[1]Capacity Building for Universal Banking – The Challenge of Human Capital Management

Background

The central role of the human capital in any firm or enterprise has never really been in doubt, and company executives often chorus the refrain that people are the most important of the assets they bank on.

Unfortunately this parlance is often translated only in terms of short-term motivation, taking advantage of the human instinct for quick reward. The consciousness has also been around for a long time; well at least since the industrial revolution when it became clear for the first time that the productivity of all other resources available to the enterprise was determined by the productivity of the people. This fact has become so important that today we live in the knowledge age where the only real *competitive advantage* for any firm is the people it employs. Companies that really understand this will prosper. Those that don't will suffer tremendously.

Nations have long realized the crucial role of their people, and modern development is measured primarily in terms of the *quality of life* enjoyed by the citizens. It is no surprise that we are living through a demographic transition driven by advances in medical science and with the consequence that communicable diseases have given way to non-communicable ones as primary health concerns.

[1] A presentation to the Institute of Bankers, Nigeria. June 2001

In a macro sense, therefore, people must be at the heart of a nation's development *strategy*. I believe this is one fundamental area of error in the Nigerian development model over the years. We seem to have based our development solely on physical infrastructure and neglected the people. The result is that the people are patently unable to put those structures to the appropriate use, let alone maintain them.

This model also errs in that it creates the impression that government is the provider of all things. Unfortunately, it would appear that we are making the same error we made in the past, building things instead of building people. We should first invest in people, and they will in turn build things. This principle is as fundamental to the life of the enterprise as it is to the nation.

Our world today is changing so rapidly, thanks to the new world system of *globalisation*, and the powering forces of *technology* and *liberalisation*.

The change process has been made more complex by the democratisation of finance, information and technology – a process that has gained in momentum in recent years. The traditional barriers have crashed, and the defining anxiety has shifted from the fear of annihilation from a known enemy on the other side of the Berlin Wall, to the fear of annihilation from myriads of unknown opposition from different parts of the globe, each seeking the same commercial territory that we think we own. Thanks to technology, that unknown competitor may be a super-empowered individual with a mobile phone and a modem, and is able to move large parcels of investment funds around the globe at the click of the mouse. Such transfers can determine the price of stocks on the market and therefore the *wealth of shareholders*. The competitive forces have driven innovation into high gear, and that is why the preparedness of the people resource can make the difference between success and failure. Innovation is the hard bit, and only people who have had practice in matrix thinking can innovate.

As we embark on reform of the economy, the rules for success in most industries will change dramatically; it is the people that must anticipate those changes, and switch their current methods to fit the new requirement. For us in Nigeria, we are so disadvantaged relative to the rest of the world that the change process will be phenomenal.

Globalisation helps crate a new world economy with such energy and verve that it takes on a momentum of its own that is unstoppable. The new economy demands an ever-increasing degree of liberalisation, which generates tremendous growth in world trade on an annual basis. There is a big prize to be won by those who take advantage of the opportunities in the global market place, though there are often risks as well.

For example, the market place is a harsh competitive environment, and has no place for laggards. This is neither a game you can refuse to play, nor can you afford to be a reluctant player. That new economy rewards compliant economic models, and imposes severe penalties for policy errors. We must adequately prepare to plug into this high-energy market place without suffering the backlash of a haphazard implementation of reform and deregulation. We must ensure that our systems run on the appropriate software that will shield us from the stampede of the global investors, and provide succour for those who will inevitably be economic victims of the process.

This is where we come back to the vital imperative of preparing the human capital to empower and fortify them against the fierce environment in which they must compete.

The change in our financial industry that created the platform for universal banking is but only a small example of such changes we must anticipate. In spite of the clamour over the years in the financial system for universal banking, one wonders how prepared the industry players are for the inevitable increase in competitive pressure and the consequent shake-out that is about to be unleashed in the banking sector.

An industry shakeout is, of course, good for the long-term health of the system as it removes the inefficient operations before they can poison the rest of the system, provided the supervisory authorities diagnose the trends early enough and precipitate the process if necessary. With universal banking, competition will arise from sources hitherto considered unusual, including Insurance, financial intermediation services, and, eventually, foreign participation in the industry.

This imposes severe challenge for players, and raises a desperate need for self-regulatory organisations. These duties require a degree of professional competence that must be distinctly different from, and patently superior to the methods of the past. Fortunately, it also provides a unique opportunity to leapfrog. At the heart of this process is the human resource. While I will focus on the implications of universal banking in this discussion, my premise will be the larger emerging change that will inevitably hit the financial industry. I am also mindful of the concerns about the capacity of the industry to bear the deluge of possible investment funds that should follow the faithful deregulation of the economy. I also have to say that the financial industry is not alone in the general comments I have made above. Indeed, manufacturing probably has an even bigger challenge though of a slightly different dimension; but that is not the subject for today.

With the commencement of universal banking, the industry streams along two broad paths –

- Financial products and services incorporating banking products, project financing, SME financing directed at institutions and schemes that deal with basic production processes, and financial advisory services including corporate financial restructuring.
- Capital market products, especially long-term debt, export credit insurance and working capital guarantees.

Issues

The commencement of universal banking as a precursor of many other changes in the financial industry raises a number of issues that the industry must grapple with. I have identified five:

1. **Skills.**

   If we were to take an audit of skills in the financial industry, we may discover that the inventory of skills needs to be built up very fast. In some cases, banking is still being run solely out of the treasury, probably as a consequence of the emergence of former Treasury Managers as Chief Executives of new banks. The pace of new product development has tended to be slow, and in many cases are clones of existing offerings. Not often do we see radical offerings to banking solutions.

This rather narrow competence band could get carried into the capital market as well as we see a migration across frontiers in the industry. We have seen capital market operators who seem to run with money market mentality.

2. **Change management.**

Crossing the threshold between retail banking and investment banking could constitute a change management challenge. Banks need to creatively design the appropriate vehicle to achieve this if they plan to remain competitive. The bigger challenge though is for banks to understand their real competence and to build it to very high standards.

We have not been very good at defining our businesses on our core competencies, but that may well be because we have not even identified what our core competencies are, if any. Responsiveness to competitive pressure will be a challenge for change management, let alone developing the capacity to lead change or redefine standards at industry level. To be fair, we have seen this happen a few years ago when industry rules were re-written, but it certainly gets more difficult to maintain that capability, as everyone in the industry gets wiser. This has also been obvious, even before the game gets real hot by the arrival of foreign competition.

3. **Customer relations and service levels.**

The front office customer interphase is the point to decipher a firm's response to the increasing competitive pressure and customer demand. Service levels will need to be measured and bench marked to facilitate tracking. This requires a different mindset from the previous mode where customers have been extremely tolerant and forgiving.

The capacity of the front office to live up to this challenge will depend on the back office operations and the extent to which the firm has developed database transparency, and empowered the relevant people to take prompt decisions. The business process itself reflects the organisation design that has been built to deliver the service through the supply chain. The manpower development challenge can be overwhelming unless the required attention has been paid to growing the human resource capability.

4. **Investor relations.**

Banks are currently in the process of enlarging their capital base to support universal banking and raise their competitive positions. This will raise the requirement for accountability in banks as investors make increasing demands for profitability, efficient asset management, return on equity, and total shareholder returns. The tolerable level of non-performing assets will naturally drop very sharply, and the urgency of resolving such issues could create severe industrial relations problems. We have already seen some elements of this, and the trend will heighten in the months ahead. I believe the emerging trend is a wake up call to cascade the imperatives of business survival today to the lowest levels within the organisation. This is also a human capital development challenge.

5. **Corruption, ethics and corporate social responsibility.**

Modern society demands increasing openness and communication on the part of commercial organisations. They want to know how you do business; who you do business with, and what the tenets of the firm's corporate philosophy and core values are. Stakeholders of all shades want to know your human resource policy and the extent to which you have entrenched fair labour practices in the work place.

It may be true that these trends are still alien to us, but wisdom is in anticipating them and setting our beacon to the gold standard. Interestingly, civil society in Nigeria will shortly demand to know which banks provide shelter for funds that are known or suspected stolen and that banks commit to certain standards in meeting their corporate social responsibility obligations.

Business Implications

The issues above then raise several implications, and therefore options for managing the emerging trends. The bottom line is the imperative for capacity building and I have identified six dimensions that need attention.

1. **Managing growth.** The pressure to produce satisfactory results in the face of stiff competition opens a new world of strategic choices, and banks will have to decide on strategy beyond the motherhood statements that we often hear about. Some banks will discover that they cannot be "full service" operations in every case. Strategy will need to be clarified in four tracks.
    a. Participation strategy. What markets or market segments are we going to participate in, and how do we win in the chosen segments? In deciding on participation, there has to be a clear statement` on core competencies within the firm and what the human capital is best at.

b. Offering strategy. Within the segments we have chosen to participate, what will be our product offering? How can we be the best at offering those services? Successful product offerings will be differentiated brands.
c. Pricing strategy. How shall we price our products? Niche or competitive pricing?
d. Operating strategy. How shall we set up to deliver the service we offer? What kind of branch network, and what will be our route to market?

2. **Mergers and acquisition as well as foreign affiliation.** Mergers present a real opportunity for growth in the banking industry as the barriers come down. This is clearly a sensible option for many of our existing banks, if issues of ego do not stand in the way. It is not enough to be profitable or successful today. The capacity to face the competition tomorrow and still win is far more crucial.

   Mergers present a peculiar human capital management challenge because you then have to integrate two different cultures, and make them run seamlessly as if they were always one. The attendant industrial relations issues could be quite demanding. Managing merger situations akin to mining diamonds. The end product is priceless, but no one ever said that fetching diamonds was without pain.

3. **Asset and margin management.** As we noted earlier, the drive for superior asset performance will ensure that attention is paid to the proportion of non-performing assets in the books. The strategic option to outsource services and business processes that can be

more efficiently provided by others will become relevant. The evaluation of risk and its management will similarly take a new turn.

4. **Performance management.** The task of orchestrating the required improvement in skills demands an effective performance management system. The starting point for a performance management system is a comprehensive skills audit, which lays out the current inventory of skills available within the organisation, and prescribes what training intervention is required to sharpen and raise the skills. Investment in the training and retraining of employees at all levels must be accompanied by a reward policy that secures the motivation of staff. However, there are no guarantees whatsoever, even with the offer of leading edge pay for leading edge performance. Institutions have sometimes adopted the philosophy that they will never be knowingly outpaced in employee rewards, but even that has no assurances of retention. Perhaps one of the most powerful reward schemes is one that ties the fortunes of the management very closely to those of the shareowners. This is not tying the remuneration package to profit alone. As we know, profit is only a small part of the story in measuring the success of an enterprise. Share ownership schemes have been know to be effective in securing commitment.

   The object of performance management is to build a core of knowledge workers. Managerial and technical capacity is desperately short in most parts of the economy today, including the financial industry. Regrettably, training and development is not taken with the seriousness it deserves. Best practice companies stipulate a minimum number of off-the-job training days that each employee must undergo each year. It will require that a bigger proportion of company resource be devoted to management development.

5. **Organisation design.** The productive deployment of technology means that not only does the business process change, but the organisational structures and functional interrelationships will have to change as well. The capacity of the organisation to respond to change will depend on the bench strength that has been created through an effective organisation design and succession planning. Bench strength is the measure of the reservoir of knowledge, and the capacity for knowledge management.

6. **Culture.** It is said that the most powerful influence on company performance is the culture of the firm. Culture is the totality of the norms and values of the enterprise. They are the unseen indices that determine the smell of the work place, and are clearly difficult to measure. Unfortunately they are sometimes impacted by perceptions, misconceptions or even the miscarriage of communication of values. However, they are also strongly influenced by the practices dictated from the leadership.

Conclusion

My premise in this discussion has been that universal banking is but one of a series of changes that will come upon the financial industry. Those changes will vary in intensity and impact, but they will change the determinants of success. Universal banking will require that the skills set in each organisation be evaluated all over, with a view to refurbishing as necessary. Perhaps more than any other today, the financial industry is on the verge of another shake out. It is therefore appropriate that the subject of human capital management is one of the main focus areas at this seminar.

The thesis here has been that the only real stabilising factor is the human capital. Investment in their development always pays handsome dividend.

I thank you for your patient attention.

Bunmi Oni
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