

## New Demands for Abilities and Skills of Knowledge Workers in the Financial Sector

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**Abstract:** Specialists in the financial sector have usually been regarded as knowledge workers. They use both explicit and tacit knowledge in their activities. Recently, the knowledge intensity of the financial sector increases and the share of work with lower knowledge requirements (e.g. clerical workers) is declining. The purpose of the paper is to point out basic tendencies in the knowledge work especially in the banking sector (which is the dominant part of the financial sector in Slovakia). These changes are mainly due to digitalization of banking distribution channels and products, but also due to other - mutually interconnected - factors (global tendencies at international financial markets and intensified competition, new regulations, etc). Effective implementation of digitalization requires radical changes in the organization structure and culture of banks and the ways of doing business, higher flexibility and also new and interdisciplinary knowledge of financial specialists. They are supposed to flexibly acquire and use their (mainly tacit) knowledge of local conditions and respect specific requirements of the basic segments of local clients.

**Keywords:** Knowledge workers, knowledge intensity of work in the financial sector, digitalization and organization culture, interdisciplinarity of required knowledge, role financial advisors under current conditions.

### 1 Introduction

Knowledge workers have always been present in the financial sector, however, the type and quality of knowledge required and knowledge intensity have been changing with the development of the financial sector.

Trading at stock markets always required some knowledge –both explicit and also tacit knowledge and intuition. Creative problem solving was indispensable, although up-to-date concepts of creative problem solving and knowledge creating and sharing were not used.

The work of these specialists was mainly individual, knowledge sharing was limited by personal factors, but also a legislation ( and this is true also today, e.g. insider trading).

Knowledge has been always important for bankers: their decisions, e.g. on granting a loan, had to be based on information about the clients, their solvency and creditworthiness, etc. Part of this knowledge was explicit and shared, but a lot of knowledge required for rational business decisions was of tacit character, based on personal experience and family tradition (not shared with others), Ordinary employees in banks performed more routine activities, with lower knowledge requirements, but independent problem solving was sometimes also important.

Although the concept „knowledge workers“ is often used today, there is not a consensus in defining the concept.

The mentioned knowledge requirements were typical practically for all developed market economies and with the development of a financial system the knowledge quality and intensity were increasing, which is true especially for recent decades.

In the recent history of the Slovakia's financial system there have been three points in time (waves) when knowledge requirements for work in the financial sector radically changed.

1. At the start of economic reforms, oriented on the transition to a market economy, a radically new knowledge and skills of the workforce in a financial system came to the fore (in comparison with the centrally planned economy). Know-how typical for modern central banking and commercial banking had to be applied. For Slovakia, after the split of the Federation, the learning of up-to-date central banking know-how was very important.

2. At the turn of millenium, with the massive entry of foreign capital into Slovakia's financial system, requirements on knowledge skills of banking management and work-force, significantly increased, Some new financial products and services were introduced and elements of a prudential commercial banking policy have been implemented.

The spread of knowledge was achieved by traditional forms of knowledge sharing, initiated by foreign parent companies. Those that were able to adjust, remained, but many workers (from the overpopulated banking sector in the 1990s) were fired. Over the years this new knowledge became routine.

3. Third, recent period of radical changes in knowledge requirements on financial sector employees and management, is typical for the last few years. These changes are caused by three main factors:

- recent development of IT technology and a trend of digitalization in the financial sector;
- intensive global competition between banks and also between banks and non-financial institutions;
- recent tendencies in the bank regulation at the international level that aim at preventing the outbreak of a next global financial crisis and protecting clients.

All three factors are mutually interconnected and shape the new environment for banks' strategy.

The objective of the present paper is to analyze the impact of the three mentioned factors on the required skills and abilities of financial sector employees (knowledge workers in this sector) with special emphasize on banking, which is the dominant part of the financial sector in Slovakia.

However, before looking at these issues, let's touch briefly the question *Who are knowledge workers we are going to speak about?*

For some authors knowledge workers are workers with higher education that use knowledge in their daily activities. Moreover, data on the number of workers with higher education are statistically available and measurable. However, this is a simplification and we cannot identify the two groups. Although many knowledge workers are university (and other higher education institutions) graduates, not all of these graduates actually perform work, where higher education is required. On the other hand, some highly creative individuals that can be regarded as knowledge workers, have got no university diploma. Such workers exist also in the financial sector.

Sometimes, knowledge workers are identified with IT specialist which can be understandable. However, not only knowledge of the most recent IT technology is required, but also a deep knowledge of a particular industry, where IT tools are to be applied, in our case knowledge of up-to-date-banking and other financial know-how and clients requirements. That means an interdisciplinary knowledge is required for both IT experts in the financial sector and bankers in a more traditional way. Without this interdisciplinary knowledge and close cooperation between two mentioned groups of knowledge workers the competitiveness of the financial sector will not increase.

Another approach to define knowledge workers in business organizations is to identify them with managers (mainly at higher levels). Managers (irrespective of the industry where they work) use mainly knowledge (explicit and tacit as well) in their activities and decisions. They are supposed to be able to make independent decisions and creatively solve problems. However, not all knowledge workers are managing a team, sometimes they have no subordinates. Majority of knowledge workers in typically creative fields are not managers,

In our paper we regard knowledge workers in the financial sector as specialists in the sector that use mainly knowledge (of interdisciplinary character) in their activities, are able to make independent decisions, are creatively communicating with the clients, meeting their requirements, knowledge acquired in this communication (tacit knowledge) are sharing with colleagues and management of the organization and in such a way they contribute to the knowledge potential of the whole institution. This knowledge is supposed to contribute to the efficiency and improved competitiveness of the company.

## **2 Digitalization in the banking sector and knowledge requirements connected with it**

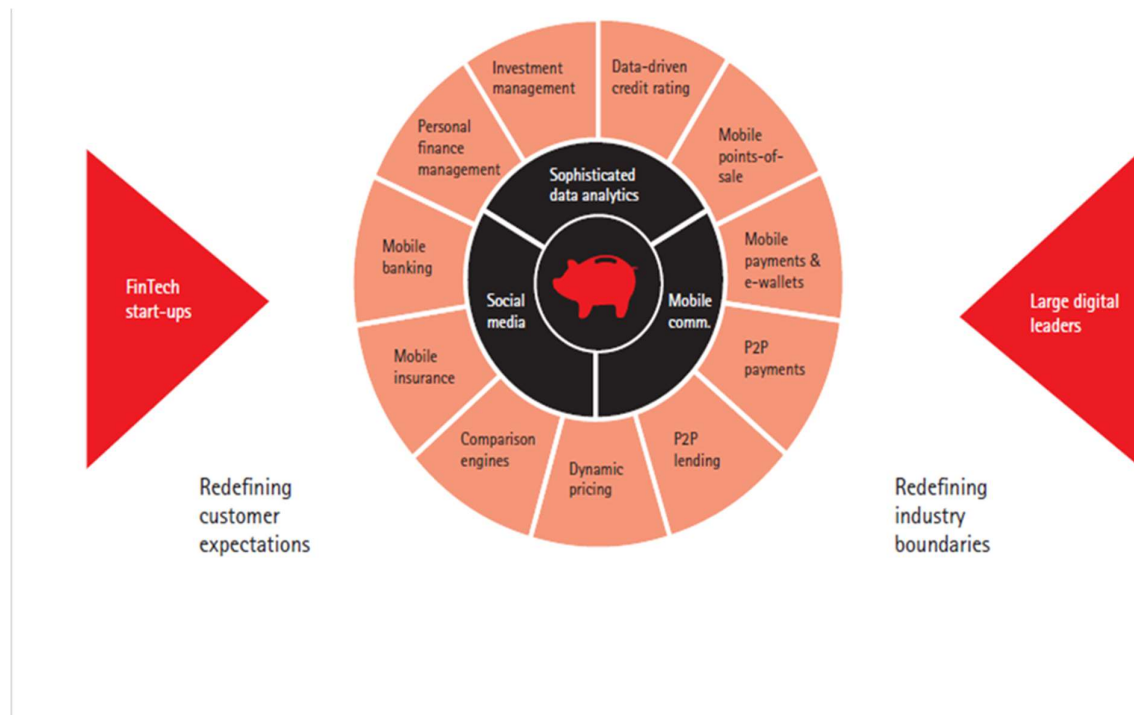
Digitalization is recently one of the basic trends in all financial institutions, but in our paper we'll concentrate on the commercial banking sector generally (this trend is important for all countries) and specifically on the banking sector in Slovakia.

Banks are pushed to digitalization of their products, services and communication channels by competitive pressure (also from outside of the financial sector), fundamental changes in customer expectations and motivation to increase profitability, sustain market position and improve the competitiveness in general.

Different factors influencing the digitalization strategy of banks are illustrated at the Fig. 1.

These factors include recent developments in the telecommunication sector and competition between banks and telecommunication companies, changes in the bank's products portfolio and the need for a more sophisticated data analysis, changes in customer requirements due to a new dynamics of their markets and globalization, etc.

Fig. 1 Digital disruption in banking



Source: Accenture Strategy p. 6

Taking into account all these factors, their potential benefits and risks (for the bank, for clients, etc.) and also local conditions of their importance, requires actually a lot of knowledge that financial specialist have to acquire, master and practically use. This is an interdisciplinary knowledge including knowledge on IT technology, corporate clients' requirements, local (especially retail) clients specificities, global competition trends, regulation and legal conditions, etc. A lot of this knowledge is explicit and can be shared by traditional forms (channels). Top management is usually initiating socialization of the most important knowledge within the bank, but can't discover everything that is important to know. Very often management is not aware of the fact that effective digitalization in banking requires also a radical change in the organization structure and organization culture and adjustment of interpersonal relations (A.T.Kearney, 2013, Kuhlman 2016)

Sometimes, the term „two-speed adjustment“ is used. This approach describes that banks are trying to make basic steps into digitalization as fast as possible (e.g. they create special department responsible for digitalization, rapidly include online based products and services). But on the other hand it is important also to apply online approaches to core banking activities, learn from step-by step approaches in using multichannel communication with customers, optimizing the branch network etc.

Individual knowledge workers can contribute to mentioned goals by developing appropriate software for digitalization, by getting experience (and forming tacit knowledge) from using the new online channels, helping customers to use the new forms of products and services and transforming general strategic guidelines into locally optimal solutions (using their knowledge of local conditions and clients).

Exploring ways to convert to a more digital business model is today typical for banks in all countries. However, steps taken so far depend on regional factors, e.g. regional banking

capacities, IT infrastructure in the country and IT skills of the population, domestic customer demands, market dynamics, regulation, etc.

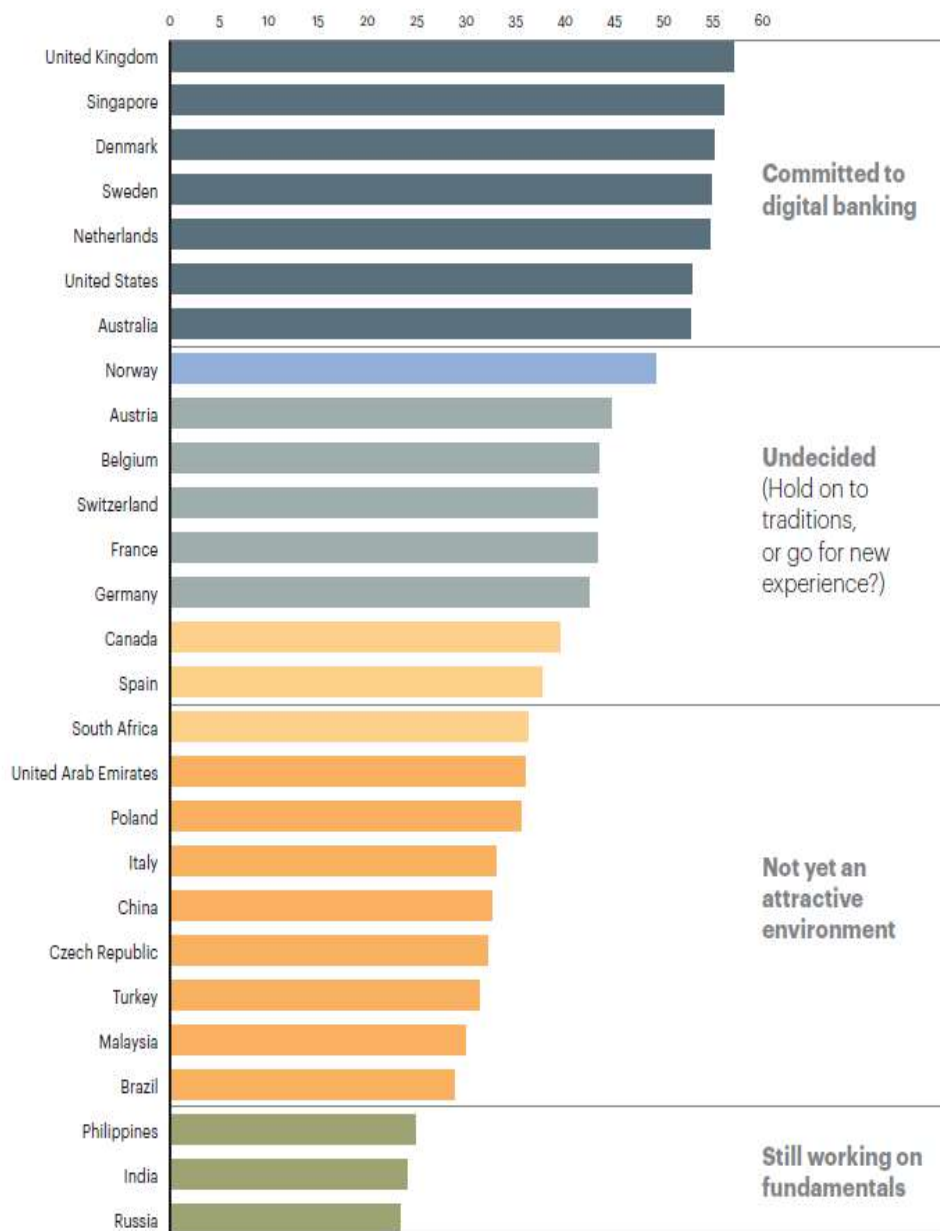
A. T. Kearney and Efma team conducted a research (A. T. Kearney, 2013) of the ways to digitalization and current achievements in the banking sectors of different countries. The team conducted in-depth interviews with leading retail banks in the world to better understand their approaches and motivation toward digitalization. On the basis of research results they constructed „the digital banking readiness index“ and the position of individual countries according to this index. This position is shown in Figure 2.

Slovakia was not explicitly included into the sample, but some occasional comment on the situation could be found in the report. On the basis of this and our experience we can assume that Slovakia belongs – together with the Czech Republic – into the third group, where banks, in principle, hold on to tradition, but are experiencing with digitalization. This is true in different degree for individual banks. These differences depend not so much on external environment (although different retail banks have different segments of clients with lower IT skills - older people or clients from countryside). As the banks in Slovakia are basically foreign controlled (the share of foreign owned banks in the total equity is more than 90%), the strategy, including the strategy to digitalization, is mainly determined by foreign parent companies.

Sometimes, products and services offered by banks – in the digitalization area – are up-to-date, but customers are lagging behind, especially customers in age groups 50+ (more explained in Sestakova, 2016). Sometimes clients prefer direct contacts before online communication and are not happy with too sophisticated products.

Irrespective of whether the way to a „digital bank of a future“ will be longer or shorter, human factor and knowledge of workers are always important and can be one of the decisive factors in the transition period. Interviewed banks in the research sample confess that they are lagging mainly in the organization culture and human factor to introduce the digitalization more effectively. This is true not only for top management level where decisions on strategy are taken, but actually for all levels – up to workers that are directly communicating with customers (at the lowest level of the hierarchy).

Fig. 2 Digital disruption in banking



Source: A. T. Kearney and Efma Global Retailing Banking Study

Taking into account communication with retail clients, *the role of financial advisors in bank's branches* is very important. Advisors should help the clients to work with the new technology and simultaneously also contribute to improving the financial knowledge background of the retail clients which is still very low in Slovakia. This means that they have to perform also some educational function. With extremely low interest rates, traditional forms of savings are not attractive and rational customers are more interested in allocating their money in investment funds. Majority of these funds are actually managed by bank groups within their assets management operations. Financial advisors should advice the clients where to invest and

what are the comparative advantages and disadvantages of different funds. This requires a deeper knowledge in investment banking and also of the recent developments at global and regional financial markets. The dynamics of changes at financial markets is very high and this knowledge should be permanently adjusted. To make their recommendations relevant to clients from different segments, advisors should understand the interests and financial position of the clients (something like the “family doctor” should know his patients) and also psychological skills and ethical behavior of advisors are very important. Of course, the abilities and practical approaches of many financial advisors do not meet these requirements so far, but this is an ideal to which the relation between banks and retail clients should move. For Slovakia, we can't believe that these issues will be automatically solved just by online activities.

The similar requirements are true also for the communication between banks (mainly banks' branches) and small enterprises. These enterprises are not able to find and interpret all the relevant information available on the web and direct advice is sometimes important.

On the other hand, cooperation with large corporate clients requires a deeper knowledge of some recent developments in IT technology (e.g. big data systems) and a closer cooperation with IT specialists from the corporation itself. Strategy oriented on corporate clients is usually determined at higher levels of bank's management. In the cooperation between banks and corporate clients there is a trend to establish a true multichannel customer experience; digital channels; new digital products; remote advisory (or combined direct and remote advisory) and real-time event management.

Meeting the mentioned objectives and challenges requires interdisciplinary and cross-cultural skills of employees and some corporate clients are complaining that banks in Slovakia are lagging behind in this field. It is clear that the digitalization trend will be a long-distance journey. However, human factor, its knowledge, flexibility and cooperation abilities, will be an important factor in this trend.

### **3 The Impact of Global Competition**

Use Recent developments at the world financial market and intensified competition between banks and also between banks and non-banking institutions are unquestionably the key factors influencing the strategy of banks under current conditions. This has been mentioned also in the previous parts of the paper. Extremely low interest margins compel banks to change the structure of their activities. Digitalization is just one form of cost savings in the long-run (but in the short run it can be very expensive) and attracting customers. Other forms of searching for survival strategy must be used as well. The definite solution is not clear and probably there will be differences between bank groups and strategies applied in different regions.

A specific feature of the banking sector in Slovakia is that it is actually controlled by foreign capital. Banks in Slovakia are parts of international banking groups and these groups or parent companies have always been regarding themselves as *global players*. The global reach of different banks' groups and the degree to which they were successful in their global strategy can, of course, differ and the control can shift from one foreign owner to another. Such changes are usually connected with new demands on knowledge, skills and culture of local managers. This is true not only for top management but also for managers and specialists at lower levels. IT systems and communication channels are usually adjusted to owner's requirements and employees are supposed to master not only new technology but also to flexibly use their existing tacit knowledge of local conditions to effectively implement global strategy in specific local conditions.

The new tendency in banks' strategy under current conditions is *forming strategic alliances with companies from IT industry*, especially from telecommunications. It's too early to evaluate performance of these alliances, but it is clear that some cross-cultural cooperation is important for their effective working. This again increases requirements on abilities and skills of financial specialists.

#### **4 New Tendencies in the Financial Market Regulation**

National and during the recent period also supranational regulation of the financial markets has always been an important factor influencing strategy and tactics of financial institutions and requiring the increased knowledge intensity of financial specialists. Today's financial markets offer an ever broader range of specialized financial products, which are often complex and difficult for investors to understand. Ensuring the transparency of such products is essential to improving investor protection in this area. (Hladký 2016).

New regulation in the European Union aims at protecting small investors and simultaneously at increasing stability of the financial sector and preventing the break-out of a new banking (and financial) crisis (Sooner – Taylor, 210). From the point of view of small investors protection the PRIIPs (packaged retail and insurance-based investment products) regulation is important which should start to apply in December 2016. This regulation introduces a standardized key information document for the group of financial products (Hladky, 2016). This document should make easier for investors to compare risks, costs and benefits of different financial products prior to investing. Financial institutions and also financial advisors working in them will be obliged to provide the information which could be regarded as ethical even before the new legislation will be introduced, but during next years will be officially required. Even for experts with a relatively long experience at the financial markets it is difficult to orientate in the complex regulation network. Demands on their knowledge significantly increase. At the beginning it will be mainly explicit knowledge, but with the increasing practical experience the new tacit knowledge will be formed.

Another regulation that will increase knowledge requirements and contribute to forming a more demanding environment for financial institutions is the so called MiFID II. (Markets in Financial Instruments Directive II). The main objective of the MiFID II package is to strengthen the existing legal framework and introduce a single European rulebook for investment services and investment activities, as well as for ancillary investment services (Oller, 2016). It broadens the scope of regulation and can be regarded as a response to technological advances in the financial investment business. Although primarily designed for Europe, it is expected to have global implications. It will intensify knowledge requirements for workers actually in all financial institutions and also in the non-financial companies (in their risk-hedging policy, the way how equity and bonds are traded, etc.). As it is difficult to forecast indirect impact of the mentioned regulation, the implicit knowledge and know-how will probably play an important role.

#### **5 Tentative conclusions**

Although the view that the work of specialists in the financial sector is becoming more knowledge intensive and new demands on this knowledge come to the fore, is almost generally accepted, there is no consensus on the reasons, forms and quality of the new knowledge

required. Moreover, there is no generally accepted view who actually belongs to the group (and social status) of knowledge workers.

Present paper tries to contribute to explaining the mentioned questions. Views and comments expressed in the paper are actually more hypotheses than conclusions. They are based on occasional observation and experience and a standard statistical investigation is still lacking (not only in Slovakia, but in other countries as well). Just the problem of digitalization impact is more analyzed in the literature, but with insufficient attention to the role of human factor in the process and interdisciplinary character of the knowledge required.

A lot of unsolved problems remain for future research.

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