

The SMR: Parallels with the British Army's concept of leadership



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Banking scandals have abounded since the financial crash of 2008. PPI, tax avoidance, FOREX manipulation and LIBOR rigging have all created challenges for relationships between banks, regulators and the public. As a result, the British government has felt impelled to do more. In March 2016 it introduced the Senior Managers Regime (SMR). The intention has been to impose a duty of regulatory responsibility on managers in the sector.

The Financial Conduct Authority (FCA) states that: "*senior managers will be required to take the steps... reasonable for a person in that position... to prevent a regulatory breach from occurring.*"

The SMR focuses on those individuals who hold key managerial roles. All regulated firms must now ensure that each senior manager has been issued with a statement of specific responsibilities outlining areas of personal accountability. The appointment of such managers has to be approved by regulators before posts are assumed. The SMR emphasises the importance of whistleblowing and of reporting suspected breaches of conduct to the regulator. It obliges senior managers to blow the whistle themselves

where required, and to ensure that all staff feel sufficiently informed, confident and knowledgeable to do the same. A “whistleblowing champion” has to be appointed from amongst the senior managers. An annual report on whistleblowing is to be presented to the board. Whistleblowers are not to suffer detrimental treatment as a result of their actions.

Is it too aspirational to believe that the SMR might change behaviours sufficiently to restore public confidence in the financial sector? And perhaps even more elusively, might the SMR actually encourage companies to develop a values-based ethos that, over time, is not dependent on the introduction of yet more regulations?



As an example of a sector that has successfully maintained such an ethos, the British Army ensures appropriate behaviour on and off the battlefield through training and education as well as by carrots and sticks. Those who display and ensure adherence to the relevant tenets are promoted and those who fail to do so can be thrown out, even jailed. Leadership and initiative are considered to be highly relevant qualities. Leaders at all levels are selected on the basis of their ability to set the right example and to use initiative in the application of their responsibilities in a wide variety of situations. They, in turn, are trained to

delegate responsibility effectively. As a matter of doctrine, leaders are required to provide the resources and set out the constraints and parameters appropriate to the responsibility they place on their subordinates. It is considered deeply unethical to “pass the buck”. Thus, responsibility flows downwards to the level appropriate to the task, and accountability flows upwards. You can delegate responsibility – but not accountability. In the Army, the attitude displayed by Mike Ashley of Sports Direct in attempting to justify his ignorance of the conditions faced by his employees would be absolutely unacceptable. He would be held accountable and would be sanctioned, however senior he might be.

On British military operations, accepting that no leader can micro-manage their subordinates or foresee the exact circumstances that their people will face, success attaches to those who encourage, train, trust and empower their people to do the right thing. Conversely, when things go wrong, those who have not enabled their subordinates and set out clear parameters are held accountable, even though the results may not be directly their fault. Thus, in Army terms, it would be inconceivable for top people in UBS to have avoided punishment for the LIBOR-rigging for which Tom Hayes, a UBS subordinate, was jailed.

Under the SMR, this has now changed. Senior bankers will now be in the firing line alongside their subordinates who break the rules. They will be held accountable for the actions of their staff and – in the event of an enquiry – will need to show that they have prepared their staff appropriately. This will include setting out the parameters and constraints governing behaviours. Under SMR, non-executive directors and chairmen will be considered “senior management functions”, accountable for the boardroom decisions they make. It follows that they need to acquaint themselves sufficiently with the activities of the company that flow from those decisions. Each firm has to develop a “responsibilities map” to clarify to the regulator exactly who

is responsible for what within the company, and how those responsibilities correlate. In effect, there is now a “presumption of responsibility” on the part of managers, requiring confirmation that sufficient management support has been given to staff members for the tasks they are given.

The reality is that SMR requires a different sort of manager with a different ethos compared with what has often been the case. Managers could usefully study the tenets of British Army leadership and what the Army calls “mission command”. This gives clear guidance to leaders on:

- delegating responsibility down to the appropriate level
- ensuring that those to whom that responsibility is given are fit for the job and understand the parameters
- enabling and trusting their subordinates to use initiative to carry out their responsibilities; and
- taking a healthy interest in what happens as a result.

We would go further and advocate that the SMR should apply to all sectors, not just the financial, and that the penalties be made clear. In essence, the good managerial and leadership practices required by the Army and now by the SMR should be universal. Thus regulators will be satisfied and, of greater importance for the long term, an appropriate ethos of good leadership values will be built throughout all companies. Employees, shareholders and customers will trust business and less regulation will be required. In the meantime there is clearly a long way to go.

Other useful links

- You might also find the following from our CPD Centre of interest: [SM and CR Case Study](#) and [Regulatory inspection visit - case study](#)

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