

Senior Managers must be feeling quite overwhelmed with the range of imprecations and calls for them to change. A key area being taken up by political and financial commentators as well as the FSA is the need for increased/improved competence amongst the leaders of our financial services industry.

The FSA has said it is no longer willing to rely on the judgement of senior managers and will make its own judgements on the soundness of a firms approach. The clearest statement concerning what areas should be considered when assessing the competence of a person to carry out a Significant Influence Function (SIF) come from Hector Sants speech on the 7<sup>th</sup> May 2009.

*“Assessment of SIF competence in post will be based around evidence to support the following areas:*

**Knowledge:** *Does the individual have and use the generic knowledge of the sector and the specific knowledge of the firm necessary to fulfil the role?*

**Skills:** *Does the individual demonstrate the business and interpersonal skills required to fulfil the role and to meet the required standards?*

**Behaviour:** *Does the individual demonstrate the attitudes and standards of ethical behaviour required to fulfil their role?*

**Expertise:** *Does the individual achieve positive and fair outcomes and meet the performance standards expected for the post?”*

All very laudable, but the challenge for those involved in compliance, HR, Learning and Development within firms is HOW to put in place the systems and controls to evidence that SIFs are competent particularly when raising the topic is often taken as an implied criticism rather than a solution

In the remainder of this article I have set out my own top tips for putting in place an effective system to support a regime where competence is recognised as key to the success of the individual and the firm rather than a bureaucratic and superficial process.

## Defining competencies

How many people have become caught up with vast libraries of competencies that are often called technical, functional, “hard” or job-related competences. These definitions aim to list all the important tasks, skills and knowledge connected with a job that someone requires to perform effectively. Often the organisation loses the will to live just trying to document these and the process founders at this stage.

At the other extreme is the behavioural approach that captures in much shorter Lists the attitudes, beliefs and behaviours that the firm is seeking to adopt as part of its culture. While these can be more readily recalled and examples provided of what desirable behaviour looks like they are difficult to assess and evidence on a regular basis and SIFs know that while important, they are far, far less important than making a profit.

Go bank to the list provided by Hector Sants and you will see that in explaining what the title means the focus is on what is achieved (outcomes) rather than what the ingredients of competence are.

## What do we mean by Competence?

So, first define what you mean by competence in the context of inputs and outputs. The following table suggests that knowledge and skills can be trained, learned and assessed, the outcomes achieved are influenced by applied expertise and behaviour.

Input	Output
<b>Knowledge</b> <ul style="list-style-type: none"> <li>• Generic knowledge, typically that contained in the syllabus of an accountancy qualification</li> <li>• Generic knowledge of the regulatory requirements of the role and function</li> <li>• Specific knowledge about financial management in your sector, the systems and controls in your firm and the financial risks and priorities</li> </ul>	<b>Expertise</b> <ul style="list-style-type: none"> <li>• Provides clear and prompt management information which can be readily understood by the board</li> <li>• Highlights areas of concern and analyses root causes</li> <li>• Manages risks and identifies early signs of adverse trends</li> <li>• Takes prompt action to address internal and external audit findings</li> </ul>
<b>Skills</b> <ul style="list-style-type: none"> <li>• Analytical</li> <li>• People leadership and management</li> <li>• Interpersonal</li> <li>• Presentation</li> <li>• Business Management (e.g Strategy, Risk, Marketing, Operations)</li> </ul>	<b>Behaviour</b> <ul style="list-style-type: none"> <li>• Honest and open</li> <li>• Highly principled</li> <li>• Considers interests of stakeholders when making decisions</li> <li>• Makes prudent and fair judgements</li> </ul>

The most straightforward definition of competence is that adopted by the Department of Education and National Occupation Standards:

*“Competence means ‘the ability to get things done’ or outcomes. To be more specific, it means the ability to get things done to the right standards as recognised by employers. It is not about ‘going through the motions.’ It is about getting results.”*

It is readily recognised as acceptable to SIFs who are judged on results by their many stakeholders.

### Assessing new and existing SIFs

Start with a job description or role profile that articulates responsibilities in terms of what results or outcomes that role holder is expected to achieve.

Often role profiles list the tasks that should be undertaken rather than what is expected by way of results. Take our FD. Yes, we want him to make prompt reports to the board but 60 pages of data a month is not what is needed. By moving the emphasis to the outcome, for example, reports should communicate the important issues for the boards’ attention and be understood by the different audiences they are addressed to, will enable performance to be readily judged.

Include a section on the knowledge and skills (inputs) needed to do the job which will inform screening, interviews and assessments for new appointments and a checklist for on going development.

Desirable behaviours are difficult to evidence although readily recognised when they are absent. To a large extent behaviours have to be judged in the role and by peers. Board performance assessments are the best way to identify and address negative indicators. The behaviours, ethics or culture that the firm wishes to adopt can be captured in a role profile to set a positive benchmark.

Most firms will have rigorous interview and assessment methods for recruiting senior people who are key to their success. By using an up to date and comprehensive role profile to design the mix of tools to ensure the candidate is suitable will produce the evidence needed. Informal chats over lunch are still effective but more rigour in the recording of such conversations will be needed.

On going assessment should be undertaken in the same way through performance management systems or appraisal processes as for the rest of the organisation. In reality senior management are rigorously assessed by the results they achieve. The most common reason for a change in CEO is the failure to meet financial goals. Often early identification of a lack of knowledge or skills with action taken to remedy the situation could avoid these situations developing.

For Non executive directors and the chair of the Board peer review is more common and effective. Many firms, to comply with the Combined Code, will alternate external and internal board performance assessments.

Where the FSA have interviewed new SIF appointees they have, reasonably, probed the candidate's knowledge of their standards and requirements. Incorporating this knowledge into the areas of knowledge a role holder must have is essential.

### **Evidence**

Key documents include

- Certified originals of certificates of qualifications  
Record of past training and CPD (something SIFs may wish to keep themselves in future)
- Copies of all documents in the recruitment process
- Notes of investigations into gaps in employment
- References taken up
- Results of searches (financial and police)
- Copies of formal assessments
- Employment history in the firm

### **Common failings**

The following is a list of the most common areas to improve:

- Job descriptions that are either very sketchy or endlessly long, detailed lists of tasks
- Confusion between different parts of the business as to what competence means
- Boredom and unwillingness to participate in what is seen as time consuming irrelevance
- View that Training & Competence or Performance Management is for workers not leaders
- Embarrassment at board level about carrying out appraisals on co-directors
- Assumptions that providing financial results are achieved nothing else really matters
- Unwillingness to address problems with behaviours in case a big contributor of profit leaves
- Lack of competence to set objectives, assess and coach at senior levels.

You are not alone if you suffer from some of these failings.

The competence of leaders is often a touchy subject and those trying to develop and support the leadership team need to emphasis the useful nature of the exercise and the benefits that can stem from addressing rather than ignoring clear areas where individuals could develop their skills and knowledge.

Do consider external help to engage your SIFs in this topic which can remove some of the internal sensitivities that will exist and enable a more rigorous debate than and internal facilitator can provide.

We are not dealing with anything new here. The same standards of “suitability” and competence have applied to all staff connected with regulated business in all firms since the FSA introduced the “Statements of Principles and Code of Practice for Approved Persons” (APER) in 2000. From our own work we know that SIFs are normally issued with this document, or a summary of the standards to met, when they take up their appointment but few will read it. Reference to it now does provide some excellent examples of what poor practice in this are looks like. Always a fascinating read. My personal favourite has always been “inadequately monitoring highly profitable transactions or business practices or unusual transactions or business practices.” (APER 4.6.4(3))

Getting it right this time might avoid disaster in the future but will certainly pay dividends for everyone in terms of overall performance of the firm.

Jayne Owen Chief Executive  
CTP Global 020 3750 5779  
07786 331623  
[www.jayneowen@ctp.uk.com](mailto:www.jayneowen@ctp.uk.com)



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