

Competency Management in a System of Providing Competitive Resistance of Commercial Banks

A.V. Andreeva

Department of “Economics and Finance”, postdoctoral student,
Federal State Budget Educational Institution of Higher Professional Education
“Rostov State Transport University

Abstract: *Purpose.* The purpose of the article is to describe competency management as intangible assets of commercial banks and a major factor of dynamic development of financial services organizations. Intangible assets have a great impact on creating and offering products and services of commercial banks by providing an additional distinctive value to a customer in a way that potential competitors do not. These assets also provide considerable cost reduction, increase in service quality, customer loyalty and capability to sustain competitive resistance in the long run. *Design/methodology/approach.* The article is based on the following concepts: financial globalization, servicization, discourse of synergetic approach, developmentalism discourse, theory of financial economy, competence-based approach. Argumentation of theses and conclusions were performed on a basis of experimental observation, model building and system analysis application. *Findings.* Competitive resistance of commercial banks depends on their capability of providing competitive banking products and services connected with real and potential opportunity to invest in development of an intellectual and human capital, retraining of specialists, enhancement of key business processes, servicization and development of customer equity. Implementation of competitive resistance model of development on the basis of competency management allows balancing disadvantages of other competitiveness factors, reducing dependence on market fluctuations, uncertainty of economy and imbalances of financial globalization. *Practical Implications.* It is impossible to take a challenge of rise the level of education and competitive ability of national banks by arranging some sporadic courses focused only on so-called corporate education. The results of the research of competency management in competitive resistance of commercial banks would be up-to-date for universities and business schools as well as financial services organizations. By hiring one or two well-educated and advanced-trained professionals (and even promising interns as a prospective company's members) instead of a team of steady performed people with the lack of “soft skills” will help business environment to cut the costs efficiently without sharp downsizing which is extremely important for intensive economic development. *Social implications.* The article also considers some social implications in the tideway of importance of human potential development, professional training and up skilling of specialists in the conditions of sustainable development and interaction between business and education. Some findings of the article provide additional sources of competitiveness for financial services organizations assuming intangible assets development and effective competency management rather than focusing on capital-based factors of competitiveness. *Originality/value of the article* considers the impact of competency management on providing of competitive resistance of commercial banks. The article has the potential value to business because of the discussion of possibility of shifting to sustainable development involving human assets in order to provide competitiveness and prevent operation risk. Also, the article has the value to universities and business schools because of the constantly changing requirements from business to education system to fulfill the needed competences of professionals.

Corresponding Author: A.V. Andreeva, Department of “Economics and Finance”, postdoctoral student,
Federal State Budget Educational Institution of Higher Professional Education
“Rostov State Transport University”.

Keywords: Commercial Banks • Financial Services Organizations • Competitive Resistance • Competency Management • Intangible Assets • Competency Building Approach • Human Capital Assets • Marketing Management • Strategy • Customers

INTRODUCTION

In recent years one could observe profound changes in banking, connected with growing integration and deregulation of international financial markets, fast development of information and communication technologies, competition aggravation and increasing customer requirements to a ratio between quality and services prices.

Before the global financial and economic crisis of 2008 year commercial banks which implemented some new services faster than others were considered as leaders. Nowadays competition in the banking services market became a competitive struggle of strategies/business models of banks.

Changes since the global financial and economic crisis of 2008 year became really noticeable. It became impossible to do forecasts for medium-term prospect. Earlier experts could say that the industry, for example, will grow for 10-15% a year and turnover of a bank will be doubled [1]. Making such forecasts today became risky.

“New normal” in banking sector becomes a reality which means that banking can build more or less precise forecasts only for the next quarter, but not further. Today market players fix short-term key performance indicators (KPI) on all industries practically. Such model of planning strongly differs from accepted before long-term strategy.

Unfortunately nowadays just a few Russian banks consider strategic planning of sustainable development actual. Most bankers refuse from it referring to a lot of factors – unpredictability of microenvironment, the lack of qualified experts-developers and the deficiency of resources for advancing their banks. But in reality it can be explained by commercial banks failure to find the main factors and instruments for providing sustainable competitiveness. The most important among them are innovative technologies and availability of highly qualified professional.

One of the main consequences of the global financial and economic crisis of 2008 year shall be the situation when commercial banks have to be more attentive to the classic clients' credit operations and less – to their own speculative ones: precisely, income yield and non-income yield. The main stress of Basel III has been made on the capital adequacy and the correlation of assets and risks.

It is effective when those principles use to the bank's own operations but Basel III seems to make clients crediting not so easy. Meanwhile, crediting of a final customer provides sustainable competitiveness of a bank. Today the most banks understand crystal-clear how significant for them to be more client-oriented than self-oriented. American banks are here in a more profitable situation because they have attracted much more capital than the European ones. The latter begin just now to speak about the necessity to attract new capital for crediting.

As to Russia, one should say that credits for real sector enterprises are still too expensive. It is critical to make those credits for industry accessible to promote economy development. Comparing interest rates in Russia and in European Union, one can say that in Germany, for example, real credit cost for business (less inflation) during the crises' has reached 4% per annum. Presently the credit cost has dropped to 1% per annum (it happens in the situation when since 2010 German savers have had negative investment profitability) [2].

Meanwhile in Russia a deposit interest rate in a number of commercial banks is twice as big as real inflation and this is somewhat unnatural thing for economy. When this big spread between resource cost in Russia and in western countries will be keeping Russian commercial banks shall lose their sustainable competitiveness [3].

Here are the grounds of sharp differences in interest rates in Russia and in Germany:

- Spread in cost of funds: resources in Russia are much more expensive.
- Profitability of bank operations is quite big in Russia: bank margin in Russia is much higher.
- Difference in operating expenses and in labor efficiency in a bank sector of the researched countries.

Russian banks can make each of these components less in order to reduce a final cost of credits for the enterprises. For example, implementation of better bank information systems and growth of bank personnel competences will increase potential labor efficiency.

In Russia profitability of commercial banks operations are quite high; Russian banking system is gradually demonstrating capital growth by means of growing profitability without call for shareholders' funds. This is certainly good for Russian economy in general.

Retail lending is a strategic trend of the bank system in Russia. One can state that retail lending is the main factor of assets and profitability growth. With slowing down the pace of retail lending, a share of long-term loans, especially of mortgage loans, in overall loan portfolios of banks shall increase. For many banks mortgage loans are becoming more profitable than corporate lending. However, Russian banking system faces some serious problems regarding to sustainable competitiveness, for example, recall of a license.

It is necessary to reduce cost of liabilities, but it is impossible to do so in a short term period. Second, to increase the volumes of retail lending portfolios banks will have to prolongate average terms of loan granting. Third, one must create a new strategy of employees training.

To guarantee sustainable competitiveness of commercial banks is to find a reply to the following challenges:

- What services ("profit centers" based on profit-and-loss report) become drivers of growth of the banking system in the coming year?
- Which strategy will allow commercial banks to keep a market share in the highly competitive market? In the aftermath of the global financial crisis, financial services organizations need to focus more than ever on restoring trust and stability, complying with new, more stringent regulations, making mergers and acquisitions work and expanding relationships with key clients.
- What instruments and technologies will allow attracting and maintaining clients? (For example, financial institutions must find innovative ways to understand their consumers' aspirations and actual behavior. Watching them play may yield as much insight as looking at their work. Banks may also be better able to differentiate between consumers who miss payments due to genuine hardship versus those who are doing so to pay for purchases beyond their means) [4].

First of all, the strategic cost reduction was a key priority in recent years. One can see a mass wave on centralization and standardization of functions

(for example, for customer service in telecom or back office transactions in banking sector). Also a lot of attention is paid to automation of processes, retraining of specialists for new conditions of sustainable development of economy.

Secondly, development strategy differs on various markets. The process of optimization of business models is already completed on mature markets, such as the USA and Europe. The following level of enhancement of business – a choice of competitive strategy depending on external and internal conditions (competences) – has been already started.

As a rule, this stage of development is connected with:

- Creation of a basis for differentiation;
- Competitive positioning in the banking services market;
- Focusing on precisely certain client segments.

As a result, it allows commercial banks to:

- Position itself concerning preferences of consumers;
- Offer the best service quality or innovative products.

Third, it is important to find out some necessary instruments and technologies to maintain clients' loyalty. High level professional are needed in the following sectors:

- Business strategy and marketing – in order to provide narrow targeted marketing campaigns, to increase efficiency of sales and a market share and to interact with consumers in the most personalized (client-oriented). It results in large-scale transformation, potential of cost reduction which can be implemented to focus on a key chain of value creation for a customer and to transfer to outsourcing [5].
- Business processes optimization in modern banking industry when some market players stop recent expansion of retail network developing and transfer departments to new, more retail oriented format with a small amount of high-class employees. Thus to fulfill the new office business processes there is a need in just 1-2 employees which possess some sufficient set of competences as well as Internet and a call center connection [6].

In Southern Federal District of Russia we have researched some aspects of managing human capital development in banks based on the competence approach [5].

We have divided the participants – the heads of banks recruiting departments – into three segments. The representatives of the first segment (about 30%) do not consistently control the processes of hiring and training newcomers.

This part of employers does not deal with the universities and they are not ready to do with training their own professionals and let alone - to pay for that. As a result – 19% of banks from this segment cannot find proper employees with necessary skills and 27% confess that problems with human resources have a negative influence on business results.

In the second segment there were 45% of employers who usually take care of newcomers: 70% of them do keep in touch with universities, 49% of them are ready to agree that there are skills' deficiency problems but only in 20% of all the cases they can influence business negatively [7].

The 32% of respondents among bank employees – the representatives of the third segment – train young professionals either in corporate training centers – corporate universities – (70%) or with the help of external providers. The 70% instructors of this group closely cooperate with universities and business schools. As a result, only 15% of them complain on deficient skills of the new employees. The reason is that the participants of the process do not communicate with universities and have no authentic information on job market concerning necessary competences.

Failure in finding on labor market requested professionals with necessary skills reduces sustainable competitiveness of commercial banks. Cooperation between universities and financial services organizations, development of strategic programs at the joint of education and business can give an efficient result with highest possible efforts of financial, organizational and time investments. The first step to this direction is to create a system of informing universities on expected competences demands for the perspective bank employees.

Professors and employers have not learnt yet to work together. Providers of education services are oriented on qualifications corresponding to educational standards,

university programs and ministry regulations. Professional qualification is a result of cooperation between universities and a state. But employers need effective competences – not qualification which they cannot however clearly determine especially in a long-term (3-5 years) perspective.

The best practices in education sphere demonstrate that education and professional training of bank employees are quite different. Educational establishments give their graduates just the base for their future profession – a set of approaches to making a wide range of decisions. Professional training must fill a gap between education and future job on a constant basis.

The most important part of competitive resistance of commercial banks is competency management or modeling of competences as a method of marketing management of personnel. Competency is researched here in the tideway of the unity of knowledge, professional experience and ability to think on fit when doing and some behavioral patterns of a human aimed at current business situation. Education helps banking personnel to gain high performance on a basis of knowledge development as well as know-how and personal characteristics.

There are three types of competences in order to estimate a level of competent ability of an employee: managerial, professional and corporate, the complex of which serve as a basis of a competitive ability.

Competency management on a basis of competency building approach offers development of special master programs oriented to a particular employer and he/she takes part in its making directly. The most unusual situation for newcomers is that they have no idea about their future workplace and work conditions, for example in a store or in a bank office. They are also not prepared to reach particular components of the plan.

Taking to consideration the fact that only several large-scale companies in Russia like “Gazprom”, “Sberbank”, “Russian Railways”, “Norilskiy Nickel”, “Severstal” and some others do have corporate universities¹, it is necessary to create an effective communication and integration between the demand and needs of the rest of the financial institutions and the supply from higher educational establishments. It is supposed to be done on a basis of cooperation of educating, training and retraining of competent employees who will be able to take challenges of

¹ The world's first corporate university was created by McDonalds. The concept of corporate education was noted in the beginning of 1960s of XX century along with the concept of corporate universities. Since that time, the most known and widespread term is Training & Development (T&D). In the middle of 1970s there was founded an American Society for Training and Development (ASTD) with more than 100 national members at the present time. At September, 2005 ASTD have launched the representative office in Russia. In Russia Learning & Development Professional (L&D) was developed in the middle of 1990's of the XX century.

Table 1: Objects of strategic communications and their expected reaction³

Object	Predicted Response
Employees	Increasing Corporate Culture
Customers	Brand Preference of a Bank's Services
Intermediaries	Mutually Beneficial Cooperation
Universities	Mutually Beneficial Cooperation
Competitors	Implementation of Regulations
Responsive Group of Consumers	Collaboration
Contact audiences (administration, mass media, local people, public organizations)	Assistance, no Antagonism

Table 2: Comparison of competitive and non-competitive banks⁴

Competitive banks	Non-competitive banks
Loyal customers allow having prices on services higher on 3-5%	One dissatisfied customer usually informs up to 9-10 people about his dissatisfaction (via social media as well)
Business growth rate	13% of dissatisfied customers shares their opinion approx with 20 people
Annual share growth - 6%.	Approximately 96% of customers never complain, but commercial banks lose their market share (2% a year)
Medium Annual Rate of Return – 12%	For one customer which compliance was acknowledged and fixed, there are approximately 25 customers which experience problems and complain
Loyalty of employees and high level of employees competences increase customers loyalty	There are 70 customers among 100 who prefer to switch to some other bank because of cursory attitude from employees of initial banks

institutional reforms. Educational excellence, training and retraining of professionals provide some new quality of banking products based on one of the main marketing postulate – supreme consumer satisfaction and thorough knowledge of a market.

Sustainable competency management on the basis of the competency building approach is the process of coordinating analysis, choice, realization and control of human capital development and elements of marketing communications which have the most efficient influences on all connections between commercial banks and present and future customers of its products and services.

Competency building approach allows transferring from a strategy of performing to a strategy of development [8]. Here it is considered as upgrading, progress, growth and advancement, moving forward, formation of new features, establishing of new structural characteristics of an object which can be gained on a basis of marketing management of commercial banks. The best practices of education, training and retraining of specialists, international educational and MBAs exchange will provide modernization of governance system of commercial banks. Consequently, as a result setting and pursuing objectives of upscale and coherent changes in

organizational structure will provide sustainable and competitive development of national banks and the banking industry as a whole.

The bases of a competency building approach in a system of marketing management are the educational programs aimed at educating, training and retraining hi-skilled employees which fit the most the mission of competitive positioning of a bank in a market².

Formation of the knowledge-based economy demands diffusion of innovations in the national educational system and educational market. To an increasing degree the system of education in Russia is accepted by business community as a life-long process according to the official Human Development Index. In the context of it, the Russian educational system might be critically connected with the development of economy, society and a human.

Competitive resistant sustainable bank is a bank which has developed human assets (intangible assets) which have different significance in providing competitiveness of the bank at various stages of its progress. In conditions of information-network development the first place can be occupied with technological assets (various know-how and technological innovations, patents, copyrights).

² Development of the theory of marketing management on a basis of competency building approach is closely connected with formation of the knowledge-based economy. The following researches have devoted their papers to the scope of it: Amidon D., Baudrillard J., Brooking A., Brenson R., Doyle P., Bookovich U., Drucker P., Koveni M., Machlup F., Williams R., Emil Michel Cioran., Hayek F., Schumpeter J. and others.

³ Determined by the author

⁴ Determined by the author

In the conditions of highly competitiveness on the market of human resources (employees) there can dominate trained people, whose professionalism gives them special advantages in the sector; reputation assets – it is a bank image among different target groups; organization culture of the bank – this is the vision by its employees the whole business as a unified process of making and promoting the brand as the main corporate value and mission.

Universities shape national identity, create middle class for a country, ingrain culture in general which is learned by osmosis and direct the young to get oriented in a modern-day reality [9]. Meanwhile, the modern education system is passive and it does not always meet the needs of labor market. University graduates are quite good at natural sciences but they need better so called “soft skills”. One of the possible decisions in providing competence-based approach is in close cooperation between banks and universities. For instance, it could be the good idea to form several base departments of universities direct in the offices of some big employers among business. Then students will have an opportunity to see bank internal business processes on their own and the employers can test newcomers in the near-real conditions and can choose those who will pass it.

The objects of strategic communications, while keeping strategy of competitive sustainability, become both the bank personnel and external audiences.

Next, we offer an example of typology of competitive sustainable banks and banks with low level of competitive ability. Failure banks and banks which implement integrated marketing communications approach efficiently on the basis of competency management are indicated in the Table 2.

Thus, competitive ability of commercial banks is based on loyalty and mutual dependence of the forms of contract both with customers and loyal personnel. It includes equalization of marketing strategy with a real state of things in the bank. If the bank declares: “We work for You!” but in reality it does not take care of the customers, loyalty of the latter starts fast dramatically decreasing. Practice shows that if a bank does not fulfill its liabilities just for three months, it leads to its competitive ability reduction [10].

The attitudes of bank employees in fulfilling its branded liabilities declared through marketing communications are immediately given to the clients [11]. Needs of employees and customers are mostly similar that is why there is an indirect connection between external advertising slogan and bank mission.

The main aspects that should be taken into account by the management for providing competitiveness are the following:

- Employees would like the bank to be booming;
- Loyal employees need to be respected by the management and are interested in strong feedback [12];
- Loyal employees need some emotional contact and acknowledgements for their work from the management;
- Moral encouragement and material stimulations promote loyalty and development of the personnel.

If the statement that positive image makes bank's reputation stronger is true, it becomes evident the growth of competitive sustainability of a commercial bank thanks to new customers and partners as well as with more easier access to information, financial and human resources.

Meanwhile it means that image can be always corrected adapting to the environment but as to the reputation that is of great demand for competitiveness sustainability, it is a long-time matter.

The word “reputation” means people's opinion – fully established or just forming – about a credit organization based upon its previous activities. It is expressed in acceptance (or no acceptance) of its authority, merits and etc.

Using a wide range of connections between bank competent employees and its loyal customers, reputation management helps the bank to find balance between information policy and commercial activity.

The well-known American author of strategic planning I. Ansoff [13] discovered a specific “formula” of management potential which can be used to estimate main factors of competitiveness sustainability. It connects competence of management, business climate conditions and management competences' level of a company (a bank) in a unified system.

Failure in finding at the labor market necessary professionals with competences in demand reduces competitiveness sustainability of a bank.

To conclude, it is necessary to underline that competitive sustainability of a bank depends on the following main factors:

- Financial stability of commercial banks;
- Convergence of services, strategy, necessary instruments of marketing management and IT;

- Intangible assets as development of human capital assets [14];
- Professionals developing “soft skills” (internal marketing for employees);
- Reputation management.

Management of a bank’s competitive ability and sustainable development on the basis of competence-based approach represents the process of coordination of the analysis and control of management process by development of human capital elements of marketing communications.

It is necessary to underline that competency building approach assumes convergence between business and education with formation of specific education programs which are aimed on developing precise competences demanded by business.

Formation of the knowledge-based economy demands diffusion of innovations in the national educational system and educational market nowadays. To an increasing degree the system of education in Russia is accepted by business community as a life-long process. Also the knowledge-based economy does have an impact on changes in a paradigm of modern marketing.

Marketing management of a bank is aimed at not only on winning a rival with competitors but on creating some joint customer-unique value. In order to fulfill it there is a need in new market knowledge, customers’ insights and skilled staff capable to master cognitive technologies.

The most important part of competitive resistance of a bank is a competency building approach or modeling of competences as a method of marketing management of personnel. Competency is researched here in the tideway of the unity of knowledge, professional experience, ability to think on their fit when doing and some behavioral patterns of a human aimed at current business situation. Education helps banking personnel to gain high performance on a basis of knowledge development as well as know-how and personal characteristics.

Summing it all up, one of the key problems for future development of the Russian economy is quality of institutions, first of all, the financial ones. It is hard to conduct some reasonable economic policy without overcoming institutional challenges. In addition, it is almost impossible to expect some real modernization of the economy and sustainable development of pace of economic growth in the long run. Without realization of institutional reforms (the necessity of which is quite obvious in conditions of stagnations), some steady rise

in oil prices, so-called free market price, will remain as one of the main development factors of ongoing performance of the national economy. This development factor doesn’t seem to be a sustainable one, thus institutional reforms are extremely vital for the large part of economic growth in the domestic economy sectors.

The high priorities of the mentioned challenges are the ones in a financial sector, precisely, in banking sphere, because of the high importance of financial resources. The education system is under the same significant importance because it brings out human capital assets as a main sustainable factor of production.

Universities help to shape national identity, create middle class for a country and a society, ingrain culture in general which is learned by osmosis and direct the young to get oriented in a modern-day reality.

The basis of competency management approach in a system of marketing management of commercial banks in order to ensure its competitive resistance in the long run are joint educational programs with universities and business schools aimed at educating, training and retraining of hi-skilled employees which fit the most missions of competitive positioning of commercial banks in a market.

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