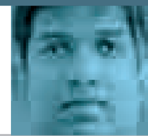
performance management



BY **Dharma Chandran**

The leadership challenge — building a culture of diversity and inclusiveness

What role did the leadership (both the boards and senior executives) within financial institutions play in causing the global financial crisis (GFC)? Certainly, journalists, politicians, academics and even many business people have argued or admitted that leadership must be held accountable for the actions of those employed by the organisations they manage and govern. The leadership was either aware of and sanctioned the risks that these employees were taking on behalf of the institution's shareholders, or were unaware but should have been aware given their role as the stewards of shareholders' funds.

It has become clear in the aftermath of the GFC that many senior executives and board members were simply unaware of or did not have the technical expertise and/or experience to fully appreciate the risk profiles of their organisations. However, there have also been revelations of unacceptable (from the perspective of prevailing community standards) and even illegal behaviour which led to some of the lax underwriting decisions in the American and British housing markets. In order to better understand the aspects of leadership failure that contributed to these behaviours, it is important to first understand the role of leadership within an organisation.

Leadership typically undertakes the following activities:

- Developing a vision for and establishing the values of the organisation;
- Determining the mission and objectives consistent with the vision and values;
- Setting strategy and deciding on the investments required to achieve the mission and objectives;
- Obtaining the resources (financial and people) necessary for and monitoring the progress of strategy implementation; and
- Evaluating the return on investments that have been made and taking the actions necessary to ensure these returns meet with shareholders' expectations.

In fulfilling the accountabilities described above, leaders exercise a significant influence on the culture (the collective values, beliefs, attitudes and behaviours) of their organisation. Some leaders make choices along the dimensions of vision, values, mission, objectives, strategy and investments that result in a homogeneous and exclusive or divisive workforce and organisational climate. Others make choices that lead to a diverse yet inclusive work environment. Participants within, journalists covering and academics who have studied the global financial services sector have observed that the sector was characterised by a relatively homogeneous and exclusive culture.

Workforces in the financial services sector, more than most, were male-dominated with divisions, departments and teams often consisting of people with similar educational backgrounds and demographic profiles, many of whom were recruited from the same past employers. The resulting culture was epitomised by the following characteristics:

- Extremely long working hours with physical health, family-life and mental/emotional well-being often sacrificed in the pursuit of success;
- Aggressive behaviour in the workplace which often spilled over into harassment and bullying;
- A focus on individual performance relative to peers (evidenced by the overuse of league tables) rather than team performance based on achievement against absolute targets; and
- An obsession with measuring success and achievement almost exclusively through the excessive compensation packages on offer.

Many banks in the US and Europe were traditionally led by senior executives from their corporate finance businesses (which earned fees primarily from advisory services pertaining to initial public offerings, mergers and acquisitions and so on). However, in the last two decades, these institutions began to generate a greater proportion of their profits from proprietary and client trading activities and therefore many of these organisations began to be led by executives from these businesses. The cultural attributes mentioned above were especially prevalent among the sales and trading staff in these financial markets business units.

In most financial institutions, there are a number of policies and principles in place that serve as checks and balances on excessive risk-taking. However, in organisations where the culture described above exists, many of these checks and balances are weakened or rendered ineffective. For example, many financial institutions have policies in place requiring staff to take compulsory annual leave of a minimum duration. In situations where the employees taking leave are in roles which routinely expose the financial institutions to credit, operational or market risk, this compulsory-leave policy enables the staff relieving in the role to review decisions or positions that have been taken for any breaches of risk management policy or regulations. However, in cultures described above employees often do not take leave because of their excessive workloads or for fear of losing their roles to overly competitive peers.

Many financial institutions also have "whistleblower" policies and mechanisms to ensure that employees speak up and expose breaches of policy and regulation when they uncover them. However, the effectiveness of these policies as a means of mitigating excessive risk-taking is eroded by cultures which are based on homogeneous workforces that emphasise conformity with the views of the group. This "group-think" undoubtedly led to the proliferation of collateralised debt obligations (CDOs) and credit default swaps (CDS) which spread globally the credit risk arising from the poor underwriting decisions in the US and UK housing markets, despite the inherently risky nature of these instruments.

Evaluating, recognising and rewarding performance based on the relative achievement of individual employees compared to their peers created a climate of internal competition that may have contributed to the poor credit underwriting decisions in the housing markets which precipitated the GFC.

So, how can the leaders of financial institutions ensure that they create a diverse and inclusive culture, especially for the future, to ensure that the climates within their organisations do not become conducive once again to the excessive risk-taking that led to the GFC? Conventional approaches to promoting diversity tend to focus on demographic quotas/targets including those for gender, age, race, religion and sexual orientation. These demographic segments serve as effective proxies to measuring the diversity of workforces but in themselves are insufficient. It is equally important for leaders to measure the culture of organisations on a regular basis (there are many tools available to do so) and to launch initiatives to redirect the culture in the event it departs from the diverse and inclusive environment that will promote long-term, sustainable success.

Hopefully, this article has clearly demonstrated the role that poor human resource (HR) policies and practices played in contributing to the GFC and will enable leaders and HR executives within the financial services sector to make the changes necessary to avoid a recurrence in the future. E

Dharma Chandran is a human capital partner and performance and reward leader with Ernst & Young Far East Area

CEO CONFIDENCE HIGHEST IN ASIA

Chief executive officers in Asia express the highest level of confidence about the business outlook this year, underpinned by increases in sales, employee numbers and fixed investment during 1Q2010.

According to the Young Presidents Organisation (YPO) Global Pulse Survey released on May 10, the YPO Confidence Index for Asia was 68.3, up by 2.6 points from 65.7 in 4Q2009. Globally, the YPO Confidence Index rose 3.2 points to 62 during the same period.

The YPO Confidence Index is an indicator of YPO and World Presidents Organisation (WPO) members' sentiment about the overall economic outlook. Indices below 50 indicate a more pessimistic outlook, while numbers above 50 point to a more optimistic one.

The April 2010 survey involved 1,308 CEOs worldwide, of which 187 were from Asia.

While the confidence index is positive among all regions surveyed, index movements are mixed. Six out of nine regions report rising confidence, with MENA (Middle East and North Africa) being the second most optimistic region after Asia. Confidence levels in Africa, the US, Australasia and Canada were below the global average.

MENA had the highest number of CEOs (44.5%) who indicated year-on-year growth of at least 10% in fixed investments for 1Q2010 whereas Canada had the most widespread sales decrease of at least 10%, followed by Africa (20.9%) and the US (21.8%).

In Asia, the manufacturing industry saw the biggest increases in sales and fixed investment for 1Q2010 while the services sector experienced the most volatile changes in employee numbers.

Large companies in Asia reported the highest number of increases in sales; small companies saw the most widespread increases in staff numbers while medium-sized companies had the largest upswings in fixed investment.

For 1Q2010, 62% of respondents in Asia indicated a sales increase, compared to the same quarter last year. This is more than the 49% of respondents who recorded a year-on-year sales increase for 4Q2009.

Fewer Asian CEOs report a year-on-year increase in headcount and fixed investment for 1Q2010 compared to the previous quarter, with the majority of them reporting no changes to headcount (57%) and fixed investment (52%).

Looking forward, while there are higher expectations for sales increases (78%) and fixed investments (56%) in Asia over the next 12 months, only 44% of CEOs expect headcount to increase over the same period, as the majority of them foresee no changes in this area (51%).

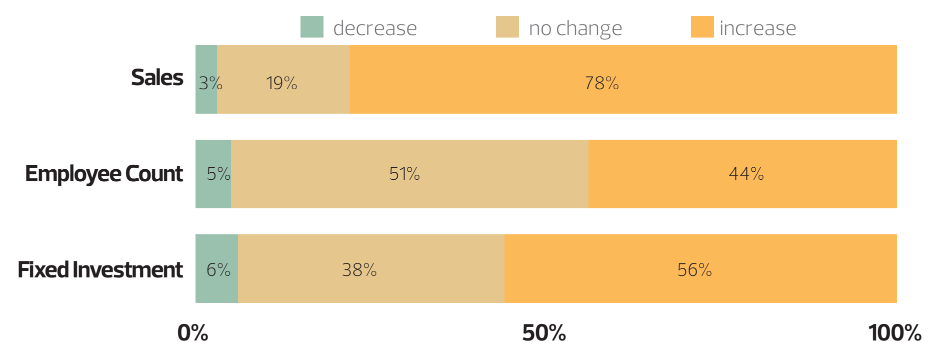
CEOs in Asia, non-European Union Europe, Latin America and MENA are the most optimistic for sales growth in the next 12 months. Globally, employee numbers are expected to remain, with more extensive staff count increases in MENA, Africa and Asia.

Generally, CEOs in Asia are positive about overall business conditions — 76% say the current economic climate is better than it was six months ago. Over the next six months, 69% say they expect further improvement, which is slightly lower than the 73% who expected the same in the January survey.

"This latest YPO survey suggests that Asian companies are poised to lead the world out of the global recession," says Courts Group CEO Terry O'Connor, president of the British Chamber of Commerce in Singapore and YPO Singapore chapter executive committee member. E

YPO GlobalPulse

ASIAN CEOS' EXPECTATIONS FOR THEIR COMPANIES OVER THE NEXT 12 MONTHS



SURVEY HIGHLIGHTS

- Looking ahead 12 months, nearly 70% of CEOs who responded to the April 2010 survey expect future sales to increase with non-EU Europe, Latin America, Asia and MENA (Middle East and North Africa) anticipating the most widespread growth. The majority expects employee counts to remain roughly the same, with the most widespread increases expected in MENA, Africa and Asia
- The 1Q2010 YPO Confidence Index for Asia was 68.3, up by 2.6 points from 65.7 in 4Q2009. Globally, the YPO Confidence Index rose 3.2 points to 62.0 during the same period. During the same period, 62% of respondents in Asia indicated a sales increase, compared to the same quarter last year. This is more than the 49% of Asia respondents who recorded a year-on-year sales increase for 4Q2009
- In Asia, the manufacturing industry has seen the biggest increases in sales and fixed investment for 1Q2010 while the services sector experienced the most volatile changes in employee numbers. Large companies in Asia reported the highest number of increases in sales; small companies saw the most widespread increases in staff numbers while medium-sized companies had the largest upswings in fixed investment
- Generally, CEOs in Asia are positive about overall business conditions – 76% say the current economic climate is better than it was six months ago. Over the next six months, 69% say they expected further improvement, which is slightly lower than the 73% who expected the same for 4Q2009