Equipping leaders to drive change in Financial Services
The financial services sector contributed 9.6% share of UK GDP in 2011, higher than in other major economies, and employed just over 1 million people in the UK. This highlights the important role that the financial services sector continues to play in the UK economy.

However, in an increasingly challenging and complex external environment, financial services organisations are battling with public hostility, economic and regulatory pressures and new market entrants, while attempting to remain focused on managing risk, increasing lending and serving customers.

In a period of unrelenting change, many financial services organisations are recognising the critical need to develop leaders to guide the organisation through the current climate, as well as positioning the business for sustainability and growth. This requires a new approach to leadership, to build essential skills such as resilience, agility and ethical leadership, to create an organisation and culture that rises above the recently tainted reputation of the financial services industry.

Key questions for financial services organisations include:

- How can organisations respond to the pressures of ongoing uncertainty, negative market perceptions and increased regulation and legislation?
- What are the implications for leadership development in financial services organisations?
- How can cultural change be achieved alongside operational change?
- How can employees deliver more with less?
- What role do values, ethics and responsibility play in driving change within financial services?

This white paper aims to explore the issues that the financial services sector is currently facing, as well as providing our best practice advice on what financial services organisations can do to develop effective leadership to drive change.

This report draws on research findings published in our 16th annual survey The Management Agenda 2013, a comprehensive survey of 1,460 directors and managers published in February 2013. The survey aims to highlight the key issues and challenges faced by today’s leaders and is widely recognised as a reliable indicator of emerging UK workplace trends. 81% of survey respondents work for organisations operating in UK markets. 115 respondents (8% of the total sample) work within the financial services sector, across all levels, from board director (8%), director/senior manager (40%), middle manager (45%), to junior manager (7%).

We hope you find our research findings and best practice advice valuable in helping leaders in your organisation to drive change. We welcome your thoughts on leadership development in financial services and look forward to hearing from you.

Organisational challenges

Our recent survey found that the top issues facing managers in financial services organisations revolve around coping with the current economic climate, as opposed to the main concern in the private sector generally around doing more with less resource.

Managing change

Over two thirds (70%) of managers in financial services organisations cite managing change as the main challenge they face, compared with two fifths (39%) of managers in the private sector overall. The majority (86%) of managers in the financial services sector believe their organisation needs to change in response to the external environment, two in five (38%) believing that their organisation needs to change a great deal or radically. Organisational change is therefore critical for financial services organisations to manage the impact of the external environment on business performance and sustainability.

Impact of the economic climate

It seems the impact of the external environment is more pronounced for financial services organisations, with three quarters (76%) of financial services respondents reporting that the current economic climate is having a negative impact on their organisation, compared to three fifths (63%) of managers in private sector organisations. In addition, concern over the economic climate has increased from one quarter (26%) of financial services managers in our 2007 survey, to one half (50%) of managers in our 2013 survey. Concern over the economic climate amongst managers in financial services organisations peaked at four in five respondents (82%) in last year’s survey.

2 References to statistics for the private sector exclude all financial services sector responses
Increasing regulation and legislation

Over three fifths (62%) of financial services managers report increased regulation and legislation as a key challenge, compared with only one quarter (23%) of private sector managers. Concern over increased regulation and legislation in the financial services sector has increased from two fifths (45%) of managers in our pre-recession survey in 2007.

Unsurprisingly, financial services respondents in our latest survey were also more likely to be concerned about interest rates (28% compared to 9% of private sector respondents) and the external political environment (26% compared to 17% of private sector respondents).

Pressure on employees

The challenges of doing more with less, maintaining staff morale and managing workloads, against the backdrop of the current economic climate, are also key challenges and more significant amongst financial services sector managers.

Almost three quarters (71%) of financial services managers report being under pressure at work and three fifths (62%) encounter more uncertainty in their day-to-day work. Employee engagement scores also tend to be lower for financial services sector respondents. Despite this, employees’ outlook remains positive, with over half of financial services managers reporting they feel secure in their job (53%), confident of finding work elsewhere (54%) and optimistic about their future (58%).

Concerns over staff morale, employee retention, increased targets and managing workloads are more significant amongst financial services managers than managers in the private sector overall. These findings suggest that leaders in financial services need to focus on engaging their teams and rebalancing the ‘employment deal’ if they are to retain their best talent.

Recruitment and retention

Interestingly, concerns over recruitment, retention, skills shortages and succession planning amongst managers in financial services organisations have reduced since our pre-recession survey in 2007, and concerns over employment relationships have fallen from 30 per cent to 12 per cent since last year’s survey.

This is at a time when organisations across most other industry sectors report increasing difficulties with recruitment, retention, skills shortages and succession planning, possibly as a result of austerity measures and budgetary pressure on salaries and bonuses.

Cultural change

With three in five managers (59%) in financial services organisations believing that culture has a positive impact on organisational effectiveness, and the majority believing their organisation needs to change, the need to drive cultural change is clear. However, only two fifths of respondents (38%) consider efforts to change the culture in their organisation have been successful to date.

Managers report that their organisations are better at implementing the early stages of change, such as initiation, planning and maintaining top-level involvement, than they are at the latter stages, such as implementing change, managing engagement and embedding change. Organisations are therefore in need of leaders with good, effective execution and implementation skills. The challenge in the current climate, then, may be both a leadership and management one.
Focus on leadership and talent

Our research has found that the leading strategic priorities financial services organisations are adopting for the future continue to be talent management (61% of respondents) and leadership development (60%).

Just over two thirds (71%) of financial services managers rate leadership in their organisation as positive or very positive, slightly below leadership ratings for the private sector generally (81%). This means that one in three managers (29%) in financial services rate leadership in their organisation as poor. We believe that addressing leadership development is a key priority for financial services organisations.

One third of managers rate leadership in their organisation as poor.
The leadership qualities that senior leaders in financial services organisations are rated most highly on are; an interest in implementing strategies, providing strategic direction and sticking to a strategic course of action. However, they are seen as least good at; admitting mistakes, adapting their leadership style to suit the situation, staying in touch with the frontline, ensuring communication and being visible – the more personal elements of leadership.

In terms of talent management, almost two thirds (63%) of managers in the financial services sector believe their organisation’s talent programme focuses on high potential individuals. Only one in seven (14%) believe that talent management includes everyone in the organisation. Whilst the vast majority (88%) of managers report that learning and development gained from talent management schemes was converted into intellectual capital for their organisation (at least to some extent), seven per cent of respondents say that this did not happen at all.

Managing the conflicting priorities of efficiency, risk and innovation

It appears that financial services organisations are more committed to investing in new technology (61% of respondents), new products and services (56%) and system or process redesign (56%) than private sector organisations generally, and are more likely to strive for efficiency savings (56%). Notably, the proportion of organisations planning to implement new technology has increased from 37 per cent in our 2007 survey to 61 per cent currently. This may, however, reflect a general drive for financial services organisations to improve efficiency, risk management, margins and competitiveness, rather than to enhance innovation.

Manager ratings of the effectiveness of internal policies and procedures within financial services organisations across a range of criteria are slightly lower than for the private sector overall. The exception is managing risk, with two thirds (65%) of financial services managers stating that internal policies and procedures are effective at reducing risk – clearly a priority for leaders in this sector.

Focus on values, ethics and corporate responsibility

Over one half (54%) of financial services sector managers believe their organisation’s stated corporate values reflect the values practised by management, compared with over two thirds (70%) of respondents from the private sector overall. This proportion has, however, increased from only one fifth (21%) of financial services sector respondents in our pre-financial crisis survey in 2007. Three fifths (61%) of financial services managers feel that their personal values are fairly well or very well aligned with their organisation’s values, compared with three quarters (75%) of private sector managers.

Reputation management is more of a concern within the financial services sector, with two fifths (39%) of managers citing reputation as a key challenge in this year’s survey, compared to just under a quarter (23%) of managers in the private sector generally. Our 2012 survey asked how well respected organisations were externally; 15 per cent of financial services respondents reported...
their organisations were not respected at all well, as opposed to only 3 per cent of respondents from the private sector overall.

Interestingly, ratings of how ethical financial services managers believe their organisations behave towards to their customers and shareholders (64% and 62% respectively) have increased over last year’s survey findings (51% and 50% respectively). Just over two thirds (69%) of managers in financial services report that they feel trusted at work, compared to almost four fifths (77%) of private sector managers, and trust in employers to treat staff fairly is slightly lower for financial services organisations.

Almost one half (47%) of financial services managers report their organisation has increased its focus on corporate responsibility, compared to almost two in five organisations (37%) in the private sector generally. The proportion of financial services sector respondents reporting Corporate Social Responsibility (CSR) as a key focus has doubled from 20 per cent in 2007 to 40 per cent in this year’s survey.

Managers in financial services also report an increased focus on managing diversity, from one in seven organisations (14%) in 2007 to one in three organisations (33%) in this year’s survey.

All of these findings reflect the importance financial services organisations are placing on values, ethical standards and corporate responsibility to enhance reputation, performance and sustainability within the sector.
With the latest CBI/PwC financial services survey\(^3\) reporting that financial services firms saw activity and profits rebound in the quarter to March 2013, as business volumes rose, accompanied by growth in fee and commission income, a rise in spreads and charges and a fall in average costs, predictions for further growth in the sector look promising. Addressing leadership priorities now will position financial services organisations for future recovery.

The research findings outlined in this paper identify a range of complex and interdependent challenges that place additional demands on leadership at all levels in the organisation. This calls for exceptional leadership. Financial services organisations therefore require new approaches to leadership development, to change the leadership mindset, build essential skills such as resilience, ethical leadership and agility, adapt to complex and changing circumstances and to drive change in anticipation of recovery.

So how can financial services organisations address leadership challenges…?

Based on our recent research and Roffey Park’s experience in helping financial services organisations with leadership challenges, we believe that adopting the following ten leadership development principles will help financial services organisations to drive the required organisational change.

1. Create the case for leadership development

Business leaders must commit to organisational and cultural change if the financial services sector is to be transformed. The complexity of today’s financial services environment requires a specific set of leadership skills to navigate conflicting challenges and our research reveals that senior leaders have identified the need to improve leadership as the main organisational strategy to drive future change.

We know that, for leadership development to succeed, visible sponsorship and the support of senior business leaders and stakeholders is essential, as is including leadership programme goals in key sponsors’ personal objectives.

We also know that any investment in developing leadership capabilities is ultimately for the benefit of the business. But for that benefit to be achieved, we are finding that organisations need to develop a culture in which good ‘leadership’ is valued as much as technical expertise and income generation. It is therefore essential that leadership development programmes are aligned to organisational goals and priorities.

Despite this, financial services respondents in our survey report the most common reasons for learning and development initiatives are personal development (53%) and compliance with regulation or legislation (29%), rather than for reward or in response to organisational change. Whilst aligning learning and development to organisational goals is important, it seems initiatives aimed at personal development are valued most positively by managers. A balance of organisational and personal goals is required to maximise learning outputs.

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\(^1\) CBI/PwC Financial Services Survey, reported in the CBI UK Economic Outlook quarterly report, June 2013
Develop learning and development strategies

A clear definition of the leadership principles, behaviours and competencies required by the organisation is key in developing the right kind of leadership. Using assessment tools to benchmark leaders against the desired competency framework will enhance leader self-awareness and authenticity and will also gauge quantity and capability within the leadership pipeline. The required competency framework can then be rolled out across the organisation, allowing for tailoring by business function or regional territory.

Our research into developing technical experts as leaders has also shown us that learning and development programmes work best in financial services organisations when they are fast paced, led by people who are recognised experts in their field and based on experiential learning. They should also be practically relevant to participants’ jobs, the demands they will face as leaders and the wider strategic goals of the organisation.

Focus on talent across the organisation

Our survey found that talent management continues to be the leading strategic priority that financial services organisations are adopting for the future.

Effective talent programmes should include high performers at all levels and aim to maximise value to the business by converting learning into intellectual capital. Designing talent programmes around the appropriate combination of experiential, coaching and classroom methods, depending on career level, will maximise learning impact.

Focusing on attracting and retaining the right talent into pivotal roles, which have a disproportionate ability to create (or destroy) business value, will impact business performance and competitive advantage in the immediate term.

When setting performance objectives, our findings confirm that leaders need to strike a balance between short-term performance targets and contribution to value, innovation and demonstrating corporate values. It is best practice to ensure talent management programmes include structured performance management and periodic 360-degree feedback to uncover performance issues, poor decision-making and risk management, competency gaps and to gauge peer feedback.

Develop managers into leaders

Our survey findings reveal that basic management skills such as dealing with underperforming staff and managing change are not up to scratch. One third (35%) of managers report that underperformance is not tackled at all well in their organisation and just under one half (46%) report a low level of support in their organisations, despite the majority (82%) also reporting a high challenge working environment. Without adequate support, the ‘employment deal’, and specifically the ‘development deal’, is reduced, putting employee engagement and change programmes at risk.

4 Roffey Park research report: The Expert As Leader, Gifford, J. and Finney, L. Roffey Park Institute, 2011
Levels of support are critical to ratings of leadership. Our research found that more than four fifths of managers who describe their organisations as offering high levels of support rate leadership in their organisation positively. It’s especially important to have a leadership infrastructure in place for mid-level managers, where people often need the most information and support.

However, good operational managers don’t necessarily perform well as leaders. Managing conflicting pressures requires a specific type of leadership, not only in terms of resilience but also in terms of self-awareness and being able to adapt to changing circumstances and priorities. A new style of leadership is required - coaching rather than directing, listening rather than asking and engaging rather than tasking. Leadership development programmes can build the skills, resilience and courage required to drive organisational change in the face of conflicting priorities and help managers to realise their leadership potential.

Globalisation, technological innovations and a focus on risk management has meant that collaboration is increasingly important for leaders in financial services organisations, to escalate and respond to risk issues and maintain competitive advantage. A culture of honesty and transparency is essential to managing risk.

Doing more with less

Our survey identified a reduction in concerns over recruitment, retention and succession in financial service organisations. Economic uncertainty, reduced rewards and the pace of change in the financial services sector seem to have reduced staff attrition, as employees stay put after weathering the storm. There is a known correlation between business performance and internal recruitment and financial services organisations are embarking on a strategy of doing more with less – being smart about growing existing talent and focusing on retention, engagement and succession management.

There is some evidence to suggest the bailed-out banks are losing key staff to competitors that are not bound by the same pay constraints. How can these organisations ensure they motivate people to stay and fill any talent gaps? Greater movement of people within the organisation is thought to be one way of resolving a potential talent shortage in certain departments after downsizing and will, at the same time, develop well-rounded leaders for the future.

Support managers to drive change

Although most organisations are embarking on change to ride the economic storm, change required within the financial services sector is more about managing reputational risk, protecting the brand, being customer-driven and ensuring sustainability, rather than making cost efficiencies and dealing with austerity.

Our research identified that managers from high support-high challenge organisations were most likely to report that culture change initiatives had been successful. Supporting and equipping leaders and managers to drive change is therefore essential for delivering change. Translating change initiatives into team and personal goals will help employees to
understand what they personally need to do to and will help with buy-in and implementation. Development programmes on strategic leadership will help individual leaders to understand business strategy, organisational culture and tools for change. Workshops on personal resilience and leading and delivering lasting change will ensure line managers have all the strategic, planning, implementation and interpersonal skills required to move people through the emotional and technical challenges of change.

Focus on cultural values and ethics

Financial services organisations are under immense scrutiny from the media, public, Government and regulators, amongst calls for greater regulation, legislation and accountability in the financial services sector. We know that the issues of trust, public perception and corporate image are urgent priorities for CEOs of financial services organisations.

To rebuild the industry’s reputation, financial services organisations will need to focus on a clear articulation of purpose, vision, values, ethics and responsibility to drive cultural change, yet these elements are often overlooked in traditional leadership development initiatives. Many of the leadership programmes we are developing for financial services organisations are focusing on aligning leadership behaviours with corporate values, ethics and managing reputational risk.

Implicit values and motivations are also important in financial services organisations. Reward and recognition strategies should be aligned with desired leadership behaviours and generating long term value, at the same time protecting against reward based on short-term results, excessive pay and incentivising inappropriate behaviours and practices.

Clear, consistent and transparent communication from leaders at all levels is essential to develop a culture based on trust, to encourage a sense of shared responsibility and to safeguard against a culture of speculation, over-optimism and blame. Professionalising the workforce by increasing the proportion of managers with industry body membership and professional qualifications will also help to embed ethical standards.

Equip leaders to navigate conflicting demands and uncertainty

A common theme we are currently seeing in financial services organisations is strategic management and leadership in a VUCA (volatile, uncertain, complex and ambiguous) environment. This approach considers the leadership behaviours of groups and individuals in the context of awareness and readiness for change. Learning models are designed around preparedness, anticipation, evolution and intervention. This enables leaders to adapt and respond to a changing and sometimes unpredictable external environment.

Focusing on self-managed learning and enabling participants to influence programme themes will ensure individuals take responsibility for their learning goals and how best to apply learning to specific challenges in their organisation. Group coaching and peer action learning will equip participants with a wider range of viewpoints and potential solutions to address leadership challenges.
Manage the tension between innovation and risk management

The Government, regulators and the market impose seemingly competing demands on banks at the moment; requiring banks to lend more, while at the same time restoring capital reserves and scrupulously managing risk. Managers in financial services organisations therefore need leadership capabilities that include phenomenal resilience, clarity of purpose, agility and responsiveness. Leadership development can fine-tune the essential soft skills required to lead effectively and navigate conflicting priorities.

Managing risk will help financial services organisations to survive the current climate. However, innovation is essential for customer loyalty and long-term sustainability. Strategic leadership programmes that recognise the conflicting challenges of embracing risk and enhancing innovation are valuable in shaping leadership behaviours, business practices and cultural shift.

Managing risk also extends to people risk, currently topical due to high profile business failures and high reward payments within the financial services sector. Organisations need to ensure adequate structures and systems are in place to effectively manage people risk.

Take a holistic approach

Due to the financial crisis and high profile banking failures, leadership and management have risen to the top of the agenda for financial services organisations.

The Chairman of the Parliamentary Commission on Banking Standards, Andrew Tyrie MP, stated in the latest report from The Parliamentary Commission on Banking Standards: “The HBOS story is one of catastrophic failures of management, governance and regulatory oversight”. He identifies leadership and management as the key failings. “The losses were caused by a flawed strategy, inappropriate culture and inadequate controls… a systemic management failure across the organisation”.

Banks will need to respond to Government initiatives such as the Independent Commission on Banking, focusing on capital and structural reforms, and other initiatives to increase lending, achieve greater transparency and curb executive pay and bonuses. Transforming professional standards and culture is critical to drive change and restore public confidence and trust in the financial services sector.

Equipping leaders and HR practitioners to take a holistic approach and consider organisational development, a systematic approach to improving overall organisational effectiveness, and to explore the interdependencies of organisational vision, strategy, structure, products, culture, systems and policies, is key to driving change within financial services organisations.

5 The Parliamentary Commission on Banking Standards’ Fourth Report An accident waiting to happen: The failure of HBOS (April 2013)
In this white paper we have outlined the challenges that the financial services sector is currently facing, as well as providing our best practice advice on what financial services organisations can do to equip leaders to drive the necessary change.

Our research has identified clear strategic issues for financial services organisations around managing the impact of the current economic climate, pressure on employees and driving cultural change. In addition, we have identified key strategic priorities around leadership development, talent management, equipping leaders to manage conflicting demands and focusing on values, culture and ethics.

We believe the challenges currently facing financial services organisations call for exceptional leadership and a new approach to leadership development, building essential skills such as resilience, ethical leadership and agility, to drive change and achieve business stability and sustainability.

Our top tips for equipping leaders to drive change:

1. Create the case for leadership development
2. Develop learning and development strategies
3. Focus on talent across the organisation
4. Develop managers into leaders
5. Do more with less
6. Support managers to drive change
7. Focus on cultural values and ethics
8. Equip leaders to navigate conflicting demands
9. Manage the tension between innovation and risk management
10. Take a holistic approach

Please contact us for more information on equipping your leaders to drive change:

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Roffey Park is an internationally renowned leadership institute based in the UK and Singapore. We develop people who develop organisations.

With over 65 years’ experience of leadership, organisational development, human resources and coaching, we provide executive education and research to many of the world’s leading companies and organisations.

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