

Sir Richard Lambert
The Banking Standards Review
60 Gresham Street
London
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Dear Sir Richard

The Banking Standards Review - Response from the Institute of HR Maturity

Question 1 - do you agree with this objective?

We agree with the objective in the main but do not agree that “Good behaviour will be defined at all times from the customers’ perspective”. Customers are obviously key stakeholders but they are not sole stakeholders. The “conduct and culture of banks”, which has led to this review, has impacted greatly on citizens generally, and as taxpayers, not just customers. IHRM’s view is that all corporations have a single, legitimate objective - to serve society as a whole, not any particular or narrowly defined group. They have responsibilities for good governance that is not limited to customer satisfaction. If any standards are to be set for banks they should be based on their purpose in serving society as a whole. IHRM defines this clearly as societal value - the ultimate standard.

Question 2 - Do you agree that there is a case for a collective approach calling for the participation of all banks doing business in the UK?

IHRM understands the crucial importance of whole system thinking. Banking has to be regarded as a whole system which will be fatally undermined by allowing any banks to work without the system. There is a clear and compelling case for a collective approach.

Question 3 - Do you agree with the proposed role of the new organisation?

IHRM’s specific focus is on how organisations govern and manage their human capital which includes “scrutiny of the incentive schemes and disciplinary procedures that help to shape employee behaviour”. It is our view that poor governance starts from the values of the board directors of the bank. If they regard a bank as serving just shareholders and/or executive incentives then perverse employee behaviour is bound to follow and society will inevitably suffer.

“In addition, the new organisation will help to develop metrics that will enable individual banks and building societies to benchmark their performance against others in their peer group.” IHRM was set up for this specific purpose because the use of metrics in human capital management and reporting is highly problematic. IHRM sees this as a very important role but one that will only be as effective as the metrics developed. IHRM’s benchmarking is already based on a Maturity Scale which indicates the highest standards of governance and connects them with the creation of the greatest societal value (see <http://www.hrmaturity.com/a-simple-introduction-to-the-maturity-scale/maturity-value-a-stakeholder-perspective/>).

Question 4 - Do you agree with the proposed scope?

Yes.

Question 5 - Do these proposals go far enough to ensure the body has credibility?

IHRM is focused on value and the credibility of the body, over time, will be significantly influenced by its perceived ability to change banking behaviour in tangible terms. The outline proposals go some way to building credibility but without meaningful metrics, from the outset and annually thereafter to monitor progress, credibility with the public will be difficult to sustain.

We would add that IHRM is based on very clear principles - our 10 Pillars - which we believe is the foundation for a credible body designed to set and govern professional standards.

Question 6 - Do you agree with this analysis? What are the pros and cons of aspiring to build individual membership over time?

We fully understand the scale of the challenge ahead. IHRM was established to deal with the same issue in the 'human resource management' profession, where the existing bodies have no adequate standards for monitoring the behaviour of individual members and are resistant to striking members off.

IHRM believes that professional human capital management has to work to the same standards as the top professions, particularly medicine, which is evidence-based. To restore trust and faith in the banking sector we see no reason why this should not be the aspiration. The goal may take some time to achieve but we see no reason why it should not be a clear goal from the outset. If it is acceptable to us why should it not be acceptable to all professional bankers? Why should standard setting start from a low base? It is easier to start high and aspire than to start low and set expectations accordingly.

Of course, human behaviour in organizations is shaped by the organization. Therefore both the organization and individuals should be assessed in tandem. Bad values breed bad behaviour and poor organizational culture coerces people to behave in ways that they would not be prepared to countenance in their private lives. These are not separate issues though and only dealing with the organization will not prevent future misdemeanours.

Question 7 - Is there a case for a more pro-active approach to managing ethical issues, and if so how should it be managed?

IHRM's goal of societal value is intended to be ethical but we do not attempt to define ethics; for the same reasons outlined in the consultation paper. Of course we can assume, for all practical purposes, that ethics are only an issue when legal behaviour is being considered. Mis-selling policies, for example, is illegal and therefore makes the ethical question irrelevant. However, offering sub-prime mortgage products could be legal but might be regarded as unethical. Our pragmatic solution is to ask banks a simple question - what do your values mean in financial terms? Is it acceptable to sell a mortgage to people who do not understand the terms of the agreement and are at a significant risk of defaulting? IHRM cannot become the arbiter of ethics, and neither should the new body, but it is helpful for each bank to openly declare the limits of what they deem to be acceptable behaviour. This is at least an indicator of both sound lending and 'ethical' lending.

Question 8 - Do you agree with the proposal to build on best practice as set out in the regulators' guiding principles?

IHRM's professional standards are evidence-based. We do not recognise the concept of 'best HR practice'. Prior to the financial crisis of 2008 the HR Director of RBS was regularly awarded 'HR Director of the year' by professional journals and their practices were regarded as exemplary. RBS was an exemplar in the Accounting for People taskforce report of 2003.

We are firmly of the view that, in the field of organizational behaviour and human capital management, there is currently no evidence-based practice to support the work of this new body. We are working on developing just such practices for that very reason. Indeed it is one of the prime reasons for establishing a new professional institute.

Question 9 - What would be the best way of assessing the implementation of a bank's code of conduct?

We have some specific suggestions for assessing organizational maturity which we would be happy to offer on an open-source basis.

Question 10 - Do you agree with this agenda?

We wholeheartedly agree with John Kay's assertion "In the most trusted profession, medicine, the quality of education is clearly the responsibility of medical schools rather than medical employers." We would go further, human capital management professionals, like doctors working in private practice, can only be judged by their professional practice, not how much money they make. Of course, this requires very powerful and dedicated professional institutions, working to much tougher standards and sanctions than at present.

Question 11 - Would you support the proposed relationship with the existing professional bodies being to provide a 'canopy' under which they operate, accrediting or in some way validating the training they offer to bankers?

As HR professionals ourselves, we would advise that training is over-emphasized here and is also outmoded. The core concept should not be training but applied learning. Some highly qualified surgeons have used their training to make money out of breast implants. Some brilliant bankers have used their skills to undermine economies (e.g. Goldman Sachs in Greece). This issue is a key element in the relationship between professionalism and commercialism. If the government will not regulate such behaviour then maybe a stronger professional body might at least determine what is and isn't acceptable within their own professional terms.

Question 12 - Is the proposal for assessing banks' and building societies' in-house training sensible and practical? Could the new organisation play a helpful role in the certification process?

Again, training is not an answer. You cannot train in attitude or ethics. You have to resolve that at the hiring and selection stage. Certification is only as good as the behaviour that happens in practice and how that is monitored and regulated.

Question 13 - Do you think such a benchmarking exercise would be of value?

Yes, IHRM has already approved just such a benchmarking and rating scale, developed specifically for this purpose (see <http://www.omrating.com/scale.php>) In 2005, using this approach, RBS was given a CCC rating, at a time when its credit rating was 'triple A'.

Question 14 - Are these the right groups of metrics? Would you propose others?

See 13 above.

Question 15 - Would it make sense for banks to adopt a set of standard questions to add to their existing surveys?

Standard questions have a part to play but a complete assessment requires context specific questions as well. No two banks are the same in terms of their history, culture, market position etc. Also, every effort should be made to prevent any tick-box mentality developing. The aim should be quality assurance, not an inspection regime of quality control.

Question 16 - Is self-reporting appropriate? Might other methods deliver better results?

Self-reporting is only as good as the trust we have in the reporter. There has to be an external, objective assessment if we are to achieve high degrees of visibility and credibility.

Question 17 - Are there non-bureaucratic alternatives to this approach that might work better? Is there a role for kite-marking?

“The overriding priority of the new organisation at all times would be to represent the public interest.” Performance management, and any subsequent disciplinary procedures, should always relate to enlightened, value measures of organisational success. A narrow focus on profit will not necessarily serve society’s best interests. The over-arching motive of societal value will.

We do not support kite-marking because organizational dynamics and continuous improvement are not best assessed using a static indicator.

Question 18 - Do you agree with this proposition?

Yes. Banking is just too important to be left to amateurs. Some banks might still be ‘too big to fail’ so we need to ensure the highest probability that they will not fail. Only the very highest professional standards will reassure society that it won’t happen again.

Question 19 - Should the new organisation aspire to such a role?

Yes, most definitely.

Yours sincerely



Paul Kearns
Chair, IHRM