



مصرف لبنان
BANQUE DU LIBAN

A Wider perspective on Corporate Governance

American University of Beirut (AUB)
Suliman S. Olayan School of Business (OSB)

Raed H. Charafeddine, First Vice-Governor, Banque du Liban
<http://raedcharafeddine.net/>

2 November 2016 | AUB - Beirut

Presentation Objectives

Corporate Governance and Human Capital Management

Case Study: Banque du Liban

Conclusion

To reflect and... Act (Click)

This presentation outlines the importance of having proper governance and effective human capital management in modern institutions

- Present the objectives and rules of proper governance practices
- Discuss human capital management challenges faced by institutions and how to address them
- Present the HR Governance Model as an impactful mechanism for interlocking Good Governance with healthy Human Capital management
- Explain correlation between effective people practices and business performance
- Present evolution and trends of human capital functions
- Present an overview of Banque du Liban human capital management modernization project and achievements
- Deduce key lessons behind engaging good governance with healthy people management practice

What is corporate governance?

Corporate Governance – Elements

*“Corporate governance is the **system** by which companies are directed and controlled”*

The Financial Aspects of Corporate Governance, Sir Adrian Cadbury, UK, 1992

*“Corporate Governance involves a **set of relationships** between a company’s management, its board, its stakeholders and other stakeholders”*

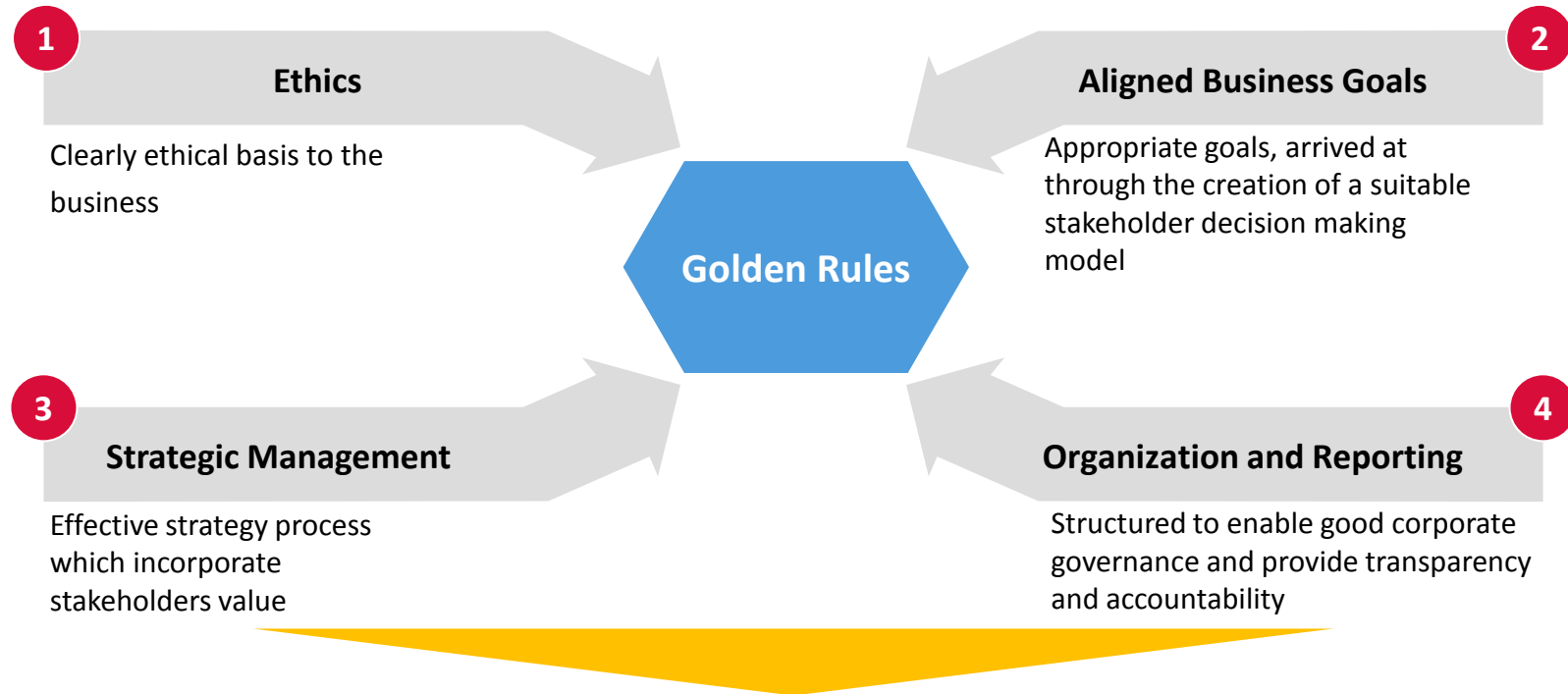
G20/OECD Principles of Corporate Governance, 2015

*“Corporate governance provides the **structure** through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined”*

G20/OECD Principles of Corporate Governance, 2015

Modern institutions rely on 4 golden rules to implement proper governance practices and ensure organization sustainability

Golden Rules of Corporate Practice



Governance Main Goals

- To perpetuate a successful business
- To ensure management accountability to capital providers for the use of assets
- To meet institutions' financial, legal, regulatory, and contractual obligations
- To balance interests of shareholders with those of other stakeholders, aiming long term sustainable value

A winning operating model is needed for organizations to meet corporate governance rules and objectives

Winning Operating Model

Strategy

- Define ambition, purpose and values
- Decide where to play and how to win
- Determine specific strategy elements to optimize:
 - *Business definition*
 - *Sources of growth*
 - *Drivers of values*
 - *Priority customer needs*
 - *Critical capabilities*
 - *Key decisions*
 - *Cost/ profitability targets*

1

Structure and Accountabilities

2

Governance and Operational Management

3

Capabilities

Execution

- Implement roadmap
- Deliver capability building plan
- Implement performance management and feedback loops
- Mitigate risks

The operating model seeks to ensure that a company has the right setup to support its operations

Winning Operating Model Components

1

Structure and Accountabilities

- Optimize the size and shape of the organization with indicative resource levels and locations
- Specify accountabilities describing roles and responsibilities for all the organizational entities
- Create organization-specific competencies that provide business excellence
- Define clear role for the board of directors to oversee strategic planning process and set a comprehensive strategic scorecard to follow execution of strategy

2

Governance and Operational Management

- Refer to management and operational processes that yield high-quality decisions on strategic priorities, ensure efficient operations and resource allocation, and support effective business performance management
- Link governance to processes and activities that yield high-quality decisions on strategic priorities, resource allocation and business performance management
- Improve governance in terms of fragmentation of activities and process improvements

3

Capabilities

- Set a mechanism to monitor and evaluate senior management performance
- Set a pay philosophy in line with work culture
- Link individual's contribution to strategy execution and reward out-performers
- Determine careers' direction and plot a course for success and design a training program by aligning training to business objectives

The Global Economic & Financial Crisis was caused by people who lacked competence and/or morality

Governance Dilemma in the world



Managing human capital effectively is a 'must have' for a winning operating model, not a 'nice to have'

Human Capital Challenges

Institutions are facing tremendous challenges ...

- Long-term challenges
 - Globalization/Liberalization of markets
 - Regional economic necessities
 - Financial markets development
- Short-term challenges
 - Global economic crisis
 - Growing regional recession
- Business implications
 - Retracting business opportunities
 - Regional credit crunch
 - Halt in long term growth plans
 - Shift in priorities
 - Large scale transformation, M&A, restructuring and focus on performance improvement/operational enhancement

... and human capital is one of them

- Low employee morale and top talent flight risk
 - Employee loyalty and trust levels have fallen dramatically since the financial crisis took place
 - Diminished ability to reward talent with monetary incentives
- Strategic opportunities to upgrade talent
- Opportunity to re-evaluate people requirements and develop a long-term strategy to seize future advantage
- More important than ever to maximize the
 - Capability and performance of the workforce
 - Effectiveness of your value propositions to attract a high-performing workforce
 - Ability of human capital to contribute value to the organization

▶ **HR Governance** is the process of ensuring that the human element in an organization is well monitored in terms of morality and competence.

▶ It aims at putting in place all the required enablers to govern the Value Chain of People Management inside an Organization.

▶ Value Chain of People Management includes:

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



In every industry, the highest performing and most admired companies are the ones with most effective people practices

World's Most Admired Companies *

- Attributes of Reputation**
- 1 Ability to Attract and Retain Talented People
 - 2 Quality of Management
 - 3 Social Responsibility to the Community and the Environment
 - 4 Innovativeness
 - 5 Quality of Products or Services
 - 6 Wise Use of Corporate Assets
 - 7 Financial Soundness
 - 8 Long-term Investment Value
 - 9 Effectiveness in Doing Business Globally

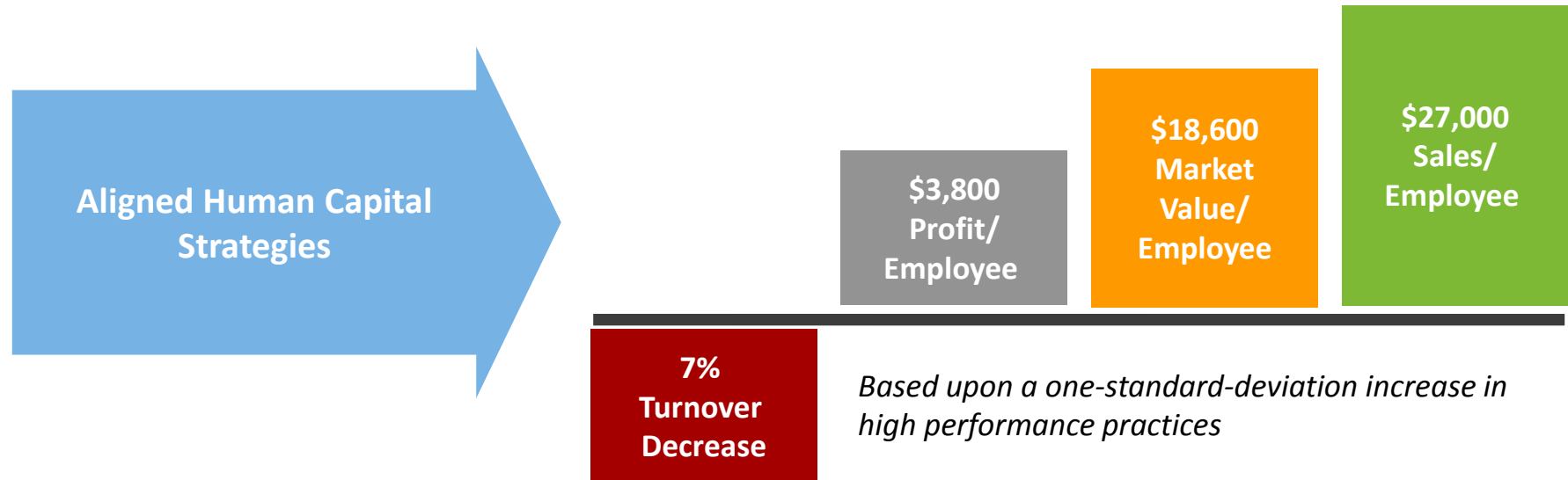
Example of Companies



*Source: "Most Admired Companies", Fortune, February 2016.

Research has proven the connection between effective people practices and business performance

Evidence-based Practices – Impact of Aligned HC Strategies



**“Organizations with aligned HC systems and programs deliver 27% more business value”
(Becker and Huselid, 1998)**

Source: Mark A. Huselid, “The Impact of Human Resource Management Practices on Turnover, Productivity and Corporate Financial Performance”, *Academy of Management Journal* 38, 1995. See also *The HR Scorecard* by Becker, Huselid & Ulrich.

Yet, most organizations continue to struggle with the same people issues which leads to sub-optimized performance

People Issues Commonly Faced



In most organizations, HC capabilities and focus are not aligned with critical priorities of the business

HC Strategic Objectives

Today's Reality

- HC focused primarily on administrative tasks; limited capacity/capability for meeting more strategic needs
- Many systems/programs not integrated to enable effective talent management
- Unable to respond effectively to changing business needs
- Little insight into competitive talent markets
- Unable to meet employee needs for development, growth and flexibility
- HC metrics focus on activity and satisfaction rather than outcomes
- Not usually perceived to understand the business

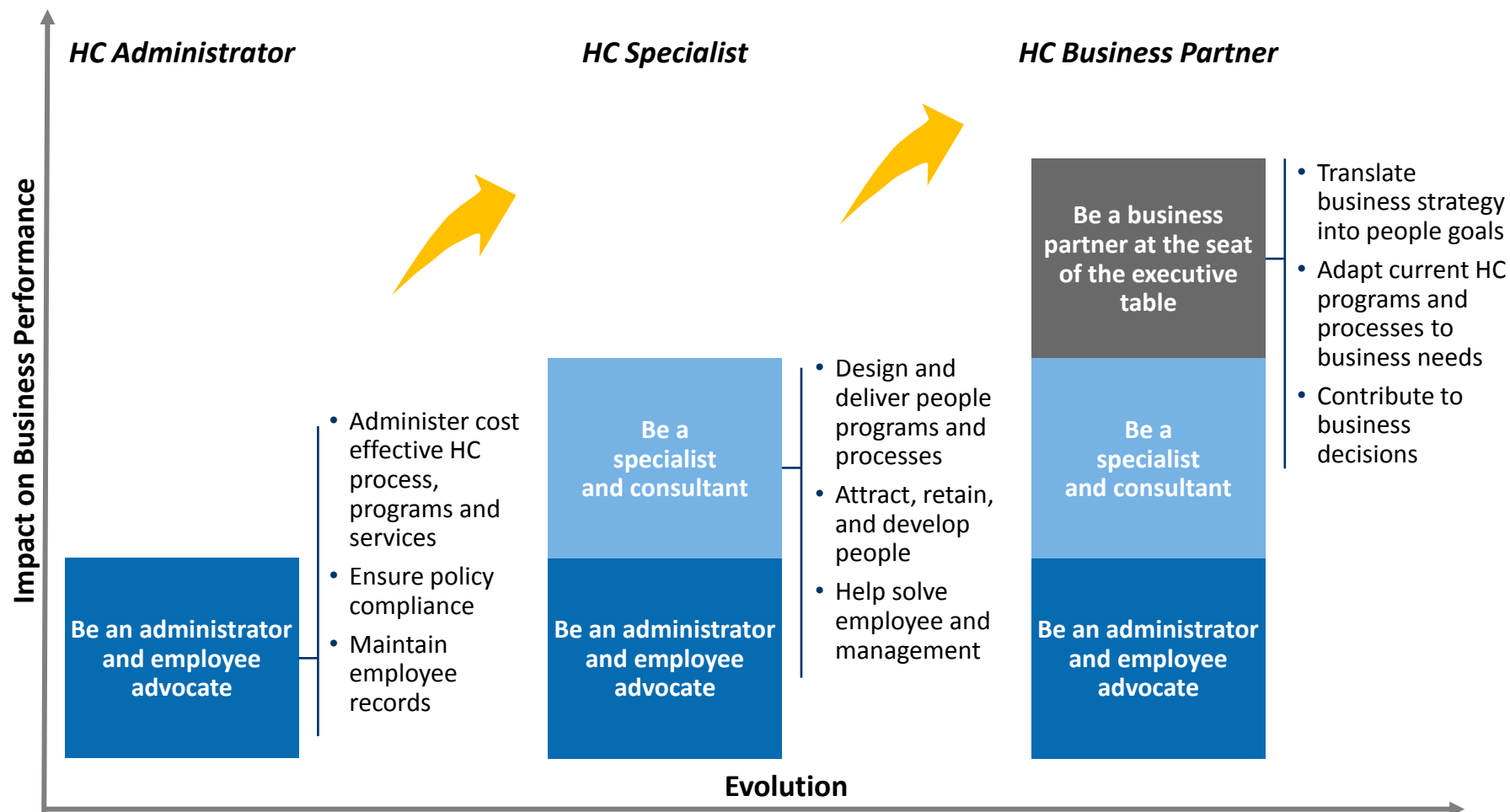
What Business Leaders Want from HC

- Manage the talent supply chain (stronger bench of the “right” people)
- Improve availability, quality, and consistency of key HC processes and tools
- Facilitate growth in key talent and leadership capabilities
- Manage programs to differentiate employees to help attract and retain the best
- Create compelling value propositions and employment brand
- Rely on reliable HR data analytics to support strategic decision making process through integrated scorecards and dashboards
- Increase accountability for HC and managers for delivering talent outcomes and competitive advantage

Organizations must rethink their HC strategies in order to meet the requirements of business leaders

To achieve effective strategic alignment, organizations often find that HC has to reinvent itself entirely

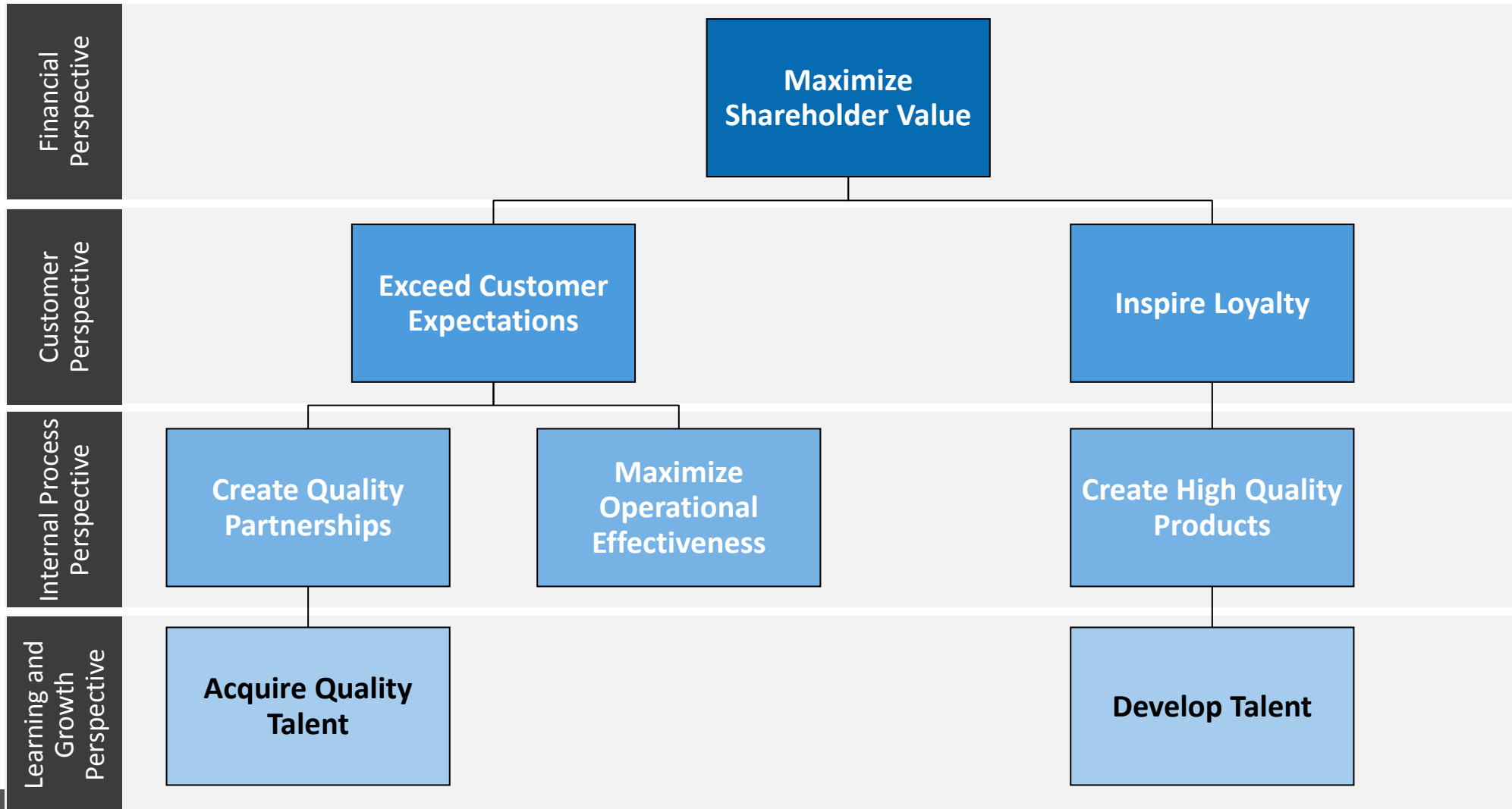
HC Evolution and Trends



Source: "Aligning HR Strategy with Business Strategy in a Downturn", Booz & Company, May 2009.

Moving forward, institutions are building strategy maps designed around specific objectives including human capital performance indicators

Strategy Maps and Balanced Scorecards – Example



Presentation Objectives

Corporate Governance and Human Capital Management

Case Study: Banque du Liban

Conclusion

Following BDL modernization initiatives, a human capital management approach was adopted to achieve four key objectives

BDL Key Human Capital Objectives

Differentiated Capabilities

The collective skills, abilities and expertise required for organizational excellence and the ability to deliver them

Performance Acceleration

The processes, behaviors, and rigor used for managing performance and the degree that it drives compensation, development, and promotional decisions

Leadership Development

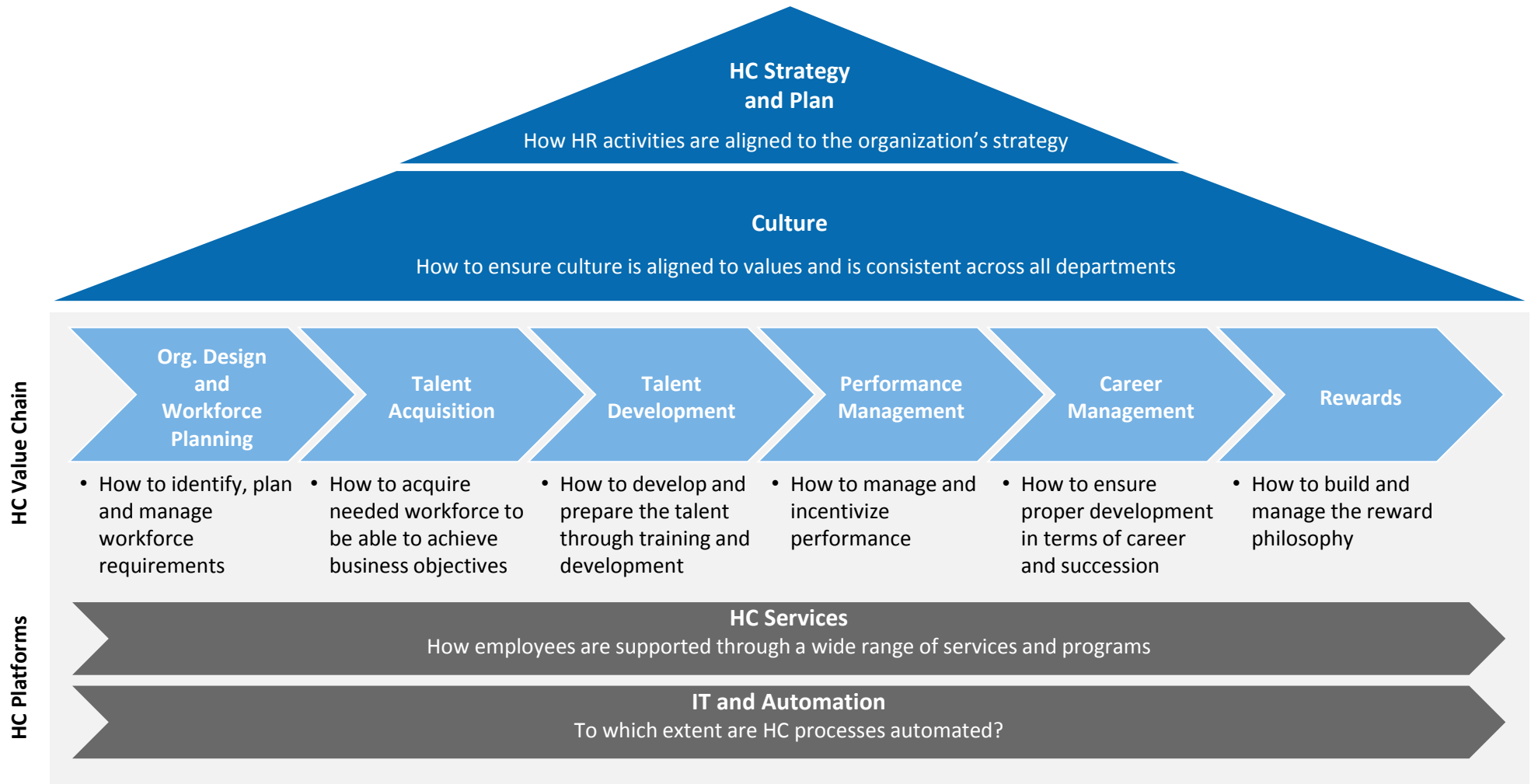
The capacity and capabilities of leaders and the effectiveness with which future leaders are identified and developed

Talent Culture

The values, beliefs, behaviors, and environment required to attract, engage and retain committed and competent employees

In this context, BDL engaged an external consulting firm* to design a new human capital management framework involving 10 key elements

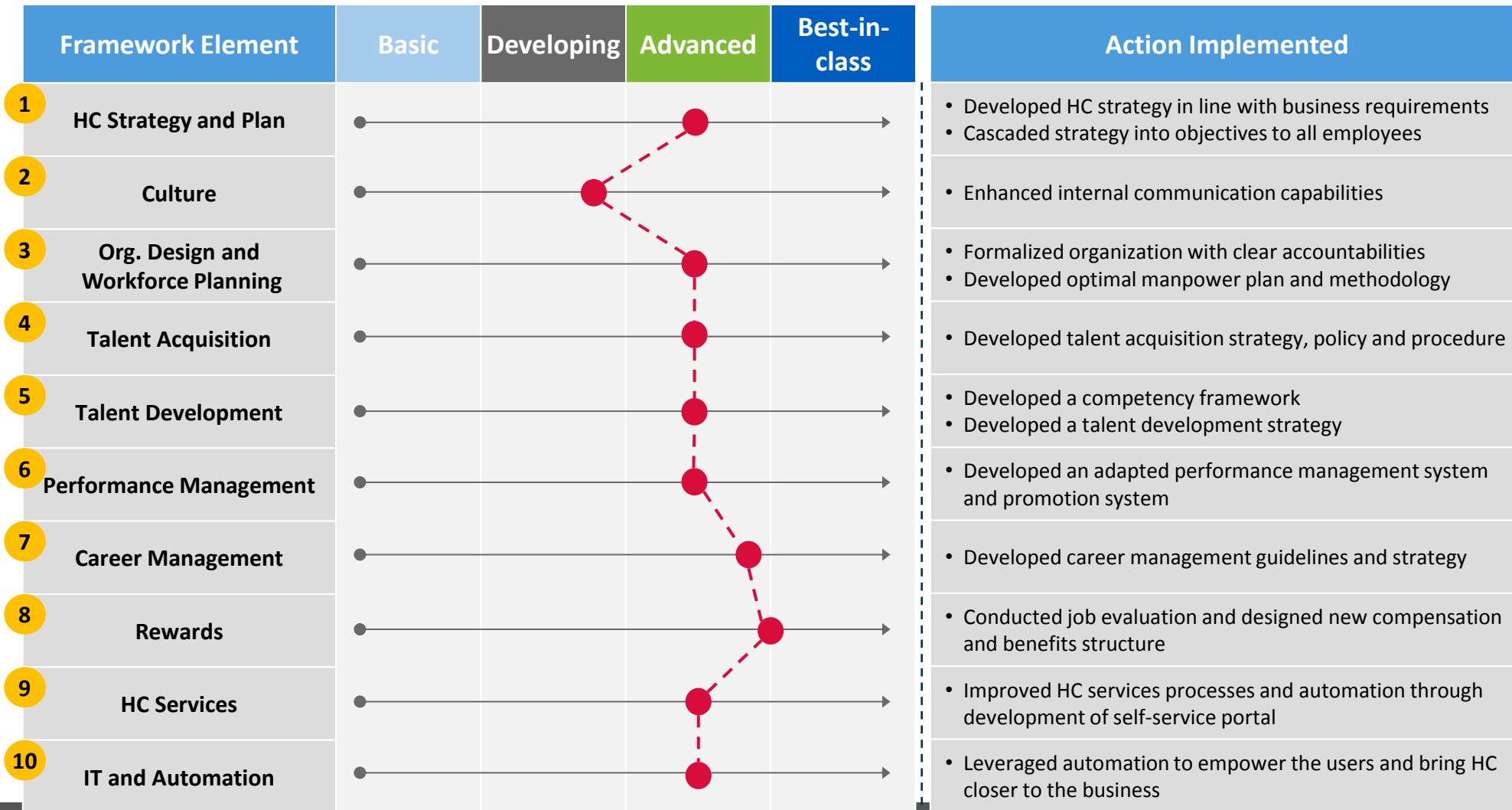
BDL New HC Framework



* Management Solution Experts is a Lebanese HR consultancy firm.

A comprehensive road map has been established to transform BDL HC role towards best-in-class practices

Capability Level Analysis – Current State

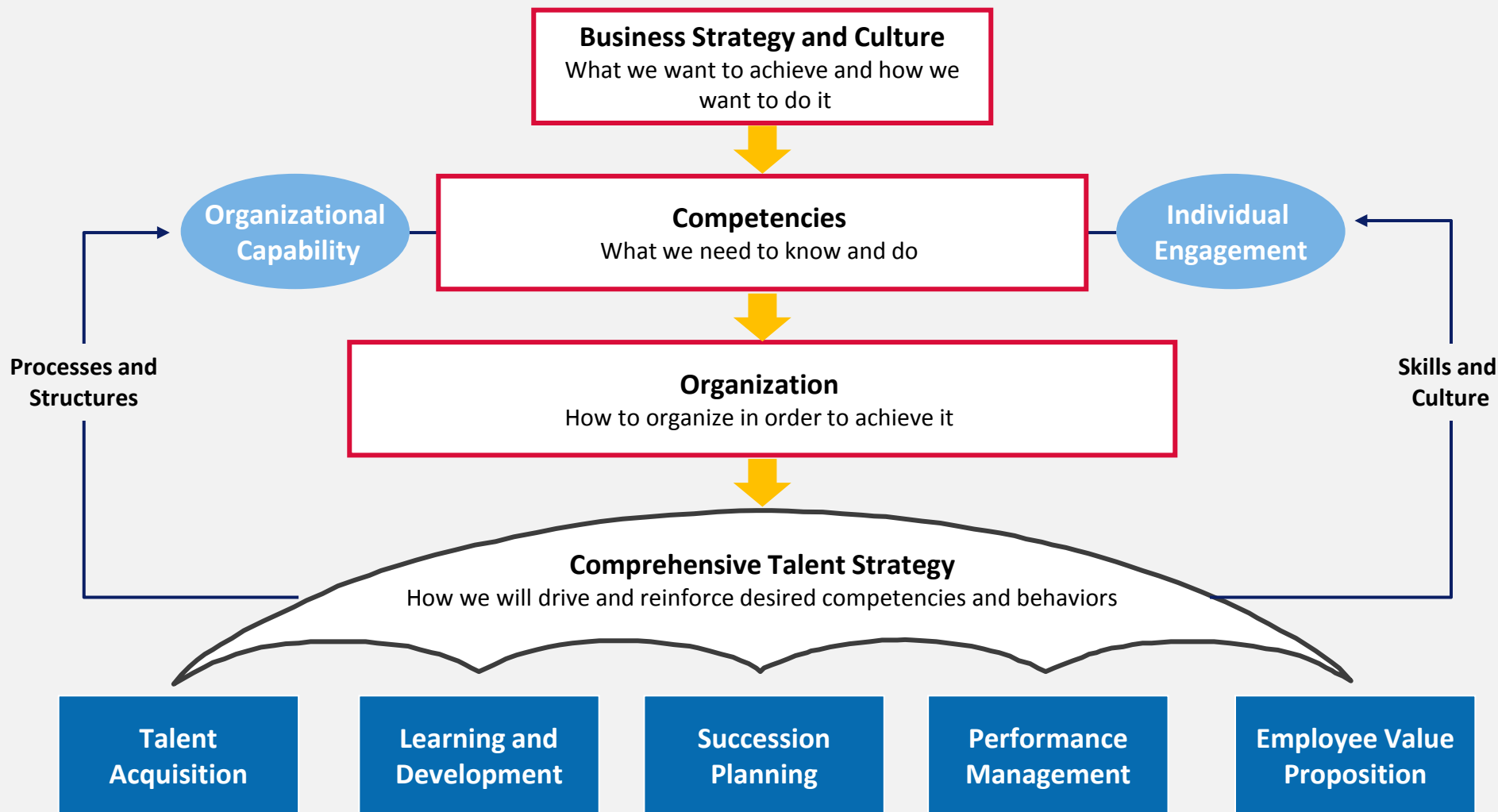


Source: MSE Analysis

● Current State

A competency-based approach was implemented to ensure that human capital programs are aligned with BDL business objectives

BDL Competency Approach



3 types of competencies were determined to lay the foundations for high business and people performance and ensure operational excellence

BDL Competency Framework – Example

Core Competencies

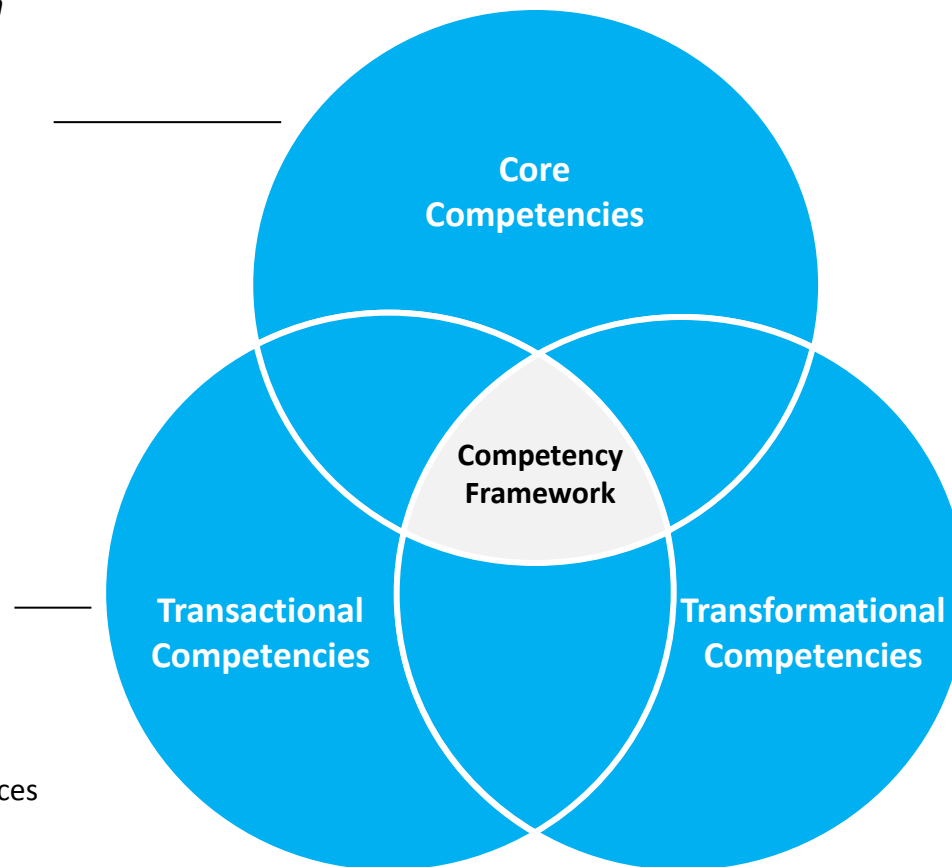
provide the foundations for high performance in all jobs

- Written and Oral Communication
- Computer Skills
- Interpersonal Skills
- Teamwork
- Initiative
- Analytical Thinking
- Integrity

Transactional Competencies

keep the business running

- Financial Analysis and Reporting
- Research and Analysis
- Financial Markets
- Financial Products and Services
- Budgeting and Cost Control
- Legal Studies
- Contract and Vendor Management



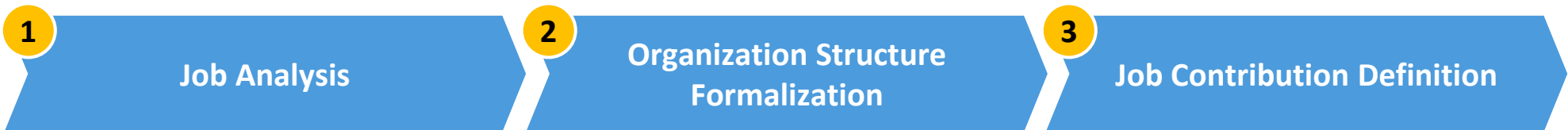
Transformational Competencies

drive the business operations forward

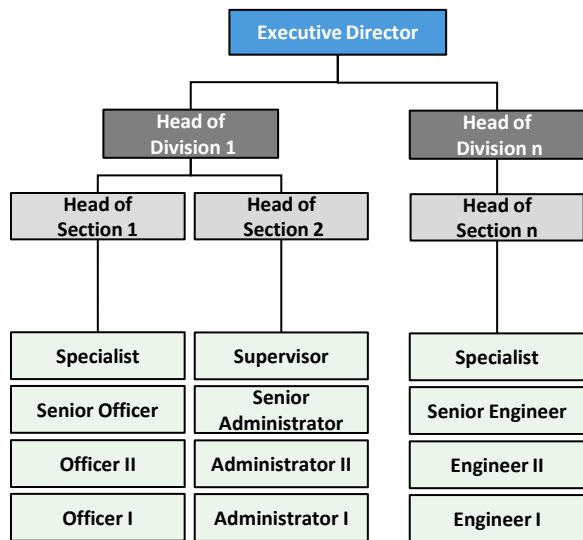
- Team Leadership
- Developing Others
- Conceptual Thinking
- Risk Management
- Strategic Planning
- Crisis Management
- Change Management

BDL organization model was formalized to relate the contribution of job knowledge and competencies to overall performance

Organization Formalization Methodology



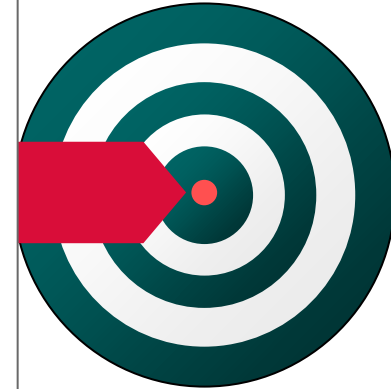
- Study Current Situation
- Assess Departments' Needs
- Identify Key Activities
- Clarify Interfaces Between Different Entities



A detailed manpower planning exercise was conducted to determine the right size of employees for each department

Objectives of Manpower Planning

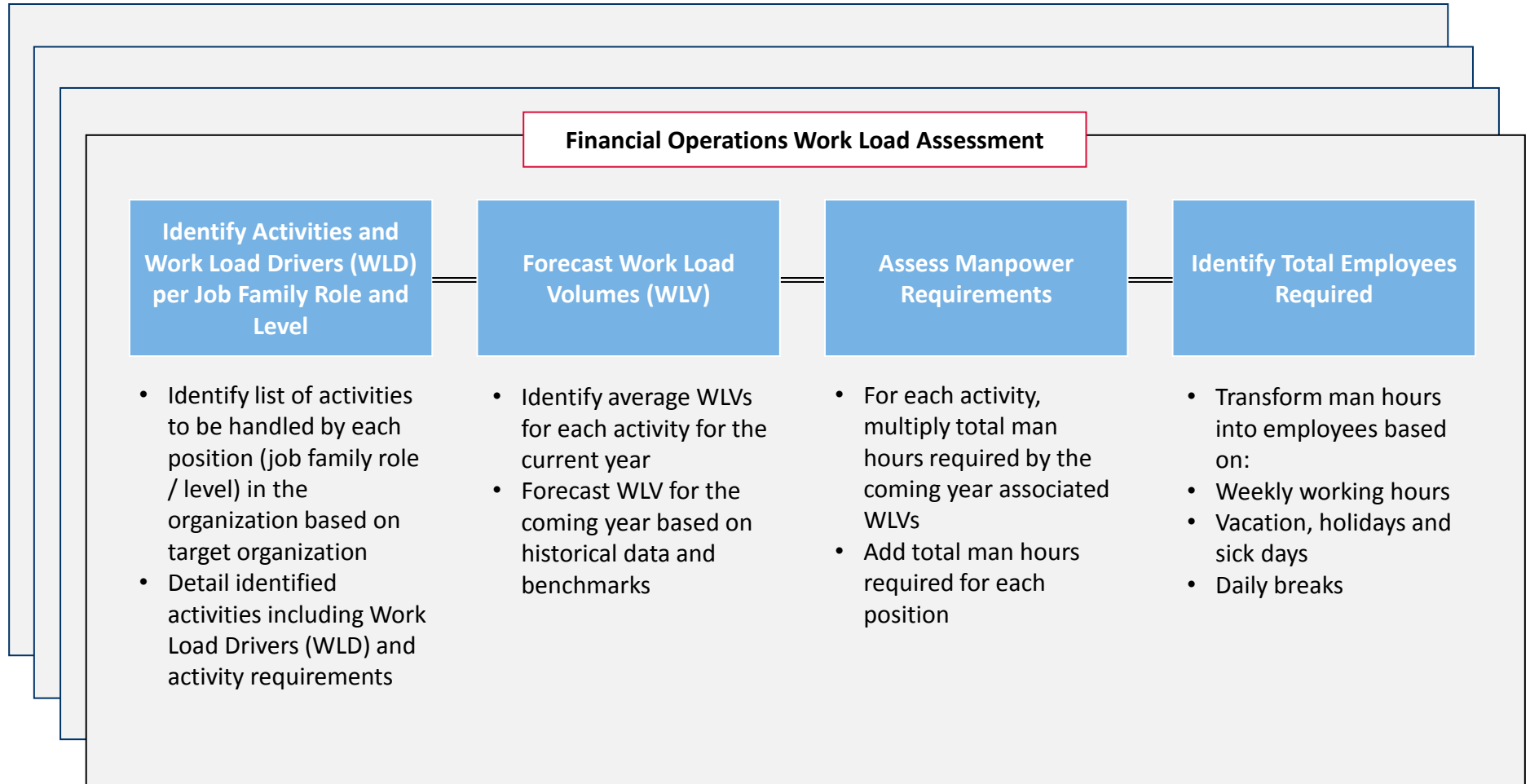
- Determine the repartition of BDL's FTEs across the different departments
- Forecast the staffing level needed and ensure that each department is properly staffed
- Identify shortages and surpluses in manpower requirements



Manpower planning is a quantitative and qualitative measurement of labor that will provide BDL with a framework that will allow to prepare for and monitor future growth

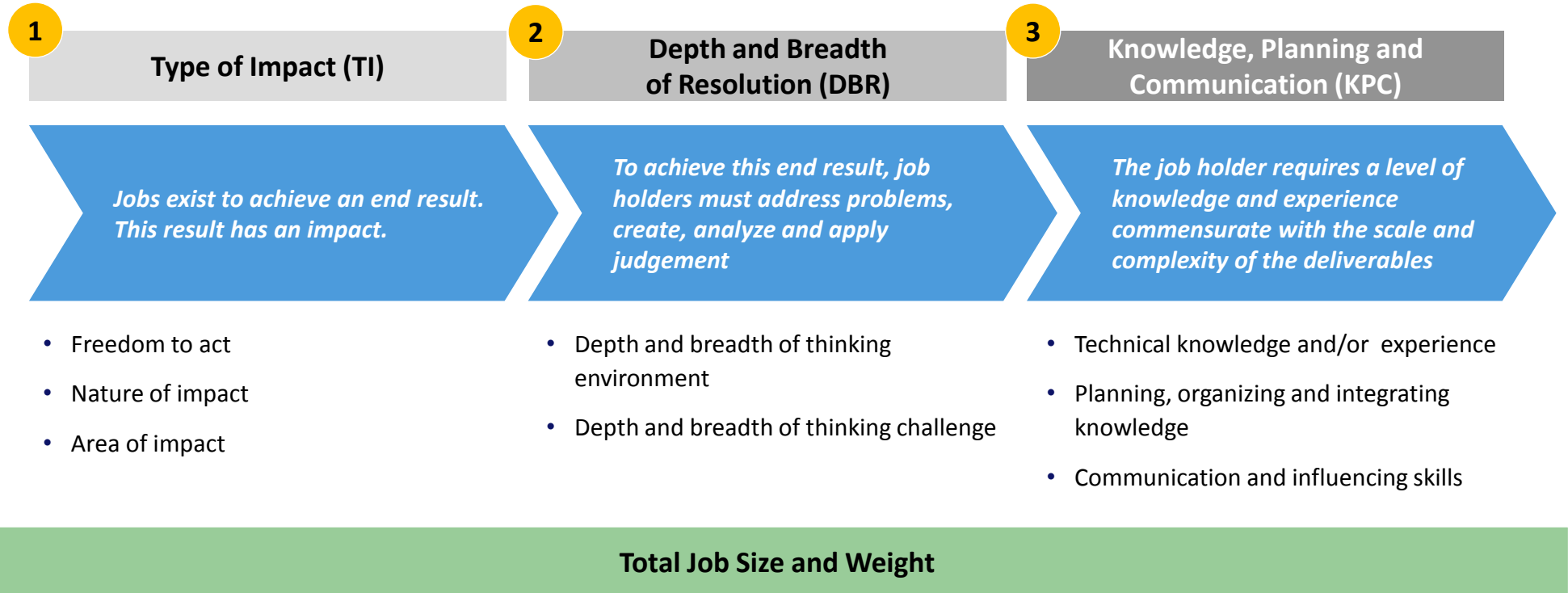
A bottom-up methodology was implemented to assess manpower requirements based on activities workload drivers and volumes

MPP Bottom-Up Methodology



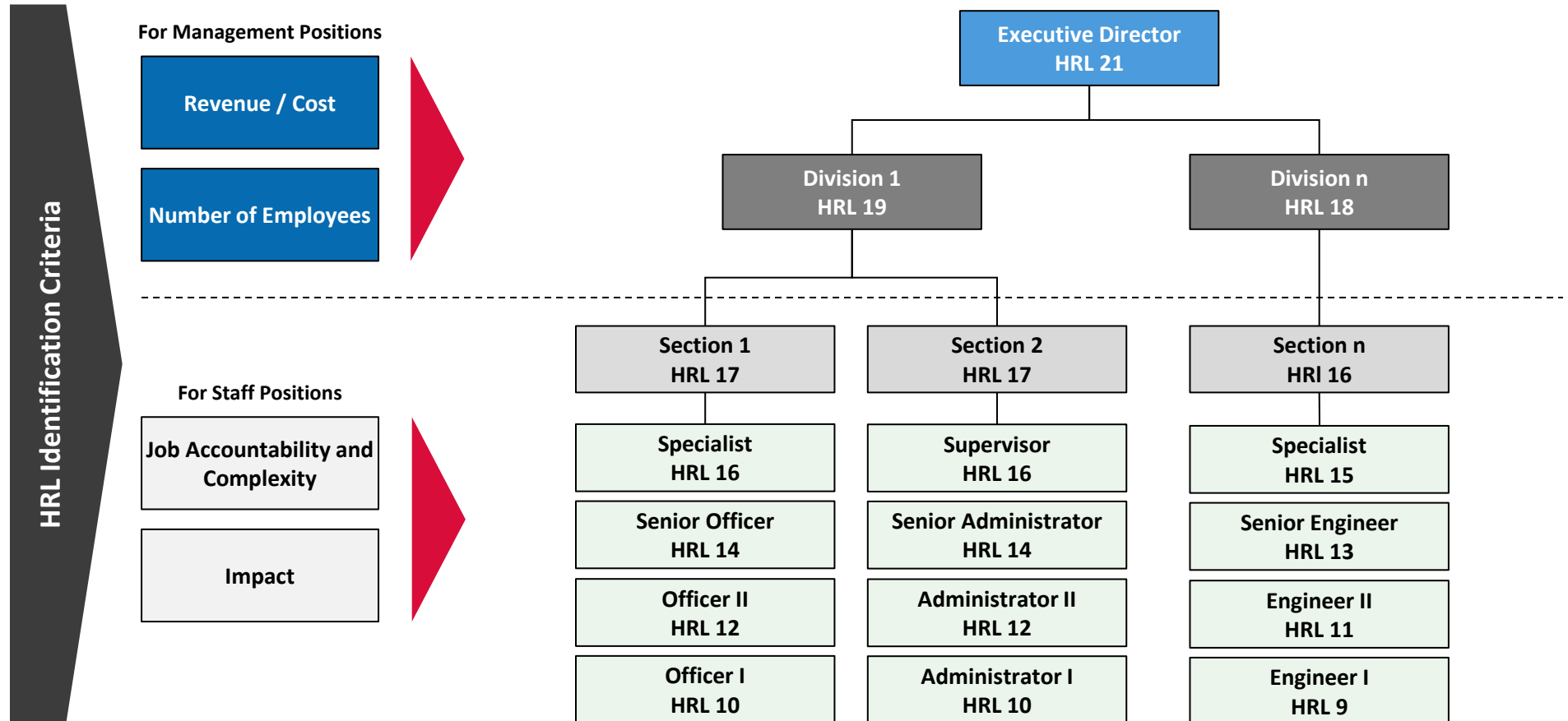
Job evaluation was conducted based on Hay Group* methodology to evaluate jobs impacts and compute the exact job size

Hay Group Methodology



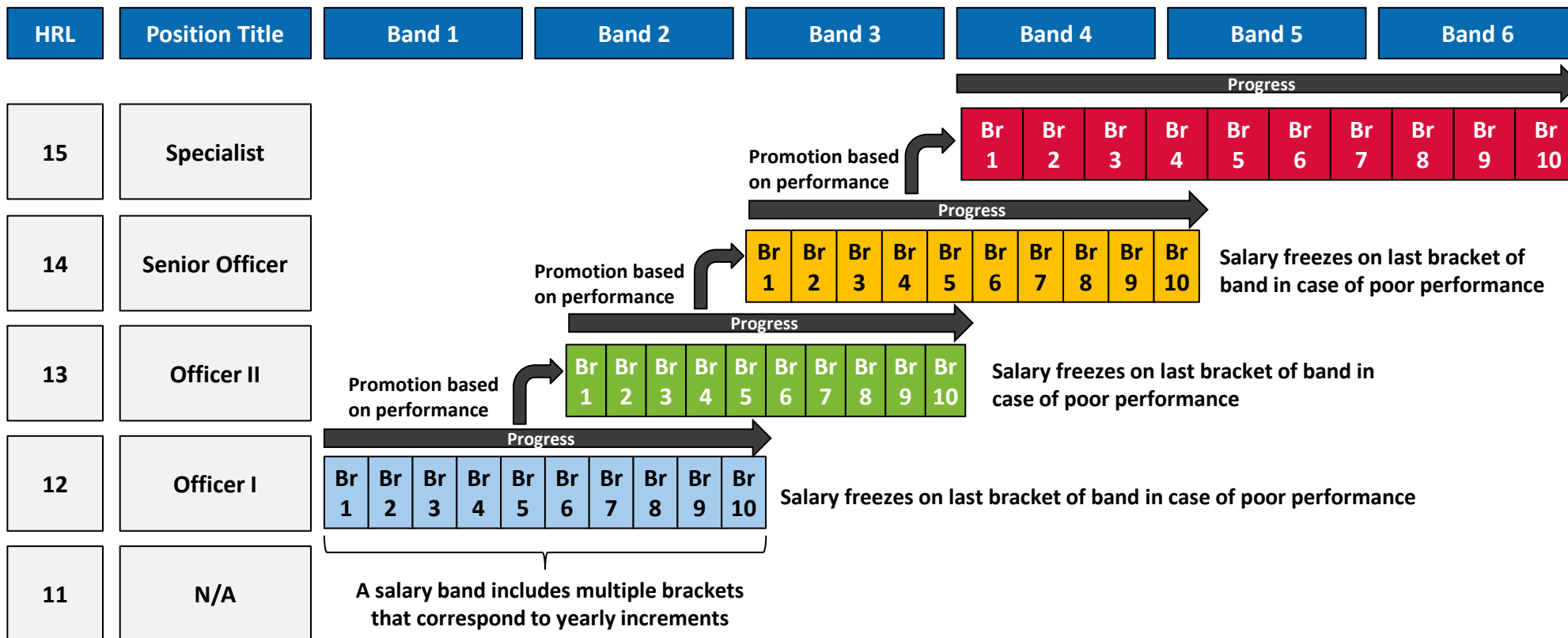
Job evaluation resulted in the mapping of reference levels (HRLs) to the organization following a set of specific criteria

Mapping of HRLs – Illustrative



Each HRL has a salary band that regulates progression or promotion decisions within the approved salary scale

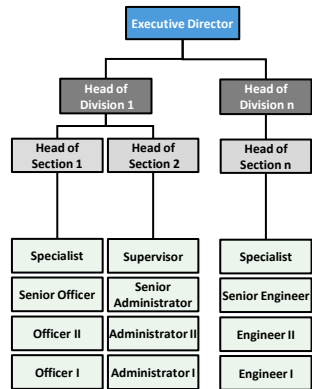
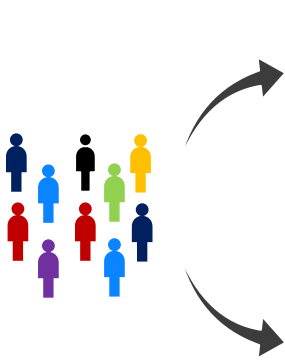
Salary Bands – Illustrative



- A band consists of 10 salary brackets
- The employee may:
 - Remain in current position while salary increases to reach the band maximum (10th bracket)
 - Be promoted if performance meets or exceeds expectations, in which case he will move to a new band

A new performance management system was designed based on competency framework ...

Performance Management System



Competency Question Bank

Competency	Competency Level	Competency Definition / Level	Performance Evaluation Questions / Level
Achievement Orientation	Basic	Understands and works towards goals to be achieved	1. Is employee aware of SDG's strategy goals and objectives and strives to attain them through work activities?
	Intermediate Level	Understands and works towards goals to be achieved. Takes initiative against system challenges and is the first to identify the need. Acknowledges the merit and contribution of others	1. Does employee handle difficult situations effectively and strive to improve the performance of SDG's strategic objectives?
	Advanced	Understands and works towards goals to be achieved. Takes initiative against system challenges and is the first to identify the need. Acknowledges the merit and contribution of others. Seeks to understand reasons for challenges and to find ways to overcome them. Seeks to ensure that others are motivated and inspired towards achieving the organization's goals	1. Does employee ensure work progress against targets and objectives to be handled situations?



Competency Mix per Position

Position Title	Strategic		Personal		Organizational		Management		Functional	
	Strategic	Personal	Organizational	Management	Functional	Strategic	Personal	Organizational	Management	Functional
SDG Executive Director	A	A	A	A	A	A	A	A	A	A
Head of Financial Assets Division	A	A	A	A	A	A	A	A	A	A
Head of Investments Section	B	B	A	A	A	A	A	A	A	A
Head of Loans, Advances and Studies (LADS)	B	B	A	A	A	A	A	A	A	A
Head of Branching Section	B	B	A	A	A	A	A	A	A	A
Head of Risk & Assets Division	A	A	A	A	A	A	A	A	A	A
Head of Corporation and Marketing Section	B	B	A	A	A	A	A	A	A	A
Head of Legal Support Section	B	B	A	A	A	A	A	A	A	A
Head of Internal Section	B	B	A	A	A	A	A	A	A	A
Head of Accounting and Internal Control Section	B	B	A	A	A	A	A	A	A	A
Head of Accounting Section	B	B	A	A	A	A	A	A	A	A
Head of Internal Control Section	B	B	A	A	A	A	A	A	A	A

Section I: Introduction

This performance evaluation form is designed to evaluate employees' performance over a specified period of time and is intended to help employees, supervisors and directors to build on strengths and develop areas which need improvement.

- Level 1- Unsatisfactory: employee is unable to perform tasks without substantial assistance
- Level 2- Needs Improvement: performance standards are not fully achieved
- Level 3- Partially Meet
- Level 4- Meets Expectations
- Level 5- Exceeds Expectations
- Level 6- Outstanding

Section II: Evaluation (1/8)

Criteria	Rating						Appraiser Comments (mandatory to provide evidence for rating 1 and 2)
	1	2	3	4	5	6	
1. Adheres to BDL's policies and procedures and complies with internal rules and regulations							
2. Is aware of budget components and links into consideration critical factors in budget preparation							
3. Resolves interpersonal conflicts constructively through active listening and unbiased judgment							
4. Is aware of department strategic objectives and directs significant contribution for planning purposes							

Section III: Comments and Observations

Employee's Overall Comments and Observations

Comments:

Agree
 Disagree
 With Reservation

Employee's Signature: _____
Date: _____

Direct Supervisor's Overall Comments and Observations

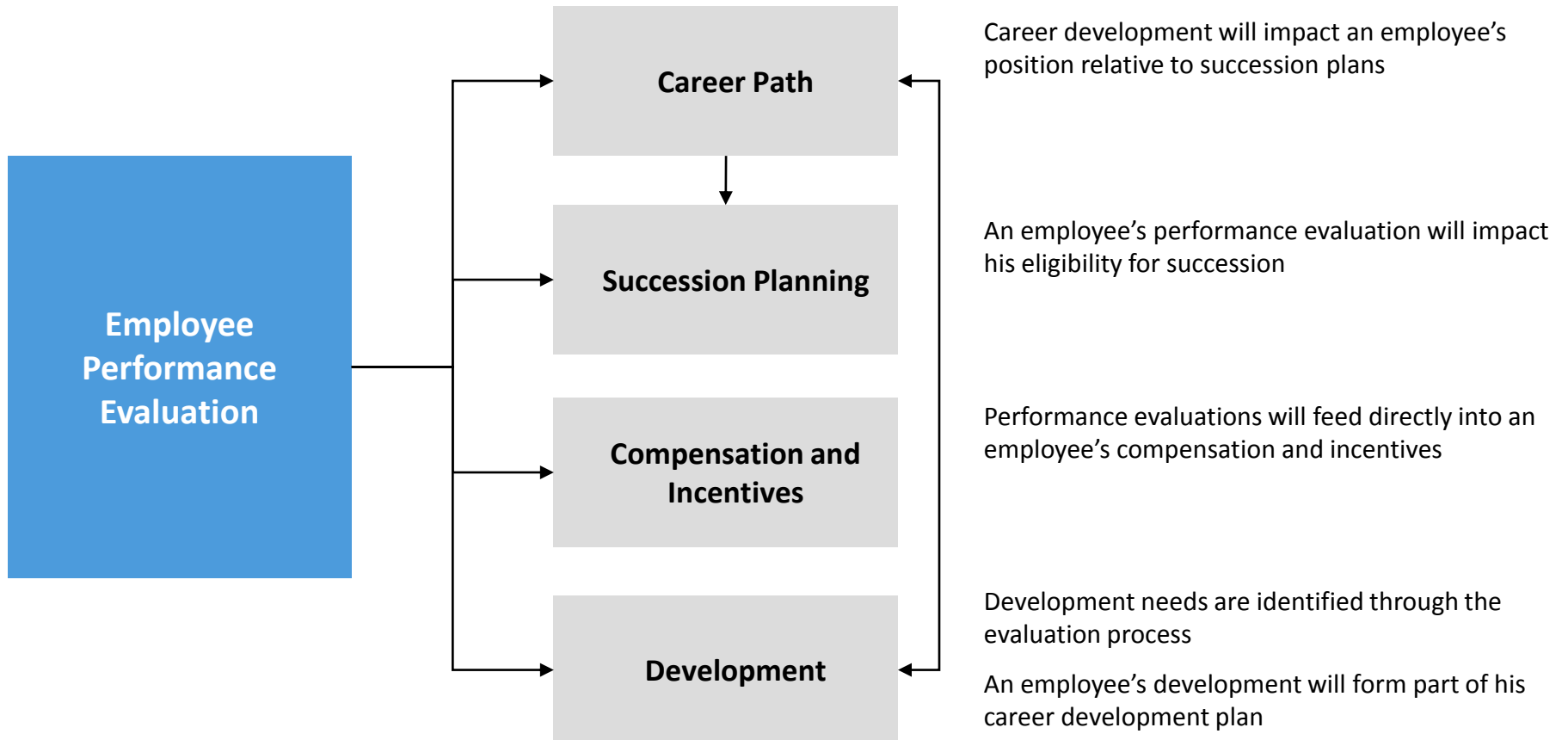
Comments:

Development Needs:

Direct Supervisor's Signature: _____
Date: _____

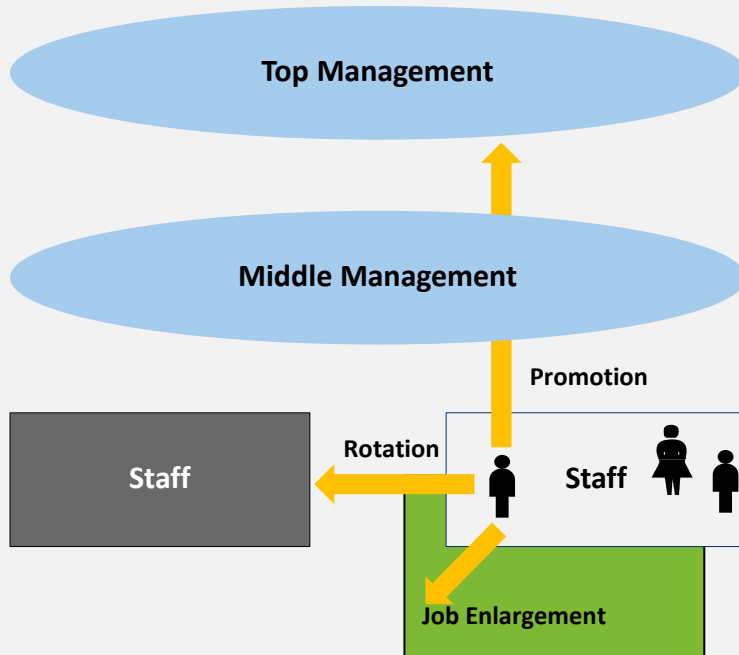
... and linked to all HC functions such as career development, succession planning, rewards and employee development

PMS Link to HC Functions



Employee transition through multiple career options was defined at BDL to ensure personal development, talent retention and potential successors identification

Career Progression



Career Progression Options

Job Promotion	Process of promoting an employee to a higher level job when a vacancy is available
Job Rotation	Process of shifting an employee from a job to a lateral job to gain additional exposure and experience
Job Enlargement	Broadening the scope of an employee's job by expanding number of tasks and adding responsibilities

Key Outputs

- Robust well communicated career paths / career planning with several tracks, accommodating top performers with different aspirations
- Streamlined career path structure built around both responsibilities and competencies
- Career planning linked to performance management, compensation, training and development, and succession planning
- Enhanced talent attraction and retention

Competency-based training framework was developed to suit the needs of all employees and provide tangible operational benefits

Training and Development Benefits

Strategy Execution	<ul style="list-style-type: none">• Build skills required to execute strategic objectives• Communicate and socialize strategic change programs• Increase accountability for results• Build leadership at all levels
---------------------------	--

Innovation	<ul style="list-style-type: none">• Develop strategic thinking and visioning capabilities• Improve effectiveness of cross-functional teams• Institutionalize creative problem-solving processes/techniques
-------------------	--

Productivity and Performance Improvement	<ul style="list-style-type: none">• Ensure effective implementation of new systems and processes• Increase skills of key workforces• Shorten new hire time-to-proficiency• Close skill gaps identified through performance management / appraisal process
---	--

Compliance and Certification	<ul style="list-style-type: none">• Communicate standards and develop desired behaviors in areas requiring regulatory compliance• Provide means to track and report on compliance-related training
-------------------------------------	---

Capability Building	<ul style="list-style-type: none">• Build new people capabilities required for operational excellence• Define and develop new culture• Institutionalize organizational values and operating principles• Establish continuous learning and change processes
----------------------------	---

Operational Excellence	<ul style="list-style-type: none">• Improve effectiveness of project and program management• Drive operational efficiency• Provide total quality training to drive continuous improvement
-------------------------------	---

Presentation Objectives

Corporate Governance and Human Capital Management

Case Study: Banque du Liban

Conclusion

Conclusion - Impact of Human Capital on Corporate Governance (1/3)

1

Good Governance is no more a nice-to-have, it is an integrated Responsibility at every level - the Board, Executive, and Operational ones

2

There is no more doubt that Human Capital is the common denominator of Good Governance without which no organization can pull together the strings of Ethics, Integrity, and Compliance

3

People Governance is a critical path for realizing both Corporate and Operational Governance

4

Modernization through organizational restructuring, development of Human Capital and Technology Enablers are but the mere tools that Organizations should acquire to Enable Good Governance

Conclusion - Impact of Human Capital on Corporate Governance (2/3)

5

Business Performance is measure not only by What the organization is achieving, but also by how it is Achieving it

6

The Integration of Good Governance requires, above all, extensive transformation of the human capital mindset in organizations through elaborate grooming and capacity building

7

A clearly defined and structured organizational culture that offers a fair and respectful relation, along with future career perspective is imperative for enticing the human capital to embrace Good Governance policies and practices

8

True that Corporate Governance is a top down approach requiring robust human capital strategies, yet it cannot succeed without having people competence and integrity across the board

Conclusion - Impact of Human Capital on Corporate Governance (3/3)

9

A motivated and engaged Human Capital is the main bridge to operational efficiency and Sustainability

10

Accountabilities in successful organizations can only be created by building performance-driven cultures based on high-output talent

11

Business continuity is a factor of comprehensive human capital retention and succession strategies

12

Attracting the right people can only be realized through value proposition that targets the required talent profile for the organization

Thank You