Risk Area #3

NOVICES, APPRENTICES AND SOLOISTS

Inadequate Training or Cross-Training

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While we have already mentioned staff training as an essential tool for mitigating investment managers' operational risk, the lack of adequate training and cross-training is so ubiquitous within operational departments that it deserves to be called out as an area of risk.

Avoiding Common Pitfalls

One facet of the issue is key-person risk, which is not limited to an organization's senior staff, but can also be spotted in low-ranking yet vital positions. Other problems stem from poor organizational design, a lack of consideration for business continuity planning, and the notion that ad hoc on-the-job training constitutes a coherent program. Today, many firms are operating at historically low staffing levels, further increasing the importance of proper training and cross-training.

Highly specialized operational teams

Many firms build small teams to focus on a specific asset class, investment strategy, client or fund; some have dedicated teams for each large fund. This approach has obvious appeal: management can put their best people in a particularly challenging area, clients like having a team dedicated to their accounts or funds, and staff may be less distracted by other tasks.

Many investment managers create these specialized teams in an effort to lower their operational risk profiles; yet, ironically, all too often the result is more risk rather than less. A small, specialized team's intellectual capital and institutional knowledge may be severely depleted by the loss of a single member, whether such absences are short-term (vacations), over a longer period (sabbatical or maternity leave) or permanent (leaving the firm or being promoted). Such brain drains may occur abruptly when an illness, family emergency or resignation is involved, leaving organizations scrambling to cope. Worse still, in keeping with Murphy's Law, these unexpected gaps in staffing often seem to come at the worst possible times—e.g., during a period of peak transaction volume, while other key staff members are on holiday, or when a product or system launch is imminent—not only disrupting operations, but producing enough stress and chaos to discourage or drive away some of those who remain on the job.

CHAPTER 03

A proliferation of processes and procedures

Because the specialized-team approach fosters isolation, it often leads teams to develop idiosyncratic processes and procedures rather than adapting a master set of workflows. We will delve into this issue more thoroughly in the chapter on workflows (Risk Area #6, “Playbooks”), but it should be kept in mind when considering how to organize support teams.

Failure to grasp the bigger picture

We touched on problems stemming from the lack of training for managers in chapter 2, “The Blind Leading the Blind.” The same kinds of issues are encountered at lower organizational levels where the work actually gets done. When consultants conduct operational reviews, they often find junior staff members who operate in a kind of bubble—that is, they cannot explain how their jobs fit into the functions of the department as a whole. Indeed, even among those who are adept at what they were hired to do, many cannot articulate what their firm actually does.

Without understanding how their individual roles fit into the larger organization, staff members cannot fully appreciate the urgency of information, the importance of accuracy, or how much even minor improvements would benefit the business. For example, every reconciliation clerk should understand the potential effect a position break could have on the investment team and the trading desk. Yet, all too often one side of the organization has no idea what happens on the other side. How many traders understand the downstream effects—and costs—of an erroneous trade ticket?

Lack of exposure to industry advances

Employees with a narrow view of their own workplace are unlikely to know how other organizations tackle operational challenges. This kind of tunnel vision is particularly common among firms where many staff members have been there for years and do not regularly attend conferences or make a point of networking with their peers. Such organizations often stick with processes and procedures that might once have been leading-edge, but have fallen behind industry practice and technological change. No firm or department can be sure it has the best approach without considering solutions that other organizations have devised. Firms that encourage lifelong learning may have a lasting competitive advantage because their employees are engaged and their solutions are up-to-date.

“Soloists” with exclusive ownership of functions or relationships

Soloists are employees who perform functions that no one else knows how to do—or, perhaps, wants to do. In some cases, no one else has sufficient access rights to systems to perform a function. There is no doubt that security master maintenance can be tedious and the list of people with access to payroll should be limited. A soloist may also be someone who views client relationships as personal property. Some relationship managers (RMs) seem to lose sight of the fact that client relationships belong to the firm, not to RMs. Feeling that their contacts are just that—their contacts—such RMs may never get around to updating client relationship management (CRM) systems. Too often, supervisors fail to step in for fear of rocking the boat or undercutting results. Such problems are not limited to small organizations, however. Many large sales or client service teams harbor soloists who overtly balk at letting anyone else perform tasks or service relationships they claim as their own. The point is that even well trained, high-performing soloists may stand in the way of firm-wide efforts to mitigate operational risks through cross-training.

To be proactive:

Identifying training and cross-training challenges generally is not difficult. Start by looking at your organizational chart to identify small teams. (Ideally, teams should never be smaller than three fully cross-trained people.) The good news is that effective training can be accomplished in a variety of ways, but also can be designed to address multiple problems. Among possible measures:

- *A well conceived set of do-it-yourself training measures can be effective. Quiz staff on what they should have read in the firm's compliance manual or code of ethics. Review system access capabilities. Spot-check CRM updates. Ask people to describe what they do—and really listen to their answers.*
- *A series of internal "lunch-and-learn" sessions can be an effective approach to cross-training; more often than not the participants also discover opportunities for operational improvements. Those staff members who lead training sessions also stand to benefit from the experience.*
- *A professional credentialing program in investment operations does not yet exist, but the Certificate in Investment Performance Measurement (CIPM®) offered by CFA Institute ensures that performance practitioners have the requisite skills in their specialized fields. Many classes and short courses, both live and online, are available across a wide range of topics.*
- *Customized on-site training is also an option. This can be provided by internal experts and/or external specialists who can tailor training to the firm's methods and requirements.*
- *Job rotation, job shadowing and job swaps can help ensure that cross-training takes place, especially if these measures are accompanied by presentations on the system's architecture and workflows.*
- *Ask teams to document or review their workflows as a group and share each team's workflows with other teams.*
- *Attending webinars, industry conferences and networking events can be helpful to many employees, particularly those who are knowledgeable in their jobs but would benefit from more exposure to other organizations.*
- *Ensure that all clients are assigned a primary and a back-up RM, and that both are in regular contact with them.*

Murphy's Law frequently comes into play and exposes poor organizational design when firms can least deal with it. Identify training and cross-training challenges when they aren't needed so that you can start mitigating operational risk in the calm before the storm, not in the eye of the hurricane.

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