GLOBAL riskupdate

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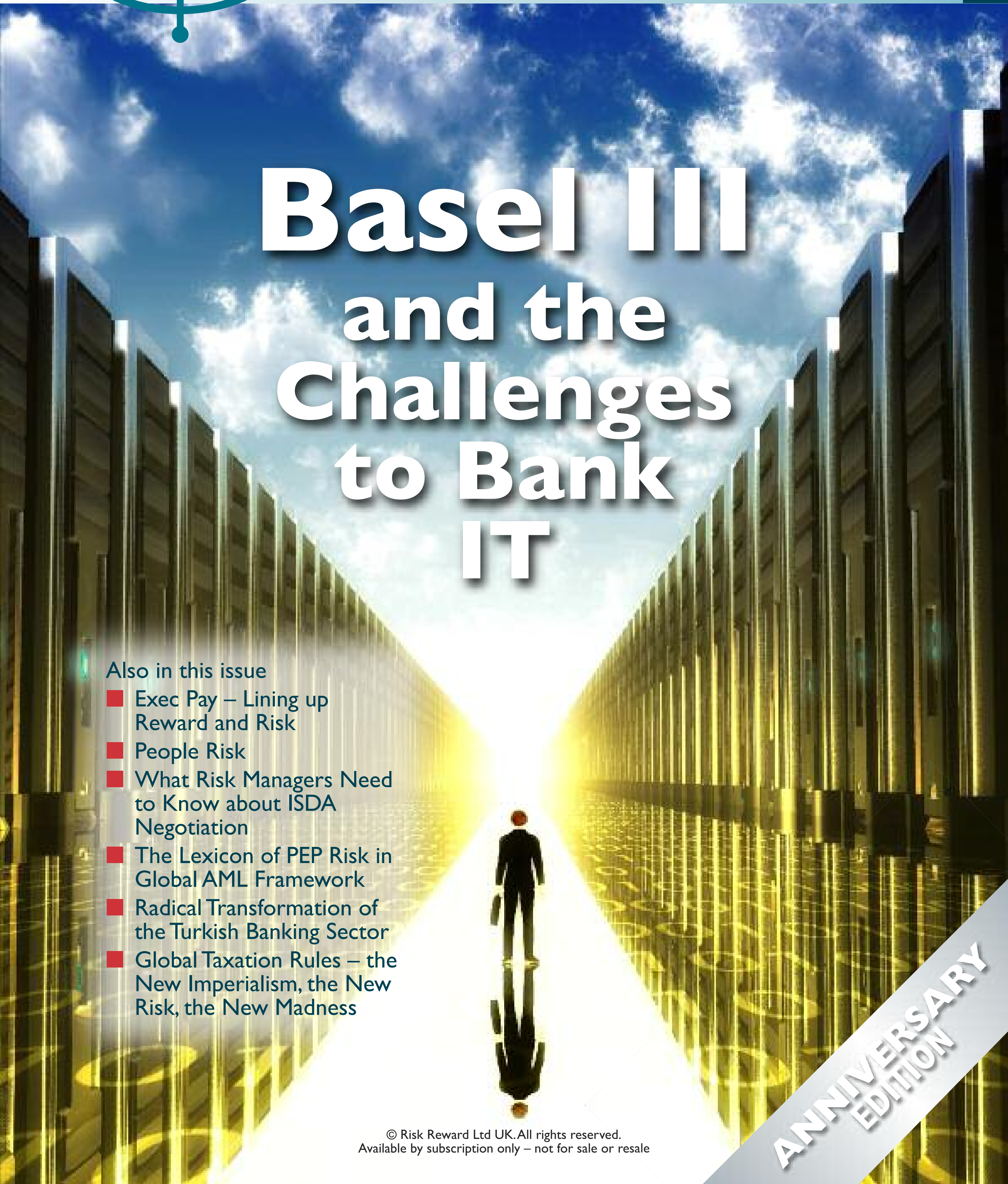
10 Years and Growing



Basel III and the Challenges to Bank IT

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ANNIVERSARY EDITION

People Risk

Richard Sargent is an international management and sales training consultant with over 25 years experience in the Financial Markets. He has worked in over 60 countries worldwide and specialises in high energy, practical training delivery that catalyses immediate and lasting behavioural change. In this article Richard asks what does people risk mean in the real world and offers insight into creating more effective sales and management teams.

To what extent is business success driven by technical expertise alone?

It is well known that the majority of failed company mergers are down to a lack of due diligence. But this is not attributed to the lack of analysis of underlying financial performance or contractual / legal issues but rather to under-developed employee personal competencies in relation to leadership, team working and conflict handling. In other words, a lack of due diligence when it comes to **People Risk.**

Professor Malcolm Higgs and Vic Duelwicz conducted research into the performance of top executives in 15 global organisations, including IBM, PepsiCo and Volvo. They concluded that the key personal and social competencies as defined by Emotional Intelligence (EI) were twice as important as cognitive (intellectual) or technical skills when developing exceptional job performance.

Further research concluded that owner-managers in small to medium-sized enterprises held back their companies' growth by trying to hold onto control - such managers displayed high independence, low trust, low empathy and high aggression as well as abnormally high stress levels! The one characteristic they all shared? Low Emotional Intelligence!

So, what is Emotional Intelligence and is it a valid predictor of **People Risk?** According to Daniel Goleman, the author of much of our more recent EI theory, it is defined by 5 personal and social competencies.

These are Self Motivation, Self Regulation, Self Awareness, Social Awareness and Relationship Management (Social Skills). These include such behavioural competencies as achievement drive, initiative and self confidence, communication and building relationships.

It is these competencies, or lack of them, that we believe define the "People Risk" in any organisation.

When we think of risk, we think of complex mathematical analysis using mathematical instruments and sophisticated software systems. The significant investment in time and money that has been made to control and mitigate risk in the financial markets in which we operate is plain to see - but can the same be said about how we mitigate our **People Risk?**

What does **People Risk** mean in the real world? What we do know is that it has an impact at every stage of employee engagement – from their recruitment and induction, through their ongoing development and promotion right through to the point that they may exit from the company.

Let's look at the recruitment risk first of all. How much involvement do our operational managers have in the recruitment interview process? Enough to allow them to make the right hiring decision? Most importantly, is the whole process legally compliant? In other words could we justify each and every selection or rejection decision if we were asked to do so? What about our HR team – is their recruitment process defined and consistent across the business and is it competency based?

People Risk

Whilst the majority of organisations have now installed behaviourally-based competency frameworks, many of them are found to be over-complex and unworkable operationally. Even worse, they are often perceived as an HR system designed to cause the operational team as much pain as possible! Sadly, the competency framework should be seen as the mechanism that drives the entire **People Risk** Management Process.

Then let's think about our induction process – it's such a pity to be able to attract the cream of the crop to the business only to lose them within 3 months. Is the message becoming clear? The huge investment we make in underwriting technical risk is not matched when we start to think about our **People Risk.**

Employee development in the real world is often sporadic, unstructured and discretionary – in other words is often left to their line manager. In spite of HR's best efforts, career paths are more like crazy paving, a journey that is often negotiated without maps, compasses or indeed a destination. How would this same approach work if we were to apply it to our currency or exchange rate risk strategy!!

Succession planning is a critical part of the promotional process but the foundation – once again, the competency framework – is often littered with subjective measures of performance or even worse, giant voids where operational managers have failed to log assessment data because they failed to see the bigger picture.

Our 80:20 rule probably applies here– 80% of organisations have a failed or failing performance review system in spite of HR's best efforts to administer and police them. How did the other 20% get it right? Because they invested in their **People Risk.**

People Risk is about capturing our workforce's hearts and minds and motivating them to provide peerless service to colleagues, customers, stakeholders and shareholders.

From the evidence presented, had their employer won their hearts and minds?

People Risk is about ensuring employees provide service in a committed and consistent way, with focus, energy and open-mindedness. That they see the organisation as their business and that they can influence it's success whole-heartedly and positively in spite of any external or internal resisting forces or events.

So why do organisations fail to invest sufficiently in managing their **People Risk**? The principles that are exercised when investing in technical risk controls don't seem to apply to the softer issues of **People Risk**.

For example, credit risk training is a compliance requirement policed by the regulatory authorities with some vigour. In addition, when we invest in this type of training we know that if we start at a default rate of X% and can potentially reduce this to Y% using the proven tools and techniques, we can make a saving of Z$, a clear ROI or Return On Investment which can be easily validated.

People Risk is NOT a compliance issue NOR can we easily or quickly see a return on the investment in a management skills programme for instance. Hence the primary drivers for investment in training would appear to be missing!

Then there is the question of training quality – is all "soft skills" training behaviourally-based and structured around the key competencies necessary to develop high levels of Emotional Intelligence? The simple answer? Usually "No!"

Many soft skills programmes are based around a typical technical skills training template – 00's of PowerPoint slides, lectures and highly theoretical content. According to Mager "behavioural change will only result after the training if it can be observed and assessed during the training" How can 300 PowerPoint slides achieve that?

The People Risk Sales and Management training team believe there is a better way to develop the core Emotional Intelligence Competencies we have highlighted. Our soft skills training programmes are based around effective, model behaviours which are known to work in the real world – from giving negative performance feedback through to persuading clients to buy, from managing a project from inception to completion to building a complete new business development strategy.

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