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Effect of Performance Management and Capacity Building on Employee Performance in Madison Insurance Company Kenya Limited

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Abstract

Performance of the employee is considered as what an employee does and what he/she doesn't do. Employee performance involves quality and quantity of output, presence at work, accommodative and helpful nature and timeliness of output. Employee performance therefore is a sign of the capacity of a company to efficiently achieve independent goals. One of the elements that is assessable is the employees' performance through the level of their productivity. The study established the effects of performance management and capacity building on the employee performance in Madison Insurance Company Kenya Limited. The study target population were 1540 employees of the Madison Insurance Company Kenya of which 154 employees were selected as the sample size using the simple random sampling technique. Descriptive statistics and inferential statistics such as regression and correlation analysis was used analyse the data. The study findings indicated that the performance management and capacity building influenced the employee performance of insurance industries. There was a significant and positive relationship between performance management, capacity building and employee performance. The study therefore recommended that insurance industries should invest in performance management and capacity building.

Keywords: *Performance management, Capacity Building, Employee performance, Insurance and Madison Insurance Company*

1.0 Introduction

1.1 Background of the Study

Employee Performance is the successful completion of tasks by a selected individual or individuals, as set and measured by a supervisor or organization, to pre-defined acceptable standards while efficiently and effectively utilizing available resource within a changing environment (Armstrong, 2009). Performance of the employee is considered as what an employee does and what he doesn't do. Employee performance involves quality and quantity of output, presence at work, accommodative and helpful nature and timeliness of output.

Employees are an important asset for good and effective performance in any organization. Indeed, Guest (1997), as cited by Armstrong (2009), stated that improved performance is achieved through the employees in the organization. Until the 1980s, performance was usually interpreted as the output of a combination of ability and motivation, given appropriate resources and hence motivating people became a key component of most management work (Torrington, 2008).

Hashim (2000) suggests that the measure of employee performance is the determination of financial profitability and growth attributed to the individual employee as a contribution to the firm. This is supported by Berridge (2001) who argue that the common measures of organizational performance such as profit margin, return on assets, return on equity and return on sales can be attributed to each individual as a contribution. This argument may not however work on the service industries such as the insurance industry where employee performance is seen more on the quality of service delivers to the customers.

Insurance companies in Kenya have traditionally differentiated themselves on the basis of product and market segmentation. Madison insurance company has continued to grow to achieve a combined premium income of over 5 billion by 31st December 2015. The main objectives for Madison Insurance is to provide the best insurance products at the most reasonable prices and to offer unparalleled customer service to its customers. Insurance companies therefore will be expected to first constantly seek ways of ensuring they are more efficient, productive, flexible and innovative, maintaining a competitive advantage now and in the future and how they will in addition to finance and technology, inordinately depend on how they will manage and factor as differentiator, the human resource management compliment. With the industry undergoing significant change over the last few years and the regulator moving away from rule based to risk based supervision, the importance of a strong human resource compliment among insurance companies cannot be gainsaid. There was therefore need for sound understanding and appreciation of the human resource complement in the insurance industry (Kibisu & Awino, 2017).

1.2 Statement of the Problem

Insurance plays a key role in supporting economic and financial development and as a provider of protection from financial loss due to the occurrence of certain contingent events. This then allows investors to enter into commitments that they might not have otherwise been prepared to consider. Accordingly, the insurers' efforts at mitigating risk and to make transfer of risk more affordable and manageable contribute to financial development. Hence the need for insurance companies to be managed by skilled and competent persons (Kibisu & Awino, 2017).

Companies in the world are faced with competition for quality product and service from all over the globe and they have to struggle to remain competitive and employers of choice to attract the best human resource. Madison Insurance Company is the most growing insurance company in

Kenya though with high staff turnover according to AKI report of 2015. Hence the need for insurance company to be managed by skilled and competent persons.

Employee performance is a sign of the capacity of a company to efficiently achieve independent goals (Venkatraman & Ramanujam, 1986). One of the elements that is assessable is the employees' performance through the level of their productivity. Past studies have been introducing various methods to evaluate organizational performance (Wong & Wong, 2007; Prajogo, 2013). This includes the quality, quantity, knowledge or creativity of individual towards the accomplished works that are in accordance with the responsibility during a specified period- in other words, the assessment systems must have some standard parameters that can be relied upon. The study sought to find out how performance management and capacity building affected the employees' performance in Madison Insurance Company Limited Kenya.

1.3 Specific Objectives

- i. To establish the effect of performance management on employee performance in Madison Insurance Company Kenya Limited.
- ii. To examine the effect of capacity building on employee performance in Madison Insurance Company Kenya Limited.

1.4 Research Hypothesis

- i. **H₀₁**: There is no significant relationship between performance management and employee performance in Madison Insurance Company Kenya Limited
- ii. **H₀₂**: There is no significant relationship between capacity building and employee performance in Madison Insurance Company Kenya Limited

2.0 Literature Review

2.1 Theoretical Review

The theories that supported the study include Abraham Maslow Theory of motivation and Resource Based View Theory. This are presented in figure 1.

2.1.1 Resource Based View Theory

In recent years, human resources have been recognized as an important source of sustained competitive advantage. Much of the human resources and theoretical and empirical work has been grounded in the resource-based view (RBV) of the firm (Barney, 1997). This theory maintains that in order to develop a sustainable competitive advantage, organization must create resource in a manner that is rare, non-imitable, and non-substitutable. The RBV of the firm is a theoretical paradigm originating in the field of strategic management. The RBV assumes that resources and attributes of the firm are more important to sustained competitive advantage than industry structure and competitors' actions (Barney, 1997). Resources have been defined as the tangible and intangible assets a firm uses to choose and implement its strategies (Barney, 2001). This broad definition includes human, organizational, financial and physical resources. Barney (1991) and Teece, Pisano and Shuen (1997) have outlined a framework for determining if a resource can be considered a source of sustained competitive advantage.

In addition, these human resources are difficult to imitate. Since it is not easy to identify the exact source of the competitive advantage and reproduce the basic conditions necessary for it to occur. Finally, this human resources is not easily replaced; though short-term substitutes may be found, it is unlikely that they will result in a sustainable competitive advantage like the one provided by human resources. Therefore, the Resource Based Theory is suitable for employee performance study of Madison Insurance Company Kenya study having identified human resource as a key resource of sustained firm performance and a source of competitive advantage.

2.1.2 Abraham Maslow Theory of Motivation

Abraham Maslow argued that humans are motivated by five essential needs. He formed a pyramid demonstrating these needs which he called the ‘hierarchy of needs’: At the bottom of the pyramid are basic needs, those that motivate people to work –food and shelter. Once these needs are met through pay, individuals want safety and security through, for example, good job conditions. Social needs refer to the need to belong, to be part of a group. Self-esteem may arise from a promotion. Right at the top is Self-fulfillment - the area for creativity, challenge and interest. Maslow suggested that achieving one level motivates us to achieve the next. The theory is applicable in the Madison Insurance Company because the company provides basic needs to the staff; a place of work, regular monthly pay and essentials. Facilities such as a recreation centers where the staff get to relax after work. Security needs; provides the security of formal contracts of employment as well as pension and medical schemes create a sense of belonging. It ensures health and safety in the workplace. Social needs; promotes team and group working at various levels; the department ‘Steering Wheel’ assesses individual and group work and enables staff to work as a team. Working conditions and a home-from-home ethos encourages long service.

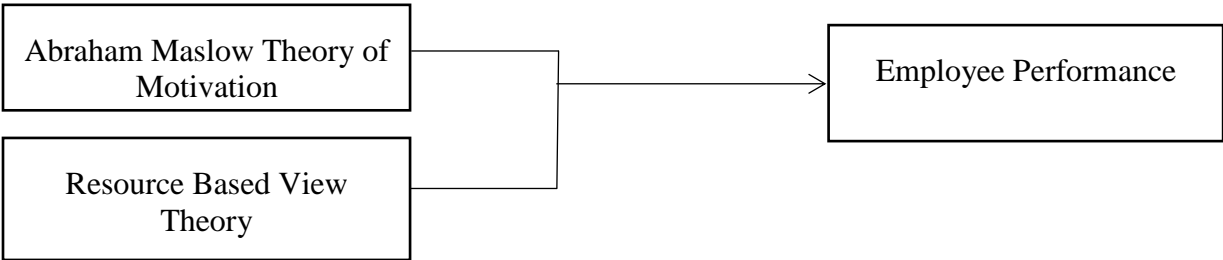


Figure 1: Theoretical Framework

2.2 Empirical Review

According to Chan and Lynn (1991), the organizational performance criteria should include profitability, productivity, marketing effectiveness, customer satisfaction, but also employee morale. In this perspective, employee performance is tightly related to organizational performance, effective and efficient employee performance will positively influence organizational performance. On the other view, Millar (2009) built a framework of talent management which consists of planning, recruiting, performance, learning, career development, succession planning, compensation, and measuring and reporting. In order to organize a company effectively, companies must rethink how they hire, train and reward their employees; therefore, the employees could be encouraged to be competitive. Undoubtedly, there is an important factor is human in organizations. One of the main management strategies of the organizations is to invest in employees. Organizations are seeking to develop, motivate and increase the performance of their employees in a variety of human resources applications (Gungor, 2011). Thus, performance

management should be an important step in the organization's HRM system and influences employee performance and then to organizational performance.

Appelbaum (2003) claims performance which is a function of employees. Ability, motivation and Opportunity to participate. This means that an organization will benefit most if it organizes the work process in such a way that non-managerial employees have the opportunity to contribute discretionary effort and it could be achieved by giving them autonomy in decision making, by providing in good communication and by employee membership in self-directed and/or off-line teams. For their effort to be effective, employees need to have the appropriate skills and knowledge. Hence, organizations can achieve this by attracting employees who already poses this knowledge, or by providing employees with formal and/or informal training. Finally, the organization needs to motivate these employees to put their abilities into the best effort for the organization.

Groot and Molen (2000) defined capacity building as the development of knowledge, skills and attitudes in individuals and groups of people relevant in design, development, management and maintenance of institutional and operational infrastructures and processes that are locally meaningful. This is a broader approach while still focusing mainly on education, training and human resource development. Therefore, based on this definition, capacity building for employees in a broad sense may refer to improvements in the ability of all employees to perform appropriate tasks within the broader set of performance standards of the organization.

According to United Nations Committee of Experts on Public Administration (2006), capacity building takes place at three levels, that is, at the individual level, an institutional level and the societal level. Capacity building on an individual level means the development of conditions that enable individuals to build and enhance existing knowledge and skills. Additionally, it requires the conditions that will allow individuals to engage in the process of learning and adapting to change (UNCEPA, 2006).

According to Cole (2002), the training policy of an organisation may include a range of policies dealing with human resources. The policy statement sets out what the organisation is prepared to do in terms of developing its employees and it must support the organizational mission, goals and strategies. The policy statement must be defined in clear terms and must also be available to all for references. Some organisations have a tradition of growing their own managers and specialist by providing a substantial internal training to sustain all their needs (Noe, 1999). Other organisations contract their training to external providers such as colleges, universities, consultants and private training organisations. There are, however, other organisations that adopt a midway position, providing induction training and job training internally but contracting out management and supervisor training.

2.3 Conceptual Framework

Kothari (2004) defines an independent variable as the presumed cause of the changes of the dependent variable, while a dependent variable refers to the variable which the researcher wishes to explain. The study concentrated on performance management, capacity building and employee performance together with their indicators. The indicators were considered appropriate for measuring the respective variables (performance management, capacity building and employee performance).

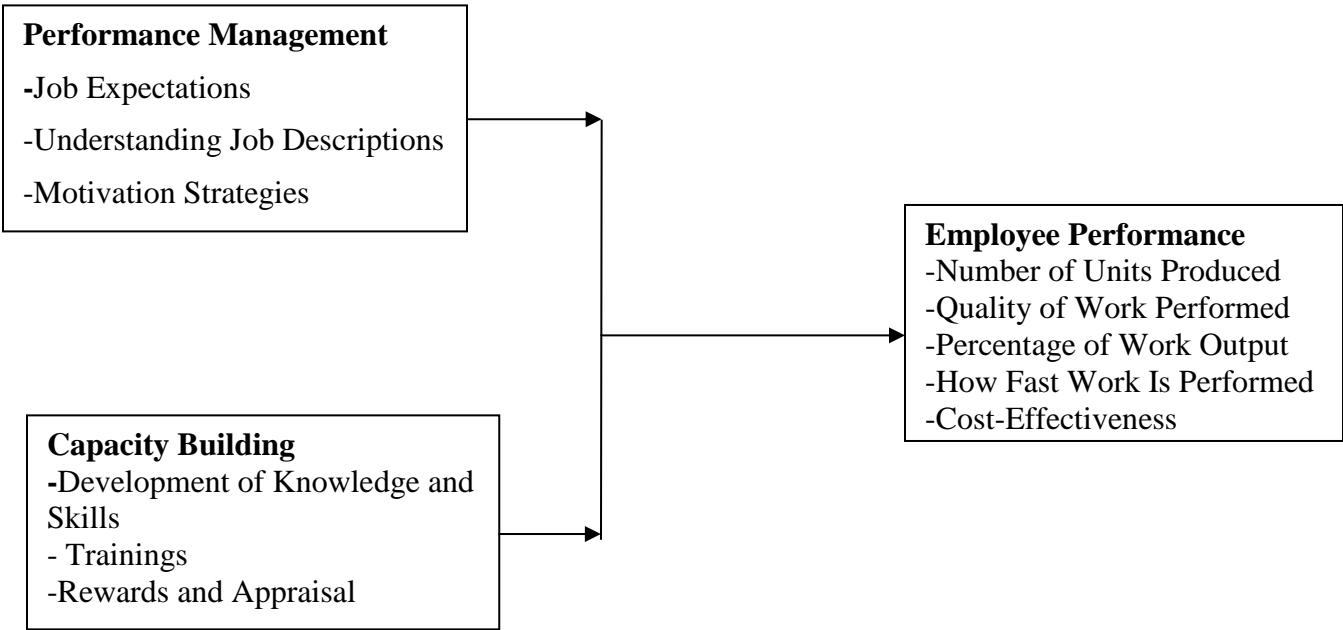


Figure 2: Conceptual Framework

3.0 Research Methodology

The study adopted a descriptive research design. The study target population were 1540 employees of Madison Insurance Company in all the twenty-three branches of which 154 of the employees were selected as the sample size using simple random sampling technique. Questionnaires were used to obtain data, which was analyzed by the use of descriptive statistics. Correlation and multiple linear regression analysis model was used test the relationship between the performance management and capacity building t affecting employee performance.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + e$$

Where:

Y = Employee Performance

X₁ = Performance Management

X₂ = Capacity Building

β₀ represents the constant

β_{1,2} are regression coefficients

e is error term

4.0 Results and Findings

4.1 Response Rate

A total of 154 employees were issued with the questionnaires, out of these, 132 questionnaires were properly filled and returned. This represented an overall successful response rate of 85.71%. According to Mugenda and Mugenda (2003) and also Kothari (2004) a response rate of above 50% is adequate for a descriptive study. 85.34% response rate was considered very good for the study. The result of the analysis of the respondents is presented in Table 1.

Table 1: Response Rate

Response	Frequency	Percent
Returned	132	85.71%
Unreturned	22	14.29%
Total	154	100.00%

4.2 Descriptive Statistics

4.2.1 Performance Management

The study established the effect of performance management on the employee performance of performance in Madison Insurance Company Kenya Limited. The results on Performance Management was presented in Table 2.

Table 2: Performance Management

Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std. Dev
Cooperation across different parts of the organization is actively encouraged.	6.7%	17.8%	4.4%	31.1%	40.0%	3.8	1.3
People work like they are part of a team	11.1%	11.1%	8.9%	22.2%	46.7%	3.8	1.4
Teamwork is used to get work done, rather than hierarchy	6.7%	4.4%	15.6%	35.6%	37.8%	3.9	1.1
Teams are our primary building blocks	6.7%	8.9%	17.8%	24.4%	42.2%	3.9	1.2
Work is organized so that each person can see the relationship between his or her job and the goals of the organization.	11.1%	4.4%	8.9%	33.3%	42.2%	3.9	1.3
Average						3.9	1.3

Results in Table 2, revealed that 71.1 % agreed that cooperation across different parts of the organization was actively encouraged, 68.8% agreed that people work like they were part of a team, 73.4% agreed that teamwork was used to get work done, rather than hierarchy, 66.6% of the respondents agreed that teams were primary building blocks, while 75.2% of the respondents

agreed that work was organized so that each person could see the relationship between his or her job and the goals of the organization. On a five-point scale, the average mean of the responses was 3.9 which meant that majority of the respondents agreed with most of the statements; however, the answers were varied as shown by a standard deviation of 1.3.

4.2.2 Capacity Building

The study examined the effect of capacity building on the employee performance of performance in Madison Insurance Company Kenya Limited. The results on capacity building was presented in Table 3.

Table 3: Capacity Building

Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std. Deviation
Authority is delegated so that people can act on their own.	4.4%	4.4%	11.1%	33.3%	46.7%	4.13	1.07
The "bench strength" (capability of people) is constantly improving.	4.4%	8.9%	17.8%	42.2%	26.7%	3.78	1.08
There is continuous investment in the skills of employees	4.4%	11.1%	17.8%	26.7%	40.0%	3.87	1.19
The capabilities of people are viewed as an important source of competitive advantage	8.9%	11.1%	13.3%	31.1%	35.6%	3.73	1.29
Problems often arise if I do not have the skills necessary to do the job.	0.0%	0.0%	15.6%	44.4%	40.0%	4.24	0.71
Average						3.95	1.07

From the results in Table 3, 80 % agreed that authority was delegated so that people can act on their own, 68.9% agreed that the "bench strength" (capability of people) was constantly improving, 66.7% of the respondents agreed that there was continuous investment in the skills of employees, 66.7% of the respondents agreed that the capabilities of people were viewed as an important source of competitive advantage, while 84.4% of the respondents agreed that their problems often arose if they do not have the skills necessary to do the job. On a five-point scale, the average mean of the responses was 3.95 which meant that majority of the respondents agreed with most of the statements; however, the answers were varied as shown by a standard deviation of 1.07.

4.3 Correlation Analysis

Pearson’s correlations analysis was then conducted at 95% confidence interval and 5% confidence level 2-tailed. The results in Table 4 indicated the association between the performance management, capacity building and employee performance.

Table 4: Correlation Matrix

		Perform ance	Perform ance manage ment	Capacit y Building
Employee Performance	Pearson Correlation	1.000		
Performance Management	Pearson Correlation	.279**	1.000	
	Sig. (2-tailed)	0.001		
Capacity Building	Pearson Correlation	.390**	0.07	1.000
	Sig. (2-tailed)	0.000	0.419	
** Correlation is significant at the 0.01 level (2-tailed).				

Results in Table 4 presented the results of the correlation analysis. The results revealed that performance management and employee performance were positively and significantly related ($r=0.279$, $p=0.001$). Similarly, results showed that capacity building and employee performance were positively and significantly related ($r=0.390$, $p=0.0$).

4.4 Hypothesis Testing

Regression analysis was performed to establish the relationship between performance management, capacity building and employee performance. Results were presented in table 4, 5 and 6.

Table 5: Model Fitness for the Regression

Indicator	Coefficient
R	0.590
R Square	0.348
Adjusted R Square	0.328
Std. Error of the Estimate	0.4053891

Results in table 5 indicated that performance management and capacity building were found to be satisfactory variables in explaining employee performance of insurance industries. This was supported by coefficient of determination also known as the R square of 34.8%. This means that performance management and capacity building explained 34.8% of the variations in the employee performance.

Table 6: Analysis of Variance

Statements	Sum of Squares	df	Mean Square	F	Sig.
Regression	11.420	4	2.855	17.372	0.000
Residual	21.364	130	.164		
Total	32.784	134			

Table 6 presented the results on the analysis of the variance (ANOVA). The results indicated that the overall model was statistically significant. Further, the results imply that the performance management and capacity building were good predictors of employee performance of insurance industries. This was supported by an F statistic of 17.342 and the reported $p < 0.05$ which was less than the conventional probability of 0.05 significance level.

Regression of coefficients results in Table 7 shows that performance management was positively and significant related with employee performance of insurance industries as supported by ($r = 0.168$, $p < 0.05$). The hypothesis was tested by using the ordinary least square regression. The acceptance/rejection criterion was that, if the p value is less than 0.05, the H_0 is rejected but if it's greater than 0.05, the H_0 is accepted. Results in Table 7 show that the p-value was $0.010 < 0.05$. This indicated that the null hypothesis was rejected hence there is a significant relationship between performance management and employee performance.

The results further indicated that capacity building was positively and significantly related with employee performance as supported by ($r = 0.201$, $p < 0.05$). The hypothesis was tested by using the ordinary least square regression. Results in Table 7 show that the p-value was $0.000 < 0.05$. This indicated that the null hypothesis was rejected hence there is a significant relationship between capacity building and employee performance.

Table 7: Regression of Coefficients

Variable	B	Std. Error	Beta	T	Sig
(Constant)	1.051	.382		2.754	.007
Performance Management	.168	.044	.274	3.854	.000
Capacity Building	.201	.041	.349	4.908	.000

Thus the optimal model of the study was;

$$Y = 1.051 + 0.168X_1 + 0.201X_2.$$

Where

Y= Employee Performance of Insurance Industries

X₁= Performance Management

X₂= Capacity Building

5.0 Conclusions

The study deduced that monitoring was mostly done by technology at Madison Insurance Company. They preferred use of human being in monitoring so as to rate their performance based on that. The plan for monitoring was not yet proper according employees. Monitoring is a key indicator on employee performance. The initiative was done not after three months and it was done by the managers and supervisors (internal), rarely does outsiders (consultants) engaged. The exercise involved trainings, motivational sessions etc though employees were not involved in choosing the program. It was clear that capacity building is very important for the performance of employees.

6.0 Recommendations

It was the good thing for management to make decisions to remain in control but there should be a room for those senior employees to be involved to have them air the concerns of their fellows. This way there would be that feeling of ownership that is very necessary for performance. Management need to know when to engage employees in decision making and when not to for proper functioning of the firm. There was more to be done in planning for employee’s involvement that is very necessary for performance and productivity. The management through proper analysis to get the concerns of members on the relevant programs to be rolled in order to get the priorities right.

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