

Zeti Akhtar Aziz: The changing face of talent

Speech by Dr Zeti Akhtar Aziz, Governor of the Central Bank of Malaysia, at the AIF (Asian Institute of Finance) International Symposium 2013 “Changing face of talent”, Kuala Lumpur, 28 August 2013.

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It is with great pleasure that I welcome you to the AIF International Symposium on the Changing Face of Talent. In preparing for the future, a future that is going to be fundamentally different from the current environment, talent development and its management will need to be accorded with an even greater priority than previously. This is on account of two significant shifts in the landscape that we are operating in that will fundamentally affect the human capital that we need. The first is the rapid and significant transformation of the economic, financial and business landscape which will continue to have far reaching changes on the talent requirements. The second is the changes in the character and nature of the talent that is now coming on stream. These emerging changes have warranted new approaches to human capital development and management. To not recognise these changes and their implications will not only affect business performance but also the overall economic progress of a country.

My address this morning will briefly discuss the fundamental changes that are affecting the financial and economic landscape and its implications for talent requirements. My remarks will then proceed with some reflections on the changing nature and character of the talent that is coming on stream. I will then conclude with some thoughts on the implications these developments on talent development and management, in particular, for the financial sector. The challenge for recruiting and retaining the right talent has also become increasingly more acute, particularly for the financial sector. Therein lies the urgency for the greater focus of attention on these issues and the need to accord greater priority for this important agenda.

The transformation of the economic and financial landscape

The economic, financial and business landscape is rapidly being transformed and is continuously evolving. Globalisation and internationalisation, accelerated by liberalisation and the rapid advancement in technology are increasing connectivity between economies and between financial markets across borders. This is resulting in greater international economic and financial integration and interdependence. Regional integration in Asia has for example created immense opportunities for economies of scale while paving the way for new and larger markets. A significant global shift in this environment is also the growing importance of emerging economies. As a result, many of these economies are becoming huge consumer markets. In Asia, this is resulting in greater regional trade and cross border investment activity. A further fundamental change is the shift towards greater market orientation as markets are deregulated and liberalised. In addition, the more discerning consumers have heightened further competition resulting in a more competitive environment. The operating environment for businesses have therefore become more complicated with increased uncertainties in the economy and the financial markets.

Structural shifts are also taking place at the national level in most of the emerging economies. These include the demographic shifts which are transforming the workforce. The demographic structure has an increasing component that comprises a young population and a growing middle income segment. This trend is exemplified by consumers that have become more discerning, with higher expectations. This is also reinforced by increased longevity. The workforce is also progressively affected by the growing urbanisation which is becoming an important feature in most emerging economies.

The international, regional and national financial landscape also continues to be significantly transformed. At the international level a growing number of new financial centres will emerge.

There will also possibly be new international reserve currencies and a greater network of financial institutions that originate from an increasing number of emerging economies from different parts of the world. This will facilitate greater inter-linkages between financial systems, especially among the emerging economies. These evolving developments will result in an increased interconnectedness of financial markets with the consequence of increased contagion and interdependence. Increasingly financial systems have also become prone to crisis. The recent global financial crisis has prompted the international community to respond with wide-ranging fundamental reforms that is also transforming the international financial system.

At the regional level, the Asian region has become more cohesive with regional financial integration intensifying to facilitate a more efficient allocation of financial resources in our region. At the national level, the landscape has also been significantly transformed to become more liberalised, more market oriented with greater adoption of technology. With more developed intermediaries and markets, the financial system has now become more complex, sophisticated and diversified. With the increased risks associated with these changes, equally significant has been the transformation of the regulatory and supervisory framework.

These structural shifts are reshaping the demand for talent across the world. The success of businesses and the effectiveness of governments and policy makers critically depend on having the right talent. Increasingly, talent has become the most important asset of an organisation. As job complexities intensify, talent with new competencies and higher skill sets including technical skills with digital capabilities will be required. Developing skills for analytical and creative thinking skills will also be needed to promote innovation, solve complex problems, deal with the potential for multiple scenarios and to effectively manage wide ranging trade-offs. Given the increased level of international business, it will also be vital for talent to be able to deal with globalisation – an environment with a more diverse workforce and to be able to be able to operate effectively across different cultures, generations and perspectives. Communication skills, the potential to work collaboratively and managing complex relationships are further new skills required in this environment. Equally important are the new leadership skills that are needed in this new more complex, more ambiguous and highly uncertain environment. This includes the ability to manage in crisis conditions. Talent with these new capabilities have tended to be short in supply.

The demand for such talent with the new competencies and skills is made even more complex and challenging by the changing character and nature of the talent itself. Firstly, there is now greater mobility of the talent within industries, between industries and across borders. No longer can organisations rely on employment to retirement. The potential for retention has become challenging with the motivation of the workforce now becoming highly different. Among the factors that are important for the new generation is for the job to be interesting, challenging and fulfilling. They are drawn to greater engagement with the leadership, greater empowerment and being accorded greater exposure and potential for future development. A lack of recognition of the changes in the motivation of the new generation of the talent will not only present itself as a major challenge for human capital management but it is also likely to affect the harmonisation and cohesiveness of the organisation and its overall performance.

Talent in the financial sector

Let me say a few words about the specific talent challenges in the financial sector. The structural changes taking place in the financial system and the recent global financial crisis has and continues to drive dramatic change in the financial industry. Financial institutions are facing increased regulation, greater uncertainty in the operating environment, uneven competitive conditions and a severely damaged reputation in many parts of the world. These developments have important implications for the financial services workforce. The bar on professional competence demanded of talent in the industry has also been raised

significantly and is also changing in its emphasis, with the ability to form sound judgments becoming a more important requirement of talent. New political and regulatory pressures are being brought directly to bear on talent management strategies, for example arising from compensation reforms and greater regulatory scrutiny of new hires at the top levels of management. There has also been a growing focus on the role of talent in regaining confidence in the financial sector, in terms of the ethical standards and values embraced and demonstrated by the workforce in the financial industry, and the strength and integrity of its leadership.

The financial sector has historically been and remains highly productive in relative terms. In Malaysia for example, the financial sector has had the highest total-factor productivity growth over the recent decade relative to other sectors of the economy. Employment in the financial sector has also been growing annually with a large proportion of the growth being in the higher skilled segment. This accounts for the higher level of wages in the financial sector at about RM36,000 annually, compared to the national average of RM21,700 annually for the economy. Financial services employees are also generally educated to a higher level, with more institutions requiring post-graduate or professional qualifications, in addition to the relevant work experience, for holding key and senior-level positions within the industry. In light of the more challenging environment going forward, generating the supply pipe line for talent and addressing the short supply of critical talent with new skills need to be given urgent priority.

What are these skills? There has been considerable attention to the shortage of new and higher technical competencies – including in the area of risk assessment and management – required by financial institutions in the new operating environment. The growth in Islamic finance has also added important new dimensions to the talent requirements. Beyond these clear gaps however, the promotion of more sustainable business models in finance will require additional new skills which have not traditionally been areas of focus in financial institutions. This includes skills in change and crisis management, business recovery planning, the ability to develop and sustain long-term customer relationships, and skills to direct and manage operations in international and cross-cultural contexts. Also particularly important will be the ability to build, motivate and lead strong teams under significantly more challenging conditions in which institutions may be more constrained by regulation in their ability to recruit and retain talent simply by paying more.

Perhaps more than in any other sector, the response to the challenges facing the financial industry in managing talent needs to be much broader, forward looking and more strategic given its central role within the economy. Even in countries that are not contemplating new compensation regulations, financial institutions need to carefully consider the higher expectations of regulators for compensation and incentive systems to be more closely aligned with prudent risk-taking. Talent strategies must reinforce a strong and enduring ethical foundation of the organization, while developing the individual and organisational agility to deal with external forces of change, including changes induced by economic and financial cycles. And an increased emphasis on leadership effectiveness and succession planning will be key to sustaining long-term value and confidence in financial institutions going forward.

The issue before us is then, how can the talent be prepared for this new environment? And how can the changing nature and character of the new generation of talent be effectively managed to produce the best results for the organisation. Let me venture to elaborate some thoughts on the preparation of talent for increasingly complex positions in organisations. The best universities, in particular, the business schools from around the world have come under great scrutiny regarding their ability to produce the right kind of talent that organisations now require in this changing environment .

The reviews have not only been on the curriculum to reflect the new demands of organisations but also on the balance between theory based education and the education

that actually produce high performing practitioners. This included not only the development of new skills and capabilities but also the values and attitudes. Among the conclusions of the reviews are that students that graduate need to have a greater understanding of globalisation so that they are able to have a global perspective. It should also extend to having an appreciation of the external environment of businesses that includes not only international developments but also trends to legal, social, political and environmental developments so that students do not graduate with rigid mindsets and are able to contextualise their circumstances.

Given the highly diverse developments and perspectives that exist, thinking skills will require the ability for integrated thinking. This involves being able to effectively frame the issues that require solutions or decisions. Very often it involves the need to take into consideration multiple perspectives, some of which may be conflicting so that the judgements and conclusions need to balance these considerations.

For emerging economies such as Malaysia, generating the right talent is urgently needed for our current and future environment. While investment in education reform and investment in people through the education process is vital, this will require time before they will generate results. How then can graduates be prepared in the transition? How can the existing work force be strengthened to meet the new demands of businesses in the changed current and future environment? This will involve continuous capacity building for every part of the career life-cycle, from the entry point to senior management and leadership. The highly dynamic environment requires this priority to be accorded and the necessary resources to be committed for this agenda.

The changing face of talent, the new generation of talent coming on stream and its different nature and character also presents new challenges for human capital management. It calls for a transformation of human resource strategies. Given that in this new environment human capital has become a key factor that will drive results, it is therefore not only the investment in talent that has become key, but also their management.

Human capital management therefore needs to be a top priority in organisations. Certainly this is the case for financial institutions for which the demands and expectations are high. New approaches and strategies for human capital management will be required. These strategies need to be aligned with the strategic objectives of the organisation. A vital part of this is the capacity building of the human capital management team itself to ensure that they will best serve their organisation. There also has to be strong engagement between the leadership and the human capital management team. There has to be an acute awareness of how the forces of change and the new environment is reshaping the demand and supply of talent and how the existing talent needs to be transformed to meet the objectives of the organisation in a highly dynamic environment.

Human capital management is no longer about the efficient delivery of support services. It is now about the management of talent in the organisation to strengthen and enhance its performance. The human capital management also needs to be well supported by an integrated information system that can allow for rigorous analysis that can become an important basis for decision making. Finally, there need to be continuous socialisation of the human capital reforms to ensure the effective implementation of the difficult reforms and changes in the organisation.

Conclusion

Let me conclude my remarks. As we advance forward into the future, the economic and financial landscape can be expected to be continuously redefined. If we are to stay ahead of the curve and be well positioned to meet the new challenges, high priority needs to be given to talent development and management. Education and capacity building to generate the new talent with the right skills, mindsets and values is only one part of the solution. New

strategies and approaches for the effective human capital management is an equally important part of the equation.

Many of these issues are likely to be discussed at this symposium. Let me thank the speakers, especially those who have travelled here from a far for their contribution to this symposium. Let me take the opportunity to wish you an engaging and productive symposium.