

## HUMAN CAPITAL'S PROBLEMS IN FINANCIAL INTERMEDIARIES IN ALBANIA AND KOSOVO.

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### Abstract

Global financial system today is facing numerous difficulties. Negative consequences of the economic crisis are still present in financial markets around the world. The same situation is also in the Albanian and Kosovo financial system. Problems faced by this system are numerous. In this paper we will focus on human capital problems as a key factor for the development of financial intermediaries.

During this paper we will try to answer the questions: What are the problems of human capital in financial intermediaries? What motivates human capital to be more efficient in fulfillment of their duties? What are the reasons for the dismissal of human capital? Should companies invest in training and professional education of the human capital or not?

Besides theoretical concepts, this paper will be supported in the analysis of questionnaires completed in the banking system. Surveys are completed in banks as they are the main representatives of the Albanian and Kosovo financial intermediaries.

Another important part of this paper is the audit of human capital. Problems of staff selection, problems with training, motivation problems and conflicts of interest are issues which should be more emphasis on internal control.

Key words: Human capital, banking system, job leave and motivation.

### 1. Introduction

The world economy today is facing numerous problems. The same thing is with Albania and Kosovo economy. Throughout this paper we will try to handle the problems of human capital in the banking system in both these countries. The reason we analyzed human capital is an important one. We can say that human capital is a key factor in the development of the banking system.

Today more than ever banking system needs better management in way to exceed this global financial collapse. For this reason bank employee must be efficient in their job performance and for this they must be motivated. With motivation we understand better salaries, good working conditions, continuous training and opportunities to have a better job position in the bank. Otherwise we will have not a serious performance. The employees will have not a serious commitment and perhaps will leave the job. These are strong reasons to be paid a particulate importance to human capital.

In way to have realistic results and conclusions, this paper is based on analysis of 350 surveys made in the banking system in Albania. On the other hand, based on comparisons and surveys it is known that in Kosovo there are generally the same problems as in Albania regarding the human capital. For this reason the results are the same for both countries.

The object of this paper is to give recommendations in relation to human capital in the banking system, addressing before the issues and challenges of human capital.

Besides the problems of human capital, we will treat the reasons why employees leave from work. The removal from work of an employee is cost for the bank. The bank should train and invest to the new employee. Furthermore the employees that leave the work must use confidential information from the bank.

A successful bank is not that one which is focused only in profit maximization but also in human capital, in the values that has the human capital, in moral values and human relations within the organization. The bank must not be focus only on its profit. A successful bank must show attention to human capital. Human capital is the main factor for the bank development. Also conflicts within the bank staff, appointments not deserved and adequate in different

positions are a consequence of bad management and a bad motivation of human capital.

But on the other side even the employer must look further than the words and actions of employees in order to know to keep certain balances which are most important for an efficient development of the bank.

### 2. Problems of human capital in banking system.

Before we start to treat the problems of human capital it is necessary to know what human capital represents. Furthermore we will make a brief presentation of the current banking system situation in Albania and Kosovo. Let's start first with human capital.

Human capital understands the competencies, knowledge, and personality attributes able to perform work and to create economic value<sup>1</sup>. Developed human capital through education and experience is vital for an organization much more to a bank<sup>2</sup>. So the study of human capital is important in theoretical aspects as well as in practical aspects. Human capital is one of the most valuable assets in economic units.

Let's speak now for the current situation of the banking system in Albania and Kosovo. We may say that the banking system in Albania and in Kosovo is the main financial intermediary. In its total volume the activities of Albanian financial intermediaries in the first half of 2011 grew by 5% compared with end of 2010<sup>3</sup>. Banking system in Albania represents about 94.5% of the total activity of financial intermediaries operating in Albania, representing approximately 82.2% of GDP<sup>4</sup>. Total assets (active) in Albania banking system in the first 6-months of 2011 reached a figure of 1,043.9 billion ALL<sup>5</sup>. In other words, this represents an increase of 5.4% more than the end of 2010. According to Bank of Albania, the total loans reached a value of 518.7 billion ALL that means an increase of 6.6%

<sup>1</sup> Wikipedia – Human Capital

<sup>2</sup> Gray S. Becker (1964, 1993, 3rd ed.) Human Capital: A Theoretical and Empirical Analysis, with Special Reference to Education. Chicago, University of Chicago Press. ISBN 978-0-226-04120-9

<sup>3</sup> Bank of Albania, "Financial Stability Report" for the first half of 2011.

<sup>4</sup> Bank of Albania, "Financial Stability Report" for the first half of 2011.

<sup>5</sup> ALL – Albanian Leke, Albanian National Currency.

compared with the end of 2010. On the other hand the total of deposits reached a value of 842.5 billion ALL, representing an increase of 4.6% compared with end of 2010. We should emphasize that the main bulk of the profit of the banking system belongs to the largest banks in the country as National Commercial Bank (BKT), Raiffeisen Bank and Tirana Bank or Credins Bank. Regarding to liquidity risk we can say that there is not any improvement. Statistics show that we are almost in the same situation as in end of 2010.

Table 1 show the weight of the banking system against the Gross Domestic Production since 2006 until the first half of 2011.

Table 1: Weight of Albania banking system against to GDP.

	Years					
	2006	2007	2008	2009	2010	2011/Q2
Banking System	69.6	75.9	76.7	77.5	80.9	82.2

Source: Bank of Albania, "Financial Stability Report" for the first half of 2011.

So, despite the fact that the global economic crisis has affected also the Albanian economy, financial system, the banking system in Albania has increased its activity.

For Kosovo economy we can say that has more challenges that Albanian economy. Kosovo's financial system has the following allocation:

- 75.9% of financial intermediaries are representing by banks.
- 16.7% pension funds.
- 4.1% microfinance institutions.
- 3.1% insurance companies.
- 0.2% financial aid.<sup>6</sup>

Deposits in Kosovo banking system during the period June 2010 - June 2011 grew by 11.8%. This represents 1.9 billion Euros more than the same period one year ago.<sup>7</sup> The loans issued during the period June 2010 - June 2011 have been increase with 15.7% compared to the same period a year ago. In June of 2011 loans issued by Kosovo banking system reached a value of 1.6 billion Euros that represent 34.3% of GDP. (*Financial Stability Retention - Number 2 - December 2011*)

To conclude we can say that the financial situation of the banking system in Kosovo and Albania continues its growth despite the downward rhythm. Considering the global financial and economic situation we can say that banks in Albania and Kosovo have shown maturity and stability relatively satisfactory.

Let pass now to problems and challenges that has human capital in banking system because this is the main issue we want to treat.

Above we mentioned the importance of human capital. Like all other factors influencing into the economy, also human capital has its problems and challenges. The analyses for human capital will be not divided into two parts (for Albania and Kosovo) but will be one for both countries as the problems facing human capital are almost identical. Banking system is one of few private institutions that have

relatively good conditions for human capital. But there are many problems yet. Below are presented in short order the main problems and challenges that is facing human capital of the banking system.

**First - The method of selecting new staff:** The way and methods used to select the new staff is very important. In many cases happen that way of staff selection is not unique for all. Often banks use different standards for selection for different persons. This brings discontent to existing staff and does not ensure the best selection. This is a significant problem, especially related with motivation. For these reason methods of selection, especially for basic positions should be unique and to be implemented in a standard form. The employer must do tests and well-organized interviews in order to filter the best employees. This will increase the quality of work and competition.

**Second - Unequal Treatment:** With unequal treatment we understand discrimination by the supervisor in jobs and tasks provide to perform. It is noted that different employees except their work perform also work that belongs to another colleagues. And a thing like this is request by the supervisor. This incorrect treatment among colleagues made by the supervisor leads to conflicts between the staff. Furthermore this increases the level of frustration between employees. More problematic becomes this fact if we analyze the wage that workers receive. It is noted that inefficient and not productive employees often have salary several times higher than employees who have excellent achievements in their work.

**Third - Development opportunities within the bank:** Banking system has many employees who have years of work experience and high level of performance assessment. But this is not considered necessary by bank managers to promote these employees to better working positions. These lead to the staff discontent and demoralization.

**Fourth - Salary:** The salary has particular importance for each employee. The banking system is one of the few private institutions that is serious in the way of payment. But on the other hand even in the banking system there are problems and challenges related to the salary. It is noted that in general the salary of the banks' employees does not have annually increase at minimum with inflation rate. There are many employees that their salary has not changed for years. Also is noted that there is a big difference in salary level between employees and senior managers. Furthermore there are employees that despite low performance continue to be paid in satisfactory levels. All these factors affect negatively to the professional banking staff by reducing motivation and increasing the subjectivity in their performance. Furthermore, we can say that over – time work is not paid in many cases.

**Fifth – Training:** Continuous training of the bank's employee is an indispensable element. Albania and Kosovo banking system in generally performs training regarding to the job positions. These training in general are in the form of "on job training." Banks rarely train their staff through specialized companies (training companies). Moreover we can say that are not organized meetings or seminars with information thematic for banking market in

<sup>6</sup> Bank of Kosovo, "Financial Stability Report Nr 2", December 2011.

<sup>7</sup> Bank of Kosovo, "Financial Stability Report Nr 2", December 2011.

general. This led the banks' employees not be updated with the problems and situation of the banking system. A not informed employee may be problematic for a bank. So, the lack of professional training leads the employees to a low productivity and increase the labor subjectivity.

**Sixth – Job Description:** Internal auditors often recommends that all positions must be completed with "Job Description" and descriptions of tasks to be accurate. The lack of a clear job description create a confusion situation in perform of duties. This creates friction between employees and different bank's units. If there is a clear job description the managers can control easier the employee performance. Furthermore it will be harder to abuse with the job position.

**Seventh - Independence in job performing:** Banking is one of those sectors who have not sufficient "space" for creativity. Nevertheless it is necessary for banking staff to have independence during job performance. On the contrary they feel themselves "robots" of this system and it significantly increases the level of frustration to them. So should create the conditions for employees to feel free in what they do and to have their independence in order to increase job satisfaction and efficiencies.

According to the survey<sup>8</sup> conducted on 350 employees of the banking system in Albania, the upper problems are the more important problems that concern the banking staff. Related to the first problem, about 42% of respondents think that there are no standard policies and procedures for hiring new employees. They think that there is subjectivity in staff selection.

About 37% of respondents think that there are no development opportunities within the bank (an increase in duty) while about 39% of respondents think that the possibilities of development within the bank are very limited.

Regarding to the salary, about 97% of employees surveyed claim that there is no annual salary increase (based on inflation rate) even 92% of them think that salaries and benefits are not higher than the market. While 57% of respondents think that they have not any professional satisfaction. So being a bank employee does not give to them any kind of satisfaction.

### 3. Reasons for dismissal of human capital and his motivation.

Dismissal of human capital has a high cost for the bank. The bank must thing the replacement if an employee leaves the job. New employee need to be train. This takes time and costs. On the other hands employee which leaves may use confidential information to another institution where he goes. But what are the real reasons that an employee leaves the job. Leigh Branham (2005) in his book "The secret reasons why employees leave" has mentioned the reasons why an employee leaves the job.

In this paper we will summarize the main reasons why employees leave the job. These reasons were also identified in the survey conducted.

Based on the "Saratoga" study - 2003, conducted during the period 1996 to 2003 with 19,500 employees and ex employees' from 18 different companies show that:

- 89% of managers believe that employees leave for more money.
- 11% of managers believe that employees leave for other reasons.

But in reality, the study has shown that:

- 12% of employees leave for more money.
- 88% of employees leave for other reasons.

So, it is not only the salary the main factor for employees leaves but there are other factors. Therefore motivation of human capital is very important.

One of the main reasons that employees leave is **not right treatment and incorrect assessment.**

Many employees feel not evaluated not only for their job performance but also in relation to other employees. About 20% of respondents are totally unsatisfied by way of employer's treatment. They think that are not correctly evaluated. While 47% of employees surveyed are relatively agree with the employer's treatment.

Nigel Nicholson says: "The manager should consider the employee not as a problem to be solved but as a person who need to be understood." This expression shows very well how to be treat and considered an employee. Employee must continually assess not only for his job performance but also by his personality and his values.

**Development opportunities within the bank** is another factor that affects an employee's leave. Based on survey conducted it is noticed that 37% of employees think that there is absolutely no development opportunities within the bank. So they see no possibility to have a better position in the bank's organization. While 39% of employees surveyed think that the possibilities of development within the bank are very limited. Furthermore to have better position professionals' skills are not enough.

There are many employees with high level of performance evaluation and high professional skills that have not find to set up a promotion. This demoralizes them and makes them to leave the bank or not be motivated to work further.

**Increasing work's volume not accompany by higher salary.** This phenomenon is observed especially nowadays where the impact of the crisis is present. Many banks increase the work's flow but on the other hand the salaries are decreasing. This is a strong reason to leave the job. In general more years pass more an employee expects the salary growth. But when the opposite happens many employees disappointed and leave the job. Also increase the volume of work requires more time. So pay per hour would be even lower if we take into account the fact that employee will stay over time.

So the bank must maintain a balance between the volume of work and payment for the employee.

A category of employees leaves even for the fact that **job positions do not represent more any interest to them<sup>9</sup>.** Many employees after working for a considerable time in one position (4 - 6 years) feel that do not have what

<sup>8</sup> Survey performed by authors for research reasons.

<sup>9</sup> Leigh Braham. "Reasons why employee leaves" – 2005; pg 59.

professional benefit to take anymore in that position. For this reason they leave in another position or another bank. On the other hand sometimes employees do not find what they really expect in a job position. So, maybe there is not compliance between the idea that employees have for the job position in theory and reality.

**The total job satisfaction** is a key factor that affects one employee to leave the job. An employee must have the job satisfactory in high levels otherwise he would be without motivation.

An anonymous expression says that: "Some employees leave work and go away; others leave the work and stay." Banks should not accept the fact that employees have no motivation. An unmotivated employee is a sufficient factor to influence negatively into work environment; reduces productivity; may give confidential information to other concurrent banks. So as a conclusion we can say that unmotivated employees are barriers for the bank development. Furthermore they can affect negatively to the clients.

Adjust some of the problems raised by employees will be enough to motivate them. Motivation should not be considered as a duty by the employer but as a way to increase collaboration and productivity. The productivity through cooperation can increase the bank profit.

#### 4. Conclusions and recommendations.

Human capital has a particular importance especially human capital in the banking sector. The banking system in Albania and in Kosovo is a consolidate system but problems with human capital in this sector are evident.

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Many banks do not apply the necessary conditions for development of human capital. Also human capital motivation is in low levels. As the main problems of human capital in the Albania and Kosovo banking system we can mention:

- The method of selecting new staff.
- Unequal treatment.
- Development opportunities within the bank.
- Salaries.
- Training.
- Job descriptions.
- Independence in job performing.

We should mention these problems must be handled with care by the employer and in the proper way to avoid staffs' disappointment. An unmotivated employee seriously endangers the labor process and becomes a reason for lowering performance. Furthermore an unmotivated employee has higher possibility to leave the job. As main reasons for leaving the job we can mention.

- Not right treatment and incorrect assessment.
- Not having development opportunities within the bank.
- Increasing work's volume not accompany by higher salary.
- Job positions do not represent more any interest to them.
- Overall job satisfaction in low levels.

Managers must be attentive and to distinguish the first signs of employees dissatisfaction. If an employee leaves the job is cost for the bank. Therefore must apply motivation policy and incentives for the development the banking staff.