HERBERT SMITH FREEHILLS

FUTURE OF WORK

A BANKING PERSPECTIVE

Bank's talent model challenged by the post-COVID career track and Gen Y aspirations

Culture, COVID, regulation – all are pressing change on an industry that once thrived on long hours and presentism. Can a new generation of leaders reposition finance for tomorrow's bankers?

The world of work is changing, and the banks sector is no different. Social shifts are prompting a renewed focus on diversity and a growing culture of accountability. Employees – particularly younger generations – grow increasingly vocal on expectations of their firms, including flexible options as the post-pandemic shift to hybrid working reshapes a sector long infamous for presentism.

And while these shifts originate from a wide range of sources, banking is unusual in the sheer level of oversight it faces – meaning much change is underpinned by regulation. In the UK, for instance, the Financial Conduct Authority released a discussion paper in July 2021 setting out its thinking on diversity and inclusion, seeking views on topics such as boosting representation on boards and linking remuneration to diversity. The Australian Prudential Regulation Authority, meanwhile, has published notes on how COVID-19 has driven shifts in its approach to remote working and operational resilience.

While regulation is a driver of much upheaval, in truth the global banking sector's talent strategy faces change on many fronts. A career that once had the pick of top graduates now faces greater competition – in particular, from the booming tech sector. Moreover, the ethos and image of finance is less obviously in tune with staff more focused on work/life balance and contributing to society rather than mega-bonuses and prestige institutions. As this evolution continues, a new form of leadership must reposition finance for seismic changes in the labour market. Drawing on research conducted earlier this year as part of our Future of Work report provides some clues to the challenges ahead and potential responses for the bank sector.

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Think ground up, not corner office

Senior bank respondents across North America, Australia, Asia and EMEA agreed that social trends are a significant driver of cultural change. Within the sector, nearly a third (31%) say social trends, such as the Black Lives Matter and #MeToo movements, are prompting change in their business [Fig 1 - click here].

More than one in three (38%) expect a lack of demographic representation in the workforce to trigger activism in the next five years, and nearly half (46%) expect pay and benefit inequalities to do so. Plus, 38% expect a lack of social and environmental issues being addressed to trigger activism [Fig 2 - click here].

AI and automation are also on bankers' minds – 49% of those surveyed expect the replacement of jobs with these technologies to trigger activism in the next five years.

So far, so normal – these issues are impacting nearly every sector across the globe, and change is occurring quickly. But those surveyed who work within the banks sector feel less confident that leadership is up to the challenge. When asked if they feel their ethics and moral leadership is fit for the future, 79% of bank respondents say it is. While this is high, it is lower than the 91% average across all sectors [Fig 3 - click here].

Many banks are working to address such issues. In a bid to address workforce challenges, nearly half (46%) plan to change their thinking around ethics and moral leadership substantially over the next three years [Fig 4 - click here].

David Postings, Chief Executive of industry body UK Finance, says leadership in financial services has traditionally been command and control. "Leadership can feel quite remote. It's possibly due to the scale of financial services – people are geographically dispersed and distanced from decision-makers. And some of the management models banks use have been pretty demanding. This can create a culture of individualism rather than teamwork. In recent years organisations have recognised this and taken steps to be much more inclusive."

James Palmer, Partner at Herbert Smith Freehills, agrees the industry has ground to make up. "This was partly because of its scale, and partly because of regulation. The positive is we are now seeing a sensible focus on culture, although the other risk we have is the growth of box-ticking behaviour. Finding a balance between that and the way people work now will be a challenge." But he adds: "Things are changing. Mental health and wellbeing, for instance, is an area where leaders are serious about improvement."

The sector is making efforts to shift from a top-down culture to empowering people to achieve, recognising the disregard for rigid hierarchy among current graduates. "It's about including rather than excluding people," says Postings. "We're moving towards that goal, but we still have some way to go."

At the heart of the changes is a growing desire to listen to employees, argues Postings. However, he says listening is only half the exercise – banks also need to equip staff to solve problems. "When a business gets a negative employee survey result it tends to believe it's the leader's obligation to do something. But if you let the team concerned resolve it, you often get a much better outcome." Banks often come unstuck by believing the onus is on leaders, and that problems need to be resolved through a central process. "But this disenfranchises people," says Postings. "If you allow your teams to resolve things, they'll resolve 60-70% of all issues."

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Postings believes getting this right has knock-on benefits through the organisation: "You need to give people the authority to fix things and allow them to make mistakes as well. There's a danger in some organisations that you get this parent/child relationship, which is hugely destructive – an adult relationship works so much better. That way, you get more leaders rather than fewer."

'The reality is the employee voice is only going to get louder'

None of this is easy in large, complex organisations – especially in a sector where regulatory frameworks layer on more process. Palmer says: "The biggest test is whether teams feel able to say if they think something's wrong. We're in a world where people need mechanisms to air their dissatisfaction far more readily than before. Underpinning all of this is workforce engagement. If your workforce thinks you're not walking the walk and don't feel you listen, they've got other outlets."

Banks are working to improve their listening and engagement. Our Future of Work research shows 69% have already established a formal forum for employee consultation, and a further 31% plan to [Fig 5 - click here]. Meanwhile, in 2019, 41% of banks were engaging with employees in external forums and other spaces. In 2021, this rose to 72% [Fig 6 - click here].

Palmer says these forums are a sensible move: "The reality is the employee voice is only going to get louder. This development is largely a positive one and will improve business success in this country. Most responses [to staff surveys] reflect truths that haven't necessarily been identified before, and businesses should welcome that."

Employees will recognise a business which is fair and treats people with respect, Postings asserts. In the longer term, businesses may start to recognise staff roles as stakeholders more formally. "What we might see is the importance of a wider stakeholder group than just shareholders," he says. "A sense of community, a focus on the environment – all of these things will make a business think more broadly about its purpose, rather than just producing profit for shareholders. Employees will be at the heart of that."

'A leadership thing'

Regulation will continue to underpin changes as banks evolve, with an increasing focus on culture. A strong culture improves outcomes for customers, as well as producing better performance and governance. When it comes to flexible working, the focus is on satisfactory planning: firms moving towards permanent flexible or hybrid working will need to show they are adequately prepared.

For diversity and social change, it is often effective to focus on transparency – forcing companies to publish gender pay gaps, or the diversity of their boards, for example – but Palmer warns against agency over-reach. "Regulators can't completely dictate things. They need to provide the minimum requirement. Otherwise, there's a danger some firms will think it's just a regulatory thing, instead of a leadership thing."

As these changes continue to take hold, Palmer emphasises the importance of not treating vocal employees with demands or opinions as the enemy. "We need to be able to hear truths about the business. We need mechanisms for this. Don't treat employee activism as the enemy. They're not trying to rip you off – it's because they feel wronged."
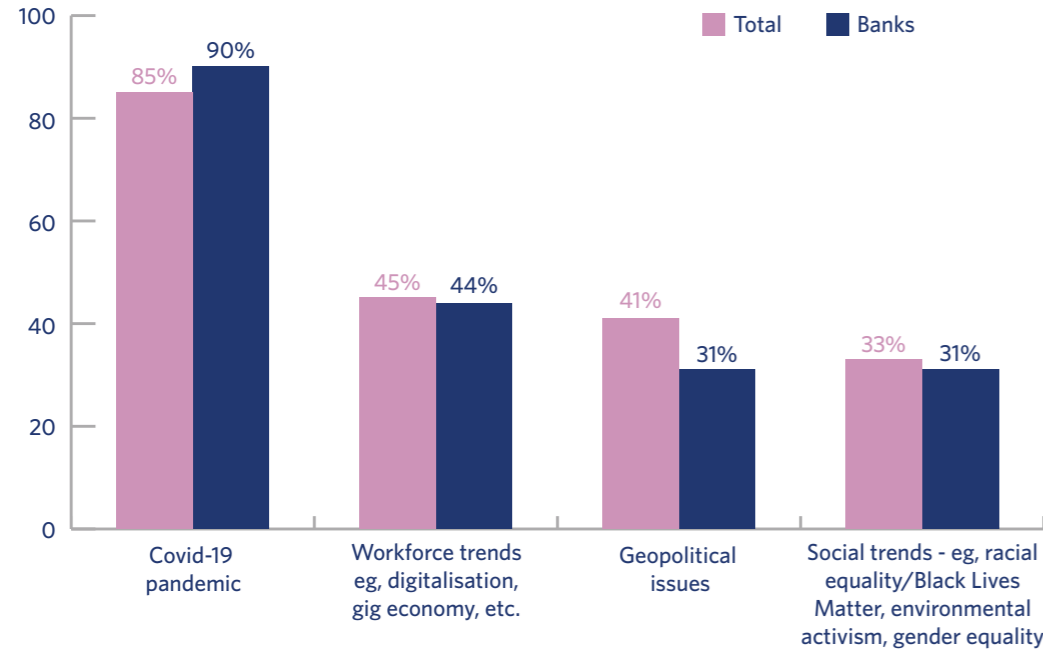
As younger people enter the workforce and these cultural and social shifts continue to gather momentum, remembering such sentiments – and keeping an open mind – will be crucial.
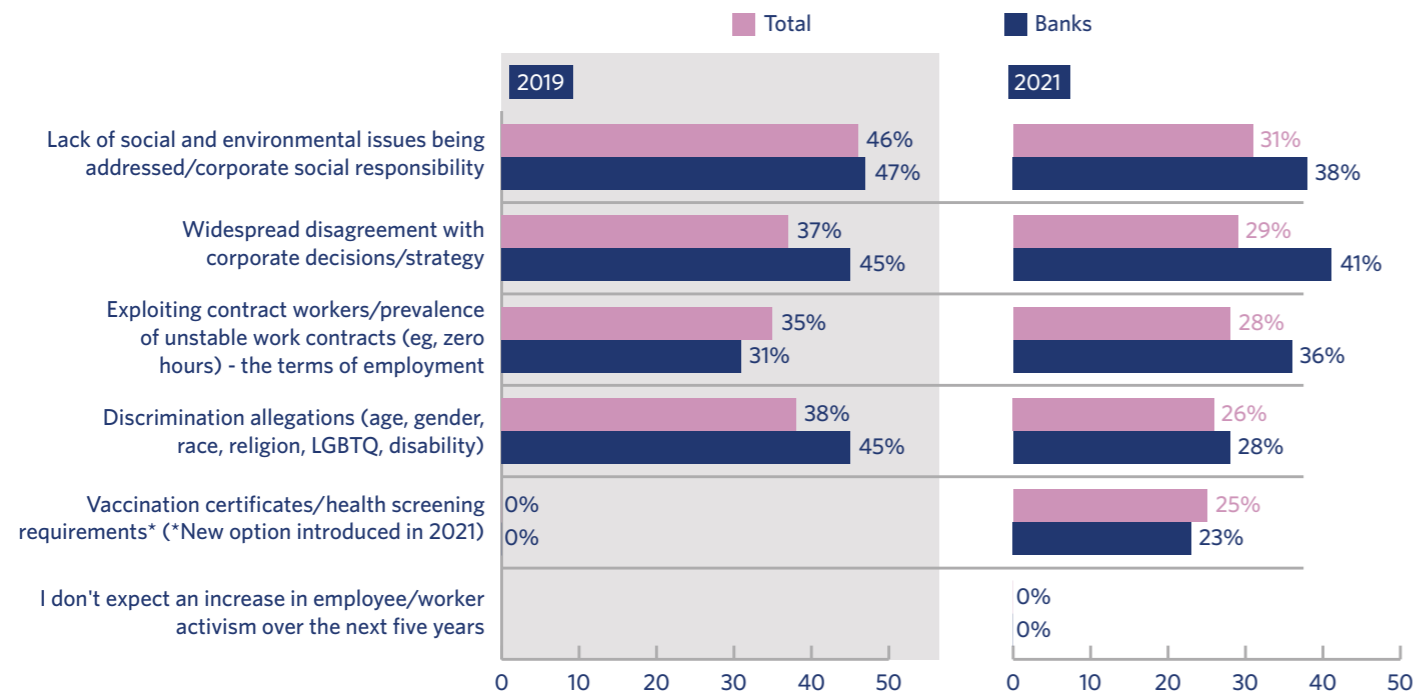
Our **Future of Work research** shows **more than**

one in three

expect a **lack of workforce diverseness to trigger activism in the next five years**

Appendix

Fig 1. Thinking about these areas of strategic change in your business, which of the following would you say are causing or prompting the change?
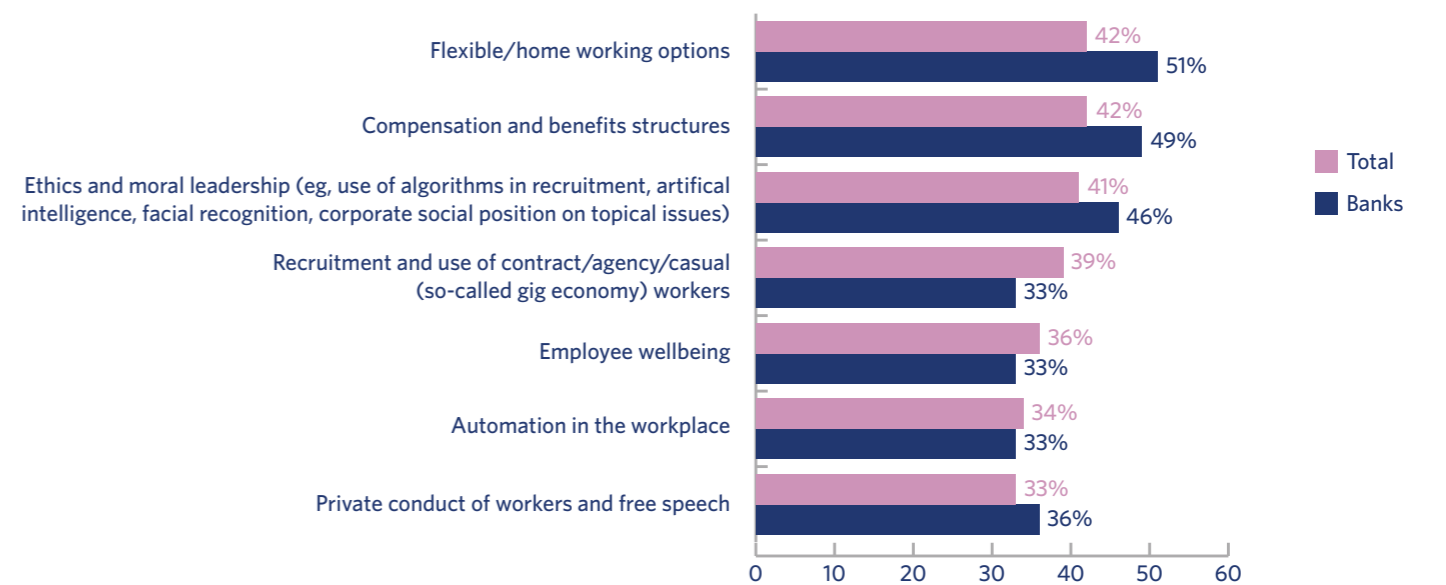

Legend: ■ Total ■ Banks

- Covid-19 pandemic: Total 85%, Banks 90%
- Workforce trends eg, digitalisation, gig economy, etc.: Total 45%, Banks 44%
- Geopolitical issues: Total 41%, Banks 31%
- Social trends - eg, racial equality/Black Lives Matter, environmental activism, gender equality: Total 33%, Banks 31%

Fig 3. To what extent do you agree or disagree with the following statements:

Legend: ■ Total ■ Banks

- We feel that the company's position on ethics and moral leadership is fit for the future workforce: Total 91%, Banks 79%
- Within the next three to five years, we plan to mitigate the risk of disadvantages to those suffered by working entirely or predominantly remotely: Total 90%, Banks 82%
- We feel that remote working has benefited our talent strategy in terms of encouraging greater diversity in applicants: Total 86%, Banks 85%
- Within the next three to five years, we plan to empower workers, including worker representatives, to self-determine their working environment/hours/holiday days: Total 85%, Banks 82%
- Within the next three to five years, we plan to measure productivity/output rather than monitor hours/inputs worked: Total 84%, Banks 82%
- Within the next three to five years, we plan to use digital tools to monitor workers' wellbeing: Total 82%, Banks 79%

Fig 2. What do you perceive to be the key triggers for increased employee/worker activism over the next five years?

Legend: ■ Total ■ Banks

	2019 Total	2019 Banks	2021 Total	2021 Banks
Lack of social and environmental issues being addressed/corporate social responsibility	46%	47%	31%	38%
Widespread disagreement with corporate decisions/strategy	37%	45%	29%	41%
Exploiting contract workers/prevalence of unstable work contracts (eg, zero hours) - the terms of employment	35%	31%	28%	36%
Discrimination allegations (age, gender, race, religion, LGBTQ, disability)	38%	45%	26%	28%
Vaccination certificates/health screening requirements* (*New option introduced in 2021)	0%	0%	25%	23%
I don't expect an increase in employee/worker activism over the next five years			0%	0%

Fig 4. Within the next three years, in which of the following areas will your business substantially change its strategic thinking/approach to address the workforce related challenges and opportunities it faces?

Legend: ■ Total ■ Banks

- Flexible/home working options: Total 42%, Banks 51%
- Compensation and benefits structures: Total 42%, Banks 49%
- Ethics and moral leadership (eg, use of algorithms in recruitment, artifical intelligence, facial recognition, corporate social position on topical issues): Total 41%, Banks 46%
- Recruitment and use of contract/agency/casual (so-called gig economy) workers: Total 39%, Banks 33%
- Employee wellbeing: Total 36%, Banks 33%
- Automation in the workplace: Total 34%, Banks 33%
- Private conduct of workers and free speech: Total 33%, Banks 36%

Appendix

Fig 5. Have you established a formal forum or mechanism for employee/worker activism consultation, such as workers on Boards/Works Councils, etc?

Total Banks

2021

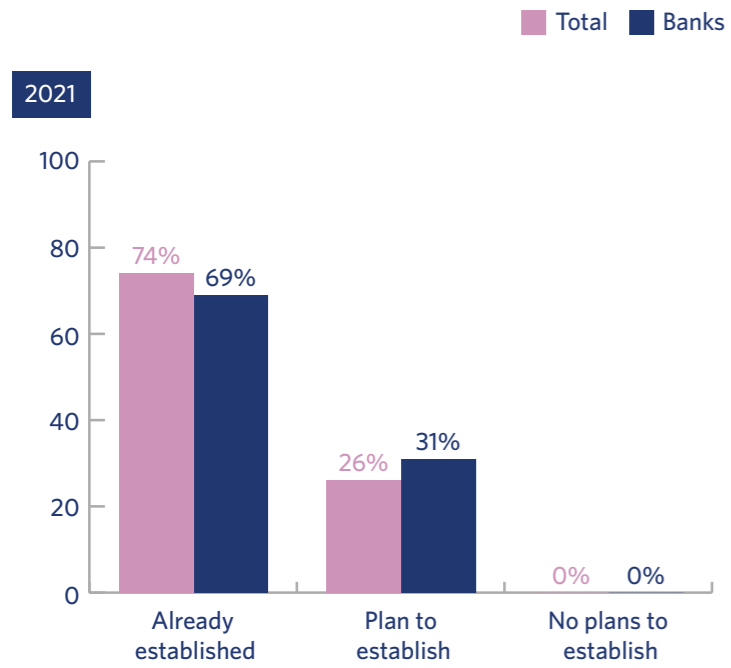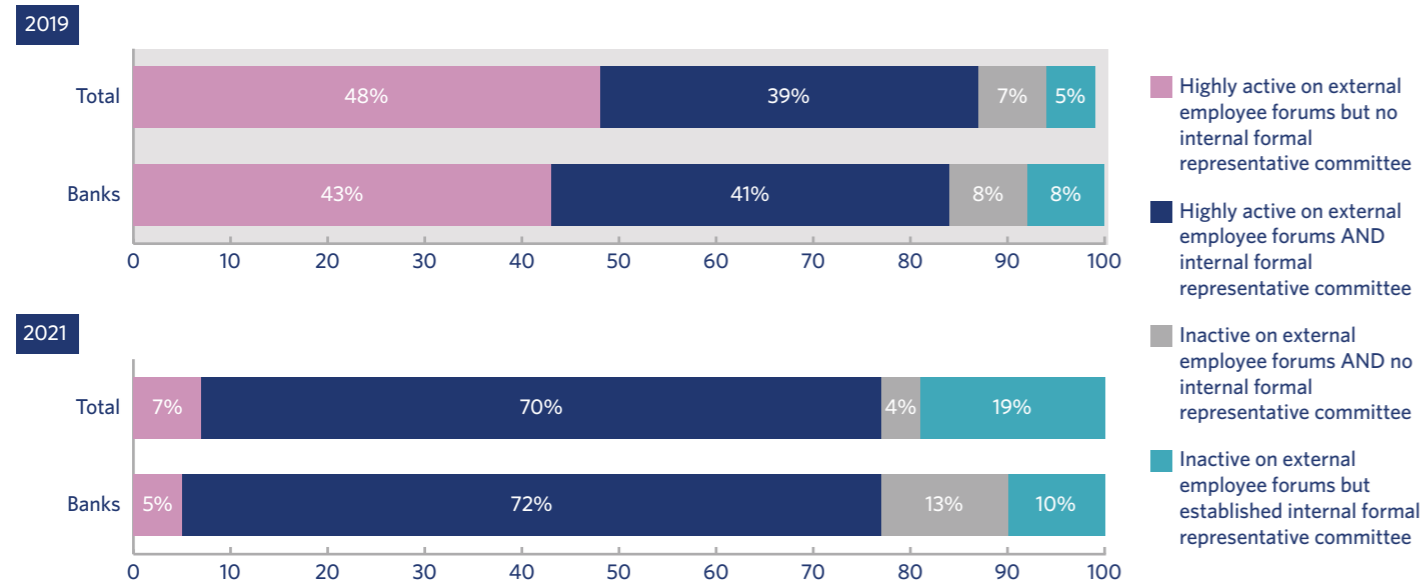|	Already established	Plan to establish	No plans to establish
Total	74%	26%	0%
Banks	69%	31%	0%

Fig 6. To what extent do you engage directly in discourse outside of the organisation's own channels, and influence discussion on areas employees are concerned with and/or provide a forum for discussion and debate eg employee representative committee?

2019

	Highly active (no internal)	Highly active AND internal	Inactive AND no internal	Inactive but established internal
Total	48%	39%	7%	5%
Banks	43%	41%	8%	8%

2021

	Highly active (no internal)	Highly active AND internal	Inactive AND no internal	Inactive but established internal
Total	7%	70%	4%	19%
Banks	5%	72%	13%	10%

Highly active on external employee forums but no internal formal representative committee

Highly active on external employee forums AND internal formal representative committee

Inactive on external employee forums AND no internal formal representative committee

Inactive on external employee forums but established internal formal representative committee