Financial Literacy and Work Engagement as Mediating Variable to Bank Agent's Performance

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Abstract:

This study aims to analyze the direct effects of financial literacy and work engagement on agent's performance in the implementation of branchless banking strategy. It also aims to analyze the indirect effect of financial literacy on agent's performance if work engagement becomes a mediating variable.

This research model is exploratory research with a survey method and purposive sampling technique. The data obtained from primary data sources using questionnaires to 85 active agents in Palembang, Indonesia. It was analyzed by using path analysis through Structured Equation Modeling-Partial Least Square (SEM-PLS) technique.

The result shows that the level of financial literacy and work engagement positively affect agent's performance directly, but financial literacy has negative effect on work engagement and on agent's performance indirectly.

It shows that without the feeling of being engaged to the bank, it will weaken the influence of agent's financial literacy on agent's performance. Therefore, it is advisable for banks to keep and maintain the agent's work engagement, which in turn will affect the performance of agents.

Keywords: Branchless banking, financial literacy, work engagement, agent's performance.

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1. Introduction

Performance is the end result of a company's business activity which in its assessment is measured by the type of organizational unit and the objectives to be achieved, where the basic measurement is financial performance (Wheelen *et al.,* 2015). Other research by Matanda and Ndubisi (2009) also stated that in addition to marketing performance, financial performance is one of the important indicators in assessing a company's business performance. While Lee *et al.* (2008) also explained the importance of financial performance analysis that has an effect on the company's business success and can be measured by the growth rate and profitability of business. Therefore, even though a study of the factors that influence performance has been done, it still needs to be continued. This is because it determines the company's business success through the strategies carried out (Wheelan *et al.,* 2015). Likewise the banking sector, where the success of branchless banking strategies through agents, positively increases financial performance of commercial banks (Mwando, 2013; Aduda *et al.,* 2013).

In banking, partnership issues arise in the use of branchless banking self-service technology that has evolved over time, starting with the internet banking model, mobile banking and continued with the agent banking model (Prendergast and Marr, 1994). Agent banking is the answer to the problems faced by internet services and mobile banking which apparently have not been able to reach unbankable people in Kenya, where agent performance is an indicator of success and sustainability of branchless banking implementation (Mwando, 2013). It is also a banking strategy to reduce operational cost of branch procurement and reach more consumers, especially for unbankable people (Mas, 2009). While in Indonesia, empirical fact showed that agent banking has been started since 2014, but the number of unbankable people in 2015 is still very high (*http://www.bi.go.id*). This gap indicates that the study of branchless banking strategy especially agent's performance in Indonesia needs to be further investigated.

The success of branchless banking strategy through agent partnerships and its influence on bank performance has been extensively studied in several countries such as Brazil, Columbia, Peru, Kenya and India, but they have not explained factors that affect it and suggest for further investigation (Mahmood and Sarker, 2015; Mwando, 2013). A previous study has explained that competency measured by agent quality, convenience and customer service is the factor that affect agent's performance (Ndungu and Njeru, 2014).

Previous studies have discussed performance issues that are influenced by the level of financial literacy. Adomako *et al.* (2015) concluded that financial literacy has a positive effect on financial access and growth of small medium-sized enterprises in Ghana. The results of other studies by Hastings *et al.* (2013) concluded that increasing financial literacy through improving financial education would affect the

improvement of individual outcomes and ultimately also influence the level of welfare of the community (Lusardi and Mitchell, 2011).

In other studies, employee performance measured based on financial return, is influenced by work engagement to the company (Xanthopoulou *et al.,* 2009). Bakker and Bal (2010) also found a positive influence on work engagement to teacher performance in the Netherlands. It is same as the results of the research by Markos and Sridevi (2010) which concluded that the work engagements of employees affect their performance in doing their duties. In line with these studies, Anitha (2014) also explained that employee's engagement can affect employee's performance.

Some of the results of the research above show that financial literacy and work engagement are factors which affect employee's performance, but no one has examined bank agents who act as corporate partners that do employee roles. It is necessary to analyze more because the performance of the corporate partners will also affect company performance (Qrunfleh and Tarafdar, 2013).

In addition, Astuti and Trinugroho (2016) also explained that the higher the level of financial literacy of the customer, the more engage the customer will be to the bank. Further analyzing of this research will do the same but the observation unit has different characteristic. Agent has dual roles. They are not only as customer of bank but also as bank partner who replacing employee's role. Other study also explained that financial literacy positively affects on citizens' political engagements (Arthur, 2012). Other studies have explained that analyzing the effect of financial literacy directly to financial performance (Adomako *et al.,* 2016; Hastings *et al.,* 2013; Lusardi and Mitchell, 2012; Remund, 2010) and work engagement to financial performance (Xanthopoulou *et al.,* 2009; Bedarkar and Deepika, 2014; Bakker *et al.,* 2008; Markos and Sridevi, 2010; Harter *et al.,* 2002; Crabtree, 2013) have different results. Likewise, there are studies for the influence of financial literacy on engagements (Arthur, 2012; Astuti and Trinugroho, 2016).

However, combining all three relationships and analyzing the effect of financial literacy indirectly on financial performance through work engagement as a mediator has never been done. Therefore, this research aims to analyze the direct effects of financial literacy and work engagement on agent's performance in the implementation of branchless banking strategy. It also aims to analyze the indirect effect of financial literacy on agent's performance if work engagement becomes a mediating variable. Based on backgrounds and objectives of this research**,** then we formulated the research hyphotheses as follows:

H1.   *Financial literacy has a positive effect on agent performance directly.*
H2.   *Work engagement has a positive effect on agent performance.*
H3.   *Financial literacy has a positive effect on work engagement.*

H4.   *Financial literacy has a positive effect on agent performance indirectly through work engagement.*

2. Research Methodology

2.1 Research Model and Sample

This research model is exploratory research with a survey method, which is intended to measure and analyze the factors that affect agent's performance. The factors consist of financial literacy and work engagement. In addition, it also aims to measure the indirect influence of financial literacy level on financial performance if work engagement becomes a mediating variable. This is the novelty of this study. A research model is formed as shown in Figure 1:

Figure 1: *Research Model*
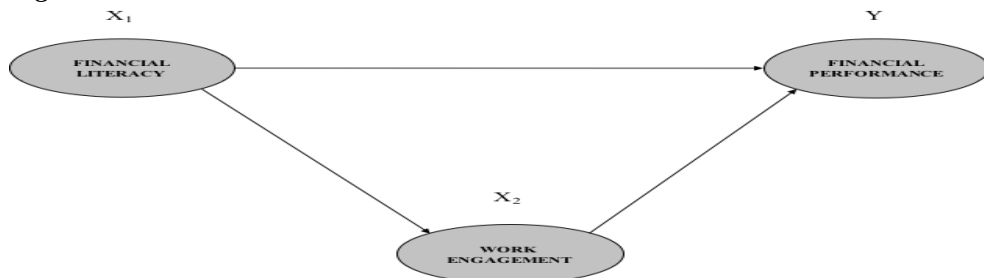
Source: *Compiled by the authors.*

Data obtained from primary data sources using questionnaires and interviews. The questionnaire uses closed questions addressed to bank agents. While the interview was addressed to the Financial Services Authority (OJK) in the banking sector which handled the data collection of Laku Pandai agents in Indonesia. The observation unit is the "Laku Pandai" agent in Palembang, South Sumatra, Indonesia which is registered in the Financial Services Authority (OJK) in the third quarter, 2017. Based on this data, the total population of the research is 962 bank agents. Sampling was permermed using purposive random sampling technique with the following criteria:

1. The bank where the agent becomes a partner has provided micro credit services through a bank agent.
2. Individual agents are not incorporated.
3. Agents that are still registered as active agents.
4. Agents are still conducting banking transaction services in the last month.

Based on these criteria, the number of research samples were 106 agents in Palembang. Of the 106 questionnaires distributed only 85 questionnaires were returned and data have been processed on these 85 questionnaires.

The characteristics of bank agents are attractive to be investigated further because agents are bank distribution channels in implementing branchless banking strategies. The success of the branchless banking strategy certainly cannot be separated from the performance of agents that have dual role. Agents act as customers and bank partners as a substitute for employee functions in providing banking services. Therefore, in addition to the influence of financial literacy that is owned, it is also necessary to examine the effect of the work engagement to the bank on the agent performance.

2.2 Data Analysis Technique

Data was analyzed by using Path Analysis through Structural Equation Modelling (SEM), with software SmartPLS V. 3.0. Partial Least Square (PLS)-SEM is a causal model and variance-based approach for examining the relationship among variables (Hair *et al.,* 2013). According to Henseler *et al.* (2009), the measurement (outer) model and structural (inner) model are used to evaluate and interpret the PLS-SEM results. The relationship between correspondent indicators and the latent variable while focusing on reliability and validity is assessed by the outer model. Whereas the relationship between independent and dependent latent variables while observing the R^2 value, F^2, Q^2 and hypothetical significance is assessed by the inner model (Hair *et al.,* 2013). Last procedure is the bootstrapping procedure which used to test the significance of the path coefficients and loadings.

2.3 Measurement

Wheelen *et al.* (2015) explained the basic measurement of financial performance is based on Return on Investment (ROI), Earning per Share (EPS) and Operating Cash Flow. While Lee *et al.* (2008) measured financial performance based on consumer growth rates and business profitability obtained. Specifically regarding the agent's performance based on the Financial Services Authority Regulation on Laku Pandai (POJK No.19 / POJK.03 / 2014) measured based on the income obtained by the agent in the form of commissions given and determined by the partner bank. Based on the three previous studies mentioned above, the financial performance of the agents in this study is divided into three dimensions, namely (Appendix 3): growth of customer that measured by number of customer increases (Y1) and number of active customer increases (Y2), transaction that measured by number of payment transaction (Y3), number of money transfer transaction (Y4), number of savings transaction (Y5) and number of doing assessment and recommendation for opening credit account (Y6), and also commission earned that measured by amount of commission earned increases (Y7).

While financial literacy is defined as the level of understanding of financial concepts as indicated by the ability and confidence in managing personal finance, both in carrying out short and long term planning so as to be able to anticipate changing economic conditions (Remund, 2010). Jump$tart Coalition (2007) also

defines financial literacy as the ability to use knowledge and skills to manage financial resources effectively for a lifetime of financial security. While Soma *et al.* (2016) concluded that financial literacy was determined into six dimensions, namely: responsibility and financial decision making, income and career, planning and management of money, credit and debt, risk management and insurance, and saving and investments and measured by 18 indicators (Appendix 1).

Work engagement refers to psychological presence of a person when performing an organizational job (Khan, 1990). While Rothbard (2001) not only measured by psychology but also by physically present when performing a task in workplace. The other definition by Schaufeli *et al.* (2002) defined that a work engagement is a positive thinking state characterized by strength (vigor), dedication and commitment, and the difficulty of escaping from work (absorption). It means that the dimensions of work engagement itself are consisting of vigor, dedication and absorption. Furthermore, work engagement here was measured using eight items (Appendix 2) based on Schaufeli *et al.* (2006) in Haruna and Marthandan (2017).

## 3. Result and Disscussion

3.1 Calculation of Path Coefficient

Pathway model analysis with PLS-SEM consists of measurement model evaluation and structural model evaluation. The measurement results show there are four indicators on financial literacy variables whose outer loading value is less than 0.7 (<0.7). It means that the four indicators do not meet the requirements (invalid) and must be excluded from the research model. The four indicators are: understanding about consequences of receiving a loan or grant loans (X1.5), knowledge and experience doing investment through Financial Technology (X1.6), knowledge about applicable rules on the financial protection (X1.11) and knowledge about common types of risks and basic risk management methods (X1.13). While the number of recommendations for small business loans (Y6) on the financial performance variable is still used as an indicator even though the outer loading value is 0.68, because the value of the loading factor is greater than 0.6 and less than 0.7 can still be used provided that other indicators are minimal 0.7 (Chin, 1998). Based on the results of PLS Algorithm calculation, the research path diagram estimation model is obtained as follows (Figure 2):

The research model above explains that there are 14 (fourteen) indicators of financial literacy variables, 8 (eight) indicators of work attachment variables and 7 (seven) indicators of agent performance variables that can be further analyzed.

In addition, it appears that the work engagement variable has a positive effect on the agent's financial performance variable. While the financial literacy variable has a positive effect on the agent's financial performance but has a negative effect on the variable work engagement even though the effect is very weak.

**Figure 2:** *Estimation Result of Path Analysis*
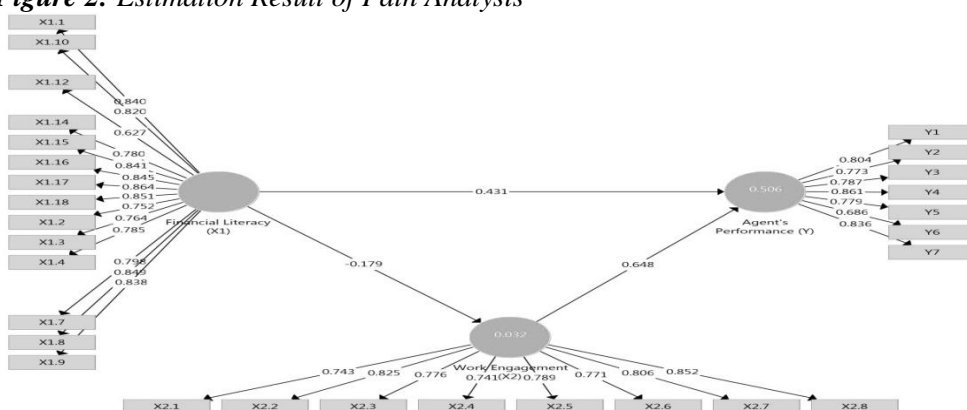
Source: Compiled by the authors.

3.2 Calculation of Significance Level

After the path coefficient value is obtained, the next step is to determine the significance of the path coefficient. Significance can be seen from the t_{count} (T-Statistic) model analyzed. Based on Bootstrapping calculations the results of the T-Statistic results obtained from the research model shown in Figure 3 below:

Figure 3: *T-Statistic*
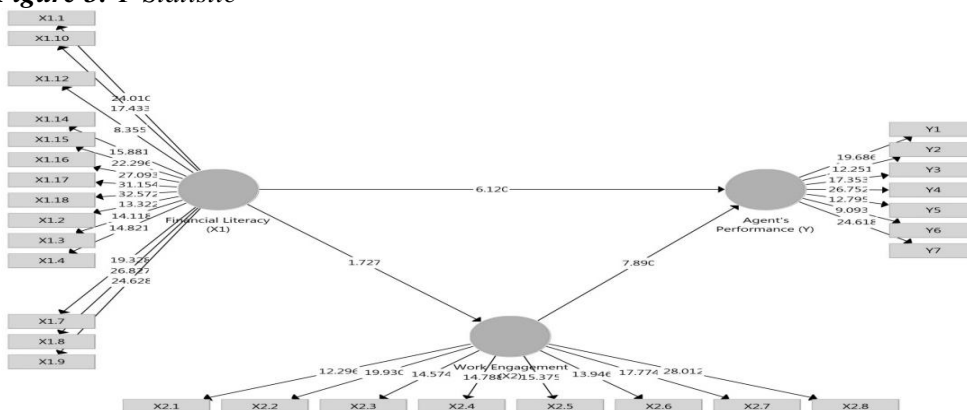
Source: Compiled by the authors.

3.3 Assessment of Measurement Model (Outer Model)

3.3.1 Convergency Validity

In PLS, the convergence validity at the indicator level is called construct reliability or loading which can be seen through the value of composite reliability and Cronbach's alpha. Based on the results of the reliability test, the value of Cronbach's alpha and composite reliability for all constructs is

greater than 0.7. That means, the research data is reliable for further use in the calculation and analysis of research results. These values are shown in Table 1 below:

Table 1: *Construct reliability*

	Cronbach's Alpha	rho_A	Composite Reliability
Agent's Financial Performance (Y)	0.900	0.905	0.921
Financial Literacy (X_1)	0.958	0.962	0.963
Work Engagement (X_2)	0.913	0.914	0.929

Source: *Compiled by the authors.*

3.3.2 Discriminant Validity

Same as convergency validity, discriminant validity also needs to be tested. Based on the value of cross loading each indicator shows a number whose value is the largest compared to other values on the same line. This shows that discriminant validity at the indicator level is fulfilled. Discriminant validity measurements at the variable level can be seen from the AVE values of all variables that show values more than 0.5 (> 0.5), which are 0.626 for agent performance variables, 0.650 for financial literacy variables and 0.622 for employment engagement variables. In addition, the root value of AVE has the greatest value compared to the value of correlation with other variables. This research model is also valid, because the NFI value is more than 0.7 (> 0.7), which is equal to 0.748.

3.4 Assessment of Structural Model (Inner Model)

Based on the measurement results of the outer model, it is known that the validity and reliability of the measuring instrument are met, so that the evaluation of the results of the structural model can be done by looking at the path coefficient value and the coefficient of determination. The coefficient of determination can be seen from the values of R^2 and R^2 adjusted in the following table:

Table 2. *R Square*

Matrix	R Square	R Square Adjusted
Agent's Financial Performance (Y)	0.506	0.495
Work Engagement (X_2)	0.032	0.022

Source: *Compiled by the authors.*

The significance level of this study is set at 0.05 and the hypothesis proposed is a hypothesis that has a positive direction. Therefore, one-tailed test was then carried out. While it is known that the number of study respondents is 85, so that the t_{table} value obtained is = 1.96.

The results of data processing show that financial literacy has a significant positive effect on the agent's financial performance directly. This conclusion is indicated by the path coefficient value of 0.431 and the T-Statistic of 6.120 which is greater than 1.96 ($> t_{table}$). This means that financial literacy has a direct and significant influence on the agent's financial performance of 0.431.

They are in line with the results of Hastings *et al.* (2013) concluded that an increase in financial literacy through improving financial education would affect the improvement of individual outcomes. Besides that, it is also in line with Adomako *et al.* (2016) which concluded that financial literacy has a positive effect on financial access and growth of small medium-sized enterprises in Ghana. The same characteristics of respondents are possible as a causal factor in line with the results of this study. Agents in branchless banking play several roles as facilitative roles, the role of education, representational roles and technical roles. Therefore, the level of financial knowledge of agents will influence their success in carrying out the intermediation role that facilitates and educates people who have not been touched by bank services.

Likewise work engagement variable which also has a significant positive effect on the agent's financial performance, the path coefficient value is 0.648 and t-statistic is 7.890. The results of this test are in line with the results of previous studies (Harter *et al.,* 2002; Xanthopoulou *et al.,* 2009; Bakker *et al.,* 2008; Markos and Sridevi, 2010; Gallup, 2013). It means that the more tied the agent to the bank, the more the performance in carrying out the intermediary function of banking services. The banking system can regulate individuals as agents so that they can be planned, regulated, monitored and controlled as an integrated system of service governance from branchless banking, namely to improve the economy, empower people and provide protection from financial aspects, especially financing for small micro businesses.

While the opposite happens to the effect of financial literacy on work engagement, where the path coefficient value of -0.179 shows a negative influence even though it is not significant (t-statistic = 1.727). That is, the higher the financial literacy level of an agent, the lower the feeling of being bound to the bank where he is a partner in implementing the branchless banking strategy. This is contrary to the results of previous research conducted by Arthur (2012) which states that the financial literacy rate has a positive effect on citizen political engagement and Astuti and Trinugroho (2016) which states that the financial literacy rate has a positive effect on bank's consumer engagement. This is possible because the characteristics of agents who have a dual role, where agents other than being bank

customers are also bank partners that replace employees' roles. The higher his knowledge of the opportunities for profits from other investments might be to make his engagement to the bank decrease.

The last hypothesis of this research which predicts that the financial literacy rate will indirectly have a positive effect on the agent's financial performance is also rejected because even though there is an effect, the direction is negative. This shows that in the absence of a feeling of being bound by an agent to the bank, the higher the level of literacy the agent has will reduce his performance in replacing the role of employees in implementing the branchless banking strategy. Therefore, it was suggested to the bank to maintain the agent's engagement to the bank. Table 3 below is a result summary of the research data processing as described before:

Table 3: *Conclusion of Research Result*

Hypothesis	Path Coeficient	T-Statistic	Description	Decision
Financial Literacy to Agent's Financial Performance (Directly)	0.431	6.120	Positive Influence, Significant	Accepted
Work Engagement to Agent's Financial Performance	0.648	7.890	Positive Influence, Significant	Accepted
Financial Literacy to Work Engagement	(0.179)	1.727	Negative Influence, Not Significant	Rejected
Financial Literacy to Agent's Financial Performance (Through Work Engagement)	(0.115)	9.617	Negative Influence, Significant	Rejected

Source: *Compiled by the authors.*

3.5 Contribution

Theoritically, this research give advice for a study of individual financial performance models in banking partnerships. As known, the partnership in implementing the branchless banking strategy is aimed at reducing the existence of bank branches which can result in additional bank operating costs. So, the main government's objective from implementing the branchless banking strategy in realizing financial inclusion, can also be achieved. In addition, it also contributes to the financial literacy and work engagement theory, where the two factors can differ if they are associated with the problem of partnership with the bank. Practically, this research also contributes to the implementation of branchless banking strategies aimed at reducing the number of unbankable people, where banks are

advised to always maintain the engagement of agents to banks in carrying out their roles. In addition to provide competitive commissions compared to if invested in other assets, agents are also given the convenience of supporting physical facilities and reliable internet connections compared to other competitors.

4. Conclusion

Financial performance is one of the important indicators in assessing a company's business performance. Analysis of financial performance can be measured by the growth rate and profitability of the business obtained. Although a study of the factors that affect financial performance has been carried out, it still needs to be continued on the individual financial performance and performance of small micro businesses. This is because the characteristics of the unit of analysis are different from those of large companies, where some previous studies have shown that there are research gaps that make it possible to continue to explore so many factors.

This study chooses financial literacy and work engagement factors because it is associated with the latest empirical phenomena regarding the implementation of branchless banking strategies that also become the government's goal in order to improve the country's financial inclusion. The large number of unbankable people in the world in general and in Indonesia in particular is certainly a motivating factor to further examine these problems. The presence of agents as bank partners in implementing the branchless banking strategy is an important research subject to study. In addition, agents also have unique characteristics where not only as customers but also bank partners in replacing the functions of their employees.

Therefore, this research aims to analyze the influence of financial literacy to agent's financial performance and its work engagement, directly. Besides that, it also aims to analyze the effect of work engagement to agent's financial performance and indirectly effect of financial literacy to agent's financial performance through work engagement. It uses 85 respondents that consist of 85 active agents in Palembang, South Sumatera, Indonesia. It uses Partial Least Square (PLS) - SEM with Smart PLS V. 3.0 application to data processing. The results of this study explained that financial literacy and work engagement significantly and positively affect the agent's financial performance, directly. In other words, the higher the financial literacy and the work engagement to the bank, the higher the agent's financial performance.

Other studies showed the contrary result, whereas financial literacy has negative effect to work engagement and financial performance indirectly through the agent's work engagement. This showed that in the absence of a feeling engage to the bank, the higher the level of financial literacy the lower the performance on replacing the role of employees in implementing the branchless banking strategy. Therefore, it was suggested for banking industry to maintain the agent's work engagement to reach higher agent's performance.

This result study corroborates previous studies about financial literacy and work engagement which affect financial performance. It also contributes to the study of partnership strategy, especially for branchless banking strategy that has never discussed about financial literacy and work engagement as the factors before. In addition, the results of this study are expected to be used as a model of the factors forming the agent's financial performance.

Practically, it is advisable for banking industry to always maintain the agent's work engagement when carrying out its role as bank's partner. In addition, to providing competitive commissions compared to another competitor or another investment earned. Agents are also given the convenience of supporting physical facilities and reliable internet connections compared to other competitors.

5. Limitations and Recommendations for Future Research

There are several limitations of this research. First, the data were collected only from active agents of bank in city level. Therefore, this study must be replicated in the country level. Second, this study is cross-sectional in nature, and cross-sectional studies limit causal inferences. In addition, data for variable agent's financial performance is only obtained from surveys through questionnaires. Preferably, further research uses additional data in the form of secondary data (sourced from agents and from banks) to support the data which obtained from survey result.

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Appendix 1. Instrument of Financial Literacy
1. Always, 2. Very Often, 3. Often, 4. Sometimes, 5. Rarely.

	Dimensions and Indicators	**1**	**2**	**3**	**4**	**5**
	Planning and Financial Management					
X1.1.	I develop a system and personal financial plan for keeping and using financial records.					
X.1.2.	I understand how to use different payment methods (eg. mortgage, credit card, cash) and its consequence.					
	Credit and Debt					
X.1.3.	I identify the costs and benefits of various types and ways to avoid or correct debt problems.					
X.1.4.	I explain the purpose of a credit record and identify borrowers' credit report rights.					
X.1.5.	I understand the consequences as those who receive a loan or grant loans.					
	Saving and Investment					

		1	2	3	4	5
X.1.6.	I know and ever done an investment through Financial Technology (Fintech).					
X.1.7.	I can explain how saving and investing builds wealth and helps meet financial goals.					
X.1.8.	I evaluate saving and investment alternatives.					
X.1.9.	I can describe how to buy and sell investments.					
	Responsibility and Financial Decision Making					
X.1.10.	I am looking for information about a financial product before investing.					
X.1.11.	I read the applicable rules on the financial protection.					
X.1.12.	I make financial decisions by systematically considering alternatives and consequences.					
	Risk Management and Insurance					
X.1.13.	I identify common types of risks and basic risk management methods.					
X.1.14.	I explain the purpose and importance of insurance protection.					
X.1.15.	**Income and Careers**					
X.1.16.	I work in accordance to my choice.					
X.1.17.	I know my sources of personal income.					
X.1.18.	I know the factors affecting take-home pay.					

Source: *Compiled by the authors.*

Appendix 2. Instrument of Work Engagement
1. Always, 2. Very Often, 3. Often, 4. Sometimes, 5. Rarely.

	Dimensions and Indicators	1	2	3	4	5
	Vigor					
Y.1.	At my work, I feel bursting with energy.					
Y.2.	At my job I feel strong and vigorous.					
	Dedication					
Y.3.	When I get up in the morning, I feel like going to work					
Y.4.	I am enthusiastic about my job.					
Y.5.	I am proud on the work that I do.					
	Absorption					

Y.6.	My job inspires me.					
Y.7.	I get carried away when I'm working.					
Y.8.	I feel happy when I am working intensely.					

Source: Compiled by the authors.

***Appendix 3.** Agent's Performance*
1. Always, 2. Very Often, 3. Often, 4. Sometimes, 5. Rarely.

	Dimensions and Indicators	**1**	**2**	**3**	**4**	**5**
	Growth of Customer					
Y.1.	The number of customers increases every month.					
Y.2.	The number of customers who actively do banking transaction increases every month.					
	Transaction					
Y.3.	The number of payment transactions increases every month.					
Y.4.	The number of money transfer transactions increases every month.					
Y.5.	The number of savings transactions (Basic Savings Account) increases every month.					
Y.6.	The number of doing assessment and recommendation for opening a small micro credit account to be submitted to the Bank.					
	Commissions Earned					
Y.7.	The amount of commission earned increases every month.					

Source: Compiled by the authors.