

CORNELL HR REVIEW

Rebuilding Trust in the Financial Services Industry: Lessons for Human Resource Professionals

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Roger W. Ferguson, Jr., President and CEO of TIAA-CREF, delivered the Lewis H. Durland Memorial Lecture at the ILR School last October. Hosted by Cornell University's S.C. Johnson Graduate School of Management, Ferguson's lecture, entitled "Rebuilding Trust in the Financial Services Industry: The Way Forward," highlighted a number of weaknesses concerning internal corporate governance that led to the financial crisis in 2008. To remedy these weaknesses and rebuild trust in the financial and service sectors, Ferguson outlined five key areas where HR can take a leading role: culture, compensation, communication to regulators, shareholder vs. customer interests, and retirement schemes.

Culture.

Management needs to model ethical behaviors for employees to follow. Management must also promote to the Board of Directors that a culture of openness and honesty will reduce surprises and better allow for the company to adapt to changing environments. The ability to adapt creates opportunities for new relationships to be formed, which are rooted in a new culture shaped by strong values that support trustworthiness as a virtue.

Compensation.

Incentives must be used correctly. Not all financial service firms are alike; therefore, they should not all expect to employ the same compensation structure. For companies that focus on retirement savings, where time horizons for investments are often 30 to 40 years, annual or quarterly bonuses may incentivize riskier behaviors than are warranted for this type of investment. Instead, three to five year performance bonuses may be considered. This may cause some potential employees to look at other financial services firms, but it still supports the business strategy to hire those who are focused on long-term success over short-term gains.

Communication to Regulators.

If there is strong alignment between strategy and culture, with compensation practices supporting these, then the purpose of these compensation practices and corresponding metrics should be communicated to regulators. Regulators inherently need to understand the strategy and culture of the businesses that they regulate. However, communicating strategies and practices to regulators also gives companies the ability to identify any areas of concern or perverse incentives that may arise. Subsequently, it forces companies to understand how their performance metrics will drive behavior, and how this may appear to regulators.

Shareholder vs. Customer Interests.

Companies must understand whether the interests of shareholders are aligned with the interests of customers. While TIAA-CREF does not have shareholders, it is important to understand whether stakeholders are interested in short-term gains, long-term gains, or if there is a broader social impact that appeals to these groups. While some firms may have activist shareholders attempting to convince a company to divest in certain companies or industries, there may be an opportunity to appeal to these constituencies through financial products that serve similar social goals.

Retirement Schemes.

The movement of companies from defined benefit plans to defined contribution plans has shifted the risk for retirement savings from the company to the individual. This will require workers to save more for longer periods of time. Young employees will need to understand the importance of saving for retirement from their early 20s. HR should consider opt-out programs, rather than opt-in programs to drive home this message in the onboarding process.

However, the need for more retirement saving underlines an important problem on the macro level. Wages for employees are stagnant, and with the economy still recovering, a growing number of households are living paycheck to paycheck. If there is no extra money in the household budget, where will extra retirement savings come from? In order to save more, employees will need to earn more. If wages remain stagnant, everyone will likely have to pay more in taxes to compensate for the low levels of retirement savings generated by vulnerable low-wage workers. ⌘

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