HR CHALLENGES FOR SRI LANKAN FINANCIAL INSTITUTIONS AS AN INTEGRAL PART OF THE NEXT FINANCIAL HUB – SRI LANKA

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The dream of becoming a Financial Hub in South Asia was a stalled fantasy for many Sri Lankans who were born and lived ever since the independence. However, there is a saying that "***better late than never***". In that context it is more apt for striving to realize that once lost dream, considering the fact that some countries which has no resources and identified virtually as barren lands progressed during the last thirty years to emerge as financial centers, i.e. Singapore, Dubai etc.

The objective of this article is to identify the initiatives to be made by the country and the business organizations in the field of ***Human Resource Development*** to cater to the future needs of the financial services sector in its path to become a financial hub in South Asia, second to none.

The article first discusses the evolution of the financial sector of the country from the days of independence examining inherent positive and negative features that may contribute in varying degrees to become a financial hub. In the latter part it discusses on strategic changes required in three key aspects having observed similar changes in the neighboring states, at national level and corporate level that brought immeasurable results.

Back ground

In the year 1948 when the country gained independence, Ceylon was a relatively rich country with a well laid out trunk roads connecting every part of the country along with an equally good railway network. At the same time there were many leading foreign banks operating in the country though mainly based in the city of Colombo. The main foreign exchange earners at that time were primary commodities such as tea, rubber, coconut, cinnamon etc., though little has changed since then. In spite of the fact that these exports did well in the international market by earning more than 90% of export earnings, tea and rubber prices started to decline in the world market towards the later part of 1960s. This has resulted reduced profit margins for plantation companies, year on year. The situation further aggravated with the rapidly increasing population and the nationalization of privately held assets by the government in early 1970s. In simple, the successive governments had the inclination towards socialist ideology from late 1950s except for brief spell which lead to more of chaos in the economic front with the nationalization of oil companies and many other well run business organizations. In early 1970s, the then government faced with two rude shocks. One was the internal insurgency and the other was the oil crisis.

On this back drop it is worth to find out how a visionary had looked at the country. Accordingly, the way how Ceylon had fared could be captured from the very words of Lee Kuwan Yew, the father of modern Singapore who visited the country in 1960s and 1970s. He said, "*Ceylon was Britain's model Commonwealth country. It had been carefully prepared for independence. After the World War II, it was a good middle-size country, with fewer than 10 million people. It had a relatively good standard of education, with two universities of high quality, a civil service with city council elections in the 1930s. When Ceylon gained independence in 1948, it was the classic model of gradual evoluation to independence. Alas! It did not work out. during my visits over the years, I watched a promising country go to waste*."

The trend has been reversed in 1977 with the introduction of the open economy with sweeping changes to the economic policy of the government having paved the way for more private sector oriented growth. The expectation of that time was to make this country a financial hub of South Asia following the footsteps of countries like Japan, Hong Kong, Singapore etc. The accelerated Mahaweli project has given a new lease of life to the agricultural sector and paved way for generating much needed electricity at lower cost for industrial and domestic purposes. However, this new drive for prosperity and stardom short lived when civil war commenced in 1983 with communal violence.

Financial Services Sector of Sri Lanka

The early period of 19th and 20th century witnessed a banking sector mainly catering to the plantation sector of the country dominated by foreign banks. However, since the independence, with the setting up of the Central Bank of Ceylon in the early 1950, a guided direction has been established in line with the economic objectives of the country.

The 1960s witnessed the social banking movement of the country gaining ground for the purpose of serving mainly the agricultural sector of the economy which had been virtually overlooked. During this period the main requirement of the banking sector was the expansion in the form of branching out and serving the masses which had been almost neglected for centuries. These efforts had been largely successful owing to the fact that two government owned banks leading in the forefront, namely Bank of Ceylon and Peoples' Bank.

These changes had created the need of suitably qualified bankers of indigenous origin with sound knowledge in maths, accounting and credit analysis. With this growing need for professional bankers, the birth of Banker's Training Institute happened in 1964. This is in spite of the fact that local bankers could follow professional courses conducted by the Chartered Institute of Bankers – London. The need of the hour was to train a set of bankers who could speak the indigenous languages having learnt basics of banking that highlighted the local banking needs and aspirations. In 1979 this institution has gained the legal status having incorporated through an Act of parliament.

Notwithstanding this, the Central Bank of Sri Lanka in 1981 has set up its own exclusive Training Centre to cater to the growing professional needs of the banking community of Sri Lanka, especially to train the bankers serving the rural masses, who were termed as the "***Bare foot Bankers***".

Not withstanding the fact that the unsettled conditions prevailed in the country from 1983 onwards, the financial sector of the economy, especially banking industry made a headway keeping track with global trends since the liberalization in 1978. However, the most significant mile stone achieved by the banking sector was in late 1980s, with the introduction of the ATM card and computerized banking for the first time in Sri Lanka.

In spite of significant advancements in the banking sector of the country, the local banks have not been able to expand their growth beyond shores compared to the counter parts in the other two South Asian neighbours like India and Pakistan. This has been largely due to the fact that financial services industry in Sri Lanka closely guarded against foreign competition, though not a very healthy condition from a business point of view, even up to date.

Financial Hub

To become a financial hub it is paramount in identifying the real meaning of the two words. Though, there is no hard and fast definition of what financial hub is, to a certain extend financial centers have been identified and defined across the globe. Accordingly, a financial centre can be termed as a global city that comprises of number of global companies that provide financial services.

This situation allowed banks to maintain very high interest rate margins on lending activities which allowed complacency and inefficiency to creep in. This is a pertinent matter that most of the business leaders have pointed out in many forums where only very slow progress is made. The good news is that such practices will be possible under stiff competition especially with the presence of international banks, which is an obvious phenomenon.

An I**nternational Financial Centre** is a non-specific term of reference usually meant to designate a city as a major participant in international financial markets for the trading of cross-border assets. An international financial centre (sometimes abbreviated to **IFC**) will usually have at least one significant stock market as well as other financial markets, as well as being subject to a significant presence of international banks.

As of 2010, the top ten financial centers according to the Global Financial Centers Index in the world are:

- London
- New York City
- Hong Kong
- Singapore
- Tokyo
- Chicago
- Zürich
- Geneva
- Shenzhen
- Sydney

Another goes along with the financial centre is ***offshore financial centre***. An offshore financial centre, although not precisely defined, is usually a small, low-tax jurisdiction specializing in providing the corporate and commercial services to non-residents in the form of offshore companies and the investment of offshore funds.

The term ***offshore financial centre*** is a relatively modern neologism, first coined in the 1980s. Although the terms are not synonymous, many leading offshore finance centers are regarded as "tax havens", and the lack of precise definitions often leads to confusion between the concepts. In *Tolley's International Initiatives Affecting Financial Havens* the author in the Glossary of Terms defines an "offshore financial centre" in forthright terms as "a politically correct term for what used to be called a tax haven." However, he then qualifies this by adding "The use of this term makes the important point that a jurisdiction may provide specific facilities for offshore financial centers without being in any general sense a tax haven."

In summary a financial hub can be termed as a place where a gamut of transactions relating to financial activities takes place around the clock connecting many cities across the globe. Accordingly, City of London in the United Kingdom is comprised entirely of financial services companies, which is a classic example of a financial hub with a long standing history. Comparatively, recently emerged cities like Singapore and Dubai are more of commercial hubs than financial hubs, since they are housed to many global businesses apart from financial service providers.

A financial hub needs latest and sophisticated infrastructure facilities in order to operate and expand. When observing the development of all other financial centers across the globe, a significant feature is the grouping of professionals in various fields in finance and commerce into these unique places either on their own or with the inducement of the respective companies. A good example in this regard is Dubai, which is the latest addition to these prestigious groups of financial hubs with in a very short period of time.

A writer attached to Abraaj Capital, an investment company among the top 50 of the world, specialized in private equity, describes the ascendance of Dubai in the paragraph given below.

I came to Dubai a decade ago and have been engaged in building and running regional business since. Although, we have investments across the region, initially, we had almost no exposure in the UAE. You see everyone at the time believed that Dubai is mere hype and sooner or later the bubble is going to burst. I was very much amongst the skeptics. Can you believe that back in the early days we looked at a five star hotel investment and concluded that with five star hotel rooms almost doubling based on hotels under construction, filling those rooms will be a challenge. The hotel developers have gone crazy we had better stay away from this. Well in the next three years not only did all the hotels get built and filled with guests, but in the four subsequent years, five star hotel rooms almost doubled and are running at close to 90% occupancy. The hype became reality....... sometime ago. Some of us were quicker to realize this than others and I am sure their grandchildren will thank them for it. Dubai has acquired a self-sustaining dynamic which is based on solid fundamentals. People are from around the world want to live here and they think this is a great place to do business. You cannot argue with them. With zero corporate and personal taxes, sunny climes, world class infrastructure and double digit GDP growth rates, it really doesn't get any better than Dubai. (*Extracted from a web publishing in February 7, 2005*)

According to above writer, the location of Dubai with fertile land, geographical proximity and close cultural linkages to the oil rich countries, and a large population that armed with the right training can create wealth on an unprecedented scale in the region.

In summary, the meticulous planning and creative thinking of the Prime Minister and Vice President Rashid Al Maktoum, who has constantly emphasized on bridging the knowledge gap between west and Arab world, largely contributed to the present state of affairs in Dubai. This is quite similar to the situation in Singapore in the early periods of 1960s under the leadership of Lee Kuwan Yew and Malaysia under the able guidance of Dr Mahathir Mohamed.

Going on the same basis, Sri Lanka is also backed by a strong leadership in the political front and the need of the hour is to formulate a long term strategy to enhance the critical human capabilities of future generation who could drive the Sri Lankan businesses at the front seats on their own, rather than depending on the wisdom of expatriates.

The Human Resources Development

As a country, Sri Lanka needs to have a very broad Human Resources Development strategy formulated aiming at achieving long term objectives of the country. A good example in this regard is South Africa, which has formulated a comprehensive HRD strategy for the period 2008 – 2013.

Sri Lanka having ranked 102 in the Human Development index in 2007 demonstrates a very high quality of life, which is almost in par with developed countries. However, with regard to other development indexes such as GDP, Sri Lanka is not any where close to countries like Malaysia or Thailand, ranking 111th position as against 62nd and 80th position enjoyed by other countries respectively. According to the latest classification of IMF 2010 report, these countries have been identified as Newly Industrialized Countries (NICs), which is a far cry for Sri Lanka at the present context.

By analyzing recent history of above countries, a very prominent phenomenon is the acquisition of new skills by those countries through continuous upgrade of ***education***, ***skill development*** and ***research activities***. This is true in accordance with management guru Peter Drucker who identifies knowledge and skills coupled with high productivity as the key to prosperity under the new world order . So much so, it is evident that in order to become a financial hub Sri Lanka should follow suit.

Education

There is no question that Sri Lanka has maintained very good standards in the primary and secondary level education. However, a fact remain that tertiary education has not been properly aligned with the new developments and the needs of the country. In this regard countries like Singapore and Malaysia are good examples to copy with regard to futuristic bold steps taken to reform the tertiary education of those countries.

In a recent international conference on sharing Singapore's experience in improving its education, the Singapore's Prime Minister, says that the initiatives taken in early parts of 1990 by overhauling the school system has started to pave the way for producing competent leaders of tomorrow and creative citizens who are literate in addition to well-socialized class of people, reports www.asiaone.com.sg.

Similarly, Dr Mahathir Mohamed led the bold reforms in education sector, specially targeting the tertiary education of the country towards the latter part of 1990s by allowing prestigious foreign universities to set up their branches in Malaysia. In this regard even the strategies adopted by our neighbor, India have been commendable with able stewardship of late Prime Minister Jawaharlal Nehru.

At this juncture, Sri Lanka is also setting up the ground work for such a scheme, which is positive sign in the right direction. It is also in line with the government objective of making Sri Lanka a knowledge hub. However, we could not expect to produce required number of graduates that suits exact need of the country within a short period of time, especially in the financial sector. In the absence of that a short term strategy is required to be in place. The best alternative is to modify the courses offered by local universities for the current demand.

If analyzed the degree courses offered by the local university system only one university offers Banking and Finance as a special degree, which shouldn't have been the ideal situation. All other universities offer different subjects relevant to the field of banking and finance under different degree programmes. Therefore, there exists a gap for specialized degree programmes for this sector in order to produce sufficient number of graduates. This would allow the industry to select the right people as that happens in other industries like engineering, IT, telecommunication etc. such graduates are definitely a must for middle and senior grades in the respective entities in the future, if the country is truly focused on becoming a financial hub.

As per the opinion expressed by a Director attached to National Planning Department, Ministry of Finance and Planning, the university system should become more practically oriented by first focusing on local issues. When such problems/issues in that locality are solved at the outset, they could develop the knowledge on that base which is more concrete. At the same time partnership between the industry and the university system is emphasized as evidenced in other countries like China, India and Pakistan. Further, he added that research should be focused on identified issues in the respective locality where the findings/outcomes should be readily shared and published.

Since the government is expecting to carry out a complete overhaul of education system, it is paramount that the respective policy developers listen to the industry experts or an organization like APB with regard to banking and finance. At the same time some organizations in the financial sector that may willing to diversify into education sector that needs to be encouraged by allowing suitable concessions which is in line with similar practices in the developed countries and newly industrialized countries.

Skills Development

Traditionally, Sri Lankan education sector has not given much emphasis on developing technical and soft skills required by various industries of the country, which is one reason that it has been branded as an out dated system. Though there were few initiatives at the early 1960s and 1970s in this regard by introducing subjects like electronics, carpentry and masonry, they never last long. However, during the recent past institutions like National Institute of Vocational Training (NAITA) and various technical colleges including University of Vocational Technology (UNIVOTEC) in 2008 have been entrusted with the task of providing various technical skills needed in the prime sectors like construction, civil engineering, manufacturing etc.

In the context of professionals in the Banking and Finance sector the most important requirement is the high rate of IT literacy. However, it is not the basic knowledge that one would acquire with or without third party support but more of good knowledge in using decision making tools etc. In the year 2009 the IT literacy of Sri Lanka stood at 30% according to the secretary to the President where the target was to make it 60% towards the latter part of 2010, which is a commendable target considering the explosive growth achieved by countries like India.

The next aspect is the development of soft skills such as leadership coupled with team work, interpersonal skills, decision making skills etc. These are mandatory skills for professional in the finance industry who aspires to reach the top on one day. Usually at the school environment those who have actively participated in the extra curricula activities tend to demonstrate such skills though many of them tend to fare poorly at the academic activities which make the finding people of that caliber a difficult task.

In this regard, the corporate sector in the field of finance could easily collaborate with the schools in the country in order to provide soft skills as a part of their Corporate Social Responsibility (CSR) projects which would create win-win situation for both the parties.

Research

This is an aspect where Sri Lanka needs quicker strides in the next few years at least to keep up with changes across the globe. Since the country does not have a strong research culture it is difficult to implement such a valuable practice at industry level. In most of the cases it is a habit that we use the findings of other countries as the basis of certain important decisions at industry level except for the fact that in social research certain companies have taken the burden off from the company that need such data. In contrast however, the university system of Sri Lanka has a strong research background, though mainly of academic interest. Therefore, it will not be that difficult to enhance the collaboration between industry and academia to promote a strong research culture. The classic example in this regard is India that has made enviable progress in the industrial sector during the last three decades. At the same time it is worth noting that this collaboration has created cutting edge professionals in the IT industry in India. So much so, that it is India that supplies best IT professionals to the western world during the last few decades. By going a step further we can see the progress made by certain cities like Bangalore and Hyderabad as IT hubs in India.

# 1	Israel :	4.46%
# 2	Sweden :	3.74%
# 3	Finland :	3.51%

# 4	Iceland :	3.01%
# 5	United States :	2.68%
# 6	Germany :	2.49%

# 7	Austria :	2.26%
# 8	Singapore :	2.25%
# 9	France :	2.16%
# 10	Canada :	1.93%
# 11	Slovenia :	1.61%

# 12	China :	1.44%
# 13	Czech Republic :	1.28%
# 14	Ireland :	1.21%
# 15	Russia :	1.17%

Source: NationMaster.com

On the top of all that the country need state intervention in a big way to promote research as in the case of other countries. The table below gives the ranking of individual countries in terms of their expenditure on research as a % of GDP in the years 2003 and 2004 in USD terms.

It is not only research related to manufacturing industry that we require but also in the field of finance that require in-depth research in order to identify various gaps and potential areas to focus on more rapid growth.

Having discussed the initiates to be taken at the national level, let's turn attention to corporate sector in order to identify HR initiatives to be taken at that level.

At this competitive environment the main aim of any business is to achieve competitive advantage in order to survive and thrive. In this respect *Jeffery Pfeffer* in his article "***Producing sustainable competitive advantage through the effective management of people***" discusses on thirteen practices adopted by five very successful companies that relies not on technology, patents or strategic position, but on how they manage their work force. Given the fact that this article has been written five years ago, and the financial crisis that stormed the financial sector of the globe, only more pertinent three aspects have been selected to focus on, given the present context of the country. The selected ones are highlighted in bold.

1. Employment security
2. **Selectivity in recruiting**
3. High wages
4. Incentive pay
5. Employee ownership
6. Information sharing
7. **Participation and empowerment**
8. Self-managed teams
9. **Training and skill development**

10. Cross-utilization and cross-training
11. Symbolic egalitarianism
12. Wage compression
13. Promotion within

Selectivity in recruiting

The article indicates that most productive employees were about twice as good as the least productive. In this regard one of the practices adopted by the Japanese automobile-manufacturing plants opened in the USA especially noteworthy. Some of this was undoubtedly done to weed out those who were likely to be pro-union, but much of the screening was to find those people who could work best in the new environment, could learn and develop, and needed less supervision. There was little screening for particular skills, under the assumption that these could be readily learned.

Besides getting the right people in the door, recruiting has an important symbolic aspect. If someone goes through a rigorous selection process, the person feels that he or she is joining an elite organization. High expectations for performance are created, and the message sent is that people matter.

In the local context, it is more apt for giving opportunities for graduates who would definitely be at an edge provided other qualities are there, in the financial services sector. Especially prominence should be given to the graduates with degrees related to finance. At present, any graduate with part or full professional qualifications in the field of finance could easily apply for jobs in this sector. This creates a doubt as to the extent of weightage given to the degree.

Participation and empowerment

The article states that there are evidence that participation increase both satisfaction and employee productivity. Autonomy is one of the most important dimensions of jobs and was the focus of many job-redesign efforts undertaken as part of the quality of working life movement in the 1960s and 1970s. The fundamental change involves moving from a system of hierarchical control and coordination of activity to one in which lower-level employees, who may have more information, are permitted to do things to enhance performance. At a Levi Strauss jeans factory, when it was time to purchase new forklift trucks, the drivers themselves got involved.

Gong on the same basis, the right people with right autonomy could take the financial services industry to the next level. This area needs lot of improvement, especially the thinking style in line with our colonial background, though could not afford to repeat a similar incident that occurred in the Bearings Bank.

Training and skill development

The article states that an integral part of most new works systems is a greater commitment to training and skill development. However, this training will produce more positive returns only if the trained workers are then permitted to employ their skills. One mistake many organizations make is to upgrade the skills of both managers and workers but not change the structure for work in ways that permit people to anything different. Under such circumstances, it is little wonder that training has no apparent effect.

A typical misconception among majority of work force in Sri Lanka is that training is considered as time given for an employee to be away from work and enjoy free meals, which is quite opposite in other countries, especially multinational companies. At the same time the degree of post training evaluation are comparatively not up to the mark. Therefore, a perception change has to be done along with establishing post training evaluation mechanisms. At the same time another common factor is nominating employees for mass workshops conducted by eminent professionals though very unlikely to bring specific results for the company, in other words, without proper understanding of training gaps and identifying training objectives.

Summary

The challenge of making **Sri Lanka a Financial Hub** during our life time is a challenge by itself. However, as proved by our valiant soldiers nothing is impossible given the right conditions and necessary infrastructure is available, especially people. We, in the financial sector need to think broader and smarter in order to make this dream a reality for our children, who will see the reality than a dream.

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