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HUMAN CAPITAL AND ITS INFLUENCE ON PERFORMANCE OF AGENCY BANKING IN COMMERCIAL BANKS IN KENYA

***Martin N. Mbugua, [1]Prof. Margaret Oloko & [2]Dr. Jared Deya**
* Masters Student, School of Business, Jomo Kenyatta University of Agriculture and Technology, Kenya
[1] Prof. School of Business, Jomo Kenyatta University of Agriculture and Technology, Kenya
[2]Lecturer, School of Business, Jomo Kenyatta University of Agriculture and Technology, Kenya
Corresponding Author Email: jaydewm@yahoo.com

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ABSTRACT

Agency banking has in the recent past gained momentum among many commercial banks in Kenya. This study sought to establish the influence of strategic drivers on the performance of agency banking in commercial banks in Kenya. Descriptive survey research design was used with a target population of 18 commercial banks in Kenya licensed by the Central Bank of Kenya to operate agency banking. The branch managers, ICT managers, operations managers, human resource managers and customer relations managers were the key targets respondents in the study. Primary and secondary data were collected using questionnaires and checklist guide respectively. Inferential analysis was carried out to establish the relationship between the independent variables and the dependent variable. The study established that Human Capital had a positive significant influence on the performance of agency banking among the commercial banks in Kenya. Through upholding education, training and experience, the skills to deal with the emerging issues in agency banking are enhanced and this ensures the effective running of the mode of banking towards success. The study concluded that the training on those operating agency banking is essential in steering the effective service deliver and customer service in order to enhance the performance of agency banking. The study concluded that human capital was essential in steering the performance of agency banking thus recommending that the commercial banks through the management ought to uphold these strategic drivers in order to enhance the performance of agency banking.

Keywords: Human Capital, Agency Banking, Commercial Banks

BACKGROUND OF THE STUDY

Commercial banks are known to be among the most vulnerable organizations in the business world due to the numerous innovations, technological changes and high regulations involved. Despite the banks being crucial in economic performance through enhancement of savings and issuance of loans, they face a lot of dynamics most of which threaten their performance (Choudhry & Masek, 2013). Therefore, similar or even more, commercial banks require very well-meant strategies to foster performance. One of the major dimensions that modern day banks are taking for competitiveness is agency banking. This has seen many banks even in the developing World expand their operations thus enhancing their stead-fast performance (Nader, 2011; and Finkl & Ploder, 2009). One strategy that has improved the banks performance is the used of effective human capital.

Stokey (2014) defines human capital as the person who possesses ability, experience and knowledge to create the economic value of an organization. According to Rodrigues, Dorrego and Jardon (2013) human capital is the employee knowledge, competence and experience in an organization. It entails the practice of influencing and enhancing employee performance, commitment and retention for the betterment of the organization. Palia and Porter (2007) contemplated that human capital contributes to grooming of employees into reliable organizational leaders through ensuring that they are well paid and motivated for them to continue committed to the organization (Pulic, 2012). Through employee rewarding and motivation, the organization is able to keep the reliable employees so as to take part as the future organizational managers (Alalfy & Elfattah, 2014). According to Mongi and Mokaya (2018), for agency banking as a strategy to be effective, there need for commercial banks to have the rightful skills both at their internal formations and the agents themselves. Human capital therefore plays an integral role in making agency banking to be successful by ensuring that there are competencies in handling the processes involved in this mode of banking. Notably, human skills stand at the centre of effective implementation of every organizational strategy therefore even in agency banking they are not exceptional (Taylor, 2017).

Agency banking leverages heavily on ICT and is a component of branchless banking that allows financial institutions to offer financial services outside the traditional brick and mortar bank premises (Mas, 2008). It allows customers conduct a limited range of financial transactions at third party outlets (King'ang'ai, Kigabo & Kibachia, 2016). The outlets are mandated to manage transactions (deposits, payments and cash withdrawals among others) (CGAP, 2006) on behalf of the commercial banks and are remunerated on a fee-for-service basis. They are linked to the bank's servers using a telephone line, cable or satellite link and use Point of Sale (POS) device and Visa Card readers to offer services (Ndungu, 2014). Agency banking has been widely recognized as a strategy used by commercial banks to expand their operations and enhance performance (Malek, Mohtar & Ariffin, 2017). According to the 2021 bank supervision report, the Kenyan banking sector comprised 39 banks only 18 had been licensed to operate agency banking with more than 53,833 agents across the country (CBK, 2017). Out of the 18 banks that have adopted agency banking, 90% of the agents are from 3 banks with the largest physical branch presence in Kenya namely; Equity Bank (16,734 agents), Kenya Commercial Bank (11,948) and Co-operative Bank (7,956) (CBK Bank Supervision report, 2021). This is in comparison to 17 banks which had contracted 47,592 agents spread across the country in 2019, indicating an increase of 4,745 agents operating the mode of banking in 2014 (CBK 2021). The high number of agents operating agency banking signalled increased confidence and acceptability of this banking model as an efficient and effective delivery channel (KBA, 2016). In July 2014, Competition Authority of Kenya (CAK) included a clause after consultation with the CBK in its regulations on competition allowing individuals operating agency banking to operate it for more than one bank (Ndungu & Njeru, 2014). Most commercial banks took advantage of this opportunity to use agents already experienced and recruited by other banks to operate this mode of banking platform, hence cutting down on recruitment and training costs which they would have otherwise incurred (CBK, 2015).

STATEMENT OF THE PROBLEM

Today, commercial banks in Kenya still have challenges in operating agency banking because they lack stable performance. Some report good performance while other showed mixed performance. For instance, since the introduction of this new form of banking, Equity bank, KCB and Cooperative Bank have shown good performance while other banks like NIC Bank, Credit Bank, Ecobank, and Jamii Bora continue to report mixed performance of their agency segment of their business (CBK 2017). Surprisingly, other commercial banks which have not adopted agency banking like Stanbic Chartered Bank, the Bank of Africa, Citi Bank continue to register better performance compared to their peers in the same tier (CBK, 2017). This shows a growing concern regarding the strategic drivers impacting the performance of commercial banks through agency banking in Kenya. However, empirical studies have shown mixed results on the relationship between strategic drivers and performance of business organizations. For instance, Jerop and Juma (2014) in their study, found that adopting key strategies such as innovation had a significant influence on the performance of commercial banks in Kenya. Meanwhile, Buyuksalvarci and Abdioglu (2011) study on Turkish firms regarding strategic drivers and performance established that opening or appointing agencies had positive relationship with firm performance through enhancing the market expansion and product diversification. These studies have been carried out in varied contexts and may not be generalized to a Kenyan context. The current study therefore seeks to fill these gaps by assessing the effect of human capital as a strategic driver on the performance of agency banking in commercial banks in Kenya.

OBJECTIVES OF THE STUDY

To assess the influence of human capital on performance of agency banking in commercial banks.

Theoretical FRAMEWORK

The resource based theory was first introduced by Penrose (1959) but has extensively been elucidated by Barney (2001) as an attempt to explain how organizations can strategically place themselves in the market through utilization of available resources. The theory emphasizes that the firm's resources as the fundamental determinants of competitive advantage and performance. It adopts two assumptions in analysing sources of competitive advantage (Barney, 1991). According to the RBT, organizational resources are the most important determinants of the competitiveness and performance of the organization. The theory suggests that organizations need to integrate their resources which are the key capabilities that they are assured of having for the sake of their internal operations and existence (Ngatia, 2013).

According to Foss and Knudsen (2003) as cited by Mbwaya (2014), resource based theory is based on two assumptions in an effort to bring into light the ways of integrating the organizational resources to win competitive advantage. First, the theory assumes that organizations in a given business environment are unrelated in the sense that their resources defer and the way that they integrate those resources is also different. Secondly, the theory assumes that due to immobility of some of the resources that make the strategies of the firms in a business environment differ, the heterogeneity of the firms may persist for a long period of time. The argument goes “If all firms in a market have the same stock of resources, no strategy is available to one firm that would not also be available to all other firms in the market” (Mbwaya, 2014).

John and Richard (2013) complements that the resources of the firm and the uniqueness of the resources does not necessarily influence the performance of the organization but other determinants such as the managerial strategies injected on the resources supplement the overall performance of the organization. According to Berny (2001), the organizational resources should be valuable and rare for them to generate an impact in the firm’s competitiveness and performance. Recently, resource based theory has been found to focus on the intangible assets or resources of the organization more than the tangible resources. In this context, skills, capabilities and information of the organization have been found to be the most available unique resources for every organization (Wawira, 2013). The uniqueness of the resource is determined by how much the organization is able to make use of the available resources without exposure of its systems and procedures to the competitors (Hunt & Davis, 2008; Jean, Sinkovics & Kim, 2010).

EMPIRICAL LITERATURE REVIEW

Ellis and Sorensen (2017) evaluated the impact of human capital orientation on firm performance. The study focused on the activities practiced by organizational management to have a proper human capital through improvement of skills and capabilities. The study established that human capital orientation is a key contributor to firm performance through engagement of employee capabilities. According to Ellis and Sorensen (2017) human capital orientation enhances the updating of human skills which are key organizational resources. Kwenin (2013) did a study on human capital orientation and firm performance and focused on the work environment. The study adopted a descriptive research design and had a sample of 103 respondents. The study established that human capital orientation is a key aspect in firm performance. According to Kwenin (2013) the skills possessed by the organizational employees are critical to firm performance since the ability of a firm to implement the set decisions rely on the ability of the employees to handle specific issues in the firm. This therefore means that enhancing the skills through human capital orientation is critical (Kwenin, 2013; Pangarkar, 2015).

Rodrigues, Dorrego and Jardon (2013) analysed the influence of human capital on the firm innovativeness and performance of firms. The study analysed the relationship between human capital and organizational performance of software companies. They pointed out that on organizational performance human capital indicators had a positive association. The indicators like training attended and team work practices resulted in awesome performers where more productivity could be translated to organizational performance (Dole, 2013). Jamal and Saif (2011) assessed the relationship between Human Capital Management and Organizational Performance. Results of the study showed that the firms Human Capital Management have a significant positive impact on organizational performance. The study focused on how management of human capital can affect firm performance, while this study assessed the direct influence of human capital on firm performance.

Awan and Sarfraz (2013) carried out a study to establish the relationship between human capital and firm performance and the mediating effect of employee satisfaction on the human capital-firm performance link. The study found a strong positive relationship between human capital and firm performance and further found that employee satisfaction mediated this relationship. The study considered the moderating role of employee satisfaction on the relationship between human capital and firm performance. The sample comprised only three firms. This study considered the direct effect of human capital on firm performance. Another study by Nishantha (2011) examined the effect of entrepreneur's human capital and social capital on the growth of Small Enterprises (SEs) in Sri Lanka. Specifically, the study sought to establish the moderating effect of social capital on the relationship between human capital and firm growth. Social capital was found to moderate the relationship between human capital and firm growth. The study introduced social capital as a moderator and focused on small organizations only, yet organizational size as a characteristic may yield different results.

CONCEPTUAL FRAMEWORK

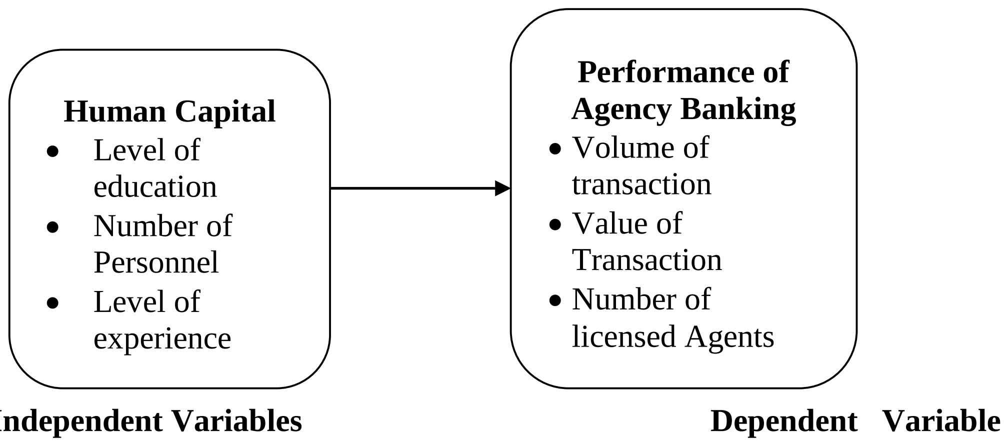

Figure 1: Conceptual Framework

RESEARCH METHODOLOGY

The study used positivism paradigm as the research philosophy. The paradigm uses a quantitative approach which involves data collection and its analysis (Christensen, Johnson & Turner, 2011). It relies on numerical evidence to draw the results or to test hypotheses. The study employed descriptive research design. The design was deemed appropriate for the study due to its ability to incorporate several aspects in a study and give the researcher a wide room to choose from thus enhancing better understanding of the research problem. The study targeted 18 commercial banks with agency banking. The study focused on branches of these banks and specifically those that are based in Nairobi. There are a total of 303 bank branches in Nairobi County. Branch managers from the branches formed the unit of observation. The study used census where all the 303 respondents were surveyed. A structured questionnaire was used to collect the primary data for the study. A drop and pick method and online means used as the method of administering the questionnaire. The data was analysed using descriptive and inferential statistics. Descriptive statistics such as frequency distribution and measures of central tendency were used to analyze the demographic data. Regression analysis was used to test the hypotheses of the study.

RESEARCH FINDINGS AND DISCUSSSIONS

Response Rate

A total of 303 questionnaires were issued out to the respondents. Out of these, a total of 251 questionnaires were returned fully filled implying a response rate of 82.8%.

Human Capital

The study sought to determine the influence of human capital on the performance of agency banking among the commercial banks in Kenya. The study sought to assess the influence of level of education, number of personnel and the level of experience on the performance of agency banking. The findings as shown in Table 1 revealed that the level of experience was the most upheld aspect in the commercial banks as far as human capital was concerned with a mean of 3.84 followed by the number of personnel (mean = 3.82) and level of education with a mean of 3.71.

The findings imply that if the commercial banks were focusing on enhancing their human capital, they would mainly go for the level of experience (recruiting employees with the highest number of years working in a similar capacity) followed by ensuring they had enough personnel by hiring more staff then getting more educationally qualified staff. The dimension of human capital that an organization decides to major on is very critical in determining how best their performance will get as well as shaping the future of the organization’s strategic direction (Rodrigues, Dorrego & Jardon, 2013).

Table 1: Rating the Aspects of Human Capital

Aspect	N	Minimum	Maximum	Mean	Std. Deviation
Level of Education	251	1.00	5.00	3.71	1.15
Number of personnel	251	1.00	5.00	3.82	1.07
Level of experience	251	1.00	5.00	3.84	1.15

The respondents were further asked to indicate their level of agreement with specific statements on human capital and its influence on the performance of agency banking. As the findings in Table 2 reveal, majority of the respondents indicated that the educational qualification for the operators of the agency banking was not emphasized in their respective banks as shown by a mean of 2.60 and a standard deviation of 1.14. The findings concur with those by Sarker (2013) who established that banking operations required adequate monitoring based on the delicacy of the banking activities hence the need for experienced and properly educated workforce. The agents are monitored and assessed to ensure that they are able to run their business as expected as well as uphold integrity in their operations. In this regard, the commercial banks running agency banking ought to have to have enough personnel and with the appropriate skills and competencies through which monitoring of the agents and handling their daily issues is extensively does to achieve the expected results.

Table 2: Level of agreement with statements on Human Capital

Statement	Mean	Std. Dev.
The level of education of operators of agency banking outlets is emphasized in our bank before authorization	2.60	1.14
My bank continues to invest in training and educating the operators of our agency banking outlets.	3.83	1.06
My bank provides adequate learning and education materials on our agency banking products to operators running our agency outlets	3.85	1.08
The bank has adequate staff to manage and handle agency banking operations at the branches	3.55	1.16
The bank has distributed adequate staff at the branches to support agency banking	3.61	1.24
The bank has adequate staff to supervise, audit and monitor performance of agency banking in the field	3.66	1.08
The level of experience is emphasized during recruitment of agency banking operators	3.74	1.07
The staff operating and managing agency banking at the branches are experienced	3.90	1.06
The bank has employed and deployed experience staff in the field to supervise, audit and monitor performance of agency banking outlets	4.01	1.08

Performance of Agency Banking

The study sought to establish the performance of agency banking in Kenyan commercial banks. The main aspects used to measure performance were volume of transactions through agency banking, value of the transactions as well as the number of licensed agents. The number of banking transactions undertaken through bank agents increased by 12.5 percent from approximately 139.8 million transactions recorded in 2017 to 157.3 million in December 2018. The increase in total transactions was mainly as a result of increases in transactions relating to mini statements requests, transfer of funds, account balance enquiries and cash withdrawals, which increased by 153.3 percent, 109.1 percent, 73.9 percent and 15.6 percent respectively. In comparison to 2017, the increased transactions were attributable to payment of bills, cash withdrawals, cash deposits and mini statements requests which increased by 51.01 percent, 47.2 percent, 28.5 percent and 27.8 percent respectively.

Table 3: Number and Type of Agency banking Transactions

Type of Transaction	**Number of Transactions**			
	2017	2018	% Change	Cumulative (2010 - 2018)
Cash Deposits	72,021,597	81,018,287	12.50%	306,121,086
Cash Withdrawals	48,981,216	46,404,124	-5.30%	212,191,888
Payment of Bills	1,937,698	2,239,682	15.60%	6,369,422
Payment of Retirement and Social Benefits	2,353,493	2,317,827	-1.50%	7,876,413
Transfer of Funds	5,193	10,859	109.10%	52,756
Account balance enquiries	14,228,339	24,738,964	73.90%	84,099,740
Mini statement requests	150,638	381,619	153.30%	869,858
Collection of loan applications forms	–	6,271	–	6,348
Collection of account opening application forms	74,015	59,638	-19.40%	1,725,324
Collection of debit and credit card application forms	–	–	–	118,064
Collection of debit and credit cards	–	–	–	60,580
Total	139,751,189	157,252,291	12.5	619,491,479
Number of Agents	61,290	59,578		

In 2018, the value of banking transactions undertaken through agents increased from Ksh.1 trillion (USD 10.4 billion) in December 2017 to Ksh.1.18 trillion (USD 11.7 billion) in December 2018. The increase was attributed to the growth of transactions relating to transfer of funds, cash deposits and cash withdrawals. These transactions experienced a growth of 21.8 percent, 14.4 percent and 7.6 percent respectively, from the previous year. The increase in number and value of transactions underlines Kenyans' growing confidence and acceptability of the agency banking model by banks and the public. Despite the overall increase in the value of transactions, there was a decline in transactions relating to payment of retirement and social benefits and payment of bills in the year 2018 as highlighted in Table 28b above. The decline in the payment of retirement and social benefits was due to the change from the old card based system to the new Inua Jamii payment model 'Choice Model' that provides multiple payment systems based on bank accounts that promises flexibility for the beneficiaries.

Table 4: Value of Transactions in Kshs.'M'

Transactions	2017	2018	% change	Cumulative (2010 to 2018)
Cash Deposits	791,701.83	906,043.63	14.40%	3,038,084.66
Cash Withdrawals	175,242.56	269,160.40	7.60%	1,068,849.41
Payment of Bills	13,683.15	11,568.45	-15.5%	44,791.31
Payment of Retirement and Social Benefits	18,990.50	1,096.46	-94.2%	39,143.78
Transfer of Funds	376.11	458.06	21.80%	1,163.95
Total	1,074,820.40	1,188,326.99	10.60%	4,192,033.11

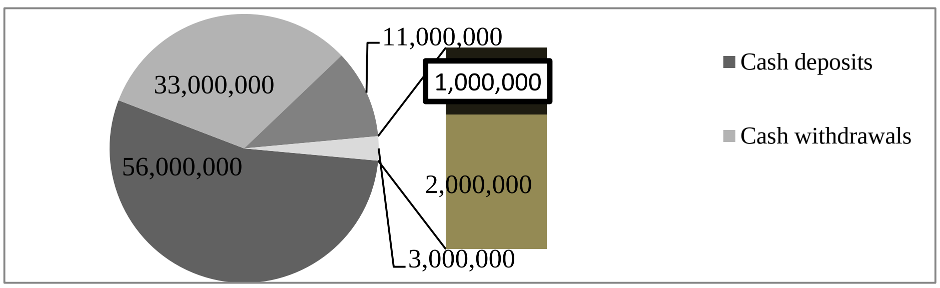

Figure 2: Diversified Agency Banking Offering-by Volume of Transactions

H₀: *There is no significant influence of human capital on performance of in commercial banks in Kenya*

The study sought to examine the influence of human capital on the performance of agency banking in Kenya. The linear regression model analysis was carried out to establish the relationship between human capital and performance if agency banking and the output included the model summary, the ANOVA results and the regression coefficients. The model summary results are as shown in Table 5. As the findings portray, the R^2 for the variable was 0.226. This implies that human capital influences up to 22.6% variation of the performance of agency banking in commercial banks in Kenya. The ANOVA results are as shown in Table 5. As the results portray, the F-statistics for the model was 72.547 at a significant level of 0.000<0.05. This implies that human capital significantly influences the performance of agency banking in commercial banks in Kenya. The regression coefficients on the other hand are as shown in Table 5. As the results portray, the Beta coefficient for human capital was 0.166. This implies that a unit change in human capital would lead up to 16.6% increase in the performance of agency banking. The p-value was 0.000 which is less than the standard p-value of 0.05. This means that there is a significant influence of human capital on the performance of agency banking hence the rejection of the null hypothesis that there is not significant influence of human capital on the performance of agency banking in commercial banks in Kenya.

Table 5: Hypotheses Testing

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.475[a]	.226	.223	3.12641

a. Predictors: (Constant), Human Capital

ANOVA

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	709.102	1	709.102	72.547	.000[b]
	Residual	2433.830	249	9.774		
	Total	3142.932	250			

a. Dependent Variable: Performance of Agency Banking

b. Predictors: (Constant), Human Capital

Regression Coefficients

	Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.688	.901		1.872	.062
	Human Capital	.166	.019	.475	8.517	.000

a. Dependent Variable: Performance of Agency Banking

CONCLUSIONS AND RECOMMENDATIONS

Human capital played a positive significant role in enhancing the performance of agency banking among the commercial banks. Through upholding education, training and experience, the skills to deal with the emerging issues on the agency banking are enhanced and this ensures the effective running of the mode of banking towards success. The study concluded that the training on those operating agency banking is essential in steering the effective service deliver and customer service in order to enhance the performance of agency banking.

RECOMMENDATIONS

It is recommended that human capital be upheld among the commercial banks in the agency banking. If the commercial banks are to record their best performance in terms of agency banking, they ought to put across key measures to ensure effective training of not only the internal employees but also the operators of agency banking. The level of experience of the personnel as well as level of education should be put as key measures to identify the agency banking operators. This coupled with continuous training would lead to enhanced customer services and transfer of professionalism to the agents as well.

CONTRIBUTION TO KNOWLEDGE

The study provides theoretical backing of resource based theory, which highlights the need for unique resources that are integral for organizational performance. Human capital is one of the unique resources that resource based theory upholds. The embrace of human capital would be an essential driver to the success of agency banking in commercial banks.

AUTHOR CONTRIBUTIONS

The study was under the supervision of Prof. Margret Oloko and Dr. Jared Deya, lecturers from Jomo Kenyatta University of Agriculture and Technology, Kenya. Martin Mbugua was responsible for completion of the study including the collection and analysis of data. Any required editing, formatting and the general outlook of the paper was also carried out by Martin Mbugua, the corresponding author.

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CONFLICT OF INTEREST DECLARATION

Martin Mbugua declares that there are no conflicts of interest regarding the publication of this Manuscript. In addition, the ethical issues; including plagiarism, informed consent, misconduct, data fabrication and (or) falsification, double publication and (or) submission, redundancy has been completely observed by the authors.

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