



ASIC

Australian Securities & Investments Commission

Good corporate culture, values and ethics

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*Launch of Governance Institute of Australia's inaugural Ethics Index
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CHECK AGAINST DELIVERY

Introduction

Thank you for inviting me to speak at the launch of the Governance Institute's inaugural Ethics Index. I congratulate you on this important initiative.

We are at an exciting time in history, when technological innovation is rewriting almost every industry including the financial services industry.

Very recently, Max Levchin, PayPal co-founder and former chief technology officer, said that his new fintech start-up, Affirm – which offers flexible and fast loans to consumers and is pitched as an alternative to a credit card – could challenge global financial institutions with a new model designed to better align with customer interests. Regardless of whether this particular vision succeeds, it is evident that new disruptors will continue to challenge incumbents.

In a new Telstra report, [*Millennials, mobiles and money*](#), it was stated that, 'millennials may be the first generation to live their lives never requiring nor engaging with a traditional institution and only ever associating the word "branch" with a tree'.

Social licence, social media and the 24-hour news cycle are also changing customer expectations and the way customers behave. Companies need to live up to the standards we expect, not just the laws we enact.

The Telstra report says that 'the threat from fintech is significant'. It notes that two-thirds of millennials prefer to receive advice on financial products and services via a digital

platform, and that automated robo-advice or digital advice is perceived to be more independent and preferred. In this environment, building and maintaining a culture that your customer can believe in is imperative. Firms that do not have a good culture risk losing their customers to firms that do.

Today I'd like to you talk about:

- corporate culture and how this relates to corporate values and ethics
- why ASIC is focusing on corporate culture, and
- key points from the Ethics Index that are of interest from a regulatory perspective.

1. Corporate culture, corporate values and ethics

An organisation's culture is its set of shared values or assumptions. It can be described as the underlying mindset of the organisation. It shapes and influences people's attitudes and behaviours towards, for example, customers and compliance.

Likewise, an ethical culture can be understood as the shared perception within an organisation of what is perceived as correct behaviour, and how ethical situations should be handled within an organisation.

ASIC is interested in corporate culture, because culture is a driver of conduct. And a poor corporate culture can be a driver of misconduct.

Conversely, a good corporate culture can be a driver of best practice, or ethical conduct. Ethical conduct can help organisations move beyond minimum standards and 'tick a box' compliance practices to best practice standards and compliance practices that protect stakeholders and which are commercially valuable.

A key starting point for a good corporate culture is developing your firm's values, and ensuring that these are implemented in practice. Your values are what you choose to prioritise as a company. Decisions about an organisation's values begin at the top. And a values-led corporate culture supports ethical conduct.

However, for your values to be effective at supporting good corporate culture, it is critical that the firm's values are cascaded down by the leadership team to the rest of the organisation. Leaders need to ensure that the firm's values are understood throughout the organisation, and are 'lived' by employees as part of their day-to-day roles. If you consider your values to be your firm's compass, you need to ensure that your employees are empowered to follow the firm's values in their day-to-day work.

Translating the firm's values into business practices is important, because it ensures there is no gap between the firm's desired values and actual employee conduct. For example, your values need to directly influence:

- how business decisions are made, including how new products are approved
- how the firm responds to customer complaints and claims

- how problems and mistakes are identified internally, elevated and fixed, including supporting employee whistleblowers
- how staff behave and how they are remunerated, and
- the consequences for breaches of internal policies, procedures and internal limits.

2. Why is ASIC focusing on culture?

ASIC is concerned about culture because it is a key driver of conduct within the financial industry. By focusing more on culture, we expect to get early warning signs where things might be going wrong to help us disrupt bad behaviour before it happens and catch misconduct early.

We also think it will help us with identifying not just individual instances of misconduct, but broader, more pervasive problems.

Poor culture often leads to poor outcomes for investors and consumers, impacts on the integrity of the Australian financial markets, and can erode investor and financial consumer trust and confidence.

Domestically, the ongoing issues within Australia's financial advice industry – along with continuing media reports relating to bank culture, misreporting of profits and the manipulation of the bank bill swap rate (BBSW) – undermine investor and financial consumer trust and confidence in the system.

We think culture is vitally important for the organisations we regulate – however, we are not going to dictate the kind of culture a company has. Firms must decide what they want to prioritise, set their own values based on these priorities, and ensure that these values are implemented in day-to-day business practices.

3. Key points from the Ethics Index

Finally, I would like to highlight a few findings from the Ethics Index that are important from ASIC's perspective. Earlier, I said that a good corporate culture promotes good conduct and ethical behaviour. In relation to the banking sector, the survey shows that this echoes the thinking of most Australians.

The survey found that 78% of Australians think that corporate culture is important in ensuring ethical behaviour within the banking and finance sector. The vast majority of Australians also think that corporate governance practices and structures are important in ensuring ethical behaviour within the banking and finance sector. ASIC also sees governance practices and business structures as key to ensuring a good corporate culture.

These findings align with my earlier observations that business practices that implement the firm's values in day-to-day business practices can provide the underlying governance structures to support good conduct from employees.

In the banking and finance sector, the data also shows that Australians see incentives as being very important to ethical conduct. Incentives and remuneration are key areas of focus for ASIC, as we set out in our four-year corporate plan ([Corporate Plan 2015–16 to 2018–19](#)).

We have also recently commenced a review to examine the mortgage broking market to determine the effect of current remuneration structures on the quality of consumer outcomes. The role of leadership in ethical conduct in the business sector is seen as crucial by 82% of Australians. The survey shows that boards and executives are seen to wield considerable influence over ethics in corporate culture.

As I have said many times, leaders have an essential role to play in setting the tone from the top, including establishing organisational values, ensuring systems are in place so that the values are cascaded down throughout the organisation and ensuring that values are translated into the business practices that staff at the front line use.

Accountability and transparency were also ranked the top two most important factors in ensuring ethical conduct. These are cornerstones of a good governance framework, and again tie in to ensuring that business practices encourage transparency and ensure that staff at all levels are accountable for their conduct.

Conclusion

I want to conclude by saying that, from both my perspective – and from your perspective – culture matters.

Culture is at the heart of how an organisation and its staff think and behave. It is an issue that companies themselves must address. Firms with a values-led culture, which can be implemented by front-line staff at the business unit level, are well on the way to having a culture that customers, and the public, can believe in.

At the end of the day, you need to have a culture that your customers can believe in. If your culture genuinely reflects 'doing the right thing', this will be rewarded with longevity, customer loyalty and a sustainable business.