On the road to sustainable success in Financial Services: 
Four Strategies to Inspire and Mobilise Your Talent

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Executive Summary

The world has witnessed the biggest financial crisis since the Great Depression, and the resulting economic downturn will impact the global economies for years to come. At the heart of these events, the financial services industry has experienced unparalleled turmoil in 2009.

In the aftermath the crisis, as financial institutions seek a return to normalcy, there is a need to revisit key performance, talent and reward practices – both to rebuild performance levels and to regain the public and stakeholder trust that was lost during the crisis.

So how can financial institutions keep the momentum on achievement and recovery, without falling back on dysfunctional performance and rewards systems and behaviours that were prevalent before the crisis? What are the valuable practices that organisations should maintain and what are the levers for change that will support a more sustainable way forward?

High Performance organisations have integrated and aligned approaches to performance, talent and rewards management that inspire high achievement and high engagement across the entire organisation. The best practices of such organisations offer valuable inspiration for financial institutions in four specific areas.

Accountability for the right results
- Individual behaviours (the ‘how’) is explicitly included in goals and reviews, driving at least 30% of the rewards
- Balanced scorecards ensure that customer and society interests are served as well as shareholder value
- Leaders are made accountable only for results they drive

Rewards that motivate people to contribute
- Bonus payouts are partially deferred until business results are confirmed and sustainable
- Complex, multi-faceted LTI plans are revisited to improve their motivational impact
- Financial reward instruments contribute to performance and retention in meaningful ways; undesired side-effects are removed
- Non-financial rewards are used and valued as powerful levers to make people feel special

Opportunity for impact and growth
- Career development is predominantly about building future-critical skills, and on-the-job development is made real
- Leadership teams are diverse; the ideas and approaches of all are included

Trust that makes people feel valued and confident
- Employees are actively re-engaged to renew their commitment to the company after the crisis
- Managers have authentic, business-focused conversations with their employees
Introduction

In recent months, events at the largest multinational banks and insurance companies have rattled the world. Some banks have failed, others have been taken over and another group has received government support. Trust was generally lost and a worldwide economic downturn followed.

To make matters worse, most financial institutions failed to adjust their performance and reward practices in time, causing even further uproar. As a result, the debate grew larger and louder with the voices of new stakeholders – ranging from politicians to shareholder representatives to individual consumers. More than ever, performance and reward practices have become daily news in the headlines of well-respected newspapers and multimedia broadcasts.

Against this background, Lloyd Blankfein, CEO of Goldman Sachs said in a recent interview with *Der Spiegel* that a ‘new morality’ is needed: "As an industry we have an obligation to constantly reassess the way in which we do business. We have an obligation to ensure the safety and soundness of the financial system. We have an obligation to our clients and to society as a whole". The interview was widely quoted.

At Hewitt, we know that performance, talent and reward practices are important pillars that support the way companies operate. And to realise this ‘new morality’, financial institutions are looking to renew these performance and talent practices. It is a business necessity on the way back to profitability and growth. And now more than ever, this repositioning takes place in the public eye.

We believe that the aftermath of the crisis signals both the right time and the right environment to revisit key performance, talent and reward practices. In this position paper, we will offer a series of ideas and perspectives to inspire financial services providers when they look for new and better solutions, in order to restore the trust that was lost in the fallout of the financial crisis.

**Is the system fundamentally broken?**

Some economists have taken the position that the financial crisis has proved that the way in which we run the financial system is fundamentally broken. In their view, the singular focus on creating shareholder value and the misvaluation of risk of complex financial products has undermined the responsibilities that organisations have towards their customers and the society at large. Some have taken this discussion even further and question the ways we define and measure wealth (through GDP, for example).

We recognise that there is some truth to this notion. Recent events with leading financial institutions have revealed misbalances between the benefits gained by one group of stakeholders at the expense of other groups of stakeholders.

Improving these fundamental aspects of the global financial system requires fundamental interventions. In particular, many believe that such change will not come from within the system. Significant government regulation will be needed to make this shift; and in fact, some countries are already taking the first steps towards increased regulatory oversight. Having said this, we also believe that while further cross-national government regulation is being prepared, still significant improvements can be made by financial institutions themselves. The sheer size and complexity of the fundamental issue does not absolve them from their responsibilities to inspire their people to do the right things – for the company and for society at large.
The Foundations of Sustainable Workforce Performance

It has long been recognised that having a strong performance culture is a competitive differentiator for any organisation – a climate of spirit, energy, focus and results in which people know what has to get done and feel accountable to deliver that, are engaged and equipped to give their best, feel confident their contributions will be recognised and are building skills important for tomorrow. As the global economy recovers from the financial crisis, our clients are looking for ways to create this type of high-achievement, high-engagement culture and workforce, by focusing on the critical few items that will really make the difference.

When organisations seek to increase workforce performance, the drive typically comes from the business, initially. But business leaders turn to HR to provide solutions. While the capabilities and talent of in-house HR functions has seen great improvements in recent years, single HR disciplines (such as performance management, or compensation, or learning and development) have been unable to ‘crack the code’ and address the issue conclusively. It is time for a radically different approach, one that breaks through the traditional boundaries within HR. Talent, performance and reward challenges must be addressed holistically, bringing together all elements that encourage high performance.

In our experience, companies need an integrated approach that addresses five pillars for building a performance culture:

– An environment in which people are empowered to take accountability for the right results;
– Where people receive rewards that motivate people to contribute to sustainable success;
– Business practices that provide people with real opportunity for impact and growth;
– A climate of trust, in which people feel valued and confident, ready to give their best;
– Driven by inspiring leadership that sets the right direction.

In this whitepaper we will zoom in on four strategies for banks and insurance companies to improve their workforce performance and to restore the trust of their constituents – strategies that help refocus on what matters most in inspiring and mobilising their people:

– Renewing accountability for the right results
– Rebalancing rewards to inspire the right behaviours
– Repositioning people development
– Rebuilding trust

Currently, pressure is intense on leaders who play a critical role in shaping and impacting how these four strategies are executed. On the road to sustainable success, the most effective leaders will know which talent pools are ready for the future. They will work to retain them in a targeted manner and drive short term accountability, while re-orienting their teams to meet the dual challenge of building sustainability and growing.
Strategy #1: Renewing Accountability for the Right Results

Accountability is about establishing an environment in which people take responsibility for the right results. It revolves around managers clarifying performance expectations to their employees, cascaded from and aligned to higher level goals. It is also about on-going performance coaching throughout the year and about accepting a joint responsibility in realising the success of the organisation.

In a number of organisations, goal-setting has over time evolved into an instrument that is predominantly used to create a degree of objectivity and fairness in the approach to awarding bonuses and other short-term incentives. It is as if 'the tail is wagging the dog'. Instead, goal-setting should be a powerful method to steer and set direction ahead of time, aligning people and inspiring them to take personal ownership for their contribution – not just an instrument for justifying bonus distributions.

We offer three ideas to reinstate the importance of goal-setting:

- Improving the balance between the 'What' and the 'How' of individual performance
- Addressing imbalances in the focus between multiple stakeholder groups in goal-setting
- Strengthening the line of sight in individual goals

While these ideas are not necessarily new per se, many financial institutions have struggled to implement them well.

Improving the balance between the 'What' and the 'How' of individual performance

Since the introduction of such management ideas as management by objectives (MBO) and SMART objectives, it has become common practice for organisations to define what results they expect – both for the organisation at large and for individual employees. In recent years, many organisations have however realised that for performance to be sustainable, results only do not cover the full spectrum of success factors. In fact, particularly in service-oriented industry segments and in functional areas with a high degree of customer interaction, the way in which employees realise their goals – the behaviour that they demonstrate – needs to be considered as well. In high performance organisations, this element makes up at least 30% of the performance review.
Moving beyond the theory – quantifying the impact of values and behaviours on business results

In 2008, Hewitt worked with one of the world’s leading manufacturers of construction materials to analyse the importance of workforce dynamics on key financial metrics. We measured employee engagement and the degree to which employees demonstrate the company values and off-set this data against financial metrics such as EBITDA and Net Promoter Score (NPS).

The statistical analysis revealed strong correlations between employee behaviours (such as customer partnership, results orientation and collaboration) and employee engagement (passion) on the one hand and customer behaviours and company profitability on the other hand. For example, we found that in countries where employees were 10% more likely to promote the company, the Customer Loyalty Net Promoter Score was 18% higher than in other countries – taking the idea that employee behaviours influence customer buying behaviours beyond an intuitive ‘gut’ feeling to a measurable and demonstrable fact.

Source: client engagement study, Hewitt analysis

In our experience from working with companies across a wide range of industries and geographies, we have seen a number of ways in which companies make explicit what professional behaviours they expect from their employees. Most common is the approach in which demonstrated behaviours are reviewed in a second section of the performance review, complementing the review on results. Required behaviours may be expressed in terms of company values or in terms of job-related competencies and feedback and a rating is based on comparing demonstrated behaviours to these expectations.

Note that approaches like these offer managers much more accurate tools for giving their people the messages they need to hear to feel motivated, successful and (when appropriate) special. Managers for example might acknowledge and encourage certain behaviours while at the same time provide sharp (yet constructive) feedback when results lag behind. And in addition, these approaches offer HR a framework for identifying critical employee behaviours that have the greatest impact on results. Armed with these insights, HR helps to ensure that workforce investments are made in those areas that actually make a difference.

Such approaches accord well with the trend of increasing importance that companies and business schools give to integrity and social corporate responsibility (CSR). In a recent Harvard Business Review article, former Yale School of Management Dean Joel Podolny recognises that to date, "a focus on values-based leadership, and ethics has not been central to management education." Moreover, he says, "When ethics and CSR are taught, they are often flawed, too soft, not connected to the other courses, and considered less important than courses requiring detailed analysis of data."

In response, several business schools, including Harvard, Yale and Nyenrode Business School, have introduced new courses that address ethics, critical thinking, conflict resolution and leadership in international contexts. These courses will enrich the schools’ curricula and offer new means for companies to influence the behaviours of their leaders.

Addressing imbalances in the focus between multiple stakeholder groups in goal-setting

Over the course of the last two decades, we have seen the importance of growing shareholder value gradually increase. While many organisations profess to follow a balanced scorecard, organisational goals such as profitability and market share, customer satisfaction and product innovation have often become secondary to the dominant objective of generating shareholder returns. Recognition of corporate social responsibility has given some counterweight to this trend, but the shift has happened nonetheless.
Some have questioned the validity of this economic dynamic for retail banks. “We have significantly more assets on our balance sheet from our customer deposits than from our shareholders”, says Rob Hazelhoff, former ABN president in Jeroen Smit’s book The Perfect Prey. In addition to this, the daily reality for the largest part of the organisation’s workforce is far removed from creating value for shareholders. The interactions of the majority of business leaders and employees revolve around customers, colleagues and perhaps other stakeholders in society – but not shareholders. Clearly, there is a gap between the highest levels in the company and the vast majority of the workforce. The company’s approach to goal-cascading and goal-setting is perhaps the most important instrument to bridge this gap.

Many of the world’s leading companies tackle this challenge by having multiple dimensions on their goal plans (balanced scorecards), addressing the needs of different stakeholder groups. By ‘forcing’ managers to describe goals on multiple dimensions, goal plans by design avoid a too narrow focus. In addition, many organisations prescribe the relative weighting of the scorecard dimensions, to provide even further guidance on how goals and stakeholder groups need to be balanced. And to take this notion beyond a paper exercise, they also include a corresponding range of leader behaviours in their leadership values and competency frameworks.

### Strengthening the line of sight in individual goals

One of the key principles in increasing personal accountability is ensuring ‘line of sight’. People can only be held accountable for outcomes that they can influence through their professional contribution. As people build their careers and grow their impact on the business, their responsibilities gradually shift towards outcomes, away from input and activities. As a result, more often than not, their ‘line of sight’ becomes blurred, as those outcomes are to a degree impacted by factors beyond their control.

This is particularly true in the financial industry, where many means of value creation are highly volatile and depend on external factors more than on the efforts of the companies’ leaders and professionals. For example, in recent years, insurance companies and pension funds have been very successful, riding the wave of stock market growth, only to drop off the cliff when the stock markets collapsed globally during the financial crisis. Similarly, real estate portfolio managers that have benefited for many years from upward market dynamics now face a downward trend that is largely outside their influence.

We cannot deny the impact that top performing fund managers have on value creation but we should not overrate their impact either – neither in good times nor in bad times. While we should not shy away from setting challenging goals to our best people, we should be careful not to reward (or punish) people for events that are outside of their control.

We are seeing some financial institutions re-evaluate the role of their executives in the value chain of the organisation. In the past, there was a tendency towards holding leaders accountable for the entire total value created, in a way ignoring the impact of the larger organisation and the business environment on these results. In the aftermath of the crisis, these financial institutions are now focusing accountabilities more on those parts of the value chain where leaders and their own organisations have the major, driving impact.
Strategy #2: Rebalancing Rewards to Inspire the Right Behaviours

In the previous chapter, we suggested that in some cases there might be something broken with what gets rewarded – for example, bonus schemes that inadvertently motivate the wrong the types of behaviours. While the importance of (financial) rewards in driving individual performance cannot be denied – in the financial industry perhaps even more so than in other industries – practice has shown that in some cases there might also be something wrong with the rewards itself.

Banks and insurance companies might consider the following interventions to rebalance their rewards instruments:

- Partially deferring bonus payout until results are confirmed and sustainable
- Selecting an appropriate mix of LTI vehicles, including cash-based programmes
- Revisiting the use of financial rewards instruments against what they aim to achieve
- Extending the use of non-financial rewards
- Actively influencing the public opinion

**Partially deferring bonus payout until results are confirmed and sustainable**
Most companies have introduced short-term bonus schemes to reward people for exceptional results. The purpose of such bonuses is to inspire people to go the extra mile, by awarding them a part of the extra value they create for the company.

By design, such short-term bonus schemes have two characteristics:

- they inspire people to focus on the short-term, because they reward people for the short-term contribution;
- they only offer upside potential: when people realise positive results they share in the profit, but in times of negative results, they don’t pay back.

In combination, these two characteristics lead to some of the problems we have recently seen when short-term gains get in the way of ensuring the long-term sustainability of the business.
In addition, we need to realise that it has become increasingly difficult to accurately and confidently measure and report financial success. The sub prime mortgages that sit at the root of the financial crisis are a case in point: re-assessing the risk associated with these mortgages has resulted in revaluation of these mortgages, revaluation of the financial vehicles that repackaged these mortgages, and subsequently, depreciations of bank assets – resulting in multi-billion losses with many of the leading financial institutions in the world. But the bonuses that rewarded the sales of these sub prime mortgages have already been paid out several years ago.

One way to address this issue is to establish a staggered bonus pay-out plan, in which a part of the bonus award is paid out in later years, but only when this year's performance has not been readjusted based on new insights. Note that this solution avoids the disadvantages of claw-back clauses that enable (partial) reclaim bonuses that have been paid out.

In general, we feel that companies would benefit from repositioning their bonus schemes. In some cases, the bonus scheme has become 'another way to increase the total pay package' – and by result, employees experience their bonus as something they are 'entitled' to. This sends the wrong message. We need to return to the original objective of bonuses: a means to inspire people to go the extra mile and to have them share in the additional value they create for the company.

**Selecting an appropriate mix of LTI vehicles, including cash-based programmes**

Long-term incentive programmes play an important role in anchoring the attention of leaders to the long-term development and sustainability of business success. Over time however, we have seen these programmes become increasingly complex, with a wide variety of combinations of performance shares, stock options and other financial constructs. In some cases, the direct link between leadership actions and individual reward has become diluted.

The aftermath of the financial crisis provides a powerful environment for revisiting the mix of long-term rewards. As regulatory changes in some geographies demand such a review to a certain degree anyway, there is a window of opportunity to look more broadly into the motivational effect of the current LTI mix. For example, upholding the principle that stock ownership encourages a leader's long-term perspective, what is the best way to include stock into the long-term incentive plan? Or, taking the position that a cash bonus provides a straightforward view on a leader's earnings potential, how can a cash bonus be used to inspire the right behaviours?
Stakeholder capitalism in Scandinavia

Can top executives only be driven by money? Are six-figure bonuses the only way to attract and retain talent? There are those who claim the only answer to these questions is a whole-hearted ‘yes’. And Hewitt’s research into engagement with executive leaders confirms that wealth creation tops the list of engagement drivers for them.

Having said this, when examining successful businesses in the Scandinavian countries, this notion turns out to be less than an absolute truth. These countries pride themselves on a system that is driven by ‘egalitarianism’ on all fronts: from small wage differences aided by a progressive tax system and high minimum wages, to minor social differences and a life-style revolving around modesty, rather than status. The Scandinavian business model is also known as Stakeholder Capitalism, and involves continuous collaboration among an array of stakeholders, including employers, employees and politicians. Employees are intrinsically motivated, they put the team before themselves, work in flat non-hierarchical organisations characterised by informality, honesty, creativity, practicality, transparency and openness. Self-fulfilment is very important to most and by drawing a strict line between work and private life, they are able to enjoy a better life-work balance than most of us will ever know, with a 37.5 hour work week.

Will we ever be able to attain such a state, or is emigrating to Sweden or Denmark the only way? Does this all sound too good to be true?

When considering the viability of this approach to business management, it is worth nothing that the Global Competitiveness Report 2008-2009 (which assesses the ability of countries to provide high levels of prosperity to their citizens) reveals that the United States is not in the top spot anymore, while three Scandinavian countries have entered the top six: Sweden is in 4th place, Denmark in 5th, and Finland in 6th. And while Scandinavia may not be a leading country in the financial industry, companies like Nokia and IKEA do demonstrate that global financial success is possible in this model.


Revisiting the use of financial rewards instruments against what they aim to achieve

Companies use a wide variety of financial instruments to reward their employees: base pay, benefits, short-term bonuses, long-term incentives, perquisites, etc. These instruments aim to realise a variety of talent-related objectives: reward for performance, drive desired behaviours, retain key talent, attract key talent, etc. While rewards practices vary somewhat between geographies and industries, general rewards theory provides valuable guidance on what instruments are best suited to achieve certain objectives. For example, short-term bonuses lend themselves well to reward last year’s performance and share plans and sign-on bonuses lend themselves well to hire key talent.

Over time, many companies have allowed this distinction to become somewhat diluted. A common example is the use of salary increase as a tool to retain employees – and by using last year’s performance as baseline for this increase. This could raise questions with employees, to the point that this method fails to meet its objectives. Is your salary a reflection of your capabilities and experience? Or is it a reflection of your importance to the company? Or both? What happens with your salary when your skill set becomes less critical? And, if salary increase will be paid going forward and indefinite – how does that match with using last year’s performance which is looking back and one-off?

Extending the use of non-financial rewards

Since the research studies done by Frederick Herzberg, we know that pay on its own is insufficient to motivate people to deliver high performance – pay is a hygiene factor. Even though we know that wealth creation tops the list of engagement drivers with executive leaders, even there financial gain alone does not inspire high levels of performance. In fact, companies that offer a balanced mix of financial and non-financial rewards do generally experience higher engagement levels, and by result, higher productivity.
This notion of complementing financial rewards with non-financial rewards accords well with findings from several generational studies into the motivations and drives of people. In a recent Harvard Business Review article, authors Hewlett, Sherbin and Sumberg address the upcoming leaders from Generation X (born between 1965 and 1979) who are faced with a workforce that includes both Baby Boomers (born between 1946 and 1964) and Generation Ys (born between 1979 and 1994).

Their research has revealed that members of both these generations share the same workplace and reward preferences – and these are radically different from what drives members from Generation X. “At the highest level, our finding is that people, especially Gen Ys and Boomers, are looking for what we call a ‘remixed’ set of rewards: flexible work arrangements and the opportunity to give back to society trump the sheer size of the pay package,” they write.

This is an interesting finding firstly because those Generation X workers start making it to senior positions over the course of the next decade and secondly because both the Baby Boom Generation and Generation Y are roughly twice the size of Generation X.

Creating a new rewards mix is both a challenge and an opportunity. It can difficult because it means letting go of cash as the prime motivator and identifying exactly what other rewards are valuable to employees. At the same time, it provides opportunities when financial rewards are difficult to fund.

**Actively influencing the public opinion**

In the introduction of this whitepaper, we have highlighted the increased attention in the media for rewards packages of executives and key talent. This media attention has brought about an extensive debate about executive remuneration, and particularly about the ethics of these packages. Numerous stakeholders have voiced their opinion – shareholders, investors, regulators, government officials and the general public. At the moment, companies are given hardly any room to offer their executives attractive packages – but they realise full well that they need to, to be able to retain their critical talent.

We recognise the complexity of this challenge. In a socio-economic environment that is becoming increasingly digital, the way in which we devise solutions to business challenges is becoming much less orchestrated from within the company and much more organic. The rapid appearance and growth of blogs, social networks, YouTube and Twitter is profoundly changing the way in which people communicate, share ideas and shape their view of the world. Employees, customers and shareholders pick up information about executive remuneration from a wide range of sources.

In response, we believe that companies need to consider becoming a more active player in the debate about their reward practices. In a way, some banks and insurance companies are already forced to enter into this debate when – as part of their relief packages – governments demand representation on the Board of Directors. However, we believe this participation can be taken much further. The merits of specific rewards packages need to be ‘sold’ more actively than in the past. Explaining to stakeholders (incl. shareholders, clients, employees, society) why executives deserve the rewards that they are given, will be a major factor in regaining the trust and credibility that was lost during the financial crisis.
Strategy #3: Repositioning People Development

Given the speed of change in the current business environment, companies increasingly face challenges with keeping their talent ahead of the game. There is little time and money to send people to training courses, and actually, the skills and knowledge they need to develop are generally not found in classroom trainings. There is a need to develop people at the speed of business. For this reason, high performance organisations have broken with the traditional split between performance management and learning and development – for them, developing people to anticipate future-critical skills is an integral part of driving performance.

Providing people with the opportunity to grow their skills and capabilities, and thereby grow their impact on the business is one of the pillars in Hewitt's approach to building sustainable workforce performance. A number of our clients have recently implemented models that go beyond traditional career ladders to clarify what critical experiences people can master on their jobs to qualify for other jobs. In this way, career development is no longer about promotions only; it becomes much more fluid and much more closely aligned with the day-to-day needs to managing the business.

When looking to modernise their approach to people development, we suggest two areas of focus:

– Taking development back to its roots: anticipating future-critical skills
– Improving diversity and inclusion throughout the company

Taking development back to its roots: anticipating future-critical skills

Over the years, traditional employee development and career progression instruments have evolved towards means for bringing people forward in the organisation – enabling them to progress (mostly hierarchically) and grow their impact on the business by taking on new and bigger roles.

While this model is effective in addressing a number of key talent needs for the organisation, the staggering rate at which the business environment changes these days reveals one fatal flaw to this model: it neglects the importance of 'growth-in-role'. For business success to be sustainable, people not
only need to be effective in their roles today, they need to invest now to develop the knowledge and skills to be able to be effective in their role tomorrow – because tomorrow, clients will be more demanding, new technology will be available, products may have become commoditised, new business partners will have emerged, etc. etc. Proctor & Gamble’s shift towards open product innovation provides an interesting case in point (see below).

**A new approach to product innovation at P&G requires different people capabilities**

Chief Executive Bob McDonald and Chief Technology Officer Bruce Brown of Proctor and Gamble are breaking ground in the way P&G will innovate and create new products going forward. Having recognised the trends in our highly connected, global economy, they have realised that the traditional, in-company innovation model no longer is best suited to gain a competitive edge.

On their innovation portal (https://www.pgconnectdevelop.com/), they say: “Historically, P&G relied on internal capabilities and those of a network of trusted suppliers to invent, develop and deliver new products and services to the market. We did not actively seek to connect with potential external partners. (...) Times have changed, and the world is more connected. In the areas in which we do business, there are millions of scientists, engineers and other companies globally. Why not collaborate with them? We now embrace open innovation, and we call our approach Connect + Develop.”

Going forward, P&G seeks to develop and create a substantial part of their new products with external partners, which can be universities, entrepreneurs, competitors and customers. This new, open way of working entails significantly different expectations and capability requirements with P&G’s own staff. When internal networks and personal creativity were crucial in the past, in the future, external networks, connecting with people you don’t know and creating joint business models takes front seat. Effective communication is needed to collaborate with partners, and an atmosphere of creativity, openness needs to be established while you aim to motivate and engage people that do not report to you.

The companies that are leading the way in building future-critical skills have made two radical shifts in perspective:

1. Throughout the company, they stimulate and recognise professional growth beyond hierarchical progression alone; broadening experience and deepening knowledge and skills is recognised as equally valuable.
2. Learning is brought back to where it is most effective: on-the-job. The leading companies use instruments such as job design, project-based work and virtual communities as tools to improve company performance and develop people at the same time.

**Improving diversity and inclusion throughout the company**

Over the years, a large number of research studies have confirmed the positive impact of workforce diversity on business performance, whether this is measured in terms of return on equity, profitability or total shareholder value. For example, zooming in on one particular type of diversity, a 2007 study by McKinsey & Company revealed that companies with gender-diverse management teams realised a 1.7x better stock price improvement than the industry average.

![Graph](image)


In contrast, in their response to the financial crisis, we have seen many organisations take measures that effectively reduce the diversity of their workforce. Ex-patriots have been repatriated, global organisations have retreated back to local regions and organisations have adjusted their structures in ways which discourage diversity.
When we look beyond the current crisis at long-term trends such as demographic shifts, increased global people mobility and changing life patterns, we believe now is the time to invest in ways to increase the diversity of your workforce. Actually, embracing diversity is an opportunity more than a cost. Further studies into this topic have revealed *why* diversity helps to add value to the company and its customers:

1. Companies with a more diverse workforce typically match better the diversity of their customer base, giving them an edge in relating to and anticipating the needs of their customers.
2. Diverse leadership teams and workgroups show more behavioural diversity, which helps them to generate ideas better, solve problems faster and operate more efficiently.

In addition, when the organisation is attractive to diverse types of people, it can tap into much broader talent pools, increasing the sustainability of its talent pipeline.

Companies that have successfully established a diverse workforce have done so by shifting from programmatic diversity – setting up diversity councils, running affinity groups, establishing diversity scorecards, etc. – to sustainable diversity. Sustainable diversity is about hardwiring diversity into the company's business and operational model and about embedding diversity into every process and practice that touches employees during their working life.

And as Andrés Tapia explains in his new book *The Inclusion Paradox*, sustainable inclusion "begins with a deliberate proclamation, but it can't end there. It must then be followed by relentless intentionality at every level of the organization."
Strategy #4: Rebuilding Trust

Trust sits at the very heart of the success of the financial industry, more so than in any other industry. Customers trust banks to take good care of their money, companies trust banks to handle financial transactions reliably, banks trust customers to pay back their loans – and because of this trust, we can make financial assets work for us through investments in innovations.

Trust also sits at the very heart of a performance culture, in any organisation. When people are asked to take accountability for what is important to the company, and they know they will be rewarded appropriately and they are given opportunities to make an impact – by result, there will be trust that their investment in the company will be met by an equal investment of the company in them. Trust is a condition for people to be engaged and give their very best.

As financial institutions climb out of the financial crisis, we suggest two areas of focus to rebuild trust with their employees – and consequently, their customers and shareholders:

– Engaging employees to renew their commitment to the organisation
– Facilitating managers to have authentic, business-focused conversations

Engaging employees to renew their commitment to the organisation

The depth and extent of the global financial crisis has put companies in unparalleled turmoil. Fast and pervasive action has been required to stabilise the business and to adapt to the new economic reality. In many cases, the impact of these actions on employees was given less attention than in regular times. But the impact of those actions on the work and lives of employees has been significant nonetheless. Some employees have lost colleagues, some have been at risk themselves, and some have experienced a re-organisation or a take-over. In any case, all of them will have seen significant strategic and operational change from their (new) leaders and all have been exposed to the general uproar in society.
Now, at the start of the road to recovery, it is time to re-engage your employees and connect with them to ensure that they commit to the efforts that are required to bring the company back to profitability and growth.

A first step in re-engaging employees is to acknowledge the impact recent events have had on them, and to recognise their resilience during the crisis. In this critical period when new opportunities open up, managers need to find ways for the critical mass of the organisation – those who keep the organisation moving – to feel reassured and successful, rather than ‘grateful to have a job’. Similarly, those who are identified as future critical talent may not realise they are seen that way; clear messages that they are special and valued will better sustain the organisation when the talent market opens up.

Next, on a very practical level employees will want to understand and have clarification on the strategic plans in the new financial industry that emerges after the crisis. Making the commitment of top leaders to this strategy explicit and expressing the importance of individual employees in making that strategy happen will be a refreshing change and a way for employees to focus forward. Open, frequent and authentic communication is crucial in these confusing times.

To actively involve and engage employees, some companies are also looking at ways to have employees actively participate in shaping and implementing the new direction. Employee focus groups, cross-business working groups of high-potentials and leadership sounding boards serve as powerful ways to engage a larger part of the workforce early on. And nothing improves commitment and engagement better than active involvement.

**Facilitating managers to have authentic, business-focused conversations**

As employees re-engage and renew their commitment to the company, this starts the process of rebuilding and strengthening an environment of trust. This environment subsequently needs to be maintained every day, by authentic, business-focused conversations between managers and their employees.

Few financial institutions have truly embedded trust-building in their culture and the DNA of their managers, despite the importance of trust for organisational speed and efficiency. As Steven Covey puts it in *The Speed of Trust:* “The ability to establish, grow, extend, and restore trust with all stakeholders (...) is the key leadership competency of the new global economy.” Now that trust has been broken, restoring it will require deliberate and persistent action. Employees are more suspicious than ever and every manager action can be misinterpreted to erode trust.

In building trusting relationships, the 5Cs – Clarity, Candour, Commitment, Caring, and Communication – offer a simple yet impactful guide:

- **Clarity** is being crystal clear about expectations and contribution, and helping people understand their work aligns to the objectives of the organisation.
- **Candour** is directly sharing what you are thinking and not operating with a hidden agenda.
- **Commitment** is doing and following up on what you said you were going to do.
- **Caring** is ‘being present’ for the person, not treating the person as an item on one’s to do list, and certainly not multitasking when having an honest, sincere conversation.
- **Communication** is providing the right amounts of relevant business information to employees at all levels, to make them feel like insiders.
It takes repetitive investment to build and nurture the skills of managers to conduct these conversations well. In addition to classroom training and team coaching, managers can be supported with simple and practical tools and job aides that help them have more impact in employee conversations. HR Business Partners can play an important role to this effect, through coaching and challenging managers one-on-one in real-life, in discussions about actual and current cases from their own teams.

This way, trust-building over time becomes one of the cornerstones of the way people operate in the company; it becomes part of the organisation's DNA. This is a critical foundation for trust-building towards customers, business partners and shareholders.
Conclusion

Restoring the trust of their constituents and finding appropriate ways to manage and reward the performance of their leaders and key talent are some of the most daunting challenges that financial institutions face as they climb out of the financial crisis.

At the same time, addressing these challenges head-on provides financial institutions an excellent opportunity to renew talent practices that over time have started to lose their impact. Rebalancing expectation frameworks that guide leaders, renewing instruments for motivating people to give their best and improving the skills of managers in leading their people, will strengthen the performance culture across the company and increase the organisation's long-term agility and sustainability.

In our experience from working with companies before and during the financial crisis, we have found that interventions like the ones outlined in this article have helped companies to radically reposition performance management and return to what matters most: having managers connect with employees to take responsibility for the right results, enable people to have an impact, drive performance everyday, and acknowledge and reward strong performance. This is the foundation for a high performance workforce that delivers sustainable results to all its stakeholders.
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