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**EFFECT OF HUMAN CAPITAL MANAGEMENT ON EMPLOYEE PERFORMANCE  
AT CO-OPERATIVE BANK OF KENYA**

<sup>1</sup>\*Miriam Wanjiru Nderitu

Post Graduate Student: Laikipia University

\*Corresponding Author email: [msmillyk@gmail.com](mailto:msmillyk@gmail.com)

<sup>2</sup>Dr. Thomas Waweru Gakobo

<sup>3</sup>Prof Isaac Ochieng

<sup>23</sup>Lecturer: Laikipia University

Lecturers: School of Business, Laikipia University

**Abstract**

**Purpose:** The general objective of the study was to examine the effect of human capital management on employee performance at Co-operative Bank of Kenya. The study was guided by three specific objectives namely; to analyze the effect of employee skills, employee perception and employee engagement on employee performance at Co-operative Bank of Kenya. The study was anchored on theories of human capital and resource based view.

**Methodology:** The study adopted a descriptive research design. This enabled the use of multiple methods for data collection and data analysis and purposive stratified random sampling technique was used with a target population of 198 employees and a sample size of 132. Primary data was collected using a self-administered questionnaire and analyzed quantitatively using descriptive and inferential statistics and presented using frequencies, percentages, tables and charts.

**Results:** The study found out that human capital management has a strong influence on employee performance. The study therefore rejected the three null hypotheses and adopted the alternate hypothesis to indicate that there is statistical significance effect between the independent variables and the dependent variable. The findings revealed that employee skills have a statistical significant effect on employee performance. This was evident because the study found out that the bank develops its employees to take up more responsibilities and to improve on their performance. The study also found out that the bank identifies the training needs of employees using a formal performance appraisal mechanism. The study also found out that employee perception also influence employee performance positively. The study indicated that employees perceive that human capital management has a positive impact on skill development. The employees also perceive that they are recognized by the organization which has increased their self confidence ad as a result increased their performance. Employee engagement has also been proven to have a positive significant on employee performance. The employees feels that been engaged has increased their commitment. Engaging employees has helped the organization to achieve its objectives and goals.

**Contribution to theory, practice and policy:** The study recommends that the organization should involve all the employees fully in decision making on decisions concerning development and conduct development on a yearly basis based on performance appraisal.

**Key Words:** *Employee Skills, Employee Perception and Employee Engagement, and Employee Performance*

## **1.0 INTRODUCTION**

There has been a shift from production economy to knowledge economy in the 21st Century which has changed how employees are viewed in an organization. The knowledge capital of an organization comprises of the intangible abilities and skills of the employees and the knowledge of the organization's structures, routines, systems and processes. James (2009) contends that human capital is a wealth of knowledge, habits and personality attributes that includes creativity enshrined in individuals to perform a task in order to produce results. Therefore, human capital is a collation of resources that consists of experience, intelligence, skills and knowledge that are possessed by an individual. Han and Brass (2014) says that human capital deals with the development and creation of new ideas and knowledge and facilitation of social capital through internal relationships by sharing of knowledge and ideas. Creation of new and unique knowledge in human capital complements a firms structural and innovation capital. Human Capital Management (HCM) is concerned with purposeful measurement and involves use of measures to manage people and regards them as assets and investment in them through employee engagement, retention, talent management and development programs which creates a competitive advantage. Russo (2010) defined human capital as the wealth generating potential that exists within people who work for an organization and embraces all facts of their knowledge, skills and intellectual properties; it encompasses that skills, experiences and efforts of the workforce, and their ability and willingness to do things on behalf of the organization. Therefore, it is very key that an organization acquires and even more importantly retains a workforce that is motivated, energetic and committed to the mission and values of the organization. One of the ways of ensuring this is through the practice of employee engagement. Organizations establish social networks for employees with relevant knowledge, skills and competencies where they are encouraged to obtain and share information to achieve competitiveness. Development enhances skills and competence of staff and ultimately worker performance and productivity in organizations. It is against this background that this study seeks to establish the effect of human capital management on employee performance at the Co-operative Bank of Kenya.

Barney (1991) states that the resource-based view shows that a firm's performance is reflected by how well managers develop their resources that are valuable, rare, inimitable and lack substitute. Crook and Schindler (2008) indicated that human capital as a resource meets these criteria; hence they should be cared for and protected because doing so can improve organizational performance. Employees are a crucial resource and it is therefore important to optimize their contribution to the company mission as a means of sustaining effective performances because they can make or break a company's reputation and can adversely affect profitability. This calls for managers to ensure there is an adequate number of staff who are competent through career development (Sultana, Irum, Ahmed and Mehmood, 2012). Employees are the indispensable asset and key element of gaining competitive advantage of any organization and training is the essential tool for its actualization (Houger, 2006). Without proper development, employees both new and current do not receive the information to develop the skill set necessary for accomplishing their tasks at their maximum potential. Employees who have been developed tend to keep their jobs longer than those who do not (Houger, 2006). The workforce needs to be competent enough to perform assigned tasks to attain the company goals and objectives. Competence includes among other requirements formal education, training in relevant skills and knowledge, and experience where necessary (Bataine, 2014). Employees in



all organizations including the Co-operative Bank of Kenya must know what they need to do in order to do their jobs successfully. A high policy priority of Kenya's human capital must be to strengthen their quality and exploit their productive use (Thugge, Heeler and Kiringai, 2012). Kimutai and Patrick (2011) said that in the process to achieve the needed higher productivity to the realization of Vision 2030 the quality and utilization of human capital is paramount.

Investment in the human capital is one among the four pillars of Kenya's development strategy. TIVET (technical, industrial, vocational and entrepreneurship training) has played an important role in skills development but the sub-sectors growth has been uncoordinated and not well planned due to lack of a unified policy, legal weaknesses and inadequate funding. Houger (2006) indicated that training has a role of improving and increasing the productivity and performance of an employee as well as giving the company a competitive edge over the industry's key players. Training is thus considered vital to enhance the skills, knowledge and perception of employees. According to Kennedy, Hyung, Winiecke and Brienkerholff (2014), organizations are expected to identify training needs and design training programs of their employees that will help to optimally utilize their workforce towards the actualization of organizations objectives. The different methods that training that can be given include coaching and mentoring, peers' co-operation and participation by subordinates (Jie and Roger, 2005). Employee performance is the successful completion of tasks by an employee or employees as set and measured by a supervisor or organization, to acceptable standards which are pre-defined, while efficiently and effectively utilizing available resources within a changing environment (Armstrong and Murlis, 2004). Cardy and Leonard (2004) explains that the performance of an individual or an organization depends heavily on organizational policies, practices and design features of an organization. There are different training and development methods and techniques that an organization can adopt which include the on-the-job and off-the-job methods. Armstrong (2006) says that an organization determines the techniques to use depending on the needs and objectives of the training in the organization. Vision 2030 recognizes that Kenya's pool of talent is small and inadequately trained for integration into the job market. Measures are therefore taken to improve the national pool of skills and talent through training that is relevant to the needs of the economy. A study by World Bank (2010) reported that information on learning outcomes indicates that schools in many developing countries are failing to teach Foundational Cognitive Skills, much less the expert thinking and complex communication and occupational skills needed to function effectively in the modern labour market.

Employee perception in HRM is defined by Chang (2005) as the expression of the beliefs that an employee has about HRM practices in the organization. Armstrong (2006) defined employee perception as the attitude employees have towards policies concerned with training and development, pay, promotion and quality of working life, and the influence of the group with whom they identify. Studies have sought to isolate whether high skills are a contributory factor behind successful and higher performing firms and have identified a significant association between a highly skilled workforce and organizational performance, mostly measured by the level of labour productivity (Tamkin, 2005). (Cascio, 2010) postulates that employee engagement is an emotional attachment to the organization that brings the employee to go the extra mile because they feel valued and have a passion for their work and goes further than simple compliance or surface behavior. Cotton (1993) uses the term employee involvement to describe the concept of employee engagement and contends that attitudes and productivity improve by involving workers, having them participate in decision making, making the

workplace more democratic and by empowering employees. Price (2011) considers that employee engagement refers to positive feelings held by employees about their jobs and also the motivation and effort they put into their work. This leads to positive employee behaviours and hence increased performance levels and ultimately to organizational success.

Wanyama et al. (2010) reported that Kenya has experienced banking problems from 1980s culminating in the major banks failure where over 35 commercial banks failed as at 1997. CBK (2017) stated that some commercial banks in Kenya performed poorly in the recent years with 3 banking institutions collapsing between 2015 and 2016 where inadequate skills were termed as the major cause of poor employee performance. This failure can lead to lack of confidence and withdrawal of resources by depositors, lenders and owners of the bank. Co-operative Bank is one of the forty-three (43) commercial banks licensed by the Central Bank of Kenya, the national banking regulator. The bank is a large financial institution in Kenya, with an estimated asset base in excess of US\$3,345 billion (KES 309.6 billion) as of March 2015. The bank was established in 1965, initially as a co-operative society. Training at Co-op bank begins with an induction course for new staff which consists of knowledge on bank products, processes, customer service expectations and general corporate culture characteristics. Training is carried out in-house at the Leadership and Management Centre (LMC) in Karen, through mentoring, on-job training and structured programs both locally and abroad designed to meet specific skill requirements (Co-op Bank sustainability report, 2013). Co-op Bank sustainability review (2015) indicated that the LMC provides leadership in up-skilling, re-skilling and developing the staff to better their performance. Human capital is the most valuable asset of a great company, hence the bank's commitment to the development and success of staff through first-class training, leadership- building and skills enrichment. To achieve this objective, the bank offers interest-free education loans to employees to pursue their preferred program. In 2015, the bank made significant investments in learning interventions designed at fully supporting and enabling their staff to accelerate the achievement of their goals as well as primarily to provide much needed knowledge and skills for the Banks' Transformation Program. The bank invested Kshs 111,780 in the year 2015 for education and training as compared to Kshs 68,915 in the year 2014. The result has been greater traction in performance but also a people brand in terms of skills that is unrivalled especially on the sales force of the bank. This significantly improved the internal mobility and career progression rates for 2015 and had a positive impact on business results as well as boosting motivation and personal development drive for the staff. Many researchers have concentrated on the importance and benefits of human capital development. However, there is no study that has been done on the effects of human capital management on employee performance, specifically on the skills of employees, the effect of perception of employees on employee performance and employee engagement on performance. Knowledge and skills are acquired through training and development. It's therefore important to research on the development of employees to enhance their performance in their place of work and its effect on their performance and in general to the performance and development of commercial banks. The study will collect data from employees who understand how development affects their productivity have the required understanding of what the researcher seeks to find out.

## 1.2 Statement of the Problem

A report by CBK (2017) indicated that Commercial Banks in Kenya have been performing poorly where in the recent years 3 banking institutions collapsed between 2015 and 2016. According to Asongu (2013), Commercial Banks are a major component of financial services

sector through ensuring favourable economic stability and growth. Co-operative Bank of Kenya is one of the dominant banks in Kenya and presents a unique case as the pioneer bank that deals with co-operative movement and majority of its shareholders are co-operative societies. The bank trains its employees to achieve their objective and has adopted various training methods for their staff including induction, in-house training, mentoring and structured programs both locally and abroad designed to meet specific skill requirements. However, it is not clear whether this development has been enhancing skills and competence of the employees in order to improve their individual performance and commitment to the organization. The collapse of these banks can be attributed to poor performance which has resulted to staff layoffs, loss of investments and closure of the banks. To enhance the performance of employees many organizations including banks are engaged in the development of their employees to enhance their performance and that of the organization and therefore, the study would like to look at how human capital management drivers affect employee performance at Co-Operative Bank of Kenya.

### **1.3 Research objectives**

- i) To analyze the effect of employee skills on employee performance at Co-operative Bank of Kenya.
- ii) To assess the effect of employee perception on employee performance at Co-operative Bank of Kenya.
- iii) To examine the effect of employee engagement on employee performance at Co-operative Bank

## **2.0 LITERATURE REVIEW**

### **2.1 Theoretical Review**

#### **Human Capital Theory**

This study used The Human Capital Theory (HCT) which was propounded by Theodore Schultz in 1961 and was extensively developed by Gray Becker in 1964. Becker (1994) indicates that according to the theory, useful knowledge and skills are imparted into employees through education or training which raises their productivity, brings about positive attitudes, aptitudes, and other acquired traits that contribute to quality production in their work places. The theory underscores that provision of training to employees is expensive for organizations. However, the end result of an investment goes beyond personal income and positive work attitude to the employee but also results to quality production in the organization. According to Becker (1994), HC is a means of production which cannot be substituted or transferred like other factors of production but additional investment yields additional output. An organization should improve the value of its workers by increasing the number of its employees with certain skills, experience or knowledge that are critical to the growth of the organization (Anaduaka, 2014). Becker (1964) indicates that HCT suggests that education or training raises the productivity of workers by imparting useful knowledge and skills, hence raising workers' future income by increasing their lifetime earnings. In Becker's views, HC is similar to physical means of production such as factories and machines but investing in HC through training an employee's output will depend partly on the rate of return on the human capital. HCT is concerned with the contribution of employees' knowledge, skills and abilities to an organizational capability and the importance of that contribution. Jackson and Schuler (2007) stated that organizations can use HRM in a variety of ways to increase their human capital either by offering competitive packages or offering

extensive development. McMurrer developed a system that allows executives to look at Human Capital Management (HCM) and to use those parameters both to predict organizational performance and to guide on employee investment. The framework is divided into five major HCM drivers like: leadership practices, employee engagement, knowledge accessibility, workforce optimization, and organizational learning capacity. Bassi and McMurrer, (2006) indicated that it is possible to benchmark organizational HCM capabilities, identify HCM strengths and weaknesses and link improvements or back-sliding in specific HCM practices with improvements or shortcomings in organizational performance by employing rigorously designed surveys to place a company on the range of HCM practices across the five categories

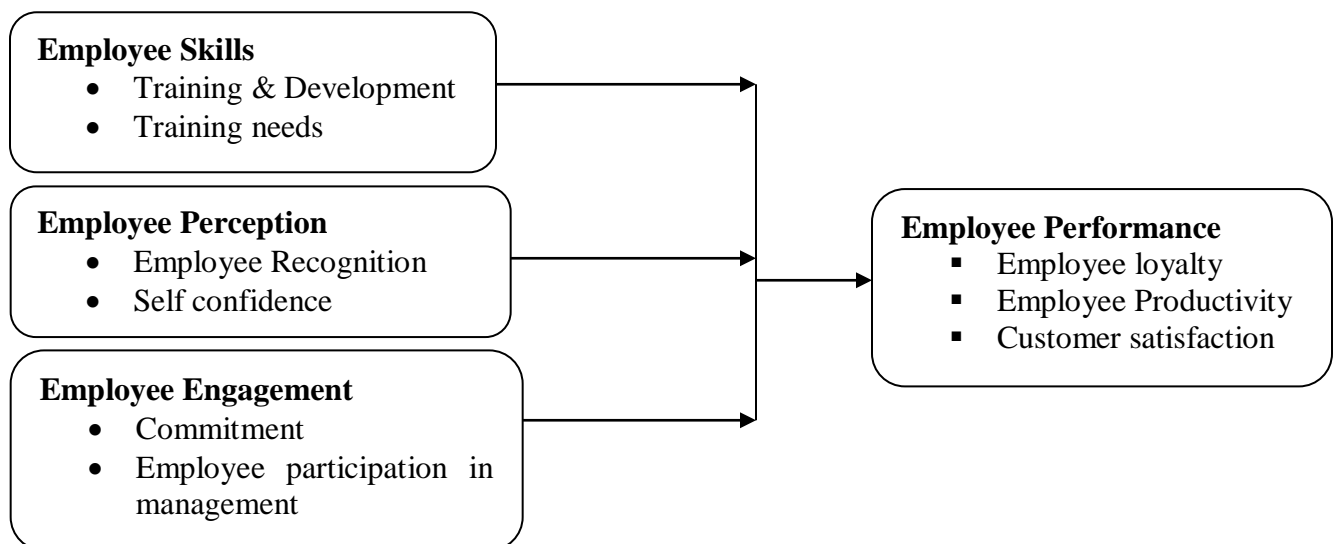
Human capital is defined by John (2000) as a combination of knowledge, abilities and skills inherent in individual that emanates from natural endowment, formal education and training. Udu (2014) sees Human Capital Development (HCD) as the education, skills level and problem-solving abilities individuals possess that make them to be productive workers in the global economy. HC plays an indispensable role on employee job performance and provides an institutional framework for skill acquisition necessary for operational efficiency according to Stone (2002). Hill (2001) agrees that HC is increasingly an indispensable key factor in enhancing job performance in order to sustain competitive advantage giving the dynamic nature of business environment. According to Hitt, Bierman, Shimizo and Kochhar (2001), a firm's human capital is an important source of sustained competitive advantage and, therefore, (Pfeffer and Jeffrey, 1998) says that employee productivity and financial results may increase investments in the human capital of the workforce by helping them to develop knowledge, skills and competence. According to Evans, Pucik and Barsoux (2002), organizations are facing increased competition due to globalization, changes in technology, political and economic environments. Organizations develop their employees as one of the ways to prepare them to adjust to these changes and thus enhance their performance. According to Kadian and Mutsotso (2010), over 35 commercial banks in Kenya as at 1997 failed as a result of banking problems and 3 more between 2015 and 2016 according to CBK (2017). Ndung'u (2012) noted that human capital is a salient human resource issue that is of concern to banks operations and performance in the 21st century and the 2008 global financial crisis, coupled with the ever-changing macroeconomics environment presents a complex financial and economic global landscape that is a challenge to the banking industry. Enhanced human capital developed and human resource capital availability and application is required to cope with these challenges and HR directors should be encouraged to formulate capacity development initiatives to equip staff with the necessary skills and competencies to effectively manage these challenges in a manner that brings a balance between efficiency and stability Ndung'u (2012). Ndung'u (2012) continued to state that the success of any organization depends on its human capital and that there are a number of salient human resource issues in the 21st century that are of concern to banks operations and performance which includes capacity development, performance management, talent development, managing change and human capital, recruiting the best, and devising an incentive mechanism for retention and career progression.

### **Resource Based View Theory (RBV)**

Selznick developed the Resource Based Model in 1957 where he suggested that each work organization possess 'distinctive competence' that makes them to outperform their competitors and further in 1959 by Penrose who regarded the firm as a 'collection of productive resources'. Perce and Robison (2007) define RBV as a model of firm performance that creates a source of

competitive advantage through resources and capabilities. Barney (1991) argued that when resources are valuable, rare, inimitable, and non-substitutable, this leads to sustainable competitive advantage. Resources like technology, natural resources, finances and economies of scale can create value; however, RBV argues that they can be copied as compared to complex social systems like human resources. RBV focuses on the ability of the human resources to learn and adapt more quickly than their competitors in resources such as the training, experience, judgments, intelligence, relationships and insights of individual managers and workers in an organization. The sum of people's knowledge and expertise and social relationships, has the potential to provide non-substitutable capabilities that serve as a source of competitive advantage (Cappelli and Singh, 1992). Barney (1991) states that a firm's performance is a function of RBV on how well managers build their organizations around resources that are valuable, rare, inimitable and lack substitutes. Human capital as resources meet these criteria, hence the firm should care for and protect resources that possess these characteristics, because doing so can improve organizational performance (Crook and Schindler, 2008). Employees are a crucial resource and it is therefore important to optimize their contribution to the company mission as a means of sustaining effective performance which can make or break a company's reputation and can adversely affect profitability. This calls for managers to ensure there is an adequate number of staff who are competent through career development (Sultana, Irum, Ahmed and Mehmood, 2012). Torrington, Hall and Taylor (2002) postulates that the RBV focuses on the promotion of sustained competitive advantage through the development of HC rather than aligning HR to current strategic goals. Torrington et al. (2002) argue that the focus should be on the skills, knowledge, attitudes and competencies which have a more sustained impact on long-term survival than current behaviour but not on the behavior of HR. Barney (1991) adds that RBV of a firm combines knowledge-based perspective, organizational economics and strategic management for an organization's success.

## 2.2 Conceptual Framework



**Independent Variables**

**Dependent Variable**

**Figure 1 Conceptual Framework**



### 2.3 Empirical Review of Literature

A research study conducted in 2010 by CFO Research Services reveals that human capital issues as a key culprit in failed and subsequent financial woes. The researchers looked at how organizations are handling HC issues related to transactional activity. The results of the study suggested that HR offers unique value and guidance, particularly on how to manage and price human capital assets which can significantly contribute to successful pre-and post-transformational events (Hewitt, 2010). HCD entails the human resource department giving employees new skills, information, and opportunities for professional and career development. There are many studies that have been done on the effect human capital management on employee performance and few have been done on the effect of human capital development on employee performance focusing specifically on the employee skills, employee perception and on the employee engagement at the Co-operative Bank of Kenya. Literature will be reviewed based on the study objectives. A study titled Regions, Human Capital and New Firm Formation in England by Beckman (2013) investigated on the importance of human capital at individual, firm and regional level through its effects on returns to education, firm productivity and new firm formation. The empirical analysis was based on data for period 1997 - 2007 at the municipality level in Sweden. The study found out that access to human capital has a positive impact on new firm formation. Oyinlola and Adeyemi (2014) studied the impact of human capital development on organizational performance in the Nigerian banking sector, with a particular reference to the Osun State. Primary source of data was used, using questionnaire as a research instrument. A total of 351 copies of questionnaire were distributed to the branches of four selected banks spread across the State, using judgmental and simple random sampling techniques. Out of these, 302 copies were filled and returned, forming the basis of data analysis. The study concluded that significant relationship exists between human capital development and organizational performance in the banking industry. This study did not look at individual employee performance.

Odhong, Were and Omolo (2014) investigated the effect of human capital management drivers on organizational performance in Kenya a case of Investment and Mortgages Bank Ltd. The study adopted a case study research design and stratified random sampling. Qualitative and quantitative techniques of data analysis were used. The study concluded that it is possible to use human capital management drivers to benchmark organizational capabilities, identify human capital management strengths and weakness, and link improvements in specific HCM practices with improvements in organizational performance and obtain sustainable competitive edge. In a study to determine the relationship between Human Capital Management Practices and Performance of Commercial Banks in Kenya by Nzube and Bundi (2012), the study used a cross sectional survey with a population of 45 commercial banks where 23 banks took part in the study. A questionnaire was used which was distributed to the H.O.D.'s. The findings revealed that other human capital management practices with the exception of communication have a positive influence on the firm performance as measured by both turnover growth and return on assets. The researchers recommended that there is need for commercial banks to enhance human capital management practices. Nzube and Musyoka (2012) conducted a study on Human Capital Management Practices adopted by the National Social Security Fund (NSSF) whose main objective was to determine the extent to which (NSSF) had adopted the HCM practices. The study used the case study design based on a target population of 98 management staff in the human resource and administration department. Both content and quantitative analysis were used

to analyze data and found out that NSSF had implemented HCM practices but to a negligible extent. The HCM practices adopted at NSSF includes: enhancing the organization's capacity through staff training and development and setting of clear performance standards while this study looks at the employee skills, employee attitude and employee engagement of employees as human capital management practices.

Maran and Maimunah (2009) in their study on Human Capital Development and its Impact on firms Performance of Software Companies found out that the human capital indicators had a positive association on organizational performance. Training attended and team work practices, were indicators that resulted in superstar performers where more productivity translated to organizational performance directly or indirectly. The study looked at organizational performance whereas the current study seeks to look at employee performance. Chen, Zhu, and Xie (2004), indicated that human capital relates to factors like employees' learning, aptitude, employee engagement, capability, and attitudes which relates to improving performances which clients pay for and the organization's benefit originates from. Odhong and Omolo (2015) carried out a study on the effect of human capital investment on organizational performance of pharmaceutical companies in Kenya. The study looked at four independent variables; training, education, knowledge management and skills development and used the theories of human capital, skill acquisition and sustainable resource. Questionnaires method was used to collect data and data was analyzed using descriptive and inferential statistics. It found out that there is a positive significant relationship between human capital investment and organizational performance. The study however, recommended that there should be provision of quality education and relevant training that is linked to industry requirement and adoption of German Dual Vocational Education and Training System to facilitate and strengthen the linkage between education sector and the industry. The study also recommended the promotion of knowledge management through teamwork and knowledge management to enhance skills development. The study recommended the introduction of skill development fund to equip people with relevant skills required in the dynamic global market place. The study looked at human capital investment on organization performance while this study is looking at human capital management on employee performance.

Bapna, Langer, Mehra and Gupta (2013) did a study on human capital investment and employee performance in the IT services industry. The study was aimed at looking at whether human capital investment is directed towards employee training and if it is effective in improving employee performance. The study found out that there is a significant positive impact of training on employee performance. Munjuri (2011) carried out a study on the effect of human resource management practices in enhancing employee performance in catholic institutions of higher learning in Kenya where the variables looked at were: - effect of training, performance related pay, employee empowerment, job design and job security on employee performance. Descriptive survey research design was used with a population of all the support staff of the institution. Stratified random sampling technique was used and questionnaires used to collect data. The study found out that training and employee empowerment through participation increases employee's performance. The study revealed that performance increases if employees are provided with an opportunity to make decisions that they can handle, decide on how to go about one's tasks, giving input on managerial decisions, being delegated to tasks that one can handle, being equipped with skills required by one's job and setting of achievable targets.

### **Employee Skills and Employee Performance**

Greater innovation can be realized if the resources in the organization have the skills required (Nonaka and Takeuchi, 1995) because intangible assets such as customer relationships, goodwill, brand recognition and competences of employees' skills add value to organizations. An Organization's competitive advantage depends on the employee's knowledge value to contribute to its achievement. (Huselid, 1995) indicated that research suggests that human capital attributes like training, experience and skills have a clear impact on organizational results. Muktar (2005) identified manpower training and development as the critical variables in the performance functions of organizations. This happens to be the vehicle through which the knowledge, skill and attitudes requisite for the running of the organizations to achieve their goals. Training and development helps the employee to adjust to rapid changes in job requirements and keeps them updated to new technologies and methods. On-the-job and off-the-job are the two broad types training and development methods. Individual circumstances and factors like 'who', 'what' and 'why' of the training and development program are the methods used to determine the method to use, (Armstrong, 2006). According to Butler (2010), skills, knowledge and strategies required to perform a particular job are related to the training and include teaching new skills, exposure to unfamiliar ideas, giving them the chance to practice and give feedback or encouraging them to discuss their work with one another. Ravi, Nishtha, Amit, Ram and Alok (2013) conducted a study on Human Capital Investment and Employee Performance: An Analysis of IT Services Industry. The study examined whether Human Capital Investment directed towards training is effective in improving employee performance. The panel data set was used to link formal training with performance at the individual employee level. Using a dynamic panel model, the study identified a significant positive impact of training on employee performance. A unit increase in training is linked to a 2.14% increase in an employee performance. The study also found that general training that an employee can utilize outside the local firms improves employee performance. Kepha (2015) conducted a study on the influence of human management practices on the performance of employees in research institutes in Kenya and found out that training and development, human resource planning, staff welfare and recruitment and selection have a positive influence on employee performance. The findings suggested that there is a need for the institute to adopt and consistently implement training and development as well as staff welfare to deliver on their mandates. The study recommended further research on other factors that may have an influence on employee performance and for that reason this study seeks to look into other factors that influence employee performance. Armstrong (2006), states that on-the-job training methods refer to the methods that are applied in the work place, while the staff is actually working so as to acquire specific skills. On-the-job training improves on the staff that had inadequate academic qualifications for their job performance. The common techniques used by the organization to train employees are: orientation, job instruction, job rotation and coaching. Off-the-job methods are done away from work places and staffs receive training away from their posts or workstation and these includes: lectures, apprenticeship, internship and assistant ship, special study, films, television, conferences or discussion, case studies, role playing, simulation, programmed instruction and laboratory training (Armstrong, 2006). A study on Employee Training Programs in the University Libraries of River State University of Science and University of Port-Harcourt in Nigeria by Adeniji, Babalola and Adeniji (2012), found out the type of staff educational attainment and the skill they acquired from the training depends much on the success or failure of a training program. According to Flynn et al. (1995) on the job training reduces cost and saves time while Khan et al. (2011), indicated that on job training,

training design and delivery style has positively related with organizational performance as measured by empirical data.

### **Employee Perception and Employee Performance**

Rao and Narayan (1998) believe that perception is the process through which people select, organize and interpret sensory stimulations into meaningful information about their work environment. Kreitner and Kinicki (2007) defines perception as a cognitive process that enables one to interpret and understand the surrounding and a huge difference can be realized at the workplace when the perception is positive because they can be more productive and stay longer in an organization and when negative they quit. Some of the factors that can impact employee perception include good communication with employees, working conditions, the policies and procedures of the business in general, and the trust and respect between managers, employees, and co-workers (Kreitner et al. 2007) and training and development can also have a huge impact on the perception of an employee. Employee perception in HRM was be defined by Chang (2005) as the expression of the beliefs that the employee has about HRM practices in the organization. Employee perception according to McConnell (1994) is an important aspect because an employee believes and acts on what he/she perceives or believes in. Employee perceptions are dictated by factors like organizational roles, communication styles, working conditions and supervisory approaches. These perceptions are factual to the employees and cannot be disregarded, even when they seem inaccurate. Sola (1997) said that negative perception of an organization makes the employees leave the organization and positive perceptions increases an employee's productivity and retention in an organization. Otara (2011) indicates that in an organization perception relates to how employees interpret their experiences, talk about the effectiveness and work environment and the managers should be in a position to know the differing perceptions. Differing perceptions in the organization makes it hard to employees and the organization to achieve the set objectives. Robbins et al. (2003) points out that many employers are opposed to development initiatives because they assume that the responsibility for developing people to be workers falls on the school system, not on firms. In addition, they consider that it is the responsibility of the employees to learn how to do their job so that they are hired.

### **Employee Engagement and Employee Performance**

Employee retention, customer loyalty, productivity, safety, and organization's profitability are realized through employee engagement because engaged employees care about their organization and work hard towards its success. Such employees are less likely to quit or resign, absent themselves, are more efficient and effective and are also more focused on the customer experience, ensuring that customers are happy and profits are maximized. Bassi et al. (2007) conducted a study on Human Capital and Organizational Performance: Next Generation Metrics as a Catalyst for change. The survey focused on the relationship between HCM metrics like employee turnover rate and subsequent organizational performance. The survey conducted across American Standard Organizations and results generalized revealed that a set of HCM drivers that indicate good performance are leadership practices, employee engagement, knowledge accessibility, workforce optimization and learning capacity. Having engaged employees' results from cultivating the employee-customer relationship which enables any organization to be a low-cost provider and achieve superior results (Heskett, Sasser & Schlesinger, 2003).



**3.0 RESEARCH METHODOLOGY**

This study will adopt a descriptive research design because it will enable the researcher to collect in-depth information about the population being studied. The study targeted 198 non-management employees of Co-operative Bank of Kenya at the headquarters in Nairobi and upper hill branch. The study adopted Taro Yamane (1967) sampling formula to derive a sample of 132 respondents. Stratified random sampling technique was used in selecting the respondents from their respective departments. The study used structured questionnaires with open and close ended questions to collect data. Inferential and descriptive statistics was used to analyse data. Results of the analysis were presented by use of tables and figures. Inferential statistics was used to establish the association between independent variables and dependent variable. The study used the following regression model:

$$Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + e$$

Where Y =Employee Performance,  $\alpha$  =constant,  $\beta_1\beta_2\beta_3$ =Beta coefficients,  $X_1$ =Employee Skills,  $X_2$ =Employee Perception,  $X_3$ =Employee Engagement and e=error term.

**4.0 RESULTS AND FINDINGS**

**4.1 Descriptive Statistics**

**Employee skills mean and standard deviation**

Table 1 shows the results obtained from the relationship between employee skills and employee performance. Those who responded that promotion in the organization is based on merit had a mean of 3.66 and a standard deviation of 1.240. Further findings indicated that not all employees in all categories undergo training every year. This is indicated by a 3.34 and a standard deviation of 1.227 which was high.

**Table 1: Means and Standard Deviations on Employee skills**

| Indicators of Employee Skills   | Mean | Std. Dev | N   |
|---|------|----------|-----|
| Promotion in the organization is based on merit   | 3.66 | 1.240    | 126 |
| Employees in each job category goes through training and development every year                               | 3.34 | 1.227    | 126 |
| Training needs are identified through a formal performance appraisal mechanism                                | 3.88 | 1.048    | 126 |
| There are formal development programs to train new employees on the skills they need to perform their jobs    | 3.75 | 1.178    | 126 |
| This organization provides every employee with opportunities to improve their knowledge, skills and abilities | 3.91 | 1.153    | 126 |
| Development needs identified are realistic  | 3.71 | 1.050    | 126 |
| Development needs identified are based on the business strategy of the organization                           | 4.09 | .904     | 126 |
| Development needs identified are useful to the employee   | 3.99 | .899     | 126 |
| Employees are developed to take up more responsibilities and other job in the future                          | 3.94 | .870     | 126 |
| Human Capital Development helps employees to improve on their performance                                     | 4.37 | .733     | 126 |

|  |      |       |     |
|--|------|-------|-----|
| The bank ensures that employees have the skills required to perform their duties                         | 4.10 | .959  | 126 |
| The bank emphasizes on long term development for employees training plans                                | 3.98 | .963  | 126 |
| Human Capital Development programs organized by the organization are able to enhance employee competency | 4.08 | .909  | 126 |
| The organization is keen on matching the right people with the right jobs                                | 3.90 | 1.034 | 126 |
| Employees obtain job related skills through professional membership eg. HR professionals                 | 3.73 | .999  | 126 |
| Employees are provided with the opportunity to learn on the job  | 4.31 | .881  | 126 |

### Employee Perception and Employee Performance

The study sought to find out the relationship between employee perception and employee performance. Table 2 below shows the means and standard deviations of the indicators of employee perception. Employees had a perception that promotion in the organization is based on merit with a mean of 3.66 and a standard deviation of 1.240. a mean of 4.02 and a standard deviation of 1.084 of the respondents indicated that their performance is affected by self esteem, confidence and self discipline. The respondents felt that the methods used in the human capital development had a positive impact in skill development with a mean of 3.98 and a standard deviation of 1.081.

**Table 2: Means and Standard Deviations of Employee Perception**

| Indicators of Employee Perception  | Mean | Std. Dev | N   |
|--|------|----------|-----|
| Promotion in the organization is based on merit  | 3.66 | 1.240    | 126 |
| Myself confidence has improved as a result of development                                    | 4.09 | 1.066    | 126 |
| I am recognized by the organization as a result of my hard work                              | 3.78 | 1.152    | 126 |
| My work performance is affected by self esteem, confidence and self discipline               | 4.02 | 1.084    | 126 |
| I have developed skills and experience through continuous development                        | 4.02 | 1.016    | 126 |
| The human capital development programs received were relevant to your nature of work         | 3.85 | 1.028    | 126 |
| The methods used in the human capital development had a positive impact in skill improvement | 3.98 | 1.081    | 126 |
| The quality if the development programs you participated in was good                         | 3.98 | 1.051    | 126 |
| Motivation towards development helps you improve in your performance                         | 4.30 | .879     | 126 |
| My work performance is enhanced through good working relation                                | 4.36 | .862     | 126 |

### Employee Engagement and Employee Performance

The study sought to find out the relationship between employee engagement and employee performance. Table 3 below shows that the respondents who responded that lack of employee engagement is as a result of lack of involvement in the organization which in term affects their performance had a mean of 4.13 and a standard deviation of 1.038. This result indicates that

many respondents felt that lack of involvement in the decision making concerning their development affected their performance. With a mean of 4.44 and a standard deviation of 0.732 indicated that many employees felt that being engaged increased their commitment to the organization.

**Table 3: Means and Standard Deviations on Employee Engagement**

| Indicator of Employee Engagement   | Mean | Std. Dev | N   |
|--|------|----------|-----|
| Promotion in the organization is bases on merit  | 3.66 | 1.240    | 126 |
| Lack of employee engagement is as a result of lack involvement in the organization                     | 4.13 | 1.038    | 126 |
| Employee engagement enhances employee commitment   | 4.44 | .732     | 126 |
| I am committed to the objectives of the organization   | 4.48 | .712     | 126 |
| Employee engagement leads of improved employee performance   | 4.51 | .701     | 126 |
| Designing and implementing an effective employee engagement system is critical to employee performance | 4.37 | .807     | 126 |
| Employee engagement helps the organization to achieve its strategic implementation                     | 4.53 | .701     | 126 |
| I feel obliged to work hard for the organization to achieve its goals                                  | 4.29 | .939     | 126 |
| Does your organization allow employees to make inputs in decision making in the organization           | 3.75 | 1.109    | 126 |

### Employee Performance

The study sought to find out how the independent variables affect the dependent variable. He independent variables; employee skills, employee perception and employee engagement and the dependent variable is employee performance.

#### Mean and standard deviation of employee performance

The study sought to find out how the independent variables affect the dependent variable which is employee performance. The results in table 4 above indicate that respondents agreed that employees' skills have a great impact of their performance (mean = 3.98, standard deviation= 0.963). The respondents also agreed being involved in decision making in the organization concerning their developed has a positive impact on their performance (mean = 4.13 and a standard deviation of 1.038). The respondents felt that their perception and how the organization feels about them leads to being motivated which increases their performance in general (mean = 3.85, standard deviation = 1.028).

**Table 4: Employee Performance**

|                      | Mean | Std. Deviation | N   |
|----------------------|------|----------------|-----|
| Employee Performance | 4.58 | .598           | 126 |
| Employee Perception  | 3.85 | 1.028          | 126 |
| Employee Engagement  | 4.13 | 1.038          | 126 |
| Employee Skills      | 3.98 | .963           | 126 |

## 4.2 Inferential Statistics

### Multiple Regression

The study conducted a multiple regression to determine the relationship between the dependent and independent variable. The results are presented in table 5 below.

Table 5: Coefficients

| Model |                     | Unstandardized Coefficients |            | Standardized Coefficients |       | Sig. |
|-------|---------------------|-----------------------------|------------|---------------------------|-------|------|
|       |                     | B                           | Std. Error | Beta                      | t     |      |
| 1     | (Constant)          | .871                        | .757       |                           | 1.152 | .252 |
|       | Employee Skills     | .004                        | .122       | .003                      | .032  | .975 |
|       | Employee Perception | .263                        | .108       | .230                      | 2.441 | .016 |
|       | Employee Engagement | .382                        | .156       | .216                      | 2.452 | .016 |

**Dependent Variable:** *Employee Performance*

The overall model becomes

$$Y = 0.871 + 0.321(\text{Employee Skills}) + 0.327(\text{Employee Perception}) + 0.469(\text{Employee Engagement})$$

The result of the findings shows that employee perception has the highest influence on employee performance. The multiple regression analysis shows that the beta co-efficient of employee skills and employee performance is 0.321. This means that when 1 unit of employee skills increases the overall employee performance will increase by 0.321. Hence,  $H_{01}$  is rejected and the study adopts the alternate hypothesis which is there is statistically significant effect of employee skills on employee performance at Co-operative Bank. The beta co-efficient of employee perception and employee performance is 0.327. This means that when 1 unit of employee perception is increased the overall employee performance is increased by 0.327 units and hence the study rejects the null hypothesis and accepts the alternate hypothesis which reads there is statistically significant effect of employee perception on employee performance at Co-operative Bank. Null hypothesis  $H_{03}$  is also rejected because the beta co-efficient of employee engagement on employee performance at Co-operative Bank is 0.469 which means that when 1 unit of employee engagement is increased the value of employee performance increases by 0.469. The p value of all the independent variables is  $<0.05$  which indicates that there is a relationship between the independent variables and the dependent variable.

## 5.0 CONCLUSION AND RECOMMENDATIONS

### 5.1 Conclusions

The study concluded that employee skills positively influence employee performance at Co-operative Bank. The study concluded that the organization has formal development programs to train new employees on skills required to perform their job. The study also concluded that the bank ensures that employees have skills required to perform their duties and they are given an opportunity to learn on the job. The study therefore rejects the null hypothesis which states that there is no statistically significant effect of employee skills on employee performance at Co-operative Bank of Kenya. The study also concluded that the employees work performance is affected by their self esteem, confidence and self discipline. Employees perceived the programs as relevant to their work and feel recognized by the organization. The study therefore rejects the null hypothesis which states that there is no statistically significant effect of employee perception on employee performance at Co-operative Bank of Kenya. The study finally concluded that as a result of being engaged they are committed to the objectives of the organization which in turn helps the organization to achieve its strategies and its goals. The study also concluded that lack of involvement in the organization is as a result of lack of engagement. The study therefore



rejects the null hypothesis there is no statistically significant effect of employee engagement on employee performance at Co-operative Bank of Kenya.

## 5.2 Recommendations

The study recommended that the bank should involve all the employees at all levels in decision making about their development. Additionally, training on all areas of operations should be conducted regularly. Finally, the organization should develop a proper mechanism on performance appraisal to identify gaps on training.

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