International Journal of Industrial Engineering, 2018;2(2):36-40.
ISSN: 2456-8449.
http://ijie.gjpublications.com

*Research Article*

# Effect of Employee Service Training on Performance of Commercial Banks in Kenya: A Case of Tier 1 Banks

**J. O. Onyango[1], B. Okong'a[1], N. B. Okelo[2,*]**

[1]School of Business and Public Management, KCA University, Kenya
[2]School of Mathematics and Actuarial Science,
Jaramogi Oginga Odinga University of Science and Technology,
P.O. Box 210-40601, Bondo-Kenya.

*Corresponding author's e-mail: bnyaare@yahoo.com

## Abstract

The perception that service improvement strategies affect organizations' performance positively motivated the conduct of this study to determine the effects of service improvement strategies on the performance of commercial banks in Kenya where limited such studies have been done. The study sought to determine effect of identified service improvement strategies on the performance of Tier 1 banks in Kenya as the main players in the country's banking sector controlling the market share, customer base and asset base as well as employee numbers. The study adopted a descriptive survey design. A sample of 96 purposively selected respondents from the branches of the six Tier 1 banks in Nairobi was picked. Nairobi banks were targeted because all banks in Kenya have their headquarters and their main branches here. The study found that there are linear relationships between banks performance with each of the interrogated variables with varying significant strengths. Moreover, Kenya should invest more on Customer relationship management and product differentiation without ignoring employee training but not much competitive value is added by market segmentation. Future research should focus more on Customer relationship management and product differentiation for performance improvement and employee training strategy for improving worker efficiency in the banks.

**Keywords:** Strategies; Service improvement; Performance; Bank; Kenya.

## Introduction

The Central Bank of Kenya in a 2012 report noted that while traditional economic growth models had been premised on manufacturing and production of goods as a result of the industrial revolution, the trend was gradually shifting towards financial emerging economies [1]. Kenya is among the nations that are experiencing tremendous economic growth from technology based service industries with banking being at the fore of this. This has been catalysed by global trade forces that have seen geographical boundaries collapsed by technology that has transformed the entire business landscape [2].

As the service industry becomes increasingly competitive, all firms are continuously looking for their cutting edge in the competitive common market place. Globally, service improvement is attracting great attention of academic researches. Organizational marketers focus on service quality as a strong marketing tool as well as tool of differentiation for performance improvement. It is a general belief that service quality attracts and buys customer loyalty and this quality is reached by constantly improving the service offering [3]. Commercial Firms mainly those that offer financial services are now realizing the significance of attracting and retaining their customers and are adopting quality management approaches in the management of their businesses.

It is observed that information technology which facilitates electronic banking is instrumental in making banks provide better services at much reduced cost [4]. Automated Teller Machines (ATM) and internet banking, smart cards and phone-based services are not only convenient but also efficient. Discussions of quality of services include but are not limited to

*Received: 03.02.2018; Received after Revision: 11.02.2018; Accepted: 12.02.2018; Published: 21.02.2018.*

courtesy, credibility, security, access communication, reliability and responsiveness. Vast literature integrating service quality expresses the difficulties surrounding the weighting of quality values.

In [5] they expressed that quality valuation presents complexity of value association between the providers and the consumers. They argued that improvement of service quality has a high probability of attaining customer satisfaction; this in turn is likely to translate into mutual understanding and customer retention. They later observed that excellent service delivery is a profit-making strategy because it results into creation of new customers, increased business with existing customers and retention of the customers. It therefore provides insulation from price competition and fewer mistakes requiring the re-performance in the service. The operating environment in the banking industry is very competitive following increased number of banks and the expansion of services they offer. In order to be competitive, commercial banks have adopted several service strategies to improve the quality of services delivered to their customers [7]. This has also been aimed at building customer loyalty which is a key component of competitiveness.

Service quality is how well the services offered by an organization match the needs of its customers [8]. Prior to purchase and consumption of a given product or service, customers have expectations on how well the product or service is to meet their felt need. On consumption, three scenarios arise: exceeding the expectation, being equal to expectations or falling short of expectations [9].The discrepancies between the desired expectations and the actual experience bring about satisfaction. Satisfied customers will be loyal to the company while unsatisfied customers will always be seeking for alternative goods and services to satisfy their needs [10]. Since service quality is such a pivotal factor in service delivery, it is thus not very surprising that firms are consistently engaged in service improvement endeavours to achieve quality.

The needs of customers are increasing with each passing minutes which now calls on firms to consistently adjust their products to meet these dynamic needs by always improving their service offering [11]. In the prsent study, service quality was measured using four service improvement strategies namely; Employee training, Customer Relationship Management (CRM), Market segmentation and Product differentiation.

Service quality is an important component of organizations in the service industry. In most service industries, services offered are similar, the differentiator being the manner in which they are packaged and delivered [12]. This is particularly true for the banking industry where the financial services offered in the industry are very similar. In order to differentiate itself, an organization in this industry has to package and deliver its services uniquely using the resources at its disposal. In such an industry, service quality is regarded as a key factor for optimal performance [13]. Therefore, the objective of this study was to assess effects of employee service training on performance of commercial banks.

## Research methodology

The present study has used descriptive survey research employing mixed methods to gather data. Survey research is used to describe characteristics of a population or phenomenon and compare the values of independent variables being studied. It does not answer questions about how/when/why the characteristics occurred. Rather it addresses the "what" question [8]. A research design is the overall plan for obtaining answers to the questions being studied and for handling some of the difficulties encountered during the research process. According to [9] descriptive survey enables collection of information from respondents with reference to the variables involved through administration of the questionnaire, interview and observation schedules to determine the status of the situation under study. A population refers to an entire group of individuals, events or objects having a common observable characteristic about which a researcher is interested in. The target population for this study was 124 branches of Tier 1 commercial banks operating in Nairobi City.

The study selected six Tier 1 banks which were representative of Commercial Banks. According to [5] a sample can be chosen randomly or the researcher can select people who are easier to obtain information from. The Tier 1 banks selected are classified as the largest banks by Central Bank and therefore fully represent the industry's composition in products, services, staff complement and customer base. It was estimated that collectively, the six banks in the group control 60% of the country's financial services market. From each bank, 16 respondents from service provision were randomly selected making a total of 96 respondents.

**Results and discussions**

The effect of Employee service training on performance of commercial banks in Kenya was the first objective of the study. The respondents responded to statements on effect of Employee service training. Rated on a five point Likert scale, the responses were as obtainable in Table 1. The low standard deviation of 1.05298 indicates that the variation among the respondents was low. The respondents were further in agreement that the bank considers staff input in designing training curriculum, (mean=3.8333) Trainings are regular and reflect the dynamism of the industry (mean=3.8229), Customer feedback informs the trainings offered by the bank (mean=3.7083). This finding is consistent with [5] who observed that in order to influence the way services are delivered, training needs to be reactive to the dynamic current needs of customers. New employees are well oriented whenever they join the Bank mean=3.5833, In general, to what extent has employee service training affected the performance of the Bank (mean=3.4063), The trainings offered help me to offer better services to customers (mean=3.2396), The employees are offered regular customer service trainings on different courses (mean=3.1875), The courses offered to employees are relevant in their areas of operation (mean=3.521).

From table 1, above it is observed that with a population of 96 various means were obtained with corresponding standard deviations. This showed that customer service training was adequate. Assuming a linear relationship between employee service training and performance of commercial bank, the study examined the predicted model relating employee service training and performance of commercial bank as modeled in eq. (1).

$$PC = \alpha_1 + \beta_1 EST + \varepsilon_1 \quad \ldots(1)$$

The estimators in equation (1) were defined as; $\alpha_1$was the estimate of the intercept and $\varepsilon 1_i$ was the error term related with this regression equation, $\beta_1$was the beta coefficient of employee service training (EST) and PC represented Performance of commercial bank. The effect of employee service training and performance of commercial bank was examined by testing the first research hypothesis ($H_{01}$) which stated that: $H_1$. Employee training does not affect performance of commercial banks in Kenya.

Following a simple linear regression analysis, an ANOVA output presented in table 2, shows model one was significant (p-value < 0.001) at 0.05 level in explaining the linear relationship between The effect of employee service training and performance of commercial bank.

Table 1 Employee service training

| | N | Mean | Std. Dev. |
|---|---|---|---|
| The bank considers staff input in designing training curriculum | 96 | 3.8333 | 1.14861 |
| Training are regular and reflect the dynamism of the industry | 96 | 3.8229 | 1.05626 |
| Customer feedback informs the trainings offered by the bank | 96 | 3.7083 | 1.07524 |
| New employees are well oriented whenever they join the Bank | 96 | 3.5833 | 1.05298 |
| In general, to what extent has employee service training affected the performance of the Bank | 96 | 3.4063 | 1.16599 |
| The trainings offered help me to offer better services to customers | 96 | 3.2396 | 1.19424 |
| The employees are offered regular customer service trainings on different courses | 96 | 3.1875 | 1.25079 |
| The courses offered to employees are relevant in their area of operations | 96 | 3.0521 | 1.25966 |

In table 3, model one had coefficient of determination ($R^2$)=0.198, indicating that 19.8% of the variation in employee service training customer was explained by the model leaving 80.2% of the variations unexplained. This meant that model one provided a moderately weak fit. Essentially training is tailored to equip the learners with necessary behaviour for effective work performance. According to [6] employee training and development plays an important role in improving the levels of efficiency and effectiveness among employees for optimal organizational performance. Even if in this study it accounted only for 19.8% it is essential for inducting workers and supporting them to adapt to technological changes within their industry.

Table 2. ANOVA test employee service training

| Model | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|
| Regression | 11.787 | 1 | 11.787 | 23.263 | 0.000[b] |
| Residual | 47.629 | 94 | 0.507 | | |
| Total | 59.416 | 95 | | | |

a. Dependent Variable: firm performance
b. Predictors: (Constant), employee service training

Table 3. Model summary of employee service training

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | 0.445[a] | 0.198 | 0.19 | 0.71182 |

a. Predictors: (Constant), employee service training

Table 4 presents the coefficients of employee service training. In reference to model one, employee service training had a p-value< 0.001. The study therefore rejected the research hypotheses $H_{01}$ at 5% level and observed that Employee training does affect performance of commercial banks in Kenya.

Table 4. Coefficient of employee service training

| Model | Unstandardized Coefficient | | Standardized Coefficient | t | Sig. |
|---|---|---|---|---|---|
| | B | Std. Error | Beta | | |
| Constant | 1.197 | 0.41 | | 2.919 | 0.004 |
| Employee service training | 0.558 | 0.116 | 0.445 | 4.823 | 0 |

a. Dependent Variable: firm performance

The study found that the banks considers staff input in designing training curriculum and that trainings are regular and reflect the dynamism of the industry. The study also further found that customer feedback informs the trainings offered by the banks. This finding is consistent with [13] who observed that in order to influence the way services are delivered, training needs to be reactive to the dynamic current needs of customers. The study findings were also consistent with [4] which noted that training increases employee skills and knowledge thus improving overall efficiency and effectiveness. Model one had an $R^2$=0.198 which indicated that the 19.8% of the variance in performance was explained by this variable leaving 80.2% unexplained. This means that this variable while significant was not as significant as other variables that had lower p-values and greater $R^2$-values. The findings confirmed relatively weak linkage between employees training as a strategy of improving banks performance.

## Conclusion

The present study concluded that since customer relationship management (CRM) affected a coefficient of 49.1% of banks performance, it is a strong bond that banks should watch closely. Because CRM is a combination of organizational strategy, information systems, and technology that is focused on providing better customer service, the study recommends that banks should invest on aspects of CRM to improve their performance. Product differentiation strategy (PDS) with a coefficient of 41.1% of the variation in performance also came out as a fairly significant variable. This drove the conclusion that (PDS) is a strong link which banks should focus on as it has to do with value adding using customer feedback. The study recommends that commercial banks should invest on product differentiation based on custom services to improve their performance. In the course of the study, it emerged that the complexity of determining true customer satisfaction cannot be understated. The two variables i.e. CRM and Product differentiation clearly are significant in determining the performance of commercial banks however further research may be done to establish their true impact on financial performance since this is the main measure of performance of the banking sector. The recent law enacted by parliament that introduced capping of lending rates and savings rates is sure to have a great impact on the banking sector and future research might find this an area of interest especially given its expected impact on customer satisfaction as well as the banking industry's overall performance.

 

**Conflicts of interest**

Authors declare there are no conflicts of interest.

**References**

[1] Wen W. A dynamic and automatic traffic light control expert system for solving the road congestion problem. Expert Systems with Applications. 2008;3(6):2370-2381.
[2] Whiston SC. Principles and Applications of Assessment (4th ed.), Baltimore, CA: 2013.
[3] Orodho JA. Elements of Education and Social Science Research Methods (2nd). Kenezja Publishers, Maseno; 2009.
[4] Dwyer RF. Customer lifetime valuation to support marketing decision making. Journal of Direct Marketing. 2009;3(4):8-19.
[5] Fornell C, Wernerfelt B. Defensive marketing strategy by customer complaint management: a theoretical analysis. Journal of Marketing Research. 2017;4(24):337-383.
[6] Fornell C. A National Customer Satisfaction Barometer: The Swedish Experience. Journal of Marketing. 2014;56(1):6-21.
[7] Fornell C, Johnson M, Anderson E, Cha J, Bryant BE. The American Customer Satisfaction Index: Nature, Purpose, and Findings, Journal of Marketing. 2015;60(4):7-18.
[8] Cunningham M, Lischeron G. Business Planning, the key to success, Macmillan Education, Melbourne; 2011.
[9] Danko M. The Nature of Managerial work. Haper and Row, New York; 2012.
[10] Nicolau JL. Assessing new hotel openings through an event study. Tourism Management. 2012;23(1):47-54.
[11] Yang Y, Wong K, Wang T. How do hotels choose their Location? Evidence from hotels in Beijing. International Journal of Hospitality Management. 2012;31(3):675-685.
[12] Zeithaml VA. Service quality, profitability and the economic worth of customers: What we know and what we need to learn. Journal of Marketing Science. 2016;28(1):67-85.
[13] Obonyo VO, Mukhebi A, Monari F. Effects of Strategy Implementation on Firm Profitability: A Case of State Owned Sugar Factories in Western Kenya. International Journal of Industrial Engineering. 2017;1(1):38-42.

*******