



## The credit crunch: lessons learnt by business leaders and their HR professionals

by

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### FOREWORD

The global financial crisis and ensuing economic recession have opened a far reaching debate on what went wrong, and why. This paper makes an interesting contribution to the discussion from the perspective of HR professionals.

Many factors contributed to the financial crisis – macroeconomic, monetary, regulatory and technical. But the meltdown was primarily the result of a massive leadership failure by those responsible for the sound management and oversight of our financial institutions. Many leaders simply failed to do their jobs.

My colleague, Gillian Tett of the Financial Times, has highlighted the role of human behaviour, values, and leadership culture in this crisis. This LHRG paper develops these themes to examine how flawed leadership cultures contributed to the excesses of the past decade, and how the HR profession must respond to help create institutions of enduring value to a wide range of stakeholders.

Everyone agrees that “this must not be allowed to happen again”. Financial and regulatory reform clearly have an important role to play. However, without the “human factors” of sound management and governance structures, based on deeply embedded corporate values and behavioural norms, we will face these problems again as memories of the current crisis fade.

A handwritten signature in black ink, appearing to read 'Glen Moreno'.

Glen Moreno  
Chairman  
Pearson plc

## ACKNOWLEDGEMENT

This white paper is the latest in a series of reports commissioned by the London Human Resource Group, which is an independent network of HR professionals, drawn from a broad spectrum of institutions, providing financial, professional and business services, based predominantly in the City of London.

This paper is as timely as it is necessary. The latest credit crunch is the worst in living memory. Much has been talked about the failure of risk controls and little about people practices that contributed to the failure. This report aims to fill that gap.

This is the Group's ninth and final project. The earlier ones resulted in eight widely acclaimed publications: *Create or Abdicate* (1988), *Capital People* (1990), *Winning People* (1994), *Leading People* (1996), *Tomorrow's People* (1998), *Tomorrow's Organisation* (2001), *Harnessing Workforce Diversity to Raise the Bottom Line* (2003), and *Comply and Prosper: Managing Risk Arising from Regulation* (2006).

We would like to thank those 35 senior executives and HR directors in the City and Wall Street for participating in the interview programme that underpins this report. The breadth and depth of issues covered here would not have been possible without their invaluable insights.

The views presented in the report are those of the author; and not of individual LHRG members.



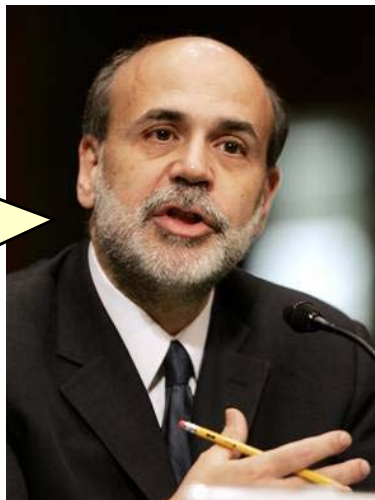
Michael Robinson  
Chairman  
London Human Resource Group



Amin Rajan  
CEO  
CREATE-Research

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*"We do not expect significant spillovers from the subprime market to the rest of the economy or to the financial system."*



Ben Bernanke, Chairman of Federal Reserve

May 17, 2007

**A global credit crunch began three months later**

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Before the crash 2007:

"Everyone needs to follow the City's great example and emulate this high value added talent-driven industry. Thanks to its remarkable achievement, we have the huge privilege to live in an era that history will record as the beginning of a Golden Age."

After the crash 2008:

"It was an age of irresponsibility"

**Gordon Brown**

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## EXECUTIVE SUMMARY

### How HR became a casualty of Big Bang

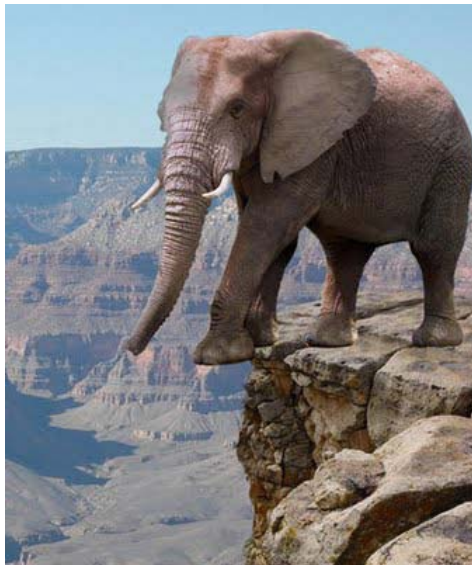
- ❖ In a span of 15 months, the latest credit crunch destroyed \$15 trillion of clients' assets worldwide, equal to 15 years of capital gains. This decade's two bear markets rank amongst the four worst in the last 100 years
- ❖ In the City of London, the 'Big Bang' of 1986 sparked a financial revolution fuelled over time by rapid waves of globalisation, securitisation, innovation and technology, creating ever more complex instruments
- ❖ Over time, they accelerated the war for talent in which a tiny minority of smart individuals and entrepreneurial executives demanded mega rewards for their presumed disproportionate impact on business performance
- ❖ Most top executives didn't understand the monster created by securitisation but as long as the music was playing, it was hard to stop dancing because of career risk, until the financial tsunami hit in 2008
- ❖ Long cherished HR ethos and practices were ignored as greed and complacency became a byword. Compliance with the law was blind: its intent was forgotten as were interests of wider stakeholder
- ❖ The 'Cassandra bug' infected the top executives: the more they were warned of the 'fat tail' risks, the more they rolled their eyes, gave a yawn and changed the subject; as a bearer of bad news, HR was often fired
- ❖ Before then, a number of dilemmas had arisen – e.g. profit making vs franchise risk, product innovation vs client interests – but these were swept aside in the culture of heightened greed and individualism
- ❖ When used in excess, the strengths of senior executives and their top revenue earners turned into weaknesses, ensuring the death of common sense and the birth of cheque book diplomacy
- ❖ While HR was increasingly enjoined to take on impossible tasks on their CEOs' wish list, it was often reduced to, in the words of one of our interviewees, "*carrying the proverbial bucket behind the circus elephant*"
- ❖ In the new business partner model, many HR professionals went native in the line manager territory. Hype triumphed over substance. Rainmakers pursued their own agenda. Central HR was marginalised

Continued ...

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### Lessons learnt and way forward

- ❖ HR were students of Aristotle, line managers Machiavelli: one focussed on the means, the other on the ends. In the face of impossible demands, HR resorted to improvisation
- ❖ Banks' governance architecture was unstable. Checks and balances were conspicuous by their absence, as was leadership, which was distracted by the plethora of opportunities to make money
- ❖ Accordingly, three core lessons were learnt:
  - senior executives must be more than finance experts: top roles need to blend specialisms with strategic thinking and trained intuition that helps confront leadership dilemmas rather than ignore them
  - reward systems must balance hard and soft elements to restore sanity to a market where unjustified and excessive incentives were prevalent and redirect attention to the fundamentals that determine business survival and growth
  - HR must go beyond the sound-bites of political correctness and cultivate the art of leadership without authority to influence bosses and peers over whom it has no advantage through rank, status or power
- ❖ Each of the lessons call for corresponding actions that sweep away excessive individualism by:
  - new leadership programmes for senior executives that blend a variety of learning tools which provide insights into the causes and consequences of leadership dilemmas and how to deal with them
  - new incentive structures in which non money rewards are real, tangible and coveted at least as much as money ones
  - A new HR style that must be at once business and people savvy, so that HR is better able to navigate the new complexity that will characterise the world of finance post credit crunch
- ❖ Presciently, the LHRG's first report in 1988 warned that *"The City must either create new skills to...deal with the brave new world of finance...or abdicate its premier position"*. Hubris invited nemesis. The rest is history
- ❖ Little did we know then how horrific the consequences of neglect would be. Working with senior executives, it's up to HR to build a sustainable culture and ensure that history does not repeat itself. As Churchill once warned *"People who ignore history are condemned to repeat it"*
- ❖ Crises are endemic to capitalism. They will occur again. With our recommendations, however, they need not be so catastrophic. Besides, they also offer opportunities to create businesses of enduring value



**What went wrong  
and why**

## Paradoxes in global finance that defied the prevailing governance structures

- Financial performance **vs** Franchise Reputation
- Creative packaging **vs** Creative solution
- Product innovation **vs** Client Needs
- Speed **vs** Reliability
- Fat bonuses for a few **vs** Hire-and-fire for the rest

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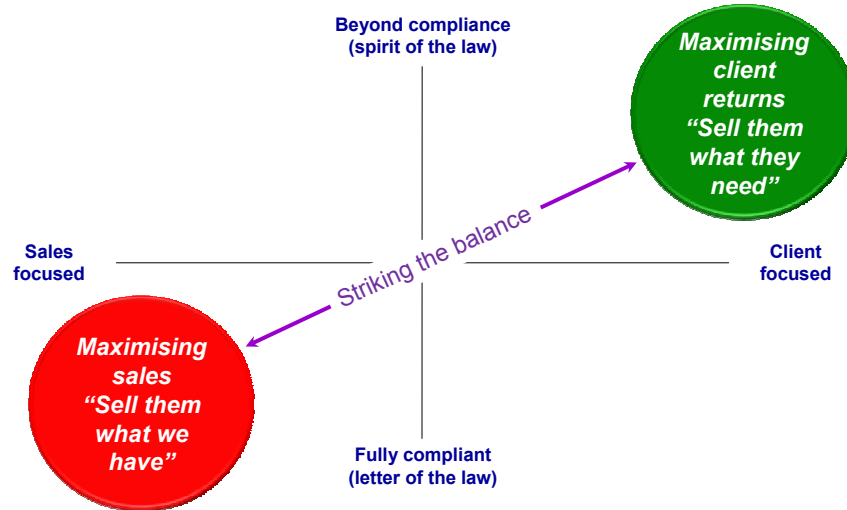
### Key Points:

- ❖ The deregulation of the City in 1986 was a seminal event. It recognised that the world of finance was changing irrevocably under the impact of globalisation, securitisation, innovation, technology and talent
- ❖ The ensuing bull market in the 1990s witnessed a hyper growth in financial services worldwide in general and the UK and the USA in particular. Growth created complexity; and complexity created paradoxes, involving difficult trade offs. The law of unintended consequences soon kicked in in a climate of irrational exuberance
- ❖ In pursuit of double digit growth in earnings per share, new risks emerged on the horizon that ultimately destroyed numerous franchises on both sides of the Atlantic
- ❖ Creative solutions led to creative accounting; product innovation came to be seen as a euphemism for the next con trick to fleece the clients; speed to market came at the expense of product integrity
- ❖ Above all, under the rubric of 'war for talent', a new ideology rapidly took root in the front, middle and back offices. It had two postulates, both of which directly created an 'us & them' syndrome
- ❖ First, a tiny minority of talented staff had a highly disproportionate impact on corporate performance. Second, the demands of complex global finance required exceptionally sophisticated business leaders who can blend entrepreneurial flair with motivational skills and business acumen
- ❖ Thus, in the face of worldwide scarcity of such individuals, compensation sky-rocketed year-on-year. The culture of jobs-for-life died a quick death, as hire-and-fire mentality danced to the new drumbeat of meritocracy. The early excesses in investment banking soon spread to the City's other heartland industries
- ❖ Individuals were enjoined to think and act like self-employed people. Leaders became increasingly narcissistic. Self interest superseded corporate interest in the flourishing culture of excessive individualism
- ❖ As money rolled in, the policy environment became ever more benign. Light touch regulation was the name of the game. An indecent love affair developed between the City and Whitehall; Wall Street and Washington

*"It was the best of times. It was the worst of times"*

Charles Dickens

# Tensions in corporate strategy



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## Key Points:

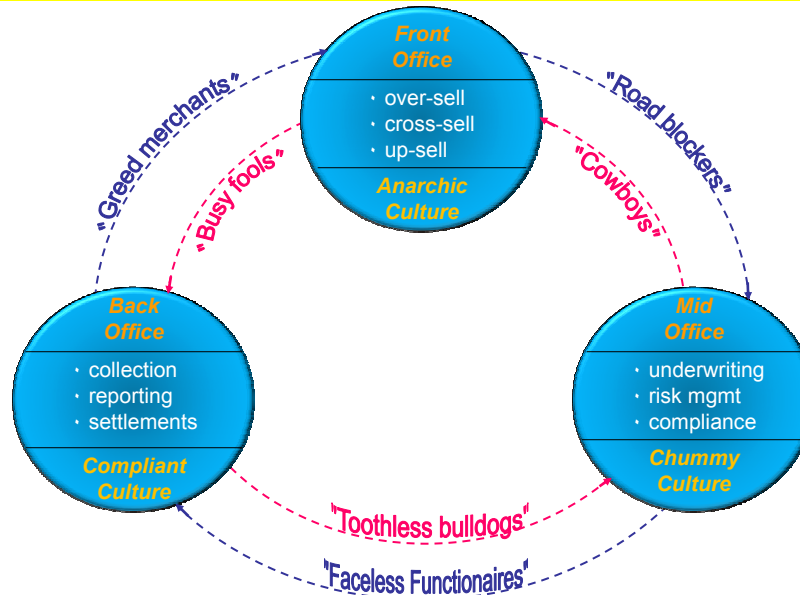
- ❖ In the banking sector, two dominant trends became evident over time. They soon spread elsewhere in the City
- ❖ Products were 'sold', not 'bought'. Clients were sold products that banks had rather than products that clients needed. Relationship management dominated the rhetoric of business. Product push dominated the reality
- ❖ On their part, banks also ensured that they stayed within the letter of the law. Abiding by the rules was all that was necessary: the intentions behind the rules were often flouted. Securitisation of mortgages is the best example of this gap between the letter and the spirit of the law
- ❖ Only over time did it become clear that the 'originate and distribute' model of banking, combined with the credit default swaps market, removed the banks' incentive to maintain loan quality. It was inimical to long-term relationships based on trust. Too often, relations lasted whilst the deals were being executed
- ❖ In the process, business basics like risk management, compliance and product integrity were ignored all too often. The City became a byword for greed and complacency
- ❖ Cash became the scorecard of success. Worryingly, it spread to the wider society, where senior executives in private and public sectors sought to preserve the relativity in deference to greed
- ❖ In one investment bank that disappeared in the financial meltdown of 2008, the 'Cassandra effect' was all too evident, as described in the Executive Summary. Some even deigned to fire the messengers
- ❖ This form of self-censorship filtered out the 'thoughtful' and replaced them with the 'faithful'. Top executives allowed their 'rainmakers' to take excessive risks for two reasons: they did not own their firms, so the personal risk was minimal; and they didn't understand securitisation, but it was OK so long as other banks were doing it
- ❖ They clearly subscribed to John Maynard Keynes' view that "the market can stay irrational longer than you can stay in your job". Woe betide any banker who fell behind
- ❖ As long as the music was playing, people continued to dance blissfully, until the financial tsunami hit in 2008

**"The problems we face cannot be resolved at the same level of thinking as that which gave rise to them"**

Albert Einstein

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## A vicious cycle of blame culture



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### Key Points:

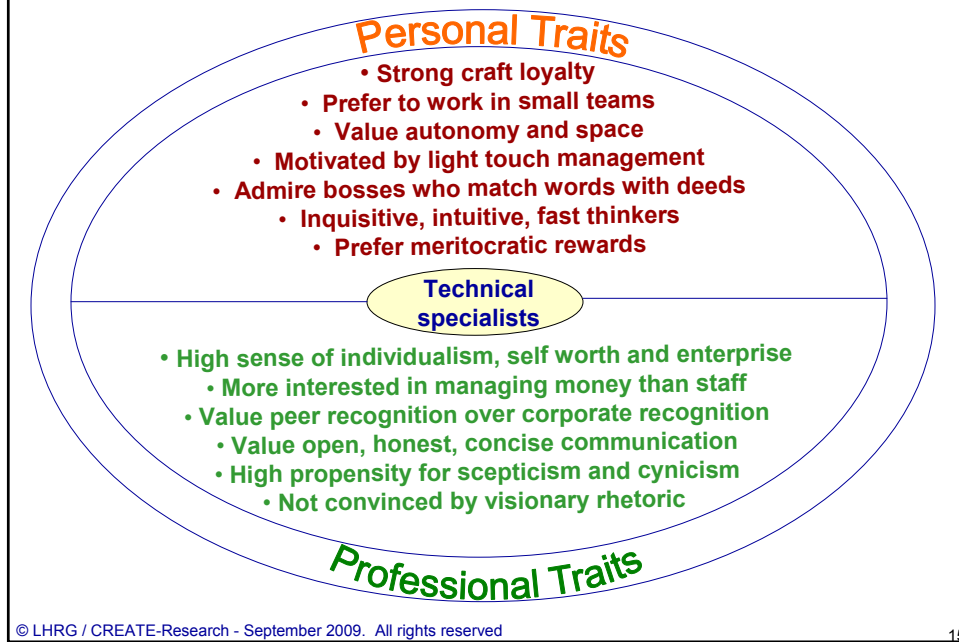
- ❖ From the organisational perspective, over-rapid growth had created complex businesses with huge global reach and cultural diversity. But factors that really contributed to hubris and subsequent calamity stemmed from the culture of excessive individualism
- ❖ It gave rise to internal politics of Machiavellian proportion in many institutions. Second-guessing colleagues was fair game, as was back stabbing.
- ❖ Attempts to promote team work and personal accountability were frequent. But a mountain of legacy issues conspired against them. The more things changed, the more they remained the same
- ❖ Senior managers agonised about any good idea in case it was a bad idea. Procrastination was rife. Task forces were set up of people who couldn't do much individually but who couldn't agree collectively on what had to be done. Either way, nothing happened
- ❖ Change initiatives were akin to re-spraying an old car, while creating the illusion of progress. Unwittingly and over time, they created corrosive cynicism about any management initiative, no matter how enlightened
- ❖ At the heart of the problem was the inability to confront the paradoxes mentioned before. By opting for the policy of performance-at-any-price, senior management in most banks found it difficult to comprehend the unintended consequences of their choice. As problems mounted, blame culture became rife; management style became autocratic. Finger pointing was the norm: there was little recognition that every time we point a finger at someone else, we point three at ourselves
- ❖ Hype became a substitute for action. Numerous clever words were used to say a lot about nothing. Consultants were encouraged to write glowing case studies about life in the fast lane of the knowledge economy as a subtle ploy to legitimise the existing practices that were conducive to neither client interest nor business viability. It was Enron writ large; or so it seemed at times
- ❖ Businesses resembled a complex maze where paradoxes abounded on a scale that defied simple common sense solutions. The longer the paradoxes were ignored, the worse they got

*"Comrade, if things are so good, how come they're so bad as well?"*

A Brezhnev-era  
Russian joke

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## Attributes of talented individuals



### Key Points:

- ❖ Talented individuals at the forefront of product innovation and securities trading had a number of features. Over time, when used in excess, their strengths turned into weaknesses delivering greed and blame
- ❖ They had divided loyalties: their primary loyalties were to themselves, then their craft, then their peers, and then their banks
- ❖ They had deep technical knowledge, driven by restless curiosity, fascinated by novelty and unfettered by traditional norms
- ❖ They had strong egos based on excessive individualism and a high sense of self worth that made them intrepid job hoppers and unrelenting bonus guzzlers
- ❖ They preferred light touch management and a heavy dose of open, honest communication. They were more interested in managing money than people
- ❖ They worked best in small teams with minimal bureaucracy: too many of them working together usually resulted in debates, chaos and low performance. An ideal team comprised "me, myself and I"
- ❖ They valued autonomy and a boss they admired. They admired bosses who matched words with deeds and who helped them achieve their personal goals. Visionary rhetoric did not appeal to them
- ❖ Over time as these attributes flourished, strengths turned into weaknesses. Teams turned into bullet proof baronies. Talent bestowed the right to veto changes that countered the rampant greed
- ❖ Money became the chief motivator. It also became the only scorecard of success. Time-honoured 'soft' rewards - like personal recognition, personal legacy, career advancement, training, caring culture - were all for public display. Privately, they were conspicuous by their absence
- ❖ Long established HR practices were honoured more in the breach than the observance by the new generation of so-called talented individuals. Seeded in investment banking, this trend spread elsewhere in the City, too

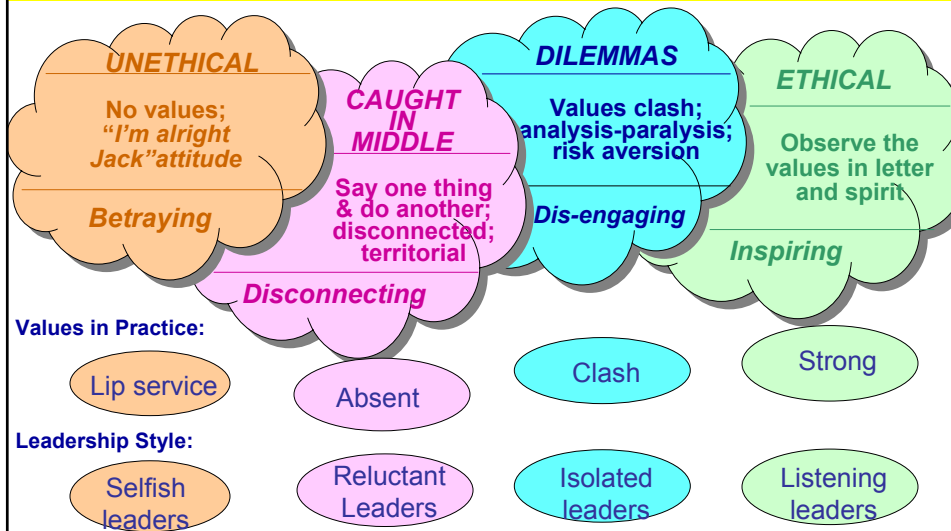
***"1st rule of contemporary communication: the paths to the brain run through the heart, the tear ducts, the funny bone and the groin"***

An interview quote



**Why business leaders failed and what they need to do in the future**

## Linking ethics, governance & leadership



### Key Points:

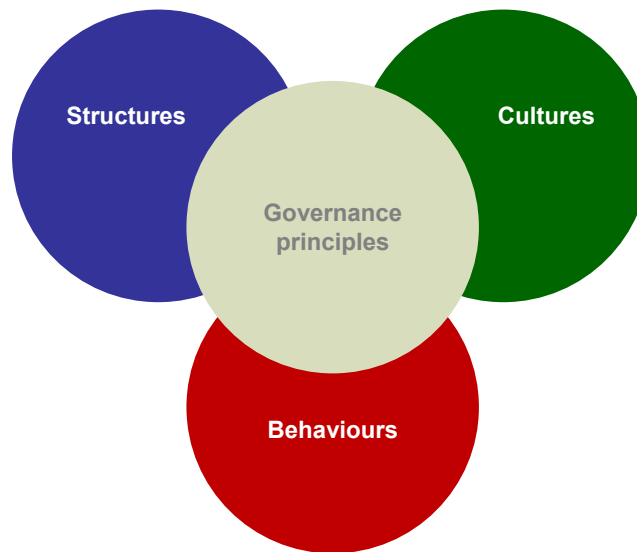
- ❖ The credit crunch originated from the growing trade imbalances between the East and the West. But the problem was compounded by the failure of leadership in global banks. In major City institutions, people got promoted to senior executive roles on their 'craft' ticket: narrow specialisms in areas like trading, product development, and financial engineering led to personal financial success and upward career progression
- ❖ This model worked in partnership structures but as institutions went global and businesses became more complex - in terms of product mix, regulatory requirements, and risk management - specialist skills became less and less relevant as people progressed on the career ladder. Leadership skills became more important.
- ❖ Typically, the decisions that senior executives had to make involved trade offs; where, by definition, the choices were not simple. They involved choosing between: 'right' or 'wrong'; 'right' or 'right'; and 'wrong' or 'wrong'. The first kind of choice was a no brainer, as the law was clear on what was allowed and what was not
- ❖ In making the 'right vs right' decisions, however, banks' values and mission statements were akin to throwing a well braided 5 metre rope to someone drowning 20 metres away! Values floated seamlessly upon choppy waters where leaders operated with too little time and information: opportunities vanished as soon as they emerged
- ❖ Besides, by definition, dilemmas occurred when two or more dearly-held values clashed. In the City, senior executives were not well-versed in understanding the nature of trade offs and designing balanced solutions. Herd instincts often led them in the 'wrong vs wrong' terrain
- ❖ The word dilemma didn't feature in the dictionary of high finance. Focus was a virtue; balance a sign of indecisiveness. Making money was what mattered. As leaders ignored dilemmas with breathless risk-taking, they became isolated. Their subordinates, in turn, became territorial and disconnected when caught in the middle
- ❖ Excessive focus on profitability to the detriment of other considerations served to undermine the very moral fabric of businesses. HR was deeply concerned. But it, too, was a victim of the 'Cassandra' effect

***"The great decisions of human life have as a rule far more to do with instinct and other mysterious conscious factors than with conscious will and well-meaning reasonableness"***

Carl Gustav Jung – *Modern Man in Search of a Soul*

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## Governance frameworks were inadequate



**Key Points:**

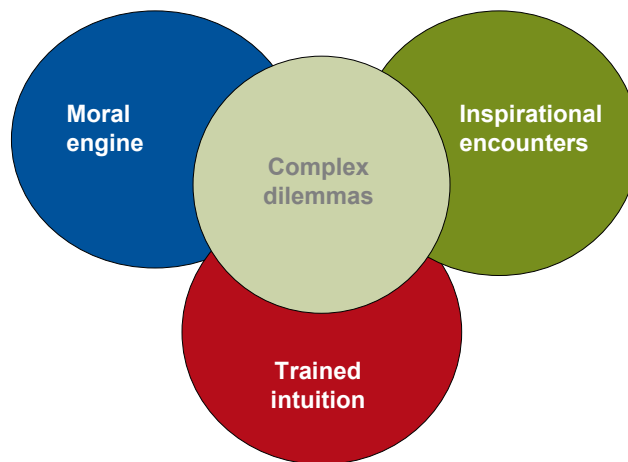
- ❖ Governance principles in all the banks were well defined. They enshrined the so-called principles-based approach to business, as laid down in the Financial Services and Markets Act 2000
- ❖ These principles were meant to enable senior executives to 'set the tone at the top' of their banks, so as to express what was important, why it was important, how it would be implemented and who was accountable
- ❖ In turn, these principles were meant to be underpinned by a governance architecture in order to ensure they were observed, in letter and spirit, in the day-to-day conduct of the business. The architecture was meant to have three mutually reinforcing layers
- ❖ The first layer constituted the 'hardware' of the architecture, covering structures with a range of systems and controls. It aimed to provide a more visible proof of compliance with laws and principles
- ❖ The second layer constituted the 'software', covering business culture: 'the way we do things around here'. It aimed to provide essential mental checks and balances through self regulation, self accountability and self restraints
- ❖ The third layer constituted the 'greyware' of the architecture, covering staff behaviors in day-to-day dealings with all stakeholders. In principle, they were meant to reinforce the systems, controls and business culture, as represented by the first two layers
- ❖ In practice, however, senior executives as well as their 'rainmakers' interpreted the principles to suit their personal agendas. They were confronted neither by regulators, nor their own boards, nor governments. The rhetoric of financial innovation fooled most of them, all of the time. Most leaders didn't understand that their new genetically modified cash cow would soon turn into Frankenstein and devour their businesses. They became victims of their own hype and hubris
- ❖ Checks and balances were conspicuous by their absence; as was leadership. While casino was making money, the governance architecture was as stable as an inverted pyramid
- ❖ To remedy these shortcomings, banks can learn a lot from long established global companies

*"Things that count, often can't be counted.  
Things that can be counted, often don't count"*

Albert Einstein

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## Making difficult decisions in global companies



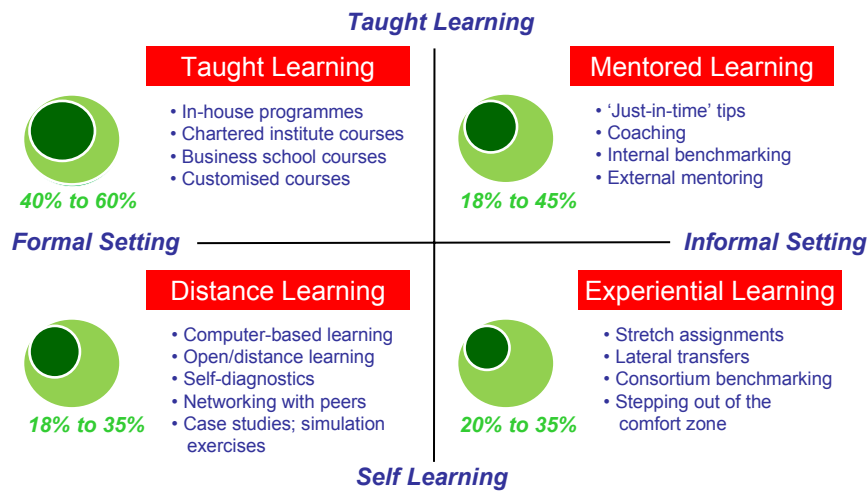
**Key Points:**

- ❖ In global companies outside the finance sector, leaders are encouraged to make tough choices that underpin everyday dilemmas by deploying three inter-related sets of approaches. Each approach has its own set of questions that leaders are encouraged to ask as part of *trained intuition* when making hard choices
- ❖ The first set comprises *practical* questions:
  - is it illegal?
  - if someone else did it to you, would you think it was fair/
  - would you be happy if it appeared in the media?
  - Would you like your family/significant others to see it?
- ❖ The second set comprise *ethical* questions:
  - why is the decision bothering me?
  - who are the stakeholders that matter here?
  - is the decision my responsibility?
  - what are the ethical issues here?
  - am I being fair to myself?
- ❖ The third set comprises questions of *personal credibility*:
  - am I savvy enough to make the decision?
  - how good am I at my job?
  - am I visible to all the movers and shakers?
  - am I good at managing relationships with people who are affected by my decisions?
  - am I willing to take calculated risks and what are the worst consequences I can live with?

**“Governance is a qualifier, not a differentiator. It’s a chip that permits you to play the game; by itself, it does not ensure success. Leadership is what makes the difference”**

Sir Derek Higgs 23

## Growth in the methods used in training leaders in global companies: 2005-10



### Key Points:

- ❖ Sound-bite leadership was all too evident. Most individuals at the summit of their banks had neither the trained intuition nor the experience to resolve complex dilemmas described earlier
- ❖ In global companies like Shell, BP, GSK, IBM and Microsoft, senior executives have been helped by a strong blend of tools deployed in the disparate areas of taught learning, mentored learning, distance learning and experiential learning. Each area is seeing a notable growth in the proportion of global companies who use them: e.g. from 40% to 60% in the use of taught learning in the period 2005-10
- ❖ As a result, their senior executives have been able to develop strong intuition about what's right or wrong, what's fact or fiction, what works, what doesn't and why. They have been helped by:
  - having good coaches and mentors at the workplace with whom they have been able to have risk free conversations about dilemmas
  - hearing the 'warts and all' stories of people who had to resolve difficult dilemmas
  - having unusual experiences which have taken them to the wire when they were least expecting it, thereby giving them deeper insights into their personal emotions, values and resilience
  - readings from philosophy, literature and religion which has enabled them to see the world through the eyes of the others.
- ❖ In most global banks, there was no strong culture of growing the talent from within. The tools which senior executives were equipped with in the area of strategic planning and people management were akin to those used by car mechanics or plumbing engineers
- ❖ Only a tiny minority of banks recognise that, like confessions, dilemmas require a personal space in which individuals can question their beliefs and feelings; a risk free environment where they can voice doubts and worries about the trade offs; and a dialogue that sparks genuine inspiration
- ❖ In the pressure cooker environment of global finance, time for debate and reflection was near zero

*"A moment's insight is sometimes worth a life's experience"*

Oliver Wendall Holmes

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**How HR was  
marginalised and  
what it needs to do  
to become a  
respected player**

## What did the City's CEOs want from HR?

- Help me build a global organisation
  - Make our business model work
    - Benchmark against the best
    - Enhance shareholder value
      - Raise the performance bar
      - Deliver our employer brand
        - Attract and retain the best talent
        - Leverage knowledge
        - Promote creativity and innovation
        - Focus employees on customers and markets
        - Get HR basics right first time

### Key Points:

- ❖ The dotcom bubble was but an interruption in a raging bull market, starting in the early 1990s and crashing in 2007. This period witnessed a deep all-pervasive sense of optimism: inflation had been conquered, boom and bust cycles were history, and financial innovations had transferred risk to the people best able to bear it.
- ❖ As a result, the bar was raised on HR. The old 'officer' model of HR, focusing on pay and rations, was soon defunct. Outwardly, CEOs' prospectus for HR was ambitious. Below the surface it was no more than a pious wish list which few HR professionals could deliver. It tore up the old psychological contract and aimed to create a new employer-employee relationship consistent with newly emerging entrepreneurial cultures
- ❖ Under it, employees were enjoined to accept that although the culture of jobs-for-life had ended, most jobs were still secure as long as security was based on performance, not paternalism
- ❖ To retain their jobs, therefore, employees had to see themselves as 'self employed' persons who would:
  - treat their employers as 'customers' of their labour services
  - provide these services where and when they were needed
  - be rewarded in accordance with individual contribution
  - be responsible for acquiring progressive skills that would improve their employability inside and outside their current organisations
- ❖ Over time and unwittingly, such a self employment mindset proved lethal, as self interest triumphed over corporate survival. In the meantime, a raft of new employment laws gave employees new rights which also opened up scope for new grievances. Publicly, CEOs extolled the virtues of diversity. Privately, HR fought mounting sex and race discrimination cases which were uncapped, inviting undue media attention
- ❖ Far from playing a strategic role in reshaping the business architecture in line with CEO expectations, HR was often reduced to a fire fighting role devoid of any strategic content

*"The best way to predict the future is to invent it"*

Alan Kay

## HR & line managers: the perceptions gap

### *HR Professionals:*

- **Processes and procedures:**  
(What are we doing?)
- **Cost:**  
(How much does it cost?)
- **Efficiency:**  
(How do we have a slim line HR function?)
- **Skills and competencies:**  
(How can we meet the resourcing needs?)
- **Budgets:**  
(How can we operate within budgets)

### *Line Managers:*

- **Results:**  
(What are we achieving?)
- **Benefits:**  
(What's in it for my division?)
- **Effectiveness:**  
(What impact is the function making to promote my agenda?)
- **Performance:**  
(How do we make money?)
- **Profits:**  
(How do we maximise profits?)

### **Key Points:**

- ❖ In investment banks, one thing was clear: the only way HR could have credence was by going native in line manager territory. As the HR-business partner model flourished, central HR became ever more remote: first in investment banks then elsewhere in the City
- ❖ Enlightened HR initiatives in areas like workforce diversity, knowledge management, organisational development, leadership training and e-learning were regularly blessed by top brass who also went on to champion many causes publicly so as to hog media coverage
- ❖ In reality, these and other initiatives were strictly for export. Internally, nothing much happened despite countless workshops and huge forward spend, thanks to three contributory factors
- ❖ First, these initiatives were fundamentally directed at creating long term 'shock absorbers' that made for a resilient business, as befits the role of strategic HR. On their part, however, line managers paid lip service, in the absence of immediate pay offs
- ❖ Second, HR was Aristotle, line manager a Machiavelli. To HR, fairness at work meant treating everyone alike and not having favourites, treating others as you would want to be treated, being sensitive to individual needs, and providing equal opportunity for everyone. To line managers, fairness meant playing by the rules of the game, emulating competitors and innovating within the grey areas of the law
- ❖ Third, HR paid attention to the means, line managers to the ends. For the latter, the ends justified the means, since high morals should not be confused with business success. Unlike HR, line managers did not over-estimate anybody's ethics or under-estimate their destructive power.
- ❖ These factors ensured the death of common sense and the birth of cheque book diplomacy over a wide area of HR. Improvisation was the name of the game
- ❖ In the post credit crunch era, HR has to be more savvy in two areas: reward systems and leadership without authority. Each is considered separately hereafter

*"Only a baby with a wet nappy likes change. Nobody else does"*

Anon

## Motivating talent: a balanced approach



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### Key Points:

- ❖ As the self employment mindset evolved, the reward system became unbalanced towards hard cash. Rainmakers came to realise that, in the new hire-and-fire culture, financial security took precedence over job security. Their minions followed suit. Salaries and bonuses rocketed, as greed triumphed over common sense
- ❖ Thus, the immediate priority now is to revisit the reward system and ensure that non-money rewards are just as important, and just as coveted, as the money ones. Employer brand and job interest have to be essential elements of non-money rewards. Hitherto, they were targeted only at junior staff
- ❖ At the surface level, they will restore sanity in what were hitherto widely seen as Mickey Mouse incentive systems, in which even busy fools got paid far more than they deserved. Under the surface, they will re-direct HR attention to the fundamentals of the business which are vital to long term survival and growth
- ❖ Either way, they will serve to put important issues on the corporate agenda for senior as well as junior staff. Issues like:
  - do we have a strong culture and values?
  - are we good at retaining talent in periods of feast and famine?
  - do our people have meaningful jobs with exciting challenges and career prospects?
  - do our people have bosses they admire as role models?
  - do our people spend more time doing the business rather managing events or internal politics?
  - do our people have reasonable autonomy and space to be more creative?
  - do we offer recognition for a good job done?
  - do our people have internal networks that provide advice and support in a risk free setting?
  - do our people have a reasonable work-life balance?

***“Nothing in the world can take the place of persistence.  
Talent will not, nothing is more common than unsuccessful men with great talent  
Genius will not; unrecorded genius is almost a proverb.  
Education will not; the world is full of educated derelicts.  
Persistence and determination alone are omnipotent.”***

Calvin Coolidge

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## Organisational savvy: know the finer nuances and subtleties

### Means understanding:

### So that you can:

• core business strengths	→	<i>build on the existing rootstock</i>
• key business goals & challenges	→	<i>run with the grain of management thinking</i>
• operating structure	→	<i>use the power of hierarchy</i>
• movers & shakers	→	<i>identify the centres of gravity</i>
• paradoxes (profit vs people)	→	<i>understand the nature of internal debates</i>
• legacy issues	→	<i>cope with the sensitivities</i>
• formal & informal channels of communication	→	<i>maximise your personal impact</i>
• power of networks	→	<i>build a shared vision &amp; ownership</i>

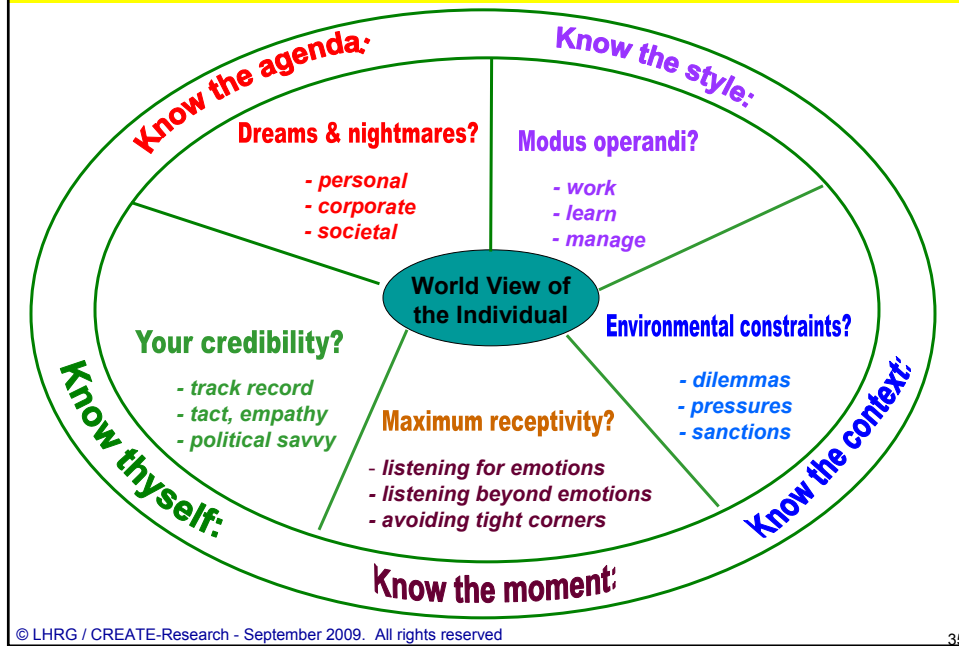
### Key Points:

- ❖ The second area where HR needs to be savvy is leadership without authority: namely, how to exercise influence with colleagues over whom HR has no advantage of rank, status or power. It's about influencing movers and shakers who can subscribe to the HR agenda and create a snowball effect in its implementation
- ❖ HR was never short of good ideas. But it was not savvy enough – in organisational, business or people sense – to push them through.
- ❖ First, HR needs to take on board the timeless wisdom of wise men and women throughout history:
  - Actions speak louder than words: judge people by what they do and deliver, not what they say
  - See the world as it is, not as you are: don't project your values on others
  - Ends can often justify the means: it all depends upon the context
  - Always have a plan B ready: few HR plans survive reality
  - Don't sit on the sidelines: if you want to change the rules, play the game
- ❖ Second, HR needs to understand the business of business: its regulatory and competitive environment; its profit and cost drivers, its clients and suppliers: its alliances and business partners. A big picture understanding is vital for creating personal credibility
- ❖ In addition, HR needs to improve its communication skills. That means:
  - Have deep conviction
  - Avoid jargon
  - Have some evidence; stories
  - Be lively and anecdotal and use memorable quotes
  - Anticipate awkward questions

***"If we can really understand the problem, the answer will come out of it;  
because the answer is not separate from the problem"***

Krishnamurti

## Influencing upwards, outwards & sideways



### Key Points:

- ❖ People savvy is the second pre-requisite to leadership without authority. It is about understanding the world view of the individuals whom HR needs to influence: be they bosses or peers or external stakeholders
- ❖ First, it is essential to understand their *behavioural* drivers. That means knowing their personal, corporate or societal agendas. That way it becomes possible to juxtapose HR goals alongside theirs and establish a mutuality of interests. This forms the *content* of conversation with them
- ❖ Second, it is essential to understand their *style* of thinking, working, managing and learning. Styles provide cues to the grain of their thinking and likely reactions. This influences the *thrust* of the conversation
- ❖ Third, it is essential to understand the *environmental* constraints and sanctions under which people operate at personal, professional and organisational levels. This influences the broad *parameters* of the conversation.
- ❖ Fourth, it is essential to pick the *right moment*. Human decisions are influenced by rational, emotional and spiritual factors which decide the moments of maximum receptivity. This influences the *timing* of the conversation.
- ❖ Finally, HR needs to have a strong base of personal *credibility*, if it is to influence movers & shakers. Credibility comes from a track record of previous success as much as emotional stability that gives confidence that it will be replicated in the future. Tact and empathy are also vital in creating a trusting rapport. These influence the deeper meanings and subtle nuances of the conversation.
- ❖ In the past, if HR was marginalised, that was largely because it was less confident about its own role as the conscience of the organisation: the '*keeper of the keys*'. This lack of confidence stemmed from inadequate influencing skills and personal mastery. It's time to up the game on these fronts

**"We must be the change we want to see in the world"**

Mahatma Gandhi

## Core advice to HR

- **Feel passionate and restless about your cause:**  
*both are infectious. People around us believe in the truth of everything that is seen to be firmly believed in*
- **Pitch for small early successes:**  
*it provides a credible bandwagon which doubting Thomases can't resist joining*
- **Focus on movers and shakers:**  
*understand their dreams and nightmares and show them how your altruism addresses them*
- **Use the power of informal networks:**  
*a few words whispered in influential ears are far more potent than tedious reports and meetings*
- **Become a trusted adviser to CEO:**  
*help them improve their leadership styles and effectiveness; tell them things they won't hear anywhere else; be a thought leader; understand the profit & cost drivers*
- **Avoid jargon:**  
*use memorable quotes, anecdotes and stories to support your cause.*

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