

COMPETENCY OF BANK MANAGERS IN THE LIGHT OF THE DIGITAL TRANSFORMATION OF BANKING OPERATIONS

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Abstract: Taking into account today's mobility of managers in banking and financial industry, the challenges of the digital transformation of financial institutions' operating, modern effective development of bank managers cannot force them, for all good intentions, to accept the goals of the Bank, much less can such development manipulate their behaviour so as to adjust it to organizational needs. Effective development of bank managers, today, actually entails encouraging establishment of relations in which an individual manager can take responsibility for the development of their own potential, to draw up their own development plans and to learn lessons from the implementation of these plans into action. Nowadays, banking managers are required to exceed the limits of their job description, they need to know more, have to think more and take more responsibility for the results. These are the key postulates of human capital in a contemporary commercial bank. Actually it is a contemporary transition from hard-line Taylorism to the behavioural approach which is made to relocate the focus from job description onto the skills and individual potential. Competence becomes a source of competitive advantage for the individual and for the bank, whereas competence development becomes a comprehensive, purposeful and lifelong motto of modern corporate life of a manager in the banking industry. This paper will focus on the analysis of preconditions for the development of competencies of middle managers in the banking industry in Serbia, in light of the issues and corporate environment where the development occurs and

the increasing challenges of the digital transformation of operating that questions the need for traditional management of a team creating results in direct contact with clients.

Keywords: banking, bank manager, bank manager competencies, efficiency of the bank's operations, digital transformation.

1. INTRODUCTION

As a financial institution, Bank is centred on the most important elements of complex processes of production and trade: process of producing money and capital and their usage. Deployment and concentration of money and accumulation is one of the bank's essential functions, almost equally as important as the function arising from itself – lending the accumulated funds to numerous economic entities. Therefore, the bank is a regulator of cash flows through their continuous inflow and outflow from the bank. (Alijagić, 2006, p. 18). Hence, the efficiency of banking operations depends on the following economic and financial factors: level of economic development, national savings level, consistent monetary system, financial discipline, "quality" of the national currency, the economy's elasticity to loans, adequate relation between interest rates, exchange rate and inflation rates, including well-trained and competent staff and management. Consequently, they represent independent financial and market institutions with full responsibility for the risk assumed in their business. In modern and global financial

operations, banks must strive to ensure constant dynamics or circulation of funds and ensure strict adherence to the basic principles of banking operations, namely the principle of liquidity, principle of security, principle of solvency, efficiency and business. (Komazec, 2011, pp. 65-66). Ultimately, meeting these principles leads to the realization of the basic functions of the company - the bank, which is generation and maximization of profit. (Pokrajčić, 2007, p 255) As modern banking and financial operations enable rapid transformation of deposits into loans, reallocation of potential losses through financial market leverage, international liquidity, overcompensation of profitability through ALM concepts, strong competition in light of the securities industry and other non-bank financial institutions offering products similar to a bank's, risk management with "at client's expense" approach, the key indicator for the success of a commercial bank has been lately recognized in the competence of management that will, in a turbulent environment full of uncertainty, bring profit to the Bank, provide a satisfaction and prosperous life to its customers, provide support to the real sector and ensure continuous and stable business. Decision making and business forecasting as the key signs of management competence are essential in preventing irrational budget planning, reckless spending, financing disputable deals, etc. Therefore, the competence of the bank's management plays an important role both in terms of business efficiency and overall sustainability and vitality of the real and financial sector.

Analysts say it is not only important that the bank finances the construction of a football field in the region where it operates, in order to verify its social responsibility, but it is socially responsible if it builds loyalty and satisfaction in customers and gains momentum in economic development. It transpires that the skill and ability of management is the ultimate proof of expertise, and knowledge-driven bank policy is the indicator of success.

2. Transformation from traditional into modern banking⁷

Traditional bank has been characterized by the old banking rule; what you collect in deposits is what you will be able to lend, megalomania of spending and investing, capital weighted by risk, uninterested tellers, market monopoly, and a client's single-channel approach to the bank. It has been a decade since there is a new trend in our country of deregulation in banking, capital

internationalisation, expansion of the economy and privatization, which has led to the inevitable transformation and restructuring of the banking philosophy. The source of profit is no longer a mere difference between the active and the passive interest rate, and the banks are forced to search for new sources of income, because banking has become merely one of the financial service types, which is, according to many criteria, losing its place in the financial system in favour of increasingly many various competitors. (Čirović, 2008, pg. 30)

Client behaviour has changed resulting in bigger and more complex requests, profane needs, greater risk appetites, quick profits, and credit "boom". Certainty of bank deposits and interests gets looser under pressure of profits gained at the financial markets. By doing so, banks are no longer mercantile relics, but have turned into institutions struggling to survive on the market, just like any other economic entity. In order to survive, banks are "buying" new technologies and accepting deals that even undermine old banking structures. Modern commercial banking is therefore characterized by a wide range of activities and focus is placed on the client. (Živković, et al., 2013, pg. 156) Bank no longer provides services, it actually sells products. Modern commercial banking is characterized by an offensive breakthrough marketing strategy in business policy with an obvious aspiration for ever-increasing profit, improvement of the bank's competitive advantage and its survival. Modern banks constantly innovate products, from deposit structures, various forms of insurance, to childcare, crediting young couples, leasing, factoring, opening their businesses, etc. All this is and/or should be also followed by the "mental transition" of managers, both of those already employed in the banking industry, as well as of the potential candidates subject to selection and recruitment process. Product innovation, future predictions, decision making responsibility, risk assessment, protection of creditors' and shareholders' interests, adequate attitude towards customers in order to create trust and loyalty undoubtedly calls for a "new" quantum of knowledge and behaviour discourse. Hence, the competence and development of a manager's competencies is considered the key paradigm of competitive advantage and sustainable development of a bank.

In the value structure of a bank, one of the forms of human capital is found in the managerial performance of the human factor. This indicator, observed at all levels of the organizational - managerial hierarchy, demonstrates the degree of vitality of the bank, its ability to maintain its

⁷ Ref.: Kristijan Ristić, Commercial bank success as a paradigm for manager's competencies, Papers collection, Symposium, Fojnica BiH, 2014.

internal capabilities aligned with the external needs in an active and adaptable manner. Managerial skills and characteristics represent an important part of intellectual capital that is expressed by the managerial level of abilities and the range of responsibility, the list of managerial activities and the leadership ambitions of the bank. (Djurović, 2010, page 166) Various studies show that up to 85% of the value of a corporation is based on intangible assets. We live in a time when intangible goods, assets, such as brand awareness, knowledge, innovation, and especially human capital, are the most important assets. (ref.: Klasens, 2009, pp. 169-179). Human resources management stretches across the entire value chain.

Although not being the subject of consideration in this paper, performance of other employees is of paramount importance as well. Focus on the client, relationships with partners, improvement of key processes, innovation support, etc., are in this context deemed as skills that are also reflected on performance of managers. Performance of employees is measured by the level of skills and ability to prove such skills either by providing service or offering product to a customer in a manner that is the most acceptable to the latter. Measure of performance is therefore contained in the response of internal or external market to the executed and formalized work contained in the product or service. (Djurović, 2010, p. 166). Employee competencies (administration and sales) in the bank together with the competencies of managers form a competitive diamond in relation to the environment, through the very realization of numerous synergic effects. Through adequate management and organization of work, the manager establishes a place for personal and professional affirmation of an employee, where the company development is conditioned upon the complementarity of roles with the synergy of competences as their common denominator.

3. Competencies of a bank manager and assessment of managers' competence in banking of Serbia - problems

Speaking about the competencies of managers in the banking sector, we usually think that they are the ones who „have a nose for and know with the money" in terms of attracting and profiting from it. However, the competencies of managers in modern banking operations have dethroned the banking mondialism that has ruled until recently. Bank manager manages the processes, manages people, makes decisions, takes risks, underwrites the risk, and takes responsibility. Such settings are the ideals of banking profession, the axiom of

expertise and professionalism, and it must be noted that the level of integrity of a bank manager, ethics and moral in everyday activities is also an integral part of competence. Personal characteristics and identity of an individual are certainly an important factor in the value of human capital of a bank. Individual behaviour of a manager is the starting point of the managerial characteristic, whereas the manager as a leader influences the behaviour of the group more than other members thereof. (Kurtić, 2011, p. 478). It is therefore also important in analysing competencies of bank managers. Personal identity is formed by moulding characteristics into a whole. This is of utmost importance for the integration of an individual - manager with his position, role and ultimately with the company - bank as a whole. The identity of an individual paints the picture of what he actually is with all the personality traits, emotions, opinions, behaviours. (Djurović, 2010, p. 166). This is stated since the timing of this paper coincides with the current global financial crisis, because the ongoing crisis is largely caused by lack of understanding of the nature of risk by banks and businesses. Double-digit revenue, without questioning the source and sustainability thereof, bonuses budgeted against equity basis, etc., have been overwhelmingly focused on profit. Greed for high yields and bonuses as well disrupts the harmony of the profession, which further fully disqualifies validity of the elaboration on the importance of competencies for a bank's good performance. We can describe such situation as the "incompetence", since the integrity and morality of an individual is embedded in the essence of the profession and competencies that create added value for a company - bank, as we have stated earlier. For the purpose of analysing managers' competence in banking, we used the method of interviewing HR managers of a number of banks in Serbia, which are at the very top of the industry based on the number of clients, branch network size, term deposits level, amount of assets and capital, as well as the number of employees.

The set of questions referred to:

- 1) Bank's values policy
- 2) Position of HR division within the bank
- 3) Setting up and applying key HR policies: hiring, key position appointments, education and training, rewards, succession and career plans, talent program and work performance assessment.
- 4) Employee satisfaction and motivation.

The focus of the analysis, however, was mostly put on the manner of employees' work

performance assessment (adjusted according to Northouse, 2008, p. 35), primarily of managers, since the process of performance assessment, if parametrized and applied properly, can adequately reflect and measure the status and level of competence of employees - managers, while simultaneously sublimating all other HR processes in the bank, which is why it is also crucial for determining the level of HR development in banks. One of the interesting findings was that only one of the three largest banks has a defined system of values that are contained in the strategic orientation of the bank determined by the top management. The three largest banks have an organized annual performance appraisal system based on self-assessment of the employee and assessment by the appraiser. Out of all the banks where HR managers were interviewed only one, actually the largest domestic one, had its executive and top managers' performance appraised as well. In most of the banks, performance appraisal is done only within the manager-to-employee and middle-to-lower management hierarchies, both single-channel and with no self-assessment and performance interviews. Almost all the banks are setting quantitative targets – budgeting and realization thereof as the only measure of success and achievement. Competence is raised as a question and does not directly reflect the performance. Not a single bank has an established adequate relation between achieving goals and competency level in overall performance. Therefore, there is no clear link between achievements and the importance of competencies for achieving goals. There is no hair-cuts policy to quantify the share of achieving goals and competencies in overall performance, so as to provide descriptive appraisals or through letter scores on a five-step scale. There is no accurate, clear and transparent meritocracy that measures the achievement above and below the expected realization. Managers appraised by senior management point to the unclear and imprecise standards of assessment, the tendency towards averaging ratings, presence of rigor, prejudice and halo effects in the assessment process. There is no clear link between the realization and the career plan and promotion.

Only in one bank there is a defined system and policy of rewarding based on performance. The larger part of banks has a set of company competencies that are related to the forms of behaviour that the bank expects every employee to show, regardless of their position or job description, as well as a set of competencies related to managerial competencies, which are very similar, defined with some minor deviations through the following statements:

- Team leadership and motivation
- Communication and conflict resolution
- Delegating and making decisions.

Work performance essentially implies the level of a manager's success in performing duties bestowed on him.

The data made available on employee satisfaction unambiguously indicate a high level of dissatisfaction due to poor management, high and unattainable goals set, as well as general communication in the manager-to-employee and middle-to-top management relationships. According to the indicators, managers are mostly oriented towards achieving goals without placing too much focus on their employees. Appraisal questionnaires „360 degrees“ are primarily used to identify the training needs. The training organized after the 360 degrees assessment is performed focuses on management, communication and decision making. Analysing the employee satisfaction, based on the information made available in most banks, employees voiced the highest concern about the poor communication climate, line manager's leadership style and lack of motivation for proper team management. The employees' satisfaction analysis is not deemed as a document of exceptional importance in any of the banks. In almost all of the banks in Serbia, there is a strong need for the development of managers, but also the relentless focusing on the technology novelties. In most banks, the HR division is a tool and instrument for optimizing costs of human capital, and not the missionary of the bank's strategic orientation. In most banks, there is an ongoing fight for the funds allocated from the budget onto the managerial development. It is common for most banks to consider managerial development plans an accomplishment of performance goals. In addition, we came across certain "lack of knowledge" in those playing the crucial role in adequate setting up of the performance assessment process, since organizing a training course for developing skills and abilities should contribute to the development of those skills and abilities necessary for achieving goals, and is not and should under no circumstance be considered as the goal on its own.⁸

Given that the explicit goal of the competencies of managers is development of competences, (and that the performance appraisal is the most suitable instrument for the development tracking), the above described situation in the banks in Serbia is

⁸ Ref. to prev. note.

very indicative of the importance of the development of managerial competencies.

In this regard, answers to the questions raised can be directly and unequivocally predicted:

1. Does the orientation towards new technologies supersede the human factor - managerial performance due to incompetence?
2. Is it that the decisions are not made quickly, clearly and decisively due to the incompetence of the manager or the organizational "sub-climate"?
3. Leadership style is a set of behavioural patterns of a manager directed at influencing others in delegating tasks and establishing interpersonal relations.
4. Do the top management fail to recognize the importance of managers' competence or do they find it to be a marginal issue that needs to be addressed by the "staff"?
5. Is the HR division recognized as a strategic partner or just as a bureaucratic personal administration service?
6. Does the prevailing autocratic and widely spread autocratic style of management reflect the incompetence of the bank manager?
7. Does the HR's insufficiently stressed importance in the transmission of the bank's strategic orientation reflect the incompetence of HR managers?
8. Does the fact that certain HR tools do not function adequately also reflect the incompetence of HR managers or does the rationale lie in lack of "recognition" by the top management for the development processes of middle and lower level managers?
9. Does the inability to directly connect the level of competency of managers with the performance of a commercial bank cause insufficient budgeting of funds for development processes or is it a mere reflection of the "crisis"?
10. Does the fact that banks are allowed to acquire, partner, merge or incorporate separate entities onto which they transfer non-performing loans help ignore the question of the competence of its managers?
11. Does the specifics derived from the context of working in a bank and the macroeconomic environment, which certainly complicates the processes of work and the prospects of success, also cast shadow on the importance of managerial competencies?

All this and much more remains open for elaboration and research in some future papers.

4. Digital Transformation of Banking Operations and Re-Mapping of the Competence of Banking Managers - A Special Reference to Research in the Paper: "Digital Transformation of Banking-Danger or Opportunity"⁹

For the purposes of this paper, we will analyse the results of the research in the paper *Digital Transformation of Banking - danger or opportunity*, published in the Banking magazine, by Nataša Krstić and Dejan Tešić¹⁰, which inevitably points to all the dangers and opportunities of digitalization of banks' operations on the Serbian market and the demand for Managers who accept such changes from the environment and lead the team acknowledging those organizational and operational changes. Such challenges undoubtedly point to the need to remap the concept of managing competencies of a manager and rethink or reengineer the tools for managing the performance of employees.

In this context, the authors point out that accelerated technological development increases the expectations of bank clients in terms of accessibility, uniform multi-channel user experience and immediate satisfaction of needs, and certainly all of that at lower prices. Certain banks responded to this change by merging distribution channels, improving customer experience, boosting electronic and mobile banking, and providing a comprehensive customer database analytics so as to provide personalized services, while reducing operating costs (according to Capgemini, 2012, p.7, in the paper by Krstić, Tešić, 2016).

The authors further state that the sub-branches as sales channels and customer relationships have been upgraded through a network of branch offices of various sizes and formats, introducing mobile assistants and free internet, aimed at reduction of cost per service by 20% (prev., 2016). They emphasize that the potential for distortion is very strong in the entire value chain of the banking industry, especially in lending, payment transactions, financial consulting and credit cards. (prev., 2016)

According to Krstić and Tešić, traditional banking has never been so disrupted by technological competitors with great potential to make radical changes in the entire financial sector, the so-called fin-tech companies, which is why the main challenge placed upon traditional banks is to find

⁹ Paper published in the magazine Banking, 2016., Association of Serbian Banks, Beograd

¹⁰ Authors: Nataša Krstić, Faculty of Media and Communication, University Singidunum Beograd, and Dejan Tešić, Piraeus Bank, Beograd, Srbija.

the ideal balance between financial regulation and financial innovation, i.e. between market stability and efficiency. (Krstić, Tešić, 2016)

In addition, banks that want to innovate and transform their business model by using technologies and digital communication channels face the following problems: (according to Krstić, Tešić, 2016)

- "Innovation team is in charge of innovations" (e.g. for the development of new products, services, processes) and this team is separate from the rest of the bank;
- Process of slow and / or bureaucratic decision-making due to the overwhelming organizational structure;
- Assessment of the performance or benefits from innovation is based on outdated criteria such as return on invested funds or net present values, instead of, for example, calculating the value of a new client during the overall duration of a commercial relationship (life-time value);
- Unwillingness to assume the risk, the viewpoint that whatever is new must be risky; (cited Krstić, Tešić, 2016)

Krstić and Tešić concluded that digital transformation requires a new type of banking manager. They state that "the central point of digital transformation of banking operations is represented in the highest executive management that plays the leading role in transforming the organizational culture. Efficient and successful implementation of the necessary digital transformation requires a new type of banking manager who assigns roles in a transparent manner, in support of technological changes in the transformation process, disrupting the existing business model and making the needs and wants of digital consumers top priority. Bank executives in charge of these roles must cooperate in setting up a digital vision, carefully select the initiatives they will launch, define the strategy for developing the organization's digital capabilities and direct the long-term transformation of the bank in order to apply innovation in its operations. "

Therefore, Krstić and Tešić claim that in overcoming these challenges it is essential that the managers possess the following skills:¹¹

- "they consider the digital environment as their natural environment, promoting digital business inside and outside the bank organization;

- They can create balance between regular business and the need for its digital disruption;
- They perform daily integration and synchronization between the needs of the millennium generation (born after 1980) and traditional clients;
- They establish innovation committees for modernization of retail division;
- They establish and empower mixed functional teams, e.g. between marketing, sales and IT;
- They adjust the management model in order to support the digital transformation of sales, marketing, communications, distribution, and IT. Consequently, intensive monitoring of market conditions is also necessary; the implementation of new digital tools and the activities of fin-tech innovators, in order to recognize changes that could disrupt current business and jeopardize margins. To that end, one should monitor patterns in the behaviour of clients and investors in newly founded companies and follow the research of reputable financial consulting companies. "

Consequently, the bank supervisors of today are faced with six dilemmas in the process of digital transformation of business: (Krstić, Tešić, 2016).

1. "A complete transition to digital business or the defence of an existing business model?"
2. Co-operating with fin-tech companies or competing with them?
3. Portfolio diversification or additional investment in areas that deliver results?
4. Separate or unified digital business?
5. A digital transformation that comes from business or from transformed operations and IT support? "

Having cited some portions of this remarkable work of colleagues Krstić and Tešić, whose research and key conclusions are presented herein as complementary elements of our research project, we can conclude the following:

CONCLUSION

From a general and conceptual point of view and with admittedly certain degree of incompleteness or perhaps inaccuracy, this paper is aimed at exposing the problems of identifying complexity of setting the competencies framework, assessing and developing the competencies of managers in the banking industry and establishing a proportionate relation between the following components: competence-achievement-performance "; on the other hand, we have demonstrated in a very clear way that it is vital that

¹¹ Authors cite research studies: A. T. Kearney, 2014; Hirt & Willmott, 2015; Accenture, 2015; Downes & Nunes, 2013; The Economist, 2015.

a bank's top management recognize the importance of developing manager competencies, their importance in the field of achieving the bank's success, as well as recognizing the key role of the HR division as a strategic "business" partner, being a missionary of values and a strategic orientation transmitter. The quality of the human factor that has indicated the efficiency and effectiveness of operating is currently being weighted by digital transformation and requires the necessary re-mapping of the manager competencies framework and their development with the end goal of any commercial bank to achieve a sustainable position against its competition.

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SUMMARY

Nowadays, various forms of meaning have been attached to the term "bank". It usually evokes association with a magnificent building with numerous officers, which is very often and almost always associated with power and finances.

Within such settings, someone could think of transferring funds, someone else could envisage taking out a loan, "traveling cheque", or investments, as well as debonair and rich managers of repute.

The banking profession has changed dramatically recently, as all of its business activities have become highly specialized and sophisticated, thus requiring different types of skills, abilities and specific quantum of knowledge.

Today, the results and success of a commercial bank depend on the technology, the speed of the user interface, and the growing mobile-based offers of the bank.