

Why bankers need management

Imagine a world where financial institutions are characterised by pay proposals that break the cycle of pay inflation; by traders enjoying long careers within one organisation and by senior management adopting a pragmatic attitude to risk. My guess is that you can't. But it's difficult to reflect on the stereotype of the banker as anything other than reckless and self-motivated when this character has been affirmed in popular culture over the past 30 years. Two of the most successful films about the financial industry, *Wall Street* (1987) and *The Wolf of Wall Street* (2013), depict traders performing shady and often illegal deals that are motivated by a 'greed is good' philosophy, conducted within a workplace that isn't really like a workplace at all, where HR policies only exist to perpetuate individual wealth and materialistic need.

The modern-day banker is the epitome of a twenty-first century anti-hero, yet my experiences suggest this character valuation is not always accurate. As part of a research project I studied the operations of a New York bank. What I observed on the trading floor was not sheer individualism, where every man is out for himself, but even in a world which society has accepted to be shaped by selfishness and one's unwavering belief of their own exceptionalism, it is trust, communication and collaboration that is key to success of the organisation.

Organisations need to be shaped

The effectiveness of the trading room I studied can be credited to the manager's measured approach to HR policies. He was acutely aware that there are situations in the workplace that require the collaboration of people, often extending beyond the confines of the same organisational unit, which cannot be achieved through attractive remuneration packages. Policies that foster collaboration are very different from ones addressing materialistic interests; and instead compliment informal and formal organisational structures to connect different sets of knowledge, which the manager of the trading floor deemed necessary to elicit the most profitable trades.

It was under his leadership that awarding pay by a compensation committee was overhauled in favour of a policy that paid traders a fixed percentage of the profits of their desk. It was also the manager's decision to cut the trading room to 150 employees. Not only did these new policies quash any uprisings about the injustices of the pay packet, but the reduction in headcount provided a closely-knit environment which enabled traders to build a social network based on trust. After six months of getting to know the person at the adjacent desk, the manager would tear-up the seating plan and move every trader to a new desk to be assigned a new neighbour. Then six months later he would do it again. What started off as a simple question of 'you want to grab a coffee?' over time evolved into other interactions, with the expectation that the conversation would eventually turn to trade.

At the time, this managerial approach was perceived to be atypical within banks, despite activities that are targeted at complimenting organisational structures and hierarchy are commonplace in large firms. By contrast, the manager's HR practices was archetypical of the way financial institutions were run in the 1970s and 1980s, which we refer to today as the old partnerships, however these partnerships which dominated the US and UK financial markets have ceased to exist. So where did it all go wrong?

Size matters

Part of the problem is size: a large trading room generates large profits, but building social interaction within the workplace becomes problematic. There is also the temptation in the banking sector to rely on a management model that flags problems of individual traders, but so often the manager ignores the trader until they inherit so much loss they are forced to cut the position. The



trigger, however, can be pinpointed to the 1980s with the consolidation of the large banks and the repeal of the Glass-Steagall Act in 1999, among other factors, which liberated financial organisations from restrictions on using depositor's capital to engage in risk taking activity. The risk management models that ensued provided banks with the opportunity to develop a hands-off

attitude towards traders, and as the old partnerships evolved into publically listed organisations, the capital of the partners was no longer at stake and losses were absorbed by the shareholder.

Building a new foundation for economy

Components of this set of ideas implies that if we

want bankers to be more responsible, the shareholder needs to demand that responsibility of the banker, but this is hard to enforce. Since the 2008 financial crash, however, attitudes in the financial sector are changing which resonates with the sentiment that engulfed the fall of the Berlin Wall. It speaks to the demise of a previous model for economy and society. In 1989 Germany the demise was obviously communism, but today the demise is the approach that market efficiency is best attained by minimising regulation. Lack of regulation used to promote financial innovation, we have learnt, does not always result in positive innovation but contributes to a more unequal society.

There are two resounding lessons we can take away from the financial crisis: that a new form of capitalism should be defined by greater importance of regulation and heightened sensitivity towards stakeholders; and the notion that legitimacy should play a more prominent role in our society. We now know that this type of behaviour cannot be delegated to financial models and management styles of the past 30 years, but hinges on an organisational culture that promotes justice, identity, trust and pride among its employees. Once one accepts that the motivations of people on Wall Street are not purely materialistic, a whole world opens up for managers in banks about what they need to do.

Notes:

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