

Financial Services

Talent and the finance function

Cutting through the complexity*



*connectedthinking

PRICEWATERHOUSECOOPERS 



The business challenge

The financial crisis has highlighted the mounting challenges of managing finance within an increasingly complex and globalised financial services sector. Ensuring that finance functions have the right people with the right skills, organisation, motivation and empowerment will be crucial in managing the uncertain times ahead.

The repercussions of the market meltdown continue to reverberate around the financial services sector. Key aspects of talent management and HR policies, including the competence and skills of experienced individuals, effective decision making and clear communication, have been central to some institutions' ability largely to avoid serious problems. They will be even more critical as companies seek to put themselves on a surer financial footing in the months and years ahead.

Many companies recognise that one of the main causes of the market losses was too much focus on short-term revenue generation and are now moving to a more sustainable long-term approach to profitability and value creation. Finance functions are set to play a critical role in promoting this more balanced approach to risk and reward. This includes strengthening the management and firm-wide understanding of the risks and funding costs associated with particular products and trading strategies.

To achieve these objectives, finance teams need to strike a fine balance between being business adviser and business steward. Ideally, this should include becoming more involved in product development and other key aspects of setting strategy. Finance functions should also be in a position to provide the business

with the information and guidance it needs to respond to threats and capitalise on opportunities. Effective control demands the ability to cut through the complexity and recognise dangerous exposures and flawed trading strategies. If they have reservations about decisions, finance officers should have the necessary mandate, confidence and ear of senior management to challenge them. Although effective talent management is likely to be critical in meeting these expectations, investment in competence development has tended to lag behind process and IT.

While the demands are increasing, finance functions are under pressure to streamline processes and cut costs. Reducing staff numbers can save money. However, it can increase operational risks, especially within businesses that are heavily reliant on manual processing. Greater automation could not only reduce these risks, but also allow finance professionals to devote more time to value-added roles.

The creation of offshore or shared service centres has helped to provide greater operational centralisation and standardisation. However, shortages of appropriately skilled personnel are mounting within many offshore locations and as a result the cost arbitrage is reducing. In turn, the remaining onshore employees may be

demotivated by the changes or find themselves placed in roles that do not play to their strengths. Many businesses are also finding it difficult to ensure effective communication across finance functions and over to the front office in the face of different cultural perspectives and extended lines of command. Looking ahead, career paths within finance are becoming less clear than they used to be, a challenge that can often be compounded by a failure to identify and provide training in the skills needed to meet future developments and objectives.

This paper examines some of the practical ways that talent management could be improved to help finance teams meet these unfolding challenges. Written by PricewaterhouseCoopers¹ finance and HR specialists from around the world, the paper is based on our practical experience of working with finance functions across the financial services industry. Part of our existing series of publications addressing the talent agenda, this particular paper will be the first in a series looking at how to address the key talent management issues facing financial services CFOs and their teams.



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¹ PricewaterhouseCoopers refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

Overview

Finance functions are at the forefront of enabling companies to deal with increasing product complexity, unprecedented market instability and ever more exacting regulatory expectations. At the same time, they are coming under pressure from senior management to cut costs, while providing more effective advice and support as business partners. How can finance functions adapt their approach, skills sets and behaviour to meet the tough challenges ahead?

Competence: Finance teams need to be able to see through the fog of complexity, reducing it where possible and understanding and managing the potential risks and implications. To achieve this, they need to have deeper business knowledge and be more involved in product development and the setting of risk parameters. They should also be able to recognise potential weaknesses, ask the right questions and appreciate what business teams need and expect from them.

Performance and reward: Bonus structures can often reward quick fixes rather than encouraging finance teams to plan ahead. Gearing compensation packages to process improvement and the sustainable delivery of goals could accelerate turnaround and free time for greater strategic input. A more forward-looking approach to compensation could also help staff to realise their full potential.

Empowerment: In many firms, finance personnel may lack sufficient licence, willingness and acceptance from frontline teams to question business decisions. Encouraging this vital input will not only require the mandate of the board, but also the ability to overcome a cultural reluctance in some offshore locations to challenge experts and those in authority.

Communication and knowledge sharing: Effective communication can often be lost in a fog of unintelligible data or break down across ever more extended operational and decision-making chains. Finance teams need to be able to distil raw data into a genuinely valuable source of information and insight. They also need clear reporting lines, both within the function and into the board and business.

Training and career development: Today's finance professionals require a balance of technical and engagement/behavioural skills. Nurturing this balance through structured training and career development – 'a clear line of sight' – could not only help to ensure finance teams have the right capabilities, but also enhance recruitment and retention.

CFO checklist:

In our view, the following talent attributes are likely to mark out the most effective finance functions:

- 1.** Ability to distil a complex profusion of data into usable information and to reduce and manage complexity
- 2.** Good understanding of business priorities
- 3.** Early input into product development and other key aspects of strategy
- 4.** Questioning mindset capable of identifying threats and opportunities
- 5.** Mandate and confidence to challenge board and front office decisions
- 6.** Strategic approach to off-shoring that looks beyond narrow cost considerations at how to ensure better support for the business and its objectives
- 7.** Understanding of different countries' cultures and working practices
- 8.** Aligning incentives to process improvement and sustainable value creation.

Competence

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Front office teams are there to make the money. Finance functions are there to make sure the firm keeps it. One of the key roles of finance is ensuring that there is a sustainable balance between rewards, risks and funding costs.

Working alongside their back- and mid-office colleagues, this includes ensuring that risk is managed within acceptable parameters. However, recent market events have raised questions about whether finance professionals understand enough about the technicalities and associated risks of today's complex structured products to provide the necessary advice, oversight and robust challenge.

Better understanding would certainly improve finance teams' ability to recognise threats and identify opportunities, while ensuring their input is taken seriously by boards and business teams. Clearly, finance teams face growing talent shortages and pay constraints and it would therefore be unrealistic to expect finance personnel to have comparable technical know-how to front office teams across all business areas. However, a good finance professional should be able to see through the complexity and be willing to challenge trading teams if they believe the company is facing unacceptable risks. This calls for finance personnel with enquiring mindsets and probing analytical skills.

Similarly, finance functions need to be able to appreciate why front office teams might ask a particular question or request a specific piece of information. Developing these attributes requires careful selection and motivation. It may also require some tough decisions about releasing people who do not have the required skills and replacing them with those who do.

A key consideration is whether some of the complexity that has grown up around certain products is necessary, let alone beneficial. If a qualified finance professional cannot fathom out the intricacies and related jargon surrounding a particular product, then it may not be a safe enough bet anyway. This underlines the importance of finance's involvement in product development and investment strategies from the outset. A key part of this input should be helping to set risk parameters and looking at how to realise sustainable trading profits, rather than simply pursuing short-term mark-to-market gains.

Many leading institutions are looking at how to organise their finance team to provide more focused input and support for the front office. This includes working more closely with the accounting specialists who are often embedded into trading teams to help structure deals, many of whom currently operate outside the orbit of the finance function. At the same time, some

companies are developing distinct centres of expertise and transactional hubs within their shared service centres. An example might be assigning particular finance personnel to work alongside actuarial teams. While developing core underlying processes for reporting and regulatory compliance worldwide, companies could also maintain specialist teams for particular supervisory jurisdictions. Greater specialisation is underpinned by the systematic mapping of required competencies, which can be fed into recruitment, selection and career development strategies.

Accordingly, a key part of our work with finance teams focuses on how to add value by streamlining data into usable information



and insight. It also centres on fostering the necessary engagement with front office teams to ensure that both parties can appreciate their respective objectives and requirements. Greater interchange of personnel could help to develop cross-functional experience and understanding, for example as part of management training programmes. Some institutions also now insist that their staff spend time working overseas before being considered for executive promotion. As businesses become more globalised and finance operations are shifted to different parts of the world, international experience could help to develop invaluable understanding of particular ways of working and how to manage cross-border operations more effectively.

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Performance and reward

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Our research and work with financial services organisations indicates that a high proportion of companies plan to modify their rewards packages in the wake of the financial crisis. This includes moving from over-reliance on short-term bonuses to more sustainable long-term compensation.

Within the finance function, the tone set by management and the performance objectives/incentives that correspond to this have generally focused on short-term goals rather than developing a sustainable operating model. This has tended to foster a reactive ‘fire-fighting’ culture. For example, management may be paid bonuses based to a large extent on their ability to overcome immediate difficulties and delays in order to meet deadlines for reconciling trades or supplying regulatory returns.

A more effective and proactive approach would seek to reward the longer term development of systems capable of eliminating these potential problems once and for all and so ensuring that demands are met with less last-minute strain. Clearly, this could not only reduce costs and allow for faster close, but also enable finance professionals to devote more time to enhancing the value of management information and providing strategic input advice. It will also help companies to develop a strong platform for competitive resurgence as the current market difficulties begin to ease.

A key part of the rewards for back office functions, including finance, may also be geared to the performance of frontline

teams. This can create an inherent conflict of interest in which financial professionals may not want to challenge traders and other front office personnel as this could have a negative impact on their bonus potential. This highlights the importance of aligning compensation to risk-adjusted measures and longer term creation/protection of shareholder wealth.

There is often a fear that early movers could lose valued personnel if they break ranks and shift bonus structures from a short to a longer term perspective. However, the recent turmoil may ease this risk by encouraging employees to seek more secure incentives and favour job stability over immediate reward. It is also possible to retain some elements of the existing incentives package via deferred compensation as companies gradually move to a more long-term footing. Moreover, it is clear that the regulators are taking a strong interest in rewards. In the UK, for example, all major financial institutions now have to explain the rationale and philosophy behind their incentive plans.

A more forward-looking approach would seek to use incentives to encourage desired behaviour and nurture the long-term potential of key personnel. Some leading companies are developing balanced scorecards for finance employees which are capable of appraising performance against the achievement of individual goals and the long-term objectives of the firm. This encourages everyone to pull together and helps to embed a culture of sustainable business growth and profitability.

Empowerment

In many firms, finance teams may lack sufficient licence, willingness and acceptance from frontline teams to challenge business decisions. Encouraging this vital input will not only require the mandate of the board, but also the ability to overcome a cultural reluctance in some offshore locations to challenge experts and those in authority.

Effective transparency, scrutiny and oversight are essential in maintaining the checks and balances needed to safeguard the business and ensure sustainable returns. In particular, it is clear that the scale of recent asset write-downs has generally been far less in firms where finance, risk and other control functions were working effectively together and encouraged to challenge exposures, even if this went against the prevailing strategic grain.

Within many organisations, however, the teams designing and trading complex structured products did not believe that finance and other support functions understood the cutting-edge complexities of their business, and therefore tended to disregard their concerns. In other cases, challenges were simply ignored as

they would upset what had appeared to be a free flow of generous returns.

A clear mandate from the board is critical in fostering a culture of scrutiny and challenge. As we have already highlighted, finance teams need to gain the credibility of their frontline counterparts. A further and often overlooked cultural factor has been the potential unwillingness of finance staff in some offshore locations to question decisions that have been approved by senior personnel. Leading companies are now seeking to foster a culture that welcomes challenge by imposing consistent firm-wide standards and expectations, underpinned by appropriate training, rewards and empowerment.

Communication and knowledge sharing

Effective communication can often be lost in a mass of unintelligible data or break down across ever more extended operational and decision-making structures. Finance teams need to be able to distil raw data into a genuinely valuable source of information and insight. They also need clear reporting lines, both within the function and into the board and business.

One of the key challenges for finance functions is how to distil a potential overload of data into a focused supply of salient and accessible management information. Engagement with business teams and the ability to ‘talk their language’ can help finance functions to understand frontline requirements and ensure they focus their output on the most useful insights.

Leading companies are looking at how to develop both formal and informal frameworks to foster greater exchange of knowledge between finance and front office, underpinned by the empowerment and incentives outlined earlier in this paper. For finance teams this includes providing recognition and reward for contributing to the sustainable performance of the overall business. For business teams, more timely and relevant information can be translated into better decisions and more favourable returns. This mutual benefit should ideally help to encourage business functions to provide finance with more reliable, useful and consistent data.

A key part of the talent in finance is being able to demonstrate the value of the information they can provide. However, making a convincing case can clearly be challenging in the face of manpower, systems and process weaknesses, which mean that delivering information that should ideally be immediate can take

several days. In the current market environment, this includes real-time data around credit exposures and sensitivity to risk factors. However, the present difficulties may at least have the benefit of making the identification and resolution of such deficiencies more of an urgent priority.

A further challenge is how to sustain the more informal (though equally invaluable) ‘quiet word’ across the extended lines of reporting created by the development of centralised service centres. In the past, a member of the finance team would have been able to walk down the corridor to discuss a particular issue or concern in person. Today, physical distance and operational dislocation may make such exchanges far less common. Indeed, the member of the finance team may not even know who the best person to speak to is. It is therefore important to ensure that finance teams can draw on clear and understood lines of reporting and oversight. This could be especially critical in emerging markets, where finance teams may be small and not able to match the sophistication of the front office. As such, it underlines the need for greater collaboration between finance and front office in product development. It also highlights the potential benefits of transactional hubs and other such organisational developments in achieving greater control and economy of scale within finance operations.

Training and career development

Today's finance professionals require a balance of technical and engagement/behavioural competencies. Nurturing this balance through structured training and career development – 'a clear line of sight' – could not only help to ensure finance teams have the right skills, but also enhance recruitment and retention.

Effective training and professional development are likely to be especially important in overcoming the growing skills shortages, competition for talent and staff turnover within many offshore locations. It is increasingly clear that providing opportunities for progression rather than simply raising pay is the key to developing an attractive employer 'brand'.

Carefully structured development programmes such as international secondments can also help to ensure that finance functions prepare managers for the evolving challenges ahead. Many finance professionals may have excellent accounting skills and be promoted on this basis. However, they may lack the strategic and engagement capabilities needed within management and executive roles. It is therefore important to identify and nurture people with the qualities and characteristics to be future leaders.

It also important to ensure that talent management does not just focus on the talented. Finance teams bring together a wide range of people with different qualifications and capabilities. The enquiring mindset, interpersonal skills and readiness to accept

change needed to create effective finance functions cut across all areas of the team. Indeed, the greatest risk of talent management is the creation of an elite group that leaves those outside feeling alienated and demotivated.

How can we help?

PricewaterhouseCoopers is working with finance teams to develop the talent strategies and skills and organisational capabilities they need to respond to changing stakeholder requirements and challenging market conditions.

Bringing together experts in HR and finance function effectiveness, PricewaterhouseCoopers is the only major provider of professional services with a team dedicated to finance talent development. We can also draw on expert assistance in related areas ranging from regulation to tax planning.

If you would like to discuss any of the issues raised in this paper please speak with your usual PricewaterhouseCoopers representative or one of the specialists listed on page 14.

Case studies

Case study one:

Development of centralised finance hub for large global financial services group

The development of a centralised finance hub aimed to streamline processes and enhance control through more visible product oversight. The company also wanted to take advantage of global time zones to provide increased speed and depth of analysis for opening market positions. Further priorities included creating a centre of expertise to support complex products that could not be serviced by smaller finance teams in emerging markets.

A number of companies have developed comparable hubs, though often with mixed success. Key challenges include the unwillingness of the front office to operate remotely and of national back office teams to reduce their headcount. National compliance teams can also be reluctant to lose full control of regulatory management.

As part of the hub model design, we helped to develop a global HR strategy, focusing on skills requirements, career development and retention of key talent. Our approach to overcoming the difficulties outlined above included the development of a systematic transition strategy, analysis and retention of required onshore skills and enhancement of the connectivity between international operations. The project also included the development of a new globally orientated career model, supported by an international assignment programme. In addition to delivering its core strategic objectives, the hub has reduced finance function costs by some 20%. It has also strengthened control and enhanced recognition of the value of back office support within the organisation.

Case study two:

Development of enhanced information framework for SME-related finance operations of financial services group

The client's finance team was seeking to enhance management information and control as part of its aim to move from 'scorekeeper' to 'business partner'.

The information being provided by the finance team was not seen as sufficiently reliable or intelligible. For example, it was often slow to take account of key regulatory developments. It also failed to streamline data into useful business insights.

Working with the finance team and its users, our project focused on establishing users' priorities, identifying key data deficiencies and mapping the processes needed to deliver these objectives. The greater focus and streamlining of management information has reduced 100-page plus returns into a far more useful and accessible single sheet business performance report reflecting users' key requests. The new structure is supported by process mapping and new key risk indicators to help enhance control.

Case study three:

Development of finance 'academy' for large international banking group

The design and development of a finance academy aimed to provide a structured platform for identifying and meeting changing demands. The training element includes workshops, e-learning and work experience. This is supported by the development of skills maps, learning goals and progress evaluation. The project is further underpinned by the development of consistent processes, standards and communication networks within the organisation.

If you would like to discuss any aspect of the issues raised in this paper, please speak to your usual contact within PricewaterhouseCoopers or one of those listed below.

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