaining, and labour-management partnerships. In the policy arena, pluralists advocate for minimum wage laws, occupational health and safety standards, international labour standards, and other

employment and labour laws and public policies. These institutional interventions are all seen as methods for balancing the employment relationship to generate not only economic efficiency, but also employee equity and voice. In contrast, the Marxist-inspired critical camp sees employer-employee conflicts of interest as sharply antagonistic and deeply embedded in the socio-political-economic system. From this perspective, the pursuit of a balanced employment relationship gives too much weight to employers' interests, and instead deep-seated structural reforms are needed to change the sharply antagonistic employment relationship that is inherent within capitalism. Militant trade unions are thus frequently supported.

d) Collective Bargaining Agreement

Collective bargaining agreement can also be seen as political relationship in which trade unions as Chaberlain and Kuhn in Armstrong (2006), share industrial sovereignty or power over those who governed, the employees. Management and the trade union in the collective bargaining process hold the sovereignty jointly. This can affirm productivity given the cordial relationship that exist between the firm managers and the workers help to enhance collective bargaining as a power sharing relationship between management and trade unions, although the recent times the balance of power has shifted markedly in the direction of the management; whose words or decisions greatly influence the labour market. The extent to which industrial sovereignty is shared by management with its trade unions depends upon the relative bargaining powers of the two parties. Fox and Flanders commend, that "power is the crucial variable which determines the outcome of collective bargaining" whereas bargaining power is inherent in any situation where differences have to be reconciled". Individuals involved in the bargaining process can appraise (Armstrong, 2009)

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2.4.3 Labour Management and Firm Productivity

Training and Development (T&D) is a very important element of Labour Management (Vlachos, 2008) in relations to firm productivity. Training refers to some activities which equip employees with needed skills to perform better in their current jobs (Li *et al.*, 2008). In the competitive business era technologies and innovations are needed to cope with these pressures, while employees are required to learn new knowledge and skills for performing their tasks and jobs with quality. Tai (2006) avers that training and development plays a crucial role for increasing work adaptability, ability, flexibility, maintaining necessary competence, and motivates employees. This variable influences employee productivity. Some studies have shown that there is an indirect relationship between training and firm performance (Vlachos, 2008). In actuality, unstructured on the job training programmes are prevailing in manufacturing enterprises Bartel (2004) establish a significant positive relationship between training and labour productivity in her study while Guidetti and Mazzanti (2007) found that training activities are positively associated with high productivity, performance practices, innovative labour demand features, work force skill level, firm size, and are affected by labour flexibility in various

directions. Nikandeou, Brewster, Papalexandris and Apospori (2008) found that training had a significant impact on firm performance.

a) Education, Training, Earnings and Firm Production

The purpose of training in the work context is to develop the abilities of the individual and to satisfy the current and future manpower needs of the organization. In addition to initial training, training to improve employee skills is important in order to enhance employees' performance in the organization (Michael, 2008). Waleed (2011) assert training is not simply a means of arming employees with skills they need to perform their jobs. In a production firm like EPZ is a tool that workers require for maximum productivity. All individuals attain a certain stock of human capital and this level is primarily influenced by education and training. Investment in human capital increases productivity. Adam Smith was the first to suggest that an educated worker could be likened to an expensive machine. The skills embodied in a person can be "rented out" to employers. The higher the level of skills a person has the higher this "rent" is likely to be. Firms would aspire to include maintenance of a sufficient and suitable range of skills amongst employees; development of knowledge and skills in the workforce; achievement of improved job performance and productivity; improved quality; improved service to customers and increased motivation among employees. There are also benefits to individuals which include increase in personal repertoire of skills; increased satisfaction; increased value of employees in the labour market and improved prospects of internal promotion (Cole, 2005). Armstrong (2010) argues that people enjoy learning and continuous training provides for this. Thus, the expected returns on investment in human capital are a higher level of earnings and greater job satisfaction over one's working lifetime.

b) Technical Skills

Technical skills gained by employees are likely to help firms gain an advantage over those firms that do not utilize this during the initial stage of recruitment and selection of the workers. There is generally low quality of labour force in the EPZs in Kenya to meet the standards of the industrial production lines. The type of labour force is not familiar to factory production culture because of the low education and literacy levels compounded by low access to vocational and business development training. Emphasis on cheap labour has, imparted negatively on the quality and number of product rejects in the firms. High wages were expected to stabilize the labour force, leading to rapid growth in labour productivity and enhance industrial competitiveness and employment creation. On the other hand, the Kenyan strategy entailed a deliberate effort by the government to increase employment opportunities for Kenyans through replacement of non-citizens (ROK, 2003). Measures used to achieve this included exclusion of foreigners in rural trade, use of work permits to control employment of expatriates, redistribution of large agricultural farms and increased investments in human capital formation. The government also undertook to engage in direct employment creation, regulate wages, operate employment exchange programmes and improve labour market information systems and to re-orient education and training systems to vocational and technical training areas as a means of promoting employment creation. Other measures also implemented to address the country's employment problem included promotion of growth and development of the informal and Juan Kali sector, adoption of fiscal and short-term measures such as tripartite agreements, among others (ROK, 2005). The tripartite agreements were particularly entered into by government, employers and organized labour (trade unions) in 1964, 1970 and 1979. Under the agreement, employers were to increase their employment levels by at least 10 percent per annum. In return, workers were to observe a wage freeze and strike free environment during the period.

c) Work Environment

In many well established firms the union may be another factor that can contribute to firm innovation and firm productivity. The union has a passive role in HR activities including recruitment, selection, compensation, promotion, training, collective bargaining and dismissal of employees (Zohir, 2007). Empirical research on the union impact on wages and productivity has established that both are higher in unionised than in non unionised firms. The difference between these two types of workplaces is that in the unionised one, bargaining is explicit, and it results in an enforceable agreement, while it is implicit, informal and diffusive in the non unionised workplace. Serious (in good faith), cooperative (integrative, problem solving) bargaining is likely to produce the most efficient outcome. The result is that the unionised workplace adopts innovation which is more conducive to productivity enhancement than what the non unionised workplace adopts. Siengthai and Bechter (2001a) argue that the union may first have a negative impact on the organisation's performance, but it is then likely to lead to the management's initiatives to bring in new technology, and hence, innovation and productivity. Siengthai and Bechter (2001b), they found that the union had a positive though a no significant relationship with firm innovation. While the direction of the relationship between unionisation and firm innovation is unclear.

2.4.4 Productivity

a) Work Performance

Labour Management is likely to make a substantial impact on firm productivity. The concept of performance covers both what has been achieved and how it has been achieved. Organizational capability is defined as the capacity of a firm to function effectively in order to compete and deliver results. Organizational effectiveness is the capacity of an organization to achieve its goals by making effective use of the resources available to it. Many researchers have been conducted linking HRM and firm performance. However, utilization of the labour practices on firm productivity in the

export processing firms for export has not been very clear. On the same, Guest (2006) conducted research on the future of work survey and the outcome showed a greater use of HR practices associated with higher levels of employee commitment and contribution. On the same Thompson (2002) studied on the impact of high performance work practices such as team working, appraisal, job rotation, broad banded- grade structures and sharing of business information on firm performance. The results indicated that the number of HR practices and the proportion of the workforce covered appeared to be the differentiating factor between more and less successful firms. Michie, Conway, Sheehan and Guest (2003), in UK found out an exploration of relationship between HRM and performance by use of objective and subjective performance data and cross- sectional and longitudinal data. Some guidance showed an association between HR practices but did not have convincing indication that greater application is in use and productivity, and there was no indication that greater application of HRM is likely to result in improved corporate performance. Boxall and Purcell (2003), at the University of Bath conducted a longitudinal study of 12 companies to establish how people management affects organization performance.

The outcome indicated that most successful companies had a “big idea.” They had a clear vision and a set of integrated values. They were concerned with sustaining performance and flexibility. Clear evidence existed between positive attitudes towards HR policies and practices, levels of satisfaction, motivation and commitment and operational performance. Policy and practice implementation is the vital ingredient in linking people management to business performance and this is primarily the task of the line managers. Other views on HRM performance link studies, Paauwe (2004) based on input/output reasoning showed that there is a substantial negligence of the process itself, the administrative heritage and instructional values.

b)Organizational Capability

Organizational capability is defined as the capacity of a firm to function effectively in order to compete and deliver results. Organizational effectiveness is the capacity of an organization to achieve its goals by making effective use of the resources available to it. Studies have linked firm performance with Human Resource practices, which include good practices, best practices and the congruent approach or the best fit. Boxall and Purcell (2003), points out that the level of an individual performance is a function of ability, motivation, and opportunity (AMO) and work performance is determined by competitive labour market. Absence of the above is likely to affect firm performance in an organization. The distinctive feature of HRM is its assumption that improved performance is achieved through the people in the organization Guest (1997).

2.4.5 Labour Satisfaction and Firm Productivity

a) Compensation and Reward System

Compensation and reward system is recognised as employee merit and it is widely linked with firm outcomes. Compensation refers to all monetary payments and all commodities used instead of monetary to reward employees. The expectancy theory advanced by Vroom suggests that rewards, that can be understood as a form of direct and indirect compensation packages which has the potential to influence employee work motivation. Thang (2004) posits that compensation and reward can be powerful tools for getting efforts from the employees to fulfill the organisational goals. In the same vein, Wan (2008) asserted that compensation should be considered based on performance, not on the basis of seniority or length of service in organisation. From these notions a hypothesis was developed on compensation and reward systems have effects on firm productivity. Vroom (1964) identified three factors that affect the level of individual performance as motivation, ability, and opportunity to participate. The effects of motivation on performance are dependent on the level of ability of the worker and the relationship of ability to performance is dependent on motivation of the worker. The

ability and motivation on performance are not additive but interactive. The formulae: $\text{Performance} = f(\text{Ability} \times \text{Motivation})$. Vroom also pioneered expectancy theory, which was developed by Porter and Lawler who proposes that high individual performance depends on high motivation plus possession of the necessary skills and abilities and an appropriate role and understanding of that role.

Armstrong (2009) quotes Guest, it is a short step to specify the Human Resource Practices that encourage high skills and abilities, for example careful selection and high investment in training, high motivation, for example, employee involvement and possibly performance related pays and an appropriate role structure and role perception for example job design and extensive communication and feedback. We therefore have a theory that links HRM practices to processes that facilitate high individual performance. Bailey *et al.*, (2001a) focused on the opportunity to participate, a factor that affects performance. They noted that organizing the work process so that non- managerial employees have the opportunity to contribute discretionary effort is the central feature of a high performance work system. The two components of a high performance work system were incentives and skills. The Ability of Motivation of Opportunity (AMO) formula put forward by Purcell *et al.*, (2003) is a combination of the Vroom and Bailey *et al.*, (2001b) ideas. The model asserts that performance is a function of Ability of Motivation of Opportunity to participate (The relationship is additive and not multiplicative). Human Resource Management (HRM) practices impact on individual performance if they encourage discretionary effort, develop skills, and promote people with the opportunity to perform.

b) Performance Appraisal

Performance appraisal has attracted a great deal of attention. For example, Levin identified some uses of performance appraisal, such as assessment of employee training needs, employee merit appraisal, determining of employee salary, feedback and

suggestion of employee past performance and employee development. Thang (2004) has shown that how well employees are performing their jobs, is due to how well a suitable HRM related decision is made. Performance appraisal is a continuous process rather than a 'once a year' exercise. It is the formal system of periodical assessment and evaluation of an individual or team's job performance and providing feedback. Stone (2002) asserts that in the competitive environment, organizations need to keep improving performance to survive. In addition, in the rapidly changing environment, tighter budget, downsizing and pressure for greater employee accountability result in more emphasis on performance appraisal in relation to organisational objectives. Many studies suggest performance related rewards target those who meet the performance requirements (Katou, 2007). Performance appraisal provides information that on employee's salary, training needs, compensation, promotion as well as employee development, transfer and employee feedback.

2.5 Other Factors of Production (Inputs)

Based on the previous studies, a system-based approach is required, which includes labour practices and policies as input variables, other factors of production such as capital, materials and money as intermediate variables and firm performance indicators as the dependent variables. Contingency variables such as size and technology need to be used as control variables such as size and technology can be used as control variables. Guest *et al.*, (2000) comment that HRM is essentially concerned with achieving results through full and effective utilization of human resources. This can only be achieved through asset of appropriate practices resulting in high quality, flexible and commitment employers. Wood (1999) noted that the quality of the research based on supporting the relationship between HR and performance is weak. If it were stronger, it is not enough simply to produce evidence that HR practices lead to high performance. He says it is necessary to understand how they produce this effect. Rogers *et al.*, (2008) on this subject suggested that HR affects performance by first influencing climate, which then

determines performance. They also argued that the direct links between Human Resource practices and performance are relatively weak as it is not Human Resource (HR), practices themselves that affect performance, but rather the extent to which they lead to favourable climate. Purcell *et al.*, (2011) explored the unknown link between inputs and outcomes. Their conclusion was that HR practice feeds in as an ingredient in the workplace and, through various mechanisms, feeds out through the other side as improved performance. However, the proposed study seeks to examine the relationship between labour practices and firm productivity in Mombasa export processing firms in Kenya.

a) Cost of Production

It is generally known that the costs of production in Kenya are high compared to its close competitors. The cost of electricity in Kenya is US Cents 0.15 per kWh compared with US Cents 0.04 per kWh for South Africa and US Cents 0.10 per kWh for China (KAM, 2006). This shows that the cost of electricity in Kenya is four times the cost in South Africa and more than thrice the power tariffs in China. The high cost is further worsened by power outages and fluctuations which in turn reduce output and damage equipment hence affect productivity.

b) The Demand and Supply Factors of Labour Market

The demand and supply of labor are determined in the labour market. The participants in the labour market are workers and firms. Workers supply labour to firms in exchange for wages. Firms demand labour from workers in exchange for wages. The firm's demand for labour is a derived demand; from the firm's output. If demand for the firm's output increases, the firm will demand more labour and will hire more workers. If demand for the firm's output falls, the firm will demand less labour and will reduce its work force. When the firm knows the level of demand for its output, it determines how much labour to demand by looking at the marginal revenue product of labour. The marginal revenue

product of labour (or any input) is the additional revenue the firm earns by employing one more unit of labour. The marginal revenue product of labour is related to the marginal product of labour. In a perfectly competitive market, the firm's marginal revenue product of labour is the value of the marginal product of labour.

2.6 Critique

The dynamics and trends of employment in Kenya reveals that most employers, particularly those within the private sector have resorted to the increasing abuse of labour practices to ostensibly reduce labour costs, achieve more flexibility in management and exert greater levels of control over labour Economic Recovery for Wealth and Employment Creation (2003-2007). Despite this the government has done little to ensure that such unfair labour practices are not likely to negatively impact firm productivity in the EPZs in Kenya. The nature of labour practices in the EPZs do not enable labour enjoy the fundamental rights of workers and the outcome has been a demotivated labour force and increased shirking, which decreases efforts in the firm's performance and occasioned by frequent strikes, closers go slows in the EPZs in Kenya. Kimuyu (2004) observes that this could partly explain the persistently low levels of firm performance, low enterprise competitiveness and the slow economic growth rates in Kenya. Estimates of technological efficiency of the African Manufacturing sector are generally lower than figures in developing countries hence Tybout (2000), concluded that there is a distinction in technical efficiency between developed and developing countries except South Africa. Kenya's reintegration into the global economy mandated skills biased changes in methods of production which resulted in too few workers with adequate skills, or a mismatch between skills supply and demand (Daniels, 2007). Kenya faces numerous general challenges which could potentially protract and deepen the skills crisis. Firstly, the global skills market has become increasingly competitive. Whilst other countries such as Britain and Australia have exploited this to their advantage, Kenya continues to act defensively and view it as a threat rather than an opportunity (Bernstein & Johnson, 2007). Secondly, a legacy of discrimination has

resulted in a (disproportionately) white skills base, which is particularly vulnerable to emigration and ageing. Thirdly, transformation policies have had the intended consequence of misdirecting and wasting skills. This report results from a process of consultation with the main organizations and stakeholders in the sector to identify key skills shortage and issues, and a wide ranging analysis of existing material on skills supply and demand, and factors influencing skills trends.

Drawing from above, the potential benefits from an EPZ programme do not freely accrue to host economies rather; and if they do they do so at a price. For instance, although the offered economic incentives enhance the business performance of beneficiaries (EPZ investors) through cost savings, they may drain from the host country's internal resource mobilisation (e.g. lower revenue collection due to tax holidays and/or exemptions), hence constraining the welfare generation for its citizens through the provision of public goods and services. However, it should be noted that the portrayed benefits are by no means automatic. Host countries that stand to gain most from the EPZ model are those that are best prepared in terms of internal policies and strategies. Therefore, one cannot expect effective technology transfer unless technological absorptive capacities exist in the local economy (through purposeful human capital development programmes). Vibrant backward and forward linkages between local and foreign EPZ firms would at a minimum require the existence of a growing entrepreneurial mindset among the host country's businesses – especially SMEs – to take the opportunities presented to supply inputs to, and trade in outputs from, producers in the EPZs.

Firms in EPZs are typical businesses whose motives, among other things, are not expected to fall short of profit maximization. Along with this motive is the possibility of unfavorable socio-economic outcomes, such as higher pollution levels than the limits set under environmental standards, low wages/poor benefits to workers and non-recognition

of trade unions – leading to a lack of collective bargaining among workers. Also, because human capital development is poor in most EPZ host developing countries, the majority of workers in EPZs are likely to be medium- or low-skilled, and sometimes unskilled. This is usually regarded as cheap labour, based on the associated wage levels. It is, however, worth noting that “cheap” labour does not necessarily imply “low productive” labour. Differences in wage levels between developed and developing countries do not mirror differences in productivity levels, which further increase the competitive advantage of producers in EPZs in developing countries (LaRRI, 2000). This may result in the creation of jobs with less socio-economic or developmental impact than anticipated. The preceding analysis of weaknesses associated with the EPZ model points to the urgent need for policymakers, and other key stakeholders in potential EPZ host economies, to always exercise care in balancing postulated EPZ benefits with possible welfare losses that may potentially accrue from investments and operations in the EPZ sector.

Kenya’s manufacturing and export firms have highly been criticized for failing to develop its human resource due to imperfect competitive labour market. This has had an effect on work productivity in the clothing industry. Boxall and Purcell (2003), points out that the level of an individual performance is a function of ability, motivation, and opportunity (AMO) and work performance is determined by competitive labour market. Absence of the above is likely to affect firm productivity in an organization. The distinctive feature of labour practices is its assumption that improved performance is achieved through the people in the organization (Guest, 1997). Pfeffer (1994) notes that employees create an important source of competitive advantage for firms as a result, it is important that firms and organizations adopt labour practices that make best use of its employees. The above trend has led to increased interest in the impact of Human Resource Practices on organization performances, and a number of studies has found a

positive relationship between high performance work practices' (Huceeid, 1995) and different measures of company performance.

Matambalya (2007) suggests that openness is a necessary condition for economic development and competitive integration in the global economy. There can be at least two options for openness: one is the "best solution", involving countrywide reforms for attaining comprehensive economic liberalisation within the multilateral context. The other is the "second best solution", characterized by spatially- and sectorally-restricted economic reforms. The EPZ model of economic development provides a "second best" solution. This is because EPZs technically involve partial or restricted liberalization; and that the advent of EPZs has manifested a major paradigm shift from restrictive economic policies, largely based on import substitution strategies, to liberalization. The main features of EPZs include fiscal and non-fiscal incentives whereby an EPZ investor (usually an MNC) is granted tax holidays, exemptions from customs duties and free repatriation of profits. Other features of EPZs include access to infrastructure and business services, exemption from labour laws, right to strategic locations and relaxation of immigration regulations. Since their early inception in Ireland Madani, – as typical export-oriented undertakings have had potential social economic benefits that may accrue to host countries. These include technological spillovers, increased investments, increased competition, high factor productivity, economies of scale and scope, and the transformation of the economic structure from inward-oriented towards outward-looking.

EPZs have been considered to be catalysts for export promotion in host economies. This may arise due to the fact that the attraction of foreign firms into EPZs may encourage local firms to export over time as a result of imitation, competition and even learning. This interaction between foreign and local firms stands to bring about technology transfer, which most developing economies lack, for their future development. As a

result, EPZs help to stimulate the development of a local/indigenous entrepreneurial base by means of practical learning, sub-contracting and formal education/training (Matambalya, 2007). EPZs can also benefit the local economy when local farms become suppliers to EPZ firms. Domestic firms can thus develop their capacity to produce quality products, and consequently their international competitiveness. In this way, employment through the creation of new jobs can be enhanced because, in theory, every EPZ job creates one non-EPZ job. However, in order to tap into the benefits that may arise with the EPZ model, host countries have always been expected in the first place to set up an attractive environment for investment that could result in lower production costs for investors in the EPZ sectors. In regard to this, host economies could end up offering incentives such as: lower levels of import restrictions; less restrictive labour requirements; liberal tax, ownership and foreign exchange regulations; and access to superior infrastructure, transport and communications technologies, compared with the rest of the economy (Virgill, 2009)

2.7 Research Gaps

Study by Amiti and Konings (2000) show that improved access to foreign inputs increased firm productivity in several countries, such as Indonesia, Chile and India as reported by (Topalova & Khandelwal, 2011). However, little concerns have been raised on the relationship between labour practices and firm production in the EPZs in Kenya. Most studies conducted have been on the relationship between Human Resource Management and firm performance on domestic industries while a few which have explored the impact of the factor prices on the competitiveness focused on unit labour cost (Ward & Shah, 2005). Most successful firm performance has been measured against financial gains at the expense of the labour practices, which the current study identifies as the missing link between the firm production and human relation scholars. Recent study by (Nkondi *et al.*, 2013) studied the role of Export Processing Zones Small and Medium Textile Enterprises in determining the success of the Vision 2030 and

competitive performance in Kenya. The findings revealed a significant relationship between financial support and competitive performance for small and medium enterprise in textile internationally. However, the study did not address labour practices in relation to EPZs firm productivity which can be linked to perform performance for its success internationally. The EPZ enterprises are obliged to increase their productivity to maintain competitiveness. On the same Zohir (2007) suggest that this action required congenial work environments and mutual satisfactory labour management relations to cope with the changing global market environment if Kenya is to achieve a competitive global performance in the EPZs. Reports in Kenya's media indicate that workers as well as employees are not satisfied with their welfare in terms of wage, compensation, benefits, working conditions, working hours, and the lack of an employee voice to the top management. Other studies have focused on the HRM impact on firm performance in the developed countries (Conway & Sheehan, 2008). However, existing literature review gaps in HR practices link labour practices to EPZ firms' productivity. Performance in garment industries shows a sharp contrast between Africa and other countries underdevelopment of the sector's attention of some development economists (Collier, 2007). Thus the current study looked at the underlying factors in the Kenya context specifically EPZs in Kenya to bridge the gap.

2.8 Summary

The literature reviewed the relationship between labour practices and firm productivity this included labour contract, labour relations, labour management and labour satisfaction. The reviewed literature to some extent suggests that the highlighted labour practices have not been adequately addressed in the EPZs. The literature pointed out that HR practices are likely to relate to firm performance in service industries. However, in the production firms such as the EPZs it is not clear. Finally the literature reviewed identified gaps for relevant studies in the field of HR practices that linked labour practices to EPZs.

2.9 Critical Review

Empirical evidence supports the hypothesis that firms that align their HR practices with their business strategy will achieve superior outcomes (Armstrong, 2009). These include best HR practices using universal approach, and the best fit approach. The impact of these findings remains a challenge when integrated in the manufacturing industries in Kenya. A number of studies focused on the relationship between Human Resource policies and Organization performance on domestic operations in Europe Guest and Hoque, (1994) and in Asia (Ngo *et al.*, 1998). Scholars of International Business have paid much attention to the extent to which HRM policies within Multinational Corporations are globally standardized and then locally adapted. Rozenzwing and Nohria (1994); Taylor *et al.*, (1996) largely ignored the relationship between labour practices and firm productivity. In the 1993-97 periods, the EPZ originating exports grew at an average annual rate of 25 percent. The overall average growth rate for all manufactured exports was 22 percent. Employment in the EPZ accounted for barely 1 percent of total manufacturing employment Glanday and Ndi (2003). The EPZ employment rate was a half that of total employment imports of raw material averaged at 64 percent of turnover during 1993-1997. Evidently, there has been poor investor response to the EPZ programme, probably as a result of ineligibility of the EPZ firms for preferential treatment in the important regional market, infrastructure deficiencies, and an unreliable water and power supply. However, given the importance of exports in productivity enhancement, the EPZ has had productivity benefits. These are, however, restricted to firms benefiting from the platform and are therefore not generalized.

A further platform was introduced in 1990, becoming operational in 1993. Its primary objective was to offer export incentives to manufacturers serving the domestic market. The programme is designed to offer duty and VAT exemptions to imported inputs that are incorporated in the exported products or consumed in the production of exports, and is administered by the Export Promotion Programme Office (EPPO) in the Ministry of

Finance. Initially, businesses with confirmed export orders or those with export track records could apply for duty free imports, submitting input-output ratios to support their applications. The requirement is that such firms reconcile duty-exempt imports with goods produced and exported. Exemptions are given against a performance bond to the value of duties exempted, which is cancelled upon verification and reconciliation of reports. Over time, the programme has been enhanced to improve effectiveness. In order to remove bias against domestic inputs and strengthen backward linkages, indirect exporters are also allowed, under this programme, to apply for duty exemptions on imports used to produce inputs for direct exporters.

CHAPTER THREE RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the research design, sampling techniques, instrumentation data collection procedure and data analysis and processing. The study also used the Pin Factory or Insider Econometrics Methods that amalgamates econometric analysis of data on companies or sectors with the interviews and traditional business school or labour relations qualitative case studies. The term insider econometrics refers to the use of information that is available only to persons with detailed knowledge of the firm or sector.

3.2 Research Philosophy

3.2.1 Research Design

Research design can be defined as a roadmap one uses in answering the research questions (Bryman & Bell, 2007). Sekaran (2010) stated that a good research design had a clearly defined purpose, and had consistency between the research questions and the proposed research method. Orodho (2013) define research design as a framework for the collection and analysis of data that is suited to the research question while Mugenda and Mugenda (2003) defines it as simply the framework or blue print for the research. For the purpose of this study a correlation research design study was used to analyse firm productivity in the EPZs in Mombasa County Kenya.

According to Nachmias and Nachmias (2008) descriptive survey enables the collection of information from a larger number of people in a relatively short time and yields both qualitative and quantitative information. This was done through oral interviews by the firm managers which were chosen because of its rapid economic formation and data collection. It also has the advantage of identifying attribute of a large population from a small group of individuals (Patton, 2002)

Kothari (2009) indicated that a survey's main purpose is to provide quantitative and qualitative description of some parts of the population. This design was incorporated in this study because it considered issues such as economy of the design, rapid data collection and ability to understand population from a point of view of the researcher. The secondary data was obtained from the existing records in the KEPZA while the structured questionnaires and oral interviews were used to get primary data from the EPFs' top and middle managers. Both analytical research methods were used to analyse quantitative (secondary) data while *ex post facto* was used to describe qualitative data and where the researcher had no control over the variables.

3.3 Target Population

Population refers to the entire group of people or things of interest that the researcher wishes to investigate Sekaran (2010). Data available from the Ministry of Trade and Ministry of Industrialization in regard to the EPZ in Kenya, indicate that Mombasa is the largest Export Processing Zone in Kenya with 20 zones, other zones in other counties comprises of 9 zones in Nairobi, 3 zones in Athi River (Mavoko) in Machakos County, 2 zones in Kilifi county and 1 zone each in Kerio-Valley, Thika (Kiambu, County) and Isinya in Kajiado (Kajiado County) (KEPZA 2013). The locale of the study was Mombasa Export Processing Zone in Kenya. The zone is the largest EPZ zone in Kenya with thirty five EPZ firms in the twenty zones; therefore the entire group is suitable for the study due to its common characteristics Mugenda *et al.*, According to Kenya National Bureau of Statistics, Mombasa County has a population of 939,370 as per the 2009 census. The administrative units within Mombasa County include: The Mombasa Island, Changamwe, Likoni and Kisauni. The Welfare Monitoring Survey 111 report of 1997 indicated that 38.32 percent (217,402) of the people are poor.

Table3.1 Sampling Frame

	Population M(X)	Sampling Frame	% age	Sample Size
Labourers	>50,000	2520	10	252
Top Managers	3200	320	10	32
Mid-Managers	3500	500	10	50
Low-Managers	3500	500	10	50
N	>17,031	3840	10	384

Sample mean= 4.96 Standard Deviation= 2.82

Neuman (2000) argued that during sampling for a large population of over 50,000 small sampling ratios (1%) is possible and can be very accurate when used. He further indicated that from a very large population (10 million) one can achieve accuracy using tiny sampling ratios such (0.025%). For the purpose of this study, the sample size was determined by using Cochran's sampling frame for large population $n_0 = z^2pq/e^2$ $n_0 = (1.96)^2 (0.50) (0.50)$ divided by $(0.05)^2 = 384.00$. This yielded a sample size of 384 who participated in the study.

3.4 Sampling Frame and Sampling Technique

The researcher employed purposive sampling technique to identify and select eligible firms and participants for the study specifically the top, middle and low firm managers while the firm labourours were randomly selected from the target population. The sampling frame can be described as the list of all population units from which the sample is selected (Cooper *et al.*, 2003). Kothari (2008) suggested that this is a physical representation of the target population and comprises all the units that are potential members of a sample while. Kerlinger (1986) indicated that a sample size of 10 percent

of the target population is large enough so long as it allows for reliable data analysis and testing for significance of differences between estimates. According to Mugenda (2008) purposive sampling technique is used to allow the researcher to use cases that have the required information with respect to the objectives of the study. For the purpose of this study a proportionate sample size of 384 participants were categorized as follows: 32 top managers (10 percent) of the target population, 50 middle managers (10 percent) of the target population, 50 middle line managers (10 percent) of the target population, 50 low level of the line managers (10 percent) of the target population and 252 labourers (10 percent) of the target population in the EPZs. This gave a sample size of 384 participants from the target population in Mombasa EPZs

3.5 Data Collection Procedure

Data collection instruments included structured questionnaires, oral interview and documentary analysis guide, which were tested for reliability during a pilot study. The researcher personally administered the instruments and collected data. The instruments were rated in terms of how efficiently they sampled significant aspects of the purpose of the study. An in-depth interview was used for the top executives who were conducted during the pilot survey. The objectives of in-depth interviews was to investigate personal, sensitive and confidential information related to labour relations and their implications in improving firm production. This method validates the construct variables and concepts. The appointments for the in-depth interviews were made through telephone while the questionnaires were distributed to the executive managers and the feedback on the survey instrument with respect to the construct validity was obtained. The face to face interviews were conducted and the completed questionnaires were collected from the top and middle managers after the interviews.

3.6 Pilot Test

Before data collection, the fieldwork was conducted in three stages: a) pilot survey, b) in-depth interviews and c) full scale questionnaire survey. The objective of the pilot study was to pretest the items and fine tune them and then construct measurement. This stage was to identify the weakness and potential of this research in regard to instrument clarity, wording and formatting of questionnaire. The research instrument (questionnaire) was developed for a pilot study. Vogt (1999) emphasized the essence for questionnaire testing before administering it to the entire sample. Thus, a pilot study was undertaken to detect for error, validity and scale reliability. The five point Likert scale was used (where 1 was for 'strongly disagree' and 5 for 'strongly agree'). The pilot study was conducted in the months of April to June, 2013. The questionnaires were distributed to the managerial and low level workers of the respondents from the four firms which did not form part of the actual study. The entire 35 firms were included in the study where a sample size of 384 respondents from the firms was selected randomly from various categories of the workers. Thereafter, labour practices with more than 10 items were tested and the feedback was obtained, which was used to assess the scale validity of the survey. A pilot survey was carried out using the developed questionnaires to test and improve the flow and clarity of the questionnaires before the actual collection of data. To ensure the validity and reliability of the data collected; the questionnaire was reviewed for information quality and legitimacy and any corrections that arose were made. The researcher sought judgment from the supervisors through discussions, comments and consultations to ensure that the instruments measure what they purport to measure.

3.7 Reliability and Validity

To establish reliability of the instruments, the instruments were checked to find out if they yielded similar results after pre- testing. The reliability of items was based on the estimates of the variability of employees responding to items. The instruments were

administered to the same subjects after a period of one week (time) then tested for the reliability using Cronbach's alpha of above $\alpha \geq 0.8$ was considered appropriate while those with less than Cronbach's alpha $\alpha = 0.7$ were judged as weak.

The reliability of the questionnaire was analysed using Cronbach's alpha. During the pilot the alpha for labour contract was 0.905, labour relations had alpha of 0.837, labour management had 0.921, labour satisfaction had an alpha of 0.681, and a negatively word question was added to each set of items measuring a variable to control guessing. The instruments $r = 0.836$ therefore judged appropriate for data collection. The questionnaire was refined on the basis of the responses and the items which required revision were done to make them more meaningful before the actual collection of data. The revised items included in data actual data collection.

Validity is the degree to which results obtained from the analysis of the data that actually represents the phenomenon under study. Instruments were vetted in terms of how efficiently that the samples signified certain aspects of the purpose of study. This was determined by the experts in the field of study and the supervisors during data analysis.

3.8 Data Analysis and Presentation

The researcher obtained necessary authorization and clearance from relevant authority (National Council Science and Technology) before commencing of the study and then approached interested participants who the researcher personally administered the questionnaire. A covering letter was attached to each questionnaire to assure the participants that the information given was anonymous and confidential. The data collected was analyzed using descriptive statistics which involved the description, analysis and interpretation of circumstances prevailing at the time of study. Basic statistical technique included averages, percentages, frequencies and totals. The use of frequencies and percentages easily communicate the research findings to majority of

readers (Gay, 1992). A number of tables and charts were presented and the findings discussed.

Data was entered and analyzed using SPSS version 20 statistical software. According to McCormick *et al.*, (2001) the use of SPSS is considered appropriate because of the researcher's standard questionnaire. Quantitative research technique was used to code qualitative data. Trochim (2004) pointed out that qualitative data can be coded quantitatively without detracting from the qualitative information such as in ranking ordinal scale. Descriptive statistics examined the characteristics of the population and the null hypothesis was tested using the F- ratio a one way Fisher's Analysis of Variance (ANOVA) (1918) on assumption of the homogeneity of the variance of the sample that it is normally distributed at 95 percent confidence interval ($z = 1.96$) with two standard deviations and a sampling error of 5 percent (level of precession). The researcher designed a structured questionnaire containing closed and open-ended questions used to obtain the needed data from the respondents which was a self-administered questionnaire which consisted of structured questionnaires on firm productivity knowledge, training and other descriptive characteristics. The descriptive characteristics included age, level of education and occupation. The questionnaires on labour practices as well as those for descriptive characteristics consisted of selected response items such as agree/strongly agree, disagree/strongly disagree and other constructed response items.

Data processing was done through editing, coding, classification and tabulation. A simple regression analysis which is a statistical relationship was used between one independent variable and one dependent variable. Frequencies of less than 10 items was grouped from the likert scale using odds ratio while; those with at least 50 or more items was considered reasonably large therefore appropriate. The researcher used the z-test on the normal probability distribution of the population by comparing the mean of the

sample to the hypothesized mean for the population. F- Test on F- distribution was used to compare the variance of the independent samples as one and the same thing. The null hypothesis was tested using ANOVA Test at 0.05 LSF that there is no significant difference in production between labour practices and firm productivity in the export processing zones in Kenya.

3.9 Measurement Scale

3.9.1 Labor Input

Total labour input was decomposed into labour quantity (work-hours) which was generated from the Economically Active Population Yearbook and labour quality from the Survey Report on Wage Structure by Ministry of Labour. This was obtained from the data structure from the estimated 35 EPZs firms which generated the level of labour productivity and TFP in the period of 2007-2013. The main tool of data collection was the oral interview and the structured questionnaires which had both open and closed ended questions were used to collect information on labour contract, labour relations, labour satisfaction and labour management using the likert5 point scale. This enabled the researcher to keep, accumulate and sum responses more efficiently (William, 2006). Secondary data was obtained from the audited financial and demographic records from the top managers.

3.9.2 Multiple Regression Analysis

A multiple regression analysis was used in data processing and analysis. This was appropriate in the study because the researcher had one single dependent variable that is firm productivity, which is presumed to be a function of the several independent variables of labour practices.

$$= a + b_1 x_1 + b_2 x_2 + b_3 x_3 + b_4 x_4 + \varepsilon$$

This was used to describe the relationship of firm productivity (y) which depends on labour practices (x_i)

$$y = \alpha_0 + \alpha_1 x_1 + \alpha_2 x_2 + \alpha_3 x_3 + \alpha_4 x_4 + \varepsilon_1$$

$$y_i = \beta_0 + \beta_1 l_1 + \beta_2 l_2 + \beta_3 l_3 + \beta_4 l_4 + \varepsilon_1$$

Where $\beta_0, \beta_1, \beta_2, \beta_3,$ and β_4 = coefficients of labour practices equation

l_1 = labour contract

l_2 = labour relations

l_3 = labour management

l_4 = labour satisfaction

From the model labour practices was correlated with firm productivity in the Export Manufacturing Firms

Stochastic production model was used to measure firm productivity from the samples of the EPZs in Mombasa

$$Y_i = \alpha K_i \beta_1 L_i \beta_2 * TE * \text{error} (\varepsilon)$$

Y = Output

K= Capital

L= Labour

TE= Technical efficiency between 0 to 1

error (ε) = stochastic errors with mean at 0

i = an individual producer

Firms practicing labour practices = 1

To understand labour quality human capital was incorporated in the function as skilled labour and unskilled labour

Inferential statistics was used to test the null hypothesis using F-Ratio ANOVA Test that labour practices relate to firm productivity in the EPZs in Kenya.

3.9.3 Productivity Measurement

Firm productivity can be measured in four different ways first; by firm-level Total Factor Productivity (TFP) as a residual from an augmented Cobb-Douglas production function. The use of Olley and Pakes in 1996 methodology can be used to estimate input elasticity rather than setting input elasticity equal to factor shares, which would require the assumption of perfect competition. This need to be weighed against the assumption that input elasticity is the same across sectors.

Secondly productivity can be measured by TFP as an index relative to the industry median following (Caves *at el.*, 1994). This measure differs from the first measure in that first it is a relative measure; and secondly, the use of observed indexed firm factor shares as input elasticity by assuming constant returns to scale. Thirdly, firm labour productivity can be measured using the growth rate of total factor productivity. In order to estimate firm-level productivity information on output, capital and labor inputs at the firm level are needed in that year. Productivity is commonly defined as a ratio of a volume measure of output to a volume measure of input use. A firm's productivity depends on how production is organized.

Total production = Efficiency*Volume of combined inputs = TFP*Volume of combined inputs i.e. $Q_t = A_t F(K_t, L_t)$

TFPG is composed of three parts namely; technical change, economies of scale effect and time-variant technical efficiency.

Description of Variables used in Estimation of TFPG

Capital is estimated as GFCF + Inventory - Fixed Capital Consumption, Labour is estimated as the compensation to employees and Output is measured as GDP at factor cost. Estimation of Factor Shares Using National Accounts Data, factor shares are estimated as the ratio of each input to output, such that;

$$S_k = \frac{K}{Q} \quad S_l = \frac{L}{Q}$$

Where S_k and S_l are the shares of capital and labour respectively Growth rates of Output, Capital and Labour are then estimated as follows;

$$g_r GDP = LnGDP_t - LnGDP_{t-1}$$

$$g_r K = LnK_t - LnK_{t-1}$$

$$g_r L = LnL_t = LnL_{t-1}$$

Estimation of TFPG

The growth rate of TFP is then estimated as;

$$TFPG = g_r GDP_t - \left(\frac{1}{2}\right)(S_{kt} + S_{kt-1})g_r K_t - \left(\frac{1}{2}\right)(S_{lt} + S_{lt-1})g_r L_t$$

Arising from the above, the factor contributions to GDP growth are estimated as follows; Contribution of

$$TFPG = TFPG / g_r GDP_t$$

$$\text{Contribution of Capital Growth} = \left(\frac{1}{2}\right)(S_{kt} + S_{kt-1})g_r K_t / GDP_t$$

$$\text{Contribution of Labour Growth} = \left(\frac{1}{2}\right)(S_{lt} + S_{lt-1})g_r L_t / GDP_t$$

Productivity = Total volume of goods produced @ day x @ unit cost

Total number of labour @ day x the number of hours (K M)

$$(TFP) P = \frac{\text{Output}}{\text{Input (L K M)}}$$

Efficiency = Total volume of goods expected @ day x @ unit cost

Total number of labour @ day x the number of hours

$$\text{Efficiency} = \frac{\text{Outcome}}{\text{Input (L K M)}}$$

3.9.4 Quality of the Workforce

Discussions on partial factor productivity, especially labour productivity indicators in Kenya has gained increasing attention as the country faces multiple problems related to quality of its workforce. The quality of the Kenyan workforce and attendant labour productivity has also received considerable mention given the continued commitment of the government and other players within the labour and employment sector to promote labour productivity as a wage compensable factor. A number of studies have shown that quality of the workforce, achievement of the optimal mix of managerial-technical-support staff, management skills and manpower issues are some of the areas with the greatest potential to affect productivity. As much as the foregoing factors are critical drivers of productivity, the Overall Labour Effectiveness (OLE), as a measure of utilization, performance and quality of the workforce and impact on productivity has not been given deserving attention in Kenya. The OLE helps organizations to understand the interdependence and trade-offs of shop floor productivity and profitability by measuring the contributions of the workforce. It also presents organizations with the opportunity to analyze the cumulative effect of these three workforce factors on productive output, while considering the impact of both direct and indirect labour inputs into the production process.

Another productivity challenge in Kenya that is related to the quality of the workforce is the non-measurement of the Overall Equipment Effectiveness (OEE) by firms. This problem permeates through the enterprise, sectorial and national levels. The OEE measures availability, performance and quality in terms of the percentage of time employees spend making effective contributions; the amount of product delivered; and percentage of perfect or saleable product produced, respectively. The OEE measure is critical as it helps organizations to be sure that they have the person with the right skills available at the right time by enabling organizations to locate areas where providing and scheduling the right mix of employees can increase the number of productive hours. It

is, hence, almost fallacious to expect to promote organizational competitiveness and peg wage adjustments and collective bargaining to productivity if the country has not given due consideration to OEE.

3.9.5 Firm Productivity Growth

To enable inter-firm comparisons, the study estimated factor share growth for the firms and a number of comparator firms over the period 2007 to 2013. The results were used to find out if the effects of firm productivity growth on any particular pattern for all the firms under study. The objectives of productivity measurement include:

3.9.6 Efficiency

The quest for identifying changes in efficiency is conceptually different from identifying technical change. Full efficiency in an engineering sense means that a production process has achieved the maximum amount of output that is physically achievable with current technology, and given a fixed amount of inputs. Technical efficiency gains are thus a movement towards “best practice”, or the elimination of technical and organisational inefficiencies. Not every form of technical efficiency makes, however, economic sense, and this is captured by the notion of a locative efficiency, which implies profit maximizing behaviour on the side of the firm. One notes that when productivity measurement concerns the industry level, efficiency gains can either be due to improved efficiency in individual establishments that make up the industry or to a shift of production towards more efficient establishments.

CHAPTER FOUR RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

The main purpose of this study was to test the relationship between labour practices and firm productivity in Mombasa EPZs Kenya. This chapter descriptively and quantitatively reports and interprets the findings from the investigations which are discussed under the themes derived from the research study objectives.

The findings of the research were guided by the following research objectives:

- 1) To establish the relationship between labour contract and firm productivity in Mombasa Export Processing Zone in Kenya.
- 2) To assess the relationship between labour relations and firm productivity in Mombasa Export Processing Zone in Kenya.
- 3) To determine the relationship between labour management and firm productivity in Mombasa Export Processing Zone, Kenya
- 4) To describe the relationship between labour satisfaction and firm productivity in Mombasa Export Processing Zone in Kenya

Hypothesis

- 1) There is a relationship between labour contract and firm productivity in Mombasa Export Processing Zone in Kenya.

There is no relationship between labour contract and firm productivity in Mombasa Export Processing Zone in Kenya.

- 2) There is a relationship between labour relation and firm productivity in Mombasa Export Processing Zone in Kenya.

There is no relationship between labour relation and firm productivity in Mombasa Export Processing Zone in, Kenya.

- 3) There is a relationship between labour management and firm productivity in Mombasa Export Processing Zone in Kenya.

There is no relationship between labour management and firm productivity in Export Processing Zone in, Kenya.

4) There is a relationship between labour satisfaction and firm productivity in Mombasa Export Processing Zone in Kenya.

There is no relationship between labour relation and firm productivity in Mombasa Export Processing Zone in Kenya.

4.2 Response Rate

During the actual research five hundred structured survey questionnaires were sent to 35 export processing firms in Mombasa, Kenya. Out of three hundred and ninety survey questionnaires sent out, six were considered unusable because they were either blank with a note attached explaining why the respondents were not able to complete all the survey questionnaires, or only partially completed with major portions of the survey blank, or in some cases the respondents created and revised categories such that the data could not be entered without serious interpretation and alteration. This was 77.76 percent of the response rate. Both descriptive and inferential statistics were used in data analysis.

4.3 Reliability Analysis

This is the ability of instruments producing consistence and stable measurements, which can take any value from 0-1. George & Malley (2003) provided the following values of the rule of the thumb for Cronbach's Alpha values > 0.9 Excellent, > 0.8-0.89 Good, > 0.7-0.79 Acceptable, > 0.6 - 0.69 Questionable, >.5.0.5.9 Poor, <.5.0 Unacceptable. For the purpose of the study the following was observed:

Table 4.1 Summary of Cronbach's Alpha Reliability Coefficient

Variable	No. of Items	Cronbach's Alpha
Labour Contract x_1	15	0.705
Labour Relation x_2	15	0.687
Labour Management x_3	15	0.721
Labour Satisfaction x_4	20	0.736

From the summary Table 4.1 the findings indicated the alpha for study variables as follows: labour Contract (LCx_1) = 0.705, labour Relations (LRx_2) = 0.687 Labour Management (LMx_3) = 0.721, Labour Satisfaction (LSx_4) = 0.736 which were used to test the reliability of the instruments. The average reliability Cronbach's alpha was 0.712 which is acceptable

4.4 Demographic Data

The first part of the research findings was guided by the research objective one on the analysis of firm productivity in the export firms in regard to the relationship between labour contract and firm productivity in the Export Processing Firms in Mombasa County, Kenya. Answers to the first hypothesis were obtained by the first part of the research questionnaire Appendix ii on labour contract. The findings observed a similar trend in both firms from the 252 labourers which is 65.65 percent of 384. This was obtained from the top 35 firms where 7-8 labourers in each firm were selected randomly to give their views on the characteristics of the firm, the relationship between labour contract, labour relations, labour management and labour satisfaction on firm productivity in Mombasa EPZs in Kenya. 252 (65.6 percent) labourers gave views on labour contract and labour relations and 32 top executive managers gave views on firm productivity using oral interviews (qualitative data) and documentary analysis (quantitative data). 252 labourers and 132 top, middle and lower managers who were later included forming a total of 384. From each of the 35 firms; the researcher sampled

between 3 and 4 managers who gave their views on the relationship between and labour relation and firm productivity and the relationship between labour management and firm productivity in the EPZs in Mombasa, Kenya.

The first part of the questionnaire to the firm managers, executives and labourers was to establish the employment trends in the EPZ firms which are both labour and capital intensive. A sample size of 252 was used to draw data on the trends of employment patterns hence both qualitative and quantitative techniques using analytical approach were used to obtain qualitative and quantitative data from the respondent on employees' positions held in the firm, work experience; length of service in the organization, prior training, recruitment, and selection, and firm production. While qualitative data was obtained through an oral interview for an in depth understanding of the firms operations and production from the firms' top, middle and bottom managers. Qualitative data was equally obtained through a mixed research methodological techniques. The findings were itemized and presented in charts, tables, and figures then expressed in percentages and frequencies while the means, mode, median and standard deviations were used to describe the descriptive statistics. Inferential statistics were used in testing the hypothesis.

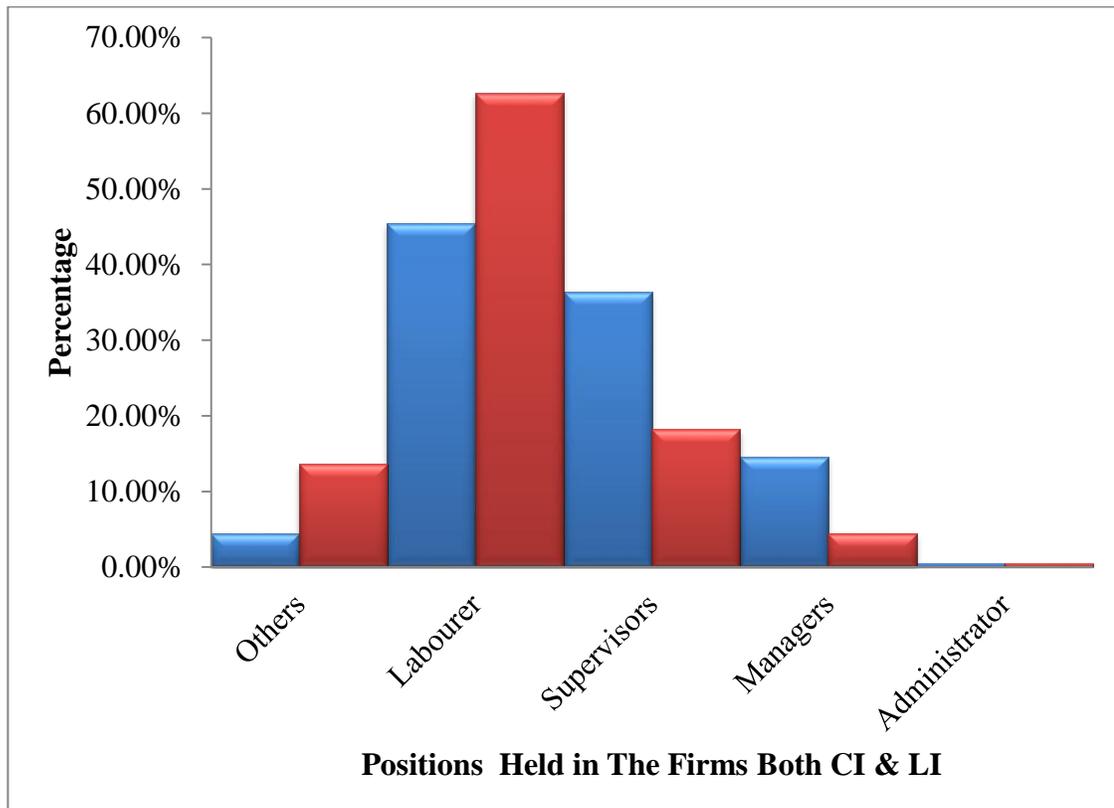


Figure 4.1 Comparisons between Labour Intensive Firms and Capital Intensive

Firms on the Position Held by Workers

The findings as reported in Figure 4.1 indicated that EPZs have both Labour and capital intensive firms with similar trends in employment of workers; The figure revealed that majority of their workers who contributed to firm production are labourers and supervisors who form 45.5 percent and 36.4 percent respectively. In export processing firms, 14.6 percent were firm managers, 4.5 percent occupied other positions and only 0.5 percent was senior administrators in firms. In capital intensive firms 13.6 percent occupied other unspecified positions, 62.7 percent were general labourers, 18.2 percent were supervisors, 4.5 percent were top managers and 0.5 percent was administrators. The findings concurs with Davenport (1999) who commented that ‘People possess

innate abilities, behavior and personal energy and these elements make up the human capital they bring to their work. And it is they, not their employers, who own this capital and decide when, how and where they will contribute. While Guest *et al.*, (2006) disclosed that a greater use of HR practices associated with higher levels of employee commitment and skills contributed to firm production and therefore have a competitive advantage on exports. The findings hence revealed a positive relationship between the two types of firms on employment trends in the manufacturing firms for export. The $r = 0.827$ and the $R^2 = 0.684$, this implied that the trend of employment is similar; both labour and capital intensive firms of which majority of the workers are semi-skilled or unskilled (mostly labourers and supervisors) a factor that contributes to firm production in the EPZs.

These findings are inconsistent with the views that EPZs in developing countries fail to meet the international market and labour standards although Cho *et al.*, (2006), identified a positive and significant relationship among HRM practices and staffing in the domestic firm products and workers employment. It is a short step to specify the Human Resource practices that encourage high skills and abilities, for example careful selection and high investment in training and high motivation as supported by (Armstrong, 2009).

Table 4.2 Duration of Time Worked in the Same Firms

Years	Count	Percent
Below 1	151	60.0
Between 1-5	55	21.8
Between 6 and 10	41	16.4
Above 10	5	1.8
Total	252	100.0

Findings on the experience of work depended on the duration of time employees have stayed in the firms which revealed that out of the 252 labourers in both labour and capital intensive firms in the 32 firms, 151 (60 percent) of the workers had been in the firm for less than one year, 55 (21.8 percent) had been in the firm for between a duration of 1 to 5 years. 41 labourers, (16 .4 percent) had been in the firm for between 6 and 10 years and only 5 labourers (1.8 percent) had work experience of above 10 years in the firm. To sustain the high level of competitive advantage a firm requires talented and skilled workers (Liao & Chu, 2006) whose experience depends on the time years they have worked in the firm.

Table 4.3 Year of Establishment of the Firms

Value	Count	Percent
Below - 1 Year	24	9.1
1 - 2 Year	24	9.1
3 - 4 Year	69	27.3
Above - 5 Years	115	54.5
Total	252	100.0

Table 4.3 reports findings on the years which firms were established; The findings established that 24 respondents (9.1 percent) of the respondents said that their respective firms were established below one year, 24 respondents (9.1 percent) said their respective firms had been in existence between 1 and 2 years and those established between 3-4 years were 69 respondents (27.3 percent), while 115 respondents (54.5percent) had been in existence above 5 years. This implied that majority of the firms that process export goods have been in existence for a long period of time and therefore have an established system and structures of firm management and labour practices. In comparison with capital and labour intensive firms; the findings of the regression analysis revealed a

negative relationship between labour intensive firm and capital intensive firm $r = -0.779$ and a determinant coefficient of $R^2 = 0.604$.

Table 4.4 Firms' Major Export Products

Type of Firm	Count	Percent
Textile	137	54.5
Metal/ steel	23	9.1
Apparel	69	27.3
Others	23	9.1
Total	252	100.0

These results indicated that majority of the firms exported textile 137 (54.5 percent) and apparel goods 69 (27.3 percent) which are largely established under the AGOA treaty, while 23 (9.1 percent) had metal and steel. This finding confirmed that most of the EPZs are mostly established for the processing of the primary goods like textile and apparel while steel and metal manufactured goods are minimal.

Table 4.5 Work Experience

		Number	Percentage
1.00	Yes	160	63.6
2.00	No	92	36.4
Total		252	100.0

Table 4.5 indicates that 160 (63.6 percent) of the respondents had a similar work experience in other companies before joining the firm. Only 92 (36.4 percent) did not have similar experience. The findings therefore established that most workers in the processing firms had work experience before joining them; this is good labour practice

that related to firm production. Similarly, Liao and Chu (2006) suggested that to sustain the high level of competitive advantage a firm requires talented and skilled workers.

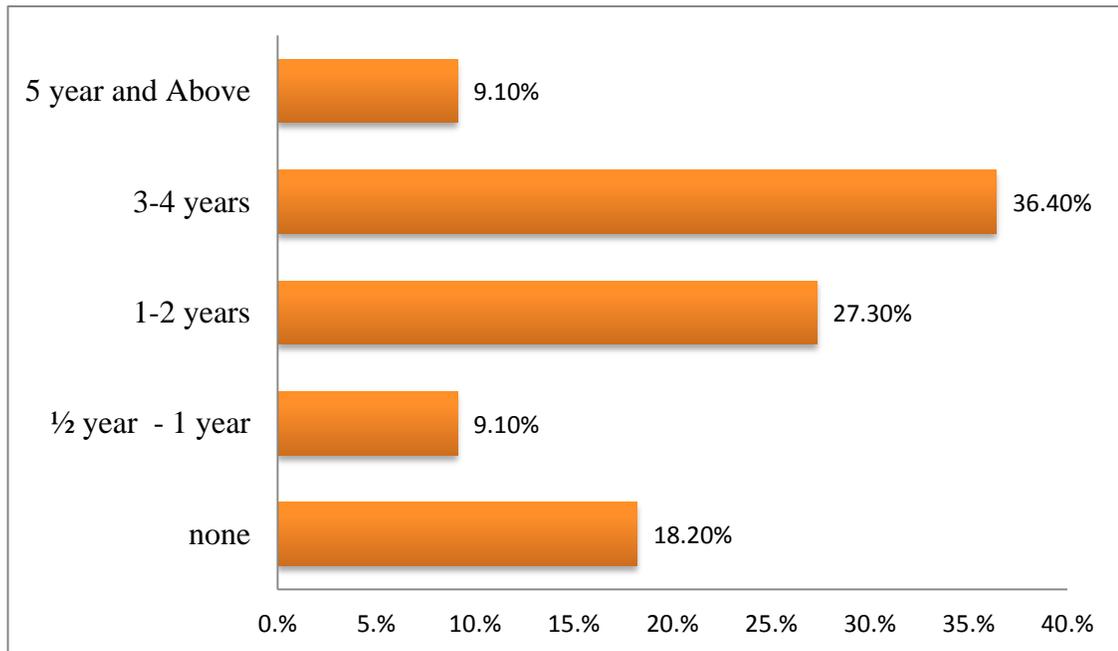


Figure 4.2 The Duration of Work Experience

Figure 4.2 gives the duration of the experience in similar fields of which 46 (18.2 percent) of the 252 respondents had no experience from the similar fields before, 23 (9.1 percent) had similar experience of between $\frac{1}{2}$ year and 1 year working in the firms. 69 (27.3 percent) had one to two years of similar work experience, 92 (36.4 percent) had 3 to 4 years similar work experience and 23 (9.1 percent) had above 5 years' experience of work. Long work experience is related to firm productivity in the export processing firms.

Table 4.6 Duration of Technical Training

	Number	Percentage
Below 1 Year	138	55
1-2 years	34	14
3-4 years	69	27
>5 Years	11	4
Total	252	100

Table 4.6 shows the duration of technical training by the managers of which 138 (55 percent) had a technical training of less than one year, 14 (34 percent) had between 1-2 years while 27 (69 percent) had 3-4 years of technical training and 4 (11 percent) had above 5 years of technical training. According to Guidetti and Mazzanti (2007), training activities are positively associated with high productivity, performance practices, innovative labour demand features, work force skill level, firm size are affected by labour flexibility in various directions.

Table 4.7 Training and Sponsorship

	Number	Percentage
Self	137	54.5
Employer	92	36.4
Any other	23	9.1
Total	252	100.0

The outcomes in Table 4.7 indicated that 137 (54.5 percent) of the respondents were self-sponsored on training and 92 (36.4 percent) got the training sponsored by the employer and only 23 (9.1 percent) had been sponsored by others apart from the two. Training and Development is part of the labour management of the workers skills and firms that utilize these techniques are likely to be more productive unlike those that fail

to utilize. Guidetti and Mazzanti (2007) found that training activities are positively associated with high productivity; performance practices, innovative labour demand features, work force skill level, and firm size are affected by labour flexibility in various directions.

4.5 The First Objective on Labour Contract Practices

To establish the relationship between labour contract practice and firm productivity in the Export Firms in Mombasa County, Kenya

Table 4.8 Labour Contract

Labour contract	N	SD	D	N	A	SA
I know my duties and responsibilities	384	4.00	6.5	32.3	19.4	37.8
I was recruited selected for employment	384	14.70	12.9	41.9	20.9	9.6
I get promoted internally	384	9.70	12.9	35.4	32.3	9.7
I always receive training	384	19.60	16.1	16.1	25.6	22.6
I got extensive orientation	384	25.10	21.4	40.2	6.5	6.8
I get frequent feedback	384	35.50	22.5	6.5	29	6.5
I think turnover is too high	384	19.30	9.7	32.3	16.1	22.6
Mean		18.27	14.7	29.2	21.4	16.5
STD.DEV		10.29	5.86	13.0	8.64	11.6

Duties and Responsibilities

On this item, the researcher obtained from the documents availed that majority of EPZs firms had employment policies in place and most of the workers and managers but not all, acknowledged that they understood employment policies in their respective firms. These included their duties and responsibilities, training policies, selection and recruitment, orientation, work management and feedback mechanism. This was

observed during the interview and observation check list from the records availed and regulations and rules in the firm's notices.

From the closed and open ended questionnaires the findings revealed that 4 percent of the firm workers and their respective managers in the export processing zones, strongly disagree that they knew their duties and responsibilities, 6.5 percent disagree, 32.3percent were neutral 19.4 percent agree and 37.8 percent strongly agree. This imply that to some extent EPZ firms utilized labour policies in hiring workers by defining duties and responsibilities to them although some were not sure whether their roles were clearly well defined.

Recruitment

The second item on the recruitment which the information was generated through an in-depth interview was recruitment and selection policy used to ensure firms get the right and competent personnel in the EPZs. Findings indicated from the 32 firm' managers (supervisors) showed that 14.7 percent strongly disagree that recruitment and selection was appropriately done for highly specialized people, 12.9 percent disagree and 41.9 percent were neutral, while 29.0 percent agree and 9.6 percent strongly agree that recruitment and selection is appropriately done for highly specialized people. The findings were in agreement with Schultz (1961) who argued that "Investment in Human Capital" added both knowledge and skills which are a form of capital, and that this capital is a product of firm production.

Waleed (2011) asserted that training is not simply a means of arming employees with skills needed to perform jobs as noted on the provision of continuous training programmes to employees. In the EPZs, from the interviews and discussions with top managers and supervisors it was observed that 9.7 percent strongly disagree that this was

not offered, 12.9 percent remained neutral, 32.3 percent agree and 9.7 percent strongly agree.

Labour Contract Policy

Labour contract policy requires that employees are familiar with the firm, orientation programmes which enable them to know their working environment. During the oral interview and the structured questionnaires on both closed and open-ended, 25.1 percent of the respondents strongly disagree that, as line managers they had extensive orientation programmes before employment neither were employees who were below them. 21.4 percent disagree and 40.2 percent remained neutral. Nevertheless, 13.4 percent agree that they had received extensive orientation programmes prior to employment. The findings are inconsistent with Cabrita and Bontis (2008), who suggested that managerial skills must be combined with relational and structural elements in the organization to create value, which is lacking in Mombasa EPZ firms.

Promotion Policy

The researcher also investigated on promotion policy as a labour practice. From the closed and open ended questionnaire, the result findings showed that 9.7 percent strongly disagree that the firms promoted internally, 12.9 percent disagree, and 35.5 percent were neutral on the issue of firms that do not practice labour relations practices. 32.3 percent agree and 9.7 percent strongly agree that firm promoted internally as opposed to externally.

Performance Feedback

The research results on whether performance feedback policy is regularly provided by management suggest that 35.5 percent of the respondents strongly disagree that they received performance feedback regularly provided by the management, 22.5 percent disagree, and 6.5 percent were neutral, while 29.0 percent agree and 6.5 strongly agree

that they received performance feedback regularly. On the contrary Thang (2004), asserted that performance appraisal is a continuous process rather than a 'once a year' exercise. It is the formal system of periodical assessment and evaluation of an individual or team's job performance and providing feedback. Stone (2002) added that in the competitive environment, organizations need to keep improving performance to survive.

Employee Turnover

The findings on the question whether employee turnover had any effects on production in the export manufacturing firms, 19.3 percent of the respondents in firms strongly disagree that it affected production in the manufacturing firm, 9.7 percent disagree 32.3 percent were neutral 16.1 percent agree and 22.6 percent strongly agreed that employee turnover affect firm productivity. The findings which had majority agree, partly explained the reason why Kenya lacked a skilled local labour force, especially in the textiles sector, and thus relied heavily upon foreign labour expatriates (KEPZA, 2015). Moreover, the high turnover rates in the textiles industry, apparel, steel including EPZ garment firms, made it difficult to ensure the transfer of technical, marketing and managerial expertise.

Recruitment Policy

From the open ended questionnaire, the respondents suggested that top managers were employed through recruitment and selection procedure as a policy. Similar sentiments were echoed by the lower managers and labourers in the EPZs. Michie and Sheehan-Quinn (2001) identified a positive link between hiring a manager and employees, and the creation of the right culture for organizational growth. These findings are depicted in the export firms in Kenya. Selection is the process of choosing a candidate from a group of applicants who best meets the selection criteria for a particular position. Firms are encouraged therefore to attract qualified candidates for productivity and growth. This

was also observed by Woods, Jang, Erdem and Cho (2006) who show positive and significant relationship between HRM practices and staffing in firm production.

In summary the findings stated in the first objective established that 18.27 percent of the respondents with a Std. Dev. of 10.29 who strongly disagree that labour contract relate to firm production, 14.7 percent of the respondents with a Std. Dev. of 5.86 strongly disagree, 29.2percent of the respondents with a Std. Dev. of 13.0 disagreed, 21.4percent of the respondents with a Std. Dev. of 8.64 percent of the respondents remained neutral, 16.5 percent of the respondents with a Std. Dev.11.6of the respondents strongly agree. Therefore the research findings suggested that labour contract in EPZs weakly relate to firm productivity with 38.1percent, strongly agree and 43.9percent strongly disagree.

4.5.1 Firm Productivity Quantitative and Qualitative Data

From the documentary analysis, oral interview and observation check list the research established that the EPZs had different categories of workers for different types of firms. There are those that are capital intensive and others are labour intensive firms.

Table 4.9 Number of Skilled Workers

	N	Minimum	Maximum	Percent
500	6	Ashton	Apparel	18.8%
550	4	ARM	Long Yun	9.4%
560	3	Kapric 1	Kapric 2	9.4%
600	6	Ashton	Senior Best	18.8%
670	4	Ashton	Mombasa Apparel	9.4%
917	2	Apparel	Mombasa Apparel	6.2%
1000	3	Athi River	Mombasa Apparel	9.4%
1100	4	Long Yun	Mombasa Apparel	9.4%
1200	3	Ashton	Senior Best	9.4%
Total	35			100%

Source: Researcher's Estimates 2013

The researcher's interest on the number of labour contract in the EPZs from the oral interview and documentary analysis established that six EPZ firms, 18.8 percent had an average of 500 skilled workers, three firms, 9.4 percent had on average of 550 worker, Three EPZ firms, 9.4 percent had an average of 560 workers, six EPZ firms 18.8 percent had an average of 600 skilled workers, three firms 9.4 percent had an average of 670 skilled workers, two firms 6.2 percent had an average of 917 skilled workers, three firms 9.4 percent had an average of 1000 skilled workers, three firms 9.4 percent had an average of 1100 skilled workers and finally three firms 9.4 percent had an average of 1200 skilled workers in 2013. The findings supported Davenport (1999) who commented that 'People possess innate abilities, behavior and personal energy and these elements make up the human capital they bring to their work'. Thus the numbers of skilled workers in the EPZs are meant to ensure the firms survived and competed with other firms.

Table 4.10 Number of Semi-Skilled Workers in Mombasa Zone EPZs 2013

Kshs	N	Minimum	Maximum	Percent
500/=	4	Long Yun	Mombasa Apparel 2	9.4%
645/=	4	Ashton Apparel's	Senior Best	9.4%
1050/=	3	Kapric	Kapric 2	9.4%
1160/=	3	Ashton Apparel's	Doshi	9.4%
1200/=	6	Athi River	Mombasa Apparel 3	18.8%
1230/=	3	Arm	Long Yun	9.4%
1400/=	4	Ashton	Mombasa Apparel 3	9.4%
1840/=	2	Mombasa	Mombasa Apparel	6.2%
2000/=	3	Ashton	Doshi	9.4%
2100/=	3	Kapric 2	Senior Best	9.4%
Total	35			100.0%

Findings from Table 4.10 revealed that four EPZ firms 9.4 percent had an average of 500 semi-skilled workers, four firms 9.4 percent had an average of 645 semi – skilled workers, three EPZ firms 9.4 percent had an average of 1050 semi- workers, six EPZ firms 18.8 percent had an average of 600 skilled workers, three firms 9.4 percent had an average of 670 skilled workers, percent had an average of 1200 skilled workers, four firms 9.4 percent had an average of 1400 skilled workers, , two firms 6.2 percent had an average of 1840 semi-skilled workers, three firms 9.4 percent had an average of 2000 semi-skilled workers and three firms 9.4 percent had an average of 2100 semi- skilled workers in 2013. During the oral interview, firm managers reported that most of their labourers who came seeking employment are unskilled hence their firms organize for basic training to equip them with the basic skills. These views are supported Chew (2004) who noted that training is considered as a form of human capital investment whether that investment is made by the

individual or by the firm thus provides employees with specific skills to correct deficiencies in their performances. This eventually increased firm productivity.

Table 4.11 Earning per Day per Skilled Worker in Kenya Shillings 2013

K. shs	N	Minimum	Maximum	Percent
375/=	6	Ashton	Senior Best	18.8%
376/=	3	Kapric	Apparel	9.4%
380/=	3	ARM	Long Yun	9.4%
450/=	3	Ashton Apparel's	Doshi	9.4%
500/=	3	Kapric 1	Kapric 2	9.4%
830/=	2	Mombasa Apparel 1	Mombasa Apparel	6.2%
1200/=	3	Athi River Mining	Mombasa Apparel 3	9.4%
1300/=	4	Ashton Apparel's	Senior Best	9.4%
1500/=	4	Ashton	Mombasa Apparel 3	9.4%
1900/=	4	Long Yun	Mombasa Apparel 2	9.4%
Total	35			100.0%

In Table 4.11 results revealed that six EPZ firms (18.8 percent) had an average earning of Ksh.375/= per day for the skilled workers, three firms (9.4 percent) had an average Ksh.376/= per day for the skilled workers, three EPZ firms (9.4 percent) had an average earning of Ksh.380/= per day for the skilled workers, three EPZ firms (9.4 percent) had an average earning of Ksh.500/= per day for the skilled workers, three firms (9.4 percent) had an average earning of Ksh.500/= per day for the skilled workers, two of the EPZ firms (6.2 percent) had an average earning of Ksh.830/= per day for the skilled workers, three firms (9.4 percent) had an average earning of Ksh.1200/= per day for the skilled workers, four firms (9.4 percent) had an average earning of Ksh.1300/= per day for the skilled workers, four firms (9.4 percent) had an average

earning of Ksh.1500/= per day for the skilled workers and four firms (9.4 percent) had an average earning of Ksh.1900/= per day for the skilled workers in 2013.

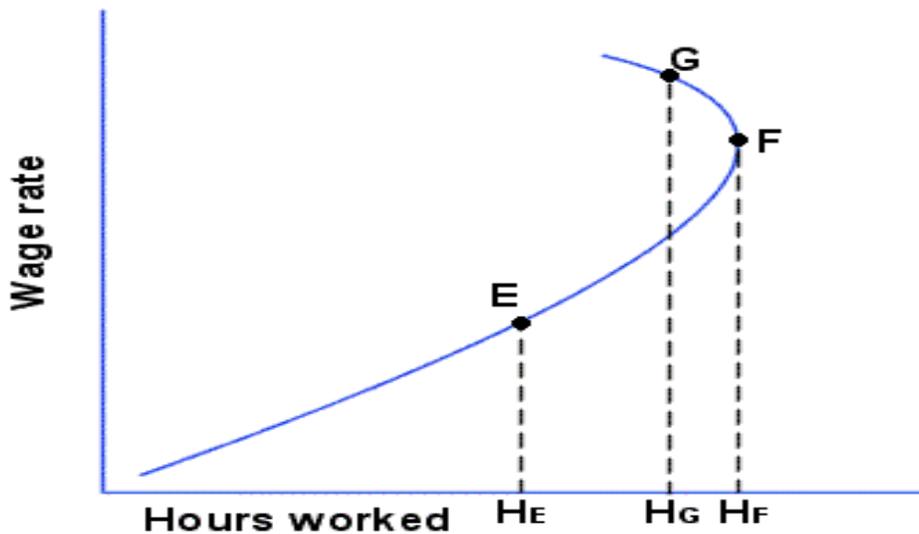


Figure 4.3 Income/ Substitution Effects Curve of Labour

Figure 4.3 explains the relationship between individual labour contract and labour satisfaction in a firm as wages increase, so does the opportunity cost of leisure. As leisure becomes more costly, workers tend to substitute more work hours for fewer leisure hours in order to consume the relatively cheaper consumption goods, which is the substitution effect of a higher wage. An income effect is also associated with a higher wage. A higher wage leads to higher real incomes, provided that prices of consumption goods remain constant. As real incomes rise, individuals will demand more leisure, which is considered a normal good—the higher an individual's income, the easier it is for that individual to take more time off from work and still maintain a high standard of living in terms of consumption goods. The substitution effect of higher wages tends to dominate the income effect at low wage levels, while the income effect of higher wages tends to dominate the substitution effect at high wage levels. The dominance of the

income effect over the substitution effect at high wage levels is what accounts for the backward-bending shape of the individual's labor supply curve.

Poor working conditions may negatively impact workers in the long run, which they may not be able to anticipate or take into account. The long-term benefit of generated employment may significantly decline if workers are exposed to health risks, or other negative factors. It is however difficult for the government to balance workers' welfare and possible future costs of conflict, health risks or environmental degradation, with the desire to be become or remain competitive. This is evident especially in Kenya, though wages within the zones are found to be somewhat higher than minimum in the country. Wu (2009) observe that low wages in the textile and apparel industry have caused some tension between workers and employers in Kenya's EPZs in the contrary Jauch *et al.*, (1996) argue that lowering worker's wages are however not expected to impact the zones' competitiveness or investments in the long run.

Table 4.12 Unskilled Earning Per Day Per Worker in Kenya Shillings

	N	Minimum	Maximum	Percent
260.00	3	Ashton	Doshi	9.4%
270.00	6	Kapric	Senior Best	18.8%
275.00	3	Kapric	Kapric 2	9.4%
290.00	3	ARM	Long Yun	9.4%
320.00	6	Ashton	Mombasa Apparel 3	18.8%
380.00	2	Mombasa	Mombasa Apparel	6.2%
390.00	4	Ashton	Senior Best	9.4%
400.00	4	Long Yun	Mombasa Apparel 2	9.4%
420.00	4	Ashton	Mombasa Apparel 3	9.4%
Total	35			100.0%

The research findings reveal that six EPZ firms (9.4 percent) had an average earning of Ksh. 260/= per day for the unskilled workers, six firms (18.8 percent) had an average Ksh.270/= per day for the unskilled workers. Three EPZ firms (9.4 percent) had an average earning of Ksh. 290/= per day for the skilled workers, six EPZ firms (18.8 percent) had an average earning of Ksh. 320/= per day for the skilled workers, two firms (6.2 percent) had an average earning of Ksh. 380/= per day for the unskilled workers, four EPZ firms (9.4 percent) had an average earning of Ksh. 390/= per day for the unskilled workers, four firms (9.4 percent) had an average earning of Ksh. 400/= per day for the unskilled workers and four firms (9.4 percent) had an average earning of Ksh. 400/= per day for the unskilled workers. Workers are hired by firms in exchange of wage earnings and therefore needed the necessary skills to be rented out in exchange of wages; these views were expressed by Ehrenberg and Smith (1994). They explained that ‘conceptualizes workers as embodying a set of skills which can be “rented out” to employers’. However, the earnings from most of the firms are so minimal and required intervention measures.

Table 4.13 Comparison between Labour Intensive Firms and Capital Intensive Firms on Labour, Total Goods and Total Exports Costs Between 2007 - 2013

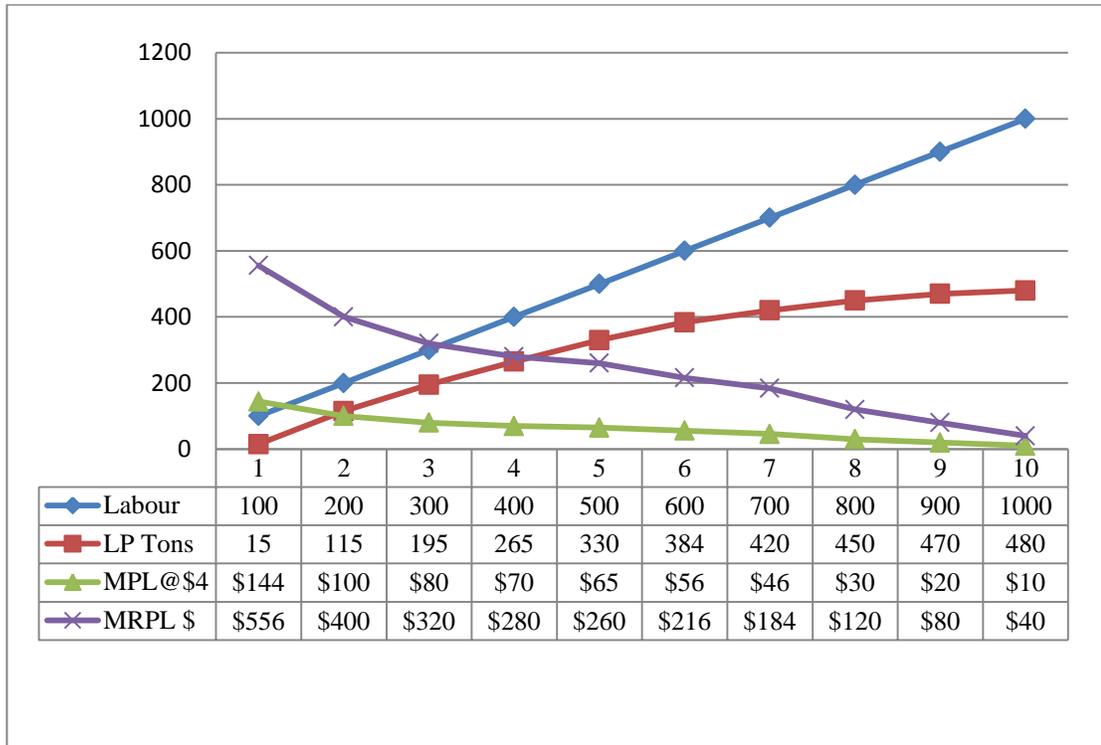
Year Capital Intensive Firms Labour Intensive Firms

Year	Workers	Total Goods	Total Workers	Total Costs Kshs	Total Goods	Total Costs
2007	260	1100T	323B	2838	234T	221B
2008	272	1200T	354B	2842	246T	243B
2009	376	1240T	439B	2860	268T	264B
2010	389	1570T	440B	2885	278T	285B
2011	410	1890T	457B	2960	288T	308B
2012	424	2010T	476B	2971	290T	330B
2013	455	2340T	522B	2975	312T	345B

Total: 2586 11,340T 3011B 20,331 1,916T 2096B

Average: 3691, 620T 430.1B 2,904 273T 299.4B

The findings indicate the average workers in both firms labour intensive (LI) is 2904 and capital intensive (CI) is 369, total goods produced in CI is 11,340T per year while in the LI firms the number of total goods produced was 1,916 Tons with the average of 273T, the total costs was Ksh.2.096 Trillion with an average of 299.4B, in CI firms the total costs was 3.011 Trillion with an average of Kshs. 430.1 Billion.



Source: Researcher's Estimate 2013

Figure 4.4 Firm Productivity 2013

$$\text{MPL} = \frac{\text{Output}}{\text{Labour input (K and M)}} = \text{Firm Efficiency and Productivity}$$

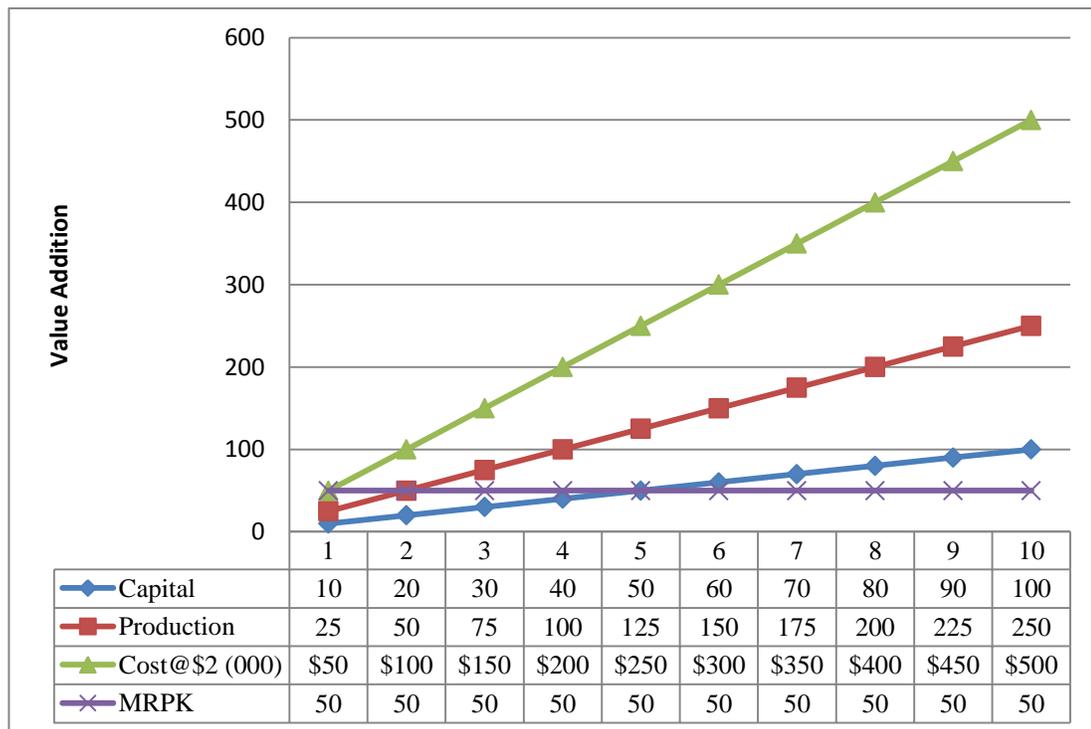
Holding other factors of production constant such as material land and capital

$$\text{MRPL} = \text{MPL} \times \text{MP@UNIT PRODUCUED}$$

Market Price @ x Production @ unit cost

The finding reported in Figure 4.4 on firm productivity in a labour intensive firm, the findings reveal the value addition (output) produced by additional unit of labour has been steadily on the decline thus there is a negative relationship between labour input and firm productivity explained by the additional input of every 100 units of labour. The finding also explains the level of efficiency which is obtained by the ratio of the

marginal revenue productivity of labour in the EPZs which from the findings has been declining which can be attributed to the labour practices such as labour relations and labour satisfaction including labour management.



Source: Researcher's Estimates 2013

Figure 4.5 Capital Productivity 2013

$$\text{MPK} = \frac{\text{Output}}{\text{Capital input (L and M)}} = \text{Firm Efficiency and Productivity}$$

Holding other factors of production constant such as material, land and labour

$$\text{MRPK} = \text{MPK} \times \text{MP@UNIT PRODUCUED}$$

Market Price @ x Production @ Unit Cost

From the findings firms that are capital intensive seem to have a steady and efficient growth compared to labour intensive firms. Therefore, it can be argued out that although increased inflow of capital may significantly increase employment and exports and

improve economic growth in the short-term, the long-term effect may be limited. Neoclassical growth theory, points out those improvements in human capital has a long-term effect on economic growth and technological development of a country than only the capital. While the experience, on-the-job training, and training programmes implemented by the employer have the potential to improve workers' skills and labour productivity. However, the production that traditionally has been located in developing countries, like Kenya, has mainly been in need of low-skilled labour, and thus training of workers has often been limited to specific tasks in the production chain. Employment may still make workers accustomed to manufacturing work. Lall (2005) found this argument evident in Lesotho, but may not necessarily provide workers with broader skills that are easily applicable elsewhere, or provide good opportunities for technology and human capital spillovers. Schuller (2000) opinionated that 'The general message is persuasive: skills , knowledge and competences are the key factors in determining whether organizations and nations will prosper'. This point was also made powerful by Reich (1991). While increased training of employees may lead to higher productivity and enhanced creativity (Bontis, 2002).

Findings and Discussion

Findings obtained from the firm managers through an oral interview and documentary analysis, firms were categorized into two: 29 labour intensive firms and 6 capital intensive firms, from analysis that was done from 2007 to 2013 to establish labour productivity by the firms.

An interview with firms' executive managers of the 35 EPZs on the main objective of their existence, majority who were interviewed said that it was to deliver quality products to European and US markets in return. This reason was highly ranked as the major reasons for setting up the EPZs firms. The managers also pointed out that they offer employment opportunities to the host countries in order to improve the people's

living standards. The incentives offered through the AGOA treaty helps the investors in the EPZs to produce quality goods and the tax free duty imports. Managers also said that the cheap and semi-skilled labour gave the firms an opportunity to hire close to 5,000 people every day.

Workers Employed by the Firms

In 2007 capital intensive firms' results indicate that these firms had an average number of 260 workers per firm. While labour intensive firms had an average of 2838 workers in 2008, capital intensive firms had an average of 272 workers while labour intensive had an average of 2842 workers, in 2009 capital intensive firms had an average of 376 workers while labour intensive had an average of 2860 workers. In 2010 capital intensive firms employed an average of 389 workers while labour intensive had an average of 2885 workers, in 2011 capital intensive firms had an average of 410 workers, while labour intensive had an average of 2960 workers. In 2012, capital intensive firms had average of 424 workers while labour intensive had an average of 2971workers, and in 2013 capital intensive firms had an average of 455 workers while labour intensive had an average of 2975 workers. Some of the reasons why most firms' productivity has been low is because of the poor training and skills workers possessed, Guidetti and Mazzanti (2007) found that training activities were positively associated with high productivity, performance practices, innovative labour demand features, work force skill level, firm size, and are affected by labour flexibility in various directions. Similar views are shared by Nikandeou, Brewster; Papalexandris & Apospori (2008) who found that training had a significant impact on firm performance.

The findings stated in the first objective, on the relationship between labour contract and firm productivity established was 18.27 percent of the respondents with a Std. Dev. of 10.29 strongly disagree that labour contract relate to firm productivity, 14.7 percent with Std.Dev. of 5.86 disagree, 29.2 percent with Std.Dev.of 13.0 were neutral, 21.4percent

with Std. Dev. of 8.64 agree, 16.5 percent of with Std.Dev.16.1, agree, 11.6strongly agree. Findings using the qualitative data on a five point likert scale suggest that labour contract does not relate to firm productivity with a mean of 43.9 percent that strongly disagree /or disagree while only 38.1 percent strongly agree and agree that labour contract relate to firm productivity in EPZs in Kenya.

4.6 The Second Objective Relationship between Labour Relations and Firm Productivity

The second research objective sought to assess the relationship between labour relations and firm productivity in Export Processing Zone in Mombasa County, Kenya. Data on this objective was analyzed and presented in the table summary from the lower group of workers and all managers. A total of 384 respondents participated and the aim was to find their opinions on the relationship between labour relations and firm productivity in EPZs in Mombasa, Kenya.

Table 4.14Labour Relation

Labour Relations	No.	S.D	D	N	A	S.A
My welfare is catered	384	9.7	25.8	29.5	25	10.0
I get trained when necessary	384	10	29.7	25.8	24.8	9.7
My grievances are handled	384	17.4	21.3	26.3	24.3	10.7
I am paid fairly	384	19.5	25	28.1	19.4	8.0
I have good work life balance/unionized	384	12.9	25.8	29.7	21.6	10.0
Mean		13.9	25.52	27.88	23.02	9.68
STD.DEV		4.40	2.99	1.78	2.44	1.00

Workers' Welfare Catered

In reference to Table4.14specified that 9.70 percent strongly disagree that their welfare is catered for, 25.8 percent disagree, 29.5 percent were neutral on whether their needs

and welfare were catered for, 25.0 percent of the respondents agree and 10.0 percent strongly agree that their welfare is well catered for hence, good relation with their employers. Understanding labour relations is an important factor to any firm's productivity because it unites both categories of workers. Guest *et al.*, (2006) conducted research on the future of work survey and the outcome show a greater use of HR practices associated with worker's welfare with higher levels of employee commitment and contribution to firm productivity.

Grievances Handling

The response from the firms observed indicate that 17.4 percent strongly disagree that their grievances were well handled by the management, 21.3 percent disagree, 26.3 percent remained neutral 24.3 agree and 10.7 percent strongly agree to a large extent that the management listened and handled well their grievances.

Monetary Incentives/ Pay

The incentive provided by the firms is related to the firm's productivity, hence contributed to labour relations. The results finding show that 19.5 percent of the respondents strongly disagree that it did not relate to EPZs firm productivity. 25 percent disagree to some extent 28.1 percent were neutral, 19.4 agree that it did to a large extent and only 8.0 percent strongly agree and were of the opinion that it did to a large extent. Similar, to Ehrenberg and Smith (1994), human capital theory 'conceptualizes workers as embodying a set of skills which can be "rented out" to employers in exchange of wage earnings'.

Training

The response on whether training offered improved labour relations to improve firm's productivity in the export processing zones, 12.9 percent strongly disagree that it did to some extent, 25.8 percent were neutral, and 21.6 percent agree and 10 percent thought it

was to a very large extent a factor of firm productivity. The results were supported by Matambalya (2007) that EPZs helped to stimulate the development of a local/indigenous entrepreneurial base by means of practical learning, sub-contracting and formal education/training.

Unionization

Unions play a substantial role in a firm's production, members joining unions have a collective bargaining power when it comes to pushing for the employee's welfare and salary and remunerations. The researcher sought to establish whether they belonged to the unions or not. The findings established that 12.9 percent strongly disagree that they belonged to any, 25.8 percent disagree 29.7 percent were neutral 21.6 percent strongly agree and 10 percent strongly agree. Majority of the respondents disagree that they belonged to any union an implication that workers failed to exercise their rights of joining trade unions. This gives an advantage by management to deny workers any opportunity to raise their concerns and conditions of working. Fox and Flanders in Guest (2008) comment that, "power is the crucial variable which determines the outcome of collective bargaining."

Summary Findings and Discussions

The mean percentage summary of the findings on the second objective on the relationship between labour relations and firm productivity reveal that those who strongly disagree had a mean of 13.9 percent, with a Std. Dev. of 4.40. Those who disagree had a mean of 25.52 percent with a Std. Dev. of 2.99, those who were neutral had a mean of 27.88 percent with a Std. Dev. of 1.78, those who agree that labour relations related to firm productivity had a mean of 23.02 percent, and 9.68 percent strongly agree that it relate to firm productivity in the EPZs. Using qualitative data on a five point likert scale suggest that labour relations does not relate to firm productivity were 49.42 percent (strongly disagree /or disagree) while only 31.7 percent, (strongly

agree and agree) who suggested that labour relations relate to firm productivity in EPZs in Kenya.

4.7 The Third Objective on Relationship between Labour Management and Firm Productivity

The third research objective sought to determine the relationship between labour management and firm productivity in Export Processing Zone in Mombasa, Kenya,

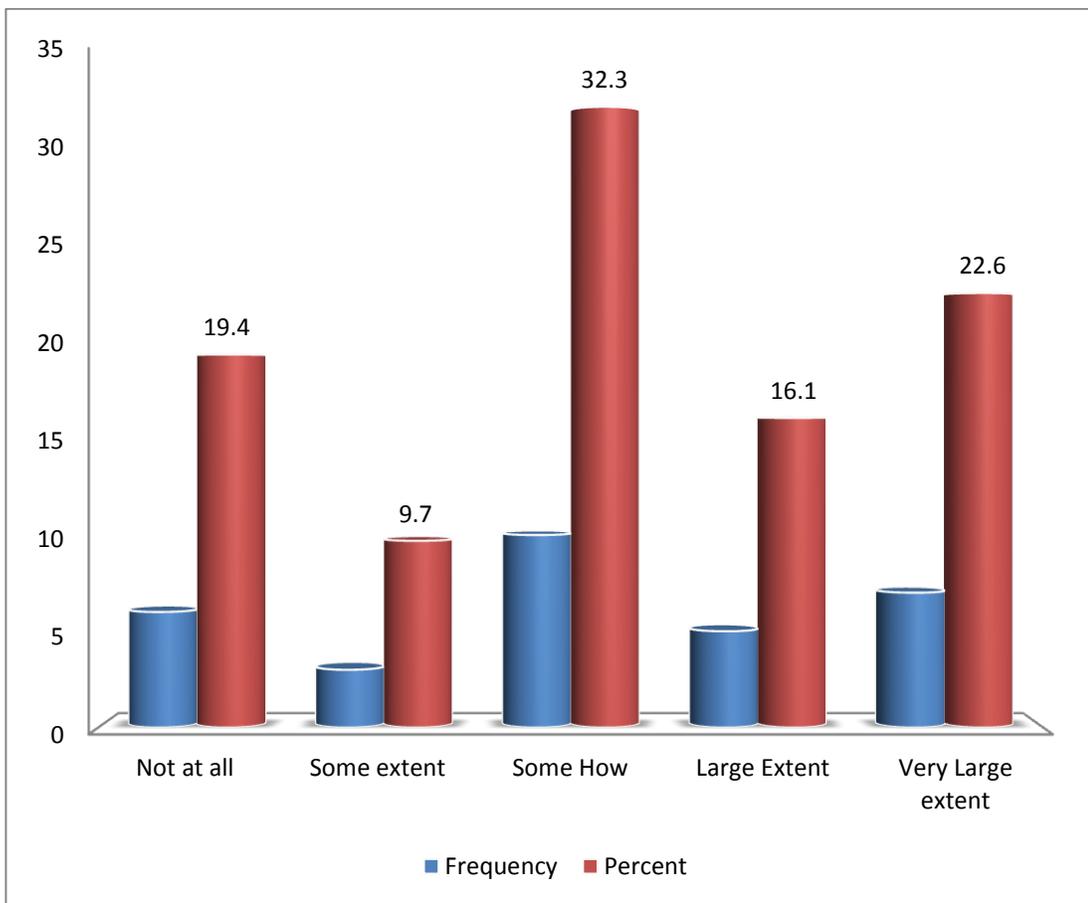


Figure 4.6 Technology Relates To Firm Productivity

From the findings on this variable 37 (9.7 percent) said that technology did not at all relate to firm productivity in the EPZs, 50 (12.9 percent) agree that it did to some extent,

149 (38.7 percent) suggested that somehow it did, 62 (16.1 percent) agreed and 87 (22.6 percent) agree to a large extent. Although technology has been one of the factors that contributed to firm production, the situation in the EPZs firms in Mombasa County, Kenya was not the case. Most products from African countries are labour intensive as opposed to capital intensive thus there is no significant difference between labour management and firm production in the EPZs.

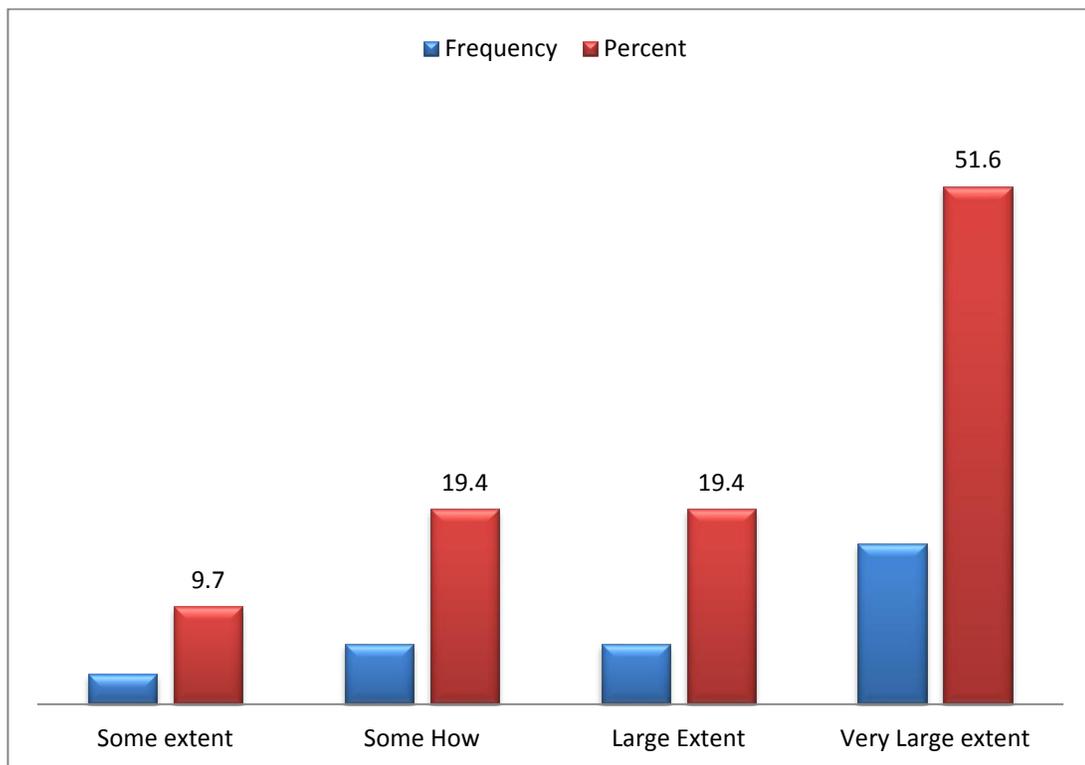


Figure 4.7 Organizational Achievements as a Measure of Productivity

Response to this variable on organizational achievement as a measure of productivity, 196 (51.6 percent) of the respondents said it was to a very large extent, 74 (19.4 percent) to a large extent, 74 (19.4 percent) said it was somehow and only 37 (9.7 percent), 12.3 percent thought that it was to some extent. The findings suggest that managerial skills must be combined with relational and structural elements in the organization, to create value views expressed by (Cabrita & Bontis, 2008).

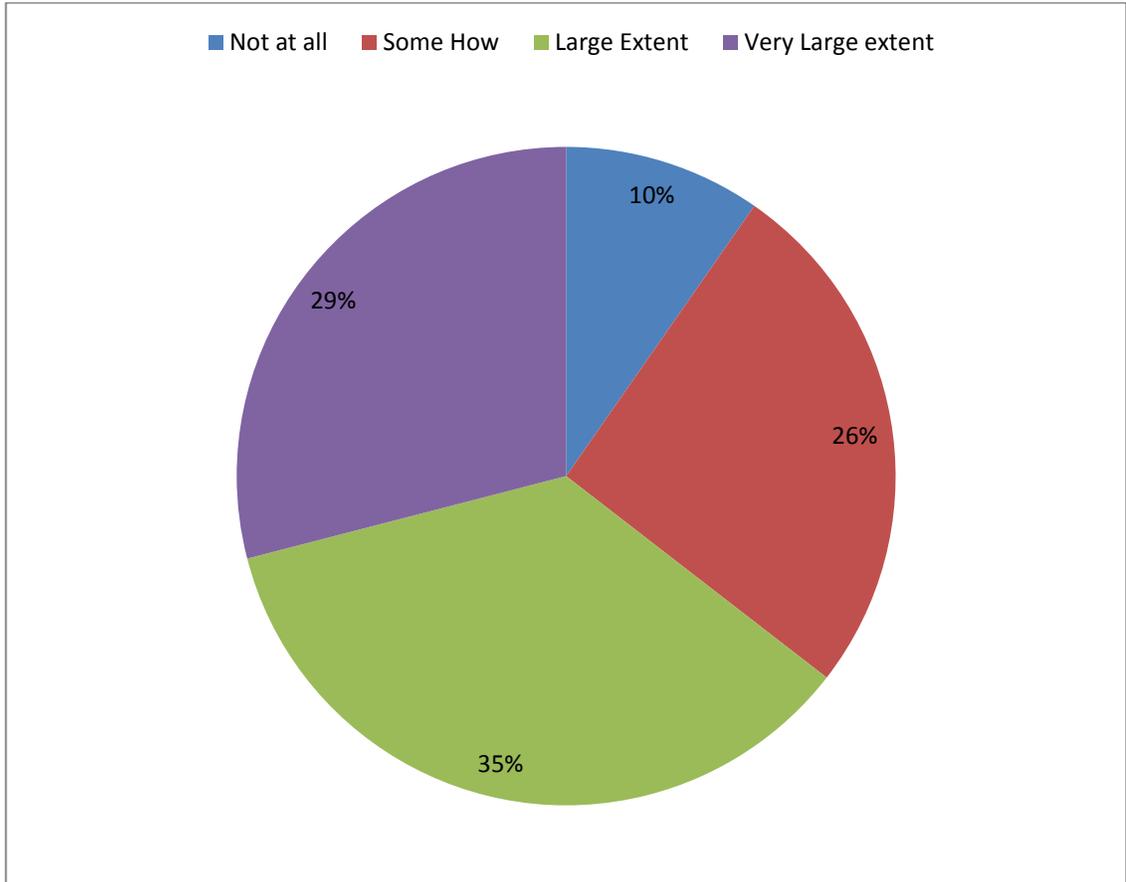


Figure 4.8 Employee Satisfaction Relate to Firm Productivity

The response to the employee satisfaction attributed showed that 37 (9.7 percent) felt that employee satisfaction did not at all influence organization productivity. 99 (25.8 percent) indicate that employee satisfaction somehow relate to firm productivity, 136 (35.5 percent) said that employee satisfaction to a large extent relate to firm productivity and 111 (29 percent) expressed that that employee satisfaction it did to a very large extent relate to firm productivity.

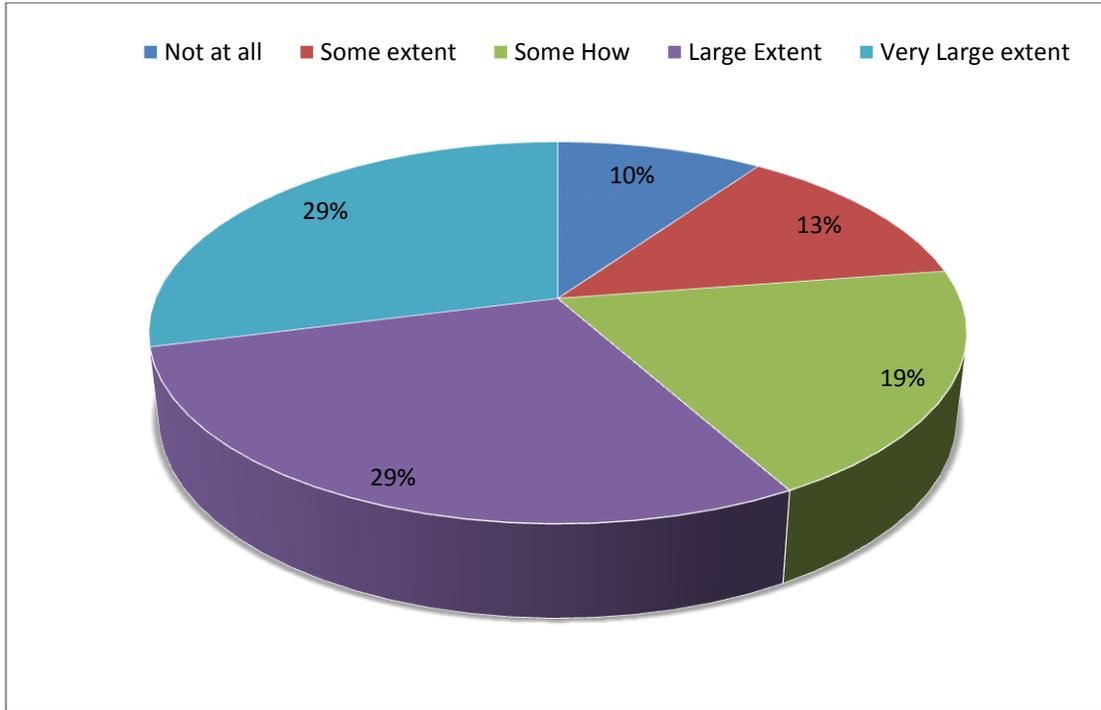


Figure 4.9 Monetary Incentives

The findings in Figure 4.9 answered the question on whether monetary incentive provided by the firm management relate to firm productivity, 3 (9.7 percent) of the respondents thought it did not at all relate to firm productivity, 4 (12.9 percent) said that monetary incentive to some extent relate to firm productivity, 6 (19.4 percent) say that somehow monetary incentives relate to firm productivity, 9 (29.0) suggest that monetary incentives it did to a large extent relate to firm productivity in the EPZs.

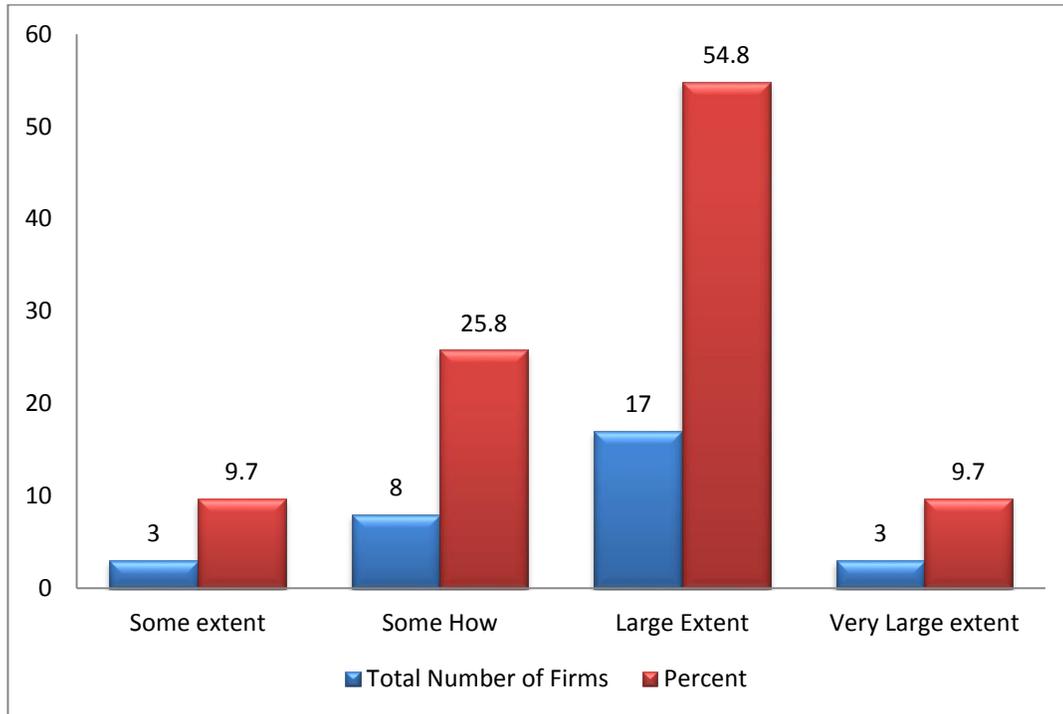


Figure 4.10 Training

The respondents on this variable said training offered is necessary to improve firm's productivity in the export manufacturing firms, 12 (9.7 percent) said to some extent, 99 (25.8 percent) suggested somehow, 65 (54.8 percent) said it did to a large extent and 12 (9.7 percent) thought it was to a very large extent a factor of productivity. Bontis (2002) found out that EPZs help to stimulate the development of a local/indigenous entrepreneurial base by means of practical learning, sub-contracting and formal education/training. Bartel (2004) establish a significant positive relationship between training and labour productivity in her study while Guidetti and Mazzanti (2007) found that training activities are positively associated with high productivity, performance practices, innovative labour demand features, work force skill level, firm size, and are affected by labour flexibility in various directions.

Table 4.15 Workplace Environment

	Frequency	Percent	Cum. Percentage
Not at All	23	19.4	19.4
Some Extent	12	9.7	29.0
Some How	50	41.9	71.0
Large Extent	12	9.7	80.6
Very Large Extent	23	19.4	100.0
Total	384	100.0	

Work environment is a factor of production, however the results outcomes indicated that 19.4 percent felt it was not at all, 9.7 percent thought to some extent, 41.9 somehow, 9.7 percent said to large extent and 19.4 percent a very large extent. Wright and Rogers, (2008) on this subject suggested that HR affects performance by first influencing climate, which then determines performance. They also argued that the direct links between Human Resource practices and performance are relatively weak as it is not Human Resource (HR) practices themselves that affect performance, but rather the extent to which they lead to favourable climate

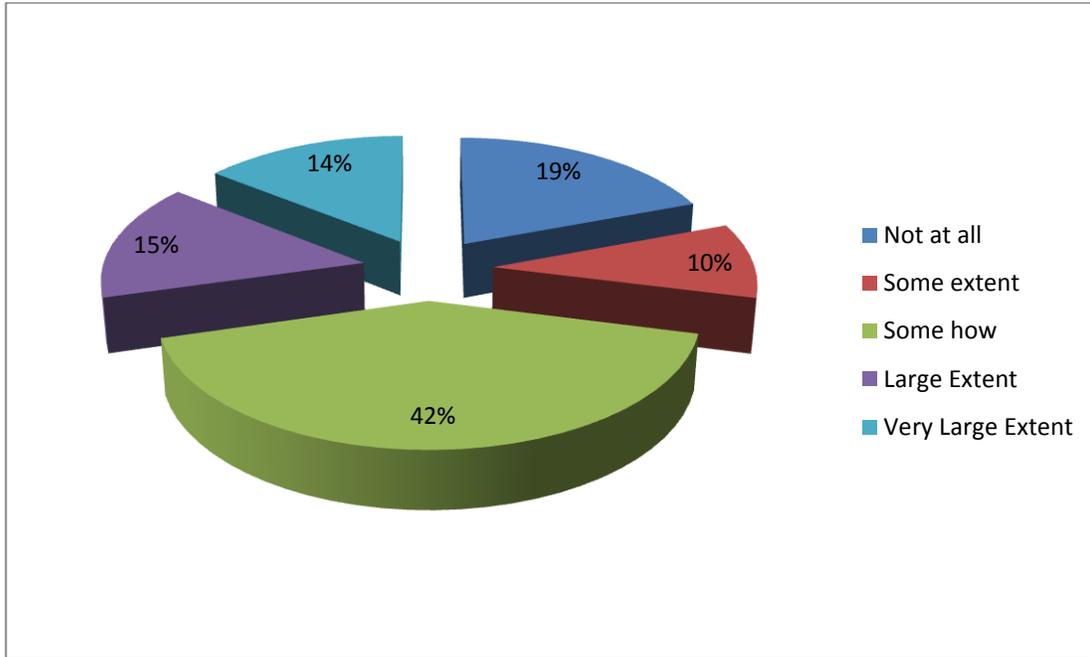


Figure 4.11 Grievances Handling

From the results it was observed that 74 (19.4 percent) of the respondents sampled noted that grievances were not at all well handled by the management, 37 (9.7 percent) to some extent, 160 (41.9 percent) said somehow, 58 (22 percent) thought it was to a large extent that the management listened and handled well their grievances and only 55 (21 percent) thought grievances were handled to a very large extent. This imply that majority of the grievances in EPZs are not well handled.

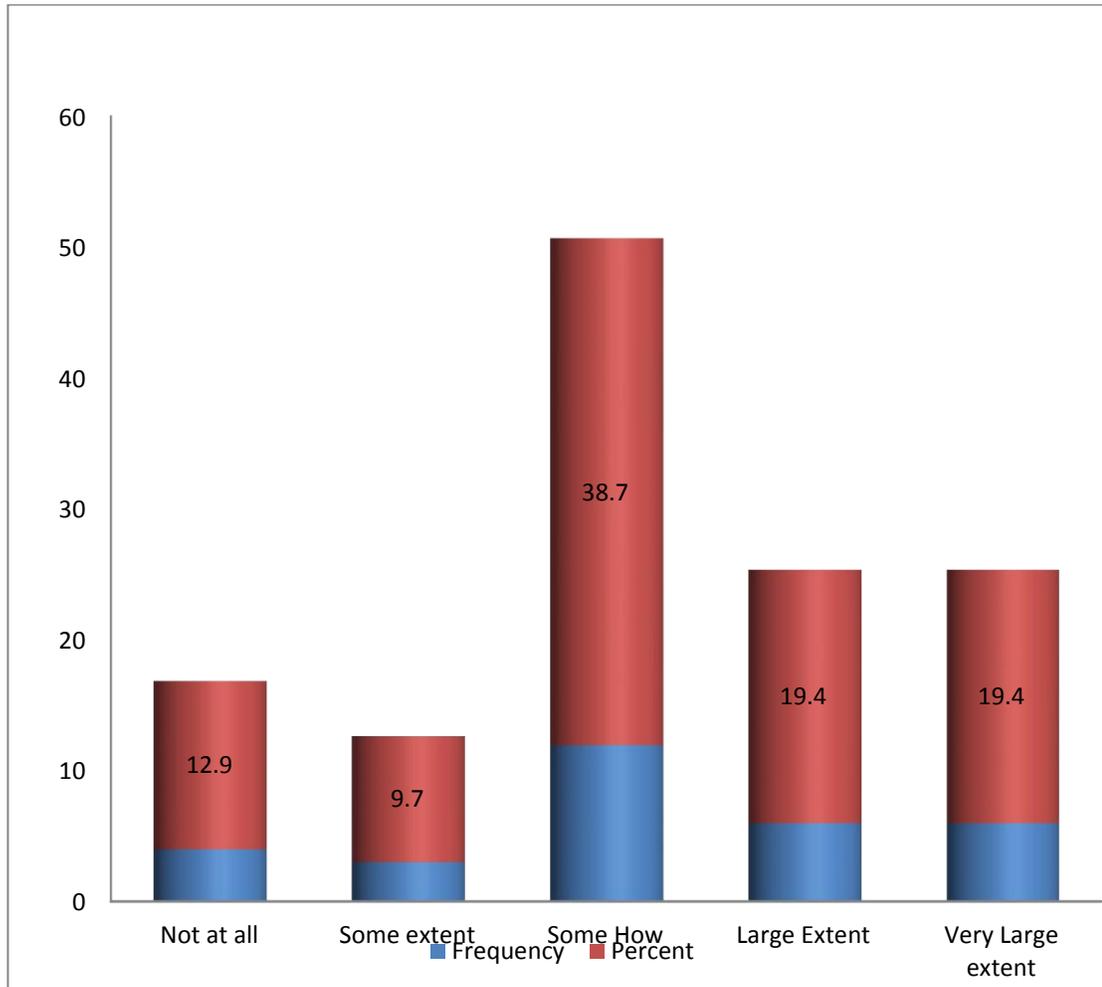


Figure 4.12 Work Life Balance

Work life balance is expected to increase production among the workers in the manufacturing firms for export. The results indicate that 12.9 percent in the sampled firms disagree and thought that it did not increase productivity at all. 9.7 percent agree to some extent, 38.7 percent suggest that somehow did work life balance increase productivity and 19.4 percent think it did to a very large extent.

Table 4.16 Man Hour Pay

	Frequency	Percentage	Cumulative %
Not at All	124	32.3	32.3
Some Extent	111	29.0	61.3
Some How	74	19.4	80.6
Large Extent	74	19.4	100.0
Total	384	100.0	

The results indicate that 124 (32.3 percent) said that man hour pay did not at all equal to firm production, this is likely to be observed in the firms that do not practice labour practices. 111 (29.0 percent) only agree to some extent, 74 (19.4 percent) said somehow it did while the other 74 (19.4 percent) agreed to a large extent. The findings are supported Blanchard (2002) who suggest that the main reason for instituting minimum wages is to empower workers whose wages are constrained by the excessive market power of employers. Two other arguments in favour of minimum wage setting relate to efficiency-wages and the fact that minimum wages increased workers' purchasing power, which in turn can stimulate labour demand (Levin-Waldman, 1997). The efficiency-wage argument state that higher wages can increase workers' productivity, which in turn allow employers to pay higher wages.

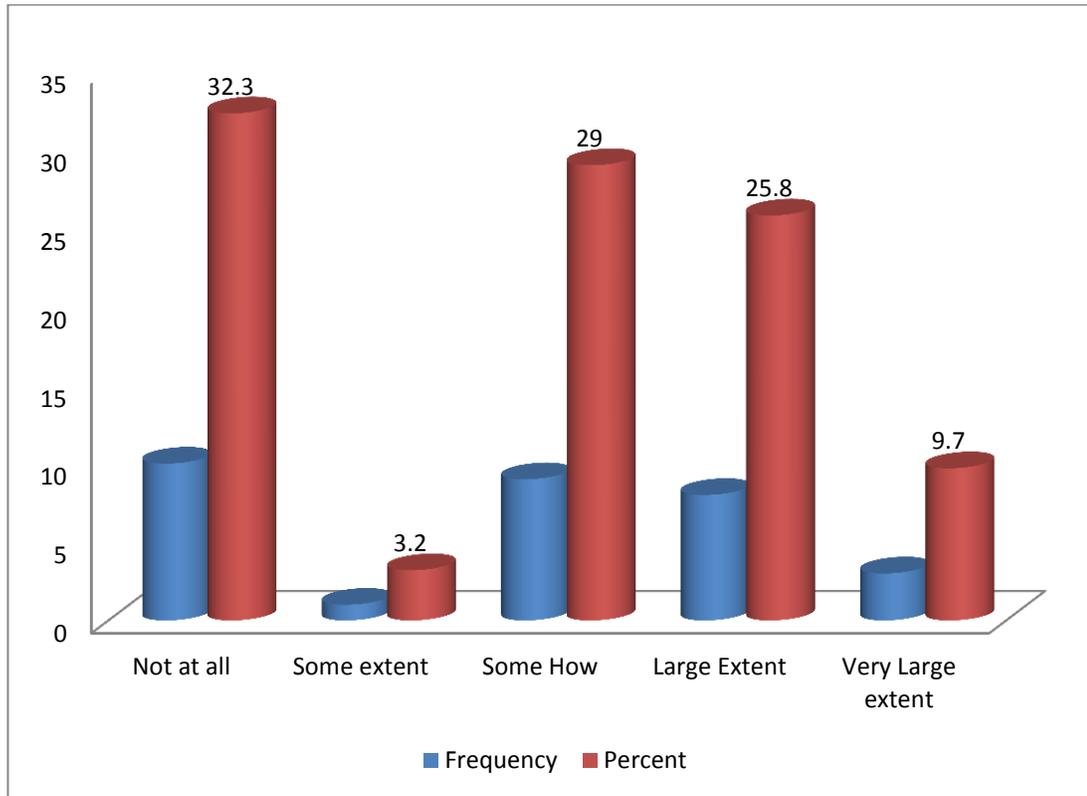


Figure 4.13 Compensation

On the employee compensation to increase productivity, 38 (32.3 percent) did not agree at all to it, 4 (3.2 percent) agree to some extent, 35 (29 percent) indicate that compensation somehow relates to firm productivity, 31 (25.8 percent) suggest that to a large extent compensation relate to firm productivity and 16 (9.7 percent) suggest that compensation relate to firm productivity to a very large extent. The relationship between employees' compensation and firm production in the EPZs is negative. This is contrary to the findings of Guest (2006) showed a greater use of HR practices is associated with higher levels of employee commitment and contribution.

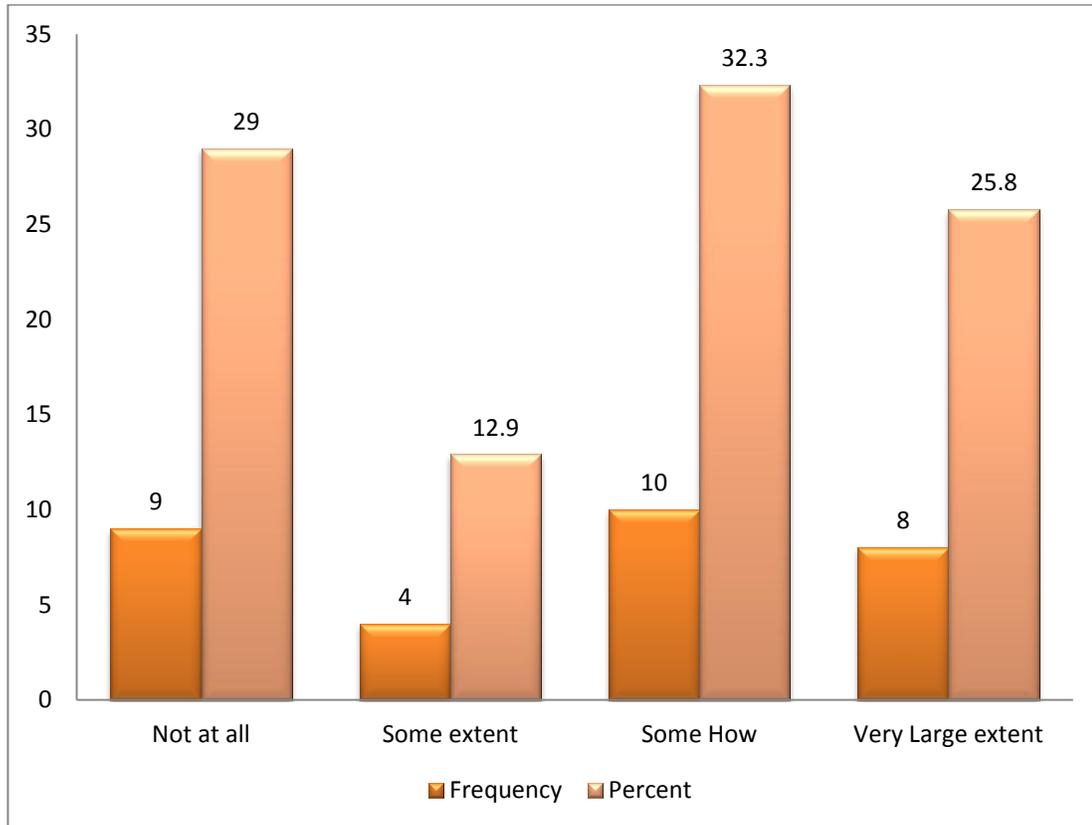


Figure 4.14 Channel of Communication

The results showed that 111 (29 percent) of the respondents indicated that they did not have good communication channel at all with the top management, 50 (12.9 percent) indicated to some extent they have good communication channel with the top management, 123 (32 percent) said somehow they have good communication channel with the top management, 99 (25.8 percent) said to a very large extent they have good communication channel with the top management. Although communication is one of the factors that are likely to increase production if firms have good channels, the results showed the EPZs firms do not have good or very good channel of communication. This is likely to hamper labour management. Many cases of industrial arrests have been reported in the EPZs industries due to poor management skills.

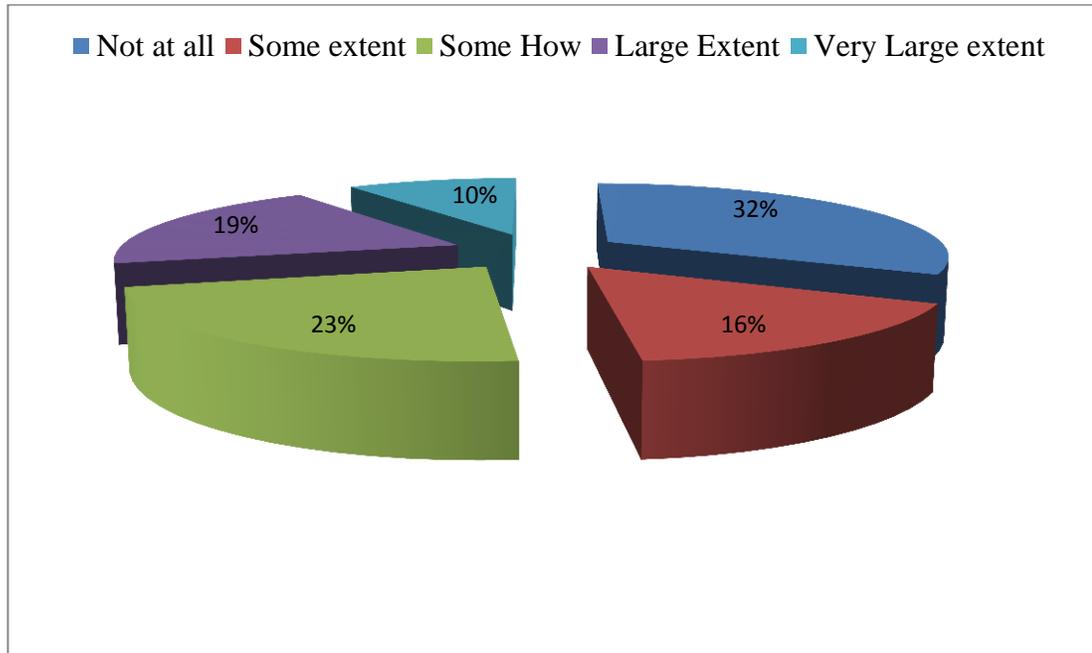


Figure 4.15 Pay versus Input

The results indicated that 32.3 percent of the respondents in the firms did not agree that their pay reflected their input in the manufacturing firms for export, 16.1 percent did agree to some extent, 22.6 percent some did agree, 19.4 percent agreed to a large extent and 9.7 percent agree to a very large extent that their pay reflected their inputs. The results show a negative relationship between the pay structure and labour productivity in the EPZs. The results in line with Thang (2004) posit that compensation and reward can be powerful tools for getting efforts from the employees to fulfill the organisational goals. In the same vein, Wan (2008) asserted that compensation should be considered based on performance, not on the basis of seniority or length of service in organisation.

Labour Management Summary of the Findings

Mean percentage summary of the findings on the relationship between labour management and firm productivity reveal that those who did not agree at all and those

who agree to some extent that labour management relate to firm productivity had a mean of 29 percent while 25.3 percent suggest that somehow it relates to firm productivity and majority 46.7 percent agree to a large extent management relate to firm productivity in the EPZs.

Findings based on qualitative data on a five point likert scale show that those who suggest that labour management relate to firm productivity were 46.7 percent of the respondent (a large extent/very large extent) agree to it while only 29 percent, (strongly disagree/disagree not at all / some extent) who suggest that labour management did not relate to firm productivity in EPZs in Kenya

In the EPZs, employment issues like labour management, training and development, diversity and equal opportunity, occupational safety and healthy working environment, employee participation, employee satisfaction and industrial relations are regarded as good labour practices and therefore, when appropriately utilized; firms are likely to be productive. Findings in the EPZs reveal inadequate management skills by the line managers and poor working environment a factor that was also shared by the labourers. Other factors of production such as capital, land and infrastructure the researcher observed that they equally play a significant role in firm productivity. Increased training of employees may lead to higher productivity and enhanced creativity (Bontis, 2002) and Cabrita and Bontis (2008) observe that managerial skills must be combined with relational and structural elements in the organization, to create value

4.8 Forth Objective on examining the relationship between labour satisfaction and firm productivity in Mombasa Export Processing Zone in Kenya

This inventory had 20 items, which included: 'compensation system level with employees' knowledge and skill', 'compensation system is rewarded by innovative idea', 'good job performance is noticed and rewarded', and 'top management preferred participation in decision making with all levels of jobs'. The construct/item was developed by Paul and Anantharaman (2003), Collins and Smith (2003) and Minbaeva (2005).

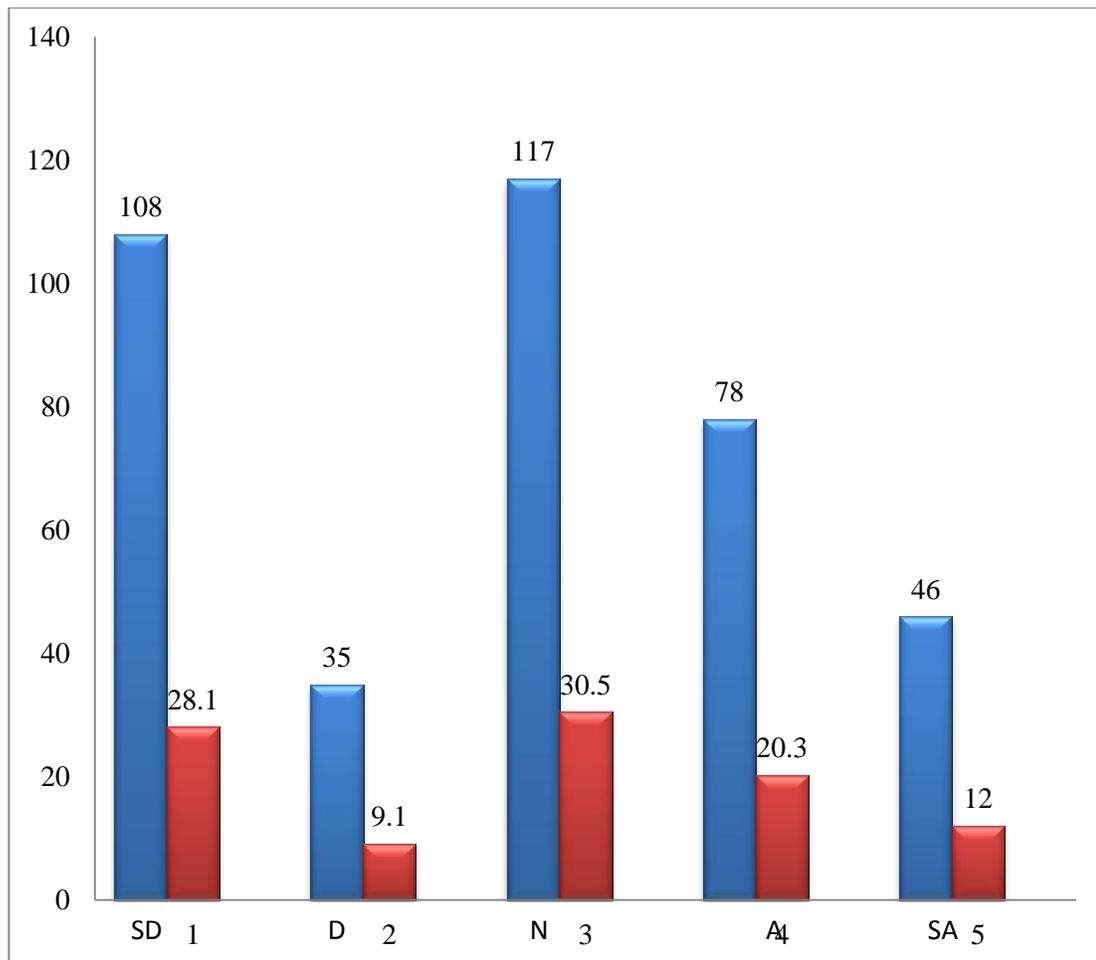


Figure 4.16 Employees' Voice

The results in Figure 4.16 were obtained from both firms which are CI and LI and the outcome reveal that 38.1 percent strongly disagree that employees had a voice in work decision marking hence relate to firm productivity, 9.1 percent disagree and 30.5 percent were neutral on employees' participation in marking decision in work place, 20.3 percent agree and 12.0 strongly agree.

Table 4.17 Employees' Benefits

	Count	Percentage
Strongly Disagree	159	41.4
Disagree	36	9.4
Neutral	57	14.8
Agree	61	15.9
Strongly Agree	71	18.5
	384	100.0

The findings suggest that 159 (41.4 percent) of the respondents disagree that employees frequently got benefits and therefore satisfied with their job, 36 (9.4 percent) disagree while 57 (14.8 percent) were neutral. Only 61 (15.9 percent) and 71 (18.5 percent) who agreed and strongly agree on the aspect of job satisfaction. The result findings show insignificant relationship between employees getting frequent benefits that brought satisfaction and firm productivity in the export processing firms. In similar studies, Maloney and Nuñez (2004) find negative employment effects of an increase in minimum wages in Colombia.

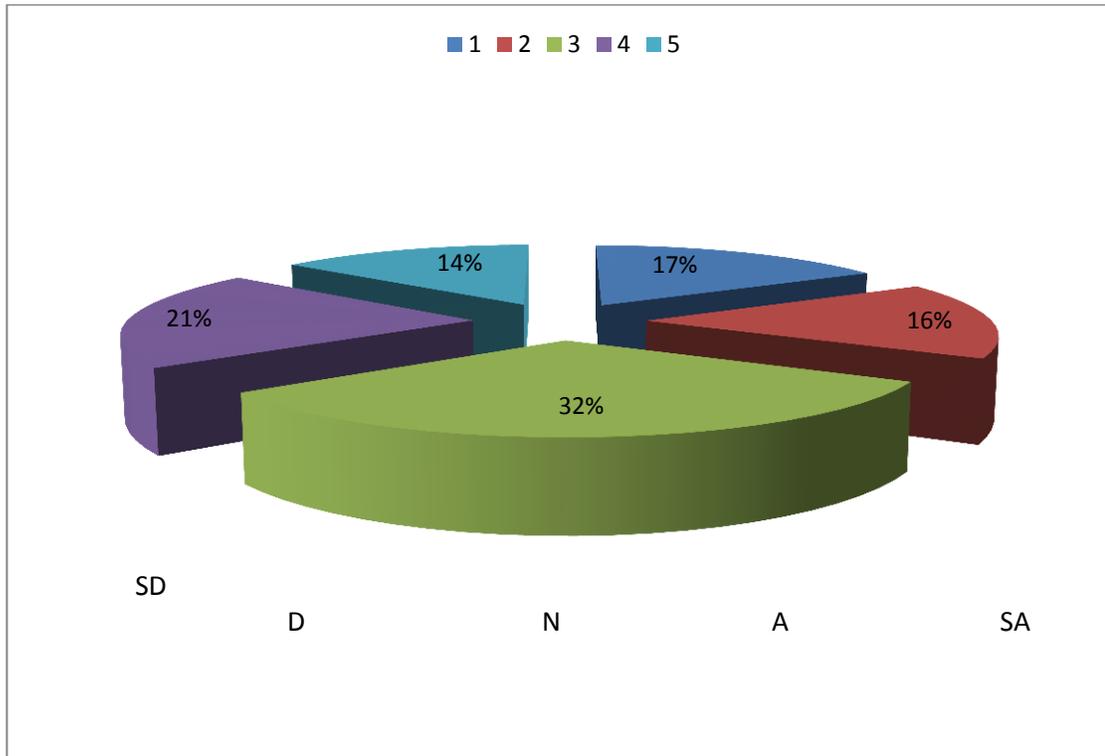


Figure 4.17 Benefits, Bonuses, House Allowance and Medical Care

Findings from the Figure 4.17 show that only 80 (21 percent) agree that they got benefits 54 (14 percent) strongly agree that they were entitled to benefits, bonuses, house allowance and medical care 62 (17 percent) strongly disagree, 62 (16 percent) and 124 (32 percent), disagree while remained neutral on whether they receive benefits or not. Gindling and Terrel (2005) find that an increase of multiple minimum wages and other benefits – much like in Kenya—reduces employment in Costa Rica. In contrast, Lemos (2004) finds little evidence of adverse employment benefits effects in Brazil.

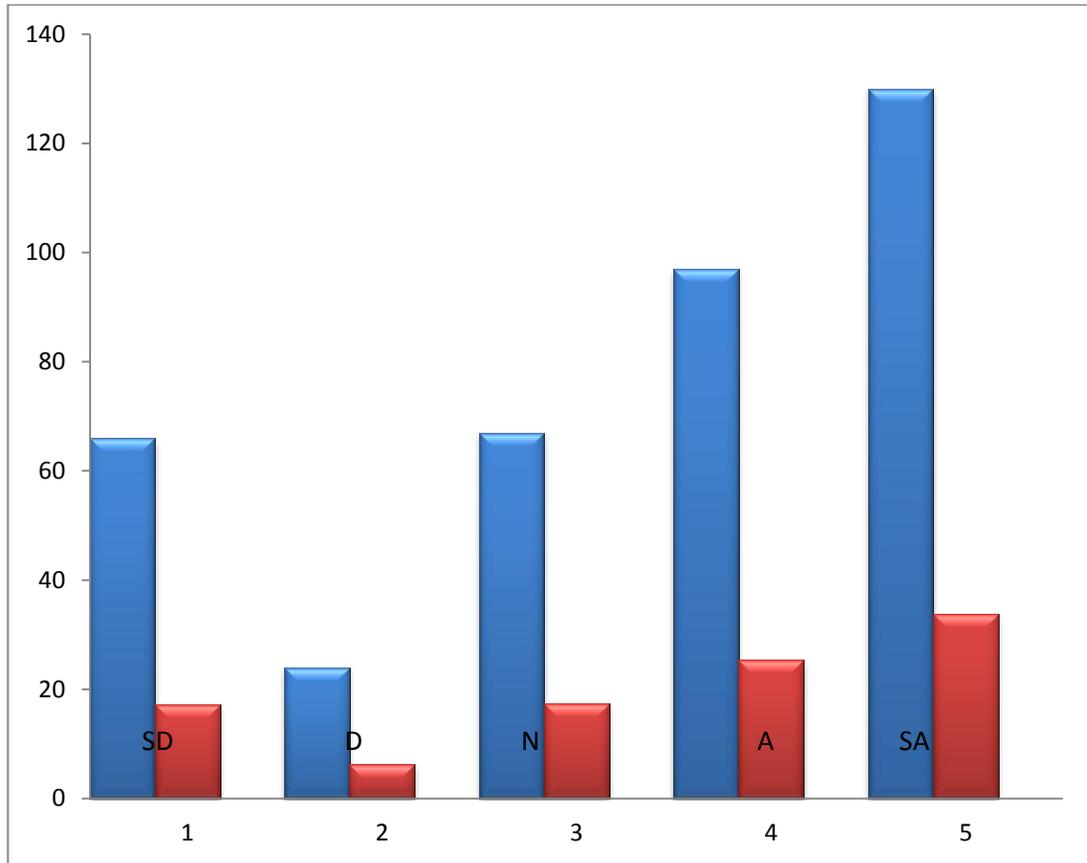


Figure 4.18 Labour Contract

Figure 4.18 show that 66 (17.2 percent) strongly disagree. 24 (6.2 percent) agree 67 (17.4 percent) remained neutral, on whether labour contract agreement was a prerequisite before employment while 97 (25.3 percent) agree and 126 (32.8 percent), strongly agreed that they received contract agreement before employment. To sustain the high level of competitive advantage a firm requires talented and skilled workers (Liao & Chu, 2006) this is because organisational productivity and high performance depends on labour contract between the employee and the employer. The process of Labour contracting starts during recruitment and selection process. The selection of the right person, which is a pathway to reduced turnover, Michie and Quinn (2001) were able to

identify a positive link between hiring the right employees, and the creation of the right culture for organisational growth.

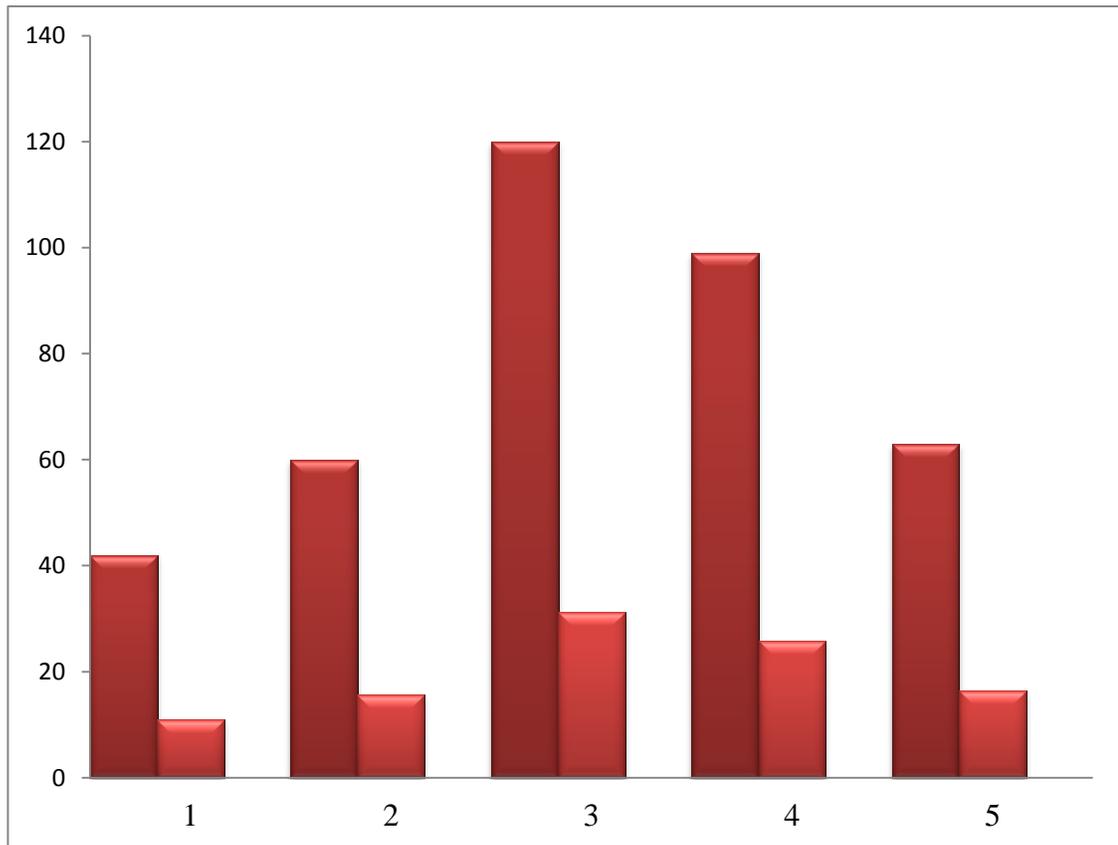


Figure 4.19 Compensation to Overtime

Employees who worked overtime are entitled to extra earnings based on the number of hours worked. This practice is hoped to compensate the employees for the extra work. The findings however, suggest that 42 (10.9 percent) of the workers in the export manufacturing firms strongly disagree, 60 (15.6 percent) disagree and 120 (31.2 percent) were neutral on whether the overtime was adequately paid or not. 99 (25.8 percent) agree to be paid adequately and only 63 (16.4 percent) strongly agree.

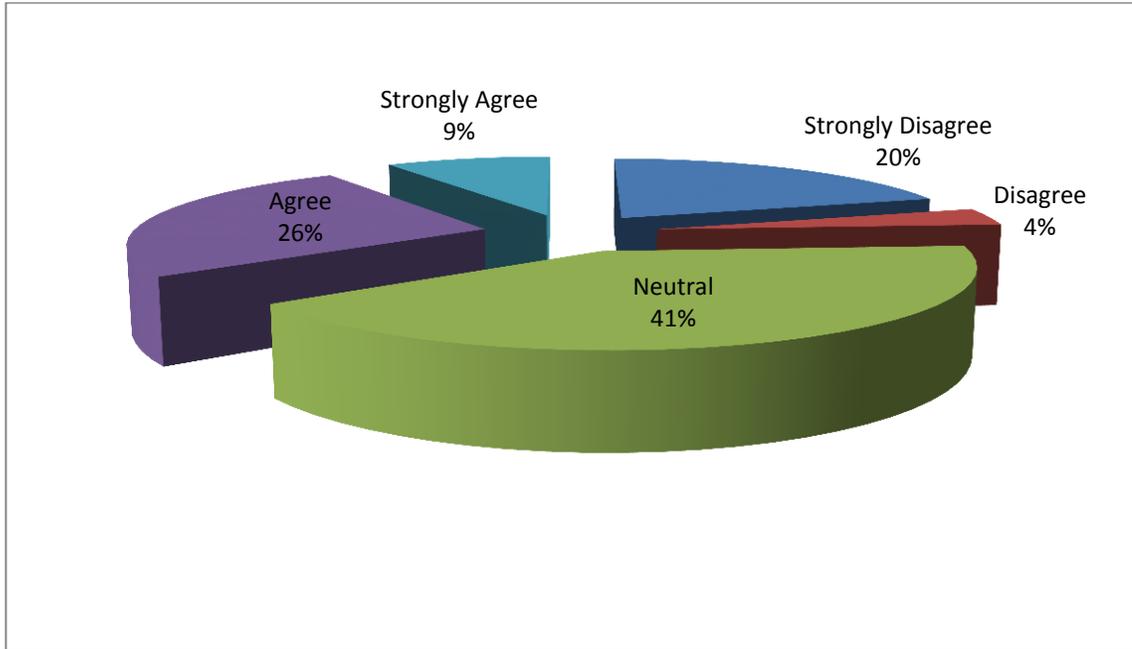


Figure: 4.20 Fair and Equal Treatment

Figure 4.20 indicates that 78(20 percent) strongly disagree that they received fair and equal treatment, 14(4 percent) disagree, 158(41.1 percent) neutral, (99) 26 percent agree, and (35) 9 percent strongly agree that employees are fairly treated. During employment the criteria majority disagree that they received equal and fair treatment. This is done through the selection process of choosing a candidate from a group of applicants who best meets the selection criteria for a particular position. In this process the right person chosen for the requisite qualifications and knowledge is placed in the appropriate job position to decrease the cost, and maximise the profits by means of their merit and talent (Vlachos, 2008).

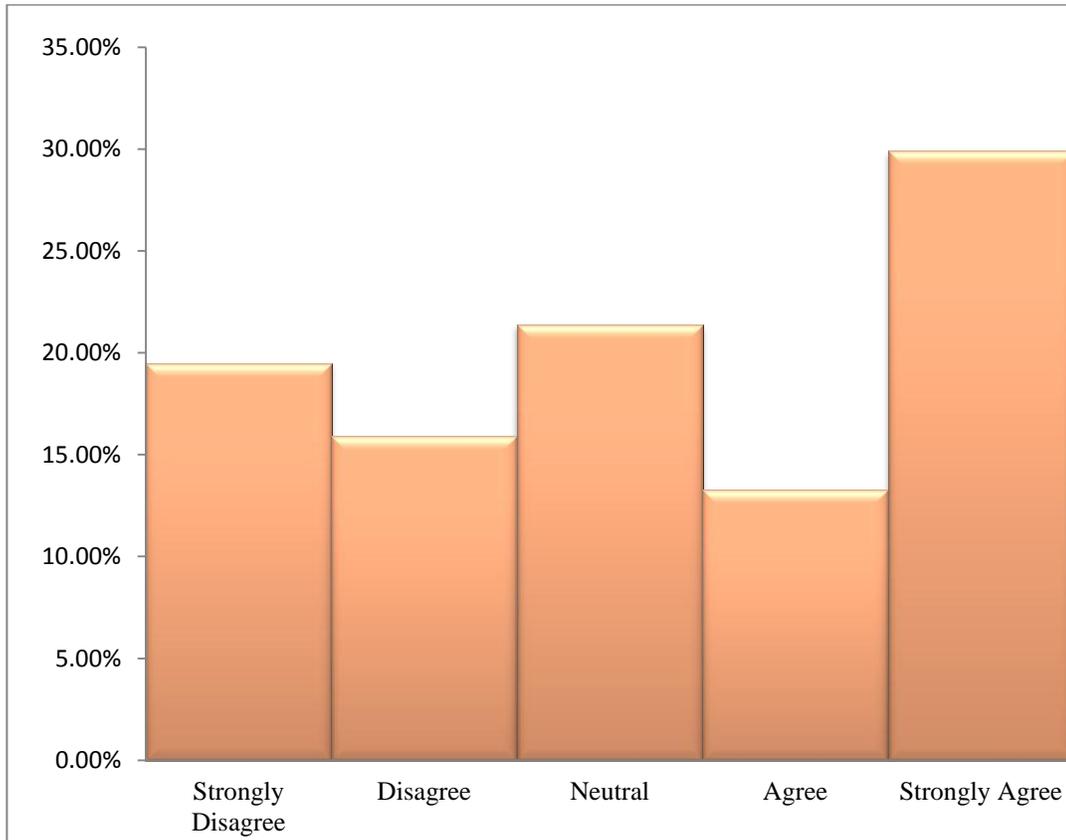


Figure 4.21 Employees' Grievances

The findings in the Figure 4.21 show that 19.5 percent of the respondents from the firms did strongly disagree, 15 percent agree and 21.4 percent were neutral that management listens to employees' grievances. The findings indicate that only 13.3 percent and 29.9 percent agree and strongly agree that management listens to employee's grievances. This can be related to Chaberlain and Kuhn in Armstrong (2006), who say that collective bargaining agreement in addressing employees' can also be seen as political relationship in which trade unions as they share industrial sovereignty or power over those who governed, the employees. Management and the trade union in the collective bargaining process hold the sovereignty jointly. This can affirm productivity given the cordial relationship that exist between the firm managers and the workers help to enhance

collective bargaining as a power sharing relationship between management and trade unions, although the recent times the balance of power has shifted markedly in the direction of the management; whose words or decisions greatly influence the labour market.

Table 4.18 In-Service Training

	Frequency	Percent	Cum Percent
Strongly Disagree	151	39.3	39.3
Disagree	48	12.5	41.7
Neutral	46	12.0	53.7
Agree	66	17.2	71.0
Strongly Agree	73	19.0	100.0
Total	384	100.0	

The results reveal that 39.3 (151 percent), 48 (12.5 percent) and 46 (12.0 percent) strongly disagree, disagree, and remained neutral respectively on whether in - service training relate to firm productivity, while 66 (17.2 percent) and 73 (19.0 percent) agree and strongly agree that in - service training relate to firm production in the export manufacturing firm. The results are consistent with Waleed (2011) who assert that training is not simply a means of arming employees with skills they need to perform their jobs. In production firms like EPZs is a tool that workers require for maximum productivity. All individuals attain a certain stock of human capital and this level is primarily influenced by education and training. Investment in human capital increases productivity.

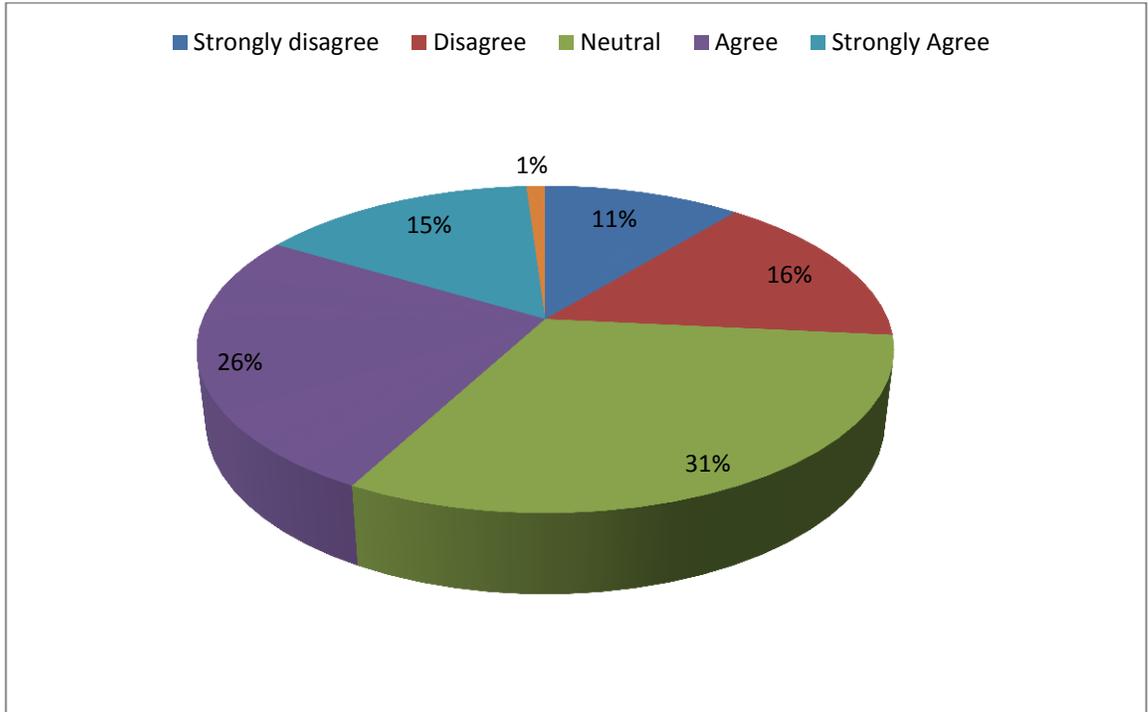


Figure 4.22 Overtime is Adequately Paid

The findings indicate that 11 percent strongly disagree, 16 percent disagree, and 31 percent remained neutral. This implies that a majority of the respondents did not support that overtime is adequately paid in the EPZ firms. The remaining 26 percent and 15 percent agree and strongly agree respectively that overtime is adequately paid in the EPZ firms in Mombasa.

Table 4.19 Am Satisfied with the Working Environment

	Frequency	Percent	Cum Percent
Strongly Disagree	15	3.9	3.9
Disagree	69	18.0	21.9
Neutral	189	49.2	71.1
Agree	82	21.4	92.4
Strongly Agree	29	7.6	100.0
Total	384	100.0	

The Table 4.19 show that 15(3.9 percent), 69(18 percent) and 189(49.2 percent) said they strongly disagree, disagree and remained neutral respectively. Only 82(21.4 percent) and 29(7.6 percent) responded that they agree and strongly agree that the working environment was satisfactory in processing firms for export in Mombasa Country, Kenya.

Table 4.20 Labour Satisfaction Summary

Labour Satisfaction	No.	SD	D	N	A	SA
I have a voice in the firm	384	9.1	20.3	30.5	28.1	12
I am satisfied with my benefits	384	12.7	25.5	23.5	18.5	19.8
I am satisfied with my bonuses	384	9.2	17.3	33.8	25.3	14.4
I am satisfied with my pay	384	12.7	15.3	30.2	25.8	16
I receive fair treatment	384	9.1	25.8	35.1	24.3	5.7
I am satisfied with the management	384	13.3	20.5	25.4	29.8	11
I am satisfied with the environment	384	13.8	20	37.2	21.4	7.6
I am satisfied with the union	384	16.8	22.8	29.3	20.5	10.6
Mean		12.1	20.9	30.6	24.2	12.1
STD.DEV		2.77	3.67	4.68	3.86	4.54

Labour Satisfaction Summary of the Findings

Poor working conditions may negatively impact workers in the long run. The long-term benefit of generated employment may significantly decline if workers are exposed to health risks, or other negative factors. It is however difficult for the government to balance workers' welfare and possible future costs of conflict, health risks or environmental degradation, with the desire to be become or remain competitive. This is evident especially in Kenya, though wages within the zones are found to be somewhat higher than minimum in the country. Low wages in the textile and apparel industry have caused some tension between workers and employers in Kenya's EPZs (Wu, 2009).

The findings stated in the fourth objective established that 12.1 percent of the respondents with a Std. Dev. of 2.77 strongly disagree that labour satisfaction related to firm production, 20.9 percent of with Std. Dev. of 3.67 disagree, 30.6 percent of the respondents with a Std. Dev. of 4.68 were neutral, 24.2 percent with a Std. Dev. 3.86 agreed, 12.1 percent of with Std. Dev. of 4.54 strongly agree.

The data obtained on a five point likert scale suggest that labour satisfaction related to firm productivity with a mean of 36.3 percent who strongly agree /or agree while 33 percent, strongly agree/disagree that labour satisfaction related to firm productivity in EPZs in Kenya.

Table 4.21 Summary of Qualitative Data

	N	Minimum	Maximum	Mean	Std. Dev
Labour Contract		1.00	5.00	3.1727	1.32320
Labour Relations		1.00	5.00	3.2091	1.28990
Labour Management		1.00	5.00	2.9000	1.19321
Labour Satisfaction		1.00	5.00	3.0091	1.19738
Valid N (listwise)	384				

In conclusion LR was rated highest with a mean of 3.2091 with Std. Dev. of 1.28990 followed by LC with a mean of 3.1727 and Std. Dev. of 1.32320 as the main factors that relate to firm productivity in the EPZs. While LS with a mean of 3.0091 and Std. Dev. of 1.19738 was rated third and LM was rated last with a mean of 2.9000 and Std. Dev. of 1.19321.

Descriptive statistics was used to describe the labour practices in the EPZ firms and the findings tabulated in frequency and percentages. The results revealed that 112 (11.1percent) strongly disagree that labour Practices is related to firm productivity 162 (14.7 percent) agree, 250(22.7 percent) were neutral, 210 (19 percent) agree and 132 (12 percent) strongly agree. However, a decision on whether there is a relationship between labour Practices and Firm Productivity in the EPZs was not substantially established; the means and percentages whose respond was 15.92 percent strongly disagree that there was no relationship between Labour Practices and Firm Productivity in the EPZs. To adequately answer the research questions/or test the hypothesis further testing was done

to understand the relationship between Labour Practices and Firm Productivity. A one sample t-test was conducted and test value of 2.5 was obtained which indicated indecisiveness of the items in which all the respondents strongly disagree/disagree $p < 0.05$ if the mean (\bar{x}) is less than 2.5 or agree/strongly agree if the mean (\bar{x}) is more than 2.5 as shown in table 4.10.

Table 4.22 One-Sample Test with Test Value (α) = 0.05

	T	Df	Sig. (2-tailed)	Mean Difference	95% CI Lower	Upper
LC	35.004	219	.000	3.12273	2.9469	3.2985
LR	36.326	219	.000	3.15909	2.9877	3.3305
LM	35.427	219	.000	2.85000	2.6915	3.0085
LS	36.656	219	.000	2.95909	2.8000	3.1182

All variables were tested using one sample T test $p < 0.05$ LSF LC, LR, LM, LS $p = 0.000$. The results suggest that all the independent variables were related to each other nonetheless, could not relate to dependent variable hence the null hypothesis was not confirmed with Chi-Square Ratio of 1743.309 df 620 Pearson 14006.496

Table 4.23 Goodness of the Fit

	Chi-Square	Df	Sig.
Likelihood Ratio	1743.309	620	.000
Pearson	14006.496	620	.000

The researcher conducted an analysis of independent variables to analyze the degree of the relationship and strength of the two independent variables. According to Mugenda and Mugenda (2003) correlation technique is used to analyze the degree of relationship between two variables hence measure the strength and direction of a relationship between variables. The correlation coefficient values ranges from negative (-1) to positive (+). When the value is zero, it means there is no relationship between two variables. The direction of the relationship is also important such that when one variable increases, the other variable increases or when one variable decreases the other variable decreases also when correlation coefficient (r) is negative (-), it means that when one variable decreases, the other variable increases and vice versa. The correlations have different strengths, when $0.10 \leq r \leq 0.29$, it means there is weak relationship, when $0.30 \leq r \leq 0.49$, there is moderate relationship and when $0.50 \leq r \leq$ above, the relationship is strong.

Table 4.24 Correlation of the Independent Variable

		Labour Contract LCx ₁	Labour Relations LRx ₂	Labour Management LMx ₃	Labour Satisfaction LSx ₄
Labour Contract LCx ₁	Pearson correlation Sig. (2- tailed) N	1 384			
Labour Relations LRx ₂	Pearson correlation Sig. (2- tailed) N	.539** .000	1 384		
Labour Management LMx ₃	Pearson correlation Sig. (2- tailed) N	.368** .000	.596** .000	1 384	
Labour Satisfaction LSx ₄	Pearson correlation Sig. (2- tailed) N	.591** .000	.568** .000	.344** .000	1 384
	N	384	384	384	384

*. Correlation is significant at the 0.05 level (2-tailed). $\alpha = 0.05$

When the variables were correlated the findings established that Labour Contract (LCx₁) was positive and moderately correlated to Labour Relations (LRx₂) ($r = 0.539$ $p = 0.000$, $\alpha = 0.05$ $p < 0.05$); positive and moderately correlated to Labour Management (LMx₃) ($r = 0.386$), $p = 0.000$, $\alpha = 0.05$ $p < 0.05$) and positive and moderately correlated to Labour Satisfaction (LSx₄) ($r = 0.591$, $p = 0.000$, $\alpha = 0.05$ $p < 0.05$)

Labour Relations (LRx₂) was positive and strongly correlated to Labour Management (LMx₃) ($r = 0.596$, $p = 0.000$, $\alpha = 0.05$ $p < 0.05$) and positive and strongly correlated to Labour Satisfaction (LSx₄) ($r = 0.568$, $p = 0.000$, $\alpha = 0.05$ $p < 0.05$)

Labour Management (LM_{x3}) was also moderate and positively correlated to Labour Satisfaction (LS_{x4}) ($r = 0.344$, $p = 0.000$, $\alpha = 0.05$ $p < 0.05$)

From Table 4.24 the correlation among variables is less than 0.6 ($r < 0.6$) hence the problem of multicollinearity was minimized when there is multicollinearity among independent variables; the analysis cannot distinguish the effects of one variable over the other. A common rule of thumb is that correlations among the independent variables should be less than 0.70 to remove the difficulties in regression analysis Mason and Marchel (1999).

Table 4.25 Correlation between Independent Variables and Dependent Variable

		LC _{X1}	LR _{X2}	LM _{X3}	LS _{X4}	FP
LC _{X1}	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	384				
LR _{X2}	Pearson Correlation	.532**	1			
	Sig. (2-tailed)	.000				
	N	384	384			
LM _{X3}	Pearson Correlation	.640**	.325**	1		
	Sig. (2-tailed)	.000	.000			
	N	384	384	384		
LS _{X4}	Pearson Correlation	.482**	.375**	.370**	1	
	Sig. (2-tailed)	.000	.000	.000		
	N	384	384	384	384	
FP	Pearson Correlation	.395**	.292**	.364**	.192**	1
	Sig. (2-tailed)	.000	.000	.000	.004	
	N	384	384	384	384	384

** . Correlation is significant at the 0.01 level (2-tailed). $\alpha = 0.01$

A correlation analysis was run in Table 4.25 to predict the relationship between labour practices and firm productivity in Mombasa EPZ firms in Kenya. The analysis revealed that there is a significant and a moderate positive correlation between Labour Contract (LC_{X1}) and Firm Productivity (FP) ($r=0.395$, $p= 0.000$, $\alpha = 0.01$ $p<0.01$) ;The correlation between Labour Relation (LR_{X2}) and Firm Productivity (FP) ($r = 0.292$, $p= 0.000$, $\alpha = 0.01$ $p < 0.01$) showed a significant weak positive correlation. The correlation between Labour Management (LM_{X3}) and Firm Productivity (FP) the correlation was significant moderate and positive ($r= 0.364$, $p= 0.000$, $\alpha = 0.01$ $p < 0.01$)

lastly the correlation between Labour Satisfaction (LSx_4) and firm productivity (FP) was weak, significant and positively correlated ($r = 0.192$, $p = 0.004$, $\alpha = 0.01$, $p < 0.01$).

From the results it can be inferred that LCx_1 , LRx_2 and LMx_3 were moderately significant and positively correlated to Firm Productivity (FP) in the EPZs; while LS was not although weakly correlated. The null hypothesis could not be confirmed since all the four factors of the independent variable LCx_1 , LRx_2 , LMx_3 and LSx_4 positively correlated to FP in the EPZs (See Table 4.25)

Further testing of the null hypotheses was done in order to find out whether the data collected was valid to determine their accuracy. In hypothesis testing the main aim is to whether accept the null hypothesis or reject (Kothari, 2009).

The first null hypothesis stated is that there is no significant relationship between Labour contract and firm production in Mombasa EPZ in Kenya. To test the null hypothesis, a correlation coefficient model table and F- Ratio ANOVA Test were used. Statistics and regression analysis were used to analyze the magnitude and direction of the relationship of the variables

Table 4.26 Model 1 Summary of the Predictor (Labour Contract) and Firm Productivity

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.395 ^a	.156	.152	1.25470

a. Predictors: (Constant), Labour Contract

The coefficient of determination (R^2) and correlation coefficient (R) showed the degree of association between Labour contract and Firm productivity in EPZ in Mombasa County, Kenya. The results of the linear regression indicated that $R^2 = .156$ and $R = .395$, this can be inferred that there is a moderate linear relationship between Labour Contract and Firm productivity in EPZs in Kenya. Variability of the independent variable can only explain 15.6 percent of the dependent variable (Firm Productivity). The results had a similar study by Kingombe and TeVelde (2013) who found out that labour contract within the EPZs increases labour productivity.

Table 4.27 F- Ratio ANOVA^aPredictor (Constant) Labour Contract

	Model	Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	63.337	1	63.337	40.233	.000 ^b
	Residual	343.190	218	1.574		
	Total	406.527	219			

a. Dependent Variable: Firm Productivity
b. Predictors: (Constant), Labour Contract

Further the researcher tested the significance of the predictor variable on the dependent variable using F- Ratio ANOVA Test and the results revealed that the Labour Contract

statistically and significantly predicted firm productivity in the EPZs despite poor labour input characterized by low education, training and skills, poor recruitment and selection procedures which affect firm productivity. The $F(1,218) = 40.233$, $P < 0.05$, $R^2 = .156$. Since the $p = (.000)$ value observed was less than the alpha at 0.05 LSF. The null hypothesis was rejected again thus, the researcher concluded that labour contract statistically is a predictor variable of the dependent variable firm productivity. Clusters of industrial activity may increase firms' productivity through the ability to support specialized suppliers, pull skilled workers, and transfer knowledge (Krugman *et al.*, 2012). These characteristics of labour contract found mixed result in the EPZs in Mombasa County, Kenya.

Table 4.28 Coefficients Linear regression model on The Relationship between Labour Contract and Firm Productivity in The EPZ in Kenya

Model		Unstandardized Coefficients		Standard	T	Sig.
		β	Std. Error	zed Coefficients Beta		
1	(Constant)	1.876	.208		9.021	.000
	Labour Contract	.403	.064	.395	6.343	.000

a. Dependent Variable: Firm productivity

The linear regression analysis is a model that tests the relationship between the dependent variable and independent variable using unstandardized coefficient. From the table $\alpha =$ the coefficient of Export Processing Firms (LP) equation, $X_1 = \alpha$, the Labour Contract $Y_1 = \beta_0 + \beta_{X1}$ $Y = 1.876 + .403X_1$. Findings from the model can be inferred that there is a linear relationship between Labour Contract and Firm productivity in the EPZs in Kenya. Dissimilar in a model with fixed but imperfect level of enforcement, which better characterizes the labour market in Kenya, (Omolo & Omitti, 2004) found positive,

negative or mute responses of employment to minimum wages which can prevail within well-defined ranges of minimum wages and enforcement intensities.

4.9 Summary of the Linear Regression Analysis using Multiple Regression Model to Test the $H_{0_{X1}} LC_{X1}$

Linear regression analysis was carried out using multiple regression model (stepwise) and the model was valid and significant since $F(1,218) = 40.233$, $P < 0.05$, $p = (.000)$ $\alpha = 0.05$ LSF $R^2 = 0.1564$ representing 15.64 % predicting power.

Using the unstandardized coefficients equation, the equation is $Y = \beta_0 + \beta_{X1} + \alpha$, $Y = 1.876 + 0.403_{X1}$

Y is the Firm Productivity (LP) 1.876 constant, where the regression equation crosses the y-axis and β_{X1} is Labour Contract (LC_{X1})

Hypothesis 2

Table: 4.29 Model Summary Linear Regression Model 2of Relationship between Labour Relations and Firm Productivity

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
2	.292 ^a	.085	.081	1.30609

a. Predictors: (Constant), Labour relations

The results of the linear regression indicate that $R^2 = .085$ and $R = .292$, from the findings it can be inferred that there is a moderate linear relationship between Labour Relation and Firm productivity in EPZs in Mombasa, Kenya. The independent variable, Labour Relations share only 8.5 percent of the variability of the dependent variable in Firm Productivity in the EPZs in Mombasa County, Kenya. Cho *et al.*,

(2006) identified a positive and significant relationship among HRM practices and staffing performance.

Table 4.30 ANOVA^a Relationship between Labour Relation and FP

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	34.646	1	34.646	20.310	.000 ^b
	Residual	371.881	218	1.706		
	Total	406.527	219			

a. Dependent Variable: Relationship between Labour Relation and FP

b. Predictors: (Constant), Labour Relations

The ANOVA F test in the Table 4.30 reveal that Labour Relation statistically, significantly predicted FP in the EPZs $F(1,218) = 20.310$ $P < 0.05$, $R^2 = .085$, since the critical $p = (.000)$, value observed was less than the alpha at 0.05 LSF, the null hypothesis is rejected and the research inferred that Labour Relation (LR_{x2}) is a predictor variable of the dependent variable FP. The empirical evidence on the effects of minimum wages on employment is quite mixed; Neumark and Wascher (2007) said that in developed countries a number of studies have failed to find significant negative impacts similar to the results found in the study.

Table 4.31 Coefficients^a Firm Productivity

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		β	Std. Error	Beta		
2	(Constant)	1.966	.263		7.481	.000
	Labourrelations	.324	.072	.292	4.507	.000

a. Dependent Variable: Firm Productivity

From the Table 4.31 α = the coefficient of Firm Productivity (FP) equation, $X_2 = \alpha$ the Labour Relations $Y = \beta_0 + \beta_{X_2} + \alpha$ $Y = 1.966 + .324x_3$

From the results it can be inferred that there is a linear relationship between Labour Relations and Firm Productivity in the EPZs in Kenya. Tai (2006) showed that training and development played a crucial role in increasing work adaptability, ability, flexibility, maintaining necessary competence, and motivates employees. This variable influenced employee productivity. Other studies have an indirect relationship between training and firm performance (Vlachos, 2008).

4.10 Summary of the Linear Regression Analysis using Multiple Regression Model to Test the H_{0x_2} LR

Linear regression analysis was carried out using multiple regression model (stepwise) and the model was valid and significant since $F(1,218) = 20.310$ $P < 0.05$, $R^2 = .085$, $p = (.000)$ $\alpha = 0.05$ with Representing 8.5 % predicting power to the dependent variable LP.

Using the unstandardized coefficients equation is $Y = \beta_0 + \beta_{X_2} + \alpha$, $Y = 1.966 + .324x_2$ Y is the Firm Productivity (LP) 1.966 constant where the regression equation crosses the y-axis and x_2 is Labour Relations (LR) For the standardized coefficient $y = b_0 + bx_2$

Hypothesis 3

Table 4.32 Linear Regression Model 3 on Relationship between Labour Management and Firm Productivity in EPZs

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
3	.364 ^a	.132	.128	1.27213

The results of the linear regression revealed that $R^2 = .0132$ and $R = .364$, from the table it can be inferred that there is a moderate linear relationship between labour Management and Firm Productivity in EPZs in Kenya. The variability of the independent variable can only explain 13.2 percent of the dependent variable (FP). Similar findings are observed by Guest *et al.*, (2006) who conducted research on the future of work survey and the outcome showed a greater use of HR practices associated with higher levels of employee commitment and contribution to firm productivity.

Table 4.34 ANOVA^a Labour Management

Model		Sum of Squares	Df	Mean Square	F	Sig.
3	Regression	53.734	1	53.734	33.203	.000 ^b
	Residual	352.793	218	1.618		
	Total	406.527	219			

a. Dependent Variable: Firm Productivity

b. Predictors: (Constant), Labour Management

The F- Ration ANOVA in the Table 4.34 reveals that Labour Relation variable statistically, significantly predicted Firm Production in the EPF. $F(1,215) = 33.203$, $P < 0.05$, $R^2 = .132$. Studies by Sienghtai and Bechter (2001) differ with the findings; who

indicated that the trade unions had a positive though no significant relationship with firm innovation. While the direction of the relationship between unionization and firm innovation is unclear.

Table 4.35 Coefficients^a Labour Management

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		β	Std. Error	Beta		
3	(Constant)	1.979	.210		9.430	.000
	Labour Management	.430	.075	.364	5.762	.000

a. Dependent Variable: Firm Productivity

From the Table 4.35, α = the coefficient of Export Processing Firms (LP) equation, X_3 = the Labour Management. $Y = \beta_0 + \beta_3 + \alpha X_3$ $Y = 1.979 + .430x_3$. From the results it can be inferred that there is a linear relationship between Labour Management and Firm Productivity in the EPZs in Kenya. Rogers *et al.*, (2008) on this subject suggested that HR affected performance by first influencing climate, which then determined performance. They also argued that the direct links between Human Resource practices and performance are relatively weak as it is not Human Resource (HR) practices themselves that affect performance, but rather the extent to which they lead to favourable climate.

4.11 Summary of the Linear Regression Analysis using Multiple Regression Model to Test the H_{0x3} LM_{X3}

Linear regression analysis was carried out using multiple regression model (stepwise) and the model was valid and significant since $F(1,215) = 33.203$, $P < 0.05$, $R^2 = .132$, $p = (.000)$ $\alpha = 0.05$ LSF representing 13.2 percent predicting power of the dependent variable.

Using the unstandardized coefficients equation is $y = \beta_0 + \beta_3 x_3$, $y = 1.979 + .430x_3$. Y is the Firm Productivity (LP) 1.979 constant where the regression equation crosses the y -axis and x_3 is Labour Management (LM_{x3}) For the standardized coefficient $y = b_0 + bx_3$.

Hypothesis 4

Table 4.35 Model Summary^b Linear Regression Model on the Relationship between Labour Satisfaction and Firm Productivity in EPZs

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.192 ^a	.037	.032	1.34029

a. Predictors: (Constant), Labour Satisfaction

b. Dependent Variable: Firm Productivity

The coefficient of determination (R^2) and correlation coefficient (R) showed the degree of association between labour satisfaction and firm productivity in EPZs in Kenya. The results of the linear regression indicated that $R^2 = .037$ and $R = .192$. This is an indication that there is a weak linear relationship between labour satisfaction and Firm production in EPZs in Kenya. Variability of the independent variable had a predicting power of only 3.7 percent to explain the dependent variable.

Table 4.36 ANOVA^a Labour Satisfaction

Model		Sum of Squares	Df	Mean Square	F	Sig.
4	Regression	14.919	1	14.919	8.305	.004 ^b
	Residual	391.609	218	1.796		
	Total	406.527	219			

a. Dependent Variable: Firm Productivity

b. Predictors: (Constant), Labour Satisfaction

The F - ANOVA results in the table revealed that the Labour Satisfaction variable statistically significantly predicates the FP in the EPZs in Kenya. $F(1,218) = 8.305$ $P < 0.05$, $R^2 = .037$

The findings suggest that LS₄ representing 3.7 percent has a predicting power of the dependent variable. (FP)Boxall and Purcell (2003) conducted a longitudinal study and established how people management affected organization performance. The outcome indicated that most successful companies had a “big idea.” They had a clear vision and a set of integrated values. They were concerned with sustaining performance and flexibility. Clear evidence existed between positive attitudes towards HR policies and practices, levels of satisfaction, motivation and commitment and operational performance.

Table 4.37 Coefficients^a Firm Productivity

Model		Unstandardized Coefficients		Standardize Coefficient	T	Sig.
		β	Std. Error	Beta		
1	(Constant)	2.377	.261		9.120	.000
	Labour Satisfaction	.221	.077	.192	2.882	.004

a. Dependent Variable: Firm Productivity

From the Table 4.37 α = the coefficient of Export Processing Firms (FP) equation, $X_1 = \alpha$, the Labour Contract $y = \beta_0 + \beta_{x_4}y = 2.377 + .221x_4$. From the results it can be inferred that there is a linear relationship between Labour Contract and Firm Productivity in the EPZs in Kenya.

4.12 Summary of the Linear Regression Analysis using Multiple Regression Model to Test the H_{0x_4} LS_{x_4}

Linear regression analysis was carried out using multiple regression model (stepwise) and the model was valid and significant since $F(1,218) = 8.305$ $P < 0.05$, $R^2 = .0037$, $p = (.000)$ $\alpha = 0.05$ LS representing 3.7 percent predicting power of the dependent variable. Using the unstandardized coefficients equation is $y = \beta_0 + \beta_{x_4} + \alpha$, $y = 2.377 + .221x_4$ Y is the Firm Productivity (FP) 2.337 constant where the regression equation crosses the y - axis and x_1 is Labour Contract (LC) For the standardized coefficient $y = b_0 + bx_4$

4.13 Linear Regression Model using Standardized coefficient

The result findings indicated the presence of a linear relationship between all the independent variables (Labour Contract (LCx_1 representing $R^2 = 0.1564$, 15.64 percent predicting power of the dependent variable.), Labour Relations (LRx_2 representing $R^2 = 0.085$, 8.5 percent predicting power of the dependent variable.)

Labour Management (LM_{x3} representing $R^2 = 0.132$, 13.2 percent predicting power of the dependent variable.)

Labour Satisfaction (LS_{x4} representing $R^2 = 0.037$, 3.7 percent predicting power of the dependent variable) and the dependent variable Firm Productivity (FP). However, the relationship was limited in establishing a functional relationship by providing the dependent and explanatory variable, it also does not give the numerical values of the coefficients of the relationship, and hence further regression analysis is required. LC_{x1} had a higher power of predicting labour productivity of 15.64 percent, followed by LM_{x3} = 13.2 percent, then LR_{x2} = 8.5 percent and finally LS_{x4} = 3.7 percent to Firm Productivity. $y = b_0 + b_1x_1 + b_2x_2 + b_3x_3 + b_4x_4$

Further analysis was done using a model of the four variables to rate Firm Productivity in the EPZs. The results of the linear regression showed that $R^2 = 0.188$ and $R = 0.433$. The independent variables' predicting power could explain only 18.8 percent of the dependent variable

Regression Analysis

Correlation is the degree of relationship existing between economic variables. Both correlation and regression analysis can be used to examine the presence of a linear relationship between two variables. Correlation has some limitations since it cannot establish a functional relationship by proving the variable that is dependent and the one that is explanatory.

Table 4.38 Model Summary of Independent Variable

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.433 ^a	.188	.172	1.23945

a. Predictors: (Constant), Labour Satisfaction, Labour Management, Labour Relations, Labour Contract

The results in the Table 4.38 show that Labour Contract, Labour Relations, Labour Management and Labour Satisfaction (LC_{x_1} , LR_{x_2} , LM_{x_3} and LS_{x_4}) are linearly related with dependent variable thus a model of the four variables could be used to rate Firm Productivity in the EPZs. The results of the linear regression showed that $R^2 = 0.188$ and $R = 0.433$. The independent variables explained only 18.8 percent of the dependent variable.

Table 4.39 ANOVA^a Independent Variable

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	76.235	4	19.059	12.406	.000 ^b
	Residual	330.292	215	1.536		
	Total	406.527	219			

a. Dependent Variable: Labour Productivity

b. Predictors: (Constant), Labour Satisfaction, Labour Management, Labour Relations, Labour Contract

F(4,215)=12.206, p <0.05

A multiple regression model was used to develop and describe the relationship of the variables in the EPZs in Kenya (y) which depends on the Labour Contract (LC_{x1}) Labour Relations (LR_{x2}) Labour Management (LM_{x3}) and Labour Satisfaction (LS_{x4}) given by the equation. $y = \beta_0 + \beta_1x_1 + \beta_2x_2 + \beta_3x_3 + \beta_4x_4$

Table 4.40 Coefficients^a Dependent Variable

	Unstandardized		Standardized	t	Sig.
	Coefficients		Coefficients		
	β	Std. Error	Beta		
1 (Constant)	1.467	.301		4.866	.000
LC _{x1}	.225	.094	.220	2.389	.018
LR _{x2}	.137	.082	.124	1.682	.094
LM _{x3}	.230	.095	.195	2.421	.016
LS _{x4}	-.038	.082	-.033	-.463	.644

a. Dependent Variable: Firm Productivity

ANOVA t-Test $\alpha=0.05$

$$y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 - \beta_4 x_4$$

$$y = 1.467 + 0.225x_1 + 0.137x_2 + 0.230x_3 - 0.038x_4$$

From the Table 4.40 only the three variables LC_{x1}, LR_{x2} and LM_{x3} could predict Firm Productivity in the EPZs while LS_{x4} could not predict Firm Productivity in the EPZs in Kenya.

Findings in the Table 4.42 ANOVA Test reveal LC_{x1} $\beta_1 = 0.220$, $p < 0.05$ had the strongest prediction with FP followed by LM_{x3} ($\beta_3 = 0.195$, $p < 0.05$)

LR_{x2} ($\beta_2 = 0.124$, $p > 0.05$), LS_{x4} had the weakest the prediction using standardized coefficient with FP

LS_{x4} ($\beta_4 = -0.033$, $p > 0.05$) showed inverse prediction using standardized coefficient with FP. The study supported Kingombe and TeVelde (2013) who found out that employment within the EPZs has improved labour productivity in Kenya, implying that job experience and training provided by the EPZ firms had a positive long-term effect on the economy. The EPZs' effect on labour skills and productivity is likely to

depend on the type of investments within the zones, suggesting that some types of investments within the EPZs are more valuable, especially in the long term, than others. This aspect should be emphasized by zone authorities when targeting investors, to enhance the possible benefits of zone programmes.

4.14 Model Elasticity

Constant = 1.467 implies that if LC_{x_1} , LR_{x_2} , LM_{x_3} and LS_{x_4} were all rated at zero then Firm Productivity would be 1.467

$LC_{x_1} = 0.225x_1$, implies that one unit change or increase in LC_{x_1} results in 0.225 unit increase in Firm Productivity

$LR_{x_2} = 0.137x_2$, implies that one unit change or increase in LR_{x_2} results in 0.137 unit increase in Firm Productivity

$LM_{x_3} = 0.230x_3$ implies that one unit change or increase in LM_{x_3} results in 0.230 unit increase in Firm Productivity

$LS_{x_4} = -0.038x_4$ implies that one unit change or increase in LS_{x_4} results in 0.038 unit decrease in Firm Productivity

Table 4.41. ANOVA Testing the Null Hypothesis Summary

Hypothesis Statement	Critical Value of t	Statistics T	Decision
H ₀ There is no relationship between labour contract and firm productivity in the EPZs in Kenya	0.05	<2.389	Reject The null hypothesis
H ₀ There is no relationship between labour relation and firm productivity in the EPZs in Kenya	0.05	>1.682	Accept The null hypothesis
H ₀ There is no relationship between labour management and firm production in the EPZs in Kenya	0.05	< 2.421	Reject The null hypothesis
H ₀ There is no relationship between labour satisfaction and firm productivity in the EPZs in Kenya	0.05	> -0.463	Accept The null hypothesis Type II error

Finally using the F- Ratio ANOVA Test Statistics $p < 0.05$ the findings conclude that LCx₁ F-Test (2.389, $p < 0.05$), and LMx₃ F-Test(2.421, $p < 0.05$) are positively and significantly correlated to Firm Productivity while LRx₂ F-Test (1.682, $p > 0.05$) is not significantly correlated to Firm Productivity and LSx₄ F-Test(-0.463, $p > 0.05$) is inversely correlated to Firm Productivity.

**CHAPTER FIVE SUMMARY, CONCLUSIONS AND
RECOMMENDATIONS**

5.1 Introduction

The chapter summarizes the findings of the study done with specific to the objectives and research hypothesis of the study were used as units of analysis. Data was interpreted and the results of the findings were related with both empirical and theoretical literature available. The conclusion of the study was related directly to specific objectives and research hypothesis and then recommendations were deduced from the conclusion and discussion.

5.2 Summary of the Findings

The study sought to test the relationship between labour practices and firm productivity in the Kenya Export Processing Zones. Specifically, the study investigated labour contract, labour relations, labour management and labour satisfaction as labour input and firm productivity as output obtained by one unit of labour. The empirical literature showed that Labour Contract and Labour Management are key factors in the EPZs if host countries are to make any substantial impact on the firms' productivity and the country's GNP in the emerging economies of the world. Other literature revealed that Labour Relations and Labour Satisfaction regulated employment relationship regardless of whether they are seen as formal or informal hence if not well handled are likely to negatively affect Firm Productivity in EPZs. A pilot study was undertaken with three EPZ firms to test the reliability of the instruments and content validity. The firms were classified as either labour or capital intensive observed by the unit of labour and production capacity hence able to elicit data as per the stated objectives.

5.2.1 To establish the relationship between labour Contract and firm productivity in Mombasa Export Processing Zone in Kenya.

The findings from the qualitative data on a five point likert scale suggested that labour contract does not relate to firm productivity with a mean percentage of 43.9 percent and only 38.1percent who thought that labour contract relates to firm productivity in Mombasa EPZs Kenya. The findings are supported by the literature reviewed which characterized the labour in EPZs with frequent job layoffs, low wages and unfavorable working condition, practices that create a lot of anxiety, fear and loss of productivity in the EPZs in Kenya. Regression analysis of independent variables which was carried out reported that Labour Contract was positively correlated to Labour Satisfaction, this was also observed as the highest correlation between independent variables. The working environment plays a substantial role in a working place therefore; a worker who is not satisfied both physical and psychological will not be productive in an environment like the EPZs in Kenya.

Results of linear regression model inferred to the presence of a moderate linear relationship between labour contract and firm productivity; while the ANOVA Test results revealed that the Labour Contract variable significantly predicted firm productivity in the EPZs. Therefore from the results the null hypothesis is rejected and the alternative hypothesis accepted. Finally, the research concluded that labour contract is a statistically predictor variable of the dependent variable firm productivity in EPZs in Mombasa County, Kenya. The variability of the independent variable could only explain 15.6 percent of the dependent variable. This further indicated that owner/manager utilization of high labour contract in the EPZs has a significant relationship to firm productivity in EPZs given that many of the firms are labour intensive in nature employing on average of 2,250 labourers per firm and a daily earning of the workers at Ksh.400/= per day among low skilled workers.

2) To assess the relationship between labour relations and firm productivity in the in Mombasa Export Processing Zone in Kenya

Descriptive statistics relating Labour relations and firm productivity revealed that labour relations did not relate to firm productivity in the EPZs with 49.42 percent of the respondent strongly disagreeing while only 31.7 percent, strongly agreeing. Labour relations related to firm productivity in EPZs in Kenya. Labour Relations is positively correlated to labour management while the ANOVA F-Test result statistically predicated firm productivity in the EPZs. The structure of the EPZs is such that it does not give freedom to labour and therefore minimum interactions between workers and managers. Both informal and formal relations hardly exist for long. The proponents of firm theory argued that the reason why firms are created is for maximum productivity contrary to the results of the linear regression which revealed a weak linear relationship between labour relations and firm productivity in the EPZs in Kenya. The variability of the independent variable can only explain 8.5percent of the dependent variable. If Kenya is to achieve the Vision 2030; then a clear understanding of the relationship between labour market and firm productivity in the export firms must be well addressed (Nkondi *et al.*, 2013).

3) To determine the relationship between labour management and firm productivity in Mombasa Export Processing Zone in Kenya

The research findings suggested that labour management relate to firm productivity with 46.7 percent of the respondents agreeing to a large extent/very large extent agree, while only 29 percent, strongly disagree/disagree not at all / some extent suggest that labour management does not relate to firm productivity in EPZs in Kenya. Firms economize on the use of knowledge by leveraging the knowledge of managers. A larger firm can have more than one layer of managers, where managers learn less common problems the higher they are in the hierarchy. Zohir (2007), in an empirical research on the union impact on wages and productivity has established that wages are higher in unionised than in non unionised firms. The correlation

between Labour Management and Firm Production in terms of Firm Productivity in the EPZs was a moderate linear relationship. The variability of the independent variable only explained 13.2 percent of the dependent variable. The ANOVA T test results revealed that labour management variable, significantly predicated firm production in the EPZs. Hence, the null hypothesis is rejected and concluded that labour management is a predictor variable to the dependent variable. The findings are in consistent with both the human capital and firm theories which agree on human resource management practices as a factor of production. Firms with good management structure are likely to have superior firm output.

4) To describe the relationship between labour satisfaction and firm productivity in Mombasa Export Processing Zone in Kenya

Results obtained from qualitative data on a five point likert scale suggest that labour satisfaction related to firm productivity with a mean of 36.3 percent who strongly agree /or agree, while 33 percent, strongly disagree/disagree that labour satisfaction related to firm productivity in EPZs in Kenya. Labour Satisfaction positively and significantly correlated to Labour Contract. Further correlation was done between Labour Satisfaction and the Firm Production in EPZs and the findings revealed that there was no relationship between labour satisfaction and firm production in the EPZs. Hence, the null hypothesis was retained. The ANOVA F-Test results revealed that the Labour Satisfaction variable could not statistically and significantly predict firm productivity in the EPZs in Kenya. The findings bring new knowledge to the field of Humana Resource Management that the Labour satisfaction is not a prerequisite to firm productivity in a production firm. The results also give room to other studies in other factors of production related to HR if they would yield similar results in a production and manufacturing firm

5.3 The overall effect of the variables

Results revealed that two main variables labour contract and labour management have a role to play in the EPZ firm productivity. Further, the interdependence between the variables is also an indicator that all the variables explained productivity in the EPZs since all the variables were related to each other. From the findings the null hypothesis was rejected for the two variables labour contract and labour management because when these two variables were correlated with firm productivity they showed the existence of a significant relationship with firm productivity. The other two labour relations and labour satisfaction did not show the existence of the relationship with the firm productivity in the EPZs in Kenya. Therefore the null hypothesis was accepted,

5.4 Conclusion

The general objective of this study was to test the relationship between labour practices and firm productivity in the EPZs in Kenya. In relation to the previous studies, the studies suggest labour practices are likely to be positively related with firm productivity. However, findings from study revealed mixed results: The hypothesis tested revealed that the two variables labour contract and labour management is related with firm productivity in the EPZs in Kenya, while the labour relations and labour satisfaction are not related with firm productivity. Labour contract and labour management are driven from the firm economic theory which measures productivity as an output produced by additional unit of labour. According to Fox in Armstrong (2009) sees an individual organization as a plural society, containing many related but separate interests and objectives contrary to the unitary view that typically hold that management sees their function as that of directing and controlling the workforce to achieve economic growth and objectives, which must be maintained in some view of equilibrium. The other two variables labour relations and labour satisfaction are purely from the humanistic school of thought which is

opposed to treating workers as machines but as important skills rented out to the firms and therefore be handled with uttermost care; through labour relations and satisfaction.

5.5 Recommendations

Firms driven by market pressures need to add in their goals improved quality and productivity, greater flexibility, continuous innovation, and the ability to change to respond rapidly to market needs and demands. Effective HRM is vital for the attainment of these goals. Improved quality and productivity linked to motivation can be achieved through training, employee involvement and extrinsic and intrinsic rewards. The growing interest in pay systems geared to performance and skills reflects one aspect of the increasing significance of HRM in realizing management goals and a gradual shift from collectivism to the individualization of pay. In such case a critical attraction is the possibility of achieving these goals without increasing labour costs but at the same time increasing earnings. To realize management goals and managing change this needs employee involvement, commitment and training, employee participation, cooperation and team-work - all important HRM initiatives and activities. Justification of the study is the fact that EPZs with good Industrial labour practices such as labour contract and labour management are likely to have a positive and significant relationship on firm productivity. While labour relations and labour satisfaction if not well handled may have negative relationship with firm productivity in EPZs in Kenya.

Specifically, the Study Recommends:

1. EPZs is playing a vital role in the country's economic development in terms of attracting investment from both local and foreign sources, export growth, and employment generation in the manufacturing sector. Therefore understanding labour practices by the firm managers will positively relate to the firm growth and productivity in Kenya's EPZs. If Kenya has to achieve the Vision 2030; then a clear

understanding of the relationship between labour market and firm production in the export firms must be well addressed (Nkondi *et al.*, 2013). Labour Supply which is rented out to firms by the supplies of labour on the firms demand is crucial in sustaining firm productivity and growth. Firms need to have clear labour policies as observed in the study to get the right skills and knowledge for maximum firm productivity. Firms need to adapt best labour practices to meet global competitive labour markets.

2. Management skills of the EPZs are an important ingredient in the sustainability of the EPZs in Kenya. Perennial problems and anxiety among the workers and employers are largely caused by poor management skills hence leading to low productivity. If the EPZs have to survive in Kenya then managers need to be trained and receive right knowledge required for coordinating, controlling, communication and supervision to effectively plan, lead, organize and control the enterprise effectively leading to increased productivity and consequently growth.
3. If Kenya has to achieve the Vision 2030; then a clear understanding of the relationship between labour market and firm production in the export firms must be well addressed (Nkondi *et al.*, 2013). Labour relations among workers and employers create a working environment conducive for work. One of the major problems in the EPZs in Kenya is poor labour relations hence constant strikes and unrests in EPZ firms in Kenya. The Human Relation School of thought advocate for worker's rights and privileges such as right to fair wages, allowances, health and safety which when well blended with other labour practices firms are likely to enjoy superior outcomes, hence have a competitive advantage (Armstrong, 2008).The research therefore recommends coexistence of the employees and employers in the EPZs for the realization of firm production in Kenya.

4. Absence of labour satisfaction is likely to demotivate the morale of workers and therefore low productivity. This argument is brought forward by human relations school of thought, however industrial economist view increased labour satisfaction and labour relation is likely have bring in the substitution/ income effect would adversely affect productivity in the EPZs in Kenya. The research suggests to the industrial owners to understand the underlying factors in labour satisfaction against firm productivity in the EPZs hence over emphasis on the labour satisfaction would be at the expense of firm productivity in the EPZs. Labour relations scholar's points that labour markets are not perfectly competitive and thus, in contrast to mainstream economic theory, capitalists typically have greater bargaining power than labour suppliers. Industrial relations scholarship also assumes that there are at least some inherent conflicts of interest between employers and employees (for example, higher wages versus higher profits) and thus, in contrast to scholarship in human resource management and organizational behavior, conflict is seen as a natural part of the employment relationship (Armstrong, 2009).

5.6 Recommendations for Further Research

Findings in this study are a milestone for future research in Human Resource Management field and EPZs particularly in Kenya. The emphasis has been put in areas related to both firm economics and industrial relations.

1. Labour contract as a factor of production need to be integrated with other factors of production such as capital, land, and firm size which were not addressed adequately in the study in relation to firm productivity in the EPZs in Kenya.
2. Labour relations in the study have been viewed largely as the relationship between the employees and the employer. However, other forms of labour relations which may be formal or informal existing in the organization be

investigate as the form organization culture which form labour relations and therefore could influence productivity.

3. On the structure of management in the EPZs is which lean and non-complex, the research found a positive relation between labour management and firm productivity. However studies can be done in other organization with different type of management structures and find out if they would yield similar results in a complex firm structure.
4. Finally, labour satisfaction is presumed to relate to firm productivity as held by the human capital proponents; however, in this study it failed to show a positive relationship with firm productivity. Similar studies can be done in a service industry which unlike a production firm, measuring satisfaction using a phenomenological research approach is very subjective and therefore likely to influence productivity.

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- .
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Appendix A: Introduction Letter

Jomo Kenyatta University of Agriculture and Technology,

P.O Box 62000-002000,
Nairobi
2nd February, 2013

To The Managers and Directors,
The Export Manufacturing Firms in Kenya

Dear Sir/Madam,

RE: REQUEST TO COLLECT EDUCATIONAL RESEARCH DATA

My name is Stephen O Andai a post graduate student at Jomo Kenyatta University of Agriculture and Technology, pursuing a degree in Doctor of Philosophy in Human Resource Management, School of Human Resource Development as a requirement for the completion of my studies. I am required to carry out a research in the field of my specialization and analyze the data for academic purposes only. My title of the study is: Relationship Between Labour Practices and Firm Productivity in The Export Processing Zones in Kenya. Your firm has been sampled for this study and I do kindly, request for the completion of the questionnaire attached.

Your assistance will be highly appreciated.

Thanking you in advance

Stephen O Andai

Reg.No.HD-412/2578/2010

Appendix B Questionnaire to Managers and Labourers

The purpose of this questionnaire is to carry out a survey study on Relationship Between Labour Practices and Firm Productivity in The EPZs in Mombasa whose results will be used to make recommendations to the Kenyan Government and Policy makers in the manufacturing and export firm to be more lucrative and productive. The information collected is completely risk-free and its confidentiality will be maintained to the maximum extent allowable by law. Please TICK the box that best describes your feelings about the statements using the codes provided, where applicable.

1. Please what is your position in this organization?

1	2	3	4	5
Labourer	Supervisor	Manager	Administrator	Any Other

2. How long have you worked with this organization?

1	below 1 year	
2	between 1 and 5 years	
3	between 6 and 10 years	
4	above 10 years	

3. Name of your company -----

4. What year was your company established in Kenya?

Below 1 year	1-2 years	3-4 years	5 years and above

5. My company's major export product is

Textile	Metal /Steel	Apparel	Any other

6. I had work experience in a similar field prior to joining this company

Yes	No

7. If yes, for how long?

Below 1 year	1-2 years	3-4 years	5 years and above

8. Have you received any technical training relating to the industry?

Yes	No

9. If yes, for how long?

Below 1 year	1--2 years	3- 4 years	5 years and above

10 . If yes, who paid for the training?

Self	Employer	Any Other

11.Fill in the space provided number of skilled/semi/unskilled workers pay and unionization

	Skilled Workers	Semi-Skilled Workers	Unskilled Workers	Total
Workers				
Production per Day)				
Unionized				
Trained				
Earnings per Day per Worker				
Turn over per month				
Working hours per day				

12. Please fill in the total labour force from 2007-2013 in the table below

Export, Production and Costs

Year	Total Labour (Workers)	Total Export goods (Tons)	Total Export costs
2007			
2008			
2009			
2010			
2011			
2012			
2013			

Number of workers	Number of Goods produced	Costs of goods	Value addition OUTPUT- INPUT
100			
200			
300			
400			
500			
600			
700			
800			
900			
1000			
>1100-			

The Number of Machines	Number of Goods Produced	Costs of Goods	Value addition
10			
20			
30			
40			
50			
60			
70			
80			
90			
100			
110			
120			

State the objectives of setting up this firm

1	
2	
3	
4	
5	
6	
7	

What are the expected outcomes of the firm?

1	
2	
3	
4	
5	
6	
7	

State the actual outputs of the firm

1	
2	
3	
4	
5	
6	

	PRODUCTION	SD	D	N	A	S A
1	Labour development contributes to productivity					
2	This firm is labour extensive					
3	The production of is high					
4	Many employees are highly skilled in this firm					
5	Labour relations contributes to productivity					
6	Labour management contributes to productivity					
7	Labour contract contributes to productivity					
8	Employees are well paid					
9	Employees are well motivated to produce					
10	The selection of people to work is fairly done					

Thank you for participating

Please TICK the box that best describes your feelings about the statements using the codes provided, where applicable. The following statements deal with Labour contact in your organization. Please TICK (√) only one number that best reflects your opinion on the following five point scale: (1 = Strongly Disagree (SD), 2 = Disagree (D), 3 = Neutral (N), 4 = Agree (A), 5 = Strongly Agree (SA))

		SD	D	N	A	SA
1	In this firm duties and responsibilities are clearly defined					
2	My firm hires people with highly specialized skills.					
3	My organization hires people with creative thinking skills.					
4	The recruiting and selecting process is appropriately done to fit with the jobs in this firm					
5	To me, my organization prefers to promote internally (as opposed to external) when filling vacant position.					
6	My organization, exposes extensive orientation programmes for all new employees to familiarise themselves with the norms and values					
7	My organisation provides continuous training programmes to update existing employee skills and knowledge.					
8	Training programmes are constantly revised or updated to fit with the changing environment					
9	All the training programmes run by organisation are of high quality					
10	The criteria used to evaluate my productivity are clear.					
11	My pay/wages/salaries are high.					
12	Performance feedback is regularly provided by management.					
13	I am satisfied with my performance appraisal result.					
14	This firm relates to compensation system with the level of knowledge and skill acquired by employees.					

15	To me, compensation systems reward innovative ideas.					
16	When i do a good job, my performance is noticed and rewarded					
17	Top management practices worker employee participative skills in decision making.					
18	The employee union is part of labour practices encouraged by management in this firm.					
19	Unionization is playing an important role in productivity.					
20	Employees are committed to their high work performance					

Thank you for participating.

Appendix VII Labour Relations

Please TICK (√) only one number that best reflects your opinion on the following five point scale on Labour Management

		No t All	Som e Ext e nt	Some How	Large Extent	ery Large Extent
1	The employee turnover in this firm affects production					
2	Do you agree that new technology contributes to productivity improvement in this firm?					
3	Productivity is measured by organizational goal achievement					
4	Employees satisfaction influence organizational productivity					
5	Employees are aware of productivity tools and techniques					
6	Customer satisfaction (on quality product, lower price, efficient delivery time and after sales service) is our main objective					
7	Incentive (monetary and non - monetary) influence productivity in this firm					
8	The training offered is necessary to improve my productivity					
9	Workplace environment is conducive to influence productivity in this firm					
10	Our grievances are well handled by the management					

11	Technological and managerial innovations which benefit me and other the workers directly					
12	Information Technology increases firm productivity in this firm					
13	Work- life balance increase firm productivity in this firm					
14	Man-hour pay is equal to firm productivity.					
15	Rules and regulations affect the adoption or success of innovative management practices and/ or productivity					
11	The average productivity level per worker each day is higher					
12	The man-hour per worker each day is very high					
13	Compensation increase productivity					
14	Am involved in decision making					
15	I have a good channel of communication to top managers					
16	I get new information technologies and new HR Practices:					
17	Labour practices are violated in this firm hence affect productivity					
18	Employees are well related with the employers					
19	Best labour practices exists in this firm					
20	My pay reflects my input					

Thank you for participating.

Please TICK the box that best describes your feelings about the statements using the codes provided, where applicable. Indicate how much you agree or disagree with the following statements in your firm Please TICK (√) only one number that best reflects your opinion on the following four point scale on employee satisfaction survey

	Employee Satisfaction Survey Questionnaire	1	2	3	4	5
		SD	D	N	A	SA
1	Employees have a voice in the major decision regarding changes in the work environment?					
2	I always receive in – service training when I need to get my job done.					
3	The environment of workplace is comfortable and safe for employees.					
4	Employee are treated fairly and equally in this firm					
5	Management listens to employees grievances in this firm					
6	I am treated fairly with the management and other employees					
7	I feel under great deal of stress on my job					
8	I am satisfied with the Training and Development Programme in this firm					
9	Employee frequently get benefits in this firm hence brings satisfaction					
10	In overall I am satisfied with the working environment of this firm					
11	Am fairly treated on duty without discrimination					

1 2	I get benefits when I am on maternity / sick leave						
1 3	When I was employed I got a contract letter on terms and conditions of employment						
1 4	My pay is equal to the work I am doing						
1 5	Am entitled to benefits, bonuses, high pay, house allowance and medical care						
1 6	My overtime work is adequately paid						
1 7	I am employed on permanent basis						
1 8	A m free to join workers' union						

V11. Please rate the following areas by level of importance on labour relations practices with 1 being the most important and 6 least important.

		1	2	3	4	5	6
1	Ability to decisions						
2	Comfortable work environment						
3	Employee training programme						
4	Company picnic						
5	Religious picnic						
6	Employee recognition programme						

2. Please rate the following areas on employee relations and worker's compensation in the firm by level of importance with 1 being the most important and 6 least important

1	Retirement Scheme						
2	Life insurance						
3	Education assistance						
4	Bereavement pay						
5	Health benefits						

6	Disability benefits						

Thank you for participatin

Appendix vi Mombasa EPZ Firms 2013

- | | | | |
|---|--|---|---|
| 1 | <p>Algerasi Group EPZ K. Ltd.
 P.O.Box 99311 Kilidini
 Mombasa
 Tel:+254 - 0720122755
 Email: algerasi@usa.com/
 mudhai@justice.com
 Contact Person: Chaim
 Algerasi</p> | <p>Manufacturing
 of sesame
 paste</p> | <p>Emirates,
 Chagamwe,
 Mombasa</p> |
| 2 | <p>All Fruit EPZ Ltd
 P.O.Box 30500 -00100
 Tel: +254 -20- 2228027/8 ,
 0722 - 832922
 Email:
 Francis.marekia@ipskenya.com
 <u>m</u>
 Contact Person: Francis
 Marekia</p> | <p>Manufacturing
 – frozen
 passion fruit
 juice
 concentrate &
 mango puree &
 concentrate.</p> | <p>Kingorani,
 Chagamwe,
 Mombasa</p> |
| 3 | <p>Alpha Logistics EPZ Ltd
 P.O.Box 40268 Mombasa
 Tel: 41 2227232
 Fax: 41 2313407</p> | <p>Developer/oper
 ator and
 Service.
 Marine
 logistical
 support
 services in gas
 and oil
 exploration
 projects</p> | <p>Alpha Logistics,
 Mombasa</p> |
| 4 | <p>ET Elasto Tech (EPZ) Ltd.,
 P. O. Box 99172, Mombasa
 Tel. +254-41-433928/0721-
 263236, 0711969468
 Fax. +254-41-432921
 Email;
 lakhani@swiftmombasa.com
 Contact Person: M.L. Lakhani</p> | <p>Manufacturing
 - Garments</p> | <p>Kipevu EPZ -
 Mombasa</p> |
| 5 | <p>Forum International EPZ
 Ltd.,
 P. O. Box 81579, Mombasa
 Tel. +254-41-435298 /</p> | <p>Commercial -
 Sale of
 garment
 manufacturing</p> | <p>Kapric EPZ -
 Mombasa</p> |

- | | | | |
|---|--|--|---|
| 6 | <p>0733646101
 Fax. +254-41-434866
 Email: forum@swiftmombasa.com
 Contact Person: Sanjeev Nair
 Garsen Holding EPZ Ltd. P.
 O. Box 66093-00800 Nairobi
 , Tel: +254-20-2712245/
 2492179
 Mob: +254-721- 771718,
 Fax +254-20-249502
 Email: munkarhiro@yahoo.com
 Contact person: Stephen
 M.Njagi</p> | <p>equipment and
 spares,
 chemicals &
 garment
 accessories
 Pre –fabricated
 concrete wall
 panels</p> | <p>Kipevu EPZ -
 Mombasa</p> |
| 7 | <p>Gokal Beverages EPZ Ltd.
 P. O. Box 99351 - 80107,
 Mombasa
 Tel. +254-41-2317804/5
 Fax. +254-41-2317806
 Email. rutugna@jvgokal.com
 Contact Person: Rutugna
 Trivedi</p> | <p>Manufacturing
 - Blended
 Teas, Packet
 Teas and Tea
 Bags</p> | <p>Emirate
 Agencies EPZ -
 Changamwe,
 Mombasa</p> |
| 8 | <p>Gold Crown Foods EPZ Ltd.
 P. O. Box 89103 or 98459,
 Mombasa
 Tel. +254-41-223404/05/21
 or 2223404/5
 Fax. +254-41-
 227308/2225945/2227308
 Email:
 goldcrown@africaonline.co.ke
 globalte@africaonline.co.ke
 Contact Person: Fahim
 Ahmed</p> | <p>Manufacturing
 – Tea Blending
 and packaging</p> | <p>Gold Crown
 Foods EPZ –
 Shimanzi,
 Mombasa</p> |
| 9 | <p>Hui Commercial EPZ K. Ltd
 P.O.Box 81021 Mombasa
 Tel: +254- 41-
 2316912,0733946426
 Email; wronywang@hotmail.com
 Contact person: Wrony Wang</p> | <p>Plastic bottle
 flakes</p> | <p>Kingorani,
 Changamwe -
 Mombasa</p> |

- | | | | |
|----|---|--|---|
| 10 | Kapric Apparels EPZ Ltd.
P. O. Box 81579, Mombasa
Tel. +254-41-3432609/626
Fax. +254-41-3434438
Email. sysop@kapric.com
Contact Person: Thomas Puthoor | Manufacturing –
Garments | Pwani Industrial
Park EPZ –
Changamwe,
Mombasa |
| 11 | Kenya Knit Garments EPZ Ltd.
P. O. Box 87789, Mombasa
Tel. +254-41-221230/223008
Fax. +254-41-221188/2221188
Email : Kenya@honjen.com or
Kenya@honjen.com.tw
Contact Person: Chiu Chuei Hong | Manufacturing –
Garments | Mazeras EPZ -
Mombasa |
| 12 | Kenya Marine Contractors EPZ Ltd.
P. O. Box 94022, Mombasa
Tel. +254-41- 316776/7
Fax. +254-41- 314096
Email: bcapel@africanonline.co.ke
Contact Person: Simon F. Phillips | Manufacturing -
Fabrication of sea
going vessels | Comarco Properties
EPZ -Liwatoni,
Mombasa |
| 13 | Kenya Metal Refinerías EPZ Ltd.
P. O. Box 92076 - 80102, Mombasa
Tel. +254-718-962352
Email: savioalves@hotmail.com
Contact Person: Savio Alves | Manufacturing-
lead ingots &
alloys | Ayman Industrial
Park EPZ Ltd,
Mombasa |
| 14 | Kenya Inland Container EPZ Ltd.
P. O. Box 84209, Mombasa
Tel. +254-41- 2226047/2221576
Fax. +254-41- 2222978
Email: hama@africaonline.co.ke
Contact Person: Naillesh Patel | Service –
construction of
industrial
buildings for EPZ
firms & container
handling services. | Kipevu EPZ -
Mombasa |
| 15 | Litos EPZ Ltd.
P. O. Box 34184 - 80118, Mombasa
Tel. +254-41-470588, wire less:
020 354851
Contact Person: Kezia M. Ndolo | Tumble ware,
engraving articles,
house hold
accessories,
gemstones | Ashton Apparels -
Mombasa |
| 16 | Logistic Container Centre
Mombasa EPZ Ltd.
P. O. Box 89256, Mombasa
Tel. +254-41-2228955
Fax. +254-41-2228031
E-mail. mbalccadm@maersk.com
Contact Person: Brian Rysz | Service – Repair
of Marine
Containers | Comarco Properties
EPZ -Liwatoni,
Mombasa |
| 17 | Matrix Global Trade EPZ K. Ltd.
P. O. Box 11096-00400 Nairobi
Email: vektorwtf@gmail.com
Contact Person: Venkat Chari | Commercial –
Embodied rolls of
fabric, spare parts
of home
appliances, Indian
natural mouth | Ashton Apparels -
Mombasa |

		wash	
18	<p>Maximus EPZ Ltd. P. O. Box 2383 or 80872 Mombasa Tel. +254-41-220778/226317/3434336 Fax. +254-41-220779/228614 Email: maximus@jambomail.com ncl@africaonline.co.ke Contact Person: Prakash Radia</p>	<p>Manufacturing – Embroidery & Screen Printing of Garments</p>	<p>Malory Investment EPZ - Mombasa</p>
19	<p>Metal Refinery EPZ Ltd. P. O. Box 92828 - 80102, Mombasa, Tel: +254-727-673199,+254-736-437593, 0724812424 Fax: +254-41- Email: metalrefinery@yahoo.com Contact person: Kumar Vora</p>	<p>Manufacturing – Processing of lead and lead alloys from scrap batteries</p>	<p>Penguin paper & book EPZ Ltd - Mombasa</p>
20	<p>Mugama Containers EPZ Limited P.O. Box 40944 - 80100 Mombasa Tel. Email: Contact Person: Martin M. Munga</p>	<p>Repairing and Servicing of Containers</p>	<p>Kipevu EPZ - Mombasa</p>
21	<p>Peng's Candles EPZ Ltd. P. O. Box 17055-80100 Mombasa, Tel. +254-722-820412, Fax. Email: newland@clubinternetk.com Contact person: Peng Yijun</p>	<p>Manufacturing - Candles</p>	<p>Emirates Agencies EPZ - Changamwe, Mombasa</p>
22	<p>Penguin Paper & Book Co. EPZ Ltd. P. O. Box 85382-80100 Mombasa, Tel. +254-41-3434302, 343609, 020 2040238 Fax. +254-41-3434302 Email: penguinpaper@wananchi.com Contact person: Davendra Rathor</p>	<p>Zone Developer / operator & Manufacturing – Paper & Paper Products</p>	<p>Penguin Paper & Book Co. EPZ - Mombasa</p>
23	<p>Plastic Compounders EPZ Ltd. P. O. Box 89461, Mombasa Tel. +254-41-435035/6/7 Fax. +254-41-435032 Email: info@polymer.co.ke Contact Person: Hilesh Shah</p>	<p>Zone Developer / operator & Manufacturing - Plastic Master batches</p>	<p>Miritini Industrial Park EPZ - Mombasa</p>

- | | | | |
|----|--|---|--|
| 24 | Revital Healthcare EPZ Ltd.
P. O. Box 80713 – 80100,
Mombasa
Tel. +254-41-2220962/2229481/222979
Fax. +254-41-2229819/2228963
Email: dck@dckvora.com
Contact Person: Rajnikant C. Vora | Manufacturing –
Plastic Disposable
Syringes | Ashton Apparel
EPZ - Changamwe,
Mombasa |
| 25 | Sajan Printers EPZ Ltd.
P. O. Box 99695, Mombasa
Tel. +254-41-2495844
Email: sajantrdg@yahoo.com
Contact Person: A. Kumar | Manufacturing –
Garment Labels
and Tags | Kipevu EPZ -
Mombasa |
| 26 | Sajan Trading EPZ Ltd.
P. O. Box 99695, Mombasa
Tel. +254-41-2495844
Email: sajantrdg@yahoo.com
Contact Person: A. Kumar | Commercial -
Textile Apparel
Consumables,
Supplies,
Machinery and
Wastes | Kipevu EPZ -
Mombasa |
| 27 | Senior Best Garments K. EPZ Ltd.
P. O. Box 93351, Mombasa
Tel. +254-41-433888/9,434504,
3433888/9
Fax. +254-41-434389
Email: seniorbest.accounts@swiftmombasa.com
Seniorbest.adm@accesskenya.co.ke
Contact Person: Lin Shiu Sheng | Manufacturing –
Garments | Zois (ii) EPZ –
Mtwapa, Kilifi
Mombasa |
| 28 | Shin Ace Garments K. EPZ Ltd.
P. O. Box 87337, Mombasa
Tel. +254-41-434845/+254-41-3434845 020 2080517
Fax. +254-41-3434312
Email: shin.ace@swiftmombasa.com
Contact Person: Chen Mei Lan | Manufacturing –
Garments | Kwa Jomvu EPZ –
Changamwe,
Mombasa |
| 29 | Shipmarc EPZ Ltd.
P. O. Box 99543 -80107, Mombasa
,
<i>Tel: +254-41-229241/2/3,</i>
<i>Fax: +254-41-221390</i>
Email: info@shipmarckenya.com
Contact person: J. H. Nielson | Service -
Maintenance of
marine vessels | Comarco Properties
EPZ - Liwatoni,
Mombasa |
| 30 | Sino Link EPZ Ltd.
P. O. Box 83218, Mombasa
Tel. +254-41-434238/+254-41-3434238/488
Fax. +254-41-434231
Email: kenya@sinolinkepz.com
Contact Person: Y.K. Tung | Manufacturing -
Garments | King'orani EPZ –
Changamwe,
Mombasa |

- | | | | |
|----|---|---|--|
| 31 | <p>Sweet R US EPZ Ltd.
 P. O. Box 42731- 80100, Mombasa
 Tel. +254-41-2228762/
 2229481/2229790
 Fax. +254-41-2228963
 Contact Person: Rajnikank C.Vora</p> | <p>Manufacturing –
 bubble gum, ball
 gum, yellow
 toffee, deluxe
 toffee,
 confectionery.</p> | <p>King’orani EPZ –
 Changamwe,
 Mombasa</p> |
| 32 | <p>Texcare Africa EPZ Ltd.
 P. O. Box 93410, Mombasa
 Tel: +254-41-434362/3434362
 Fax: +254-41-434362, 3433175
 Email: texcare@kenya.com
 Contact Person:</p> | <p>Manufacturing –
 Garment
 Processing
 Chemicals</p> | <p>Kapric EPZ –
 Mombasa</p> |
| 33 | <p>Tex Trade EPZ Ltd.
 P. O. Box 93410, Mombasa
 Tel: +254-41-434362/3434362
 Fax: +254-41-434362
 Email: texcare@kenya.com
 Contact Person:</p> | <p>Commercial –
 Garment inputs &
 accessories
 Chemicals</p> | <p>Kapric EPZ –
 Mombasa</p> |
| 34 | <p>Wild Life Works EPZ Ltd.
 P.O. Box 310 - 80300, Voi
 Tel. +254-43-30062/30238 /020
 8030575
 Fax. +254-43-30062/043 30238
 Email: info@wildlife-works.com
 rob@africaonline.co.ke
 Contact Person: Robert
 Dodson(GM)/Mike Korchinsky
 (MD)Pascal Mutinda</p> | <p>Manufacturing –
 Garments</p> | <p>Wildlife Works
 EPZ – Maungu,
 Voi</p> |
| 35 | <p>YKK Kenya EPZ Ltd.
 P. O. Box 16455 80100 MSA
 Tel. +254-20-2051150/2054188
 Cell. +254-722-206469
 Email: hiten_maru@ykkafrika.com
 Contact Person: Hiten Maru</p> | <p>Commercial -
 Garment
 Accessories (Zip
 fasteners, metal
 buttons & rivets,
 hook and loop
 fastener tapes)</p> | <p>Pwani Industrial
 Park EPZ -
 Mombasa</p> |

Source: KEPZA 2013