HORN & COMPANY

Performance Improvement | Corporate Restructuring | Digital Transformation

MANAGEMENT EXCELLENCE

UNLOCKING THE HIDDEN POTENTIAL OF YOUR ORGANIZATION

Internationale Top-Management-Beratung

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Executive summary

Many in the financial services industry perceive an outdated approach to management, limiting their potential. However, investing in management excellence presents significant upsides – enabling firms to unlock hidden potentials and stay ahead in a competitive landscape. This Horn & Company White Paper delves into the pressing management challenges faced by banks and insurance companies. While the document outlines specific solutions to these challenges, it's imperative to tailor strategies based on individual organizational needs. Horn & Company, with its transformation project experience in the financial services sector, offers insights that are both practical and transformative. Dive deeper into this paper to explore the detailed recommendations and discover the roadmap to management excellence.

Are banks and insurance companies lagging when it comes to management quality?

> "Management is something that is done on Friday afternoons from 4–6 pm"
> *Senior leader at international bank*

It might be quotes like the one above that leads many an observer of financial services to note that the industry has an outdated approach to management and leadership. This seems especially true when comparing traditional banks and insurance companies to industries which are less mature, are more prone to technological disruption, and are less regulated.

Symptoms abound. Among them are heavily layered organizations, narrow spans of control, strongman leadership cultures, rigid hierarchies and encrusted siloes. Such developments hurt both the top and the bottom lines and impair the long-term viability of companies: decision speed and quality are impaired; innovation is subdued; compliance and risk issues are not processed in the right way; people engagement and people growth suffer.

Just how widespread is the issue in financial services? The quote above comes from a high-ranking executive at a leading internal financial institution, himself an undisputed top-expert in his field. Clearly, there are differences between institutions. And there are leadership best practices also in banking and insurance. However, experience indicates a wider potential to improve management practices within financial services.

But here is the good news: nothing prevents senior leaders to aim for management excellence. Unlike so many other external forces and challenges, investing in your organizational design and the quality of your leadership is a choice made at the top. However, achieving management excellence is not done overnight and it requires a concerted effort pulling different levers. But with the right priorities and approaches it is an investment that pays off in many ways, improving both short-term results as well as long-term viability of an institution.

Your management approach is challenged

Leaders in financial services face a number of management challenges that arise from specific market and regulatory conditions – each with implications for how banks and insurances are led and organized. This puts management excellence higher on the agenda – and makes it at the same time more difficult to achieve.

Market forces call for management adaptability

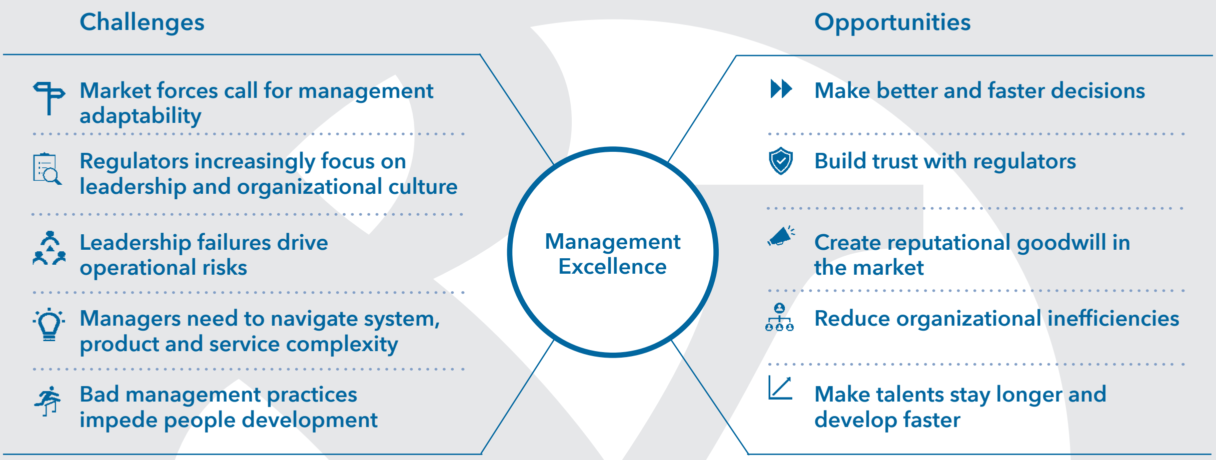
The financial sector is in a state of continuous flux, with macroeconomic shifts, evolving regulations, and technological innovations constantly reshaping its contours. Amid this backdrop, management challenges abound:

> **Managing Regulatory Change:** Triggered by recent events, the "Too Big To Fail" (TBTF) regulation, introduced after the financial crisis 15 years ago, is being re-examined. With potential shifts leaning towards risk-averse strategies, management must prioritize evolving organizational structures. Emphasis on compliance and stakeholder communication becomes paramount, especially in an era marked by "crises of trust." As Swiss FINMA Board's Chair aptly put it, "we are just at the beginning." The anticipated reforms undeniably signal sweeping management and organizational shifts for banks.

> **Facing off Tech-Driven Competitors:** Neobanks, exemplified by entities like N26, are flourishing. Their success, characterized by user-centric digital platforms and agility, poses a management quandary for traditional banks. Adapting to this new wave means embracing flat hierarchies, fast decision making, and fostering a nimbleness in IT development, underlining a profound need for managerial transformation.

> **Rapid Crisis Management:** In an age where news travels at breakneck speed via online channels and platforms , the potential for reputational pitfalls is immense. This demands financial institutions to bolster their crisis management mechanisms, emphasizing both responsiveness and cross-functional strategies to maintain client trust and control narratives.

> **Leading Technological Advancements in the Organization:** The profound capabilities of generative AI – as the latest technological breakthrough with disruptive potential – urge financial institutions to adapt and innovate. Yet, management faces complex challenges. Identifying viable use cases, discerning the right implementation strategies, and making judicious investment decisions while competitors move swiftly become paramount. As the AI frontier expands, bank's leaders grapple with pinpointing where and how to channel their resources effectively.



Graph 1: Challenges to your management approach and how investing into management excellence pays off

Regulators increasingly focus on leadership and organizational culture

Regulators around the world are increasingly focusing their attention not only on the financial and operational aspects of companies, but also on organisation, leadership and corporate culture. As UK's Financial Conduct Authority put it in their leading discussion paper on the topic: "Culture in financial services is widely accepted as a key root cause of the major conduct failings that have occurred within the industry in recent history, causing harm to both consumers and markets." This view is widely shared in the regulatory community. This additional regulatory focus recognises the critical role that "soft" factors play in determining the long-term success and integrity of companies. At a time when corporate scandals and unethical behaviour are attracting significant public attention, the commitment of leaders to impactful management practices leading to a positive and ethical corporate culture is becoming a key touchstone for regulatory compliance and public trust.

In this context, regulators assess corporations on their corporate governance and risk management practices. Regulators put a special focus on non-financial risk. They resolutely mandate corrective actions when discrepancies arise – e.g. mandating leaders to ensure stringent senior leadership oversight through detailed and documented performance management processes. Such enforcement actions lead to costly and time-consuming regulatory change work. Prevention requires banks to not be caught on the back foot with regulators and address managerial weaknesses proactively.

> "Culture in financial services is widely accepted as a key root cause of the major conduct failings that have occurred within the industry in recent history, causing harm to both consumers and markets."
> *Financial Conduct Authority (FCA)*

Leadership failures drive operational risks

This increasing regulatory focus on governance, leadership, and culture is a result of findings that trace operational failures and financial losses to flawed management and leadership. Published enforcement proceedings from regulators increasingly examine and shed light on the gaps and inadequacies of management processes. These examples in turn show the crucial importance of the right organisation design and management approach to prevent such cases from happening.

For example, published US Fed, the PRA, and FINMA enforcement actions against banks detailed failures and gaps in managing operational risk. These failures were linked to poor governance, leadership, and culture at the banks, as well as inadequate oversight by senior management and board of directors. These cases demonstrate the management imperative to constantly build and maintain effective governance structures and processes, risk management practices, and internal controls to prevent operational losses and ensure compliance.

Managers need to navigate system, product and service complexity

In the intricate landscape of financial services, management's approach to efficiently handling offerings becomes paramount. This is essential not just for aligning with market demands but also for adhering to rigorous compliance and regulatory standards. Take the example of customer data: While internal divisions and siloed thinking might occasionally obscure a holistic view of customer data, the primary challenge is to utilize this data for tailored experiences, ensuring robust compliance, and nurturing cohesive customer relationships. To successfully navigate this multifaceted scenario, an evolved management strategy is essential – one that champions agility, fosters cross-functional collaboration, and has a keen understanding of both customer dynamics and regulatory imperatives.

Beware of benchmarks in organizational design – "Only trust benchmarks you have made up yourself"

As a rule, we recommend treating benchmarks in organizational design with caution.

1. First, they may compare apples with oranges within the same sector. For example, comparing a financial service firm with a heavy focus on commercial lending with another primarily engaged in wealth management may overlook the vast differences in their business mix and portfolio, even though both operate within the financial services industry.
2. Second, data sources are often not transparent or detailed enough. A company might be ranked high in client satisfaction without providing insights into the front office set-up and service capacity, key organizational aspects affecting client interactions, leading to potentially non-replicable results.
3. A third problem is that different companies may define success differently, like measuring profitability over a different timeframe or emphasizing different key performance indicators, which can further distort comparisons.

While benchmarks do have their right to compare approaches and drivers of organizational structures, they should be taken with caution. Mostly, they do not help in legitimizing a particular organizational structure, as they may oversimplify or misrepresent complex realities. Finally, more often than not, time is spent on getting the perfect benchmark rather than defining the right tailored organization.

"Beware of the Peter Principle in People Development: Promoting the best sales people to become sales managers decreased sales by almost 10%. Promoting for management and collaboration skills increased sales by more than 20%."
Cross-industry study on promotions and the Peter Principle

Bad management practices impede people development

Senior leaders in financial services recognize the vital role that people development plays in an organization's success. People development serves to attract and retain top talent while fostering employee growth and advancement. However, a prevailing issue is the perception of managerial positions as rewards rather than roles that require specific skills and capabilities. Too often, organizations promote employees to managerial positions based solely on their tenure or technical expertise, without adequately assessing their leadership abilities. This occurs due the so-called Peter Principle, where individuals are promoted based on their past performance in their current role rather than the skills needed for the new role. For example, one study based on sales performance management software data showed that promoting the best sales people to sales managers actually decreased sales by almost 10% – whereas promoting based on management and collaboration skills (instead of sales skills) would increase sales by up to 20%.[1]

Investing in management excellence – your opportunities

The five forces discussed above – i.e. market dynamics requiring adaptability, evolving regulatory expectations, the leadership side of operational risk, internal complexity, and the imperative of people development – each challenge traditional management approaches in financial services. However, addressing the management questions entailed in those challenges also open opportunities for banks and insurance companies. Management excellence pays off in more than one way.

Make better and faster decisions

A focus on management excellence allows financial services organizations to get faster in decision making while enhancing the quality of decisions – and thus increasing the odds of effective execution. For example, adequate spans of control, reduced fragmentation of topics across various teams and individual contribution, and an optimized number of organizational layers are preconditions for an organization to move fast and effectively while not missing out on the perspectives of crucial internal stakeholders.

Build trust with regulators

Management excellence directly translates into better standing and credibility with regulators. Regulatory bodies increasingly value robust leadership and culture, clear allocation of responsibilities, and effective control mechanisms within financial services organizations. Demonstrating a commitment to these principles not only ensures compliance, but also fosters positive relationships with regulators.

[1] Alan Benson, Danielle Li, Kelly Shue, Promotions and the Peter Principle, The Quarterly Journal of Economics, Volume 134, Issue 4, November 2019, Pages 2085–2134, https://doi.org/10.1093/qje/qjz022

Create reputational goodwill in the market

Effective management practices can lead to significant reputational gains and goodwill within the industry and among stakeholders. An organization known for its management excellence is often perceived as a reliable partner, an industry leader, and a responsible corporate citizen. Such positive reputational attributes not only attract clients and partners but also instil confidence among investors and shareholders. Reputational gains contribute to a virtuous cycle, as a strong reputation reinforces an organization's competitive position and engenders greater trust from all stakeholders.

Reduce organizational inefficiencies

Embracing management excellence offers the potential to reduce slack in the organization design, leading to cost efficiencies. Organizations can estimate potential savings by exploring options such as eliminating a hierarchical layer, increasing spans of control, or streamlining performance management processes. A rough estimate of the savings derived from such optimizations can underscore the financial impact of adopting modern management approaches. By fostering a leaner structure and enhancing operational efficiency, financial services organizations can redirect resources to more strategic initiatives.

Make talents stay longer and develop faster

In the highly competitive landscape of financial services, a modern management approach is vital for attracting and retaining talent. Management excellence facilitates higher talent retention rates by aligning organizational practices with the preferences and expectations of the younger workforce. Young professionals seek environments that offer growth opportunities, mentorship, and a supportive culture. Organizations that prioritize talent development through effective leadership and continuous learning are better positioned to retain top performers and nurture future leaders.

A survey conducted by GoodHire underscored the significance of effective management in employee retention. An astounding 82% of the respondents indicated that they would consider leaving their jobs due to poor management.[2] This finding amplifies the need for organizations to not only attract talent but also nurture it through sound leadership and development practices.

[2] GoodHire 2022, Horrible Bosses: Are American Workers Quitting Their Jobs Or Quitting Their Managers? Horrible Bosses: A Survey of the American Workforce | GoodHire

Organization design, leadership skills, performance management – three drivers of management excellence

Management excellence is the result of three building blocks: a fit-for-purpose organization design, combined with the right leadership skills that bring management excellence to life and a performance management approach that aligns with both.

Fit-for-purpose organization design: Build structures and processes that are both effective and efficient

Based on our experience supporting organizational design projects in financial services, we deploy a proven set of analytical and design approaches to identify issues within the status quo organizational set-up and recommend target structures that are fit to implement the enterprise strategy. These approaches offer a methodical way to analyse key dimensions of an organization's structure, ensuring alignment with strategic goals.

Defining the playing field

Structure follows Strategy
Link organizational (re-)design to strategy and objectives

Goal Definition
Understand the primary goal (e.g., cost-cutting vs. new organizational unit)

Scope Planning
Scope the work and define interfaces

Interface Mapping
Identify key organizational interfaces and dependencies

Change Governance
Ensure thorough and comprehensive project governance

Project Team
Prioritize a knowledgeable team, decision-making routine & an aligned timelines

Analyse and design

Spans of Control Analysis
Identify micro teams to prevent over-management and better utilize managers

Hierarchy Level Analysis
Map organizational levels to reduce bottlenecks and streamline decision-making

Leadership Density Analysis
Assess the number of leaders per rank to clarify leadership roles

Role Clarity Analysis
Ensure distinct roles and responsibilities, preventing overlaps

Workflow Analysis
Examine task flow between teams to optimize processes and efficiency

Workforce and Capacity Planning
Size the organization to meet strategic objectives

Implementation is king

Implementation Planning
Ensure a plan in place for proper implementation for successful organizational design

Management Buy-In
Secure active management buy-in for a successful transformation

Client Partnerships
Develop a partnership approach with clients to enhance mutual success

Change Management
Develop deep understanding of the specific change context, collaborative communication & change management measures

Management Skill Building | **Performance Management**

Graph 2: The GEM-Consulting Tool Box for Organizational Design.

Define the playing field

Based on our project experiences, it is absolutely crucial to link an organization (re-)design effort to the organization's strategy and objectives. For example, it makes a difference whether the design effort is primarily about cost cutting or whether a new organizational unit is created to support a new function. Another critical success factor is a clear scoping of the work – including the identification of crucial organizational interfaces and dependencies. Last but not least, a thought-through project governance – including a knowledgeable, well connected project team – defining decision making routines and an aligned timeline is a must-have at the get-go.

Analyse and design

In order to understand the baseline and create viable organizational options we draw on a range of key analytical and design tools. These include:

> **Spans of Control Analysis.** This technique helps identify, for example, micro teams with very small spans of control, where a manager oversees a minimal number of subordinates. In cases where a manager is responsible for only one or two employees, it can lead to over-management, inefficient resource allocation, and excess efforts to reach alignment in cross-divisional processes. By examining these small spans, organizations can redistribute responsibilities to utilize managers more effectively.

> **Hierarchy Level Analysis** identifies the number of hierarchy levels within the organization. An excessive number of levels can hinder decision-making and communication, creating bottlenecks in the flow of information. By mapping the organizational chart and identifying unnecessary levels, organizations can flatten the hierarchy, promoting more direct decision-making processes.

> **Leadership Density Analysis** focuses on checking for the number of managers with leadership responsibility per organizational rank. It helps to pinpoint instances where there are too many senior individual contributors without a team at high-up levels. This imbalance can lead to confusion in leadership roles and responsibilities. By assessing the number of leaders at each level and aligning them with actual team leadership needs, clarity in leadership roles can be achieved.

> **Role Clarity Analysis** is essential to identify overlaps and ensure that everyone in the organization understands their individual roles and responsibilities and avoid overlaps and alignment while ensuring that resources are utilized where they are most needed, and everyone is clear about what is expected from them – and about what to expect from others they have to interact with.

> **Workflow Analysis** for critical processes is another essential approach. It involves understanding how tasks flow between different teams and roles to identify bottlenecks and areas that need improvement. By analysing the work flow, organizations can streamline processes, enhance efficiency, and ensure that critical functions are performing optimally.
> **Workforce and Capacity Planning** is crucial for a sizing and dimensioning of the organization in order to deliver its strategic objectives.

Pitfalls in Organisational Design

Pitfalls	Issue	Solution
Overcomplicated Structures	Organizations sometimes create **overly complex structures**, with **many layers and specialized sub-units**, which leads to **excessive committees** for integration.	**Stick to simple rules** when setting up organizational structures. **Avoid overcomplicating** by designing for rare scenarios.
Designing Around Individuals	There's a prevalent tendency within organizations to **mould organizational structures** exclusively **around existing people and legacy roles**, often damaging strategic alignment.	**Establish simple and clear structures** and decision-making rights. Implement a **stringent nomination process** that is aligned with the defined structure.
Over-Designing	Some **organizations tend to overthink and excessively detail** every aspect of the design, which can **lead to inefficiencies** and hinder agility.	Emphasize **adherence to core principles**, clarify **escalation criteria** for conflicts, and **empower lower levels** to align specifics with overarching principles.
Failed implementation	Even the **best designs can fail during the rollout phase**, e.g. when people don't understand or don't accept the new structure, or both.	Ensure a **dedicated change management process** is in place. This should involve **clear communications** that explain the new set-up and **skill-building opportunities** to help teams adapt.
Inefficient Performance Management	**Over-bureaucratized** or **ineffective performance management systems** can bog down progress.	**Streamline appraisal processes** to remain lean and results-driven. Ensure that performance outcomes have tangible impacts and avoid making frequent exceptions.

Graph 3: Pitfalls in Organisational Design

Implementation is king

The best organization design is worth nothing without proper implementation – as many failed transformation efforts clearly demonstrate. At GEM Consulting, we have found that a partnership approach with our clients works best. This includes, among other things, a deep understanding of the requirements and particularities of a specific change context, a collaborative approach to define and align communications, and robust change management measures. A crucial component to successful transformation and the basis for all implementation work is garnering management buy-in, ensuring that leadership is not only supportive but actively championing the envisioned changes.

Horn & Company Consulting project examples

Re-organized a universal bank's performance management system

A leading regional bank identified gaps in its performance management processes and documentation for a large part of her employees during a review. Horn & Company developed a solution, consolidating assessment plans and aligning it with senior management and existing processes. The bank's unprecedented move towards a broader program necessitated clear communication and stakeholder engagement for acceptance. Implementation transparency ensured the on-time delivery of the desired solution with all key participants involved.

Setting up a regional mgmt. layer in context of a matrix implementation

The main goal was to create a regional division within a matrix organizational structure, aligning regional activities with the group strategy and other divisions. This required designing precise roles, responsibilities, and lean processes for dedicated regional teams. Given the project's intricacy, an expert-driven approach was essential, focusing on establishing operational models and compliance with numerous requirements. This initiative also aimed to provide clarity on the company's regional structure, highlighting areas for optimization.

Organization design as part of a major Swiss bank's cost transformation activities

A leading bank aimed to substantially reduce costs, aligning with a broader global strategy and adjusting the organizational structure of its divisions, guided by principles on spans, layers, and seniority. An end-to-end process for organizational restructuring was developed, from strategy to implementation, while offering strategic guidance and operational support to top management. Due to the project's complexity, divisions were right-sized by reducing layers, optimizing control spans, and reconfiguring teams. To ensure sustainability, the final stage equipped divisions with the tools to consistently monitor and maintain the newly established organizational design targets.

Backing up the organizational design with leadership skills: Improve people leadership behaviours across the board

Building an ambitious new organizational design without also investing in leadership skills is like introducing a new generation airplane to an airline without training the airline pilots and crews on how to handle it. The comparison might seem stark, but in the expert world of financial services, the underestimation of powerful leadership behaviours is an all-too-common pitfall.

The best companies thereby chose a multi-dimensional approach to skill-building that not only relies on formal, classroom training off the job. They ensure that behavioural priorities are brought to the actual leadership tasks and interactions on the job. Important levers are the integration of key behaviours into performance management criteria and other formal management systems, conscious leader role modelling, and supporting communications showing the relevance and impact of the target leadership practices.

In the context of organizational change, people understanding the rationale for the change and what is expected from them is a key factor. For example, in one PMI project supporting the integration of a regional bank into a leading Swiss universal bank, taking a proactive approach to training and skill building proved crucial to retain talent and build trust for the new way of working with key staff. This strategic investment not only facilitated the smooth transition into the new organizational structure but also generated early wins. These successes subsequently bolstered the credibility of the entire change initiative.

Performance management: Align appraisals with outcomes and behaviours

Aligning performance management and appraisal processes with the new organizational design and leadership focus is akin to calibrating the instruments in the cockpit of that new generation airplane. It's not enough to simply have the right tools; they must be finely tuned to the specific needs and goals of the journey.

In the context of financial services, this calibration means developing performance metrics that are directly tied to the powerful leadership behaviours supporting management excellence. On the one hand, this is a matter of conceptual clarity, making sure that a competency model is aligned with how the organization works and its strategy.

Beyond the conceptual elements, however, performance management processes work best in practice when they are lean, focused, and credible in their outcomes. Common pitfalls need to be avoided: for example, ratings must not be easily be overridden by executive decision, e.g. with reference to business results neglecting shortcomings in leadership behaviours. Performance management must not become toothless when applied to senior ranks – otherwise the credibility of the process suffers and risks being seen as a bureaucratic exercise without impact.

Investing in management excellence – an opportunity not to miss

Financial service organisations must invest in their organizational effectiveness in order to deliver their strategic objectives. This is true both for their current strategic plans and for their adaptability to changes in the environment.

Management excellence results from a fit-for-purpose organization design, leadership skills and performance management. In our experience, each of those elements must be aligned in order to sustainably develop the organization and attract and build the right leadership talents.

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ABOUT HORN & COMPANY

HORN & COMPANY is a rapidly growing top management consultancy led by partners with extensive experience and in-depth industry expertise. The company specializes in consulting services for financial services, insurance, industry and retail. Our more than 250 consultants with above-average scientific and professional training design value-creating optimization programs and are guided more than others by a quantitative and data-driven understanding of consulting, a measurable claim to the P&L effectiveness of the results and the idea that the client organization itself gains “ownership“ of the change process. By founding “H&C Data Analytics GmbH“ and cooperating with software developers and IT solution providers, H&C has established a consulting ecosystem for digital transformation. In 2024/25, HORN & COMPANY was recognized as “Hidden Champions of the Consulting Market“ for a fourth time in a row. The company with headquarter in Düsseldorf has offices in Berlin, Frankfurt am Main, Hamburg, Cologne, Munich, Vienna and Zurich. **www.horn-company.de**

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