


<p>Human Capital on Front of Challenges of Banking System in the Republic of Macedonia</p>			<p>Economics</p>
			<p>Keywords: banking system, human capital, country, bank, banking market.</p>
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<p>Abstract</p>			
<p>Change of the system, from centralized to a market economy was accompanied with situations that had an important impact in the Macedonian economy. Lack of experience connected with the free market economy made the change of the systems more difficult. Those problems and challenges that are and were on front of banking system in Macedonia, will be the subject of this paper. An important place in this paper will have the human capital, which is one of the main factors that affects or don't the development of banking system. So the hypothesis of this paper is: The motivation of human capital in the banking system has a significant effect on the performance of the banking system. Used methodology in this paper is a combination of theoretical analysis, the analysis of the real situation, and also the treatment of an econometric model, in this way the conclusions and recommendations will be more accurate.</p>			

Introduction

Economics is a science, which in its development has shown that often is unpredictable. This fact makes the economy one of the most interesting and also one of the hardest to treat. The dynamics of events in the world of economy, especially today in the era of globalization, brings that economists rush to predictions they make and the recommendations they give. And further, it leads to actions that have only one result that all of us recognize with the term "economic crisis". The financial crisis, which then turned into an economic crisis, with its beginnings in the United States in late 2007, has increased the need to have an economic system built on healthy and well researched basis.

Increasingly it is becoming necessary that economic activity to be monitored properly to avoid or to face with the financial crisis, as well as the economic ones. Exactly in this philosophy is based this paper, we get the right lessons from the past and in this way we can face successfully the future, which is difficult to predict, especially in a place like Macedonia, where often the rules of economy are "out of the game". This paper is focused on financial intermediaries in Macedonia, and more specifically to the banking system, because this system is the main representative of the financial intermediaries in this country. The banking system in Macedonia, which is one of the most efficient and well organized sectors of economy, despite the economic crisis, has been successful showing consistency in its performance over the years. But this economy sector in Macedonia is faced with many problems during his journey.

One of the problems of this system which requires special treatment is human capital. Developments in the world of economy have shown that the importance of human capital in the banking system is unquestionably absolute.

Human capital is it that leads a bank or another institution to success or leads him to a bankruptcy. For this reason, human capital requires a special treatment, especially when we know that the human capital in our reality faces different problems and challenges.

The main purpose of this paper is to provide recommendations for improving the situation of the banking system in Macedonia.

This paper is based in a hypothesis, which is: Motivation of human capital in the banking system has a significant effect on the performance of the banking system. Throughout this paper we will analyze the problems and challenges with which is faced the banking system in Macedonia. Based on the results of the analysis on the problems and challenges of the banking system in Macedonia, we will conclude whether Macedonia's banking system has had or not the right development.

Initially, is used description to give a theoretical information on the banking market and human capital. This is combined with the comparative instruments, and in this way the conclusions will be more accurate. Later we do a review of facts and numbers to give in this way a more accurate picture of the current situation of the banking system and human capital. Used methodology is based on the alternation of primary and secondary data. Primary data are provided through completed questionnaires in the banking system. These questionnaires were completed at the largest banks in the country, which account for over 80% of the banking market.

Theoretical Support of this Research

Bank has an important role in the economic development of a country. Global economic and financial development would be almost impossible if the banking system would not exist. The importance and role of the banking system in the economy of a country is depended of the characteristics that has the economy of a country. In a country with centralized economy the importance and role of the banking system, is different from that of a country dominated by free-market economy.

The main role of a bank (the banking system) is that of financial intermediary making distribution of funds through the system deposit-credit. In this way, the bank provides the required liquidity for the market, enabling financing of private enterprises projects, various public entities as well as the spendings of special individuals.

The banking system also has an important role in the economy realizing four transformations (Frost, 2004) which help in the development and growth of the economy together with the banking system. Those 4 transformations, according to Stephen M. Forst are: Transformation of borrowing risk, liquidity risk transformation, transformation of interest rate risk, maturity transformation.

Those transformations help the banking system deeply to have a sustainable development, and they give to this system the necessary credibility to operate in the market. Those transformations also strengthen the role that the banking system has in the economic development.

The banking system is an important link in the chain of indicators that impact in the growth and economic development. The banking system has a direct impact on injecting the liquidity into the economy, which is as the oxygen for businesses especially today, in the vortex of the economic crisis. This gives a special importance to the role that has the banking system in the economy.

But the banking institution has not only impact in microeconomics. Its role is essential to the country's macroeconomics too. The banking industry not only in developed countries but in Macedonia too, it is one of the service industries that has more influence on the GDP of the respective countries. This is evidenced clearly in the annual reports of central banks of different countries of the developed countries. In this way, we can say that the banking system has an important role as unquestionably a place in microeconomics.

Success of an organization or institution, is closely linked with the human capital. A professional human capital, adequate, qualified and motivated, constitutes the best basis to have success in the results of an organization.

In this regard the banks should have professional and motivated employees, so that their performance will be in satisfactory levels. Today literature recognizes some limitations when we talk about human capital, but basically it has the same access. Definition of human capital may vary from one country to another according to the economic characteristics that presents the country. For example, human capital is seen differently in a country with market economy and differently in a country with centralized economy.

Different researchers often view human capital as an asset of the entity (organization), asset containing skill, experience and necessary capacity to perform an undertaken task. But, on the other hand, there are individuals who see the human capital as a mechanical side of organization and not as a capital, which contributes significantly to the success or not of the economy entity. An interesting definition of human capital which runs parallel with the recent social - economic developments "Human capital is the stock (quantity) of competencies, knowledge, personal and social attributes, including the creativity, all of them together are part of ability to perform work and produce economic values" (Simkovic, 2012). Another interesting definition for the human capital is: "human capital means the employees of an organization, who have judgment experience, intelligence, ability to create relationships and to penetrate into dealing issues" (Noe, Hollenbeck, Gerhart, Wright, 2011, p. 3) Edwin A. Locke in his book "Principles of Organizational Behavior" states that: "Human capital is one of the major assets available to an organization which invests without saving for this capital" (Locke, 2003, p. 43)

Looking at this definition we understand that to the human capital is given much importance by accepting that the organization invests without saving. We will also see that the reality of human capital in the banking system is different in Macedonia. Banks in Macedonia invest a few in the human capital. Organizations in the world spend billions of dollars to train their employees. Many theories emphasize strongly that investment in human capital through education (training) increases productivity, and develops the economy (Simkovic, 2012). There are theorists and economists who see the human capital under the "umbrella" of intellectual capital. Dean R. Spitzer in his book "Performance Measurement" writes: One of the most valuable forms of intangible assets is intellectual capital, which is divided into three categories: organizational capital (patents, copyrights, trademarks, infrastructure, culture), capital about the relationship between the parties (the relationship with customers, offers, partners, competitors, government and community) and human capital (skills, knowledge and attitudes of employees, talents) (Spitzer, 2007, p. 220)

In the case that in this paper is treated we showed some of the definitions that various researchers and economists have made for the human capital, highlighting the connection that he has with the economy. Next, we will show the connection that exists between human capital and bank, based on the reviewed literature.

Not only experience, but also various studies see the connection between human capital and the banking system very strong. In general, if we have competitive human capital, especially in connection with bank reports, we have a better performance of banking institutions in this direction. Daniela Harangus in her article "The importance of human capital in the banking system", clearly shows that the main factor that affects a bank profit is the human capital. Daniela Harangus claims that to assess the performance of a bank should consider the qualities of human capital and professionalism shown by them. In this context, Harangus gives arguments proving that good relationship between the staff of a bank creates customer trust, who not only pays attention to products and services offered by banks, as well as this one comes to the customer through its employees (Harangus, 2008)

Technological development nowadays, the development of different markets and the process of globalization gives to human capital and its management more importance (Kayode, 2012). In this direction, the banking system in the world can be considered as the "only one". This idea becomes more stronger if we see the interaction and activities that banks in different countries perform with each other, giving vitality to the transactions that their clients perform. So the importance of the human and quality capital is necessity in an era of globalization. Banks and human capital also are connected by another very important element, as is the "moral hazard".

As in every other area of life where we can see immoral behavior, we can also see it in a certain part of the staff in the banking system, who with dishonesty actions try to break the rules and to benefit unfairly.

Abusive actions are more frequent in countries that are still developing (currently Macedonia) taking into consideration social - economical problems that society actually has in those countries. But, on the other hand we can say with conviction that even in developed countries the incidence of abuse of bank staff are not uncommon. Different authors also connect the recent financial crisis with the "moral hazard", highlighting the human capital as a preventing factor or financial crises generation.

Risks that is Fascing the Banking System in the Republic of Macedonia

Despite all the challenges, the banking system in the Republic of macedonia in the last few years has stayed stable, so it confirmed his own resistance to shocks from internal and external environment. In terms of the slow recovery of the global economy and solid domestic growth, the role of intermediaries of banks between depositors and creditors becomes more stronger, but this happens slowly. The assets, loans and deposits grew annually by 5.8%, 9.7% and 6.7% along 2015 and 8,3, 9,9 and 1,7% along 2014. The environment in which banks have been working under the influence of nature and non-economic factors such as political unrest and the debt crisis in Greece. Negative effects on the Macedonian economy and the banking system in Macedonia, although limited, result from some direct and indirect channels of infection.

Direct channels are guided through the capital account and balance of payments in the Republic of Macedonia because they have a direct impact on the domestic real sector. In fact, Greece is an important trade partner of the Republic of Macedonia. General exchange of external trade with Greece in late 2014 occupies 7.9% of GDP, but it marks a downward trend because it is lower by 0.6 percentage points compared with 2013 and about 3 points percentage compared with 2008. All this together with low interest rates, limit the opportunities for greater growth of bank financing resource.

When we talk about the liquidity of banking system it is satisfactory. Despite the fall of liquid assets observed in 2015, they still participate with 30% in the total assets of banks and cover 60% of liabilities in total, which represents a satisfactory level and enables to perform banking jobs without barrier. Banks expect the deposit stability in the period ahead.

In the banking system of the Republic of Macedonia the most represented foreign capital taking into consideration that 75% of the share capital derived from external shareholders. According to this the banking system is influenced of economic and non-economic factors of their mother countries.

Lower income from financial instruments in domestic and international market in 2015 contributed to maintain the pace of lending. Banks will continue to lend carefully from the corporate sector entities, so the upward lending activity will be more pronounced in the residential segment.

Credit risk is the greatest inherent risk in the bank balance, this one in 2015 is appeared more disturbing. The growth of non-performing loans begins to decrease so that at the end of 2015, total dysfunctional loans will be reduced in 10.8%.

Exposure of banks to other risks is not significant. As a result of the dominance of the euro in foreign exchange banks and application of strategy and stable nominal exchange rate of the denar with euro, foreign banks risk exchange is minimized. Market risks are minimal, due to weak activity of banks in trading activities with financial instruments.

Increase in earnings after tax of the banking system has impacted positively in key indicators of the profitability of banks. Return of capital and assets is about 0,6% and 5,7% in 2013, to be increased to 0,8% and 7,4% in 2014 and reached 1,1% and 10,4% in 2015.

Improving of profitability for years is based on the reduction of interest expenditure, which in conditions of low expression of deposit's interest, banks are faced with the warning of maintaining the upward profitability based on this reason.

Table 1: indicators of the profitability and efficiency of banks in percentage

	2013	2014	2015
Rate of return of average assets (ROAA)	0,6	0,8	1.1
Rate of return of average equity (ROAE)	5,7	7,4	10.4
Operating expenses / total regular income (Cost-to-income)	60,6	55,5	51.6
Non-interest expenses / Total regular income	66,6	61,8	58,5
Expenses for salaries / total regular income	23,3	22,0	20,9
Expenses for salaries / operating costs	38,4	39,6	40,5
Correction value of financial and non-financial assets / net interest income	39,5	38,1	34,9
Net interest income / Total regular income	65,9	67,4	67,1
Net interest income / non-interest expenditure	99,0	109,2	114,8
Non-interest income / Total regular income	40,1	38,8	39,8
Profit (loss) from work / Total regular income	12,5	16,2	21,7
Number of employees	6,048	5,988	5,968
Profit per employee (in millions of denars)	0,4	0,5	0,8
Total income per employee (in millions of denars)	3,1	3,2	3,6
Operating costs per employee (in millions of denars)	1,9	1,8	1,8

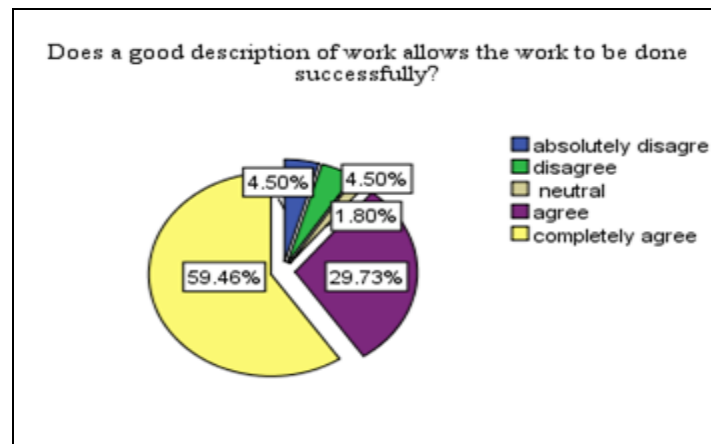
Source: National Bank of the Republic of Macedonia, Annual Report for Financial Stability of the Republic of Macedonia 2013, 2014,2015. Skopje.

Empirical Analysis

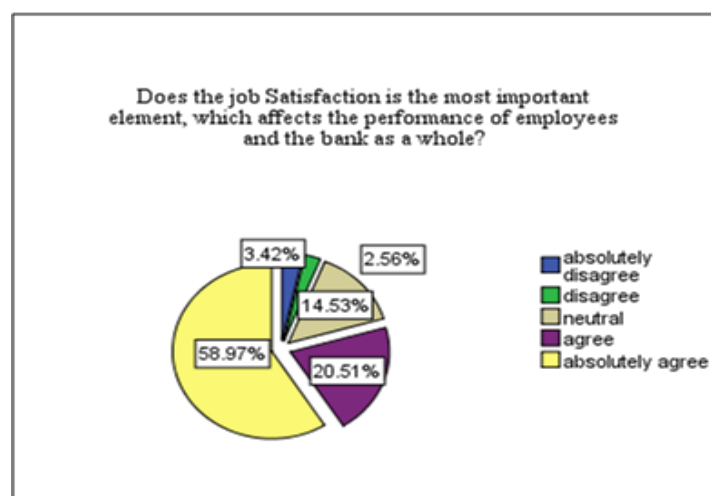
According to all the theoretical analysis we concluded that the motivation (satisfaction) of employees makes them to not leave the workplace (which would be a big cost for the bank) to be more productive and efficient, so and the bank will have better performance. So the results of this study will help us to confirm the hypothesis of the paper that: "The motivation of human capital in the banking system has a significant effect on the performance of the banking system".

To prove the hypothesis of the paper we used data collected by a questionnaire. The questionnaire was realized with employees of the banking system of some banks. Questionnaires were not met at all banks, but in 9 of them, which possess the biggest part of market.

Based on the goals of this study, after we collected the data we did a regression analysis with SPSS, to view and analyze the correlation between the examined factors. We have computed and analyzed regression using data from the central bank of the Republic of Macedonia for the period 2008 to 2014. The results presented in the following graph show that it is very important that duties of workers in the workplace to be better defined and described and in this way the employees will be successful.

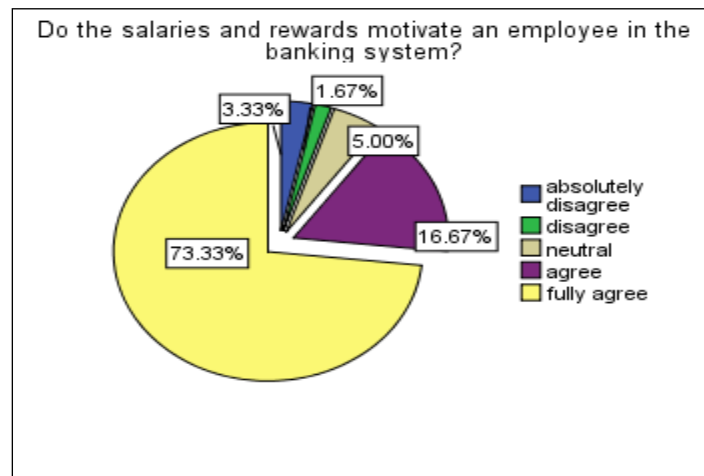


As we can see in the graph before 59% of respondents completely agree that a condition for success is a good description of the assignment, 29.73% agree, 4.50% absolutely disagree, 4.50% disagree and 1.08% are neutral. But does job satisfaction affects the performance of employees and banking system, in general has been our next analysis that appears in the following results:



It is known that if a bank employee, speaks bad words of his bank to a customer, then how can we expect from customer to trust the bank? And to prevent this, the bank should motivate its employees by raising their satisfaction in the workplace.

And this satisfaction will be forwarded from the employee to the customer by serving him better and creating a positive general atmosphere. 58.97% of respondents answered that the enjoyment in the workplace affects the performance of employees, 20.51% agree, 3.42% absolutely disagree, 2.56% disagree, 1.53% are neutral.



We have a strong connection between motivation, employee satisfaction, and results in the work he performed. So, how much more an employee is motivated, the better it works and gives much more excellent results. We can say that motivation and job satisfaction make a productive and efficient worker. If we have productive and efficient employees, in this way the institution (bank) where they work will be productive and efficient.

Theories of motivation show and prove this positive relationship between motivation and performance. From the chart we saw before 73% of the respondent fully agree that the motivation affects the performance of the employee, 16.67% agree, 3.33% absolutely disagree, 1.67% disagree and only 5% are neutral. So we can summarize that those results help to prove the hypothesis, and through the regression we saw that the motivation as an independent variable affects the dependent variable. The performance of the bank in our analysis is measured by return of assets (ROA). Results of regression are: $Y = 1.854 + 0.561X$, this means that every growth of motivation for employees grows their performance (ROA) for 0.561. This one is proved by the test of determination r^2 which is 0.78 and indicates that the model enables prediction of 78%.

Conclusions

Conclusions and recommendations have a special importance in a paper. Conclusions of this paper are:

– Macedonia's banking system over the years has had a positive performance. This is shown by the various reports of different supervision institutions, national and international.

– Loans with problems nowadays are a concern not only of banks in Macedonia, but everywhere. The consequences of the economic crisis, as well as other factors such as bad forecasts to future, abuses of the borrower and the credit analyst, not professionalism of credit analyst, Inappropriate granting of loans, bank's corruption and the young age of the Macedonian banking system.

– Human capital in the banking system is very important. Considering that the bank is an institution of trust, it must have the best employees, in this way the bank will increase confidence in its current and potential customers. Banking institution should take care of its employees by increasing values through training and motivating by fulfilling the conditions and requirements that employees have. Different theories, but the practice too has shown that a motivated and satisfied human capital increases the performance of the bank.

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