International Journal of Business and Management Invention (IJBMI)
ISSN (Online): 2319 – 8028, ISSN (Print): 2319 – 801X
www.ijbmi.org || Volume 6 Issue 12 || December. 2017 || PP—21-30

Corporate Governance and Human Resource Management Policy Practice Nexus: A Case for Stakeholder Perspective in Kenya's Public Limited Companies

Stephen M. Nyambegera
United States International University-Africa Nairobi, Kenya
Corresponding Author: Stephen M. Nyambegera

Abstract: *The purpose of this paper is to explore current literature on the two versions of corporate governance: shareholder and stakeholder perspectives,and their effect on human resource management policy practice and human resource outcomes. The paper posits that the shareholder view focuses narrowly on the owners interests in Kenyan Public Limited Companies that have borrowed heavily from the Anglo-US model of corporate governance leaving out a huge constituency of stakeholders also having interests in the firms' functioning. Corporate governance is one of the most important components of organization functioning as it addresses the generation, protection and distribution of wealth. A three pronged methodology was used: 1) a literature review was used to identify the key principles of corporate governance and HRM policy practice; 2) based on the literature a link between corporate governance and HR policy practice was established; and 3) a case was made for a stakeholder perspective for PLCs in Kenya. The paper argues that taking a stakeholder perspective and integrating the German model of corporate governance is more encompassing as it is concerned with the structuring, operating and controlling an organization's activities with a view to achieving positive human resource outcomes for the benefit of all stakeholders while complying with the legal and regulatory requirements, apart from meeting environmental and local community needs. The paper sets a research agenda for Kenyan researchers to empirically test this view in order to inform corporate governance and human resource management policy practice in Kenyan Public Limited Companies.*

Keywords: *Corporate governance, human resource management, shareholder, stakeholder, policy practice*

Date of Submission: 17-11-2017 Date of acceptance: 28-12-2017

I. INTRODUCTION

One of the most important questions currently facing organizations is how best to ensure that investors and other key stakeholders get a fair return for their contribution of financial, human and social capital. This defines the scope of modern day corporate governance research, which seeks to understand 'the institutions that make such investments possible, from boards of directors, to legal frameworks and financial markets, to broader understandings about the place of the corporation in society' (Davis, 2005, p. 143). Contemporary definitions have sought to extend the traditional focus of corporate governance literature on shareholders and company boards to ensuring that executives respect the rights and interests of company stakeholders, and that those stakeholders are held accountable for acting morally and responsibly for the generation, protection and distribution of wealth invested in the firm (Aguilera, Filatochev, Gospel and Jackson, 2008).

1.1Meaning of Corporate Governance

Mallins (2007) defines corporate governance as a combination of corporate policies and best practices adopted by the corporate bodies to achieve their objectives in relation to their stakeholders. It has been increasingly recognized in organizations that appropriate corporate governance arrangements are a key element incorporate success (Meredith and Robyn, 2005). They form the basis of a robust, credible and responsiveframework necessary to deliver the required accountability and bottom line performance consistent withan organization's objectives. Corporate governance describes how modern corporations organize their relations with stakeholders. In doing so, it is typically concerned with how the interests of corporate boards and senior managers are brought into line with these stakeholders. There are two key elements associated with such alignment (1) ensuring that these managers protect the wealth of owners by being accountable to minimize the risks to key stakeholdersof organizations, and (2) enabling them to take risks in order to create wealth by pursuing innovation and enterprise success (Filotochev and Guest, 2005).

Thus, conceived of in this way, it has major implications for employees and how Human Resource Management (HRM) is practiced (Gospel and Pendelton, 2005).Alo (2001) describes the concept as the processes and structures by which business and affairs of an institution are directed and managed in order to improve long-term shareholder value and respect of the legal rights of all shareholders in the context of its corporate mission.Corporate governance structures of joint stock corporations in a given country is determined by several factors including the legal and regulatory framework outlining the rights and responsibilities of all parties involved in corporate governance, the *de facto* realities of the corporate environment in the country, and each corporation's articles of association. Therefore, what constitutes good corporate practices vary from one country, sector and organization to anothersince these variations are determined by different national legal codes,sectorial, and corporate cultures hence the need to understand how this plays out in KenyanPublic Limited Companies(PLCs).

1.2Benefits of Good Corporate Governance

In spite of context there are universal benefits that come with good governance such as preventing organization collapse and bad reputation, constructive engagement, enhanced ethics, and enhanced sustainability. Pillay (2010) posited that robust governance is a pre-requisite for a healthy enterprise. By ensuring that the right procedures and processes are in place, good governance helps to strengthen the labor productivity of an organization. The purpose of corporate governance therefore is to promote integrity, transparency, accountability and disclosure, all with a view to protecting investors and enabling improved relations with various stakeholders (Padgett, 2012).

1.3Purpose of the Paper

The purpose of this paper was to explore current literature on the two versions of corporate governance: shareholder and stakeholder perspectives and their role in shaping the kind ofhuman resource management policy practice found in public limited companies in Kenya and the effect of such HR policy practice on employee outcomes. The paper makes a case for the stakeholder perspective of corporate governance as it encompasses all interested constituencies in an organization's functioning. The paper argues that the shareholder view focuses narrowly on the interests of the owners hence leaving out other constituencies such as employees, trade unions, suppliers, customers, the local community and so forth.

Given the challenges that Kenyan PLCs are facing and the critical role they play in shaping the economy, it is prudent that these organizations function effectively. Corporate governance practices that achieve long-term strategic goals to satisfy shareholders, employees, customers, creditors and suppliers, and complying with the legal and regulatory requirements are essential. A search through the literature indicates that very little research or none at all in Kenya focuses on corporate governance and human resource management policy practice. This paper aims to create interest in this field so that Kenyan researchers can start to empirically study this linkage from a stakeholder perspective thereby contribute to more effective management of governance in Kenyan organizations.

1.4Corporate Governance in the Kenyan Context

The study of corporate governance has grown rapidly since the year 2000, prompted by the crises associated with Enron, WorldCom, Parmalat and other corporate scandalsincluding the 2007-2008 financial services crisis, which demonstrated that some senior executives have failed to act responsibly and ethically in balancing their wealth generation and wealth protection roles (Cooper, 2008; Davis, 2009). The list was extended more recently resulting from the economic recession among major world economies associated with the high risk lending in Anglo-Saxon countries to sub-prime borrowers which saw the subsequent collapse of credit and the demise of some of the world's largest financial institutions (Ferguson and Kang, 2008). Readers should note that Kenya is a capitalist country that borrows heavily from the Anglo-US model in running corporate governance issues. The model is characterized by share ownership of individual, and increasingly institutional, investors not affiliated with the corporation, a well-developed framework defining the rights and responsibilities of three key players namely management, directors, and shareholders; and a comparatively uncomplicated procedure for interaction between shareholders and corporations as well as among shareholders during or outside the annual general meeting. However, in the Kenyan context most of these stringent requirements that the United Kingdom and United States of America have instituted for good corporate governance are not strictly followed.

In Kenya corporate governance has been an important topic because ofcorporate scandals such as the recent complaints on the composition of board members in statecorporations along ethnic lines and the collapse of banks like Imperial Bank. Mismanagement, bureaucracy, wastage, pilferage,incompetence, and irresponsibility by directors and employees are pointed out in Sessional Paper number 4 ofthe Government of

Kenya as the main problems that have made State Corporations fail to achieve their objectives (Reuters, 2004). Kenya's entities have had a history of poor governance systems with about 70% of the scandals attributed to weak corporate governance practices, lack of internal controls, and weaknesses in regulatory and supervisory systems as well as conflict of interest. Examples of serious governance issues were reported in the financial sector for example; according to the Global Corruption Report (2009), on 13th October 2008 the Capital Markets Authority intervened in the management of Discount Securities Ltd, a stockbroker with the Nairobi Stock Exchange, and appointed an auditing firm, KPMG, to investigate allegations of weak financial base and poor corporate governance. Following these developments, the National Social Security Fund (NSSF) lost Sh1.4 billion (approximately US$19 million) belonging to desperately poor retirees that invested through the stockbroker. The report observes that these scandals are not new since in 2003 Euro Bank collapsed with Sh256 million (US$3.37 million) of NSSF contributors' money. The funds had allegedly been invested in Euro Bank through Shah Munge and Partners Stockbrokers. It later turned out that Munge was one of the directors of Euro Bank. Similarly, in 1993 Mugoya Construction secured a contract to construct NSSF's Embakasi housing project, despite being one of the highest bidders. Although NSSF had already estimated the cost of the project to be a mind-boggling Sh11 billion (US$160 million), Mugoya was still given an extra Sh2 billion (US$29 million) when he asked for more funds.The report also noted that directors shamelessly do indulge in insider trading and political corruption. Reports around the collapse of the Uchumi supermarkets in June 2006 raised suspicions of insider trading by some directors. According to news reports, just before the public pronouncement was made huge sums of shares were sold off. Terry Davidson, who was the chief executive officer of Kenya Commercial Bank, a creditor for Uchumi, was arraigned in court on 27th August 2008 and charged with insider trading. Similarly, National Broadsheets reported that Chris Kirubi, a major Kenyan industrialist and a former director of Uchumi, was also charged with the offence of conspiracy to defraud the supermarket of Sh147 million.

Good governance demands that sector players are seen to be responsible in the conduct of their business demonstrating their integrity in providing value to customers, adopting ethical employment practices and showing commitment to communities.With all these governance issues, it is not surprising to see that since the year 2001 Kenya has persistently been ranked among the top five most corrupt countries in the world (Wahome, 2001). Findings conclude that, Kenya's financial sector ails from poor sectoral and corporate governance issues, resulting in weaknesses such as ineffective laws, poor financial sector oversight, a base sector culture and overbearing political and executive corruption that make pensioners, creditors, employees and depositors extremely vulnerable (Global Corruption Report, 2009).Despite the many corporate governance issues in Kenya,recent trends point to the fact that a lot is being done to improve governance as follows:

- The Central Bank of Kenya now demands good corporate governance for financial stability and sustainability from all licensed banks and financial institutions;
- From the year 2002 the Capital Markets Authority requires all listed companies to comply with principles of good corporate governance;
- Parliament and the Public Investment Committee, reviews corporate governance in State owned enterprises;
- In September 2015, the Companies Act was passed by Parliament and received Presidential assent placing full responsibility on boards to play their fiduciary roles well and provides punitive penalties for those who do not play their roles well;
- A new Constitution was promulgated in 2010 that seeks to promote among others good governance through transparency, effective leadership and integrity;
- The Institute of Certified Public Secretaries of Kenya (ICPSK) established through an Act of Parliament CAP 534 is in the frontline of promoting good governance; and
- In April 2015, *Mwongozo* Code of Governance was passed and a Code of Governance for private organizations developed byICPSK.

Albeit a lot of literature drawing much emphasis on the relationship between corporate governance and shareholders interest, little is known about the effect of bad governance on other stakeholders and the link between corporate governance and human resource management policy practice and HR outcomes in the Kenyan context. This paper aims at filling this gap and stimulating interest in researchers from this part of the world to empirically start investigating implications of bad governance on HRM and organization performance.

II. METHODOLOGY

This is a conceptual paper enabling and stimulating discourse on governance and HR policy practice. This paper substantiates the case put forward from current literature in corporate governance and human resource management policy practices. The author takes a specific point of view, and the purpose of this paper is to explore and explain the reasoning behind the case that a stakeholder perspective makes more sense and is more encompassing. A three pronged methodology was used: 1) a literature review was used to identify the key

principles of corporate governance and HRM policy practice; 2) based on the literature a link between corporate governance and HR policy practice was established; and 3) a case was made for a stakeholder perspective for PLCs in Kenya.

III. LITERATURE REVIEW

3.1Models of Corporate Governance form Developed Countries

In each country, the corporate governance structures have certain characteristics which distinguish it from structures in other countries. To date, researchers have identified three models of corporate governance in developed capital markets. These are the Anglo-US model, the Japanese model, and the German model. Each model identifies the following constituent elements: key players n the corporate environment; the share ownership pattern in the given country; the composition of the board or boards of directors; the regulatory framework; disclosure requirements for publicly listed stock corporations; corporate actions requiring shareholder approval; and interaction among key players.

3.1.1The Anglo-US Model

This model is characterized by share ownership of individual, and increasingly institutional, investors not affiliated with the corporation (known as shareholders or "outsiders"); a well-developed legal framework defining the rights and responsibilities of the key players, namely management, directors and shareholders also commonly known as the "corporate governance triangle"; and a comparatively uncomplicated procedure for interaction between shareholder and corporation as well as among shareholders during or outside the AGM.Corporation adopting this model mainly depend on equity financing to raise capital.

The Anglo-US model, developed within the context of the free market economy, assumes the separation of ownership and control in most publicly listed corporations. The boards of directors of most corporations that follow the Anglo-US model include both "insiders" and "outsiders". An insider is a person who is either employed by the corporation (an executive manager, manager or employee) or who has significant personal or business relationships with corporate management. An outsider is a person or institution which has no direct relationship with the corporation or corporate management.

3.1.2The Japanese Model

The Japanese model is characterized by a high level of stock ownership by affiliated banks and companies; a banking system characterized by strong, long-term links between bank and corporation; a legal, public policy and industrial policy framework designed to support and promote "*keiretsu*" (industrial groups linked by trading relationships as well as cross-shareholdings of debt and equity); boards of directors composed of almost solely of insiders; and a comparatively low (in some corporations, non-existent) level of input of outside shareholders, caused and exacerbated by complicated procedures for exercising shareholder's votes.

In terms of key players, the Japanese model of corporate governance is many sided, centering on a main bank and a financial/industrial network or *keiretsu*.In the Japanese model, the four key players are: main bank, affiliated company or *keiretsu*, management and the government. The main bank system and the *keiretsu* are two different, yet overlapping and complimentary elements of the Japanese model. The bank provides its corporate client with loans as well as services related to bond issues, equity issues, settlement accounts, and related consulting services. The main bank is generally a major shareholder in the corporation. The board of directors of Japanese corporations is composed of almost completely of insiders, that is, executive managers, usually the heads of major divisions of the company and its central administrative body.

3.1.3The German Model

The German corporate governance model differs significantly from both the Anglo-Us and the Japanese model, although some of its elements resemble the Japanese model. Banks hold long-term stakes in German corporations, and, as in Japan, bank representatives are elected to German board. However, the representation is constant, unlike the situation in Japan where bank representatives are elected to a corporate board only in times of financial distress.

There are three unique elements of the German model that distinguishes it from the Anglo-US and Japanese models. First, the model prescribes two boards with separate members. German corporations have a two-tiered board structure consisting of a management board (composed entirely of insiders that are executives of the corporation) and a supervisory board (composed entirely of employee representatives and shareholder representatives). The two boards are completely distinct; no one may server simultaneously on a corporation's management board and supervisory board. Second, the size of the supervisory board is set by law and cannot be changed by shareholders. Third, in German and other countries following this model, voting rights restrictions are legal; these limit a shareholder to voting a certain percentage of the corporation's total share capital, regardless of share ownership position.

3.2Shareholder and Stakeholder Perspectives in Corporate Governance

Two broad versions of corporate governance co-exist: the shareholder and the stakeholder view. Tirole (2001) describes the essence of corporate governance from a shareholder view as how to ensure that managers, who decide for the benefit of shareholders, internalize the external effects of their decisions in the welfare of shareholders. O'Donovan (2003) by contrast, describes corporate governance from a stakeholder perspective as a system of structuring, operating and controlling a firm with a view to achieve long-term strategic goals to satisfy shareholders, employees, customers, creditors and suppliers, and complying with the legal and regulatory requirements, apart from meeting environmental and local community needs.

The Shareholder perspective also known as the Agency theory was the response of neoclassical economists to the question of controlling senior managers and executive boards in positing a contractual view of the firm. Agency theorists pointed to a legal and metaphorical contract between owners (the financiers of the business and thus the principals) and senior managers (their agents). Managers raised funds from financiers to operate the business; financiers, in turn, needed managers to generate returns on their investments. In essence the contract that ensued specified what managers would do with the funds and what the division of returns would be between the principals and agents. This perspective seems to borrow heavily from the Anglo-US model of corporate governance described above. As described the Anglo-US model whereby among the key characteristics are sharing ownership of individual, and increasingly institutional, investors not affiliated with the corporation; the key players are management, directors and shareholders; a comparatively uncomplicated procedure for interaction between shareholder and the corporation as well as among shareholders during or outside the AGM.Though long dominant in the literature, the shareholder view is increasingly diminishing in its popularity. For many critics the need for change has become urgent following scandals in large public corporations, which went too far in their pursuit of share value maximization (Ferguson and Kang, 2008). The focus of the firm, they argue, must shift towards more balanced objectives, corporate social responsibility and ethical behavior (Aguilera, Filatochev, Gospel and Jackson, 2008).

Stakeholders' perspective is a recent phenomenon, where, researchers recognized that the accountability of a company does not extend merely to its' shareholders but rather to a wider audience. According to Caldwell, Karri, andVollmar (2006), the evolution of governance models, presented by stakeholder theory extends the company's obligations beyond shareholders interest and this is based on the assumption that the company has responsibilities to its employees, the public and a variety of ethical and moral obligations to other interested parties.This perspective seems to build or similar to the German model of corporate governance whereby three unique elements of the model distinguish it from the Anglo-US and Japanese models. First, the model prescribes a two-tiered board structure consisting of a management board (composed entirely of insiders that are executives of the corporation) and a supervisory board (composed entirely of employee representatives and shareholder representatives). Second, the size of the supervisory board is set by law and cannot be changed by shareholders. Third, voting rights restrictions are legal limiting a shareholder to voting a certain percentage of the corporation's total share capital, regardless of share ownership position.

This kind of board composition that allows employee representation allows them to supervise the corporate governance issues in the corporation. It gives employees voice in the operations of the corporationmore especially when the board is giving strategic and policy direction that might hurt the welfare of employees who are a major insider stakeholder. It is therefore argued that when organizations focus on shareholders' interests it will most likely have an impact on the human resource management policies and practices developed and implemented consequently affecting employee outcomes such as commitment. For example in PLCs, the shareholder, whose primary requirement is likely to be short term share value appreciation, the HR policies and practice adopted are likely to be biased towards those that minimize short term costs, in particular costs of labor and other productive inputs hence the corporate governance human resource management nexus.

3.3Human Resource Management Policy Practice and Corporate Governance Of all resources that organizations must employ to achieve goals, human resources are apparently the most indispensable. People are too central to organizational functioning and success; all other resources only become handy when people with the right characteristics are engaged to appropriately employ and apply them.Human resource management is the strategic and coherent approach to the management of an organization's most valued assets – the people working there, who individually and collectively contribute to the achievement of the objectives of the business (Armstrong, 2006). This point to the fact that, HRM serves to secure the commitment of this key stakeholder to the objectives of the organization and to make available the full benefits of their skills, knowledge and experience. Ideally, this is a central purpose of HRM and its role in enhancing organizational performance

(Baker, 1999; Huselid, 1995). Human resource policy practice is crucial in the face of a globalized knowledge based economy.Supangco (2006) pointed out that successful human resource practices in organizational capacity building help the organization to adapt to changes in a global environment whereby these practices provide the necessary infrastructure to enable the organization to create value in the market. Organizations need to ensure that investors and other key stakeholders get a fair return for their contribution of financial, human and social capital. HR policy practice does influence the HR outcomes hence the need to consider it against the background of good corporate governance practice because boards of directors among other things deal with strategic and policy directions, accountability and supervision in PLCs.

Human resources management involves several processes. These processes can be performed in an HR department, but some tasks can also be outsourced or performed by line-managers or other departments.Human resource is the management function through which managers recruit, select, train, and develop organization members. It is the HRdepartment that decides whether a company needs more or fewer employees and managers from time to time. The HRM process is thus an ongoing process that tries to keep the organization supplied with the right people in the right positions, when they are needed (Stoner, Freeman and Gilbert, Jr., 2000).The success of the strategic management of human resources involves the design and implementation of a set of policies and practices to ensure that employees share knowledge, skills and abilities that contribute to achieving the objectives of the organization (Huselid, Jackson, and Schuler, 1997). Becker and Huselid (2006) argued that the intangibility of human resources is essential to achieve a sustainable competitive advantage, which depends on whether the leader of a company understands how to integrate people into the achievement of organizational goals. Considering human capital as part of unique and valuable knowledge of the employees, there will be relevant features to generate a sustainable competitive advantage. The value of knowledge reflects the power to improve efficiency and effectiveness of the firm, exploiting market opportunities and/or neutralize potential threats, while the unique knowledge helps to differentiate from competitors.

However, some authors noted that the resources of a company should not only be valuable and unique, toprovide superior performance, it is also necessary to have an appropriate organizational structure to achieve anadvantage of these resources (Barney and Wright, 1998). Goffee and Jones (2001, ascited by Caldwell et al., 2006) asserted that leaders must build relationships with employees to develop asense of commitment in a competitive global market. This brings systems management practices of humanresources, called collaborative or partnership/alliance (LópezCabrales et al., 2009). The literature also emphasizes the importance of working in teamsto raise awareness of the unique and valuable members of the organization (see for example Nonaka and Takeuchi, 1995). In the collaborative system, the ability to work as ateam is necessary to move any selection process and these skills are the focus of training initiatives. In sum, theevaluation process and compensation provided complete with a criterion group (Lepakand Snell, 1999). Therefore, the design teamwork is to generate a competitive advantage in theorganization.As can be seen, there is a paucity of empirical studies on the relationship between human resourcemanagement and corporate governance, which creates an opportunity for research to define the type ofrelationship.

Despite the many corporate scandals noted earlier not much has been written about HR governance as supported by Christensen (1987, cited in Supangco, 2006: 101) who observed that failure in corporate governance, may be a symptom of a human system that is unable to define governance objectives and plans for achieving them, to implement actions or to measure their success.Martin and McGoldrick (2004) noted that little has been written about HRM and corporate governance in the recent past. These scholars' review observes that, only a small number of articles cite corporate governance in their keywords, although prominent HR theorists have called for ways of conceptualizing HRM from a governance perspective. Similarly, Deloitte (2008 cited in Meyer et al., 2011) argues that every business scandal or regulatory violation ultimately has its roots in the workforce. That is why HR practitioners must expand their role from "stewards" (which focuses on workforce compliance and administration) to "strategist" (which affects every governance, risk and compliance issues with a human element (Meyer et al., 2011).Gobler, Bezuidenhuot, and Hyra (2014) note that South African organizations are facing challenges that require sound governance practices but there is very little research that has explored HR governance frameworks, and little to none is found in the literature.

Konzelmann et al., (2006) state that the central purpose of HRM is enhancing performance and in turn HRM itself, is affected by the implementation of corporate governance practices. Therefore, the demands of the stakeholder could impact on the HRM policy practices developed and implemented. Martin and McGoldrick (2009) and Konzelmann et al., (2006) identified two streams of HRM, the "Hard" HRM and "Soft" HRM to be the result of the extent of corporate governance practices implemented. The 'Hard' and 'Soft' versions of HRM were introduced by Storey (1987), whereby hard HRM focused on the resources management aspects of HRM, most notably cost control and workforce flexibility to align them with shorter -term product demand variables,

and the soft HRM focused on human aspects of HRM, including communication, motivation, engagement, learning and leadership (Martin and Hetrick, 2006). Konzelmann et al., (2006) outline four variables considered as soft and hard HRM, namely, employee consultation and incentive systems (soft HRM) and training and teamwork (hard HRM).In agreement, Hendry and Pettigrew (1990) pointed out that HRM carries with it ambivalence between "utilitarianism-instrumentalism" and "developmental-humanism". Utilitarian-instrumentalism depicted HRM as putting emphasis on the resource-side of human resource utilization, while developmental-humanism put emphasis on the human side of human resource development.Gospel and Pendleton, (2003) argue that different forms of corporate governance and strategy are likely to be associated with different emphases in HR policy practices. The effectiveness of HRM policy practices in achieving the HRM outcomes, which they are designed to deliver, is an important intermediary link between HRM policy practices and organizational performance. However, it is important to note that hard and soft models of HRM are not necessarily mutually exclusive; rather, they form parts of a whole HRM strategy that may be more heavily influenced by aspects of one or the other.

To evaluate the effectiveness of the HRM process within an organization, the Harvard researchers (Beer et al., 1984) have proposed taking into account the different internal and external interests that influence HR policies and practices with focus on four C's namely: competence, commitment, congruence, and cost effectiveness (Stoner, Freeman and Gilbert, Jr., 2000).By shaping HRM policies and practices to enhance commitment, competence, congruence, and cost effectiveness, an organization increases its capacity to adapt to changes in its environment. High commitment, for example, means better communication between employees and managers. Mutual trust is enhanced, and all stakeholders are responsive to one another's needs and concerns whenever changes in environmental demands occur. High competence means that employees are versatile in their skills and can take on new roles and jobs as needed. Furthermore, they are better able to respond to changes in environmental demands. Cost effectiveness means that human resource costs, such as wages, benefits, and strikes, are kept equal to or less than those of competitors. Finally, higher congruence means that all stakeholders share a common purpose and collaborate in solving problems brought about by changes in environmental demands. This capacity to collaborate is crucial to organizational survival and growth in an ever changing environment. Through the function of leading, managers help people see that they can satisfy their own needs and utilize their potential and at the same time contribute to the aims of an enterprise. Managers should thus have an understanding of the roles assumed by people, the individuality of people, and their personalities. Arguably then, it is very important that corporate governance appreciate the prominent position that employees occupy in organizations; they are partners in progress. It is a fact that when business realizes its utter dependence on its employees and treats them well, it builds up employee loyalty and that always improves their productivity as well as the quality of work.

Corporate governance should, in effect, be inclined to maintaining an engaged workforce which can lead to increased production, innovation and good word of mouth advertising for the company as an employer. Board of directors should therefore embrace corporate social responsibility practices in human resource management to include valuing human capital, providing safe and healthy workplaces and a worklife balance; embracing diversity in human resources and continual skills development for all employees. The benefits of undertaking ethical human resource management, as Lloyd (2009) acknowledged include greater engagement of employees which may lead to decreased staff turnover, opportunities for greater innovation as employees feel valued, and the potential to be considered an employer of choice. However, this cannot happen without having a stakeholder perspective that focuses on all constituencies like employees affected by the actions of the firm rather than a shareholder one that focuses on maximizing returns for the owners of the company. Gospel and Pendlaton (2003) for example, argue that governance and related incentive structures in the Anglo-US shareholder based model encourage managers to readily downsize their workforces and to avoid investments such as training that have uncertain returns. They also found that institutional investors tend to prioritize shortterm profits, shareholder value and liquidity. Organizations' key equity holders thus play an important role in shaping HR policy practices because of the pressure that different classes of investors are able to exert on management and the influence that this will have on the work systems they adopt.

Nevertheless, the extent to which shareholders pursue shortterm financial interests to the detriment of longterm organizational interests varies even within the liberal marketbased systems. For example, some large listed firms in the UK such as pharmaceutical companies have stable and active relationships with investors and at the same time are committed to employment security, career opportunities and human capital development. Thus, the extent and ways by which managerial discretion is exercised is influenced by characteristics of shareholders, managers and the sectors in which they operate (Gospel and Pendleton, 2003).

IV. THE CASE FOR A STAKEHOLDER PERSPECTIVE AND EFFECT ON HUMAN RESOURCE MANAGEMENT POLICY PRACTICE

This paper reviewsliterature and research from the developed world in an effort to discern the nexus between corporate governance and human resource management. What is revealed is that corporate governance writeups lean towards the more dominant shareholder's perspective that adopts mostly the Anglo-US corporate governance model. Despite the extant literature on corporate governance and serious scandals that resulted from focusing on profit maximization for the shareholders, not much is found from developing countries especially Kenya. On the same subject of governance, Kreissl (2012) noted that having some kind of governance structure in place, both for the HR function itself and for all types of people management issues, helps treat employees fairly, consistently and in compliancewith the law and recognized best practices, control costs and align people management practices with an organization's overall strategy and its vision, mission and values.

While supporting the idea of recognizing the role of corporate governance in shaping HR policy practice, this paper opines that a stakeholder perspective that adopts the German model of corporate governance is more encompassing since it recognizes that accountability of a company does not only focus on its' shareholders but to a wider constituency.This model as seen above includes by law employee representatives in the second tier of that board that supervises what the management board does in guiding strategic and policy direction of the corporation. A key criticism leveled against the shareholder perspective is its narrowness, by identifying shareholders as the only interest group of a corporate necessitating further exploration. By expanding the spectrum of interested parties, the stakeholder theory stipulates that, a corporate entity invariably seeks to provide a balance between the interests of its diverse stakeholders in order to ensure that each interest constituency receives some degree of satisfaction (Abrams, 1951).

The stakeholder theory therefore appears to be better in explaining the role of corporate governance than the shareholder theory by highlighting the various constituencies of a firm. Thus, creditors, customers, employees, banks, governments, and society are regarded as relevant stakeholders. In other words, firms are not merely bundles of assets that belong to shareholders, nor can they be in a modern world when the key assets are largely intangible and under the control of knowledgeable employees (Kay, 2004). Instead, governance structures and the work of senior managers are aimed at maximizing the total wealth of the organization for the benefit of also their employees that contribute firmspecific assets, i.e. their knowledge and skills and many others that have a stake in the enterprise. This theory fits in well with the assumptions of reputation management, which recognizes the importance of constituencies including customers, suppliers, employees, business partners, government, the press, investors and society at large (Martin and McGoldrick, 2009).In agreement, Freeman, Wicks and Parmar (2004) argue that, regardless of the ultimate aim of a corporation, managers have no option but to have regard for the legitimate interests of different kinds of stakeholders who are shaped by and shape what the corporation does and how it is managed. In this way the economic and social purpose of the corporation is to create and distribute wealth and value to all its primary stakeholder groups, without favoring one group at the expense of others.

Corporate governance legally structures stakeholder relations and prioritizes the interests that corporate managers are required to serve. In considering the effects of corporate governance on stakeholder relations and HRM policy practices,Konzelmann et al., (2006) asserted that it is useful to distinguish between internal and external stakeholders, and the extent of their involvement in the organization's productive activities. Managers and workers directly employed by the organization and fully engaged in its productive activities, for example, are completely internal, while agency and other forms of temporary workers, suppliers, customers, communities, shareholders and the government are to varying degrees external stakeholders. While all firms have both internal and external stakeholders, with differential levels of influence, by assigning dominance to particular groups, corporate governance has an impact on the organizational commitment each might make. Thus, the significance of the distinction between internal and external stakeholders lies in the level and continuity of the commitment each needs to make to ensure the success of the organization and the importance to the stakeholder's well-being associated with the reciprocation of that commitment by the organization. For example, there is a high level of mutual dependency between the organization and its directly employed managers and workers; and the success of the organization depends very much on the commitment of these internal stakeholders while they, in turn, rely on the organization for their present and future income and their job prospects. By contrast, at the other extreme, shareholders have no direct role to play in the productive activities of the organization. Therefore, the degree of mutual dependency and commitment required between the organization as a producer and its shareholders can be expected to be low.

Corporate governance structures stakeholder relationships, the nature of which will be importantly determined bythe requirements of the dominant stakeholder group. These requirements willhave an impact on the organization's objectives and the ways by whichperformance is measured and assessed; and from this will flow the policies and practicesdesigned to meet them. In this context, the HRM policies and practices that are developedand implemented can be expected to reflect the firm's strategic orientation. Forexample, strategies

aimed at producing satisfactory quality at minimum cost (common with the hard variant of HRM) inthe short term are likely to favor HRM practices designed to maximize theeconomic returns from human resources while strategies aimed at maximizingproduction efficiency and qualitythrough the close cooperation of productiveagents (common with the soft variant of HRM) favor approaches designed to develop employee involvement andcommitment to the longerterm objectives of the organization.

HRM system outcomes in the areas of people and processes will be influenced by the effectiveness of the strategies and approaches taken by the organization. Also important will be corporate governance because by prioritizing employee interests, it determines the level and degree of employee outcomes in the productive processes. Particularly important in this respect is the credibility of managerial commitments to employees, which can be expected to be determined by the degree to which they are made conditional on the requirements of shareholders other than employees. Corporate governance thus has important consequences for the effective translation of HRM policy practices and their effect on HRM outcomes.Human resource management plays an important role in creating fit by balancing cost, contingencies, and complementarities of the firm (Aguilera, et al., 2008) to ensure effective governance, which often necessitates flexible approaches to talent management, rewards, performance management and employee relations, depending on the industrial, economic or life-cycle context (Boon et al., 2009). There is need for firms to be simultaneously different and socially legitimate in their corporate and employer branding (Martin andHetrick, 2006; Martin, GollanandGrigg, 2011). HRM has a key role in advising on complementary policy practices that meet these key contingencies, especially in advising leaders on exercising a judicious mixture of hard and soft variants.This paper argues that if the agents of the firm especially those at the board level that guide strategic and policy directions do not solely focus on maximizing the bottom-line for the owners, the HR policies and practices they employ will take into account the interests of employees (a key stakeholder) consequently leading to positive HR outcomes of commitment, competence, congruence and cost effectiveness.

V. CONCLUSION

The purpose of this paper was to explore literature on the two versions of corporate governance: shareholder and stakeholder perspectives and their role in shaping HRM policy practice, consequently employee outcomes of commitment, competence, congruence and cost effectiveness. The paper finds out that the shareholder view common in countries that embrace the Anglo-US model of corporate governance, focuses narrowly on the interests of the owners has been predominantly used but a stakeholder approach is now taking shape as it does not leave out a big constituency of other stakeholders that also have interests in the functioning of an organization.

It is clear that despite many corporate scandals not much or little has been written about HRM and corporate governance in the recent past and only a small number of articles cite corporate governance in their keywords, although prominent HR theorists have called for ways of conceptualizing HRM from a governance perspective. In Kenya corporate governance has been an important topic because of corporate scandals such as the complaints on the composition of board members in state corporations along ethnic lines and the collapse of financial institutions. Mismanagement, bureaucracy, wastage, pilferage incompetence and irresponsibility by directors and employees have necessitated the need for HR practitioners and researchers to take this topic seriously. The paper recommends that corporations in Kenya although a free market society, there is a need to embrace the stakeholder perspective that embeds the German model of corporate governance in order to carter for a wider constituency that have a stake in the running of corporations.

Due to the theoretical nature of this paper, it is suggested that further research on the applicability and effectiveness of the stakeholder perspective be carried out in Kenyan PLCs and by extension to all other forms of organizations. Organizational effectiveness can be seen to extend to the management of human resources in such a way as to develop and facilitate the reciprocal commitments required for successful long term organizational performance and sustainability. However, the nature and structure of stakeholder relations shaped by corporate governance may impose constraints on the ability of managers to honor commitments made to employees as well as on the willingness of internal stakeholders to fully commit to one another and to the organization and its objectives. While stakeholders have mutual interests in the long term effectiveness of their organizations, not all interests are shared.Future studies can empirically find out what the case is in other Kenyan organizations such as family owned and state owned organizations.

REFERENCES

[1]. Abrams, F. W. (1951). Management's Responsibilities in a Complex World. Harvard Business Review, 29, 54-64.

[2]. Aguilera, R. V., Filatotchev, I., Gospel, H. & Jackson, G. (2008). An organizational approach to comparative corporate governance: costs, contingencies and complementarities. Organization Science, 19: 475-492.

[3]. Alo, O.(2001), "Ethical Values and Professionalism of Responsible Corporate Governance of Nigerian Banks", Paper presented at the first 2001 Quarterly Forum of the Bank Directors" Association of Nigeria.

[4]. Armstrong, M. (2006), A Handbook of Human Resource Management Practice, 10th ed., Kogan Page, London.

[5]. Baker, G.P., Gibbons, R. & Murphy, K.J. (1999). Informal Authority in Organizations.Journal of Law, Economics and Organization, 15.
[6]. Barney, J. B., & Wright, P. M. (1998). On Becoming a Strategic Partner: The Role Of Human Resources in Gaining CompetitiveAdvantage. Human Resource Management, 37(1), 31-46.
[7]. Becker, B. E., &Huselid, M. A. (2006). Strategic Human Resources Management: Where Do we go From Here? Journal of Management, 32, 898-925.
[8]. Beer, M., Spector, B., Lawrence, P.R., Mills, D.Q., & Walton, R.E (1984). Managing Human Assets: A General Manager's Perspective. New York: Free Press
[9]. Caldwell, C., Karri, R., &Vollmar, P. (2006). Principal Theory and Principle Theory: Ethical Governance from the Follower's Perspective.Journal of Business Ethics, 66, 207-223.
[10]. Cooper, G.(2008). The origin of financial crises.London: Harriman House.
[12]. Davis, G. F. (2005). New Directions in Corporate Governance.Annual Review of Sociology, 31: 143-62.
[13]. Davis, G. F. (2009). The Rise and Fall of Finance and The end of the Society of Organizations.Academy ofManagement Perspectives, 23: 27-44.
[14]. Ferguson, C. & Kang D. (2008). Corporate Governance and Misappropriation.Journal of Forensic Accounting: Auditing, Fraud, and Taxation, 9(2), 26.
[15]. Filatotchev, I. & Guest, D. (2005). Introduction: Corporate Governance, Human Resource Management and Film Performance, DTI Economics paper no.13, joint DTI/King's College London Seminar.
[16]. Hendry, C. & Pettigrew, A. (1990). 'Human Resource Management: An Agenda for the 1990's'. The International Journal of Human Resource Management, 1(1), 17-43.
[17]. Huselid, M.A. (1995). The impact of human resource management practices on turnover, productivity, and corporate financial performance.Academy of Management Journal, 38, 635-672.
[18]. Huselid, M. A., Jackson, S., & Schuler, R. S. (1997). Technical and Strategic Human Resource Management Effectiveness asDeterminants of Firm Performance.Academy of Management Journal, 40(1), 171-188.
[19]. Gospel, H. & Pendleton, A. (2003). 'Finance, corporate governance and the management of labour.A conceptual and comparative analysis'.British Journal of Industrial Relations, 41 (3): 557–82.
[20]. Gospel, H. &Pendelton, A., Eds (2005). Corporate Governance and Labor Management: An International Comparison.Oxford: Oxford University Press.Gospel, H. &Pendelton, A., Eds (2005) Corporate governance and labor management: An international comparison. Oxford: Oxford University Press.
[21]. Grobler, A., Bezuidenhout, M.L, &Hyra, A. (2014). Governance and HR: The Development of a Framework for South African Organizations.Journal of Contemporary Management, 11:164-184.
[22]. Mallin, C.K. (2007). Corporate Governance(2nd ed.). Oxford: Oxford University Press.
[23]. Martin, G. &Hetrick, S. (2006). Corporate Reputations, Branding and Managing People: A Strategic Approach to HR. Butterworth-Heinemann: Oxford.
[24]. Martin, G. &McGoldrick, J. (2009). Corporate Governance and HR: Some Reflections and a Case Study from the UK National Health Service, in Young, S. (ed.) Contemporary Issues in International Governance, Tilde University Press: Melbourne.
[25]. Meyer, M. Roodt, G. & Robbins, M. (2011), Human Resources Risk Management: Governing People Risks for Improved Performance.SA Journal of Human Resource Management 9(1): 366-378.
[25]. Padgett, C. (2012). Corporate Governance: Theory and Practice. London, Palgrave Macmillan.
[26]. Pillay, J. Y. (2010), Corporate Governance, The Art of Good Governance, Distinguished Speaker Lecture Series, Cooler Insights, Price Waterhouse Coopers, Website: http://coolinsights.blogspot.com/2017/06/art-of-corporate-governance Retrieved June 24, 201.
[27]. Reuters. (2004). Corporate governance.Accessed on http://www.reuters.com/finance/economy.
[28]. Meredith, E. & Robyn, C. (2005). Corporate Governance in the Public Sector: An Evaluation of its Tensions, Gaps and Potential: University of Canberra.
[29]. Nonaka, I., & Takeuchi, H. (1995). The knowledge—Creating Company: How Japanese companies create the dynamics of innovation. New York: Oxford University Press.
[30]. Kay, J. (2004).The truth about Markets: why some Nations are Rich but most remain Poor. London: Penguin.
[31]. Konzelmann, S., Conway, N., Trenberth, L. & Wilkinson, F. (2006). Corporate Governance and Human Resource Management.British Journal of Industrial Relations. 43(3), 541-567.
[32]. Lepak, D. P., & Snell, S. A. (1999). The human resource architecture: Toward a theory of human capital allocation anddevelopment. Academy of Management Review, 24(1), 31-48.
[33]. LópezCabrales, A., Perez-Luño, A., & Valle-Cabrera, R. (2009). Knowledge as a Mediator between HRM Practices andInnovative Activity.Human Resource Management, 48(4), 485-503.
[34]. O'Donovan, G. (2003). A Board Culture of Corporate Governance.Corporate Governance International Journal, 6(3), 22-30.
[35]. Stoner, A. F., Freeman, R. E. & Gilbert, R. (2000), Management, Sixth Edition, Prentice-Hall of India Private Limited, New Delhi.
[36]. Supangco, V.T. (2006).HR Involvement in Corporate Governance.Philippine Management Review, 13: 101-116.
[37]. Tirole, J. (2001). Corporate governance.Econometrica, 69(1), 1–35.
[38]. Wahome, M. (2001). "Kenya ranked fourth in graft". Thursday, June 28, 2001. Daily Nation website.December 3, 2003 http://www.nationaudio.com/News/DailyNation/28062001/News/News58.html.

Stephen M. Nyambegera. "Corporate Governance and Human Resource Management Policy Practice Nexus: A Case for Stakeholder Perspective in Kenya's Public Limited Companies." International Journal of Business and Management Invention , vol. 06, no. 12, 2017, pp. 21-30.