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Effect of Delegation of Responsibility on Corporate Financial Performance of Commercial Banks in Kenya

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Abstract

This study sought to examine the effects of delegation of responsibilities on corporate financial performance of commercial banks in Kenya. The study was hypothesized that there is no significant statistical effect of delegation of responsibilities on corporate financial performance in commercial banks in Kenya. This study was informed by Resource-Based Theory, Human Capital Theory and Agency theory. In this study, explanatory research design was adopted. The study targeted 869 Employees from 42 commercial banks operating in Kenya according to the CBK supervisory report in 2014. Simple random sampling method was used to select 267employees. Structured questionnaire was used to collect data. Cronbach alpha was used to test Reliability, while factor analysis was used to test validity. Data was analyzed using both descriptive statistics and inferential statistics. The study findings showed that delegation of responsibilities ($\beta_2 = 0.244$, $p<0.05$ job delegation and financial performance ($\beta = -0.83$; $\rho < 0.05$) and corporate financial performance. thus, the study infers that delegation of responsibility as human capital practice is major determinant of corporate financial performance in banks. Thus, it is important for supervisors to allow employees to make decisions without having to consult them regularly. future scholars can conduct a longitudinal study as well as appreciate both the quantitative and qualitative aspects of research.

Keywords: Delegation of Responsibility, Corporate Financial Performance, Human Capital

Introduction

Corporate financial performance has been considered one of the most critical factors behind economic success of both developed and developing countries due to their multiple contributions in economic growth, employment generation and innovations (Kongolo, 2010).

Firm performance is related to the ability of the firm to gain profit and growth in order to achieve its general strategic objectives. Business performance is the result of the interplay between actions taken in relation to competitive forces that allow the firm to adapt to the external environment, thereby integrating the efficiency and effectiveness (Asian Productivity Organization, 2011).

According to Chambers (2014) employees' developmental needs must be consciously linked with the organization's workforce needs as well as its strategic direction. "In today's 'lean and mean' business climate, development is a necessary survival strategy: it helps companies position themselves so that they can adjust to rapid changes in their environment. It is further noted that many companies have come to realize that developing people is central to financial performance. It is also a key factor as organizations compete for human resources that are skilled and scarce. In response to this challenge, there has been a stream of initiatives and ideas, which have sought to promote ways in which human capital can be better integrated with the development of the organization and form part of the corporate strategy (Elena, 2010)

Chambers (2014) indicated that the rate of change is not going to slow down anytime soon. According to chambers, competition in most industries will probably speed up even more in the next few decades. In his study chambers was addressing the factors that drive human capital which lies in the organizational performance and competitive advantage. A similar view was held by Silzer and Dowell, (2010) cited human capital as being among the key factor that influence a firm performance. Catalyst, (2015) indicated that there are several factors that make human capital vital to organizational performance. The most significant driver of value in organizations today is the perceived shift to a knowledge economy, which makes the knowledge, skills, and competencies of employees a competitive advantage Human capital programs should contain the three "Cs: core workplace competencies, contextual framework within which the organization conducts its business and corporate citizenship (Chambers , 2014)

However, Shelton (2011) has noted that there is no single formula for creating a human capital program, but there are some important components that should be considered. A truly effective human capital program should include learning, career planning, goal setting, and evaluation. These areas will help the program be beneficial to the employees who utilize and to the organization that provides it. Without them, the human capital reverts back to being simply job training. Based on the findings of Moses (2010), human capital programs must not only achieve its objectives, but it must have positive outcomes for the organization and individuals within the organization. Caliskan (2010) notes that, a portion of the program must be evaluating outcomes. The main purpose of human capital; in the work situation, is to develop the abilities of the individual and to satisfy current and future manpower needs of the organization.

Problem Statement

Adequate corporate financial performance of banks is of crucial importance to their customers, investors and other stakeholders. In the last one decade, competition in the banking industry in Kenya has increased significantly as a result of new entrants in the market and the increasing demands of customers (Hancott, 2014). This rapid growth in the Banking industry has posed several challenges. The sector has in the recent past experienced corporate financial performance challenges due to heavy operational expense more especially incurred on development of relevant employee skills to meet the current human capital requirement in the banking sector. Most banks recorded a less than 20 per cent net profit which was a decline as a result of this high operating expenses and one-time restructuring costs weighed on its profitability (CBK, 2016). In addition, out of the more than 42 commercial banks operating in Kenya only 11 banks are listed on the Nairobi securities exchange making one to question the whereabouts of the rest of the banks. Most studies in the area of banking since liberalization have focused on financial related factors as being major contributors to the performance of the banks. In addition, previous studies (Dhamodharan, Daniel, & Ambuli, 2010; Gubbins, Garavan, Hogan, & Woodlock, 2006; Anghel, Mirea, Badiu, 2018) only provided link between human capital practices and corporate financial performance. Less attention has been given to the effect of delegation of responsibility on corporate financial performance among financial institutions such as commercial banks. Thus, the need to understand the effect of employee's related factors such as delegation of responsibility in assessing the corporate financial performance of commercial banks is a grey area, a gap which this study is filling.

Objective

To assess the effect of delegation of responsibility on corporate financial performance of commercial banks in Kenya.

Hypothesis

It was also necessary for the current study to be undertaken to test this hypothesis;

$H_{0:}$ There is no significant statistical effect of delegation of responsibilities on corporate financial performance of commercial banks in Kenya.

Literature Review

In broad terms, delegation is the grant of authority by one party to another for an agreed purpose. In the language of agency theory, it is the transfer to an agent of the right to act for a principal that can take place only with the acquiescence of the principal, where it is customary or where it is necessary for the performance of the entrusted duty. From a management perspective, it is the sharing or transfer of authority and associated responsibility from an employer or "superior" having the right to delegate to an employee or "subordinate." **(**Serrat, 2010**)**

On the bases of Globalization and internationalization, firm are moving towards highly decentralized structure with greater flexibility and delegation of authorities and responsibilities. Team culture is emerging in the organizations around the globe. In addition to spurring employees to productivity the team structure makes them happier at the workplace. Employee working in the teams where they like each other tends to reduced turn over because in teams they feel more empowered, involved and free to take decisions. Such employees consider organizational goals as their own goals and work hard to achieve them. They become highly loyal to the organization and take work as part of their lives and tasks as their ethical responsibilities. This leads to higher performance among the employee (Zareen, Razzaq, and Mujtaba, 2014).

Stamper and Masterson (2002) equated organizational insider status to Graham's (1991), notion of citizenship with its implied acceptance of certain responsibilities. They therefore argued that an individual's conception as an organizational insider would lead one to accept the responsibilities of citizenship. This entails performing the prescribed work independently to foster the spirit of delegation in the organization (Stamper & Masterson, 2002). Effective delegation is a motivator to corporate financial performance and hence if it is done appropriately it improves on corporate financial performance.

Stamper and Masterson (2002), further argued that, one of the reasons why employees regard themselves as organizational insiders is because they receive more inducements from the organization in terms of job training and promotion opportunities, which leads to job satisfaction hence corporate financial performance. The inducements organizational insiders receive also reflect the quality of their employment relationship, which they reciprocate by incorporating their organizational membership into their self-concept leading to employee commitment. In addition, attainment of organizational insider status satisfies the socio emotional need for affiliation and belonging. This leads employees to incorporate their organizational membership and role status into their self-concept, hence improved corporate financial performance (Rhoades, Eisenberger, & Armeli, 2001).

Demonstrating positive work behavior and work attitudes may be consistent with one's self-concept which therefore, mediates the influence of delegation on the work outcomes of the employees. Following the preceding discussion and the extent that delegation is positively related to the self-concept constructs which are in turn, related to the work outcomes, delegation has a contingent effect on organization since employee-work outcome relationships to be indirect. It is further noted that delegation fosters a sense of belonging which encourage employees to explore ways of promoting the organization's future well-being and of their own. The reasons why employees regard themselves as organizational insiders is because they feel that they receive more inducements from the organization such as job training and promotion opportunities which will leads to job satisfaction hence organizational performance. Rhoades, Eisenberger, & Armeli, (2001) indicated that demonstrating positive work behavior and possessing positive work attitudes among the employees will be consistent with one's self-concept which therefore, mediates the influence of delegation on the work outcomes. These studies reflect the benefits of delegation in relation to corporate financial performance in relation to manufacturing firms. There is little work related to delegation and how it impacts on corporate financial performance in the service sector, particularly in the banking sector.

Theoretical Framework

The origin of human capital goes back to emergence of classical economics in (1776) and thereafter developed a scientific theory. The theory is rooted from the field of macroeconomic development theory Schultz (1993). The theory argues that a person's formal education determines his or her performance and earning power. The idea of human capital originates from the observation that training develops certain qualities in people and that these qualities enhance both performance and growth (Severine and Lila, 2009).

According to Odhong & Were (2013), Human capital theory helps to determine the impact of people on the business and their contribution to shareholder value. It demonstrates the HR practices that produce value for money in terms, for example, of return on investment. According to Dae-bong (2009), Human capital theorists believe that there is a correlation between training and earning power, which theoretically implies that the more a person receives training, the more one can earn, and that the skills, knowledge and abilities that training provides can be transferred into the work in terms of productivity. Rastogi (2000) proposes that, in order to develop human capital, a firm needs to employ the competency-based framework of HR generic functions: selection, appraisal, promotion and compensation (Marchington & Grugulis, 2000; Schuler & Jackson, 1999; Yeung *et al.*,1994; Tichy *et al.*, 1982). Previous studies have been based on the notion that applications of the HR competency can create competitiveness of organizations (Ulrich, 1997b; Burgoyne, 1993; Prahalad & Hamel, 1990). While some commentators argue that the HR competency itself can be considered a source of competitive advantage (Yeung *et al.*, 1996), others provide alternative views that people's shared identity (Foil, 1991; Albert & Whetten, 1985) and shared knowledge (Sveiby, 2001; Nonaka *et al.*, 2000) contribute to a firm's competitive advantage. The theory supports all aspects of human capital practices and helps to evaluate the effectiveness of these practices to corporate financial performance.

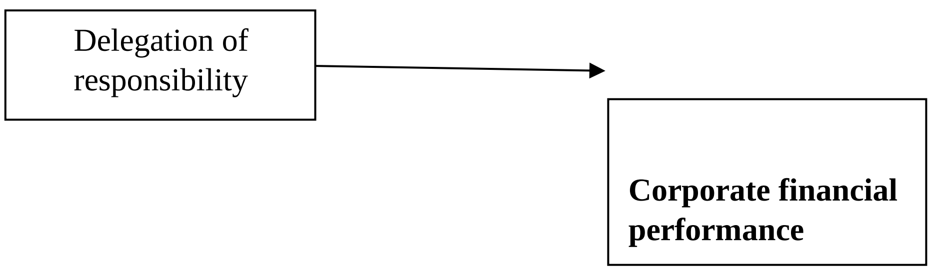

Fig 1. Conceptualization of effect of delegation of responsibility and corporate financial performance

Methodology

This study adopted the explanatory research design methodological approach since the study sought to test hypothesis and assess the relationship between variables under study. The sample size of this study was computed based on the following formula as proposed by Borg and Gall (2014).

$$n = \frac{NZ^2 \times .25}{\lfloor d^2 \times (N-1) \rfloor + \lfloor z^2 \times .25 \rfloor} = \frac{869 \times 1.96^2 \times .25}{\lfloor 0.05^2 \times (869-1) \rfloor + \lfloor 1.96^2 \times .25 \rfloor} = \frac{835}{3.13} = 267$$

Where;
n = sample size
N= total population size (known or estimated)
d= precision level of 0.05
z= number of standard deviation units of the sampling distribution corresponding to the desired sample size

Stratified and Simple random sampling was used in this study to select employees. Simple random was done by lottery method where the researcher assigned numbers to employees. Papers with numbers indicated on them were mixed well and the researcher randomly picked 122 papers from 264 papers with staff names. In this study, bias was thus avoided by use of random sampling, hence there was a high probability that all the population characteristics were represented in the sample.

Measurement of Variables

Delegation was assessed using a six-item scale developed and validated by Schriesheim and Neider (1988) with response options ranging from 1 (strongly disagree) to 5 (strongly agree). Sample items include "My supervisor does not require that I get his/her input or approval before making decisions" and "My supervisor permits me to get the necessary information from him/her and then make my own decisions

Data Analysis Procedure

The inferential statistics; correlation and linear regression were used to analyze the objective so that inference can be made to the entire population. Pearson's Correlation analysis assisted the researcher to establish the relationship between the variables under test. The regression analysis was done to test the magnitude of the effect of the independent variables on the dependent variable. The level of significance for inferential statistical analysis was 0.05. According to Aiken (1994), this level of significance is most commonly used in behavioural science, hence its adoption in this study. The effects were statistically processed using the specified linear equation shown below;

$$y = \beta_0 + C + \beta_1 x_1 + \varepsilon_2$$

Where;

Y= Corporate Financial Performance

X_1 = delegation of responsibility

β_1: Represent the effect of slope coefficients denoting the influence of the associated independent variables over the dependent variable.

'ε: Represent the error terms

Findings

Firm Characteristics

This section of the analysis highlights the results on firm characteristics with special emphasis on the number of years in operation and the number of employees. Table 4.2 illustrates the results. The number of years a firm has been in operation is an important determinant of financial performance. In fact, prior studies show that the probability of firm growth or failure declines as firm's age (Evans, 1987; Yasuda, 2005). On the other hand, younger firms have been found to be more dynamic and volatile in their growth as compared to older companies (Evans, 1987).

In light of this, the study sought to find out the number of years the firms have been in operation. Basing on the results, 30.5% of the respondents stated that their firm has been in operation for a period ranging from a year to five years, 31.8% stated that their firm has been in operation for a period ranging from 6 years to 10 years, 6.7% reported that their firm has been in operation for 11-15 years and 23.8% noted that their firm has operated for over 20 years. Overall, the firms have sufficient experience in their area of operation hence they are more likely to be well versed with their market positioning, cost structures and efficiency levels.

In most cases, bigger firms are presumed to be more efficient than smaller ones mainly because of their market power and the access they have to investment opportunities. The study therefore sought to establish the number of employees the firms have. As evidenced in table 4.2, a clear majority 66.1% of the respondents stated that their firm has between 1 to 100 employees, 19.7% stated that their firm has 101-200 employees while 5.4% stated that their firm has between 101 to 150 employees. From the findings, it is evident that most of the firms have employees in the range of 1 to 100.

Response Rate

The study distributed 267 questionnaires to employees from the three levels of management; strategic, tactical and financial drawn from 43 commercial banks operating in Kenya. Out of the 267 questionnaires, 253 were returned. However, of the 242 returned, a total of 239 were reasonably and adequately completed representing approximately 89.5% response rate. This response rate falls within the confines of a large sample (n ≥ 30). Additionally, the response rate was deemed satisfactory as suggested by Fowler (1993) who recommends 75% as a rule of the thumb for minimum responses.

Table 1:
Response Rate of Questionnaires

Responses	No.	Percentages
Administered questionnaires	267	100%
Returned	242	90.6%
Unusable questionnaires	3	0.01%
Usable questionnaires	239	89.5%

Job Delegation

Job delegation entails the transfer of authority and associated responsibility from a superior to an employee or subordinate (Serrat, 2010; Ariffin, Ismail, Kadir & Kamal, 2018). Table 4.4 highlights the results. Evidently, supervisors let the employees make decisions by themselves without consulting them (mean = 3.79, SD = 0.91). Bank employees therefore have room and space to flourish their abilities and skills. The subordinates also get a feeling importance and are empowered to accomplish organizational tasks more effectively. Further the supervisors do not require that they get their employees' input or approval before making decisions (mean = 3.96, SD = 0.84). In that way, employees are encouraged to take a personal interest in their own development and the success of the bank.

Moreover, the supervisors permit the employees to get the necessary information from them and make their own decisions (mean = 3.75, SD = 1.04). Consequently, supervisors' workload is reduced and they have an opportunity to focus on other important areas of concern such as in planning and management. Similarly, the supervisors permit the employees to get the necessary resources from them and then make their own decisions (mean = 3.77, SD = 0.96). There is therefore no micromanagement from the supervisors which is good for inspiring and motivating employees to use their skills and knowledge to improve on firm performance. All the means are larger than the test criteria 3 out of 5 on a likert scale. A clear indication about the importance of these delegation of responsibility components was that the evaluation was positive, and this implies that commercial banks in Kenya are applying the mentioned components with high degree from the perspective of employees.

To check the questionnaire reliability, the stability coefficient was calculated for the tool (internal consistency of the questionnaire components) using Cronbach's Alpha coefficient for the overall tool was 0.745 and the Cronbach Alpha coefficients values are statistically acceptable especially in the administrative, behavioral and education researches when the values fall within the range (0.60-0.75).

Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy was used to test and verify the suitability of the method of selecting a sample study and adequacy of data. The result shows that the selected sample was sufficient and appropriate for the purpose of the statistical analysis. This is supported by the value of the KMO test amounting to 0.691 which is greater than the half (0.5). On the other hand, the value of the statistical significance (sig) is less than the significance level ($\alpha = 0.05$).

Table 2
Job Delegation

		Mean	Std. Deviation	loadings
My supervisor lets me make decisions by myself, without consulting him/her		3.79	0.91	0.693
My supervisor does not require that I get his/her input or approval before making decisions"		3.96	0.84	0.859
My supervisor permits me to get the necessary information from him/her and then make my own decisions.		3.75	1.04	0.767
My supervisor permits me to get the necessary resources from him/her and then make my own decisions.		3.77	0.96	0.682
My supervisor permits me to get the necessary resources from him/her and then make my own decisions.		4.01	0.94	0.561
Job Delegation		3.65	0.76	0.874
Total Variance Explained Rotation Sums of Squared Loadings				
Total		% of Variance	Cumulative %	
	2.047	34.121	34.121	
	1.754	29.232	63.353	
KMO and Bartlett's Test				
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.691		
Bartlett's Test of Sphericity Approx. Chi-Square		376.028		
df		15		

Sig.	0
Cronbach's Alpha	0.745

Corporate Financial Performance

This section of the analysis highlights the results on firm performance. Basing on the results in table 4.8, the bank has been outstanding in achieving market share (mean = 4.01, 0.87). The results suggest that the targeted banks are market leaders and they have effectively done so through investing in their human capital in terms of training and compensating them adequately. The bank has also been outstanding in sales growth (mean = 4.13, SD = 0.95) and profitability (mean = 4.07, SD = 0.74).The rate of growth and profit levels have even made it possible for the banks to reduce the cost of attraction with customers (mean = 4.01, SD = 0.90).By doing so, the banks get to grow their market share and at the same time satisfying both the needs of customers and those of employees.

However, the bank is yet to be successful at generating revenues from new product (mean = 2.36, SD = 1.42). It could be that the customers are not receptive to the use of new products thereby affecting the revenue collected from these products adversely. Besides, the bank has been outstanding in growth in income (mean = 3.49, SD = 1.14), capital (mean = 4.23, SD = 1.16) and investment returns (mean = 4.25, SD = 0.80).Evidently, the banks have achieved significant growth and this could be attributed to the efforts made by the bank towards ensuring that employees are well oriented with different bank operations, are well trained, actively involved in decision making and are adequately compensated for the work done.

To check the questionnaire reliability, the stability coefficient was calculated for the tool (internal consistency of the questionnaire components) using Cronbach's Alpha coefficient for the overall tool was 0.781 and the Cronbach Alpha coefficients values are statistically acceptable especially in the administrative, behavioral and education researches when the values fall within the range (0.60-0.75).

Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy was used to test and verify the suitability of the method of selecting a sample study and adequacy of data. The result shows that the selected sample was sufficient and appropriate for the purpose of the statistical analysis. This is supported by the value of the KMO test amounting to 0.733 which is greater than the half (0.5). On the other hand, the value of the statistical significance (sig) is less than the significance level ($\alpha = 0.05$).

Table 3
Corporate Financial Performance

		Mean	Std. Deviation	loadings
Our bank has been outstanding in achieving market share.		4.01	0.87	0.836
Our bank has been outstanding in sales growth.		4.13	0.95	0.848
Our bank has been outstanding in profitability.		4.07	0.74	0.715
Our bank has been reducing a cost of transaction with customers.		4.01	0.9	0.712
Our bank has been success at generating revenues from new products.		2.36	1.42	0.735
Our bank has been outstanding in growth in income		3.49	1.14	0.739
Our bank has been outstanding in growth in capital		4.23	1.16	0.837
firm performance		3.71	0.57	-0.8
Total Variance Explained: Rotation Sums of Squared Loadings				
Total		% of Variance	Cumulative %	
	2.598	32.479	32.479	
	2.297	28.708	61.187	
KMO and Bartlett's Test				
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.733		
Bartlett's Test of Sphericity Approx. Chi-Square		799.274		
df		28		
Sig.		0		
Cronbach'sAlpha		**0.781**		

Hypothesis testing models

The findings also showed that job delegation did have a positive and significant relationship with firm performance (r = 0.715, p-value = 0.000). The second (H_O) hypothesis postulated that here is no significant effect of delegation of responsibilities on corporate financial performance of commercial banks in Kenya. Nonetheless, the findings in Table 4.23 showed that delegation of responsibilities had a positive and significant effect on firm performance (β_2 = 0.244, $p<0.05$). Hence, hypothesis was rejected. this can be explained further by assessing the value of the t-test which indicates that delegation of responsibilities would be attributed to the regression thrice compared to the effect of the standard error associated with the estimated coefficient (t = 3.007). The implication is that the delegation of responsibilities gives room and space for bank employees to flourish their abilities and skills which in the end improves firm performance. Further, the R^2 value indicates a slightly strong correlation between job rotation, delegation of responsibilities, employee job training, employee participation and the response variable (firm performance). This is because the R^2 value is positive (0.296). This means that the variation in firm performance was attributed by 29.6% change in the independent variables. The coefficient of determination was significant as evidenced in F ratio of 86.346 with p value 0.000 <0.05 (level of significance).

Table 4
Multiple regression model

	Unstandardized Coefficients		**Standardized Coefficients**			**Collinearity Statistics**
	B	**Std. Error**	**Beta**	**t**	**Sig.**	**Correlation**
(Constant)	1.251	0.136		9.194	0.000	
Job Delegation	0.190	0.063	0.244	3.007	0.003	715**
Model Summary Statistics						
R Square	0.396					
Adjusted R Square	0.389					
Std. E of the Estimate	0.362					

a Dependent Variable: firm performance

The results on job delegation indicated that supervisors let the employees make decisions by themselves without consulting them. Further, the supervisors do not require that they get their employees' input or approval before making decisions. In that way, employees are encouraged to take a personal interest in their own development and the success of the bank. Moreover, the supervisors permit the employees to get the necessary information from them and make their own decisions. The study established that the delegation of responsibilities had a positive and significant effect on corporate financial ($\beta_2 = 0.244$, $p<0.05$).In tally with the results, the extant literature has indicated that delegation of responsibilities by superiors to employees makes them highly loyal to the organization and they tend to take work as part of their lives and tasks as their ethical responsibilities leading to higher performance (Zareen, Razzaq, and Mujtaba, 2014).Moreover, whenever employees attain insider status, it satisfies their socio emotional need for affiliation thus improving corporate financial performance (Rhoades, Eisenberger, & Armeli, 2001; Iordanides et al., 2014). Evidently, not much work has been done with respect to the relationship between job delegation and corporate financial performance. The study therefore fills a gap in the literature and gives ground for further studies on the same to build on the concept of job delegation.

Conclusion

The targeted commercial banks in Kenya are in an environment characterized by greater flexibility and delegation of authorities and responsibilities. The delegation of responsibilities has fostered a sense of belonging among the employees thereby encouraging them to explore ways of promoting the organization's performance and their own future well-being. Effective delegation of responsibilities is therefore a motivator to corporate financial performance.

This study is of immense benefit to the banking sector in terms of appreciation of delegation of responsibility as critical to enhancing the performance of employees and intrinsically corporate financial performance of commercial banks. The study further contributes to knowledge and practices in the management of employees in the banking industry.

The findings of this study will also equip economic policy makers in the banking sector with the knowledge on the strengths and weaknesses of delegation of responsibility and its contribution to employees' performance. This study also equips the researcher with knowledge in understanding corporate financial performance in relation to delegation of responsibility among employees in commercial banks This study therefore offers an effective ground for future researchers to expand on the knowledge created in the area of the study.

Recommendations

Evidence from the study indicated that the delegation of responsibilities positively influences corporate financial performance. It is therefore important for supervisors to allow employees to make decisions without having to consult them regularly. Besides, employees need to be encouraged to take a personal interest in their personal development and the success of the bank. Furthermore, in terms of methodology, future scholars can conduct a longitudinal study as well as appreciate both the quantitative and qualitative aspects of research. The study has however contributed knowledge that is needed for this kind of research.

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