Human Capital Development in the Ethiopian Banking Industry: Taking the Global Dynamics into Account

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Abstract

This study was conducted to assess the overall human capital development endeavors of commercial banks in Ethiopia in light of the current global dynamics. To realize this objective, an in-depth interview was made with relevant managers of the selected banks. Some secondary sources were also used as a complement. The data was analyzed using the qualitative data analysis technique. The findings indicate that an integrated HR strategy that guides the banking sector is largely missing. It is also found that though the banks are making preparations in developing their human capital to face the global competitive challenges, much remains to be done. The banks' efforts to own highly qualified human capital are also hampered by a number of internal and external factors. It is suggested, among others, that there is a medium to long term need to develop a continuous pipeline of quality human capital for the Ethiopian finance and banking industry. Furthermore, it is proposed that the whole issue of human capital strategy needs to become an increasingly important topic on board agendas. Finally, forging strategic alliances with international development partners and/or consultancy firms for the development of human capital in the financial services industry is recommended.

Keywords: *Bank, human capital, liberalization, Ethiopia, global dynamics*

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1. Introduction

1.1 Background and Rationale of the Study

The World Economic Forum (2016, p.1) explains that "A nation's human capital endowment-the knowledge and skills embodied in individuals that enable them to create economic value-can be a more important determinant of its long-term success than virtually any other resource. It further underlined that "this resource must be invested in and leveraged efficiently in order for it to generate returns for the individuals involved as well as an economy as a whole."

As Okeke, Onuorah, Oboreh, and Ojan (2019, p.54), argue "human capital has long been recognized as one of the imperative resources that can create competitive advantage for firms." This is even more so in today's dynamic and rapidly changing external environment as a result of the ever-increasing technological innovations. Given such changing nature of the external environment firms face, there is a move away from dependence on physical capital to that of managing knowledge and learning as a source of gaining competitive advantage (Garavan, Patrick, & Collins, 2001). No matter how advanced capital and technology it may be using, it is of little importance to the organization's goal achievement when managed and operated by underdeveloped human capital. Hence, it is imperative that firms concentrate on human capital development and make investment on it in order to gain competitive advantage and ensure their long-term survival.

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Like other businesses, banks and other financial institutions also operate in a highly complex and competitive market characterized by innovative changes and use of information technology products. Hence, banks need to give more focus to human capital development if they are to survive the competition. Indeed, Clulow et al. (2003), demonstrated that the appropriate development and deployment of human capital enables firms to outperform their rivals and achieve sustainable competitive advantage. Taking into account the turbulence or dynamics of the sector and the importance of human capital in the bank industry, individual banks are supposed to develop a pool of human capital that fits into the global market and capable of facing global and local competition.

1.2 Statement of the Problem

The banking sector in Ethiopia has been showing improvement from time to time in terms of service provision, outreach, capital, asset size, resource mobilization, credit disbursement and automation. According to Cepheus (2019), over the past decade, the country's commercial banks have played a crucial role in widening access to finance, raising national savings, and funding major public as well as private projects. The same source indicated that public and private banks increased their branch network from 571 a decade ago to 4, 757 as of June, 2018. In parallel, depositor numbers have surged from 4 million at 2010 into 33 million in less than ten years. AsokoInsihght (2019) shows that at the current standing, 20,000 people are served per branch and 65% of the branches are outside Addis Ababa. This made the banks close to the people and provide more efficient services to their clients. Despite facing a myriad of challenges, the banks have also implemented electronic banking system which helped them create more innovative service delivery models. In this regard, Cepheus (2019) underlined that the banks have introduced a combination of digital banking services, such as ATMs, POS services, internet banking, and mobile banking.

At present, the banking sector is heavily regulated by the government, and as a result, there are no foreign banks operating in the country. Consequently, the banking system remains protected from the effects of globalization for policy makers fear that liberalization will lead to loss of control of the economy. However, this policy stance of protecting domestic commercial banks against competition from foreign banks might not be maintained indefinitely. In fact, there are clear indications that the government might be forced to liberalize the financial sector in general and the banking sector in particular in the near future. For instance, Kassahun (2012) indicated that following Ethiopia's application for accession into the WTO, the country will be expected to liberalize its financial sector. In another note, according to New Business Ethiopia (2019), the Ethiopian Parliament has recently ratified the African Continental Free Trade Area, which consequently requires the country to commit itself to liberalize the financial sector. Taking this into account, domestic banks are expected to have, among other things, a human capital that is ready to meet global competitive challenges. As Oyinlola and Adeyemi (2014: p2) noted, "today's economic operations, especially of banks, are knowledge-based, and for a bank to meet the challenge of dynamism of business and the ever-growing global interconnectivity of banking operations, great attention should be paid to human capital development". This study, therefore, intends to assess the readiness of the banks in terms of building their human capital which will enable them compete effectively with global banks.

1.2 Objective of the Study

The general objective of the study was to assess the overall human capital development endeavors of commercial banks in Ethiopia in light of the current global dynamics. To address the general objective, the following specific objectives were designed: to review the current practices of human capital development in the Ethiopian banking sector; to investigate the readiness of Ethiopian commercial banks in terms of having qualified human capital that will enable them compete with foreign banks in case of financial liberalization; to investigate the key factors that affect the quality of human capital.

1.3 Methodology of the Study

The study applied a cross-sectional research strategy as it intended to explore the readiness of the banks in case of financial liberalization. Qualitative data was used in this study. Data was collected from both primary and secondary sources. Currently there are 17 private and government commercial banks in Ethiopia. Stratified sampling technique was applied to select samples. The strata were created based on the age of the banks. The banks' stay in business was used as a classification criteria to see the level of preparedness of all category of banks. Classifying the banks as senior, medium and junior banks, two from each stratum were selected. As a regulatory body, the National Bank of Ethiopia was also taken as a research participant.

The target population of the study was the private and government commercial banks in the country and data was collected at head office level. Primary data was collected using an in-depth interview. The interview was conducted with one president, two vice presidents and three directors of the banks. They were chosen on account of having relevance to and knowledge about the issue under investigation. The banking supervision director of the NBE and Director of the Institute of Financial Studies were also interviewed from the regulatory side. The interview was conducted from April to May 2019 in Addis Ababa. Secondary sources from NBE's website and internal reports were also used in the analysis as a complement. A qualitative data analysis technique was applied on the data collected via in-depth interviews. The analysis involved four steps, namely: reviewing, organizing, coding and interpreting the data.

Review of Related Literature

2.1 Introduction

A variety of conceptual definitions have been provided for human capital and its development. OECD (2001:18) defined human capital as "The knowledge, skills, competencies and attributes embodied in individuals that facilitate the creation of personal, social and economic well-being."

Today, it is widely accepted that organizational value is derived from a combination of material assets including equipment, finances, property and real estate. It also includes immaterial assets such as brand, reputation, image, knowledge, skills and expertise, and human capital in the workforce. In a knowledge-based economy, human capital becomes increasingly critical to business operations (Agarwala, 2003). Goldin (2016, p.55) also underlined that the term human capital "encompasses the notion that there are investments in people (e.g., education, training, health) and that these investments increase an individual's productivity." Enyekit et al. (2011) consider human capital development and training and development as basically the same arguing that human capital development involves an effort to increase human knowledge, enhance skills, productivity and stimulate resourcefulness of individuals. Training and development aim to address skill gaps in employees that hinder processes from running smoothly. In connection to this, Emrullah (2014) underlined that education and training increase human capital and this results in a higher productivity in the workplace and a higher salary for the individual. This implies that in their human capital development efforts, organizations have to make investments, activities and processes that produce knowledge, skills, health or values that are embodied in people (Erhurua, 2007).

2.2. Theoretical Foundations

Human Capital Theory

This study is grounded on the human capital theory, which refers to the aggregate stock of competencies, knowledge, social, and personal attributes embodied in the ability to create intrinsic and measurable economic value (Subhash, 2019). Netcoh (2016) also explains that HCT is a framework that examines the relationships between education, economic growth, and social well-being. He further posits that expenditures on education, job training, and health are capital investments that will yield economic and social returns at the individual and societal levels. According to Sweetland (1996), the HCT suggests that individuals and society derive economic benefits from investments in people. Human capital theorists believe that education and training are assumed to enhance productivity, which in turn is translated into economic returns such as higher wages and increased GDP (Netcoh, 2016). In short, as Olaniyan and Okemakinde (2008) noted, the proponents of the HCT argue that an educated population is a productive population. Essentially, HCT shows how education leads to increase in productivity and efficiency of workers by increasing the level of their cognitive skills. Furthermore, according to Izushi and Huggins (2004) the HCT asserts that a more educated workforce enables a firm to adopt and implement new technologies, while at the same time it strengthens returns on education and training.

Becker (1964), as cited in Dae-Bong (2009), categorized human capital into general and specific ones. Becker defined general human capital as a generic knowledge and skill accumulated through working experiences and formal education which is valued by all employers. This makes the general human capital easily transferrable to different other industries. Likewise, firm-specific human capital involves skills and knowledge that have productive value in only one particular company. Thus, the specific human capital is rarely transferable to other firms or industries.

Employee Turnover

Various scholars have provided similar definitions of the term. For purposes of this study, however, the following definition is taken.

Harkins (1998), cited in Arokiasamy (2013: p.1532), defined employee turnover as “entrance of new employees into the organization and the departure of existing employees from the organization”. Employee turnover refers to a situation whereby employees leave the organization voluntarily or involuntarily for different reasons. This in turn could affect the organization negatively in terms of costs and the capacity to deliver the minimum required services (Arokiasamy, 2013).

It is widely believed that recruitment, selection and training are a very expensive undertaking for any organization, and therefore employee retention should be key for the organization’s survival and ultimate success (Mokaya, 2010, cited in Mwangani, 2014). High employee turnover may result in an organization not being able to meet its objectives, loss of productivity, and loss of customers. It can also gradually spoil the good reputation of an organization (Mwangani, 2014). Harris et al. (2006), assert that turnover also results in the direct loss of human capital embodied in the leavers. They further argue that a reduction in the amount of output will result during the vacant and training period. Mwangani (2014: p.9) also argues that turnover “results in high cost of undertaking frequent recruitments and training sessions and loss of valuable time to focus on customers.” Therefore, organizations need to do everything at their disposal to reduce employee turnover.

Employees leave their organizations either voluntarily or involuntarily. According to Arokiasamy (2013), when employees leave their employer at their own will it is referred to as voluntary turnover;

when the employer makes a decision to terminate the employment relationship with the employee it is involuntary.

Although, there is no accepted framework for understanding the employees turnover process as whole, a variety of factors have been found useful in interpreting the causes of employee turnover (Kevin et al., 2004, as cited in Ongori, 2007). These include personal factors, job content factors, work environment factors and external factors (Arokiasamy, 2013).

Recruitment is usually considered by many as one mechanism used to reduce turnover. According to Arokiasamy (2013) recruitment is a process used by management for having a pool of potential candidates from which the organization can select the best in accordance with job requirements. Therefore, if the organization wants to reduce employee turnover, it has to ensure that the right people are recruited for the job at hand.

Resource Based View (RBV)

The RBV is a way of viewing the firm and consecutively of its imminent strategy. According to Madhani (2010), RBV considers the firm as a bundle of resources. Such resources, and the way they are bundled, make firms different from one another and in turn allow a firm gain competitive advantage. But not all resources provide opportunity for competitive strategy. As Madhani (2010), indicated proponents of the RBV assert that ownership and control of strategic resources provides an organization with a golden opportunity to earn above average returns and enjoy competitive advantage over others. For a resource to be strategic and drive sustainable competitive advantage, it must be valuable, rare, difficult to imitate and non-substitutable (Clulow et al., 2003). According to Brown (2007), the RBV of the firm suggests that an organization's human capital management practices have a significant role to play in sustaining competitive advantage by creating specific knowledge, skills and culture within the firm that are difficult to imitate. That is, by creating resource diversity through increasing knowledge and skills and/or resource immobility, sustainable competitive advantage can be created.

Strategic Alliances for Human Capital Development

Strategic alliance is an increasingly preferred method of conducting business globally. According to Isoraite (2009), strategic alliances are agreements entered between companies to cooperate in a specific business activity so that each benefit from the other and gains a competitive advantage. Each partnering company maintains its autonomy while gaining new opportunities due to the cooperation. Such partnership "offers businesses a chance to join forces for a mutually beneficial opportunity and sustained competitive advantage" (Yi Wei, 2007, cited in Isoraite, 2009: p40).

Ferreira and Franco (2019), underline that strategic alliances are a way for partnering firms to overcome resource limitations in terms of human capital, making the relations firms establish with other firms increasingly important for their sustainability and development. Loke, Sambasivan, and Downe (2009), also indicated that strategic alliances are usually used as one of the ways for a firm to accrue knowledge from outside its boundaries.

3. Findings and Discussion

Guiding the Human Capital Development Endeavors through a Strategy

The interview indicated that some banks guide their capacity building efforts through an HR strategy which they claim is aligned with the overall corporate strategy. However, there are banks which undertake their human capital development endeavors without an HR strategy. Furthermore, the interview revealed that industry level HR strategy and a comprehensive countrywide human resource development strategy are missing.

However, most countries and multilateral institutions acknowledge the need to give systematic attention to the role of HRD in supporting national economic growth and development programs. This global acknowledgement of the importance of HRD is illustrated by the response of the United Nations following discussions on the subject over many years. The 1989 General Assembly Resolution 44/213 declared:

> Human resources development is a broad concept … requiring integrated and concerted strategies, policies, plans and programs to ensure the development of the full potential of human beings … so that they may, individually and collectively, be capable of improving their standard of living (United Nations Program in Public Administration and Finance, 1995, p.5).

In Ethiopia, though issues of human capital development might appear here and there in various sectors, a comprehensive nationwide HR strategy is lacking. Furthermore, the NBE or any other responsible government body has not been able to develop an HR strategy for the banking sector. The NBE only issued a directive requiring the banks to allocate 2% of their working capital for capacity building efforts. As a result, banks are using this budget haphazardly though the practice differs from bank to bank. Hence, it can be concluded that the human capital development task is not being guided based on a well-thought HR strategy at national, sectoral, and institutional levels. An exception here is the Commercial Bank of Ethiopia which has developed its HR development strategy in collaboration with the Frankfurt School of Finance and Management.

Training and Education

The interview revealed that there are two financial training institutions in the country, namely: the Ethiopian Institute of Financial Studies (EIFS) owned and run by the NBE; and the Center of Excellence of the Commercial Bank of Ethiopia. The managers believed that the latter is modern and well furnished, while the EIFS needs to be further strengthened since it is currently lacking the required training amenities. According to the information obtained in NBE's website, the EIFS has gone through a series of changes in its naming, structure, and objectives since its establishment. There were times when the institute had been engaged in offering diploma programs in banking and insurance and short term trainings. Later on, its well-furnished training facility located at Akaki was handed over to Addis Ababa University for reasons not mentioned in the NBE's website. Fortunately, it is learned that the NBE is now allowed to take it back and enhance its operations. As revealed during the interview with the director, the EIFS has developed its fiveyear strategic plan (2010-2015) with the support of the Frankfurt School of Finance and Management. The plan has helped the institute to expand its mandate into offering up-to-date training and professional educational programs with the vision of becoming the center of excellence in the financial sector in Ethiopia. Since then, the institute has been providing training to employees of banks and insurance companies. For instance, it provided short-term training to 11, 953 employees in two years' time (2015-2017). In addition, it has provided leadership training programs targeting board members, top and middle management members of respective private banks and insurance companies in collaboration with the CBE which were need-based.

The key informants revealed that they are using the training opportunities provided by the existing institutions when they deem it necessary. However, they indicated that the trainings provided by these institutions are mainly theoretical. They do not expose trainees to the practical world. Due to this, some mentioned that they are getting more inclined to using in-house training. The three year-report (2015-2017) of the CBE's Center of Excellence indicates that the participation of trainees from private banks has been consistently declining. A large number of participants were from CBE itself and NBE. In fact, in 2017 with the exception of few trainees from Zemen Bank almost all were from CBE. This data partly supports the assertion by the interviewees that the banks are losing interest in the training programs provided by the institutions.

In addition to using the opportunities and facilities provided by these institutions, most banks claim that they provide short-term training to their employees using other alternatives locally and sometimes internationally. Most banks also mentioned that they provide domestic long-term scholarship opportunities to their employees on a competitive basis. As noted in the literature review chapter, previous researches have shown that training and education play a significant role in increasing the morale and productivity of employees. Hence, the fact that the banks are providing both short-and-long-term training opportunities to their employees is to be applauded.

However, the most serious problem the interviewees raised was that the impact of the training is not evaluated regularly. According to Kunche et al. (2011), evaluation after training is essential where trainees' skills and knowledge are assessed to measure the effectiveness of the training. This kind of evaluation is designed to determine whether training has had the desired effect at individual department and organizational levels. They further noted that organizations involving in the evaluation of training effectiveness are not only responsible for what the employees learn but they need to see that the knowledge which the employee gained is being applicable in their work performance. Training and its regular evaluation would definitely make an organization to stand in the lime light in achieving its objectives. In the case of Ethiopia, the regulatory body (NBE) itself does not encourage commercial banks to periodically evaluate the effectiveness of their training processes. At the end of a given budget year, the managers claimed, the NBE asks them only the number of employees they trained and the budget they utilized. Some of the banks even utilize the 2% budget to conduct meetings and other non-training activities, and report it to the NBE as an expense incurred for training in order to escape responsibility. Hence, this implies that no systematic evaluation of training programs is put in place by both the individual banks and the NBE.

Recruitment and Turnover

When the bank managers were asked about their recruitment practices, most of them indicated that they hire high performing fresh university graduates based on their cumulative grade point average (CGPA). They argued that they apply stringent selection procedures such as written examination and interviews to get the most competent candidates from the pool of applicants they recruited. Many of them claim that, since the banking industry is relatively the best payer in the country, they are able to attract better employees. In addition to better pay, managers claim to have made their best to make the working environment attractive and conducive to employees.

As a result, almost all managers interviewed invariably believe that the employee turnover is low as compared to the rate customarily taken as industry standard (5%). None of them reported an attrition rate that is even nearer to 5%. Hence, they all felt that employee turnover is not much of a concern to them at least for the time being. Notwithstanding this, they all agreed that there is a "war for talents" among the banks themselves. According to them, there is little or no attrition from the banking industry to other industries in the country. They, however, admit that turnover within the industry is alarming. All banks are at war in terms of snatching employees from each other. The main factor that causes high attrition in the banking industry, according to the interviewees, is the attractive salary and other benefit packages provided by individual banks. The war is even worse when it comes to middle and top level managerial positions. This implies that banks are finding it more preferable to snatch competent people developed by other banks, rather than developing their existing employees by making the necessary investment, which may lead to unhealthy competition in the industry. Studies (Crowe, 2019) indicated that employees in the banking industry are changing jobs at a faster pace with high turnover rates, and thus, retaining and recruiting talent are major considerations for banks.

Attracting, Developing and Retaining the Best of Human Capital

It can be discerned from the interview that all banks similarly provide several incentives such as having competitive remuneration, providing free scholarships, providing short-term trainings, creating conducive working environment and the like to their employees. Many of them claimed that they have benefit packages and salary scales that are subject to revision periodically based on labor market conditions. Some of the benefit packages they detailed (other than salaries) are summarized as follows. They maintained that they give free scholarship in domestic universities to some of their employees up to a master's degree level. In addition, some mentioned that they make it their policy that an employee should receive short-term training at least once in a year. They also provide loans to employees for housing, vehicle purchase and other emergency needs to be paid back on a long-term basis. Expenses related with employees' health care are also covered by the banks. Finally, the managers underlined that they try their best to make the working environment attractive and conducive to their employees. These all are expressed invariably by all managers involved in the interview indicating that almost all banks are implementing similar incentive packages with very little or no difference. However, in practice, there seems to be a difference as it is reflected by the "war for talents" that exists among the banks. Employees are switching from one bank to the other presumably due to the differences exhibited in the banks' salaries and benefit programs, notwithstanding that there are employees leaving their organization due to other reasons. In connection to this, Bryant & Allan (2013) argue that many people quit their organization because they are not happy with their pay, and they do this often to take higher paying jobs elsewhere.

Strategic Alliances with International Firms

Except the CBE, all other banks interviewed have not yet forged partnerships with international firms. The CBE claimed that it has been working with both domestic and foreign firms in the area of human capital development. Among the foreign firms it works with are the Frankfurt School of Finance and Management; the Crown Agent (Great Britain), and KPMD which provides training on ICT. They also work with domestic firms such as Ethiopian Airlines Aviation Academy (customer service training) and INSA (on information security).

A strategic alliance is one of the effective ways to gain competitive advantage through sharing of knowledge and expertise. According to Išoraitė (2009), strategic alliance is an agreement between two or more organizations to cooperate in a specific business activity, so that each benefits from the strengths of the other, and gains competitive advantage. The formation of strategic alliances has been seen as a response to globalization and increasing uncertainty and complexity in the business environment. Strategic alliances involve the sharing of knowledge and expertise between partners as well as the reduction of risk and costs in areas such as relationships with suppliers and the development of new products and technologies. As can be evidenced from the interview result, the Ethiopian commercial banks are lagging behind in terms of forging effective partnerships with international firms so that they are able to reap the benefits arising thereof.

Preparations Underway in Case of Financial Liberalization

All managers indicated that they are well aware that sooner or later the Ethiopian Government will liberalize the financial market and foreign banks will eventually start operating in the country. Especially, one manager gave three reasons why he thinks the liberalization measure is not too far, namely: Ethiopia's request for WTO accession, the frequent shortage of foreign currency the country is facing, and the strength of the developmental state to withstand the global pressure put on the country to open-up its financial sector. Due to this, all managers claimed that they are making preparations to face the global competition in terms of improving their financial base, using advanced technology products, and developing their human capital. Especially, in the former two aspects they felt that they are exerting maximum efforts to position themselves at a competitive advantage. However, regarding the development of their human capital, they do not feel that they are comfortably prepared to meet the global challenges despite their ongoing efforts. Only one bank manager expressed his bank's preparedness in terms of human capital with full confidence.

The biggest challenge the managers raised in this respect was the limited regulation capacity of the National Bank itself in case of liberalization. According to them, NBE has not acquired the necessary capacity to regulate the operations of domestic banks let alone that of foreign banks. They emphasized that while the NBE is supposed to play a leading role in the banking sector; it is not doing much other than issuing directives and exercising control. In many aspects, it is lagging behind. The interviewed NBE officials also partly admitted this claiming that they sometimes could not process banks' request to introduce new technology-based products due to the limited awareness and knowledge they have about those products. A case in point is that some banks have already implemented IFRS certification and the NBE is in no position to effectively support and/or regulate the system's operations. The NBE official admitted that they have neither made any preparations nor do they have the necessary knowledge about it.

However, head of the Ethiopian Institute of Financial Studies (EIFS) has acknowledged that efforts are underway to develop the capacity of the workforce (especially of the leaders) taking the possibility of financial liberalization into account. Furthermore, the Head indicated that this is done in partnership with the Center of Excellence of the Commercial Bank of Ethiopia for the time being. In the meantime, he disclosed that the EIFS is working to equip itself with the necessary training facilities and become full-fledged training institution in the near future.

Director of the Banking Supervision Directorate (NBE) also agreed that they are supporting banks not only in human capacity building but also in many other areas such as improving their capital base and their use of advanced technology with the assumption that the sector will eventually be liberalized though he admits that much remains to be done. He however expressed his hope that the financial liberalization will not be effected in the near future.

Concerning the readiness of their human resources to use latest information technologies, all the bank managers explained that they are in good standing. All indicated that they have deployed the latest core banking solutions and their employees are using and managing the system comfortably. This implies that the employees will not have significant gap concerning the use of state of the art technology implemented by their respective banks.

Key Issues Affecting the Banks' Human Capital Development Efforts

Internal factors

- Shareholders are generally interested in maximizing their short-term financial returns and do not see the importance of making long-term investment on human capital development. As a result, the Banks' board of directors and top management are compelled to give top priority to return maximization while giving little attention to human capital development. Hence, strategic investment on human capital development is not emphasized because its return is not immediate. In this regard, Olesinski, Opala, Rozkrut & Toroj (2014) underlined that instead of keeping a balance, long-term objectives have often been neglected and short-term goals have received too much attention resulting in excessive focus to short-term profitability at the expense of long-term company values.

- The bank leaders' mind-set concerning human capital development is another challenge. Leaders at all levels do not give the desired focus to human capital development. They do not generally assume that it is their responsibility.
- The effectiveness of the training programs is not periodically evaluated. Usually, evaluations are made on the number of trainings provided without regard to their impact on the trainees and their performance.
- The fact that there is what we call "war for talents" among the banks is another challenge. Almost all banks are busy snatching qualified people from fellow banks instead of contributing their share in increasing the talent pool through training and development. This in turn leads to an unfair competition among the banks.

External factors

- The absence of a bank that can be considered as a role model in terms of applying advanced and sophisticated work systems.
- The NBE has not yet developed the necessary capacity to lead the banking sector proactively and strategically. It is even lagging behind the banks in some aspects. In line with this, the Director of the Banking Supervision Directorate admitted that the NBE is not in a position to lead the sector strategically partly due to the fact that many competent and experienced employees are leaving the bank in search of better salaries. According to him, senior employees with a lot of experience are leaving while the bank is staggering with junior and inexperienced professionals.

- The inactiveness of stakeholders such as the Bankers' Association and the Ethiopian Microfinance Institution. For instance, the managers complained that they do not know what the Bankers' Association is doing. According to them, it could have for example played a positive role in mitigating the "war for talents" that is going on among the banks.
- The biggest challenge identified by the managers is that the university graduates hired for entry level positions do not have the necessary qualification in terms of knowledge, skill, and attitude. They emphasized that the quality of graduates has been deteriorating from year to year and something has to be done in this respect.
- The absence of a comprehensive national HR strategy is also mentioned as an important impediment. The managers reflected that there is no body that strategically guides the human capital development endeavors at national level.

4. Conclusions and Policy Implications

a. Conclusions

The following conclusions are provided based on the research findings. For convenience sake, the conclusions are presented in light of the three specific objectives set for this study.

Several factors were considered as indicators of the current practices relating to human capital development. The first is related with guiding the human capital development endeavor with an HR strategy at all levels. At the national level, no comprehensive nationwide HR strategy was available; at the industry level no body took the responsibility to formulate an integrated strategy. At the level of individual banks, the practice is divergent. Some have an HR strategy that is aligned with their corporate strategy; while others undertake their HR development efforts on an unplanned basis.

The second factor considered was the availability of an institution that is specifically tasked with providing regular technical, leadership and ethical training for the finance industry. It is found out that two financial training institutions are currently in operation. These institutions have provided trainings to significant number of people in the finance industry in general and the banking sector in particular during their existence. They mostly use domestic trainers and only sometimes hire external trainers. However, the banks are hesitant about the effectiveness of the trainings due to two possible explanations. First, the trainings were largely theoretical and lacked a practical touch. Second, no system of evaluation was put in place to measure the impact of trainings.

The third issue raised was the level of investment made by banks for human capital development. Following the directive enforced by the National Bank, all banks claimed that they allocate 2% of their working capital for training and development purposes. Despite the NBE's claim that it regulates the use of the budget on a yearly basis, some bank managers felt that few banks use the budget to simply avoid confiscation of the unused money by NBE and to escape any responsibility resulting thereof. Still others use it for different purposes but report it as a training expense. The NBE also does not question the impact and/or effectiveness of such trainings in its yearly supervision. It is primarily concerned with the level of utilization of the 2% requirement and the number of employees trained.

Concerning recruitment and employee turnover, almost all banks involved in the study indicated that as compared to other industries, the banking industry stands out to be the best payer. As a result, not much movement of employees is seen from the banking industry to others. However, the snatching of key personnel among the banks themselves is very common. Overall, since the banks are able to keep employee turnover to a minimum level, they appear to be in a better position in retaining their employees for relatively longer periods. That said, the banks should consistently strive to retain high quality people; not just employees.

With respect to the readiness of the banks' human capital to face global challenges, the managers expressed that they are aware of the possibility of opening up of the sector to foreign banks and are accordingly making the necessary preparations However, they admit that their human capital is not yet in a position to effectively compete with the global banking sector workforce. The NBE also claimed that it is providing support to banks not only in the development of their human capital but also in other key areas such as strengthening their financial position and using latest technology though they admitted that the support provided is not sufficient and needs to be strengthened. The establishment of an industry-owned training institute (the EIFS) to meet specific human capital needs of the industry is a positive development. However, it has not yet positioned itself as full-fledged institute to be reckoned with. Hence, much effort needs to be exerted to improve the quality of the human capital of the banks (including that of the NBE) in the years to come.

As far as the factors that affect the quality of human capital are concerned, two categories were identified. The issues that are currently hindering the human capital development efforts of the banks as identified by the managers include: lack of shareholders' awareness and interest in making long-term investment on human capital development, the fact that leaders at all levels of the bank do not generally consider HCD is their responsibility, absence of annual audits to ensure effectiveness of training programs, and the scuffle among the banks for qualified employees. These are entirely within the sphere of influence of the banks themselves and can be solved by their appropriate actions.

The bank managers also identified key issues that the industry has little or no control and which have to be addressed by other relevant stakeholders. These include the inability of the NBE to lead the banking sector proactively and strategically, the inactiveness of stakeholders such as the Bankers' Association and the Ethiopian Microfinance Institution, the deterioration in the quality of fresh university graduates hired by the banks, and the absence of a comprehensive nationwide and industry level HR strategy.

b. Policy Implications

The availability of skilled human capital today is fundamental to creating and sustaining competitive advantage in any industry. Simply stated, human capital is a firm's people and everything that they bring to it—their knowledge, skills, and abilities; expertise and experience; and motivation, commitment, and leadership. Their continual development requires positive, reinforcing environments on the part of the employer. Consequently, the following points are recommended based on the conclusions drawn earlier.

Though HR strategies are needed at both the industry and national levels as well, crafting long-term HR strategies at the level of individual banks is mandatory. While this is the major responsibility of the board of directors, most boards seemed to concentrate on financial performance of the banks. Many studies suggest that boards are so focused on financial performance, strategy, and operations that human capital gets little attention. However, the whole issue of human capital strategy needs to become an increasingly important topic on board agendas. If they believe human talent is a key opportunity for making a difference, then it logically follows that the board should be very much concerned about it. As argued by Michie (2001), it should be clear to the shareholders and the board alike that enhancing human capital can have a number of beneficial effects, both direct and indirect, for the banks concerned and also for the wider economy.

It is also imperative to encourage private sector investment in local institutions to provide financial education. Doing so can bring a number of benefits including the contribution of financial resources, specialist and up-to-date knowledge on financial issues, and efficient communication. However, according to OECD (2014), the involvement of private stakeholders in financial education may bring about potential shortcomings. For this reason, involvement of the private sector should be implemented with due care and caution.

The NBE needs to take measures that encourage local financial institutions (public and private) to invest in Human Capital Development as it has become one of the key sources of competitive advantage. Beyond the 2% requirement imposed, NBE should look into some incentives to lure the banks into making more investment to human capital development.

In addition to the ongoing efforts made by the banks, there is a medium to long term need to develop a continuous pipeline of quality human capital for the Ethiopian finance and banking industry. Upgrading existing financial training institutions and collaborating with leading Financial Education Institutions to accelerate the development capabilities and innovation of employees in financial products and services could be one of the measures. This might specifically involve developing an industry-wide knowledge management framework and exploring possibilities for strategic alliances with foreign educational financial institutions and Ethiopians in the diaspora to develop the existing institutions.

Furthermore, the NBE (or any other responsible body) may need to develop incentives to encourage collaboration between local educational institutions and financial institutions to promote financial education. Annual audits should be conducted to ensure that the financial training institutes remain relevant to the development of the industry. In addition, the training programs have to be regularly evaluated to gauge their effectiveness and impact.

The banks in collaboration with the NBE should try to forge strategic alliances with international development partners and/or consultancy firms for the development of human capital in the finance industry. According to Išoraitė (2009), strategic alliances are becoming an important form of business activity in many industries, particularly in view of the realization that companies are competing on a global field. Through them, companies can improve their competitive positioning, gain entry to new markets, supplement critical skills, and share the risk and cost of major development projects.

With the exception of few banks, no certification requirement is introduced in the industry so far. Hence, it is suggested that standard certifications for key job roles in the industry be introduced. This is because standard certification shows that employees have completed the necessary steps and have the skills, knowledge and competency required to perform their jobs. It is in essence a way of maintaining quality assurance in the industry. It provides independent verification of a certain level of expertise in a particular area.

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