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RESEARCH ARTICLE

AN INVESTIGATION INTO THE FACTORS THAT DETERMINE TRAINING BUDGET ALLOCATION OF COMMERCIAL BANKS IN KENYA

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ABSTRACT

Management prioritizes organizational and employee development efforts tied to both the strategic and business planning processes. Although such factors have been effected, there are other factors which need to be put into consideration since most organizations tend to allocate less money to their training merely because they don't know the criteria to use. This provoked the researchers to conduct a research on the factors determining training budget allocation in commercial banks. The study adopted survey research design and the participants were the managers and departmental supervisors of all the ten commercial banks in Nyeri Municipality. Structured questionnaires were used to collect data which was analyzed using inferential statistics. P-value was be used to test the hypothesis. The variables investigated were; size of the organization, employee entry characteristics, organization policy and cost of investment. These factors were found to have an influence in determining training budget allocation in commercial banks and in addition, from the regression model, these variables were significant in causing variations to the dependent variable, which is, training budget allocation in banks.

INTRODUCTION

An element of human resources (HR) management that has often exasperated practitioners is the enigma of measurement; that is, the measurement of what HR does and how it contributes to the organization. Further, the predominant organizational pressure to become ever more productive combined with dwindling resources necessitates commitment to this elusive task (Craig, 2006). One function of human resources management that is both a source of organizational vitality and a part of the measurement puzzle is employee training (Bartel, 2001). Bartel (2001) further argues that training, while intuitively an organizational need and often times even palpably measurable, is laden with issues regarding its contribution to organizational value and employee effectiveness. Specifically, the ability to verify whether a particular training program adds to organizational performance and employee capability determines whether a program continues to receive funding, and sometimes whether a trainer retains his or her position.The past decade has witnessed an unparalleled growth in the number of employee/management development programs initiated in organizational settings. Not surprisingly then, training and development costs are often a major component of the human resource (HR) budget. For instance, in 1985, when IBM posted an after-tax profit of $6 billion, it spent $2 billion on training. The Bell system spent $2.2 billion based on a similar after-tax profit. Xerox and Kodak spent between 60 and 80 million dollars each on the development of corporate learning centers (Dawson, 1996). Overall, U.S. companies spend over $200 billion annually on training and development (Erickson, 1998).

Employee and management development activities play a critical role in an organization's HR and business strategies (Baldwin & Johnson, 2006). For example, Arthur Anderson and Company relies on training to implement their "one firm" international strategy (Craig, 2006); Chemlawn uses its technical training and customer service training to support its strategy based on market share; Frito-Lay targets training to help reduce operating costs and increase productivity; Nabisco and McDonald utilize training to support the introduction of new products; and Norfolk Southern Corporation has used extensive training in team building to facilitate the merger of the Southern Railway and the Norfolk and Western systems (Fallon and William, 2002). Armstrong (2003) argues that sometimes training and development activities act as enablers for carrying out strategic initiatives. That is, an organization's training and development activities support the attainment of organization objectives. If these activities are well planned and implemented, they enhance the human resource plan and support the strategic direction of the organization. Earlier there were no training programs as such for banking agents but on-the-job training only that was given once the new agent

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was appointed. But now the scenario has been changed, with the coming up of big players like the world bank and the international monetary among others in this sector, people who have had some formal training are preferred while recruitment because it can be helpful in the banking field. This sums it that if training is wisely chosen, and its budget well allocated it's clear that the organization's money will be well-spent. The cost of the organization training program depends on the type of training it requires. Many different types of training exist, each varying widely in cost and hence before an organization chooses one, it should be aware of what results it is after. Then, it can select the training activities that best fit those results and its budget (Tobin, 2008).

Statement of the problem

There is growing pressure to be cost-effective and efficient with training budgets which are influenced by factors such as size of organization, investment cost, employee entry characteristics and organization policies. A comprehensive assessment provides information to support organizational development strategies to present to policy makers, management, and employee groups. It provides data for planning how money identified for development will be used in an efficient, effective, and defendable manner (Groot, 2001). Many organizations give more thought to employee skill and organizational development. They function reactively to changing business and employee performance development needs instead of devising systems and procedures to anticipate new developments and organizational needs in an effort to help managers assess and address their current and future organizational and employee development needs (Phillips, 2002).

Management prioritizes organizational and employee development efforts tied to both the strategic and business planning processes (McCarthy, 2007). This assessment strategy design is tailored to the needs of each organization. While such important efforts have been affected, there is much that need to be looked at as it is seen that most organizations allocate less money to the organization training merely because they do not know the criteria that they should consider when determining the organizational training budget allocation (Jones, 2006). In addition, Jones (2006) continues to say that most organizations try to minimize their training budget and as a result they end up using low level of resources in terms of skills which in turn produces poor quality of workforce. It is against this background that the researchers were prompted to investigate the factors that determine training budget allocation in commercial banks in Kenya and give recommendations which when considered leads to effective and efficient training and budget allocation in organizations.

Objectives of the study

The overall objective of the study was to establish the factors that determine training budget allocation in commercial banks in *Kenya.* The specific objectives were:

1. To determine if size of the organization determines training budget allocation in commercial banks.
2. To establish if employee entry characteristics determines training budget allocation in commercial banks.
3. To establish if cost of investment determines training budget allocation in commercial banks.
4. To find out if organization policy determines training budget allocation in commercial banks.

Research hypothesis

i. H_O: Size of the organization does not determine training budget allocation of organizations.
   H_1: Size of the organization determines training budget allocation of organizations.

ii. H_O: Employee entry characteristics do not determine training budget allocation of organizations.
   H_1: Employee entry characteristics determine training budget allocation of organizations.

iii. H_O: Cost of investment does not determine training budget allocation of organizations.
   H_1: Cost of investment determines training budget allocation of organizations.

iv. H_O: Organization policy does not determine training budget allocation of organizations.
   H_1: Organization policy determines training budget allocation of organizations.

Conceptual framework

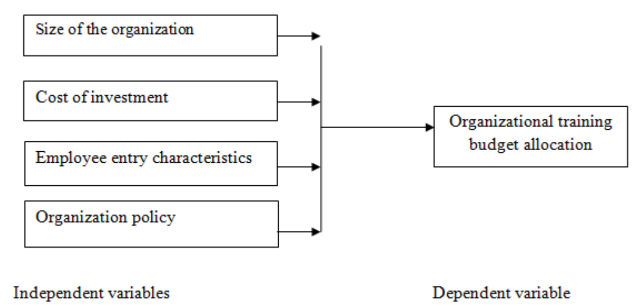

Fig 1: Conceptual Framework

Size of the organization

The connection between size of the organization and human resource management has been a topic for extensive research. Size is one of the variables proposed by Tobin (2008) as a determinant of the organization parameters related to training. Much of the research on the subject of training budget allocation in organizations emphasizes the size of the organization as a key factor that will produce different results. Several reasons have been suggested to explain this association: risk aversion (Tobin, 2008), scale economies in larger companies (Baldwin and Johnson, 2006), the difficulty of replacing personnel during the training period, the need to reduce supervision, the existence of specific human resource departments and posts, the availability of resources to acquire expensive training equipment (Frazis, 2008) On the whole, a positive relationship between organizational training budget allocation and the size of the organization is proposed. It can thus be argued that the larger the organization, the higher the likelihood of it investing in personnel training, and the more intense the training becomes.

Cost of the investment

Human capital theory proposes that the possibility of personnel leaving the company discourages organization training policies. A worker's departure from an organization means that the direct cost of training is not recovered. Other costs are the loss of productivity until the organization finds a substitute and he/she reaches full productivity. Recruitment and selection costs must also be accounted for. As a result, the rate of labor turnover has an effect on training efforts and the budget within companies (Goldstein, 2005).

Employee entry characteristics

Organizations aim to obtain the highest profitability from their training efforts. The decision on which workers to train depends on the existing characteristics of the workers themselves, that is, the stock of human capital and the amount of money allocated for that particular training period. Literature emphasizes personnel qualifications and degree of education as a determinant of training. Research suggests that formal education provides the basis for best advantage of specific training, and that successful personnel training depends on the degree of previous education. It follows that organizations that choose to provide training for their workforce seeks to protect their investment by selecting those with higher qualifications, who shows ability to learn in formal education programs Craig, (2006).

Organization Policy

Organizations are increasingly responding to internal and external calls to increase the level of transparency in their organizations budget processes and systems as a way to manage their resources more efficiently and effectively so as to better respond to the needs and priorities of their customers. These policies are designed to support organizations in their efforts to meet international good practice standards on budget transparency by providing in one resource guidance on what reports and documents they should be producing and making available throughout the budget process (Craig, 2006). Craig further argues that all organizations have their own independent policies which are different from any other organizations, these policies act as guidelines on how organizations should carry out their activities. The prospect of covering training expenses via public funding can influence an organization's decision regarding personnel training.

MATERIALS AND METHODS

Research design

Survey research design was used in this study. Corbetta (2003) describes survey design as a technique of gathering information by questioning those individuals who are the object of the research and belonging to a representative sample, through a standardized questioning procedure with the aim of studying the relationship among the variables. The participants consisted of 32 managers and 26 departmental supervisors of all the commercial banks in Nyeri Municipality: Kenya Commercial Bank, Equity Bank, National Bank, Co-operative Bank, Barclays Bank, Consolidated Bank, Family Bank, Postbank, Standard Chartered and Ecobank. The researchers collected primary data using structured questionnaires which are easy to analyze, administer and are economical to use in terms of time and money. The researchers administered questionnaires to the participants as a tool to capture the required data. The choice of the questionnaires was arrived at because of the ease of administration. The drop and pick method was preferred for questionnaire administration so as to give respondents enough time to give well thought out responses. Care was taken to ensure internal and content validity of the questionnaire. Internal validity describes the ability of the research design to unambiguously test the research hypothesis while content validity measures whether it adequately covers the subject matter (Mugenda, 2003).The collected data was edited to ensure consistency and to locate any omissions. The study used only one type of questionnaire which was used by all the respondents. And all questions were closed ended questions.

Data analysis

Data was analyzed using inferential statistics. Tests for statistical significance category were used considering the parametric sub-division since the researchers used a sample to conduct research (Bachman, 2004). Statistical Package for Social Research (SPSS) was used to process data collected from the field and its output was quantitative in nature which was in form of graphs, charts and tables. Multiple regression analysis was used because the study attempted to determine whether a group of variables together predict the dependent variable. The regression model used generally assumed the following equation;

$Y=\beta_0+\beta_1X_1+\beta_2X_2+\beta_3X_3+\beta_4X_4+€$ where:
Y=organization training budget
B_0=constant
X_1=size of the organization
X_2=employee entry characteristics
X_3=cost of investment
X_4=organization policy
e=error term

Pearson's correlation coefficient was used to determine the strength and the direction of the relationship between dependent variable and the independent variables (size of the organization, cost of investment, employee characteristics, and organization policy). Hypotheses were tested using p-value.

Table 1. Multiple Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	P - value
1	(Constant)	1.965	0.084	1.965	23.399	0.000
	Size of the organization	0.172	0.026	0.310	2.466	0.041
	Employee Entry Characteristics	0.483	0.037	0.150	2.210	0.028
	Cost of investment	0.753	0.547	0.366	5.358	0.000
	Organization policy	0.056	0.024	0.144	2.349	0.020

FINDINGS

Regression analysis

Regression analyses were used to ascertain factors that were significant in predicting the organization training budget allocation in commercial banks.

Dependent Variable: Organizational training budget allocation.

Predictors: Size of the organization, Employee Entry Characteristics, cost of investment, organization policy.

For the size of the organization, $p=0.041<0.05$ this is statistically significant meaning that it is contributing to the prediction of organization training budget allocation. For the employee entry characteristic, $p=0.028<0.05$ this is statistically significant meaning that it is contributing to the prediction of organization training budget allocation. For the cost of investment, $p=0.000<0.05$ this is statistically significant meaning that it is contributing to the prediction of organization training budget allocation. For the organization policy, $p=0.020<0.05$ this is statistically significant meaning that it is contributing to the prediction of organization training budget allocation. All variables were significant p value < 0.05 and therefore were directly related to training budget allocation. The most significant variable was cost of investment p value = 0.000 and coefficient of equation = 0.753. Size of the organization p = 0.041, employee entry characteristics p = 0.028 and organization policy p = 0.020.

Table 2: Regression model summary

Model	R	R^2	Adjusted R^2	Std. Error of the Estimate
1	0.795	0.663	0.590	0.02

The table above gives the overall contribution of predictor variable towards independent variable. Adjusted $R^2 = 0.590$, this indicates that in combination the independent variables contributed 59% toward training budget allocation. The remaining 41% of the variation in organization training budget allocation was unexplained.

$$Y=\beta_0+\beta_1X_1+\beta_2X_2+\beta_3X_3+\beta_4X_4+€$$
$$Y=1.965+0.310\ X_1+0.150X_2+0.366X_3+0.144X_4+€$$

From the findings; the p-value for size of the organization was 0.041<0.05 therefore the null hypothesis was rejected, the p-value for employee entry characteristics was 0.028<0.05 therefore the null hypothesis was rejected, the p-value for cost of investment was 0.000<0.05 therefore the null hypothesis was rejected, lastly the p-value for organization policy was 0.020<0.05 therefore the null hypothesis was rejected.

DISCUSSION

The study considered four factors and they were found to have an influence in determining organization training budget allocation in commercial banks. From the regression model, the independent variables, that is; size of the organization, cost of investment, employee entry characteristics and organization policy were found to be significant in causing variations to the dependent variable, that is, organizational training budget allocation in banks. The study revealed that size of the organization was a major determinant of organization training budget allocation. The size of the organization was revealed by the number of employees and departments in the different banks. The study showed that majority of the banks had between 29 and 30 employees giving a percentage of 40.7. This implied that the larger the organization the more employees it has and the more training is needed hence large budget allocation. Further the study revealed that the larger the organization the more departments it has. Most banks had 3-4 departments giving a 45% revealing that they were medium sized organizations and therefore the more the departments an organization has, the more training budget is allocated. The study further revealed that most banks had departmental budget. This was indicated by a 63% of the respondents. This implied that organizations whether large or small need a training budget to guide them on the criteria to use when allocating training budget.

The study revealed that the basic qualification for employment in most banks was degree which was revealed by 84.7%. This implies that the entry level of employees in any organization matters greatly. The study revealed that all the well performing banks have satisfactorily committed employees and positive attitude employees towards their work which was revealed by 55% and 70.4% respectively. Further the study revealed that majority of the banks conduct employee training needs assessment which was indicated by 96.3%. This means that the gap got after organizations carryout training needs assessment is smaller since most employees being employees being employed are graduates. The study further revealed that most banks value employee training as it was seen that 81.5% of the respondents said that employee training was very important to their work since employees lead to competitive advantage in an organization.

The results indicate that training policy is an important determinant of organization training budget allocation. This is evidenced by the study which indicates that 96.3% of the respondents had training policy in their banks. The study further revealed that most banks management were highly supportive. The study revealed that most bank management support employee training which is represented by 59.3%. This implies that if management does not support training in banks, employees cannot be trained hence lowering organization's productivity. The study also revealed that most banks consider their training policies; this is because all the respondents' responses were 100% positive. The study also revealed that the number of employees to be trained is determined by the number of employees. This is according to the responses given by respondents which were indicated by 53%.

The study shows that there is a positive relationship between training budget and the total investment in banks as it is evidenced by 66.7% of the responses given by the respondents. This means that training budget allocation is also determined by the cost of investment. The study also revealed that most banks do not reveal their information on the banks profits and the money which is allocated to training. This is evidenced by a 51.9% of the respondents saying that they do not know which percentage of profit is allocated to training.

The study also revealed that all banks cater for their training costs as it is evidenced in the responses that 100% of the respondents indicated that cost of training is met by the bank. The study further indicates that there is a relationship between training and banks performance since 96% of the respondents said there is a strong relationship. This means that through the banks training their employees, they benefit much since it leads to an increase in productivity.

Conclusion

It is explicit from the analysis and discussions that size of the organization, employee entry characteristics, organization policy and cost of investment play a vital part in determining how to allocate training funds in organizations. Organization training budget allocation and size of organization has a positive relationship since from the study it is seen that the larger the organization the more employees and departments it has. Hence this is concluded that the larger the organization the higher the likelihood of it investing in personnel training and the more intense the training becomes. Most organizations have departmental budgets as 63% of the respondents said that they had departmental budgets. Every department should have its own independent budget since their needs vary and the scarce resources in the organizations should be distributed fairly. This concludes further that organizations whether large or small need a training budget to guide them on how to allocate to their training throughout the financial year. Most banks basic qualification for employment is degree level. This is very vital to any organization since qualified human resources gives distinctive capabilities to an organization. In addition, committed and positive attitude employees lead to increased organizational productivity since they work as they are the owners of the organization. Almost all the organizations carryout a training need assessment and the study reveals that the gap got after the training need assessment is conducted is very small since they have good entry qualifications hence less budget is allocated to training. Organizations employing at least graduate level employees stand a better situation since they are able to work independently on their own with minimum supervision.

Banks value employee training as the study reveals that employee training is very important since employees are the key components that lead to organizations competitive advantage and without well trained employees organizations are less productive hence not able to compete in the world market place. Most banks have training policies and this leads to a conclusion that training policy is an important determinant of organization training budget allocation since policies act as guidelines on how organization activities are to be carried out. Banks management gives high support to employee training as they understand that it is through employees that they achieve high productivity. In addition, most banks consider their training policies as the study reveal that banks follow their training policies 100% when allocating their budgets as also discussed above that policies act as guidelines on how organization activities should be conducted. There exist a positive relationship between training budget and the total investment in banks. This leads to a conclusion that training budget allocation is also determined by the cost of investment in each organization. The higher the investment, the more likely an organization is going to invest in training its staff. All the banks cater for their training costs and also that the relationship between training and banks performance is strong since through banks training their employees they receive much benefits as this leads to increased productivity.

Recommendations

1. Organization should ensure that strategies follow structure. This means that organization employees and departments in place are proportionate to the size of the organization therefore, it should be ensured that the larger the organization the more employees and departments it should have and the smaller the organization, the lesser the employees and departments in place. Through this, organizations should ensure to allocate their training funds accordingly.
2. Organizations should endeavor to have departmental budgets since each department is independent on its own, their needs are different and should be handled differently hence a variance in allocation of their budgets.
3. Employees are the key components that lead to organizations competitive advantage therefore organizations should ensure to train their employees regularly so as to able to compete in the world market place.
4. Organizations should cater for their training costs. Organizations should independently cater for their training costs since this helps reduce borrowings from external borrowings and also they are able to know what amount of money they can afford to allocate to their training without straining since organization resources such as money are scarce and should be distributed fairly.
5. Researchers should consider investigating on the factors that affect leadership as far allocation of training budget in organizations is concerned. Researchers should also focus on decision making processes in the training budget allocation.

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