

THE EFFECT OF EMPLOYEE LEARNING AND GROWTH ON ORGANIZATIONAL PERFORMANCE: AN INDIAN BANKING EXPERIENCE

Adil Zahoor

Senior Research Fellow
The Business School
University of Kashmir, J&K, India

Abstract

Although there is a logical recognition that learning and growth of employees must lead to improved performance but little empirical evidence is available in the literature to support that effect. Therefore, the present study is aimed to plug this gap by investigating the relationship between employee learning and growth (innovative work behavior, employee empowerment, and employee training) and organizational performance (customer satisfaction and their loyalty) in the context of Indian retail banking. Data for present study was gathered from a sample of 228 employees and 737 customers. All the constructs were measured using previously developed scales and the hypothesized relationships were tested using structural equation modelling. The results of the study evidenced a positive influence of employee learning and growth on organizational performance.

Keywords: learning and growth, organizational performance, Indian banking, innovative work behavior, customer satisfaction.

1. Introduction and rationale

The significance of learning and growth of employees in determining the organizational success has seldom been underestimated. There is extant literature evidence that advocates the positive impact of employee learning and growth on organizational performance. So much so, one of the most widely used performance evaluation systems, The Balanced Scorecard (Kaplan and Norton, 1992), postulates the learning and growth of employees as the fundamental driver of organizational performance from which other drivers (internal business processes and customer) take their tone in determining the bottom line financial results.

A vital assertion was made by Kaplan and Norton (1996) that there exists a causal relationship amongst the four Balanced Scorecard perspectives in the form that learning and growth perspective

→ internal business process perspective → customer perspective → financial perspective. This proposition of Kaplan and Norton (1996) has been empirically examined across various contexts and most of the evidence favors the existence of such causal linkages (Perlman, 2013; Al Bento, 2012). However, there is little empirical research evidence found in the literature that tries to ascertain whether there exists a direct positive influence of learning and growth of employees on organizational performance. Therefore, the present study is focused to investigate the impact of employee learning and growth (innovative work behavior, employee empowerment, and employee training) on organizational performance (customer satisfaction and their loyalty) in the Indian retail banking context.

2. Organizational performance

The marketing literature conceptualizes organizational performance as a two dimensional construct. The two dimensions are objective performance and subjective performance. Objective performance relates to the bottom line financial indicators of performance like return on assets, market price of shares, profits etc. The subjective performance, on the other hand, is a perceptual measure of the stakeholders (like employees and customers) about the performance of an organization in terms of service quality, employee job satisfaction etc. The pertinent literature argues that objective performance is delineated by the subjective measures of performance like service quality perception (Rust *et al.*, 1994), customer satisfaction (Berry *et al.*, 1985), and employee satisfaction (Ahmad and Rafiq, 2003). Moreover, a wide spectrum of research works have identified a strong positive correlation between subjective responses and objective measures (Venkataraman and Ramanujam, 1987). Therefore, while investigating the influence of employee learning and growth on organizational performance, only subjective measures of organizational performance (customer satisfaction and customer loyalty) are used in the study.

3. Linking employee learning and growth and organizational performance

Kaplan and Norton (1992, 1996) suggested that the fundamental notion behind employee learning and growth is to provide adequate physical and intellectual capital to facilitate the improvement of subsequent leading indicators (internal business processes and customer) and ultimately the financial performance. Employee learning and growth addresses the core issue – Are we innovative enough to continuously create value for our customers (Malgwi and Dahiru, 2014). Employee learning and growth essentially measures the extent to which an organization strives to create opportunities for its employees to learn and grow in their domain (Najjar and Kalaf, 2012). In view of this, the present study uses three indicators that reflect employee learning and growth namely

innovative work behavior, employee training, and employee empowerment. These are briefly explained in the following sections. Besides, their relation with performance is also highlighted.

3.1. Innovative work behavior

It reflects the behavior of an individual directed at achieving the initiation and intentional introduction of new and useful ideas, processes, products, or procedures (de Jong and Hartog, 2008). Thus innovative work behavior reflects a two dimensional construct comprising of four stages. The first two stages (opportunity exploration and idea generation) represent creativity oriented innovative work behavior and the last two stages (championing and application) represent implementation oriented behavior. Amabile (1988) states that innovativeness on part of employees would result in the achievement of encouraging customer outcomes.

3.2. Employee empowerment

It refers to the authority of employees to manage their own work (Denison, 1996). Once the employees are empowered in discharging their responsibilities, they feel motivated, satisfied and committed towards their job (Dewettinck and Ameijde, 2011). Resultantly, it creates in them an improved sense of belongingness, responsibility and ownership towards the organisation (Denison, 1996). This improves their productivity (Nick *et al.*, 1994) by way of improved job performance.

3.3. Employee training

It refers to the practices, which are the result of a planned intervention (Chiaburu and Tekleab, 2005), that are aimed at enhancing the skills, knowledge and competence of employees (Palo and Padhi, 2003) so as improve their service performance efficiency. Lovelock and Wirtz (2010) argue that in order to achieve customer satisfaction and loyalty, an organization needs to have a right set of employees who are trained and empowered to deliver services of higher quality. Based on the above discussion, the following two hypotheses are proposed.

H1 Employee learning and growth positively influences customer satisfaction

H2 Employee learning and growth positively influences customer loyalty

4. Research methodology

Investigations were carried out to ascertain the impact of employee learning and growth on organizational performance. The primary issues relating to the methodology are discussed in the following sections.

4.1. Data collection and the sample

Data for present study came from four prestigious Indian banks which includes private, public and foreign banks. The branches are located in Delhi, Chandigarh, and Jammu and Kashmir. Respondents were selected on the basis of stratified sampling procedure with Delhi, Ludhiana, Chandigarh, Jammu and Srinagar as different strata. This approach was used in order to ensure that respondents from urban, semi-urban, and rural population are included in the sample.

One employee questionnaire and four customer questionnaires were given to each contact employee (those who interact directly with the customers). The employees were requested to distribute four customers' questionnaires to their customers (preferably the regular customers) to get them completed. The employees' questionnaire measured the innovative work behavior, employee empowerment, and employee training. The customers' questionnaire, on the other hand, measured their level of satisfaction and loyalty. Based on the research work of Hennig-Thurau (2004), a common identification number was allotted to the contact employees' and customers' questionnaire in order to facilitate the matching process of employees' outcomes and customers' outcomes.

Out of 390 employees' questionnaires, 228 completed and usable questionnaires were received indicating a response rate of 58.46%. The response rate for customers' questionnaires was relatively lower (47.24%) with only 737 questionnaires returned out of 1560 distributed questionnaires.

4.2. Research instrument and scale purification

A 5-point Likert scale, ranging from 1→strongly disagree to 5→strongly agree, was used throughout the study to capture the perception of respondents about the constructs examined in the research. Most of the scales were drawn from previous works in the field of marketing and human resource. The scales were, however, tested for validity (using confirmatory factor analysis) and reliability (using Cronbach's alpha) which indicated deletion of certain items. The factor loadings of the remaining items used in the study along with corresponding *t* values are given in appendix A.

Innovative work behavior is measured using a ten item scale developed by deJong and Hartog (2008). In order to measure employee empowerment, five items pertaining to empowerment in the Denison (1996) organizational culture survey were taken and employee training is measured using three items from Rao and Abraham (1990). The results of scale purification indicated that no

changes are required in these scales and hence all the items of these scales were retained for final analysis. The goodness-of-fit indices also indicated that the data fits the model quite well ($\chi^2 = 541.19$, $p < 0.05$; GFI = 0.90; AGFI = 0.83; CFI = 0.89; RMR = 0.05; RMSEA = 0.04). The nine item scale of Maloles (1997) was used to capture the perception of customers about their level of satisfaction. However, three items were deleted as their loading was less than 0.40. The remaining six items provided for a unidimensional scale. The five item scale developed by Mols (1998) was used to measure customer loyalty and it represented a unidimensional construct ($\chi^2 = 489.25$, $p < 0.05$; GFI = 0.88; AGFI = 0.85; CFI = 0.91; RMR = 0.03; RMSEA = 0.05). The reliability coefficients of all the constructs were above the cut off limit 0.70 (Nunnally, 1978).

5. Analysis and results

The results, presented in Table 1, indicate that there exists reasonable correlation amongst the constructs examined in the study, thereby implying an adequate model fit ($\chi^2 = 114.35$, $p > 0.05$; GFI = 0.95; AGFI = 0.88; CFI = 0.92; RMR = 0.05; RMSEA = 0.03). This provides sufficient rationale to estimate beta coefficients in the light of the hypothesized relationships. The statistics regarding the impact of employee learning and growth on organizational performance are presented in Table 2.

Table 1. Descriptive statistics, inter - construct correlations, and reliability coefficients

Construct	Mean	SD	1	2	3	4	5
6. Innovative work behavior	2.93	0.549	1.00				
7. Employee empowerment	2.98	0.614	0.37*	1.00			
8. Employee training	3.16	0.627	0.34*	0.24*	1.00		
9. Customer satisfaction	3.41	0.719	0.36*	0.31*	0.34*	1.00	
10. Customer loyalty	3.29	0.528	0.29*	0.28*	0.25*	0.38*	1.00
Cronbach's Alpha			0.71	0.79	0.81	0.75	0.73

Source: Data compilation by the authors for the present study

Note: * $p < .05$; SD = Standard deviation

It is clearly evident from the figures given in Table 2 that innovative work behavior is the most influential predictor of customer satisfaction ($b = 0.312$, $p < .01$) and customer loyalty ($b = 0.325$, $p < .01$). Employee training is the second most powerful determinant of customer satisfaction ($b = 0.306$, $p < .01$) and customer loyalty ($b = 0.314$, $p < .01$) as well. This is followed by the influence of employee empowerment on customer satisfaction ($b = 0.291$, $p < .05$) and customer loyalty ($b = 0.298$, $p < .05$).

Table 2. Impact of employee learning and growth on organizational performance

<i>Employee learning and growth</i>	<i>Organizational performance</i>	
	<i>Customer satisfaction</i>	<i>Customer loyalty</i>
Innovative work behavior	0.312**	0.325**
Employee empowerment	0.291*	0.298*
Employee training	0.306**	0.314**
<i>R</i>²	0.32	0.36

Source: Data compilation by the authors for the present study

*Note: *p < .05; p < .01*

Collectively, the three dimensions of employee learning and growth (innovative work behavior, employee empowerment, and employee training) explain 32 percent of variance in customer satisfaction and 36 percent in customer loyalty. The above discussion provides sufficient evidence in support of *H1 that employee learning and growth positively influences customer satisfaction* and *H2 that employee learning and growth positively influences customer loyalty*. Therefore, both H1 and H2 can be safely accepted.

6. Discussion and conclusions and implications

While investigating the impact of employee learning and growth on organizational performance, it was found that out of the three dimensions of learning and growth, innovative work behavior is the most powerful determinant of performance. It is followed by employee training and finally by employee empowerment. The positive impact of employee empowerment on customer satisfaction is in conformance with some of the previous research works (Aziz, 2008) while in contradiction to the findings of some other studies that reported a non-significant influence of employee empowerment on customer satisfaction (Jonathan and Johnmark, 2012). The positive influence of innovative work behavior on customer satisfaction is also in line with previous research findings (Amabile, 1988).

In view of the findings of the study, managers would be required to take necessary initiatives aimed at improving innovative work behavior of employees. For instance, employees must be provided greater autonomy in performing their job. This will result in higher levels of innovativeness at the work place because control over one's own job results in an enriched job experience, which may in turn motivate employees to innovate (Ramamoorthy et al., 2005). Further, regular training programs must be organized for employees in order to enhance their ability to perform better on the job which will in turn result in improved customer satisfaction and loyalty. These training

programs should not only be aimed to enhance the technical knowledge of employees but the behavioral dimension of work performance must also be adequately addressed in the training programs. Moreover, necessary managerial intervention is also required to empower the employees to take rapid decisions during service encounters which will result in lowering the waiting period of customers in getting the service and thereby improving customers' positive service experience.

7. Limitations and directions for future research

First, while examining the relationship between employee learning and growth on organizational performance, only subjective measures of performance were considered in the present study. This leaves enough scope to carry out future research aimed at investigating the relationship between employee learning and growth and other (objective) measures of organizational performance like return on investment, profitability etc. *Second*, since, in the present study, the customers' questionnaires were distributed to them by the employees. There is a possibility that this type of data collection process might have introduced some kind of bias into the final results of the study. *Finally*, the data for present study came only from the branches located in the northern region of India and that too from only the banking sector only. This might raise concerns about the generalization of results. It is, as such, required that similar research may be replicated in other geographical areas covering different sectors of an economy.

Appendix A: Scale items after purification

<i>Construct / item</i>	<i>Factor loading</i>	<i>T value</i>
Innovative work behavior	.72	08.63
I pay attention to issues that are not part of my daily work	.76	10.32
I wonder how things can be improved	.58	07.28
I search out new working methods, techniques or instruments	.57	14.36
I generate original solutions for problems	.62	07.08
I find new approaches to execute tasks	.54	11.25
I make important organizational members enthusiastic for innovative ideas	.71	10.64
I attempt to convince people to support an innovative idea	.63	09.34
I systematically introduce innovative ideas into work practices	.59	13.46
I contribute to the implementation of new ideas	.72	08.67

I put effort in the development of new things	.69	08.29
Employee empowerment		
Most employees are highly involved in their work	.66	13.23
Decisions are usually made at the level where the best information is available	.59	10.87
Information is widely shared so that everyone can get the information he/she needs when it is needed	.81	14.19
Everyone believes that he/she can have a positive impact	.77	11.37
Business planning is ongoing and involves everyone in the process	.64	07.48
Employee training		
Employees are sponsored for training programs based on identification of training needs	.73	10.56
Employees returning from the training programs are given opportunities to explore what they have learnt	.76	11.24
People lacking competence in doing their jobs are helped to acquire competence rather than being left unattended	.62	08.43
Customer satisfaction		
I am very satisfied with this bank	.58	11.13
My complaints/problems are always addressed in a fair manner	.71	13.58
This bank is very reliable	.73	13.49
I like the people at this bank	.64	12.17
This bank gives me the service I expect	.59	09.56
This bank provides excellent service	.72	10.47
Customer loyalty		
I say positive things about the bank to other people	.65	12.26
I would recommend this bank to those who seek my advice about such matters	.68	12.87
I would encourage friends and relatives to use this bank	.73	13.17
I intend to continue to do business with this bank	.58	08.61
I intend to do more business with this bank	.75	10.73

Source: Data compilation by the authors for the present study

References

- Ahmad, P.K. and Rafiq, M. (2003), "Internal marketing issues and challenges". *European Journal of Marketing*, 37(09).
- Al-Najjar, S. M., and Kalaf, K. H. (2012), "Designing a Balanced Scorecard to measure a bank's performance: A Case Study". *International journal of business administration*, 3(4).
- Amabile, T. (1988), "A model of creativity and innovation in organizations." In B.M. Staw and L.L. Cummings (Eds.), *Research in organizational behavior*, 10, 123-167. Greenwich, CT: JAI Press.
- Aziz, Y. A. (2008), "Effect of emotional dissonance and employees' empowerment on service quality and customers' satisfaction perception: Customer level analysis" *International Journal of Economics and Management* 2(2).
- Bento, A., Bento, R., and White, L. F. (2012), "Validating cause-and-effect relationships in the balanced scorecard" *In Cambridge Business and Economics Conference*.
- Berry, L.L., Zeithaml, V.A. and Parasuraman, A. (1985), "Quality counts in services too" *Business Horizons*, 31(5).
- Chiaburu, D. and Tekleab, A. (2005), "Individual and contextual influences on multiple dimensions of training and effectiveness" *Journal of European Industrial Training*, 29(8), 604-626.
- De Jong, J. P., and Den Hartog, D. N. (2008), "Innovative work behavior: measurement and Validation" *EIM Business and Policy Research*.
- Denison, D. (1996), "What is the difference between organizational culture and organizational climate? A native's point of view on a decade of paradigm wars" *Academy of Management Review*, 21(3), 619-654.
- Dewettinck, K., and van Ameijde, M. (2011), "Linking leadership empowerment behavior to employee attitudes and behavioral intentions: Testing the mediating role of psychological empowerment" *Personnel Review*, 40(3), 284-305.
- Hennig-Thurau, T. and Thurau, C. (2003), "Customer orientation of service employees – toward a conceptual framework of a key relationship marketing construct" *Journal of Relationship Marketing*, 2(1), 1-32.
- Jonathan, V. O. and Johnmark, D. R. (2012), "The impact of employee empowerment on customer satisfaction in Nigeria service organizations (a study of some selected hotels in JOS plateau state)" *International Journal of Current Research and Review (Online)* 4(19), 37-52.
- Kaplan, R. S., and Norton, D. P. (1996), "Using the balanced scorecard as a strategic management system" *Harvard Business Review*, January-February, 75-85.
- Kaplan, R., and Norton, D. (1992), "The Balanced Scorecard – Measures that drive performance" *Harvard Business Review*, January-February, 71-79.
- Lovelock, C. and Wirtz, J. (2010), *"Services marketing: people, technology, strategy"* (7th ed). Pearson, USA.
- Malgwi, A.A., and Dahiru, H. (2014), "Balanced scorecard financial measurement of organisational performance. A review" *IOSR Journal of Economics and Finance*, 4(6), 01-10.
-

- Maloles, C.M. (1997), "*The determinants of customer retention*" Unpublished doctoral dissertation. The University of the City of New York, New York, NY.
- Mols, N. P. (1998), "The behavioral consequences of PC banking" *International Journal of Bank Marketing*, 16(5), 195-201.
- Nunnally, J. C. (1978), "*Psychometric Theory*" New York, NY: McGraw-Hill.
- Palo S., and Padhi, N. (2003), "Measuring effectiveness of total quality management training: An Indian study" *International Journal of Training and Development* 3(7): 3-16.
- Perlman, Y. (2013), "Causal relationships in the balanced scorecard: A path analysis approach" *Journal of Management and Strategy*, 4(1), 70-79.
- Ramamoorthy, N., Flood, P.C., Slattery, T. and Sardesai, R. (2005), "Determinants of innovative work behavior: Development and test of an integrated model" *Creativity and Innovation Management*, 14(2), 142-150
- Rao, T.V., and Abraham, E. (1990), "The HRD Climate Survey" In J.W. Pfeiffer (Ed.), the 1990 Annual: *Developing Human Resources*, University Associates, San Diego, CA.
- Rust, R.T., Zahorik, A.J., and Keiningham, T.L. (1994), "Return on quality (ROQ): Making service quality financially accountable" *Journal of Marketing*, (59) 58-70.
- Venkatraman, N., and Ramanujam, V. (1987), "Measurement of business economic performance: An examination of method convergence" *Journal of Management*, 13(1), 109-122.