

# MANAGERIAL CHALLENGES IN THE RELATIONSHIP BETWEEN PERFORMANCE AND EFFICIENCY

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## *Abstract*

*Descendents of the original model based on democracy, transparency and closeness to the client as an associate member and co-owner, cooperative banks contribute to stability and competitiveness of the economic and financial system.*

*This role was stressed by all financial analysts who believe that the cooperative banks have an important and unique role within the banking community through their capital ownership structure based on the principal of ‘one –man, one vote’ through the structure of central organisms and through guarantee mechanism.*

*Transparency in decision-making and the participation of cooperating members in the daily management of capital is an alternative to the model of anonymous companies.*

*Keywords:* performance management, efficiency, performance managers, client satisfaction, client fidelity, integrating performance, authority delegation.

## **1. Introduction**

Performance management can be defined as a strategic integrated approach to guaranteeing the long-lasting success in the activity of organizations by improving the performance of employees and by developing the capabilities of the individual teams and individual staff (Armstrong, M., 2003).

Performance management obviously pivots around performance, which means both behaviors and results.

Performance management is a means towards obtaining better results from an organization, from teams and individuals within them, through awareness and management of

performance on the basis of a framework of planned objectives and competence standards and requirements.

Performance management firstly envisages performance improvement as a means towards ensuring the efficiency of cooperative banks.

Secondly, performance management in cooperative banks requires staff development. Performance improvement cannot be achieved unless efficient processes for continuous development are in place.

Thirdly, performance management requires meeting the necessities and expectations of all groups of people interested in the good functioning of cooperative banks.

Finally, performance management means communication and involvement, creating a climate for permanent dialogue between managers and team members aimed at defining mutual expectations and to make common use of information regarding the mission, values and objectives of cooperative banks.

Performance management can contribute to the creation of a cooperative bank that is highly involved, which determines the teams and employees to participate in defining own objectives and the means necessary for accomplishing them.

In this study, I aim to approach the theoretical and practical aspects that can contribute to increasing performance management in cooperative banks.

## **2. The 21st Century, the age of performance and renewal**

The essential dimension of management, namely efficiency, is an absolute priority objective of the cooperative banks' entire activity in the context of the market economy.

To improve efficiency means to mobilize the entire potential that cooperative banks have, to employ all their resources to achieve the proposed objectives.

Efficiency therefore becomes a fundamental criterion for evaluating the activity of a manager. In this context, it is fundamentally necessary for the managers of cooperative banks to be responsible first and foremost for the increased efficiency of the entire activity, through the application of science-based solutions. This presumes knowledge of all factors involved in the context, of the role of each factor, and of the interaction with all other factors.

Mankind has stepped into the 21st Century, a period where we envisage a *performance revolution* (Petrescu, I., 2005). Many scientists, researchers and thinkers are seeking answers to some interesting questions:

- What is the context of the trends and major perspectives that appear in 21st Century performance management?
- What value changes must performance managers expect?

➤ What will the economy of the 21st Century look like and what will performance management look like in this framework?

Performance has an important part to play in the great changes in Romanian society. The actions of the forces of contemporary society determine a certain kind of behaviour, which pivots around competition for resources and clients, and in this competition performance is paramount.

As regards the activity of cooperative banks, performance is perceived to cover the following aspects:

- economic characteristics (interest);
- technical characteristics;
- personnel quality.

All these dimensions regarding the spectrum of services offered by cooperative banks must be regarded from the point of view of client perception. They contribute to offer attractiveness and to the purchasing of the products offered by the client.

An important aspect in studying the performance of cooperative banks refers to the behavior of the leader generally, and more specifically that of the manager.

The managerial behavioral model has a special importance in guaranteeing a climate with direct implications in the activities carried out by cooperative banks.

In the 21st Century, in a market economy, knowledge of performance management has become indispensable in running any kind of business, and especially cooperative banks. Awareness of performance management can form the basis for development and managers must act as catalysts.

Economies are faced with rapid mutations: each activity field is geared towards change, creating numerous interactions as regards the social organization and environment, and the strategies used in the financial world.

Economists forecast that in the first part of the 21st Century a new economy will appear, based on performance and bearing the following characteristics:

- ↻ small and medium enterprises will multiply rapidly while aiming at high-performance activities;
- ↻ the frequency of performance assessments of the companies' dealings with the clients will increase continuously;
- ↻ all economic and social activities will be based on performance;
- ↻ the main functions of the company will become coordinating, protecting and integrating performance;
- ↻ property and management of performance will converge.

Cooperative banks belong to the category of services aimed at immaterial goods, and therefore quality and productivity are often conflicting. Clients want both, and it is up to the high-performance cooperative banks to strike the right balance between these two aspects to the benefit of their clients.

There are other main problems to be resolved by cooperative banks wishing to offer high-performance services, including:

- offering diverse services that are simple and easily accessible;
- continuously training personnel to be qualified and friendly to customers;
- prompt service, a main way to retain clients;
- client-orientated attitude for the staff, who are ambassadors of cooperative banks;
- authority delegation, so that the front line employees can personally attend to emerging problems.

To ensure the future of the network, it is necessary that all members of *Creditcoop* make maximum efforts to improve quality and performance productivity.

The behavior of cooperative banks in performance management must be directly linked with renewing banking activity, products, services, conceptions and staff behavior.

But in order to renew it is decisive to create interest and involvement at group level, to create the organizational framework necessary to innovate.

*The main components* of the process can be summarized thus:

- ↻ adopting flexible structures that allow the development of useful ideas for the organization;
- ↻ training and encouraging personnel to find solutions capable of innovating and diversifying products and services offered;
- ↻ recruiting and promoting personnel with a sense of initiative;
- ↻ mediating communication between clients and staff;
- ↻ introducing an adequate rewards system for employees;
- ↻ creating and testing conditions that can lead to sustaining the innovative ideas regarding the economic and financial activities of cooperative banks.

### **3. Total quality management in Cooperative Banks**

Etymologically, quality means a good trait or a positive property.

This absolute definition can be perceived differently, subjectively, at individual level and cannot define a service or product or to allow us to measure its performance. Therefore the definition of quality must be adapted to the perception angle.

Cooperative banks offer clients financial services and products, so therefore quality becomes measurable and represents the sum of quality characteristics of the service or product.

The market economy presupposes the existence of a free competitive struggle between suppliers, in which the quality of services offered by the banks becomes the main criterion for the client who is selecting the right offer.

Given the increase in the global productivity of labor as a consequence of technical and scientific progress permanently evident in society, the offers available in all sectors of activity are developing and diversifying, to the point where they exceed demand. This situation naturally leads to only a part of the services offered being consumed, namely the quality services.

On the other hand, the consumer becomes implicitly more demanding, as the service is only consumed through client participation as its beneficiary.

For cooperative banks, the immediate consequence is that the preoccupation with quality, the satisfaction of client needs and expectations becomes a pre-condition for survival. This leads to a need to adopt an efficient strategy to manage quality.

The main characteristic of the conceptual revolution in quality management at credit cooperatives is the placing of the client at the centre of the unit's activity, and the subordination of all activities to the imperative to fully satisfy him.

For the manager – president of the cooperative bank, knowing the client involves:

- ❖ understanding what the client expects from the service ordered;
- ❖ understanding what makes the client take a service;
- ❖ understanding what produces satisfaction in using the service offered by the cooperative bank.

The action of managing quality in the credit cooperative involves the following:

- full understanding and involvement of the bank's leadership in promoting services beyond reproach;
- calling on cooperation with those who have the necessary responsibility and the determination to ensure quality services;
- instituting a philosophy among the associated members and employees in the spirit of strictly following the quality standards set by BNR;
- conceiving and designing services matching client expectations;
- motivating the entire staff to consider the opinions of clients, cooperating members and shareholders;
- permanent openness to identify and correct any dysfunctions;

- identifying efficient forms of influencing and improving client fidelity;
- permanent comparisons with competing banking services and adaptation of own services to the market.

Each of these actions must materialize into specific measures and approaches, adapted to the bank's activity profile, but their finality will be perceived by clients as part of the fulfillment or exceeding of own expectations.

Total quality represents a modern variation on the concept of managing quality and matches a set of activities which aim at delivering irreproachable services above the clients' expectation levels.

The imperatives of total quality involve the fulfillment by the cooperative banks of the following conditions:

- foresight and strategy, which means fulfilling the objectives set thoroughly as regards the quality of products, through anticipation of situations that may displease clients;
- excellence – as a philosophy for the whole personnel involved, backed up by conviction in delivering the service;
- the responsibility of personnel expected to adopt the climate and tradition enshrined in the credit cooperative and to identify the cooperative's objectives, showing shareholder clients responsibility, efficiency, kindness, security, value, the attributes of a worthy organizational culture.

Each of the conditions listed above need to occupy the centre of manager president concerns. The latter needs to identify and apply concrete optimal solutions, depending on the nature of services, by adapting the information, decision-making and control system of the company's management.

Managing a total quality programme in a credit cooperative must respect the following rules:

- ⊙ quality reflects the entire activity of cooperative banks, not just the services and products they offer;
- ⊙ quality presupposes the total and permanent involvement of personnel;
- ⊙ quality requires competitive partners, which can become associates of a traditional banking service system;
- ⊙ quality allows for the continuous improvement of activity, as the quality management process is linear, not a single campaign;
- ⊙ quality is never cost-prohibitive; what is costly is the lack of quality;
- ⊙ quality is a necessary, but not sufficient, with clients being increasingly demanding;

⊙ a quality improvement programme cannot replace a weak product offered to clients, hence the permanent need for personnel to specialize on all levels, whether decision-making or execution.

Competitiveness is the most important success factor in the market economy. This means that the credit cooperative needs to have many products to offer, which can prove their increase in efficiency.

Given the strong competition on the financial and banking market, quality is a priority condition for survival.

For the complete success of a cooperative bank, its products must:

- satisfy a well-defined purpose;
- satisfy client expectations;
- comply with legal measures and other conditions imposed by the social and economic environment;
- be competitive on the market.

A total quality management system considers two independent aspects, namely:

1. the needs and interests of the credit cooperative to offer quality products at optimal cost, influencing the efficiency of activity;
2. the needs and expectations of clients, who need to trust in the capacity of banks to offer quality products.

Satisfying the needs of clients represents the main objective of total quality management, the main lever for performance management. It is the fore necessary that cooperative banks firstly consider the fundamental needs of clients, namely:

- the bank should select and create a wide variety of products to allow the client to enact his preferences;
- the bank's personnel should be permanently available to the client;
- the relationship between the bank's clients and staff should always be positive;
- belonging – the clients expect to be treated as members of a large family and not to be discriminated against in any way;
- security – the clients expect to be morally protected, without the risk of being defrauded;
- the services' quality standard must be upheld;
- autonomy – the client must be allowed to decide which project best suits him;
- personal development – the client must be encouraged to develop his experience in banking within the cooperative.

Generally, the quality of the products offered to clients has become a key factor in determining client preferences for a specific bank. Through the liberalization of international stock exchanges, through the globalization of economies, the standards of quality are on the rise constantly.

It is essential for manager presidents to assess the clients' satisfaction, as positive feedback and opinions will enhance the reputation and image of a cooperative bank, improve client fidelity and increase profits (fig. 1.)



*Fig. 1. The relationship between quality, client and profit*

Total quality management in the credit cooperative is the sum of principles and methods applied within the framework of a wholistic strategy aimed at the permanent improvement of the quality of products through the optimization of the bank's performance. The specific characteristic of this concept is the integrated, systemic approach to quality. This approach applies to all the bank's functions, personnel, relations and products offered.

The dynamic changes which characterize the market economy and the exigencies levied by the European Union lead to a considerable increase in quality expectations. Seen from the perspective of the objective process of amplifying and diversifying economic exchanges, quality is at the same time an essential condition for competitiveness, and, implicitly, for the participation of any company within its business domain.

The problem of quality must be approached globally. It must therefore be based on the following fundamental considerations:

- ❖ quality is assessed through the ability to satisfy user requirements;
- ❖ quality is built throughout the activity's processes;
- ❖ quality must be maintained, which implies a demanding attitude within the company, in a close relationship with the client and in accordance with procedural, technical and organizational regulations.

Within a cooperative bank, quality management is a topical preoccupation, which is given the appropriate attention, in spite of the current difficulties associated with the reorganization of the credit cooperative within Creditcoop network and with the changes in legislation regarding credit institution enacted after Romania's accession into the European Union.

In order to take, certain steps towards improving the quality of the cooperative bank's products, a programme was initiated based on the improvement of management and the development of executive staff closely linked to the clients' opinions and suggestions.

The first results of this process are very favorable opinions expressed at general shareholders' meetings as regards the bank's products, staff and management practices by the executive team.

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