

# HR leadership challenges

IN EUROPEAN FINANCIAL SERVICES COMPANIES

---

#### ABOUT SPENCER STUART

Spencer Stuart is one of the world's leading executive search consulting firms. Privately held since 1956, Spencer Stuart applies its extensive knowledge of industries, functions and talent to advise select clients — ranging from major multinationals to emerging companies to nonprofit organisations — and address their leadership requirements. Through 51 offices in 27 countries and a broad range of practice groups, Spencer Stuart consultants focus on senior-level executive search, board director appointments, succession planning and in-depth senior executive management assessments. For more information on Spencer Stuart, please visit [www.spencerstuart.com](http://www.spencerstuart.com).

---

## Executive summary

During 2009, Spencer Stuart consultants conducted a study looking at the key challenges facing the Human Resources function within the financial services industry. As well as exploring more long-standing challenges, we particularly wanted to discover how the 2008 financial crisis and ensuing economic slowdown had affected both HR strategy and the status of HR within organisations.

We interviewed HR directors and talent management directors of leading retail and investment banks as well as asset management and insurance companies. The overall picture that emerged from our discussions is one of companies in the midst of a rapid reappraisal of many of the main aspects of their HR strategy in the wake of the upheaval of a severe financial crisis. In the investment banking industry in particular, this has given HR a significant opportunity for HR to become more closely involved in key strategic decision-making over compensation and talent management. It remains to be seen whether HR functions will seize the opportunity brought about by the downturn to increase their influence inside their organisations and their ability to contribute long-term benefit to the business.

## Key themes

Several key themes emerged from our research. They can be divided into two categories — those that have arisen principally as a result of the financial crisis, and those that have been ongoing for a substantial period.

### POST-CRISIS CHALLENGES

#### Change breeds opportunity

The HR function is viewed differently according to the industry sub-sector, with property companies and insurance companies seemingly more likely to place HR directors at the heart of the strategic decision-making process in partnership with the business. However, the financial crisis has given rise to three key issues that provide HR in financial services companies with the chance to demonstrate the value of its expertise and elevate its image and status within these companies. These issues are: pay structure, intelligent and efficient downsizing, and the need for new ways to manage, engage and retain staff in leaner organisations where the financial rewards may be significantly reduced.

#### Pay structure

The financial crisis has brought the compensation structure within all financial services companies back to the drawing board. There is a widespread feeling that short-term pay deals encouraged risk-taking behaviour which, at least in part, contributed to the crisis. As a result,

growing pressure from government, media and the general public has resulted in many banks rethinking the way they pay their front-line staff. The need for greater transparency, a remodelled financial incentive for risk-taking, and more precise measurement of individual performance is a topic of much debate within these companies. At the very least, HR can anticipate heavy involvement in ensuring compliance with newly introduced and — in certain European countries — very detailed legal and regulatory requirements on pay.

#### Intelligent downsizing

A harsher economic climate has resulted in many banks downsizing their staff levels considerably. Reshaping the organisation so that it can ride the downturn with morale intact, while ensuring that it is ready to capitalise when the economy recovers, presents a clear opportunity for HR to prove its commercial value. Doubts were expressed about whether HR has so far managed to stamp its authority on this process.

### **A different organisation**

Banking groups that received state assistance during the financial crisis are unable, because of government intervention or popular feeling, to remunerate their staff as they had done previously. There is a danger, therefore, that key employees will be snapped up by those competitors that are not operating under the same constraints. Likewise, this reduced remuneration might potentially weaken the industry's appeal to

ambitious graduates. With pay no longer necessarily such a key motivator, other ways to attract, engage and retain staff need to be emphasised or discovered. Greater movement of people within the organisation is thought to be one way of resolving a potential talent shortage in certain departments after downsizing; it motivates individuals by giving them variety and valuable experience and has a clear developmental benefit.

## **ONGOING CHALLENGES**

### **Leadership selection and development**

Establishing a strong pipeline of potential leaders is important for any organisation's future well-being. In the financial services industry, organisations have often felt compelled to reward high revenue-generating employees with promotion to management positions, the results have been mixed — indeed, it could be argued that the inappropriate selection of managers contributed to the recent crisis. The industry as a whole is still grappling with this issue, thinking of effective ways to integrate star performers within the management structure without compromising standards. There was limited evidence that companies plan to stop promoting star performers, regardless of their leadership potential.

### **Improving supply of HR professionals**

The challenges that HR faces, both in terms of cementing its own position within an organisation and in devising effective and innovative strategies, requires a healthy supply of high-quality professionals. However, senior HR professionals we spoke to felt that this supply is currently inadequate, given the importance and complexity of these challenges.

## HR as a strategic partner

With the quality of an organisation's people deemed to be crucial to its success in a modern knowledge economy, HR has sought to broaden its remit. It has looked to move beyond its traditional, transactional role, managing administrative tasks such as recruitment, payroll and employee benefits, and build on its expertise with people to provide a vital contribution to company strategy.

*“The transformation to being more strategic takes years ... to shift both the organisational structure and the underlying capabilities within the HR teams.”*

HR has inevitably faced obstacles in this attempted repositioning, not least from senior executives who are accustomed to viewing HR as purely administrative, and who often doubt the commercial acumen of those within the function. Predictably, what we now see is a mixed picture, with HR considered a key strategic partner in some companies, but still very much in its old guise in others. The financial services industry reflects this variation.

Some HR leaders we spoke to believed that a combination of the downturn and specific difficulties within their companies have enabled a major change in HR practices that would not have been possible in another context. These activities include developing new remuneration models, introducing greater transparency, rotating internal resources around the business, making people more aware of risk, and enhancing the performance culture. Others were

adamant that plans for transforming HR's role had been in place long before the recession.

A general impression from our interviews is that HR departments are considerably more likely to have achieved a strategic role within asset management and insurance companies

than within banking. HR directors in these companies are more likely to occupy a place on the company's executive board and to report to the CEO, or have regular, formalised meetings with

him. However, one head of HR at an asset management company argued that the process of change can take a considerable time: “The transformation from being more transactional to being more strategic doesn't start one day and finish three months later. It takes years to shift both the organisational structure and the underlying capabilities within the HR teams.”

## Building influence

Before HR leaders are in a position to offer strategic advice to the executive committee, he or she must ensure that all the key aspects of the HR function are taken care of by competent, well respected individuals. With a strong department in place, it is essential that HR leaders align themselves with the commercial side of the

---

business. Only then will they find themselves consulted on a wider range of strategic issues.

One HR director pointed out that in order to be influential you have to have a “foot in the door”, take advantage of opportunities, and develop the confidence of others by demonstrating that HR is a commercial department. “One of the ways I influence is by always expressing a view. A former boss once gave me some excellent advice: ‘Have an opinion about everything; speak out, it doesn’t matter if people don’t always agree — try to move their thinking forward.’”

Needless to say, exerting influence is difficult if the head of HR is not a core member of the executive committee. Similarly, HR business partners need to be integral members of the senior management team of each business unit, or their opportunity to add value to the business will be minimal.

The ability to influence colleagues and strategic decision making is impossible without the ability to communicate. The value of using of clear, jargon-free language should not be underestimated and HR plays a vital part in communicating change and reinforcing the strategic direction of the business. “You have to be consistent, give everyone the same messages, and be honest with them. A lot of companies have a long way to go in recognising how important a decent communications strategy is.”

Where HR is seen by senior management as having a broader contribution to make, the rewards are high. One HR director reported being “regularly consulted on a huge range of activi-

ties, from disciplinary issues, to talent, development and recruitment.” Another was pleased to report that “HR is now seen as a central plank to the success of the business rather than almost a kind of necessary evil. Thankfully there’s no hint of that anymore.”

Others openly expressed or implied their frustration with the pace of change. Another head of HR at a rival asset management company pointed to the discrepancy between words and action: “If you asked the CEO and the rest of the team, I think they would tell you exactly what you’d expect to hear about the value of HR. The problem is that they haven’t got to the point of living it. HR is often told when a decision has been made, instead of being asked their view first. I am constantly banging on the door, saying ‘why didn’t you involve me in that?...it can be a bit wearing on the knuckles.’”

Discussion of a change in HR’s fundamental role has been continuing for several years now. For those companies where HR is not yet truly recognised as a strategic partner to the business, the financial crisis and the instability it generated has arguably presented a unique opportunity for HR finally to force its way into the inner sanctum of corporate decision-making.

What precisely are the areas where HR can now make a significant impact, and is it succeeding in doing so?

## Revisiting pay

Since the financial crisis began in 2008, the issue of bankers' pay has featured heavily in the media. Governments in different countries have imposed various restrictions on pay awards in banks that were bailed out with taxpayers' money. In these institutions, and indeed throughout the industry as a whole, there have also been

some moves to adopt unilateral measures to preempt regulatory interference or adverse publicity, or more importantly to encourage more prudent risk-taking by their own staff.

One Head of HR reflected a widespread desire to be perceived as acting responsibly: "We are a bank that wants to be seen to be doing the right things and responding to the environment. As a result, the pay process we went through at the end of the year was much longer and more tortuous because so many influences were coming into play."

What clearly emerged from our discussions was a sense of the complexity involved in making the system more transparent and in reducing the incentive for irresponsible short-term risk-taking without eliminating innovation. Regulators in various countries have considered, or have already called for, "clawback" arrangements, more collective rather than individual bonuses, and a shift to more long-term incentives.

HR will have a major job on its hands implementing and then tracking regulatory guidelines. The possible danger for HR is that it will assume a role of administrator in this very detailed process, but have little influence on the remuneration policies themselves. In other words, the upshot of the pay controversy may be precisely the reverse of HR's intended shift from the transactional to the strategic.

*"Those HR directors who have a strong reward bias in their profile tend to be the most effective."*

If HR is not yet sufficiently respected in financial services, especially in the banking industry, then such an important issue, affecting both corporate image and the compensation of senior executives, is unlikely to be delegated to them. One UK-based HR managing director at an investment bank appears to concur with this logic, implying that other senior executives will make the decisions, while HR is left to handle the vast amount of day-to-day paperwork:

"You'd almost need an entire department to deal with the Financial Services Authority (FSA) approach of deferring bonuses until the revenue impact becomes clear in the long-term. If you are tracking a structured product over a lifetime, you'd need thousands of people to model the profit and loss impact and the consequences for bonuses. The FSA is really pushing this and HR is in danger of losing control because boards and executives committees are taking the lead due to the sensitivities."

---

As for the pay deals themselves, there is still some doubt whether substantial change looms, or whether the banks will simply carry on very much as before, while at the same time making the obligatory concessions to the authorities. One Head of HR at an investment bank predicted that bonus levels would return to the record levels of 2007 within three years of the height of the crisis.

## Cutting back

Many firms have been administering a large number of redundancies since the onset of the recession. Deciding where to cut jobs and how to reorganise the smaller operation offers an ideal opportunity for HR to prove its worth. As one former Head of HR at an investment bank put it:

“If executed well, downsizing can really help HR make a very positive impression on senior management. HR departments must be able to show themselves to be nimble and responsive. If HR makes a good job of it, its standing will improve. If they mess it up, they will go back to being an overhead again.”

One HR director raised the dilemma of having to facilitate cost savings while trying to continue focusing on things like professional development and succession planning: “Our profile in the business is poor at the moment because

we’re the hit men.” “Dropping difficult issues at the door of HR and running away” was how another HR director described the position at his company.

But again, there is a sense that HR’s reticence might have caused it to miss an opportunity. “HR generally has been far too passive,” says one head of HR at a major bank. “We didn’t take the first step in terms of initiating or discussing cost cutting or re-sizing the business. Management did this and we were only really executing their demands. We could have been a lot more vocal about the issue.”

This eventuality might have been unavoidable. Recruitment policies in investment banks tend to have very short-term horizons, thus preventing HR from getting involved in planning a more measured, strategic approach. As one interviewee put it: “12 months is a long time in investment banks. Nobody knows what the firm will look like after one year, let alone three. It is impossible to think about recruitment in the same way as, say, a supermarket would.”

## Rebranding the banks

There is some evidence that bailed-out banks have been losing key staff to those competitors that are not bound by the same pay constraints. The head of HR at one bank in receipt of state assistance remarked that it was “very irritating” to see one of their arch rivals “cherry picking the best talent around.”

*“There needs to be a well-articulated message about the merits of staying.”*

Some feel, too, that the damaged public image of bankers following the financial crisis, and an overall decline in remuneration, will stem the flow of ambitious young graduates seeking to embark on a career within the industry.

This is a development that the insurance industry, sometimes viewed as the poorer relation within the financial services industry, has noted with interest. One head of HR at a major international insurance company believes that recent events have shifted the balance: “Insurance has not been good at attracting talent in the past. Now more people are willing to join our industry. The crisis can offer opportunity.” Another commented that “the relative attractiveness of insurance vis-à-vis banking is improving.”

In the banking world, opinion appears to be divided on this issue. One head of talent development at a European bank admitted a reduced interest among students, and believed that many graduates that would previously have favoured the world of finance today seem more intent on acquiring positions in industry. Others remarked

that banking would still be much more financially rewarding than most alternative careers, even if pay awards were substantially reduced.

But if the appeal of banking is indeed subsiding, then companies will have to rethink the traditional methods used to attract and motivate employees. As one HR managing director said: “There is a real need to hold on to talent. Lots of good people will take

this time as an opportunity to sit it out for a few years, and those remaining will think they won’t get paid the same and are unlikely to over-exert themselves. There needs to be a well articulated message about the merits of staying.”

However, details of how this is to be achieved remain sketchy. The most prominent idea — improving internal mobility — seeks to fulfil two objectives: to increase commitment, and to utilise available resources in the most efficient way possible.

One head of recruitment at an investment bank was asked to formulate an internal mobility strategy, offering employees the challenge of varied experience, while at the same time enabling the company to fill the gaps caused by large-scale redundancies and produce the well rounded leaders of the future.

In several other banks, however, putting such a strategy into effect remains a distant prospect. Several interviewees remarked on the very separate silos within their organisation, with

divisions unwilling to lend their best people to other divisions for a period. “Cross-pollination depends on the commitment of top management,” remarked one HR director of an investment bank. “At the moment they are not willing to transfer their best talent, even if that would benefit the group and develop new leaders by moving people from an expert role and giving them more generalist experience.”

*“Cross-pollination depends on the commitment of top management.”*

Some asset management companies appear to be more advanced in this regard, especially those where HR plays a more influential role. One head of HR said: “Like our peers in this sector, I plan to introduce a range of learning and development for key staff and provide people with other opportunities while their roles are underused. Examples would be secondment to agencies with which the company has close relationships, or to other parts of the business where people can use their skills to think more laterally about how to deal with the current economic climate.”

## Stars as managers

A perennial challenge facing all large organisations is how to deal with star performers. Should they be promoted to a managerial position, regardless of their potential in such a role, or risk their disillusionment and possible departure if such a promotion is denied?

In our survey, there was a widespread belief that top performers can easily end up as bad managers, with all the knock-on effects on morale that this may generate. “There are a few outstanding ones but the rest of them are disappointing,” said one interviewee. “We’ve had many instances

where putting a star into management has been a disaster,” says another.

Nevertheless, there appears to be little desire

to stop promoting such people. Indeed, quite the reverse, with several HR directors defending the established culture, where all managers are judged principally on how much business they bring in. One remarked that “many terrible managers still survive because being a revenue producer buys you huge kudos.”

Others appeared merely resigned to an inevitable state of affairs. One head of HR at an asset management company took comfort in the fact that the management standard is not as low as in other areas of the finance sector: “You don’t have the real nightmares in people management that you come across in investment banking. They actually do harm, whereas some of our people just don’t do much good.”

Damage limitation is deemed the most appropriate course of action. If the star performer can’t manage, so the theory goes, then put someone beside him who can. A chief operating officer who can compensate for his colleague’s shortcomings, and perform the nitty-gritty managerial tasks, is a popular policy. HR can also have a

role in masking deficiencies, as one interviewee pointed out: “Terrible managers need great HR people around them. As an HR professional, it was great to work for such managers as you got so much more responsibility.”

The skill most in demand today is competency in managing risk. As one HR director put it: “It doesn’t matter what job you do in the organisation, we are all being encouraged to be risk managers. Some people have done it for years of course. You can spot good leaders — managing risk comes naturally to them, they don’t think about it.”

To compound matters, financial resources are also currently in short supply. At precisely the time when HR is well-positioned to make an impact, individual departments may be unable to recruit the very people who could help them take advantage of this opportunity. One interviewee said that “HR has grown out of control and become too unwieldy to be nimble — there is obviously a cost attached to HR, and in this climate that cost is too high.” Another believed that the major challenge for his department was “to do the same work that we’ve always had to do, but with significantly fewer resources.”

## Finding the right people

Changing the role of HR is not just a matter of altering perception. Because of its relatively limited role in the past, there has not been the same need for people with commercial knowledge and strategic ability. One director of HR services for a management consultancy who specialises in the financial services industry believes that a shortage of the right people is now costing HR:

“One of the biggest challenges for HR in financial services is the question of supply; top quality HR people are still thin on the ground. In financial services, HR has often been very functional, reporting to the CFO rather than the CEO, and not building relationships with the different businesses throughout the organisation.”

---

## Conclusion: entrenched tradition

In some sectors of the financial services industry, banking still appears to linger on the periphery of the corporate hierarchy, hamstrung by residual attitudes, the industry's short-term nature and financial constraints.

It is not yet possible to judge whether HR in financial services has managed to exploit the opportunities offered by the crisis to bolster its standing. Our survey indicates that the image of HR as chiefly an administrative function, rather than one that directly furthers the strategic goals of the business is still deeply entrenched. Nevertheless, there are encouraging signs that HR leaders in many financial services companies throughout Europe are increasing their level of influence and making increasingly valuable contributions to strategic thinking at the executive committee level.



Amsterdam  
T 31 (o) 20.305.73.05  
F 31 (o) 20.305.73.50

Atlanta  
T 1.404.504.4400  
F 1.404.504.4401

Barcelona  
T 34.93.487.23.36  
F 34.93.487.09.44

Beijing  
T 86.10.6505.1031  
F 86.10.6505.1032

Bogota  
T 571.618.2488  
F 571.618.2317

Boston  
T 1.617.531.5731  
F 1.617.531.5732

Brussels  
T 32.2.732.26.25  
F 32.2.732.19.39

Budapest  
T 36.1.200.08.50  
F 36.1.394.10.97

Buenos Aires  
T 54.11.4313.2233  
F 54.11.4313.2299

Calgary  
T 1.403.538.8658  
F 1.403.538.8656

Chicago  
T 1.312.822.0080  
F 1.312.822.0116

Dallas  
T 1.214.672.5200  
F 1.214.672.5299

Dubai  
T 971.4.426.6500  
F 971.4.426.6501

Frankfurt  
T 49 (o) 69.61.09.27.0  
F 49 (o) 69.61.09.27.50

Geneva  
T 41.22.312.36.38  
F 41.22.312.36.39

Hong Kong  
T 852.2521.8373  
F 852.2810.5246

Houston  
T 1.713.225.1621  
F 1.713.658.8336

Johannesburg  
T 27 (o) 11 707.9460  
F 27 (o) 11 463.3371

London  
T 44 (o) 20 7298.3333  
F 44 (o) 20 7298.3388

Los Angeles  
T 1.310.209.0610  
F 1.310.209.0912

Madrid  
T 34.91.745.85.00  
F 34.91.561.42.75

Melbourne  
T 61.3.9654.2155  
F 61.3.9654.4730

Mexico City  
T 52.55.5002.4950  
F 52.55.5281.4184

Miami  
T 1.305.443.9911  
F 1.305.443.2180

Milan  
T 39.02.771251  
F 39.02.782452

Minneapolis/St. Paul  
T 1.612.313.2000  
F 1.612.313.2001

Montreal  
T 1.514.288.3377  
F 1.514.288.4626

Mumbai  
T 91.22.6616.1414  
F 91.22.6616.1444

Munich  
T 49 (o) 89.45.55.53.0  
F 49 (o) 89.45.55.53.33

New Delhi  
T 91. 124.469.6727

New York  
T 1.212.336.0200  
F 1.212.336.0296

Orange County  
T 1.949.930.8000  
F 1.949.930.8001

Paris  
T 33 (o) 1.53.57.81.23  
F 33 (o) 1.53.57.81.00

Philadelphia  
T 1.215.814.1600  
F 1.215.814.1681

Prague  
T 420.221.411.341  
F 420.222.233.087

Rome  
T 39.06.802071  
F 39.06.80207200

San Francisco  
T 1.415.495.4141  
F 1.415.495.7524

Santiago  
T 56.2.940.2700  
F 56.2.249.7883

Sao Paulo  
T 55.11.3759.7700  
F 55.11.3759.7736

Shanghai  
T 86.21.6288.8989  
F 86.21.6288.7100

Silicon Valley  
T 1.650.356.5500  
F 1.650.356.5501

Singapore  
T 65.6586.1186  
F 65.6438.3136

Stamford  
T 1.203.324.6333  
F 1.203.326.3737

Stockholm  
T 46.8.534.801.50  
F 46.8.534.801.69

Sydney  
T 61.2.9240.0100  
F 61.2.9240.0180

Tokyo  
T 81.3.3238.8901  
F 81.3.3238.8902

Toronto  
T 1.416.361.0311  
F 1.416.361.6118

Vienna  
T 43.1.36.88.700.0  
F 43.1.36.88.777

Warsaw  
T 48.22.321.02.00  
F 48.22.321.02.01

Washington, D.C.  
T 1.202.639.8111  
F 1.202.639.8222

Zurich  
T 41.44.257.17.17  
F 41.44.257.17.18

©2010 Spencer Stuart.  
All rights reserved. For  
information about copying,  
distributing and displaying  
this work, contact  
permissions@spencerstuart.com.

Sign up to receive publications in your  
areas of interest via email or RSS by  
visiting [www.spencerstuart.com](http://www.spencerstuart.com).

Amsterdam  
Atlanta  
Barcelona  
Beijing  
Bogota  
Boston  
Brussels  
Budapest  
Buenos Aires  
Calgary  
Chicago  
Dallas  
Dubai  
Frankfurt  
Geneva  
Hong Kong  
Houston  
Johannesburg  
London  
Los Angeles  
Madrid  
Melbourne  
Mexico City  
Miami  
Milan  
Minneapolis/St. Paul  
Montreal  
Mumbai  
Munich  
New Delhi  
New York  
Orange County  
Paris  
Philadelphia  
Prague  
Rome  
San Francisco  
Santiago  
Sao Paulo  
Shanghai  
Silicon Valley  
Singapore  
Stamford  
Stockholm  
Sydney  
Tokyo  
Toronto  
Vienna  
Warsaw  
Washington, D.C.  
Zurich