

*Rather than actively shaping the people strategies financial institutions need to move the business forward, many are having to react to immediate pressures. But the upheaval in the marketplace and challenge of re-engaging with customers and staff are making the need to regain control of the people agenda ever more pressing. So how can your business move your people strategy onto the front foot?*

# *Seizing back the people agenda*







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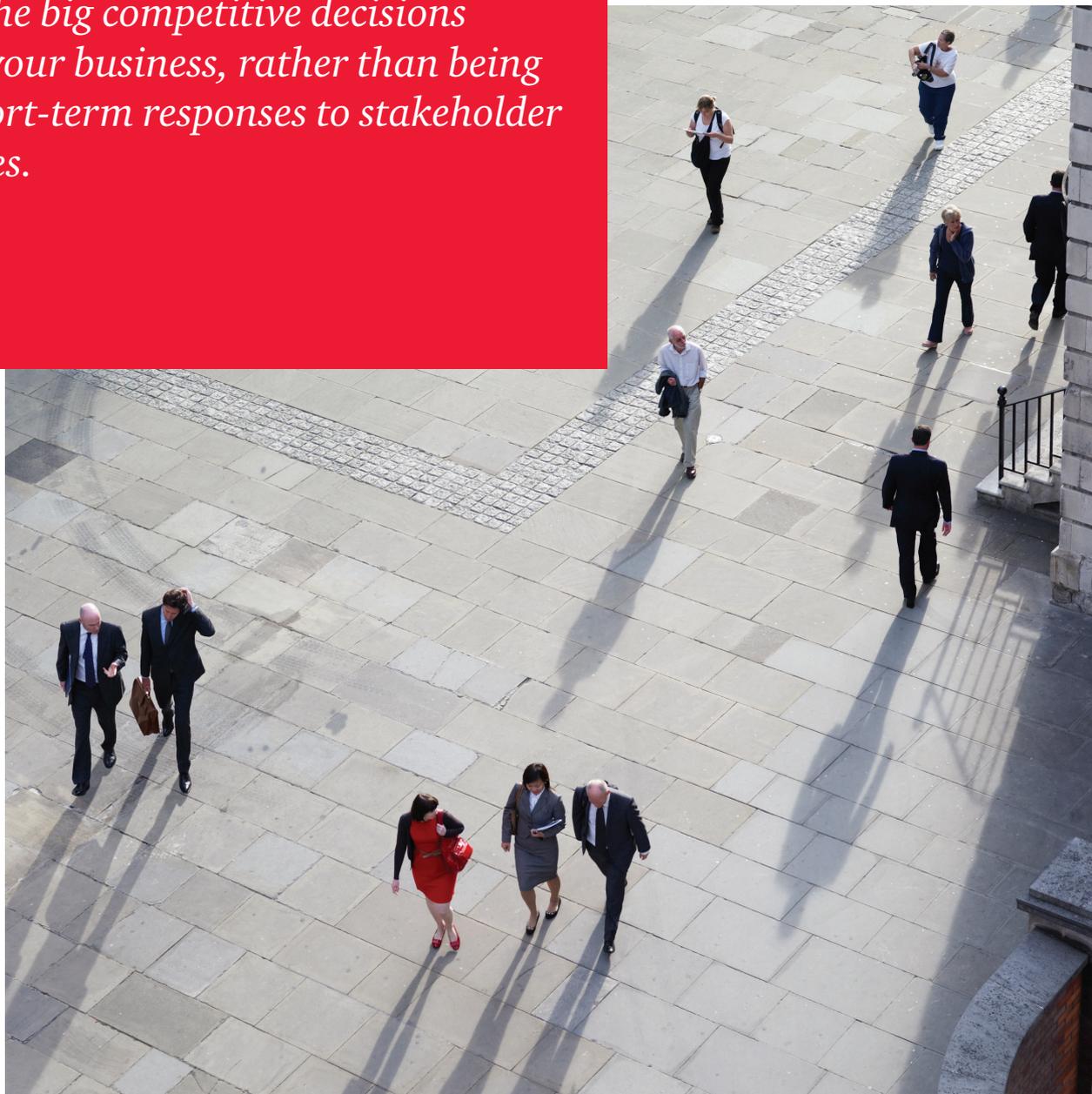
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# Foreword

*We're pleased to introduce 'Seizing back the people agenda'. The paper looks at how to make sure your people strategies reflect the big competitive decisions within your business, rather than being only short-term responses to stakeholder pressures.*



The components of the people strategy which we see as most relevant include attracting and retaining the right people, organising them in the most effective way, shaping the right culture and managing performance and reward.

The big decisions include where your markets are heading, how you're going to capitalise on emerging opportunities and how to win back the trust of customers and other stakeholders. These priorities can't be met without re-engaging with staff at a time when morale has been eroded by significant downsizing, the decline in returns and the negative image of the industry.

The components of the people strategy which we see as most relevant include attracting and retaining the right people, organising them in the most effective way, shaping the right culture and managing performance and reward. These components require continuous collaboration between business and HR leaders in their design, execution and monitoring.

Our vision of how to regain control of the people agenda and bring people strategies into line with the wider reshaping of your business, starts with two fundamental questions:

What are the new objectives for the business?

What people strategy components are needed to support and deliver them?

Addressing these questions will make sure your business is more likely to have the right people, with the right skills and motivation to contend with the new market realities and take the business forward (or at least understand what the people 'gaps' are and put in place a strategy to plug the gaps). Underpinning

this will be a new employee value proposition (i.e. why people would want to work for your company), capable of attracting and retaining talent without simply relying on pay.

Drawing on the findings from PwC's latest Global Annual CEO Survey, the first section of this paper, 'The pressing agenda', looks at why the current people model is proving increasingly unsustainable. The next section, 'Tackling the fundamentals', outlines what a suitably equipped and re-engaged workforce looks like. In 'Moving onto the front foot', we examine the key elements of a competitive people model including how to reshape culture, organisation and performance management. Finally, we look ahead to the organisation of the future and the key strategic questions that boards and HR teams will need to address now to make sure they're able to compete in the future.

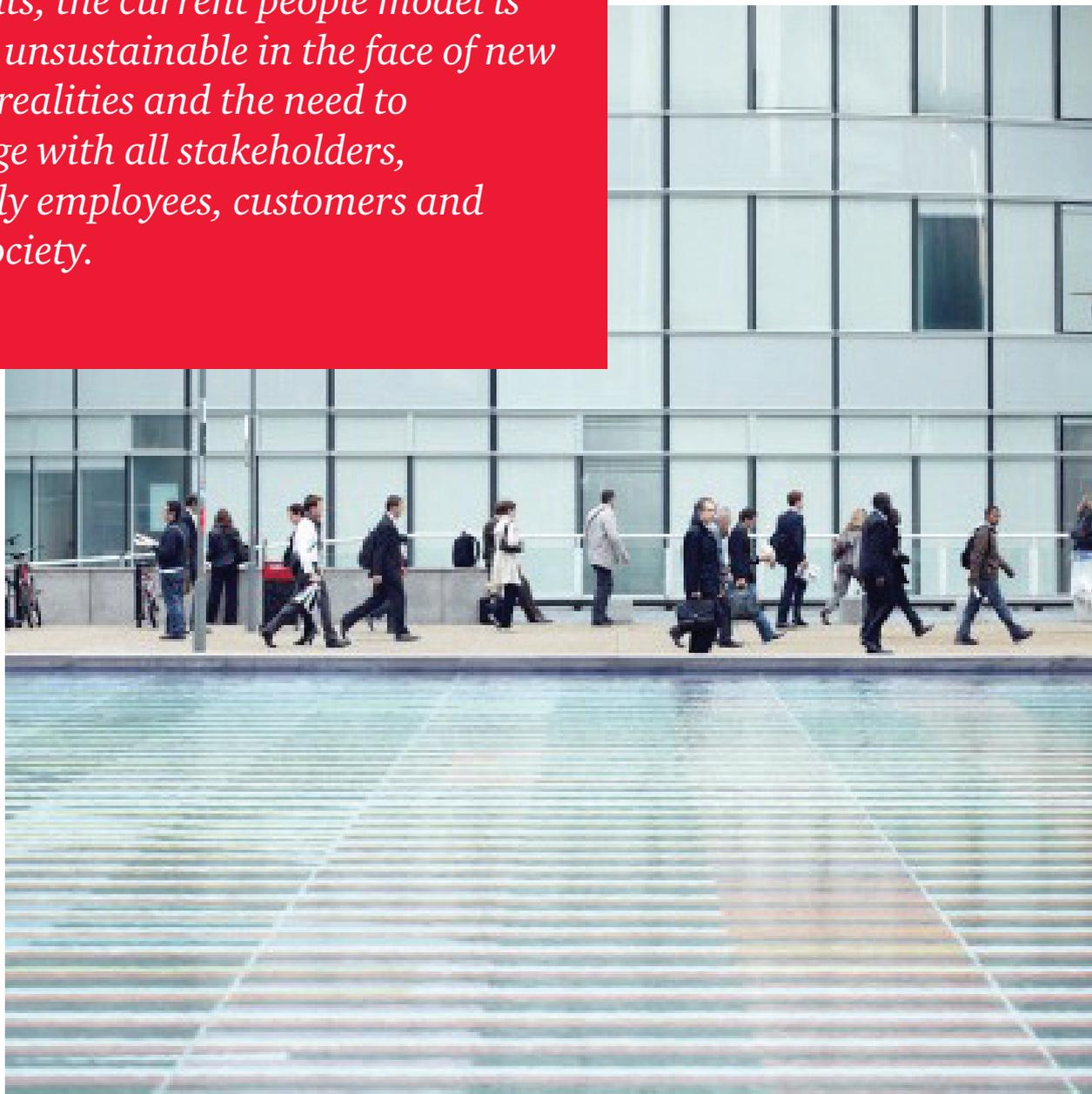
We hope that you find it informative and useful. If you have any queries or would like to discuss any of the issues in more detail, please speak to your usual PwC contact or one of the authors listed on page 19.



**Jon Terry**  
PwC (UK)  
Global FS HR Consulting Leader

# *The pressing agenda*

*As our latest Global Annual CEO Survey highlights, the current people model is proving unsustainable in the face of new market realities and the need to re-engage with all stakeholders, especially employees, customers and wider society.*



# 56%

*of FS CEOs see the limited availability of skills as a threat to growth, more than any other business issue*

The financial services (FS) CEOs in our 2013 global survey see Asia, Africa and Latin America as the leading regional targets for growth,<sup>1</sup> intensifying the demands on talent in markets where qualified personnel are already in short supply. This has a profound impact on sourcing, developing and retaining local talent, supported by the deployment of expatriate personnel to build a competitive market presence and capabilities. And this isn't just technical expertise, but also making sure you have people with the well-developed cultural understanding, and client and wider relationships that are critical to success in these markets.<sup>2</sup>

In turn, a combination of technology, new capital demands and the economic situation are transforming customer expectations and making once-profitable areas of business, now unviable. More than 80% of industry leaders see over-regulation as a threat to growth. More than half are concerned about the shift in customer spending and behaviour, though for agile and innovative organisations these developments provide once-in-a-generation competitive openings.

Rebuilding trust with disenchanted customers is going to be vital in enabling your business to strengthen customer loyalty, retention and growth – the number one strategic priority for industry leaders. But half of FS CEOs believe that a lack of trust in the industry is holding back growth. Re-engaging with customers is going to be extremely

difficult without re-engaging with employees. The challenge is heightened by the extent to which trust between employers and employees in the industry has been shaken by retrenchment and organisational upheaval. So how can your business bring your staff and your customers back onside?

This disillusionment has been exacerbated by the often hostile attitudes of the media, politicians and society at large. For many people in the industry, this antagonism has created a 'them and us' mentality that is suspicious of change and reluctant to re-engage with those from outside. So how can your business rebuild pride within the workforce?

The reputation of the industry is also making it difficult to attract talent. A global PwC survey of college leavers coming into the workforce found that more than 20% would no longer even consider a career in FS because of its image.<sup>3</sup> Jobs with meaning and interest are a key attraction for this millennial generation. So, alongside rebuilding pride in your present workforce, how can your business convey the value of what you do and what it can offer to bright new graduates?

A considerable amount of the employee value proposition within FS has been built around financial reward. But the sharp falls in returns since the financial crisis mean that there simply aren't the funds to sustain the old levels of compensation. Nonetheless, more than

70% of FS CEOs say that they have to match the pay of peers to retain top talent. These pay pressures need to be balanced with the returns to satisfy shareholders and fund investment for growth.

Further strains are coming from stakeholder pressures being put on how organisations set rewards – nearly 40% of FS CEOs are changing the way they set executive reward in response to shareholder and public reaction. These demands are leading to a huge and complex overhaul of reward policies, with significant implications for the balance of fixed, variable and deferred pay and the governance, communication and employee engagement procedures that surround this. But these changes will only be viable if they take account of the realities of the business rather than just how to meet external dictates, or solely focus on the mechanics of how people are paid, rather than what for and why. The potential problems are highlighted by the fact that nearly 40% of industry leaders say that executive incentive pay structures are now too complex.

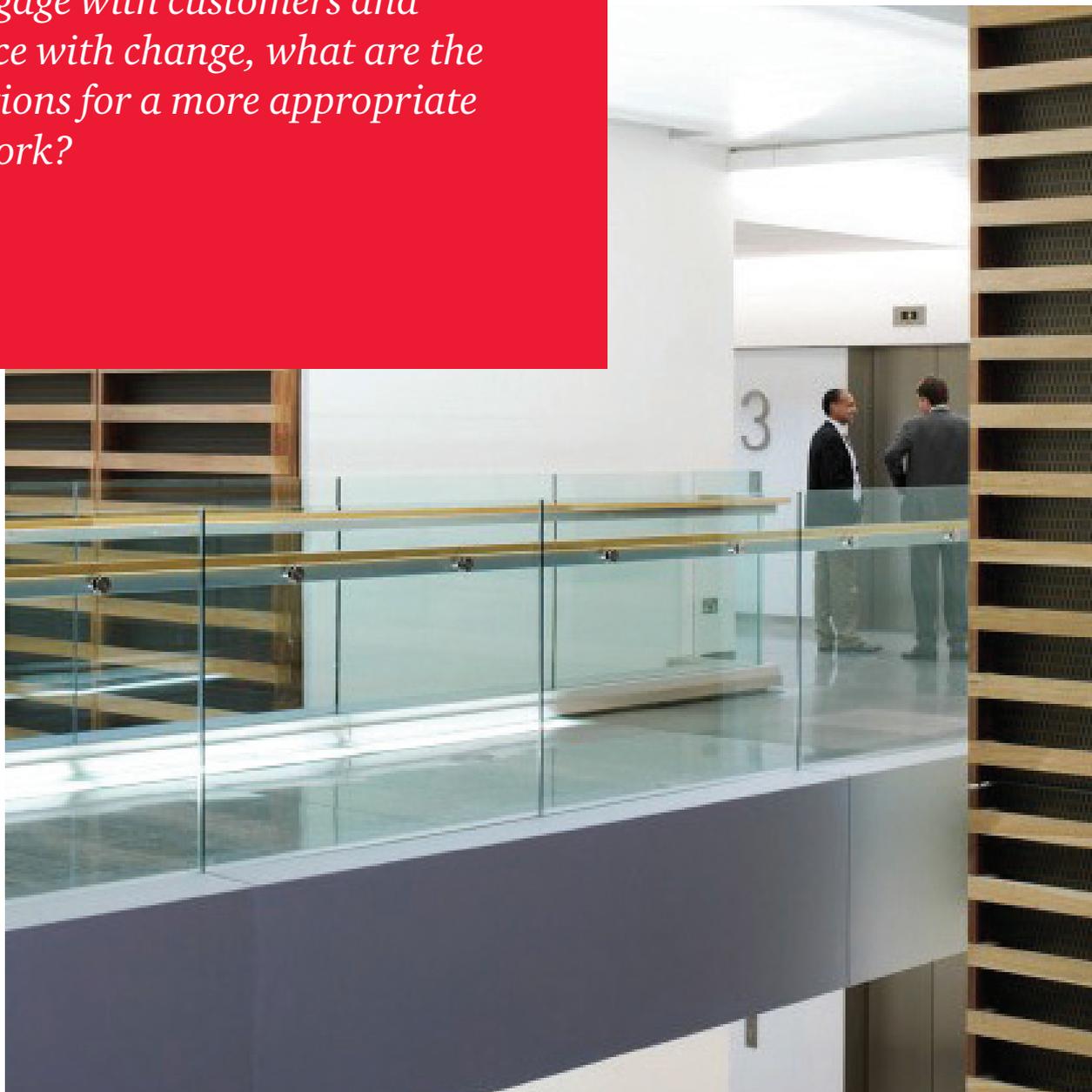
1 351 FS CEOs were polled as part of PwC's '16th Annual Global CEO Survey: Dealing with disruption – Adapting to survive and thrive', January 2013

2 As highlighted in our FS viewpoint report 'How private banks can nurture talent to prosper in China'

3 'Millennials at work: Reshaping the workplace in financial services', published by PwC April 2012

# *Tackling the fundamentals*

*If the existing people model is struggling to re-engage with customers and keep pace with change, what are the foundations for a more appropriate framework?*



“My basic equation is that you focus on your people, your people focus on the customers, and that, in turn, allows you to generate a decent return for shareholders.”

**Piyush Gupta**, Chief Executive Officer and Director, DBS Group, interviewed for PwC’s 16th Annual Global CEO Survey

We believe that the reshaping of the business to sharpen competitive relevance in this new landscape should be built around four pillars, all with a crucial people dimension (see box).

### 1 Culture

Creating a culture and behaviours that reflect your strategic and organisational vision by instilling innovation, collaboration, integrity, controls and risk/compliance awareness into the mindset and day-to-day operations of staff

### 2 Capability

Ensuring that your capabilities mirror the changing requirements of your customers and your organisation including the right skills, mindset, training, tools and technology

### 3 Connectivity

Bringing your organisation closer to its clients and connecting your people through self-organising networks, high-performing teams and social media/communication

### 4 Cost

Bringing costs and performance into line with appropriate industry standards and stakeholder demands through sustainable pay and reward, and the rebuilding of trust

The questions of how to rebuild customer trust, employee pride and their engagement with you as an organisation cuts across culture, capability, connectivity and cost.

FS has been portrayed in many quarters as some sort of casino. But its actual contribution to society can be hugely meaningful and rewarding. It provides the liquidity, risk mitigation and management of assets, without which nobody would be able to buy a home, set up in business or support themselves through retirement. Indeed, rather than losing its appeal, it should be more relevant than ever. There is an opportunity to support innovation and nurture businesses during a time of unprecedented technological advances. There is also the challenge of helping businesses and consumers adapt to a world facing significant economic uncertainty, climate change and pressure on resources.

This focus on socially beneficial ‘good growth’ is an opportunity for FS to rehabilitate itself in the public’s eyes and foster a renewed sense of pride and purpose within the workforce. The potential benefits include a stronger licence to operate, innovate and pursue profitable opportunities. Personnel would be seen as equally deserving of rewards as people in other sectors. Your business would also be in a stronger position to attract quality talent at a time when many of the brightest candidates are looking for more meaning from their chosen careers.<sup>4</sup>

### What’s actually happening?

The reality on the ground is very different as organisations grapple with the immediate challenges they face, rather than judging where they want to be and what people model is needed to get there. More than 70% of FS CEOs have reported plans to change their strategies for managing talent over the past three years, suggesting that there has been a lot of shifting around, but not much lasting resolution.

With organisations on the back foot, regulators are being left to set the questions and dictate the responses in key areas such as compensation and culture. At some point your business has to step back and think why these questions are being asked and how can you make sure the response is relevant to the strategy and running of your business.

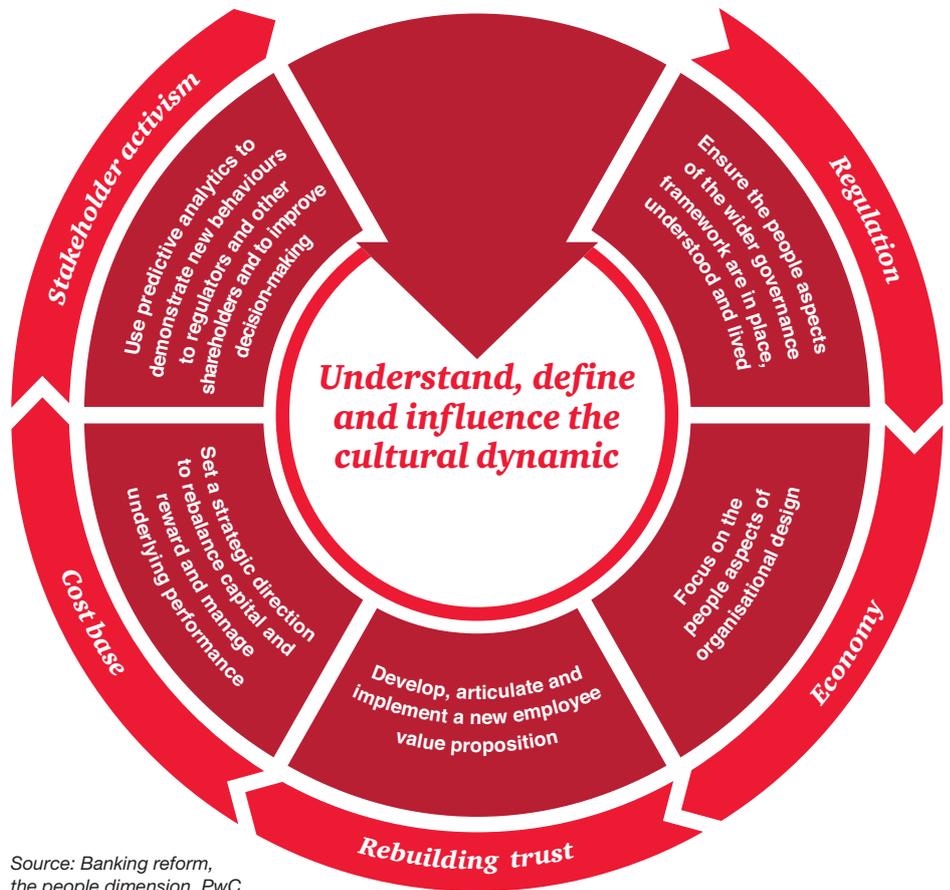
<sup>4</sup> ‘Millennials at work: Reshaping the workplace in financial services’, published by PwC April 2012

# *Moving onto the front foot*

*How can you take back the initiative  
and bring your people strategies  
into line with your overall business  
objectives?*



**Figure 1: Responding to the people issues**



Source: Banking reform, the people dimension, PwC

The starting point for moving your people model onto the front foot is these fundamental questions:

What will your markets look like, how are your customer expectations likely to change and how can you reshape your strategy and operations to take advantage of the developments ahead?

What people will you need to deliver your strategy, how are you going to build, buy or relocate them, and how should they be organised and rewarded?

What investments do you need now to make sure you have the talent you need in the future?

You can then begin to define and enact the culture, performance management and other key aspects of people management needed to deliver your business goals (as outlined in Figure 1 and explored in more detail in the text):

**1. Understand, define and influence the cultural dynamic**

A culture of integrity, customer focus and risk-awareness is critical in re-engaging with customers and rebuilding stakeholder confidence. There are clear competitive advantages for getting this right including better targeting of products, stronger reputation and more effective retention. Being able to demonstrate that risks are appropriately evaluated and managed across the organisation is also likely to result in less intrusive supervision and greater comfort for the board. Your staff will have a better understanding of the risk

issues, how much risk they can take and at what price. You can also give your frontline teams more licence to capitalise on opportunities, more confident in the knowledge that they're taking proper account of the risks.

But instilling the right culture and behaviour that surrounds this is easier said than done. Many FS organisations are finding it difficult to translate high-level expectations in areas such as risk awareness or putting the customer first into discernible changes in how people think and behave in their everyday activities. They need to dig deeper into the operations of the business to make a difference.

Culture will only deliver the 'driving' goals of the organisation if it is second nature – firmly built into the habits and routines of staff at all levels. Key steps include defining the right behaviours, as well as the reinforcing mechanisms such as changes in hiring practices, organisational design, development programmes, performance management and rewards.



# 10%

**only 10% of FS millennials are planning to stay in their current role for the long-term**

## **2. Develop, articulate and implement a new employee value proposition**

The employee value proposition addresses the fundamental questions of what people do you need to compete, how your business attracts them and how you can best develop their skills. It also covers what you expect from them and what makes them effective in areas such as readiness to engage and embrace change, and a culture of appropriate behaviour, risk awareness and accountability.

Underpinning this is the balance of financial and non-financial rewards as part of a total reward approach:

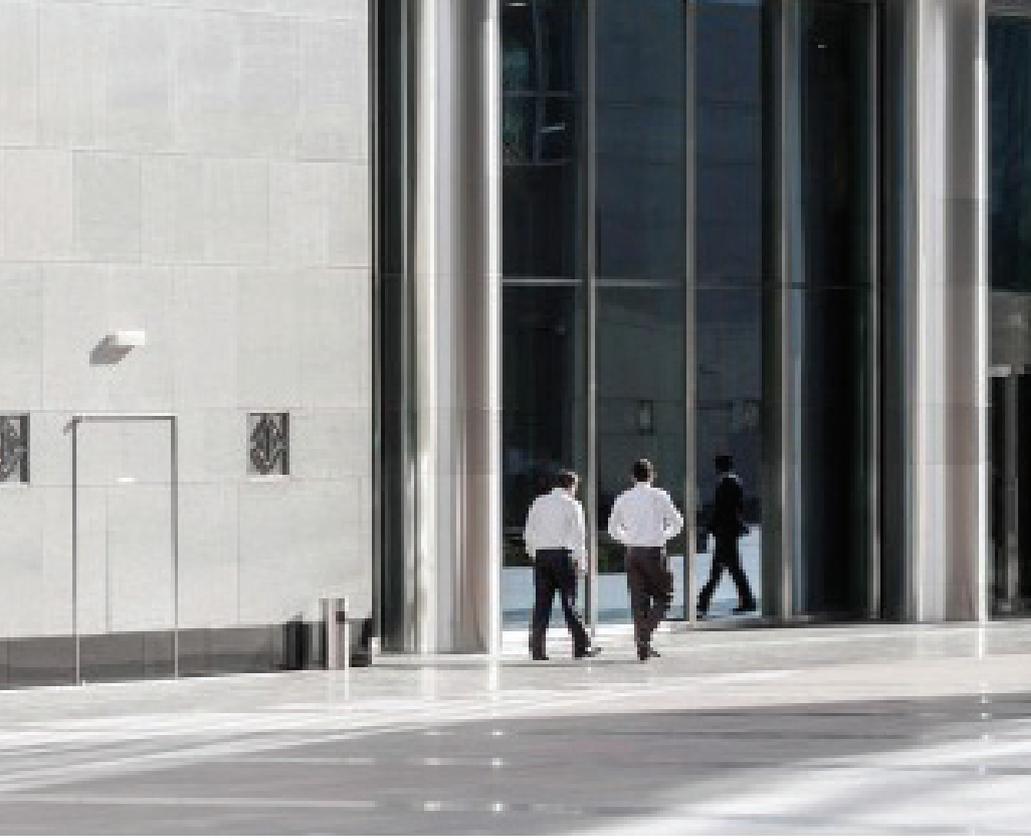
- Pay is still important, but not at the expense of everything else. There needs to be a more viable balance between risk/capital demands, employee reward and the returns needed to attract investment and fund future growth.
- It will be important to look more closely at non-traditional rewards including broader career paths, internal and external training and development, and workplace flexibility.

- Supporting the organisational reputation by living up to expectations on behaviour and accountability should be a key aspect of the reward package.
- Greater focus on rebuilding pride through rediscovering a sense of purpose in what people do.

Your business should be providing sufficient training and career development opportunities to attract and retain talent. A particular attraction for the millennial generation is international experience. But this is a generation that will have a higher turnover rate than previous incumbents (only 10% of FS millennials are planning to stay in their current role for the long-term<sup>5</sup>). Traditional one-size-fits-all employee engagement models will therefore need to be refined and heavily customised around the needs and aspirations of individual employees. Retention strategies will have to be pragmatic, focusing most closely on the talent you most want and can realistically expect to stay. Others should be kept close as part of an 'alumni network', which can project your culture in the marketplace and provide a source of talent for future recruitment, once they have gained experience elsewhere.

Your business can get on the front foot by looking for opportunities to differentiate your employee value proposition and making it more attractive. Again, trust could be central to this. A business that relies on regimented controls to enforce risk parameters is going to be less attractive to work for than one that trusts its staff to do the right thing and gives them greater licence (and probably rewards) as a result. The business will also be more cost-competitive as it will need fewer people in the second line of defence to enforce controls. This underlines how closely culture, decision-making structures, organisational design, predictive analytics, cost control and the underlying people proposition are bound up together.

Even in a highly automated operation in which cost is the key driver, the level of customer focus, ability to engage in new ways and ability to use diverse sources of data to target customers and control risk will be critical, giving businesses that get this right the edge over low pay factory-style operations.



### ***3. Bringing performance management into the modern age***

HR often operates with a 'one-size-fits-all' approach as it seeks to promote fairness, legal compliance and ease of implementation. But the workforce within your organisation has never been more diverse, whether measured by age, ethnicity or geographical location. People from different cultures, generations and stages of life may have very different expectations and motivations.

It's therefore going to be important to look beyond the one-size-fits-all at how to segment your workforce in a way that reflects your evolving priorities and their particular needs and aspirations. Traditional performance management is either being supplemented by other feedback mechanisms or reviewed in its entirety. Some organisations have moved beyond annual appraisals that define rewards and objectives to a more flexible and continuous approach in line with today's rapid interactions and communication. Greater use of messaging and social media is accelerating the trend towards a more dynamic real-time approach to performance management.

Freed from the rigidity of conventional practice, performance management can become more individually relevant and brought into line with the evolving employee value proposition outlined earlier.

### ***4. Ensure the people aspects of the wider governance framework are in place, understood and lived***

This is built around the watchwords of simplicity, efficiency, visibility and clarity. On one level this is about oversight and control. But as outlined earlier, it's also about how effectively risk awareness is built into decision-making, habits and routines – what people do when nobody is looking.

### ***5. Focus on the people aspects of organisational design***

This centres on the need for new responsibilities and reporting structures and a rethink of how decisions are made, overseen and, where necessary, challenged. It's also likely to include a more collaborative approach in areas such as product design and risk management.

### ***6. Use predictive analytics to demonstrate new behaviours to regulators and other shareholders and to improve decision-making***

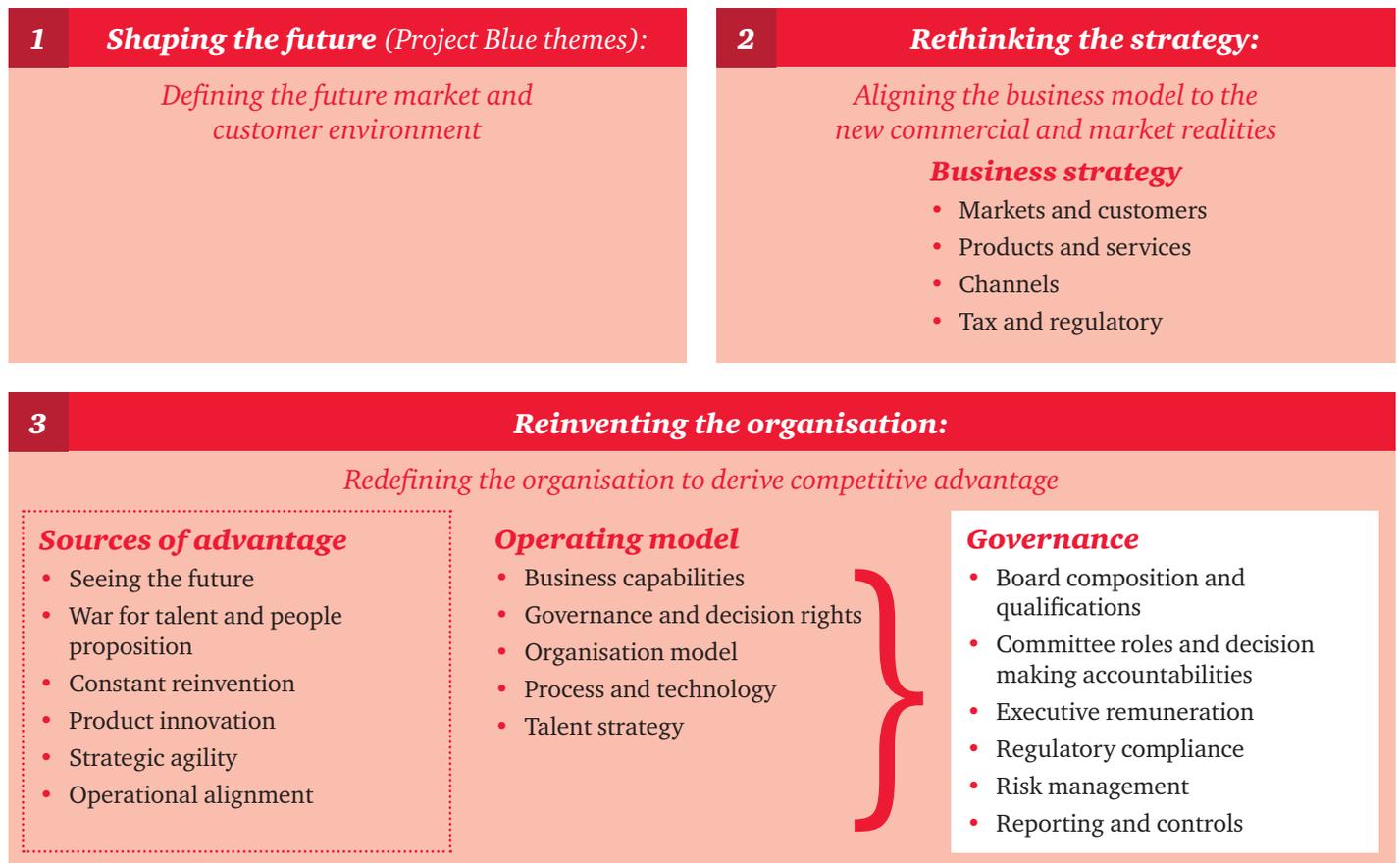
Valuable historic data already exists on HR information systems, although most of it is currently underused. Predictive analytics have the ability to drive HR actions by using both private and public data – and are an essential tool in responding to regulator and wider-shareholder expectations. They would also improve HR's ability to forecast employee behaviour and thereby business performance.

# *What does the future look like?*

*The market is now unrecognisable from where it was five years ago and even bigger changes lie ahead. What are the key competitive imperatives in this emerging commercial environment and what can you do now to make sure your people are ready?*



Figure 2: The CEO's agenda



Sources: PwC analysis, PwC Project Blue: Assessing the future trends for financial services. Ending the Endless Reorganisation, (published by PwC).

The full impact of the changes in technology, the global economy and what customers and employees expect will emerge over the coming decade. The 'CEO agenda' set out in Figure 2 highlights the key areas that boards will need to assess and address as they look to sustain and sharpen competitive relevance.

**Shaping the future**

The focus of global investment and growth is shifting. Technology is pushing back the borders of commercial possibility on the one side and creating openings for social media and other data rich entrants to move into the market on the other. It is essential to have the ability to anticipate how markets and customer expectations are set to evolve, the implications for your particular business and to prepare now to make sure you're in the best position to capitalise are crucial differentiators.

**Rethinking your strategy**

Your people strategies will need to reflect the changes in where and how you operate, the return horizons for your business and how these profits are allocated between staff, shareholders and reinvestment in the business.

Your people may be bruised by what they've come through, but many have gained valuable skills and experience through working in leaner and more flexible teams over the difficult last few years. This experience could be especially valuable in leading organisational change, new market entry and development programmes. The 'us' versus the 'outside' attitude created by the hostility they've faced may also have given them a strong sense of loyalty to each other, which will be important to nurture and harness.

In some cases, the kind of people needed to compete may not be the people that currently exist within the business. This includes experience of working across different cultures or use of big data in customer profiling and product design, for example.

A key focus for changing the way your business and your industry are perceived is going to be how to win over a new generation of millennials coming into the workforce. Our research shows that this is an ambitious generation that generally values the opportunity to progress quickly over monetary reward, though this will remain important.<sup>6</sup> It is also a generation that switches jobs frequently and may have more loyalty to its 'network' than its employer.

<sup>6</sup> 'Millennials at work: Reshaping the workplace in financial services', published by PwC April 2012

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The ability to engage across all channels, use big data to sharpen product tailoring and targeting, and provide ease and intuition in your services are going to be defining differentiators in the face of ever-more exacting customer expectations.

Ever-greater automation, both in the front office (e.g. automated trades or greater use of telematics' sensors in the selection and pricing of insurance risks) and in the back office (booking and risk management) is likely to lead to continuing job losses and change the way staff operate.

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### **Questions for your organisation**

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- Are the people you have the people you need as the business changes?
- How can you simplify the design of performance pay and make it more relevant to the people whose behaviour it's meant to influence.
- How do you rebuild pride within your organisation and harness the experiences gained in recent years?
- How can you attract a new generation of talent with different expectations while continuing to satisfy older staff?
- How can you manage automation and other operational changes in a way that avoids further damage to staff morale and engagement?

### **Reinventing the organisation**

As commercial activity continues to shift South and East, your organisation is set to become ever-more culturally diverse and will need to operate across a multitude of different market preferences and regulatory jurisdictions.

If your business is based within one of the fast growth markets, there is the challenge of how to sustain the supply of skilled people and deal with the risk and product design challenges of an expanding and ever-more sophisticated market. If you're a developed market business looking to capitalise on new growth opportunities, you face the challenges of how to develop local relationships and deal with new and unfamiliar risks.

The ability to engage across all channels, use big data to sharpen product tailoring and targeting, and provide ease and intuition in your services are going to be defining differentiators in the face of ever-more exacting customer expectations.

The habits and expectations of the networked generation will continue to reshape the way people interact within your organisation. Information and feedback are exchanged instantaneously.

Alongside the greater diversity and range of skills needed within the organisation, millennial expectations

are set to accelerate the move to a more flexible and personalised approach to performance management and rewards. Eventually, a new recruit might join your organisation, having agreed how they will receive the total amount of money the company wants to spend on them, the hours and location they will work, the type of work they will do, how they will be managed and what kind of feedback they will get and how this will be done within a new look 'individual deal'.

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### **Questions for your organisation**

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- How can you make sure your recruitment, career development and succession planning reflect your increasingly international horizons?
- How comfortable are your people with innovation and big data-driven decision-making?
- Are your people equipped to deal with more extensive partnership arrangements and are they sufficiently agile to respond quickly to unfamiliar market conditions, distribution channels and cultural preferences?
- How can you adapt the way you evaluate, motivate and interact with your people to the demands of a new generation?



# The urgency of change

*The nature of the people you need, what you expect from them and what you can offer them in return are being turned on their head. The resulting shift in your people strategies could be huge and potentially complex.*

The challenges are compounded by the need to keep pace with ever-more exacting regulatory demands. But putting off the vital rethink and reshaping of your strategy could put your business at risk. What you do now will determine your ability to compete in a rapidly evolving job market and marketplace.

What is especially clear is that traditional assumptions and one-size-fits-all models are going to be increasingly irrelevant. Cultures, organisational design, employee value propositions and surrounding governance and monitoring are all going to look very different, very quickly. But as in all times of upheaval, there is an opportunity to set the agenda and move ahead of your competitors.

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# Contacts

*If you would like to discuss any of the issues raised in ‘Seizing back the people agenda’ in more detail, please speak to your usual PwC contact or any of the contacts listed below:*

***Jon Terry***

Partner  
PwC (UK)  
+44 (0) 20 7212 4370  
jon.p.terry@uk.pwc.com

***Debra Eckersley***

Partner  
PwC (Australia)  
+61 (2) 8266 9034  
debra.eckersley@au.pwc.com

***Christopher Box***

Partner  
PwC (UK)  
+44 (0)20 7804 4957  
christopher.box@uk.pwc.com

***Bhushan Sethi***

Managing Director  
PwC (US)  
+646 471 2377  
bhushan.sethi@us.pwc.com

***Ed Donovan***

Partner  
PwC (US)  
+1 646 471 8855  
ed.donovan@us.pwc.com

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For further information on the Global FS People Marketing programme, contact Áine Bryn, Global FS Marketing, on +44 20 7212 8839 or at [aine.bryn@uk.pwc.com](mailto:aine.bryn@uk.pwc.com). Alternatively, contact Maya Bhatti, Global FS Marketing, on +44 20 7213 2302 or at [maya.bhatti@uk.pwc.com](mailto:maya.bhatti@uk.pwc.com).

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