

**Financial Services  
Leadership Report**

# Winning leadership for the new economic climate



July 2009  
Leadership in Financial Services inquiry  
Conducted by Bath Consultancy Group

# Introduction



The banking crisis has had an effect on every aspect of the economy and business – but what is happening within financial sector organisations?

Has the culture of the organisation changed in light of industry events, how is the business responding to the change, are new strategies being effectively implemented and how are leaders coping with taking their organisation and people through the economic crisis?

These were some of the key questions that we were asking. This inquiry has enabled us to ask senior leaders in top-tier financial institutions both in the UK and abroad about how their organisations, their people and importantly themselves are faring as we navigate through this period.

There is unprecedented pressure placed on leaders. Operating under external scrutiny, maintaining motivation and morale, rapidly responding to changing conditions and rebuilding trust amongst many stakeholders are just some of the challenges being faced.

This report has asked in-depth questions of a select group of senior financial services leaders. We aim to understand the pressures, and by understanding to stand beside the industry to rebuild faith, morale and engagement so that the banks can thrive again.

**David Jarrett**  
**Chief Executive**  
**Bath Consultancy Group**



## Who we talked to

Bath Consultancy Group undertook interviews with senior leaders in financial services in May 2009. We conducted this inquiry with 35 senior leaders from major financial institutions. 46% of whom had been working in Financial Services for over 20 years; 27% had 10-20 years experience with the remaining 27% having up to 10 years experience. 85% of the leaders interviewed were male and the majority were in Retail, Corporate and Commercial Organisations.

# Inquiry overview

The key facts we established:

- 94% of leaders said their people in financial services felt little or no self-blame for the current banking crisis.
- 80% of financial services leaders agreed or strongly agreed that as a result of the banking crisis, the culture of their organisation is undergoing a fundamental change.
- 91% of senior leaders in financial services agree that they need to create new business strategies to deal with fundamental industry change. And these strategies need to be fluid to adapt quickly in the current environment.
- When asked if they have the skills needed to implement these new strategies, 29% of leaders said that they did not have the required skills.
- Of course it's not just organisations that have suffered, employees are also experiencing a vast array of emotions. When asked whether their organisations were successfully addressing the emotional and psychological needs of their employees, 30% of leaders felt that their organisations were successfully addressing these needs, while a third disagreed.
- 45% of leaders said the now limited ability to financially recognise performance has had a major impact on motivating employees. This is compounded by the change in bonus and reward structures which has also had a significant impact for 52%. A further 45% also said that the loss of future prospects and promotions and concern for long term security is also significantly impacting performance.
- From an organisational perspective the inability to set longer term objectives and uncertainty of overall bank performance is also impacting performance.
- Most organisations (45% plus) have not introduced strategy development, leadership development or personal coaching and this has had a significant impact for one in five leaders.
- Leaders commented that the training they and their people would need over the next 12 months includes:
  - Leadership training and Leadership in Tough Times
  - Improving operational processes
  - Performance management both at basic levels and in adapting to the new reward environment
  - Dealing with negative media
  - Change management

Leaders said that they needed “more emphasis on individual needs and personal coaching” and also “Customer focused propositions that provide a ‘win-win’ value creation for the customer and business”.

Another leader said “Meaningful communication that contributes to the new world order and communicates the future of financial services to the customer, the business and its employees.”

Following the findings of this inquiry we have included recommendations about how Executive Teams, HR Directors, OD Directors can respond.

- 1. Executive Teams – Building Culture, not fighting it**
- 2. HR Directors – Motivating Leaders and Leadership Teams**
- 3. OD/L&D Directors – Developing new Leadership capacity**

## Executive Teams – Building Culture, not fighting it

In these times of Government ownership of high street banks, politicians have never been more powerful, yet less trusted. Furthermore, banking leaders are increasingly highly visible to the public. All taxpayers now see themselves as shareholders in banks, as well as customers and therefore hold these institutions firmly to account. The levels of press-fuelled animosity toward senior bankers have not been experienced since the 30's.

Yet, there the inquiry shows that 94% of leaders said their people felt little or no responsibility or self-blame for the recent banking crisis. If individuals, managers and even leaders within financial services feel no responsibility, there is an enormous need for the culture to change.

An example of unsuccessful culture change can be seen in the regional commercial/retail banks. As the barriers between the differing banking sectors have been removed, so the cultures have tried to change. With Investment bank leaders having retail/commercial banks under their control the more aggressive 'Investment banking' culture has tried to be adopted.

Staff turnover highlights this culture shift. Over the last five years regional bankers with 25 years plus service are changing employers for the first time. One of the key reasons is that remuneration packages have changed from a predictable 10% bonus to a possible 100% performance bonus. It is this unsuccessful change in culture, attempting to replicate the Investment banking model, that many believe is at the core of the failure of many regional banking operations.

Now we see an attempted shift back to a previous model of the 'trusted banker'. Santander's recent adverts use the words 'prudent banking', a clear indication and admission that a new banking culture is now required to attract, sustain and develop business in these sectors.

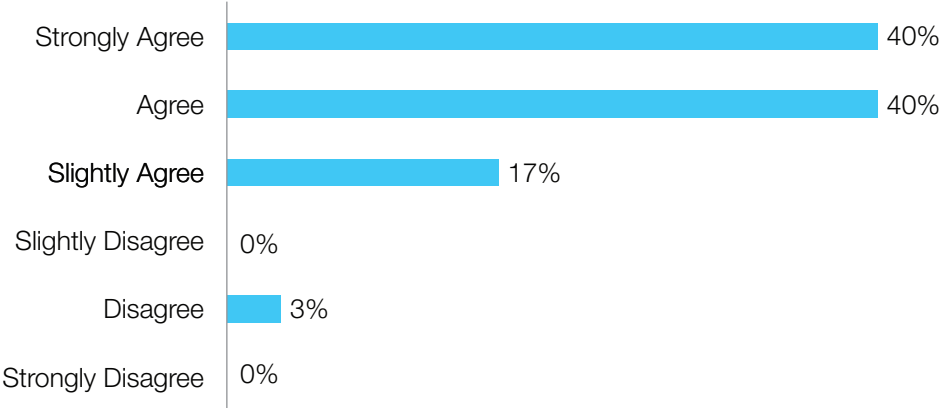
But does this promotion of a 'new culture' run deeper than just the advertising? Our inquiry finds that leaders are still reverting to previous reward mechanisms. 55.6% of leaders still see that a 'change in bonus structure' will have a significant impact on team performance.

*“My Organisation has not been directly hit by the crisis, thanks to the culture of due diligence when dealing with risk. This has not only engendered confidence in the management but also in the way we do business.”*

Successfully creating a new culture, or adopting a different one, requires very different leadership skills. Our inquiry demonstrates that few leaders believe they have the capability to deliver this change, and yet fewer still have any experience:

- 96% realise that there has been a fundamental change in the industry but only 16% feel they have the skills required to lead through it.
- As a result 80% agree or strongly agree that the culture of their organisation was changing.

**As a result of the banking crisis the culture of my organisation is undergoing a fundamental change.**



Leaders openly commented that the change in culture was mostly for the worst. In fact, senior leaders said that their culture was more “defensive to stakeholders”, “conservative” and had reverted to “short term fire-fighting mode with knee jerk reactions rather than a well thought out engagement on issues”.

On a positive note, one leader said that, “My organisation has not been directly hit by the crisis, thanks to the culture of due diligence when dealing with risk. This has not only engendered confidence in the management but also in the way we do business.”

In Banking, culture has often been led by brand, such as Merrill Lynch the Bull. Leaders must know what their employees understand of the current brand, how they relate to it and how can they begin to embody the brand. Equally, leaders must ask themselves what will the lived brand and new culture of successful banks be in the future.

Bath Consultancy Group has 20 years experience in working with Investment and Retail Banking sectors. This includes:

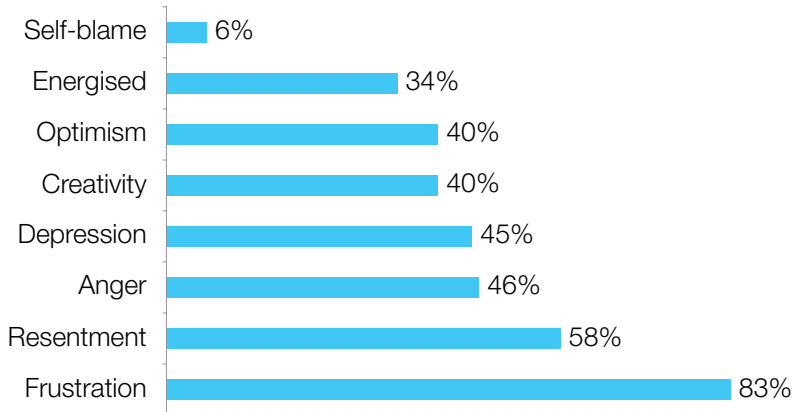
- Making culture addressable by analysing the insights of staff, clients and leaders.
- Connecting the external brand with the internal reality and creating alignment
- Bringing the new ways of working to life, making it real and practical
- Coaching individuals, teams and leaders to address culture, enabling new behaviours and shifting mindsets.

# HR Directors – Motivating Leaders and Leadership Teams

Our inquiry shows that between 60% to 68% of respondents are not feeling creative, optimistic or energised. This begs the question, if that is how the leaders are feeling imagine how the wider workforce feels?

Leaders say of their people that 83% feel frustrated, 45-58% feel anger, depression and resentment, yet only a small percentage feel they are to blame. This is a severe state of what it feels like to work in Financial Services. Yet, only 30% of leaders feel they or their organisations are addressing these critical issues.

## What people are feeling in financial services



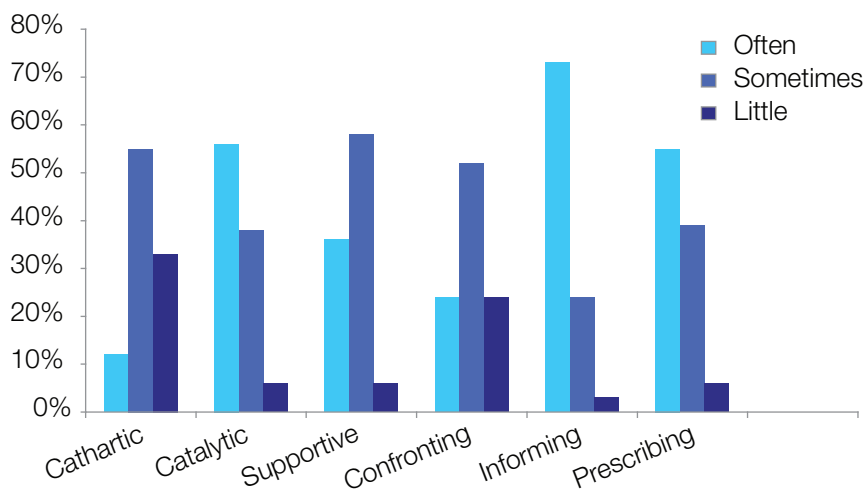
**Sample:** Those who responded 'Significant %, High % and Everyone'

It is widely predicted that this will be a deep 'U' shape recession with a few vibrations along the bottom. So new motivational skills will need to exist for a longer time than in the 'V' shape recessions we have experienced in recent decades. Many say that we will never reach previous levels and that 'normal' will have to be recalibrated.

*“Over the next 12 months, we need more emphasis on individual needs and personal coaching.”*

In these challenging and uncertain times leaders have gone into the comfort zone of telling, informing and encouraging. Few are using the behaviours to enable change such as supporting and allowing employees to release their emotions to move on.

## Leadership styles



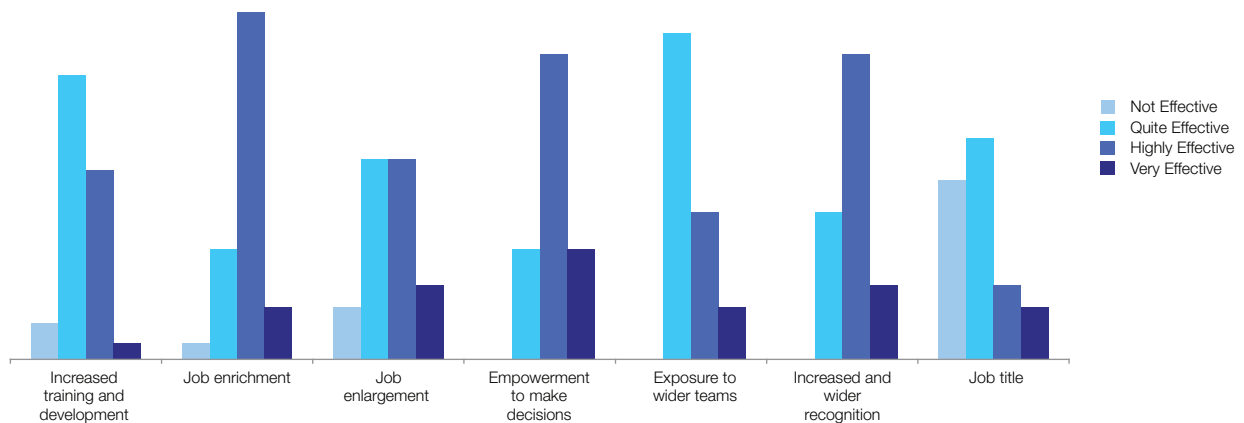
Leaders recognise that they need to support their people. They are taking on responsibility to:

- Create team positivity and motivation
- Maintain personal energy and motivation
- Give clear responses and direction

The danger is that Leaders might be falling into the trap of trying to make things better. This will mean they drive themselves and others harder, which is likely to result in Leaders burning out and Teams continuing to be demoralised. This is not the recalibration that is required for sustainable leadership and team retention and development.

As there is less certainty about relying on financial rewards to motivate, new skills are required. Our inquiry shows that recognition, empowerment and job challenge is what is needed. This flies in the face of what Leaders say they are doing i.e. telling, informing and encouraging. It needs a 180° shift.

### Effectiveness of Motivational Tools



Leaders need help to see this trap. They need to see an alternative way of adapting to the environment and enabling others to adapt, rather than trying to tightly control it.

*“Motivating people when there’s no vision is impossible.”*

Bath Consultancy Group’s experience of working with leaders demonstrates that with targeted support individuals can increase the range of their leadership and they can learn the necessary adaptive skills. Through coaching, working with intact teams or / and across layers of management we create a shift to a more sustainable way of leading.



# OD/L&D Directors – Developing new Leadership Capacity

With regulations on the increase, there is a greater focus on risk management. The troubles in the banking world are seen to be as a result of poor external investments such as the sub-prime market. The reality is that in many cases it is poor leadership that is to blame, chasing the wrong goals, focusing on short-term profit and not creating a sustainable business model.

So the financial services industry is faced with a dilemma, not dissimilar to many other areas of society. ‘Incarcerate or Rehabilitate’, lock down the industry with regulation, or invest in changing the outlook of the industry leaders. The Government is reliant on the tax income of banks returning to profitability and with a looming general election in the UK it is unlikely to instigate unpopular restrictive policy. So financial institutions must find their own solutions.

*“Being right in the past doesn’t help now.”*

The results of our inquiry suggest it is still not recognised that leaders need to be invested in, to equip them with the skills required to motivate and lead their people through these challenging times. This becomes more, not less important during uncertain times like these. It is easy to think that as Plan A has gone wrong, we should reach for Plan B which is cutting back on overheads, training and staff and then wait. Leaders in financial services in the past have given us re-engineering in the 80s, outsourcing in the 90s and in 2000 we had globalisation, so what for 2010?

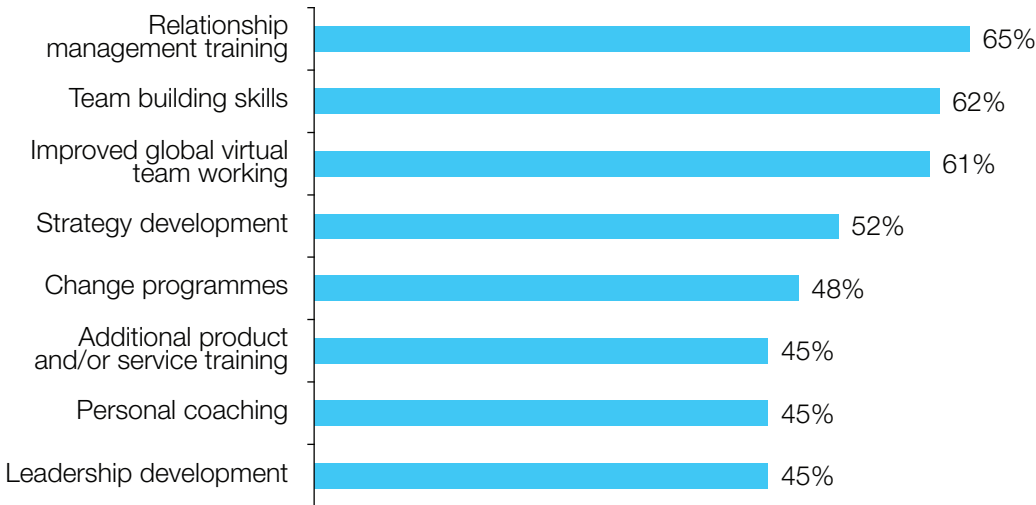
Plan B may not be enough this time. We have previously seen efficiencies and downsizing. As the saying goes, “There is nothing so useless as doing efficiently, something that should not be done at all”. So who is creating and executing the successful Plan C?

Our inquiry shows that institutions with strong leadership will emerge in good shape from the crisis and able to take advantage of their competitor’s weaknesses. We see a successful Plan C being about investing in leadership development.

The results showed that leaders are not sufficiently equipped with the skills they require and are relying on directive management styles at a time when adaptive approaches are required. Leaders recognise that they need to work on new strategies, 91% agree that these are needed but 29% are not confident that they have the skills required to implement these.

Leaders are also experiencing a lack of investment at every level. As businesses try to reduce their discretionary spend, leaders may not be getting the development they need to enable them to better tackle the challenges they face, and to create the successful Plan C.

### Percentage of leaders who are NOT receiving the following



The development approaches needed to bridge this gap have to have a different quality. They need to integrate business processes with client needs and the wider sustainability issues – not just focus on leadership competencies. The approach needs to focus on deliverables not entertainment. It should be embedded in work rather than time out in the training room.

*“Did we stand by our customers in the bad times?  
Then we will sure be able to service them in the  
good times as well.”*

Bath Consultancy Group's leadership approaches address the gaps. We provide what your leaders are asking for which pays back in addressing business efficiency, client delight, people satisfaction and carbon usage. We work with the real current and expected future issues which leaders are grappling and we enable them to develop themselves as they tackle these issues. We create connections between them so that you develop leadership across the business rather than simply competence in the individual.

## About Bath Consultancy Group

Bath Consultancy Group is a management consultancy specialising in Leadership and Organisational Change. Our aspiration is to be “one of the most impactful and influential organisation effectiveness and change communities in the world”, designed for clients who operate globally. Our approach is to work in close partnership with our clients, delivering tested content and co-designing which configuration is most productive. This means we combine our expertise in learning and change with the client’s expertise, as well as their understanding of the context, to create the greatest impact.

We have a good background and knowledge of the financial sector having worked at senior levels, for example with Citibank, Ernst & Young, CSFB and 3i. We have 20+ years of teaching, researching and writing about leadership, organisational and individual learning and culture change, acting as a two-way bridge between cutting-edge research and professional best practice. This includes major studies of global best practice in leadership development. Our programmes are therefore based on our findings of what is most effective in creating high performing leaders. They combine a skill base in theory with a focus on shifting behaviour through experience.



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