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Role of Trade Union's Bargaining Power in Compensation-Labour Productivity gap during Collective Bargaining Negotiations: Evidence from Selected organization in Kericho County Kenya

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This paper examines the role of trade unions' bargaining power in the compensation-labour productivity gap during collective bargaining negotiations by establishing its role in consideration of Labour productivity as a key parameter during collective bargaining negotiations. This research used an exploratory research design because it allows for the discovery of new insights or ideas on the relationship between Labour productivity, trade union's bargaining power and the compensation-labour productivity gap. The target population was 158 respondents who consisted of trade union officials, employer associations, top management and Ministry of Labour officials. A sample of 42 was selected using stratified purposive sampling so as to select respondents who take part in collective bargaining negotiations. Questionnaires that were tested for reliability and validity were used to collect data. Data analysis was done using descriptive and inferential statistics. This research established the sources of trade unions' bargaining strength with the main ones being membership base, labour legislation and financial strength. In addition, it established that the Trade union's bargaining power does not play a significant role in the consideration of Labour productivity as one of the key parameters during collective bargaining negotiations ($r = -0.115$; $p > 0.05$) and $\beta = -0.56$; $p > 0.05$; this is because although labour productivity is one of the parameters that is found in the Kenyan Wage guidelines, it is not the only parameter that is considered during collective bargaining. Hence this study concludes that trade unions' bargaining power, has neither hindered nor facilitated consideration of labour productivity during compensation negotiations, nor has it contributed to the Compensation-Labour Productivity pay gap in the selected organizations in Kenya. This study recommends that there is a need for further study on other factors that could be contributing to the productivity-pay gap in Kenya.

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INTRODUCTION

Trade unions play an important role in checks and balances so as to ensure organizational democracy. According To the Ethical Trading Initiative (2010), trade unions use their collective strength to represent and negotiate on behalf of their members so as to improve their terms and conditions of service. They are an expression of the fundamental right of members to organize themselves to protect and promote their interests by collective action and protect themselves from oppression or injustices meted out to employees by management. Bargaining power can be defined as the ability to induce the other side to make a decision that it would otherwise not make (Armstrong, 2006). Trade union power/ strength is seen in terms of its effectiveness in influencing management decision-making and bargaining for better terms at the workplace level, sectoral and national level. Trade unions are only powerful if they have a strong collective voice, this is by having a strong mobilization capacity on its members through having a common collective identity and common interests so as to influence government and tripartite arrangements or force employers to agree to collective bargaining in order to avoid high Labour turnover costs, replacement costs or any other costs related to work stoppage.

Trade unions are recognized by the Kenyan Employment Act 2007 and Labour Relations Act 2007 as legitimate employee representatives so as to ensure industrial democracy and give employees a voice during collective bargaining with employers and employer associations. Kenya follows the tripartite approach to labour relations

by involving trade unions, employer associations and government through the Ministry of Labour so as to ensure smooth industrial relations. Trade unions are recognized at firm, sector and national levels when settling industrial disputes or during collective bargaining negotiations.

Bargaining power can also be viewed as the ability to secure an opponent's agreement to your terms. Therefore, a Trade union's bargaining power can be defined as management's willingness to agree to the Trade union's terms or demands. Management's willingness in turn depends on how costly disagreeing would be relative to how costly agreeing would be. According to Manzini and Snower (2005) in their research paper on "Wage determination and the sources of bargaining power" bargaining power also depends on the negotiating parties' risk preference or risk aversion, for example, high replacement costs, Labour turnover costs or loss of productivity can make management to agree to the union's demands. Trade union's bargaining power can also be seen in the ability to disrupt operations (Bustillo & Rodríguez, 2011), in their research on "The influence of trade union bargaining power on EU processing trade", note that trade unions use their bargaining power to disrupt domestic markets as they press for higher wages when firms are vertically integrated. This is because the trade union's bargaining power is achieved through its ability to; bargain at the national level as opposed to the industry or sector level, the ability to force their decisions, the existence of strike funds, control over the appointment of trade union representatives who

are able to implement decisions made at the national level as well as the union density.

In their paper “An Analysis of Workplace Representatives, Union Power and Democracy in Australia” Peetz and Pocock (2009), observed that union density contributes to a trade union's bargaining power, however, there has been a weakening of trade union power in Australia with a decline in trade union density. According to Kato (2016), a decline in union density and membership in Japan was viewed as a possible cause for the decline in wages despite the increase in productivity due to the weakening of their bargaining power. According to Afriyie, Baffour and Baah-Boateng (2023), in their research on “Union Wage effect: Evidence from Ghana”, declining union coverage and membership weaken a trade union's bargaining power, eroding their ability to influence wage setting during collective bargaining, while the presence of trade unions has a positive effect of wages of the covered members due to the trade unions collective strength.

Trade Union's bargaining power plays the role of ensuring that workers are not exploited by the employers but instead, their interests and welfare are well looked into.

At the same time Employer bargaining power ensures that the profitability and long-term survival of the organization are not compromised by the trade union's demands. Where employers and Trade union players do not share similar viewpoints and convictions about Labour productivity and its role in driving competitiveness, employment creation and guaranteeing the interest of investors, employers, employees and their families the sustainability of the organization as well as good industrial relations become compromised. However according to Fisher and Waschik (2000) in their research on “Union bargaining power, relative wages, and efficiency in Canada” trade unions' bargaining power has the ability to raise the wages of their members to a premium leading to “market distortion” and distorting the economic efficiency of firms.

Labour productivity is a key measure of business efficiency, particularly for firms in which the production process is Labour-intensive. According to Heshmati and Rashidghalam (2016) in their discussion paper series on “Labour Productivity in Kenyan Manufacturing and Service Industries” productivity is a function of capital, Labour, materials and energy. Hence Labour productivity is a measure of the utilization of Labour when interacting with capital, materials and energy so as to produce output. Labour productivity is important because Labour costs are usually a significant part of total costs within an organization in the form of wages, while business efficiency and profitability are closely linked to the productive use of Labour so as to remain competitive.

According to Biesebroeck (2015), the Growth of Labour productivity is critical for the growth of the wages of employees and the growth of the organization in terms of profits. According to Haipeter, Boewe and Schulten (2018), Labour productivity can be considered as an input factor during collective bargaining and as an output factor for gain sharing, however, inflation should also be considered during collective bargaining in keeping with the Meinhold-wage-formula. Hence wage determination should therefore be aligned with labour productivity, salary and wage negotiations should reflect both the needs of the union/ employees and that of the employers but also consider the interests of other stakeholders so as to ensure integration and collaboration among the Labour players.

In a research paper by Tomassetti, William and Veersma (2015), on a “Comparative report on Collective Bargaining and Labour Productivity in Germany, Italy, the Netherlands, Poland, Spain and the UK”, there is a strong relationship between Labour hours and compensation with these two factors being the major issue during collective bargaining so as to maintain competitiveness and sustainability. According to Goldberg *et al* (1975), in their book on “Collective Bargaining and Productivity”, productivity considerations are not considered by both the

trade unions and management. While Kenyan Wage Guidelines (2005) identify productivity as one of the parameters that should be considered during collective bargaining negotiations, not many collective bargaining negotiation parties consider it which has been found to have a negative impact on the sustainability of organizations and the economy (Omolo, 2010).

According to Baker (2019), in research on “The Productivity to Paycheck gap”, there exists a gap between productivity and pay of average workers and part of this can be due to more of the productivity gains being used to pay the top management or lower unionization or lower labour market protection policies. This is in agreement with research by Cooper and Mishel (2015) on how “the erosion of collective Bargaining has widened the gap between productivity and pay” due to the weakening bargaining power of trade unions, low collective bargaining power coverage and poor policies on gains sharing, leading to suppression of growth in pay despite increase in productivity. Additionally, according to Przychodsen and Bezares (2021), the CEO - Employee pay gap also contributes to the productivity-pay gap, by having the gains made from the increased productivity of workers go to the CEO and top management as opposed to being shared with the middle and lower cadre of employees whose productivity leads to this increased. Additionally, according to Greenspon, Stansbury and Summers (2021), other factors have contributed to the suppression of pay despite the increase in productivity leading to divergence in the productivity-pay gap, where an increase in productivity is not linked increase in pay, including an increase in technological advancements and increased markups, lower unionization power to mention a few which has led to increase in productivity without corresponding increase in pay.

This research seeks to add to this debate by looking at the relationship between trade unions' bargaining power and consideration of labour productivity during collective bargaining negotiations so as to reduce the labour

productivity -pay gap by either the trade unions or the employers. This research will be significant to trade unionists as they seek to ensure that there is fair gain sharing from increased productivity with workers, it will also be significant to the employers as they seek to ensure that pay is not higher than productivity which can erode their competitiveness and viability. It will also be significant to policy markers so as to ensure increased economic growth and development.

Problem Statement

- An increase in the Productivity of labour should ideally lead to an increase in wages and salaries. However, the Labour market players do not always factor in Labour productivity during collective bargaining negotiations or award of wage increases based on labour productivity. This has contributed to a compensation–Labour productivity pay gap which can have negative impacts on the organizations and the economy as a whole. Where the wage increase is higher than the increase in labour productivity this negatively affects the organization's viability or where the labour productivity is higher than the increase in wages or compensation this negatively affects the workers' morale and commitment. Although the Kenyan wage guidelines (2005), identify productivity as one of the parameters that should be considered during collective bargaining negotiations, the same has not been applied by all the collective bargaining negotiating parties. This study seeks to establish the role of trade unions' bargaining power in consideration of labour productivity as a key parameter during collective bargaining negotiations in an effort to bridge the Compensation-productivity pay gap in Kenya.

Objective of the study

- To Examine the source of trade unions' bargaining power in the selected organizations in Kenya

- To Establish the role of trade union's bargaining power in consideration of Labour productivity as a key parameter during collective bargaining negotiations in selected organizations in Kenya
- To Establish the role of trade unions' bargaining power in the Compensation-productivity pay gap in Kenya

LITERATURE REVIEW

Source of Trade unions Bargaining power and its Role in consideration of Labour productivity during collective bargaining negotiations

Hicks bargaining model as discussed by Flatau (2002), proposes that “wages tend to equal the value of the marginal product of labour”, however in the presence of trade unions and the likelihood of trade union activity, trade unions and management negotiators balance the cost and benefits of a work stoppage when making concessions during collective bargaining negotiations. They focus on the length and the cost of work stoppages and on the cost and benefits to the negotiating parties. Each side tries to make concessions to avoid a work stoppage. The employer will make concessions in order to avoid a strike when the employer anticipates that there will be a long strike with dire economic consequences. Unemployment and opportunities for finding alternative temporary employment during periods of disagreement can also influence trade unions' strength negatively.

According to Smith (1996) in a paper on “Bargaining power and Local market influences on wage determination” Labour-intensity organizations as well as capital intensity also give a union greater bargaining power since work stoppage can have costly consequences. In addition, high market rates can also increase the trade unions' bargaining power to push for better wages because of the threat of Labour turnover as a better alternative if a suitable solution is not achieved during negotiations. In addition, a trade union's bargaining power can also be influenced by its membership, reputation, and presence or

absence of multi-unionism where more unions bargaining together have a greater bargaining strength with greater union density contributing to the bargaining power. Trade unions that have greater financial strength and many sources of income also have greater bargaining power since they are able to withstand long periods of disagreement as they push for their own terms. This is in situations where the trade unions do not only rely on members' subscription fees but also have other additional sources of revenue. This means that they are able to support their union members through union strike funds during periods of disagreements with management before an agreement is arrived at. Additionally if one of the negotiating parties has greater financial stability because of having income from other sources, that party will be more willing to “bear some period of disagreement” and might therefore be able to bargain for much better terms.

According to Wilawan (2007) as cited by Napathorn and Chanprateep (2011) external factors which consist of a legal system that protects the trade union and the acceptance by workers that a “labor union is considered a legitimate entity” and hence solidarity, greatly contributes towards a trade unions strength and bargaining power. Internal factors that affect trade union power and effectiveness include the independence of the labour union, democracy, unity, and responsibility as well as the characteristics of labour union leaders. In addition, a national culture of collectivism has also been associated with strong unions because employees tend to trust unions to fight for and protect their rights. Another factor that also affects union strength is the relationship between the workers and management; if the workers view management to be fair in terms of distribution of rewards then they may not see the need to join a trade union. The changing nature of the employment contract from permanent to part-time, contract and temporary nature has also affected the union's strength and bargaining power by reducing the trade union's density and membership. Automation, job security, the attitude of management and legislators towards

unionization as well as globalization are other factors that have affected trade union's strength.

Trade Unions' bargaining power can affect the key parameters considered during collective bargaining negotiations so that labour productivity is either considered or not considered. An example is in Japan where according to Kato (2016), in an ILO report on "Productivity, Wages and Unions in Japan", Japan has a compensation mechanism called "Shunto" which involves determining wage increases based on collective bargaining at the enterprise level as determined by increase in productivity. This is because the enterprise trade unions are able to demand an increase in wages based on the increase in productivity of the enterprise. This helps to provide a link between productivity and an increase in wages, however, despite this linkage, a longitudinal study showed that there has been a continuous increase in productivity which is not accompanied by an increase in wages at the same rate since 1980 resulting in "productivity-wage gap"

According to Magati and Nganga (2012) in their paper on "Sectoral Productivity Awareness in Kenya", wages in Kenya are awarded either as a result of negotiations by collective bargaining parties or being granted by the Industrial Court of Kenya. However, the Labour market players do not factor in Labour productivity during collective bargaining negotiations or award of wage increase which has contributed to a productivity wage gap. The lack of synchrony between wage awards and productivity trends has led to a situation where wage increases are out of pace with GDP growth and productivity trends, which can have negative impacts on organizations and the economy as a whole.

RESEARCH METHODOLOGY

This research used an exploratory research design, this is because this research design allows for the discovery of new ideas or thoughts on an area of interest after a survey of respondents with experience in collective bargaining. The target population was 158 respondents these consisted of

4 strata that were made up of trade union officials and Employers/Top management that take part in collective bargaining, Employer association officials and labour officials from the Ministry of Labour and Social Protection. The trade union officials were drawn from the thirteen unions that represent employees within Kericho County and all the firms with which these unions negotiate. The participating unions were: the Kenya Union of Commercial Food and Allied Workers (KUCFAW), Kenya Plantation and Agricultural Workers Union (KPAWU), Kenya Union of Domestic Hotel, Educational Institutions and Allied Workers (KUDHEIA), Kenya National Union of Teachers (KNUT), Kenya Union of Post Primary Education Teachers (KUPPET), Kenya County Government workers union, Kenya union of nurses, Kenya union of civil servants, Communication workers union, KETAU (Kenya Power) Building and construction workers union, University Academic Staff Union (UASU), and Kenya University Staff Union (KUSU). Stratified purposive sampling was used to select a sample size of 42. The inclusion criteria were the trade union officials that take part in collective bargaining negotiations which included the chairs and secretary generals of the trade unions, the HR managers and top management that take in collective negotiations, employers representatives from FKE (Federation of Kenya Employers) and AEA (Agricultural Employers Association) and an official from the ministry of Labour who also takes part in collective bargaining negotiations. Closed-ended questions were used and the questionnaires that were tested for reliability and validity were used to collect data. Validity of the data collection instrument was established through extensive discussion with productivity and compensation experts to ensure that it conforms to various forms of validity namely: - face validity, content validity and construct validity by comparing with generally acceptable criteria. Reliability was established by piloting the instrument using similar respondents drawn from firms located in Nakuru County and a Chronbach alpha value of 0.843 was obtained which was above the recommended threshold of 0.7

Data analysis was done using descriptive analysis of mean and modes while inferential analysis was done using Pearson correlation and regression coefficients. Data was presented through tables and charts.

FINDINGS AND DISCUSSIONS

Descriptive Statistics

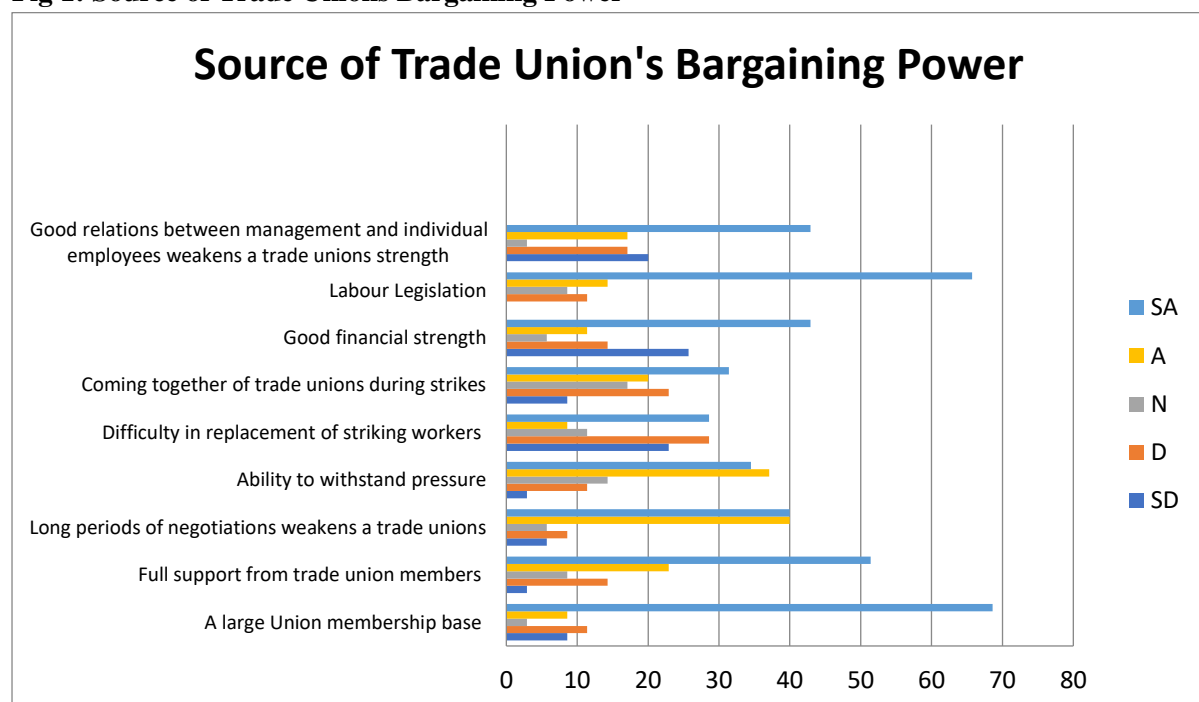
Source of Trade Unions Bargaining Power

From the responses, the majority of the respondents (69%) strongly agreed that a large Union membership base gives trade unions a strong collective voice and bargaining power, with 51% strongly agreeing that full support from trade union members gives a trade union greater bargaining power and 40% agreeing and 40% strongly agreeing that long periods of salary negotiations weakens a trade unions strength and bargaining Power. However, 34.3% strongly agreed and 37.1% agreed that the ability to withstand pressure from management through threats during strikes or work stoppage gives trade unions greater bargaining power, while opinions were split on whether difficulty in replacement of striking workers gives trade unions a greater bargaining power, with 28.6% strongly agreeing

and 28.6% disagreeing. 31.4% agreed that coming together of trade unions to negotiate jointly has given them greater bargaining power while 20% agreed and 50% agreed that good financial strength is able to make a trade union sustain a long strike without giving in the management's pressure and 68% strongly agreed that Labour legislation has contributed to increasing union strength, however, 42.9% strongly agreed and 17.1% agreed that good relations between management and individual employees weakens a trade unions strength.

These findings agree with the views of Wilawan (2007) as cited by Napathorn and Chanprateep (2011) that external factors consist of a legal system that protects the trade union and the acceptance by workers that a “labour union is considered a legitimate entity” and hence solidarity, greatly contributes towards a trade unions strength and bargaining power. They are also consistent with the findings by (Peetz and Pocock, 2009; Kato, 2016: and Afriyie, Baffour and Baah-Boateng, 2023), which showed that union density contributes to trade unions' bargaining strength, with the greatest strength coming from the membership base, labour legislation and good financial strength.

Fig 1: Source of Trade Unions Bargaining Power



Role of Trade Unions' Bargaining Power in consideration of labour productivity during collective bargaining negotiations

Opinions on whether strong trade union leadership acts as a limiting factor in the use of Labour productivity during compensation negotiations were divided with 37.1% strongly agreeing and 17.1% agreeing while 25.7% strongly disagreed and 14.5% disagreed. When asked whether trade unions' strong bargaining power acts as a limiting factor in the use of Labour productivity as a parameter during collective bargaining negotiations opinion was split with 40.0% agreeing and 11.4% agreeing strongly. However, 22.9% disagreed while 20.0% disagreed strongly and 5.7% were neutral. Opinion on whether Union strength has resulted in over-compensation to employees was split with 22.9% strongly disagreeing, 20% disagreeing, 22.9% strongly agreeing and 31.4% agreeing.

Similarly, opinion on whether trade unions have not used their bargaining power to enhance workers' commitment to optimum productivity, enhancing productivity measures, was divided with some respondents agreeing and others disagreeing. When asked whether trade unions have not used their bargaining power to enhance workers' commitment to optimum job

productivity, 22.9% strongly agreed and 22.9% agreed, while 31.4% disagreed, 14.3% strongly disagreed and 8.6% were neutral. Most of the respondents agreed that affordability and organisation sustainability play a major role when determining wage/salary levels in their organizations with 51.4% strongly agreeing and 45.7% agreeing respectively. On whether trade unions have not used their collective strength to ensure that productivity measures that enhance job productivity and employee performance have been established and considered during salary negotiations, 20% strongly agreed, 37.1% agreed, 17.1% were neutral, while 14.3% disagreed and 11.4% strongly disagreed respectively.

These findings imply that a trade union bargaining power plays a role in the use of Labour productivity during compensation negotiations, but this is only true in some industries such as the labour-intensive sector where workers are paid using the piece wage rate systems, unlike in other industries such as the service sector such as education and health sector where Labour output is more difficult to measure. In addition, the Kenyan Wage guidelines recognize productivity as a factor to be considered hence trade unions' bargaining power does not have much role to play in whether labour productivity is considered during compensation negotiations.

Table 2: Role of Trade Unions' Bargaining Power in the use of Labour productivity as a parameter during collective bargaining negotiations

Statement	SD	D	Neutral	A	SA	Total
Strong trade union leadership acts a limiting factor in use of Labour productivity as a parameter during collective bargaining negotiations	25.7%	14.3%	5.7%	17.1%	37.1%	100.0%
Trade unions' strong bargaining power acts as a limiting factor in the use of Labour productivity as a parameter during collective bargaining negotiations	20.0%	22.9%	5.7%	40.0%	11.4%	100.0%
Union strength has resulted in over-compensation of employee	20.0%	22.9%	2.9%	31.4%	22.9%	100.0%
Trade unions have not used their bargaining power to enhance workers' commitment to optimum job productivity	14.3%	31.4%	8.6%	22.9%	22.9%	100.0%
Affordability and organisation sustainability play a major role when determining wage/salary levels in your organizations	0.0%	2.9%	0.0%	45.7%	51.4%	100.0%
Trade unions have not used their collective strength to ensure that productivity measures that enhance job productivity and employee performance have been established and considered during salary negotiations	11.4%	14.3%	17.1%	37.1%	20.0%	100.0%

Inferential Analysis

From the findings, Trade union bargaining power has a very weak negative and insignificant role in the use of Labour productivity as a key parameter during collective bargaining negotiations in the organizations that were sampled ($r = -0.115$; $p > 0.05$). This suggests that an increase in Trade union's bargaining power will lead to a decrease in negotiations where labour productivity is considered a key parameter, however, this is not significant or rewarding because there are other significant factors that may still play a significant role in consideration of Labour productivity as a key parameter during collective bargaining negotiations. In addition for every 1 unit increase in Trade Union bargaining power, there is a decrease in collective bargaining negotiations where labour productivity is considered as a key parameter ($\beta = -0.56$; $p > 0.05$), however, it is insignificant because the P value is greater than 0.05. These findings are in agreement with the research by Biesebroeck (2015), which established that growth of Labour productivity is beneficial for both the organization in terms of profits and the employees in terms of better terms and conditions of service, hence this is one parameter that is agreeable to both parties and trade unions may not need to use their bargaining strength to press for its consideration. In addition, it is also one of the compensable factors among other factors that are provided for in the Kenyan

wage guidelines (2005). Additionally, these findings are consistent with those of Haipeter, Boewe and Schulten (2018), which show that Labour productivity can be considered as an input factor during collective bargaining and as an output factor for gain sharing, however, inflation should also be considered during collective bargaining in keeping with the Meinhold-wage-formula, hence labour productivity is not the only consideration during collective bargaining. However, these findings are inconsistent with the findings by Baker (2019) and Cooper and Mishel (2015), which found the productivity-pay gap is contributed by weak bargaining strength, low collective bargaining coverage and poor Labour protection laws, however, these results were based on secondary data, unlike the present research which relied on primary data from the experienced professionals involved in collective bargaining. Additionally, these results indicate that there are other factors that are considered during collective bargaining and not only productivity concerns, leading to an insignificant effect of bargaining power of trade unions to consider Labour productivity during collective bargaining negotiations. Hence other factors have contributed to the productivity -pay gap (Greenspon, Stansbury and Summers, 2021) such as an increase in technology advancement and an increase in markup, leading to an increase in pay without a corresponding increase in pay.

Table 3: Correlation and Regression coefficient for Trade Unions bargaining power role in consideration of labour productivity during collective bargaining negotiations

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	3.613	.982		3.679	.001
Trade Union bargaining Power Bottlenecks	-.056	.135	.061	.413	.683

Pearson Correlation (r) -0.115 , Sig. (2-tailed) $.511$

Dependent Variable: Consideration of Labour Productivity during Collective Bargaining Negotiation

Conclusion and Recommendation

From the findings, the research concludes that Trade unions' bargaining power does not play a significant role in the consideration of labour productivity during compensation negotiations in the selected organizations in Kenya. This is because the Wage guidelines already have made a

provision for its inclusion as one of the compensable factors among other factors that are provided for in the Kenyan wage guidelines (2005). In addition, consideration of labour productivity during collective bargaining is beneficial to both the trade unions and the employers and hence there is no need for trade unions to use their bargaining power to press for its inclusion during collective bargaining negotiations. This study concludes that trade union bargaining power has not contributed to the productivity-wage gap in the selected organizations in Kenya. The study recommends further studies on the cause of the compensation-productivity gap in the institutions in Kenya, specifically by looking at how Labour policies can help to ensure there are no productivity-pay -pay gaps in Kenya as well as the contribution of top management-employee pay gap to the productivity-pay gap, as well as further studies on other factors that contribute to Labour productivity being considered as a key parameter during wage setting negotiations in Kenya.

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