



Model
Presentation

HR Governance a Practitioner's Perspective The Real Gatekeeper

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Outline

- **Overview**
- **Hypothesis**
- **Framework**



Overview

In 2008 a Global Financial Crisis hit the World, being preceded by a previous Audit crisis in 2001

Less than seven years split between the first and the second crisis

No clear outcome of who was directly accountable for the crises

Many people were directly and indirectly involved (25 were identified by Time Magazine in 2009)

Only few people were held guilty by direct charge

Key preventive measures were shyly translated into additional Corporate Governance requirements

The obvious causes of the crisis focused on malpractice in the banking and finance sector

Deregulation

The 1999 repeal of Glass-Steagall by the Gramm-Leach-Bliley Act allowed banks to use deposits to invest in derivatives

Securitization

Hedge funds and others sold mortgage-backed securities, collateralized debt obligations and other derivatives

Sub-prime mortgage Growth

In 1989, the Financial Institutions Reform Recovery and Enforcement Act increased enforcement of the Community Reinvestment Act

Raised rates on sub-prime borrowers

Many homeowners who couldn't afford conventional mortgages were delighted to be approved for these interest-only loans. As a result, the percent of subprime mortgages doubled, from 10% to 20%, of all mortgages between 2001 and 2006

* Source: www.thebalance.com - "What caused the financial Crisis?" by Kimberly Amdeo, updated July 26, 2016



But reading between the lines tells us the real truth behind the crisis (1/4)

With half a decade's hindsight, it is clear the crisis had multiple causes. The most obvious is the financiers especially the irrationally exuberant Anglo-Saxon sort, who claimed to have found a way to banish risk when in fact they had simply lost track of it.

**“The Origins of the Financial Crisis”
The Economist, September 7, 2013**



But reading between the lines tells us the real truth
behind the crisis (2/4)

**Central bankers and other regulators
also bear blame, for it was they who
tolerated this folly**

**“The Origins of the Financial Crisis”
The Economist, September 7, 2013**



But reading between the lines tells us the real truth
behind the crisis (3/4)

Some research also implicates European
banks, which borrowed greedily in American
money markets before the crisis and used the
funds to buy dodgy securities

“The Origins of the Financial Crisis”
The Economist, September 7, 2013

But reading between the lines tells us the real truth behind the crisis (4/4)

The Basel committee also did not make any rules regarding the share of a bank's assets that should be liquid. And it failed to set up a mechanism not to allow a big international bank to go bust without causing the rest of the system to seize up.

**“The Origins of the Financial Crisis”
The Economist, September 7, 2013**



Hypotheses

Hypothesis I: Financial and Economic crises are caused by people not by systems

**Intentionally Wrong
Decisions**

Moral Crisis

**Unintentionally
Wrong Decisions**

**Competence
Crisis**

**HR
Governance
Dilemma**

**The integrity & professionalism dimension of
Human Resources in Organizations**

Hypothesis II: the Crises will strike again and possibly sooner than later because of absence of HR Governance

Current Practices of Corporate Governance

Moral Crisis

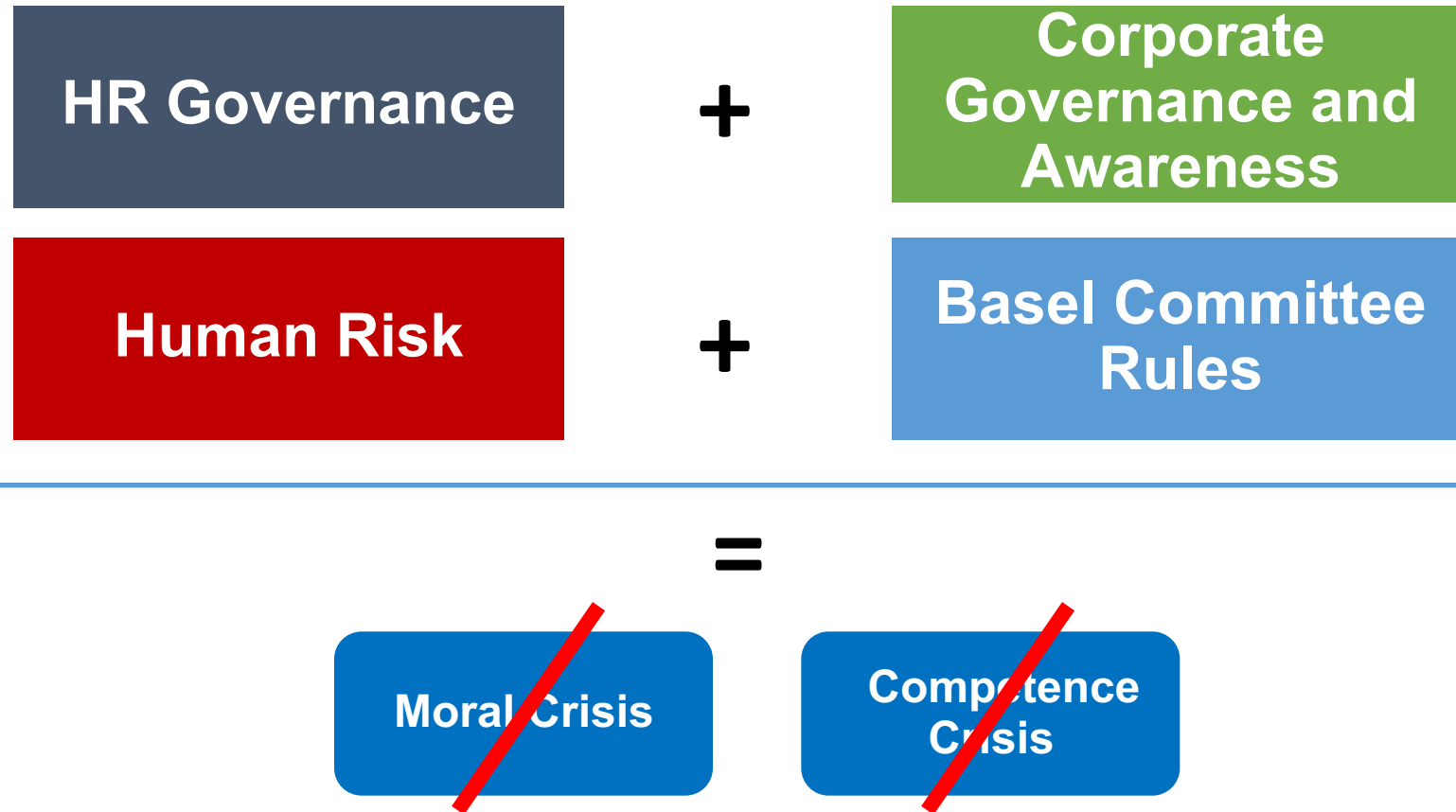
Competence Crisis

Corporate Governance and Awareness

- Organization Structure
- Roles of the BoD
- Succession Planning for BoD Members
- Executive Remuneration
- BoD Members Induction
- Codes of Conduct & Ethics

Strategic rather than Operational Focus

Hypothesis III: HR Governance inclusion in Corporate Governance practice, and recognized as a stand alone Risk Factor under Basel Committee rules





Framework

HR GOVERNANCE, the Missing Link

HR GOVERNANCE

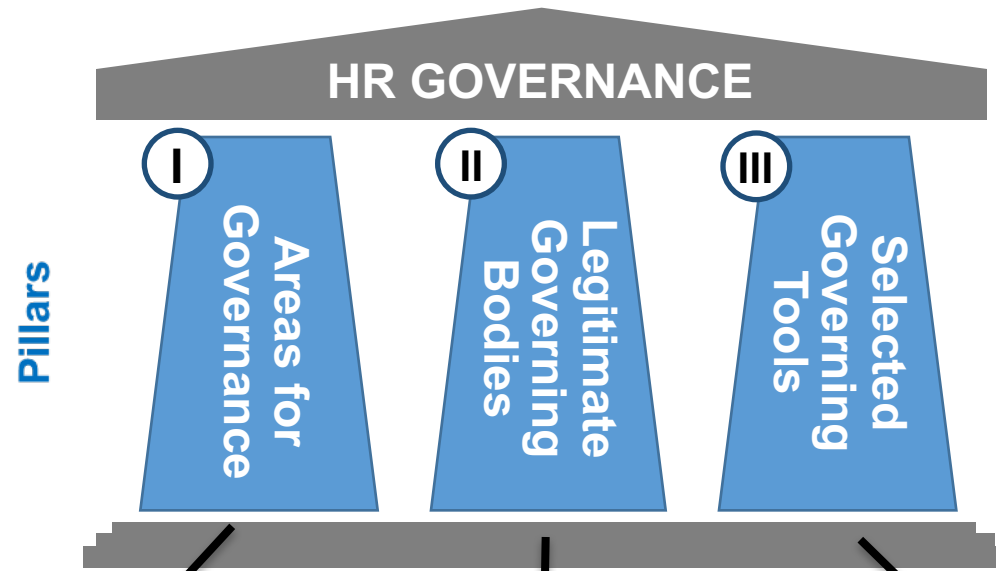
HR Governance is a management concept that defines the process for ensuring that the **HUMAN factor** in Organizations is vigorously governed in terms of **Morality and Competence**

Value Chain of People Management includes:

- **Selection of Staff**
- **Remuneration**
- **Behavioral Compliance & Professionalism**
- **Employee Competence & Good Judgment**
- **Career Development**
- **Succession Planning, and**
- **Performance Management**

It aims at putting in place all required enablers to **GOVERN** the Value Chain of People Management inside an Organization

HR Governance Model



Pillars

I

Areas for
Governance

II

Legitimate
Governing
Bodies

III

Selected
Governing
Tools

- Pillar I**
1. The HR Department
 2. The Human Capital Structure & Composition
 3. The Leadership Team

Pillar II

1. The Board of Directors & its Committees
2. HR Committee
3. Internal Audit Department
4. GRC Functions
5. Quality Assurance Department

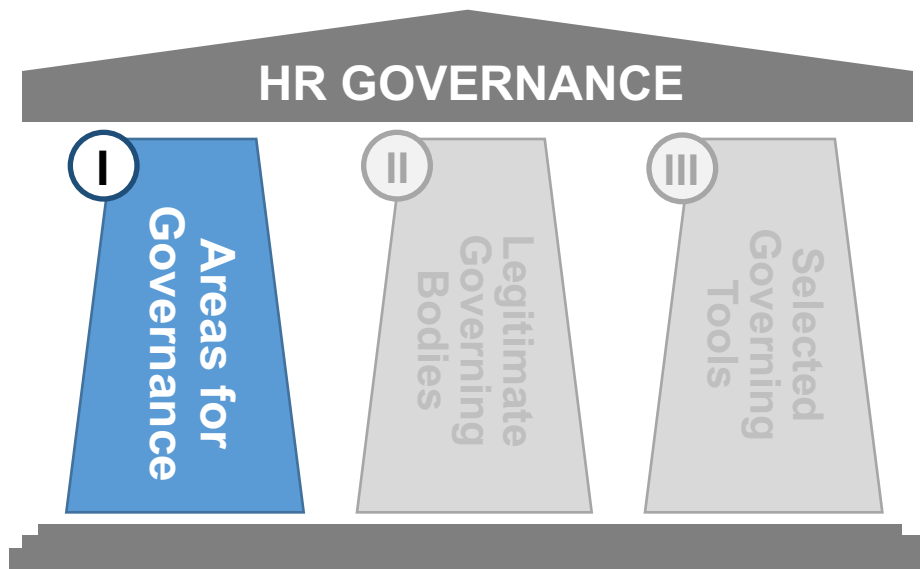
Pillar III

1. Due Diligence
2. Audit Reports
3. Quality Assurance Reports
4. Progress Reports
5. Professionalism
6. Competencies of Governance

HR Governance Model

Pillar I | Area for Governance

Three entry points through which lack of compliance and hence risk can penetrate any Company



1

The HR Department

Monitoring the Application & Compliance of:

- HR Policies & Procedures
- HR Systems
- HR Team
- Practices that the HR Function is utilizing for managing the Workforce

2

The Human Capital Structure & Composition

Ensuring Business protection in terms of:

- Workforce numbers
- Employees' education & competencies
- Profiles & Social Background
- Gender & Nationalities
- Capacity & Ability to grow
- Level of Individual Dependencies
- Workforce Aging
- Performance

3

The Leadership Team

Evaluating leaders':

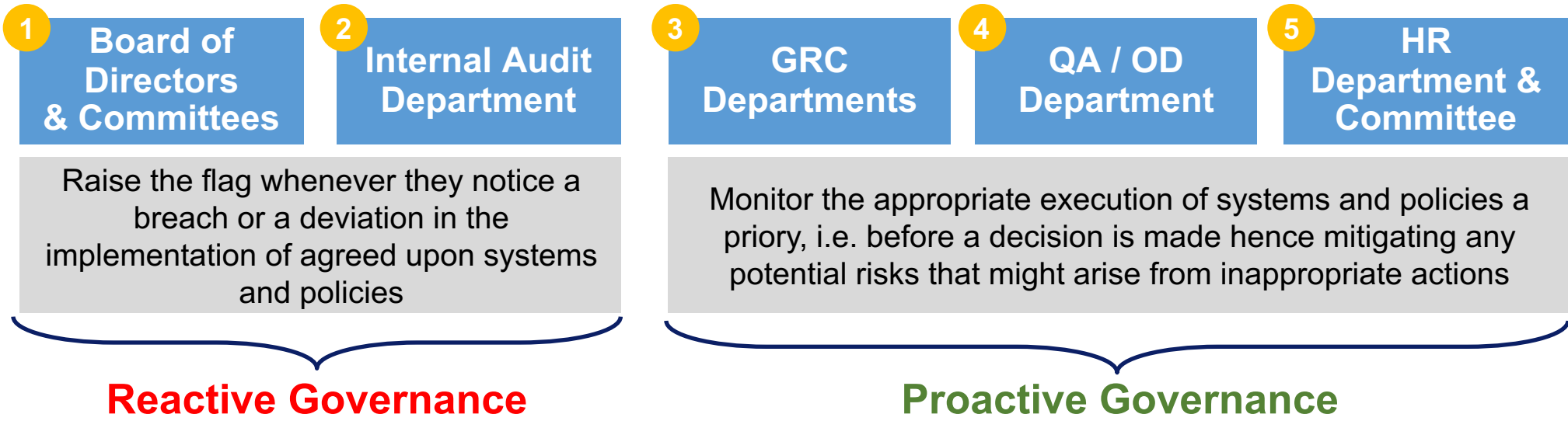
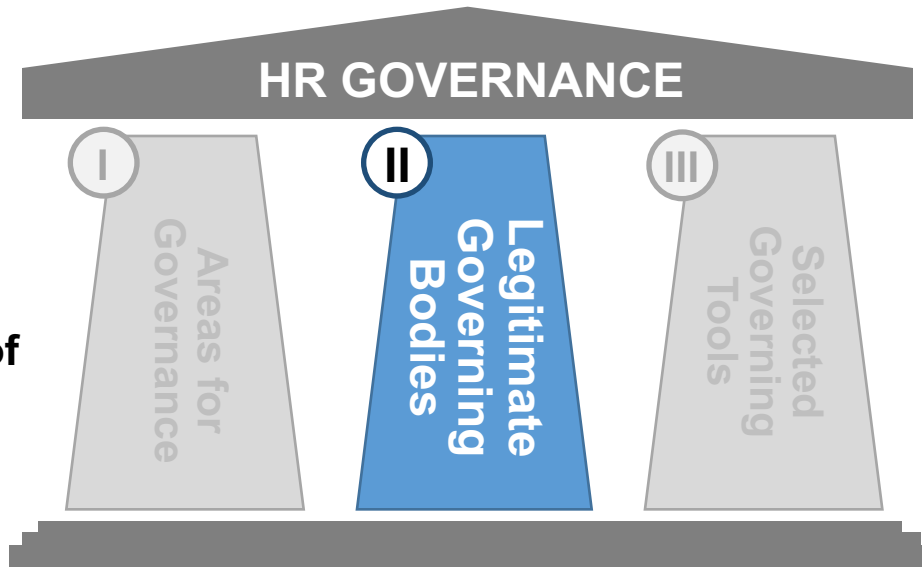
- Strengths & Weaknesses
- Leadership styles
- Quality of decisions
- Extent of compliance vs. non-compliance to rules and regulations
- Projection of the Company professional image
- Retention & Development potential
- Performance

Governance Scope

HR Governance Model

Pillar II | Legitimate Governing Bodies

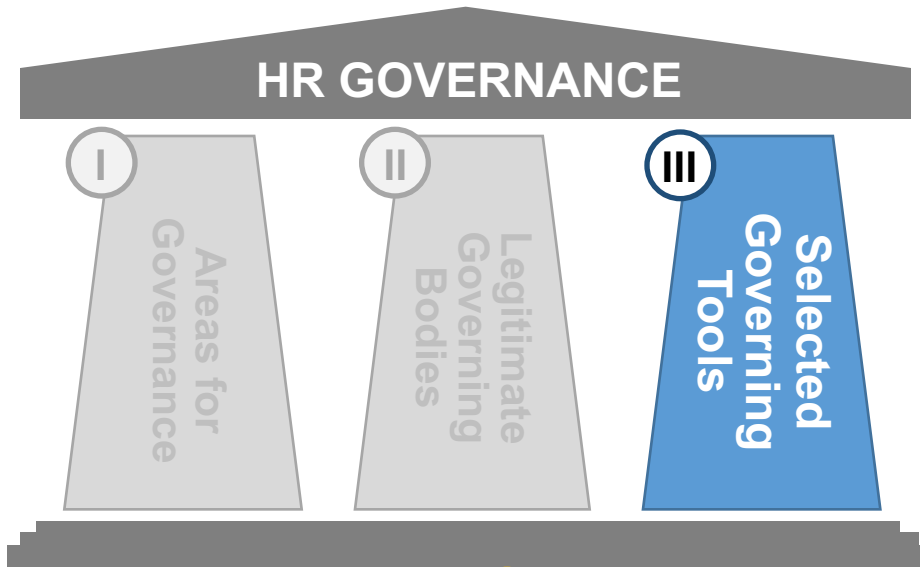
Entities in charge of implementing the Company's HR Governance, by virtue of Law or appointment by the Board



HR Governance Model

Pillar III | Selected Governing Tools (1/2)

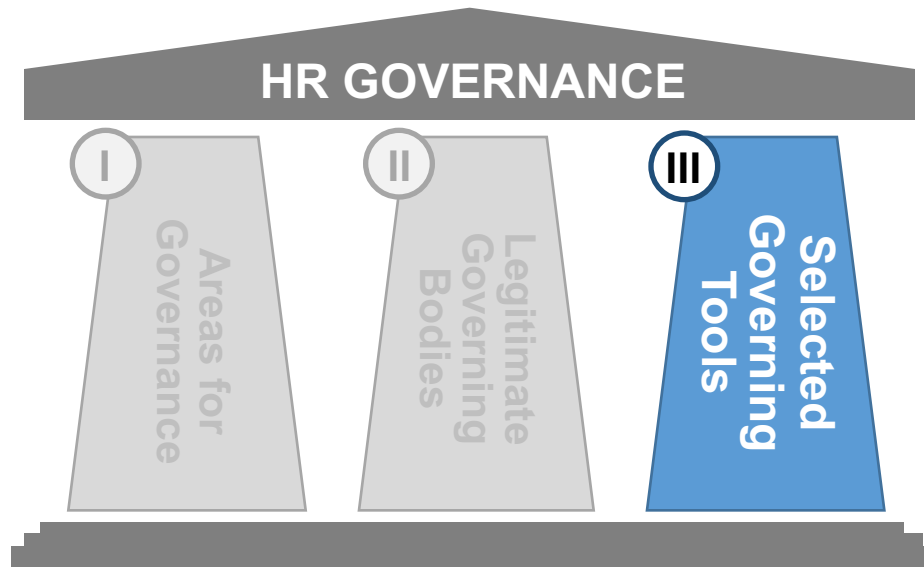
Valid & reliable Tools that sustain a concrete & defensible outcome of HR Governance Exercises



- | 1 Due Diligence | 2 Audit Reports | 3 QA/ OD Actions & Reports | 4 Progress Reports |
|---|---|---|--|
| <ul style="list-style-type: none"> Diagnostic Technical exercises usually carried out by Internal or External Human Capital Auditors Assess the current status of an Organization In terms of its compliance with HR practice (policies and regulations, key financial, legal, & organizational benchmarks) | <ul style="list-style-type: none"> Review work previously executed by the HR Department or any other entity involved in people management Document findings and recommendations and present to the Board of Directors for discussion and appropriate Action | <ul style="list-style-type: none"> Making available all HR P&P, Job Descriptions, and standardization tools Give concerned entities, like the HR Department and the CEO, a comprehensively detailed perspective on points of improvement to sustain HR Governance | <ul style="list-style-type: none"> Emphasize the continuous improvement dimension brought about by HR Governance Ensure that the Audit, QA, and OD Recommendations are being acted upon, and that the Organization is rectifying its track to be or become compliant again |

HR Governance Model

Pillar III | Selected Governing Tools (2/2)



The Moral Dimension of People Governance

The Competence Dimension of People Governance

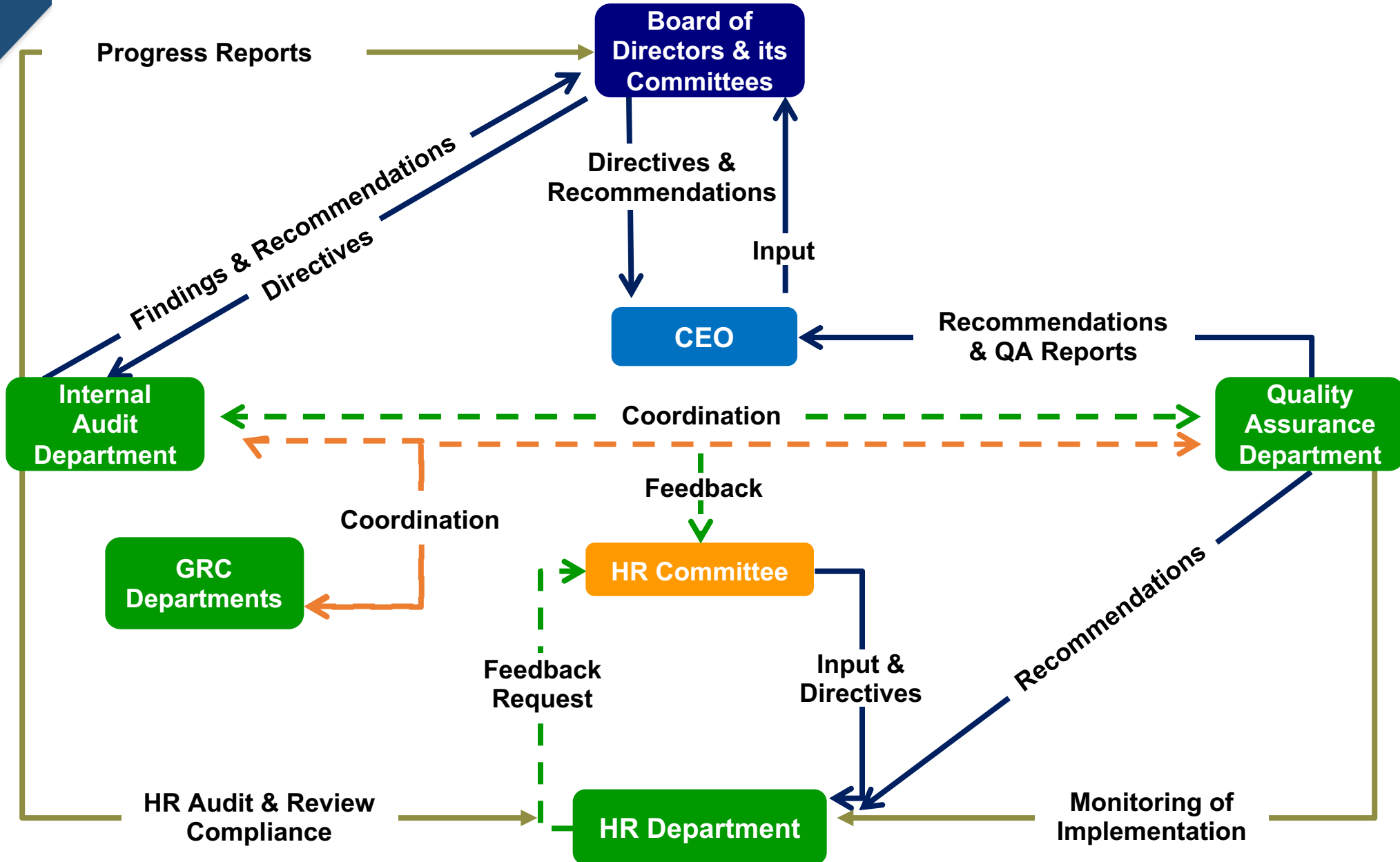
5 The Professionalism Code

- A Global formal Code that sets and defines the Pillars of Professionalism for the modern World inclusive of Code of Ethics, Collegial Relations, Good Judgment, Integrity of Decisions, Collective Good, etc.
- This Code would be delivered to all Employees in companies through Awareness & Training Sessions
- The Professionalism Code should also be a serious candidate to become a Core University Course for all specializations, specifically for Business related majors.

6 Competencies of Governance

- This tool comprises of ensuring that all employees in a Business are in their right place, i.e. in a position for which they have the required competencies to work in.
- The tool is based on ensuring that every employee has a Job Description based on a formally promulgated Organization Structure; it also counts on having a clear Competency Assessment tool that measure the gap between Employee's current level of competence versus the level of competence required by the Job he is in

HR Governance – Operating Model



Our HR Governance Model complements Corporate Governance Regulations and Basel Committee Rules

Main Corporate Governance Regulations

- An administrative organizational chart
- An organizational chart showing parent bank's relation
- Bank's approach to implement Corporate Governance principles
- The Board of Directors' size, role, responsibility and composition
- The criteria adopted to compute the compensation of the Board of Directors and Senior Management's members
- The rules adopted to assess the performance of both the Senior Management and the Board of Directors regarding their compliance with Good Governance procedures
- The Succession Plan to be adopted for selecting the Board of Directors and Senior Management's members

HR Governance Model

Areas for Governance

1. The HR Department
2. The Human Capital Structure & Composition
3. The Leadership Team

Legitimate Governing Bodies

1. The Board of Directors & its Committees
2. The HR Committee
3. The Internal Audit Department
4. The Quality Assurance Department

Selected Governing Tools

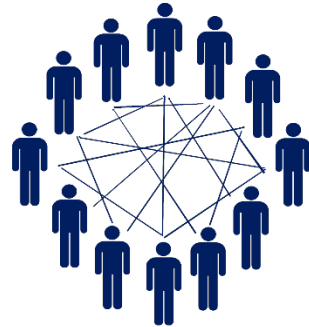
1. Due Diligence
2. Audit Reports
3. Quality Assurance Reports
4. Progress Reports

Basel 3 People Risk Regulations

Implicit approach to People Risk described in Pillar 2: Risk Management & Supervision

- Addressing firm-wide governance and risk management
- Managing risk concentrations
- Implementing sound compensation practices
- Stress testing
- Setting up supervisory colleges

Implementing HR Governance in Organizations



1

Conduct HR Governance Due Diligence and provide a Roadmap

2

Build the HR Governance enablers

3

Monitor the implementation of HR Governance tools

4

Measure HR Governance Score and Report to BoD and Relevant Entities

Benefits of HR Governance – reflecting on Banking & Finance

