

# Operations Management And Leadership; A Case-Study Of Implementation of Centralized Back Office Activities

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**Abstract:** *The concept of leadership is extremely complex and very often, there is a confusion between leadership and management. Although people are using these words interchangeably, they play very different, but still essential, roles. This paper aims to present a case study regarding an implementation project in banking back-office activities, in order to prove the importance of managing correct the back-office resources, but in the same time the need for a vision that would lead the people toward the scope of a project. The paper describes the existence of a relationship between leadership and operational excellence, also.*

**Key words:** back office, productivity, leadership, management, operational improvements

**JEL Classification:** J24 - Human Capital; Skills; Occupational Choice; Labor Productivity

## 1. Introduction

The banking back-office activities are mostly about managing correctly the back-office resources. Back-office activity is a set of well-known processes, like planning,

budgeting, structuring jobs, staffing jobs, processing various transactions with maximum correctness and minimum costs, and constantly measuring the performance of all these processes. The predictability of the

processes helps the organization to do what it knows how to do well. In organizations of such size and complexity, like a bank, this is a very difficult task. But, while the complexity of such managing is not under discussion, the need for leadership is often out of the vision of top management. In my opinion, the operational excellence is not always a result of how efficient your processes are, but also is a matter of leading people and involving them in achieving the common goals of the organization.

## 2. Literature review

The leadership theories are very much diverse. The concept of leadership is complex, and one could notice that almost every researcher tried to give a new definition of leadership. Nearly 40 years ago, Stogdill (1974) noted "there are almost as many different definitions of leadership as there are persons who have attempted to define the concept". While not intending to develop a new definition, I will provide a sampling of leadership definitions.

Bolden described leadership as "... a complex phenomenon that touches on many other important organizational, social and personal processes. It depends on a process of influence, whereby people are inspired to work towards group goals, not through coercion, but through personal motivation." (Bolden, 2004, p. 5)

Another author described leadership as..... „persons with certain motives and purposes mobilize, in competition or conflict with others, institutional, political, psychological, and other resources so as to arouse, engage, and satisfy the motives of followers." (Burns, 1978, p. 18)

The management guru Peter Drucker has also his own definition: "Leadership is the lifting of a man's vision to higher sights, the raising of a man's performance to a higher standard, the building of a man's personality beyond its normal limitations." Peter Drucker

Having in view the new knowledge-based organizations, we could also mention the following definition, too: "Leadership is ..... the ability to build and maintain a group that performs well relative to its competition." (Hogan & Kaiser, 2005, p. 172). And, in line with the motivational theories, we could mention Vroom's definition: "... a process of motivating people to work together collaboratively to accomplish great things." (Vroom & Jago, 2007, p. 18).

Without trying to enunciate too many definitions, we could focus on the so called "leadership – management difference". One of the most common topics in this regard is the distinction between leadership and management. Many times the two concepts overlap each other. According to Kotter, these are the most common mistakes people make on this issue:

a) People use the terms "management" and "leadership" interchangeably. That means they don't differentiate the vital functions that each role plays.

b) People use the term "leadership" to refer to the people at the very top of hierarchies. They then call the people in the layers below them in the organization "management." And then all the rest are workers, or specialists.

c) People often think of "leadership" in terms of tremendous personality characteristics. This leads to the conclusion that few people can provide leadership.

The leaderships are the process of influencing people by providing purpose, direction, and motivation, while operating to accomplish the mission and improve the organization. Still, in his 1989 book "On Becoming a Leader," Warren Bennis composed a list of the differences between the managers and the leaders:

- The manager administers; the leader innovates.
- The manager maintains; the leader develops.
- The manager focuses on systems and structure; the leader focuses on people.
- The manager relies on control; the leader inspires trust.
- The manager has a short-range view; the leader has a long-range perspective.
- The manager asks how and when; the leader asks what and why.
- The manager accepts the status quo; the leader challenges it.
- The manager does things right; the leader does the right thing.

A. Zaleznik (1977) appears to be the first author who has drawn a line between leaders and managers, according to his article entitled *Managers and leaders: are they different?*, through a system of criteria that are based on analysis and characterization of leaders and managers.

In this article I will present the case-study of a back-office implementation. The bottom line is to share the importance of leadership in a project's success, beyond the managers' budgets and processes coordination.

### **3. Human resources management in the banking industry and back-office work characteristics**

Romanian banking system is among the fastest growing sectors in Romania after 1990.

The high degree of banks network development, the increased portfolio of services, continued growth in the number of customers, imposed the banks as major employers in the labour market.

Currently, there are 39 banks operating in Romania, the banking market being divided into more than 5,500 branches. According to statistics, about 80,000 people are working in banking in Romania. The figures continuously increased in the latest years, due to the extension of banks networks. This territory expansion means attracting human resources. For many years, the banks faced difficult conditions for attracting and retaining attractive talents into the specialized departments, even if they provided better salary packages. In general, the scarcity of specialists in the field of banking is in the case of middle and top management positions. It is also increasingly difficult to find qualified and available candidates in departments such as: administrative, human resources, operations, and IT. There are highly specialized and technical positions, such as operations, sales or department manager, who experience lack of trained people.

For the entry level positions, the salary level is one of the main reasons that lead to the lack of specialists. However, a worker in a back-office department could earn about 300 Euro at the debut. For this reason, many young people who come to interviews change their option, giving up the idea of working for back-office. Some of them claim that they prefer to work in other areas, which bring better income.

Also, the personnel turnover is very high among the entry level positions for back-office departments. Beside the salary, they claim the repetitive tasks and the content of

the activity are the main reasons they prefer to change to the sales or loans, rather than developing a career in back-office. I could very much say that this misconception has its roots in the poor human resources management strategies of the banks. They failed in motivating people and offering them new ways of development, beside the salary.

Recruitment in the banking system has suffered as a result, and has to change in order to find new suitable employees.

Faced with a difficult market in the latest years and affected by the economic crisis, the companies in the banking industry have been among the first to understand and implement a modern human resource management. Of course, most of the Romanian banks are subsidiaries of large European companies and they have benefited from the experience of parent companies, implementing one of the first modern systems. Under the pressure of competition and the fight for revenues and market share, the banks (mostly foreign-owned banking groups) have developed new procedures for both recruitment and retention of staff.

Banks have understood among the first to apply the basic principles of human resources management: assessing the human factor as a vital resource, and therefore correlation in an integrated manner, the human resource policies and systems with the organization's mission and strategy.

In order to achieve their objectives, banks have realized the importance of developing a healthy organizational culture, and invested in researching and influencing it. Generally, banks have invested in human resource management programs that aim to improve the efficiency and effectiveness of staff (increased productivity), reduce

absenteeism and staff turnover, increased job satisfaction of employees and increase the capacity for innovation, problem solving and change organization.

#### **4. Centralizing and automating the transactions processing activities and the challenges faced by the bank managers**

Territorial expansion of networks banks has to be accompanied by the streamlining of the business processes, so that the network to function optimally. Therefore, the expansion of the territory sales activity and bringing the sales channels closer to the customers are accompanied by the centralizing of most of the processing activities. Processing a growing volume of transactions with minimal cost brought to the forefront the need for centralization and automation of back office activities.

In this context, we consider the case of creating a processing centre for a bank in Romania. The bank in question was the date of implementation of a network of about 170 locations all over the country. Transaction processing was performed in each branch, by the local staff. At the branch level, there are both customer officer positions and payments back-office officer positions in some larger units. There is also a dedicated payments processing department in the head-office. In the view of centralization, the activities to be centralized have been thoroughly assessed in the first phase of the project.

Selected transactions to be centralized processed in the first phase of the project were:

- Execution of payment orders (domestic and cross border)

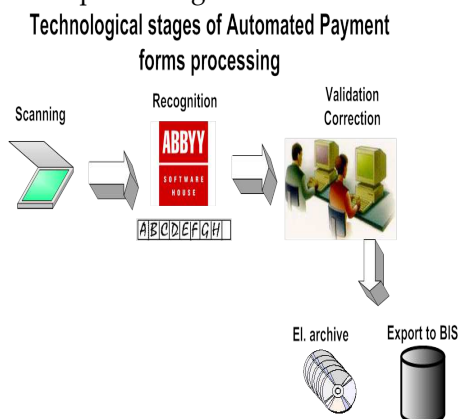
- Collection and payment of checks and promissory notes

- Foreign exchange orders.

Choosing the types of transactions as subject to centralization was influenced by economic and legal criteria (for example, legal provisions issued by the National Bank of Romania regarding the settlement through centralized payment systems).

The chosen technical solution was based on ABBYY technology, meaning the customers instructions (payment orders, cheques, promissory notes, foreign exchange orders) are received in the branches, scanned by the branch staff and processed by the head-office (processing centre) staff.

Fig.1 – The technical solution chosen for transactions processing



The project milestones were:

- reducing transaction costs by centralization;
- improving productivity in back-office activities by designing standard processes;
- increasing flexibility to customers' needs.

Following the project implementation, all processing activities were about to be transferred to back-office departments in Head Office. In addition, some processing

activities are going to be entirely automated.

The central goal of the project was organizing a “payments factory”, with the following features

- a) processing benchmarks have to be put in place, by types of transactions

- b) reduced interaction with third parties (internal and external customers)

- c) teams managed by supervisors who validate the transactions in the system

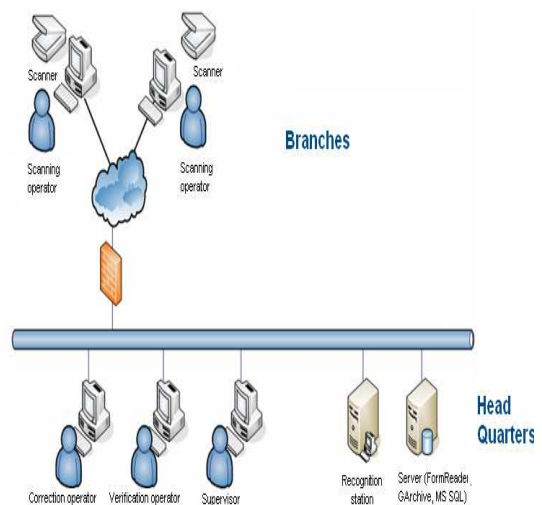
- d) KPI related to the amount and quality of transactions processed, depending on which is given a bonus.

The staffing strategy for the next period was determined after analysing the entire activities to be centralized:

- the branch staff having positions previously related to back-office payments processing are reallocated to other activities in the branch (sales, customer care) in a sub-project involving specialized departments (Retail, Human Resources).

- the new processing centre needs the correct sizing, so as to ensure the quantitative and qualitative parameters requested.

Fig. 2 - The architecture of the solution



The back-office division in the Head Office has developed several projects aimed at increasing the quality and efficiency of payment processing tools in order to improve the quality of customer service.

Fig.3 - The Summary of the activity analysis

Department: PAYMENT DEPT DAILY ACTIVITY										
Activity Code	Activity Description	Fixed or Var	Freq of Occur	ESTIMATES			ACTUAL			
				Time per Unit	Daily Vol	Daily Req'd Hours	No of Obsv	Time per Unit	Daily Vol	Daily Req'd Hours
1	Input incoming domestic payments	Var	d	0.25	1265.81	5.27		0.50	917.20	7.64
2	Authorization incoming domestic payments	Var	d							
3	Input outgoing domestic payments	Var	d							
4	Authorization outgoing domestic payments	Var	d							
5	Input checks / promiory notes to be collected	Var	d							
6	Authorization checks / promiory notes to be collect	Var	d							
7	Input outgoing FC payments	Var	d							
8	Authorization outgoing FC payments	Var	d							
9	Input payments in fav. other banks	Var	d							
10	Authorization payments in fav. other banks	Var	d							
11	Inputing incoming FC payments	Var	d							
12	Authorization incoming FC payments	Var	d							
13	Input available funds informations	Fixed	d							
14	Checking available funds	Fixed	d							
15	Input large value payments in TEMP	Fixed	d							
16	Preparing clearing seasion	Fixed	d							
17	Checking clearing seasion	Fixed	d							

Regarding the size of processing centre were taken into account many factors, such as:

- average number of personal necessary to process an average transaction volume;
- average number of personal necessary to process a high volume of transactions (so-called peaks, usually associated with maturity dates for certain transactions)
- temporary staffing to cover peak periods.

Determining staffing needs was followed by a period dedicated to the personal profiles need to be recruited to the processing centre, updating the job descriptions and

creating the new hierarchical structures.

The performed analyses showed that processing has several stages: primary processing, transaction authorization, effective settlement, transactions verification and control, and post-settlement services - reconciliation and investigations.

Therefore, the evaluation and ranking of positions were determined by comparing the factors of difficulty.

Staff must be within the following categories:

- a) operators for correction stations
- b) operators for authorization stations. It was determined that these operations can be performed with the same personal practice.
- c) teams supervisors
- d) settlement activity authorized operators (Electronic Payment System, Electronic funds transfer systems, etc.)
- e) authorized agents for settlement in relation to the National Bank of Romania
- f) officers for post-processing activities.



Fig.4 – Daily staff need schedule by hours

[illegible]

After establishing the recruitment needs (both quantitative and qualitative), the recruitment program was launched. Recruitment focused on finding and attracting qualified personnel for supervisors positions and unqualified staff (juniors) for operators positions.

Successful recruitment involves the use of traditional channels (print), modern recruitment channels (Internet or Web sites specialist recruitment) and alternative channels such as “networking” made by former or current employees.

These methods attracted many young graduates who were interested in developing a career in this field. References provided by bank employees have proven to be valuable, and those who make such recommendations and help recruit the right person for the organization have been rewarded in different ways.

An HR application allowed the integration with various recruitment portals. In addition, notices were published on the company's Web portal. Among the advantages of the use of the online recruitment channels, we could mention:

- A very accurate assessment of the impact of online recruitment notice. In most cases, the person concerned shall apply for a specific position through a link on the site. Thus, we will know exactly how many people have applied after publication of the notice for recruitment on the website.

- **Recruitment Process Automation.** Using the systems and their ability to integrate with websites or company's recruitment portal, the recruitment flows were simplified. The applicants filled out forms with the same structure as in the simplified centralized recruitment data.

- **Effective selection of suitable candidates.** The system has powerful features for managing external applicants. Information is entered into a common format, being easy to search the database by various features. Data structure is uniform for all applicants, thereby increasing the efficiency of the recruitment department.

CVs of applicants are the primary information in the recruitment process.

Among the CV entries stored in the system we could include:

- Education - an exhaustive description of studies of the applicant / employee.
- Skills - information about the skills and abilities gained in the profession.
- Professional experience - their career history of each applicant.
- Training and continuing professional development - will be included data on specialization courses by employee / applicant.
- Certificates and diplomas obtained after completion of the courses.
- History employee in the company - information on the positions occupied by the employee in the company and projects realized (section is devoted to internal

recruitment processes).

- Applicants' photos.

Generally, in the case described, internal recruitment did not bring a sufficient number of candidates. The main reason was the processing work did not appear to be challenging and properly rewarded. The tasks were "too repetitive" and there was a lack of motivation. Besides that, in the era of large credit expansion, the most attractive jobs were, of course, the ones related to the loans approval, not the back-office.

Regarding the external recruitment, the interviews with inexperienced people have concluded that their salary expectations were generally 30-40% higher than the offers that the company was prepared to do. Wage requests of the applicants were far above experience, skills and knowledge they proved.

Personnel selection was made according to criteria previously established, aiming at creating coherent teams which could successfully implement the new concept of processing centre.

These new employees were enrolled in an intensive training program. This program was created and implemented with internal resources. Given the fact that the technology used was supplied by a third party, its installation was accompanied by training programs for users.

Subsequently the enrolments of new staff, new key performance indicators and assessment criteria have been implemented.

One of the main obstacles that loom in the future work of processing centre is just one of those who have made recruitment difficult, namely work content itself.

Entry-level positions such as the correction stations operators are characterized by a high repetition of the task and a very small

variation. Therefore, in order to prevent the turnover of personnel due to lack of overview of these positions, a system of rotating positions has been created, aiming to bring more motivated employees. Thus, an employee can rotate the processing activity from one type of transactions to another, and can be trained to perform other activities of the centre.

Also, given that the employee's interest and motivation could not be maintained, usually, more than a year, a specific system of advancing was created. New employees proving the required skills are included since beginning in a training system that will allow them to take on new responsibilities as supervisors or authorized operators, after a period of time.

This model provided to existing staff the motivation and training, creating an experienced staff reserve that do not put the organization in difficulty in the event that some key people leave the organization.

Career management and employee skills were part of the plan adopted by the company. Through these activities, the company provides both the motivation of its employees and the staff forecast for medium and long-term.

Annual evaluations - are devoted to assessing the work of the previous year and identify opportunities for future career development.

## 5. The role of leadership in centralizing and automating the transactions processing activities

Despite the implementation path described above, the management noticed, shortly after going live with the project, that



the new processing centre had sign of not working properly. The employees proved they were not organized and do not act systematically. The supervisors system put in place did not work in a strategic way and the expected management changes were not appropriate.

What were the first signs that the processing centre needed a quick and consistent review?

Most of the employee did not achieve more of 70% of their daily targets, in terms of volume. Overwork and overtime appeared. The employees challenged the goals under the pretext that they are not real; they are very large or have no connection with reality. The employees proved they did not know how the objectives were described and consequently not submitted any effort to achieve them. Some of the employees achieved their goals only with high, unjustified costs.

The external pressure of the top management for achieving the goals very quickly intensified the stress. The supervisors made huge psychological pressure on employees to achieve their assigned goals and did not get nothing but more stress. The new processing centre procedures were not observed or assumed. There were a lot of malfunctions on the degree of achievement of objectives. The performance indicators were not achieved, also. The reports presented by the supervisors proved to be incomplete, inconsistent or ambiguous, and the evaluation system in place had no impact in motivating the people.

After performing a deep analysis, the results led to the conclusion that the management, operator/supervisor system with daily targets did not work in place. The people expressed their desire to feel more inspired, more comfortable with their work. They

demanded more appreciation for their work instead of KPIs, and more understanding for their personal skills, beliefs and emotions.

The new plan for improving the processing centre activity consisted in:

a) The supervisors were replaced by new team leaders. The team leaders were selected among the most skilled persons in terms of interpersonal communication, beside the technical skills. They had as objective to create coherent teams, able of working together for meeting the deadlines.

b) The specific daily target was replaced by general goals for each team. The team leader together with the team members, were free to adopt their own path and split of the daily activities, with the only condition of completing the general goals.

c) The rewards plans were changed in order to include non-material items: employee of the month, most dedicated person, birthday-gifts, invitations to lunch for the best team players, etc. These proved to be very useful and the general performance of the team improved within a few months.

d) The communication between the back-office and the branches (included the customers) have been established. This communication improved immediately the results of the work, mostly because of the new sense of sureness attached to their work.

e) The training sessions were extended.

This way, no new employee had left the company, and the long-term effects on employees, managers and financial results were excellent. The team leaders achieved the goal to cope with the new system and business management. Their ability to lead the team members toward the common goals made the difference in this project. The micromanagement tasks proved their limits. There were

the motivation, the vision, and the implication of the people that brought the success.

Now, the employees assume the setting and achievement of objectives. They are motivated and involved to succeed as a result of actual support received from their team leaders. The leaders and the head of the department are focused on mentoring and coaching activities of subordinate employees and less targeted to psychological pressure.

After the first six months initiating and implementing the above actions, the processing centre is recognized as one of the best organized system in the organization, with good results. The employees have proposed also other customer- oriented solutions centred on concrete actions to increase the business. The processing centre eliminates the malfunctions caused by lack of coherent control actions and results. The processing centre could now focus on growth and consolidation actions, and the employees are motivated to remain in the company and grow with the company.

## 6. Conclusions

In conclusion, we can say that the success of the approach to centralize all transaction processing activities depend to a large extent on the ability of staff to work effectively in a healthy and competitive work environment. The leadership is very important in order to create an environment where employees' results are recognized and they are motivated. Beyond the HR policies in place, the main responsibility of achieving the business objectives rests on the business line managers. Their abilities to lead people, more than their skills to manage the budgets, are essential. As Yukl & Van Fleet said, the leadership is viewed as a process that includes influencing the task objectives and strategies of a group or organization, influencing people in the organization to implement the strategies and achieve the objectives, influencing group maintenance and identification, and influencing the culture of the organization. This is definitively a winning way of doing business.

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