

*Full Length Research Paper*

# Relationship between capacity building and employee productivity on performance of commercial banks in Kenya

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This article of this paper is based on a research project carried out on commercial banks in Kakamega Central District, Kenya focusing on the influence of employee productivity on organizational performance which investigated the impact of capacity building and employee productivity in commercial banks since this leads to increase in performance as empirical research has proved. Kenya has experienced banking problems since independence in 1964 culminating in major Bank failures (37 failed banks as at 1998). Some of these problems like weak supervision and equipping employees with expertise, necessary skills and knowledge can be addressed through employee productivity to improve performance of the banks. Banks in Kenya and Kakamega in particular have experienced poor service delivery, organizational ineffectiveness, poor public relations, customer dissatisfactions, and some of these banking institutions have posted a decline in profitability. Research focusing on the firm-level impact of human resource management practices such as employee productivity, satisfaction and motivation has become popular in recent years. This has revitalized interest in the subject of employee productivity and its impact on the performance of organizations. Most studies tend to indicate that employee competence has a positive effect on the organizational performance. Therefore the findings from the study added value to the expanding scope of existing research studies on the influence of employee productivity on the organizational performance. This paper also provides vital information to organizational managers in the banking sector and academicians to encourage employee motivation, satisfaction and future research.

**Key words:** Capacity building, employee productivity and performance.

## INTRODUCTION

Employee productivity depends on the amount of time an individual is physically present at a job and also the degree to which he or she is "mentally present" or efficiently functioning while present at a job. Companies must address both of these issues in order to maintain high worker productivity, and this may occur through a variety of strategies that focus on employee satisfaction, health, and morale (Ron and Ronald, 2002).

Kenya has experienced banking problems since 1986 culminating in major bank failures (37 failed banks as at 1998) following crisis of; 1986-1989, 1993/1994 and 1998. In a banking crisis; depositors, lenders to banks

and owners of bank capital all lose confidence and seek to simultaneously salvage their resources by withdrawing them. Often, banking problems have domestic causes, such as a weak banking supervision, inadequate capital and political interferences. Profitability ratios indicate that majority of commercial banks report a decline in financial performance (Kithinji and Waweru, 2000). Some of these problems like weak supervision and inadequacy in expertise of employees, necessary skills and knowledge which are also experienced by commercial banks in Kakamega Central District can be addressed through on-the-job training to improve performance of the banks.

Companies with the strongest financial performances often had employee populations reporting high levels of employee satisfaction; companies with poor financial performance also had high levels of employee

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satisfaction (Bruce and Kay, 2002). With the current expansion of the global economy and the fast-changing evolution of technology and innovation, organizations are facing an on-going need for employee learning and development (Swanson and Holton, 2001). The resource base approach contends that the organization can develop a sustained competitive advantage only if its activities create value in a unique way, on that competitors cannot easily copy. The human capital cannot be easily copied once they acquire the expertise and the necessary skills and knowledge in their workplace.

Gallup reports that highly satisfied groups of employees often exhibit above-average levels of the following characteristics: customer loyalty (56%), productivity (50%), employee retention (50%), safety records (50%), profitability (33%), (available through [www.gallup.com](http://www.gallup.com)). A Watson Wyatt Worldwide study found that the practice of maintaining a collegial, flexible workplace is associated with the second-largest increase in shareholder value (nine percent), suggesting that employee satisfaction is directly related to financial gain. Over 40% of the companies listed in the top 100 of Fortune magazine's "America's Best Companies to Work For" also appear on the Fortune 500. While it is possible that employees enjoy working at these organizations because they are successful, the Watson Wyatt Worldwide Human Capital Index study suggests that effective human resources practices like employee satisfaction, motivation, punctuality lead to positive financial outcomes (Bruce and Kay, 2002).

A 2001 study published in personnel psychology examined whether positive employee behaviours and attitudes influence business outcomes. Findings from the study support the idea that employee satisfaction, behavior, and turnover predict the following year's profitability, and that these aspects have an even stronger correlation on customer satisfaction (Daniel, 2001). Sears used an "employee-customer-profit chain" Sears using an "employee-customer -profit chain" found that a five percent increase in employee satisfaction drives a 1.3% in customer satisfaction, which results in 0.5% increase in revenue growth (Anthony et al., 1998). PNC Bank Corporation found an 84% correlation between branches and their levels of customer satisfaction and employee satisfaction (Michael, 2001).

Professionals and academics have long asserted that the way in which an organization manages people can influence its performance (Delaney, 1996). In particular, employee participation and empowerment, job redesign including based production systems, extensive employee training at workplace, and performance contingent incentive compensation, are widely believed to improve the performance of organizations (Pfeffer, 1994). Moreover, a developing body of research has reported positive associations between employee participation and empowerment and organizational performance (Huselid

et al., 2001).

Employee participation systems (Wagner, 1994), internal labour markets that provide an opportunity for employees to advance within a firm, and team-based production systems (Linda, 1998) are all forms of work organization that have been argued to positively affect firm performance. In addition, it has been argued that the provision of job security encourages employees to work harder. As Kozlowski and his associates noted (Kozlowski and Salas, 1997), "Workers will only expend extra effort... If they expect ... a lower probability of future layoffs".

Organizations can adopt various HRM practices to enhance employee skills. First, efforts are on improving the quality of the individuals hired, or on raising the skills and abilities of current employees, or both. This can be done by providing comprehensive training on the job and development activities after selection (Delaney, 1996). Considerable evidence suggests that investments in training produce beneficial organizational outcomes. The organizations must therefore be concerned about inadequacies of their employees and be committed to educating and training employees at their workplace to enhance their skills, perspectives, and competencies (Conger and Benjamin, 1999). The effectiveness of skilled employees can be limited if they are not motivated to perform their jobs. The organizations can implement merit pay or incentive compensation systems that provide rewards to employees for meeting specific goals. A substantial body of evidence has focused on the impact of incentive compensation and performance management systems on firm performance. In addition, protecting employees from arbitrary treatment, perhaps via a formal grievance procedure, may also motivate them to work harder because they expect their effort to be fairly rewarded.

## METHODOLOGY

This study was guided by descriptive survey design to establish the relationship between variables especially the relationship between capacity building and employee productivity on organizational performance. The study was carried out in the commercial banking institutions in the Kakamega Central District in Western Province. All the banks from the District at the time of study were used in the study forming a census study. The study targeted the key informants like the Human Resource managers, bank managers and supervisors who had understanding on the operations of the banks. This study used questionnaires as the primary instrument of data collection. The questionnaire contained demographic information of the respondents in terms of age, job status, gender and work experience; key variables of the study like employ productivity, capacity building and organizational performance were measured on 3-item index and 5-item index scales (that is: 1 = strongly disagree/poor/low, 2 = disagree, 3 = not sure, 4 = agree/average/fair, 5 = strongly agree/excellent/high). A drop and pick technique was used in the administration of the questionnaires.

To test reliability of the instrument, a pilot study using Kenya Commercial Bank, Kimillili town branch which does not fall within the

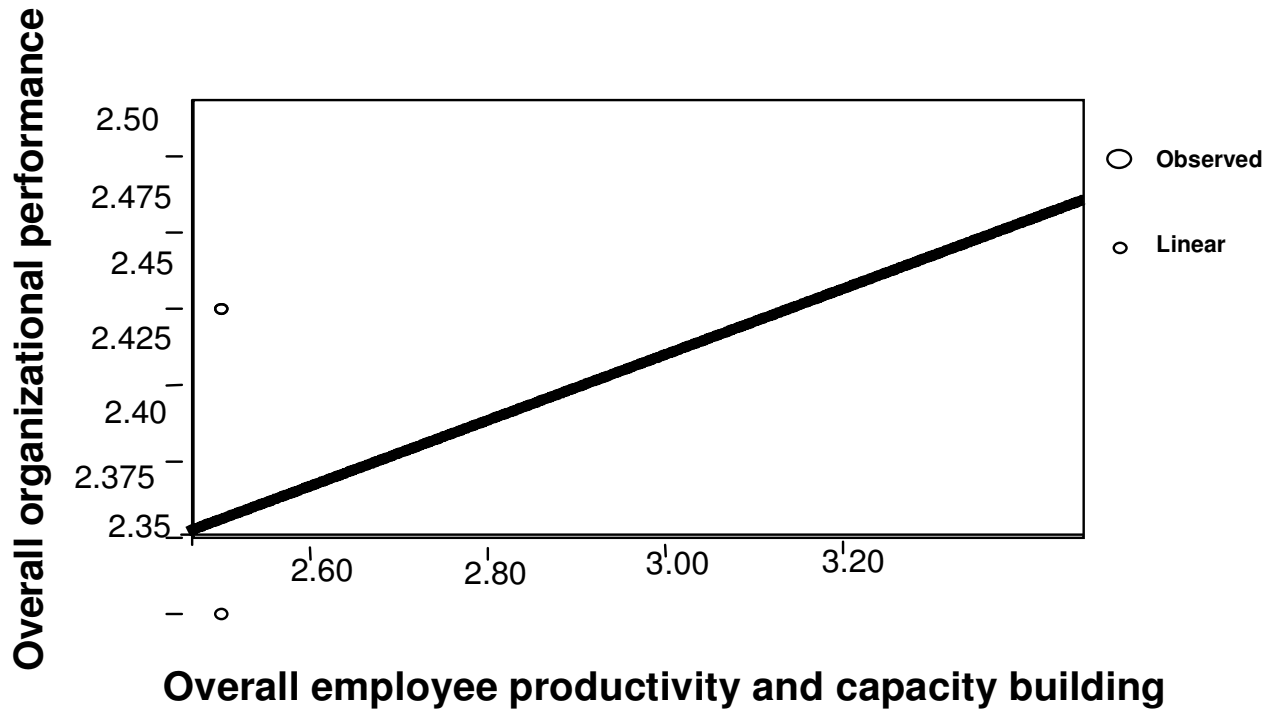


Figure 1. Overall capacity building and employee productivity versus organizational performance.

study area where the branch manager suggested some modifications and after discussions with the supervisors were adopted. The data was then analyzed and the results correlated to determine their Cronbach's alpha reliability coefficients. Nunnally (1978) has indicated 0.7 to be an acceptable reliability coefficient. Therefore the research instrument was reliable and valid to collect the data.

The analysis was done using both descriptive and inferential statistics. Under descriptive statistics, frequency tables, pie charts, bar graphs, mean, mode, standard deviations, variance were used. Inferential statistics involved Pearson's coefficient of correlation was used to establish the relationship among the variables, Simple and multiple regression analysis were used since it showed the interactive effect of the independent variables on the dependent variable. The simple regression analysis was used to determine statistical relationship between only two variables, one variable (independent variable) and its effects on another variable (dependent variable). In multiple regressions two or more independent variables were regressed against only one dependent variable. Using SPSS (Statistical Program for Social Sciences), the values of the coefficients and regression analysis were obtained.

**RESULTS AND DISCUSSION**

The background information of the respondents revealed the following when descriptive statistics were used: Majority was males (77.8%) than females (22.2%) in the managerial positions in the banking institutions. There was lack of gender equality in these managerial positions. Most of the respondents were aged between 35 to 47 years a clear indication of mature, responsible and resourceful persons with vast knowledge and

experience. Senior managers and supervisors had worked in the banking institutions for 4 or more years (77.8%) meaning they were well equipped with the necessary skills to discharge their duties well. Those who had worked for one year or < 1 year represented (22.2%).

**Overall capacity building and employee productivity versus organizational performance**

Figure 1 was obtained when the overall mean of employee productivity and capacity building was regressed against overall mean of organizational performance.

Figure 1 provides regression results when the overall capacity building and employee productivity was measured against overall organizational performance gave a strong linear positive correlation indicating that high capacity building and employee productivity led to proportionally high organizational performance ( $\beta = 0.52$ ,  $B = 1.72$ ,  $p < 0.05$ , Table 1) such as profitability, revenue enhancement, and shareholder value (Baldwin and Burke, 1999; Burke and Baldwin, 1999; Fitz-Enz and Davison, 2002; Richman-Hirsch, 2001).

This was attributed to increase in the job skills through capacity building, motivation and satisfaction of the employees leading to increased quality service delivery, efficiency, organizational effectiveness and profitability. This statement was also supported by Federico (2003) who said that employee satisfaction and morale lead to

**Table 1.** Regression results for high capacity building and employee productivity against high organizational performance.

<b>Coefficient values</b>	<b>Regression coefficient (B)</b>	<b>Pearson coefficient (<math>\beta</math>)</b>
Dependent variable: High organizational performance mean	1.00	1.00
Predictor variable: High capacity building and employee productivity mean		
Predictor variable: overall capacity building and employee productivity mean	1.717727	.519352
Dependent variable: Overall organizational performance mean		

**Table 2.** Relationship between capacity building and employee productivity versus organizational performance.

<b>Capacity building and employee productivity (predictor variable)</b>	<b>Regression coefficient (B)</b>	<b>Pearson coefficient (<math>\beta</math>)</b>
<b>Organizational performance</b>		
Product quality	0.536	1.83
Profitability	0.548	2.22
Organizational effectiveness	0.425	1.39
Manpower competence	0.484	1.51
Average	0.498	1.74

customer satisfaction. When internal customers (employees) are happy, they treat external customers well. Customers will keep coming back for more. This grows the relationship and leads to customer loyalty”.

Increased job satisfaction and skills lead to increase in employee morale, which lead to increased employee productivity and customer retention. This confirmed that employee productivity and capacity building improves organizational performance.

Findings in Table 1, shows that when organizations with high capacity building and employee productivity mean were regressed against organizations with high organizational performance mean, resulted into a perfect positive correlation indicating a strong linear relationship between the two variables ( $\beta = 1.00$ ,  $B = 1.00$ ,  $p < 0.05$ ). This means that when the indicators like punctuality, employee performance, public relations, job skills, employee motivation and satisfaction are actively practiced in the organizations, they lead to increase in product quality, profitability, organizational effectiveness, efficiency, supervision and man power competence. This therefore led to increase in organizational performance of these organizations. Therefore organizations are sensitized to develop and sustain high levels of capacity building and employee productivity to achieve maximum output in performance.

This meant that efforts be channeled on improving the quality of the individuals hired, or on raising the skills and abilities of current employees, or both. This can be done by providing comprehensive training on the job and development activities after selection (Delaney, 1996).

Organizations with low capacity building and employee productivity means have positive significant correlations with the organizations with low organizational performance means ( $\beta = 0.23$ ,  $B = 1.05$ ,  $p < 0.05$ ). This is

an indication that organizations that have low levels of job skill, employee motivation, employee satisfaction, public relations, punctuality have low organizational performance. For these organizations to remain competitive in a competitive environment, they must work to achieve high levels of capacity building and employee productivity to post high organizational performance. Therefore, due to changes in technological advancements globally, organizations are engaging in investing heavily in their personnel by recruiting highly qualified employees and training them to acquire the necessary skills to compete favourably in a competitive environment. Employees must therefore continue to learn and grow on the job as a requisite for continued performance.

The findings in Table 2 shows the results obtained when individual organizational performance indicators like product quality, profitability, organizational effectiveness and manpower competence were regressed against the overall mean of capacity building and employee productivity. The results reveal that capacity building and employee productivity has a significantly strong positive correlation on individual organizational performance indicators ( $\beta = 0.498$ ,  $B = 1.74$ ,  $< 0.05$ ). That is, organizations with high capacity building and employee productivity are linearly correlated with organizations with high organizational performance. This in essence points out that organizations that have high capacity building and employee productivity increase the employees' motivation, performance, job skills and satisfaction leading to proportional increase in the organizational performance. The employees are further sensitized on the importance of punctuality to duty.

Therefore, the findings in the preceding paragraph proved that capacity building and employee productivity influenced positively organizational performance.

Therefore, on the basis of data analysis, the null hypothesis was not accepted since both regression coefficient and Pearson correlation coefficient values were  $> 0.05$ . This data analysis and interpretation was supported by Pfeffer (1994) who asserted that employee participation and empowerment, job redesign including based production systems, extensive employee training at workplace, and performance contingent incentive compensation, are widely believed to improve the performance of organizations. Moreover, empirical research continues to show strong relationship between employee participation and empowerment and organizational performance (Huselid and Becker, 1994). Those firms that had low levels of capacity building and employee productivity, have low access to training, posted poor returns in terms of product quality, profitability, organizational effectiveness, efficiency, supervision and manpower competence. The regression and correlation coefficient results also confirmed that overall employee productivity lead to significant positive organizational performance ( $B = 1.72$ ,  $p < 0.05$ ,  $\beta = 0.52$ ,  $p < 0.211$ ).

Dr. Thomas Rollins of the Hay Group developed a model linking employee opinion survey results directly with business performance metrics while excluding customer satisfaction measures. Main findings were that the model holds that company-wide employee and customer satisfaction, motivation, results affect business performance in terms of financial metrics (Corporate Leadership Council, 1998). There are direct and quantifiable positive links between customer service variables (such as satisfaction and loyalty), employee variables (such as satisfaction, enthusiasm, loyalty, commitment, capability, and internal service quality), and financial results (Tobias and Sweetman, 2001).

Shellenbarger (1998, 1999) noted that when employee satisfaction and morale rise, financial results soon improve leading to improved product quality, profitability, efficiency and organizational effectiveness. This was also observed by Randy (2000) that between 40 and 80% of customer satisfaction and loyalty is determined by the customer-employee relationship, depending upon the industry and market segment. At Sears, employee satisfaction accounts for 60 to 80% of customer satisfaction. At the Royal Bank of Canada, 40% of the difference in how customers view its services can be linked directly to their relationship with bank staff. Therefore, if customers are well treated and their needs fully catered for, employee productivity increases leading to increase in performance.

## Conclusions

It has been long and widely asserted that investing heavily in education and training is the key towards achieving outstanding performance (Delaney and Huseld, 1996). Until recently, this assertion was largely a statement of faith. The results from this study add to the

growing empirical research evidence suggesting that such assertions are credible that indeed capacity building and employee productivity has a positive correlation on organizational performance. The findings from the study confirmed the relationship between the capacity building and employee productivity and organizational performance yielding high regression coefficient and beta values ( $\beta = 1.00$ ,  $p < 0.05$ ,  $B = 1.00$ ,  $p < 0.05$ ) indicating a strong perfect linear correlation between capacity building and employee productivity on performance.

The company-wide employee and customer satisfaction, motivation, results affect business performance in terms of financial metrics (Corporate Leadership Council, 1998). There are direct and quantifiable positive links between customer service variables (such as satisfaction and loyalty), employee variables (such as satisfaction, enthusiasm, loyalty, commitment, capability, and internal service quality), and financial results. Therefore, for organizations to achieve high performance, the interests of customers and employees should be taken into account like satisfaction, motivation, product quality and manpower competence.

The findings are relevant as they provide vital information to managers, supervisors and employees to have more access to education and training increase the employees' job skills, public relations and generally their perception towards efficiency and effectiveness in carrying their operations. This causes employees to exhibit higher feelings of satisfaction, motivation and consequently increase in production.

Capacity building and employee productivity and organizational performance had a strong linear positive correlation ( $\beta = 0.52$ ,  $B = 1.72$ ). This means that organizations that have high capacity building and employee productivity increase the employees' motivation, performance, job skills and satisfaction leading to proportional increase in the organizational performance. The employees are further sensitized on the importance of punctuality to duty.

## RECOMMENDATIONS

From the findings and conclusions above, it can be recommended that, capacity building and employee productivity is positively correlated to organizational performance. Therefore, the firms through the Human Resource Departments should plan and execute training programmes that are in line with objectives of the firm and those that match employees' abilities and skills to enhance effective organizational performance.

Human Resource Development practitioners should consider desired work-related attitudes such as organizational motivation, employee turnover, employee productivity, punctuality, organizational performance, job satisfaction and motivation to be an additional outcome of employee productivity and capacity building. Since employee productivity depends on the amount of time an

individual is physically present at a job and also the degree to which he or she is “mentally present” or efficiently functioning while present at a job. Companies must address employees’ satisfaction, health, and morale in order to maintain high worker productivity. Human Resource Department professionals should create a conducive working environment for its employees and highly held in high esteem since they are the driving force of the company.

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