

REDEFINING THE ROLE OF HR

Across the Financial Services Industry

The financial services industry is at a historic crossroads. Traditional business models in organisations have been shaken up by a myriad of mega-trends from intensified industry regulations post-financial crisis through to demographic shifts. These mega-trends are likely to intersect and interact in unpredictable ways, with a transformative power to restructure markets, redefine boundaries of industries and reshape the global economic landscape. In particular, digital disruption is posing both challenges and opportunities for the financial services industry.

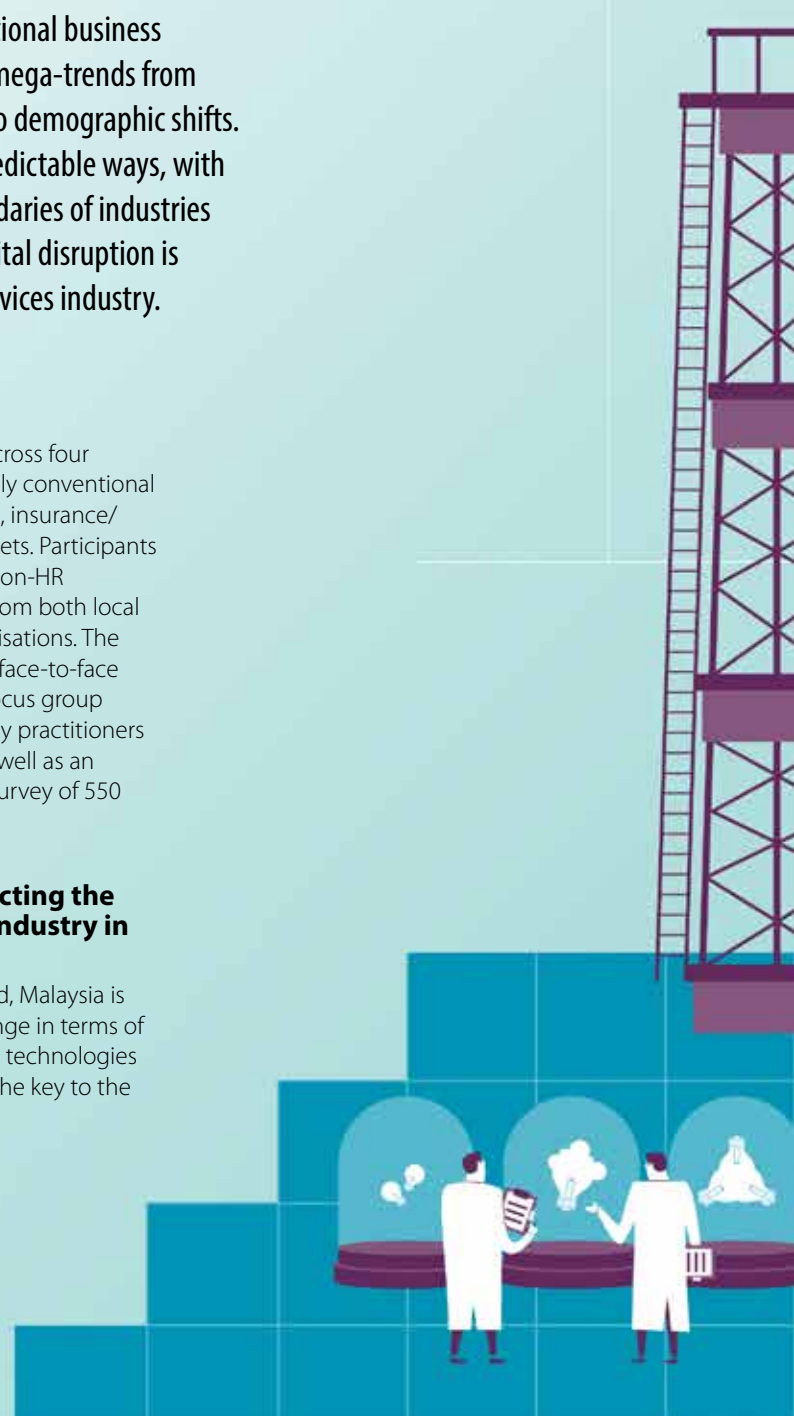
Technology is changing the workplace as we know it at an accelerating pace and not all organisations will be able to catch up. How does the HR function fit into this picture and are organisations in the financial services industry in Malaysia seeking to transform their HR functions? Or rather is the HR function in the financial services industry leading the transformation agenda and enabling organisations to take advantage of the shake-up ahead?

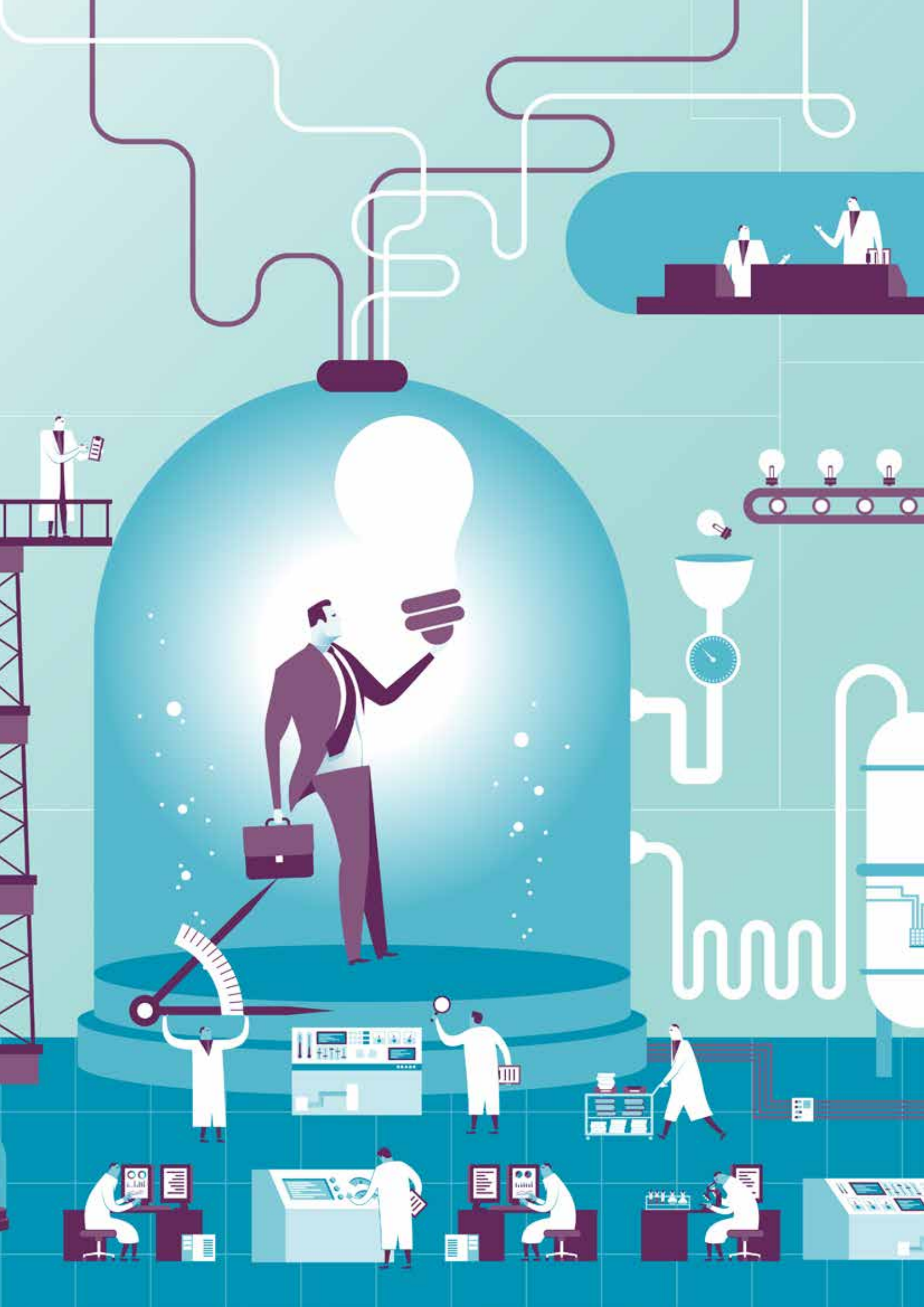
There has been limited research to date on HR transformation in Malaysia. The **Asian Institute of Finance**, in collaboration with PwC Consulting Services (M) Sdn Bhd, conducted a multi-method study to explore some of these questions through discussions with industry representatives and

practitioners working across four industry sectors – namely conventional banking, Islamic finance, insurance/takaful and capital markets. Participants included both HR and non-HR personnel at all levels, from both local and international organisations. The methodology included face-to-face interviews with CEOs, focus group discussions with industry practitioners and opinion leaders, as well as an extensive quantitative survey of 550 respondents.

Mega-trends impacting the financial services industry in Malaysia

Like the rest of the world, Malaysia is experiencing rapid change in terms of the introduction of new technologies and business models. “The key to the





success of financial institutions today is no longer the size of the business but the ability to adapt and respond quickly," said a CEO of a national bank. Other CEOs interviewed as part of the **AIF** study agreed that the business environment today is becoming increasingly complex and difficult to predict. The study found that the future strategic direction of many organisations in the financial services industry in Malaysia is based around exploring new business models, regionalisation and digitalisation, while continuously responding and adapting to a changing regulatory environment.

From conversations with CEOs, FinTech is one of the key trends that is keeping them awake at night. FinTech is disrupting the traditional value chain in the financial services industry by allowing new market entrants from non-financial backgrounds to reinvent the rules of the game with their technologically-driven innovations.

New spotlight on HR function

With the launch of the ASEAN Economic Community (AEC), a regional labour market is emerging. Organisations need to prepare for a changing business landscape with free movement of skilled labour and talent. Malaysian companies are likely to face increasingly fierce competition for top talent from regional competitors. This will be particularly felt in the financial services industry where a shortage of skilled labour has been identified as one of the top industry challenges. Leaders are urging their management to tap into regional labour markets and explore innovative approaches to increase their competitive edge. The role of HR in this is particularly crucial.

In our study CEOs expressed their expectations for HR to play a more important role in attracting, engaging, developing and retaining the right strategic talent. "HR needs to be alert to the most current technical skill set requirements in the market" said one of the CEOs from a local bank. Suggestions include for HR to be aware of the right technical skills in line with the demands of the industry, to have knowledge of the core business drivers and to build the employer branding in the market. "HR needs to lead in establishing a new performance-driven culture in the



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organisation" said a CEO from a leading takaful institution. However, for HR to transform the organisational culture, the HR function will have to undergo its own transformation journey. This will involve moving away from its traditional operational and transactional role into a more strategic role driving business impact within the organisation.

HR function is not yet a strategic partner to business

Our findings suggest that although it is felt that HR personnel play their role in supporting their organisations, HR is not yet ready to be a strategic business partner. 70% of the CEOs interviewed

described the current role of HR in their organisations as being a mix between operational and strategic and only one of the CEOs interviewed described it as having grown into being a strategic business partner.

Focus group discussions with selected top HR professionals in the financial services industry in Malaysia suggest that, although HR personnel are eager to move into a strategic business partnership role, they are still overwhelmed by current operational activities. The majority of them (80%) feel that the current role of HR is an 80-20 split between being operational and being a strategic business partner. However, only about half of them were satisfied


Regulations challenge
business models


New technologies disrupt
industry boundaries


Demographic shifts
impact both consumers
and employees


Regional integration is opening
new business frontiers

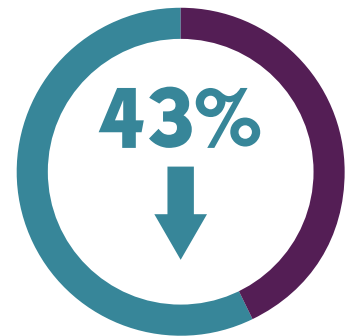

Skilled talent and succession
gaps challenge organisations

Key mega-trends based on views of CEOs

HR has a primarily operational and transactional role

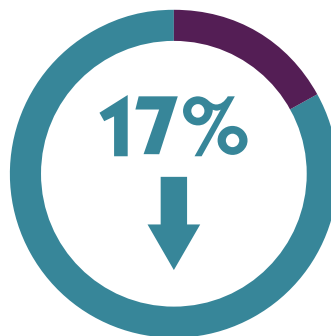


Business Leaders



HR

HR plays both strategic and operational roles



Business Leaders



HR

Figure 1: Current role of HR as perceived by business leaders as opposed to HR leaders

with the status quo which indicates some desire to change. Similarly, findings from the quantitative survey of 550 industry practitioners show that HR is still operating conventionally and only a small part of their role is perceived as being that of a strategic partner to the business.

HR leaders in the financial services industry in Malaysia suggest that the HR function is eager to move into a strategic business partnership role but currently they are overwhelmed with operational activities.

There is a gap in perceptions between non-HR senior management and HR personnel on the current role of HR. Although a significant majority of HR personnel (79%) claim that the

current HR role involves both operational and strategic business tasks, only 17% of non-HR senior management tend to agree (figure 1). More than half of non-HR senior management (51%) still feel that HR personnel are only doing operational work and that their contribution to their organisations is transactional. This implies that HR personnel are not meeting the expectations of business leaders.

Findings suggest that business leaders rated HR capacity and capability to support business priorities lower than HR personnel. Only 51% agreed that HR has the capacity and 49% the right competencies to support business priorities. HR's own ratings on their capacity and capability were higher with

71% agreeing HR has the capacity and 69% the capability to support business priorities (figure 2). This indicates there is a gap between the expectations of the business leaders and what HR is currently delivering. The most vocal critics among business leaders say HR personnel focus too much on 'administrative' tasks and lack vision and strategic insight.

The findings also suggest that respondents feel that although HR understands its own organisation's business priorities well (72%), only 55% believe that HR understands the external business environment sufficiently (figure 3). HR needs to find a balance between being internally and externally focused to understand the changing market realities in order to meet the needs of the business.

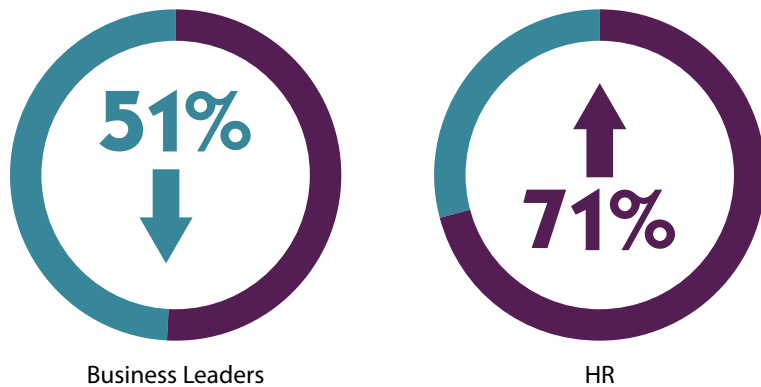
An enlightened attitude but a long way to go

Our study found a positive attitude towards the HR transformation agenda, particularly among HR practitioners in the industry. Our research indicates that HR practitioners in Malaysia have a good understanding of what it takes for HR to be transformed. Themes or associations occurring top of mind with 'HR transformation' among HR practitioners surveyed were gaining trust and empowerment from the board to become a change agent and to drive the transformation ahead, while at the same time enhancing the current levels of HR capability, competency and relevancy to the business.

However, reinvigorating the HR function will require more than a willing attitude and commitment from HR. It also requires a mandate and support from top management to pursue a transformation agenda. It has been difficult for HR to focus effectively on transformation activities at both the operational and strategic levels. Constraints such as insufficient investment, limited resources and lukewarm support from top management is holding HR back at the strategic level. While operationally some HR functions still lack technology enablement and the right analytical tools and people skills – for example, in some organisations digital illiteracy or lack of digital savviness among the senior ranks of employees poses a challenge in implementing automation processes.

The top challenge HR practitioners have reported in implementing change is a lack of trained people with the required

HR has the capacity to support business priorities



HR is competent in supporting the organisation's business priorities

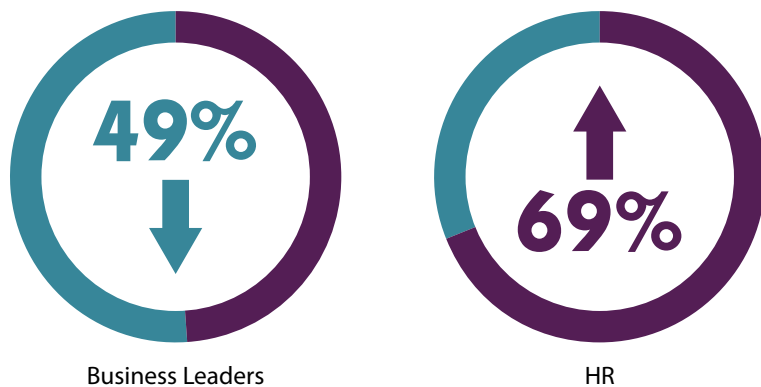


Figure 2: Capacity and competency of HR as perceived by business leaders as opposed to HR leaders

HR understands the organisations' business priorities



HR understands the external business environment



Figure 3: HR is lagging behind in understanding the market dynamics

Top challenges or barriers to implement HR improvement efforts

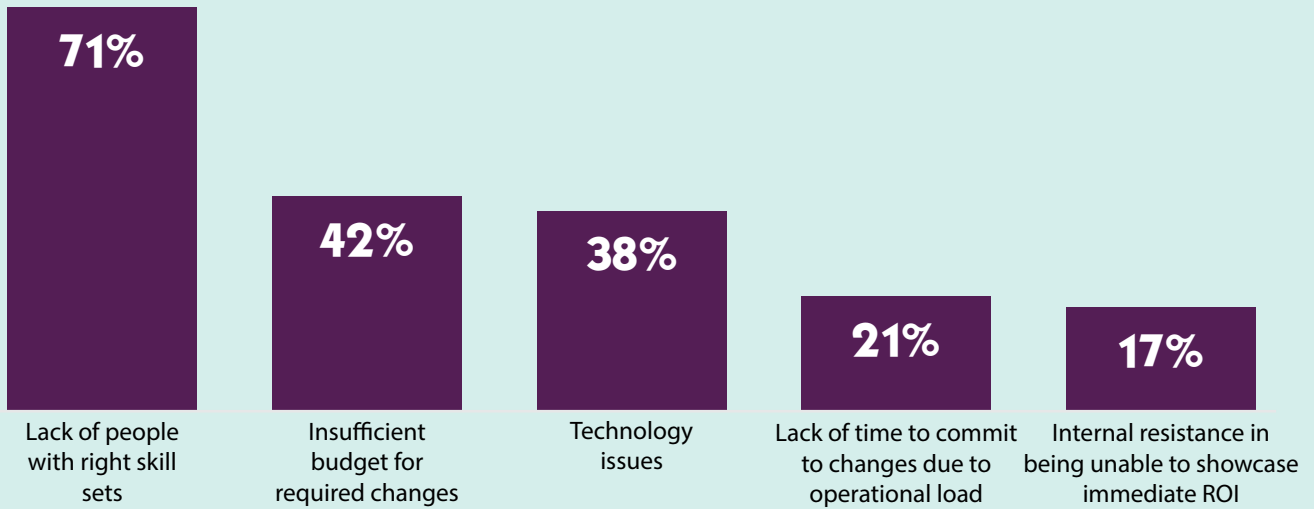


Figure 4: Top challenges in HR transformation as ranked by HR personnel

skill sets (figure 4). This is consistent with the findings from AIF’s “Skills Gaps in the Financial Service Industry” research report which reveals that skills gaps are likely to hinder the performance of organisations in the industry.¹

Calibrating the focus

Although Malaysian financial services institutions are gearing up towards transforming HR, there are few success stories in the industry. Some examples mentioned by respondents included initiatives to rethink the ‘people strategy’, re-organise the structure of HR, revamp HR policies, set up HR centres of excellence, retrain HR staff and streamline HR operational processes. Some HR professionals in our study may have overclaimed simple changes in processes as being “HR transformation”, when sometimes what has been done is little more than to update technology or shift services to a shared services centre. However, when senior HR practitioners of the industry were asked about the top areas that HR was ‘targeting for improvements in 2016’, ‘strategic alignment to business’ came first, which

suggests they recognise much work is still to be done.

In its efforts to support the industry in its HR transformation journey, AIF is currently developing an HR capability framework with competencies (skills, knowledge and behaviours) that are relevant to HR and its critical functions. This framework will form a reference point for the design of an HR accreditation programme for HR professionals in the financial services

industry. This will align HR competencies and capabilities with the career paths of HR professionals. It differentiates between core competencies and specialised competencies relating to different levels and positions within HR. With this HR will be in a better position to move forward in terms of aligning itself with the strategic direction of the business.

Elma Berisha is General Manager, Strategy, Policy Development and Research at AIF.



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¹ See AIF research report 2015 by Dr Raymond Madden and Dr Wan Nursofiza Wan Azmi, *Skills Gaps in the Financial Services Industry in Malaysia*, Asian Institute of Finance, 2015.