ASIC

Australian Securities & Investments Commission

The importance of corporate culture

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CHECK AGAINST DELIVERY

Introduction

Today I'd like to you talk about three things. First, I'd like to talk about what is culture and it matters. Second, I will touch on what I see as the key drivers of culture, and third, I'd like to update you on some key changes for ASIC that will help position us to meet our future challenges.

What is culture and why it matters

So, what is culture? Culture is a set of shared values and assumptions within an organisation. It reflects the underlying 'mindset of an organisation', the 'unwritten rules' for how things really work. Because culture lies at the heart of how an organisation and its staff think and behave, in a financial services firm, it is an important driver of outcomes for investors and financial consumers.

Culture matters to ASIC because poor culture can be a driver of poor conduct – and we regulate conduct. Bad conduct can flourish, proliferate and may even be rewarded in a poor culture. A good culture, on the other hand, can help uncover and inhibit bad conduct and reward and encourage good conduct.

Where we identify poor culture, we will make this clear to the regulated firms in which we see it. In particular, we think it is important to share this information with directors of regulated entities given their role in guiding and monitoring the management of the company. However, it is not only regulators who should care about culture. Companies should also be interested in culture because many studies have found that good culture is good for business and generating long-term shareholder value.

There are a number of ways that having a good culture can benefit an organisation. For example:

- increasing customer loyalty, brand and reputation;
- reducing or avoiding the financial impact of fines or remediation; and
- attracting and retaining staff.

Poor culture, on the other hand, can lead to misconduct and result in significant financial costs, including the cost of remediation, compensation and fines; as well as not necessarily attracting and retaining staff.

Drivers of a positive culture

I'd like to move on now to talk about drivers of a positive culture. By monitoring drivers that measure and shape culture, companies can obtain insights into how their culture is aligned with their organisational values.

I want to emphasise, however, that we are not advocating a one-size-fits-all approach on firm culture. There is no 'correct' culture that will be right for every organisation.

Tone from the top

The first driver is tone from the top. The board and senior management are responsible for creating a culture where everyone has ownership and responsibility for doing the right thing and ensuring good outcomes for customers. The board should set the values and principles of a firm's culture. They should be reflected in the business's strategy, business model and risk appetite.

The leadership team should then lead by example by demonstrating the conduct that supports the firm's values. In other words, they should not only talk the talk, they should also walk the walk. For example, directors and senior executives can consider taking the Banking and Finance Oath, and offering ethics training for staff or e-learning modules on their code of conduct.

Putting the right governance structures in place around board engagement with culture can ensure that the tone from the top is implemented in an effective way. For example, boards may wish to consider the following questions to help gain insights into their firm's culture:

- Is culture a regular feature on the board and audit committee agenda?
- Is there a board dashboard report that gives updates on key cultural indicators of values alignment?
- How do they gather insights about sub-cultures, for example through pulse survey reports of staff views on value alignment?
- Is there periodic engagement with all stakeholders to get a broad perspective on how well values are aligned with customers, suppliers, regulators, and the community?

Accountability

The second driver is accountability. The accountability of staff is extremely important. All staff should understand the firm's core values and, most importantly, that they will be rewarded or held to account for their conduct in relation to such values. As such, the leadership team need to make sure the values are understood throughout the organisation. This is important, because quite often the message gets lost in the middle and does not make its way to the front line.

Evidence shows that organisational culture exists primarily at the individual business unit level. We know that employees are more likely to be influenced by the conduct of their direct managers and/or the top performer in their unit than they are by the board and other senior leaders.

It is important that the middle and front line managers model the firm's values. This is because new staff and junior staff members often interpret rules based on what they have learned as acceptable conduct from their managers and colleagues. If new staff see that the top performers are successful despite, or even because of, poor conduct, then messages from the board about the importance of firm values and good conduct will not be effective in changing behaviour or aligning with a firm's values.

Leaders need to ensure that firm values are understood throughout the organisation, and are 'lived' by employees as part of their day-to-day roles. Measures that touch on accountability might include treatment of whistleblowers, breach or over-limit reports, and customer complaints.

Effective communication and challenge

The next driver relates to effective communication and challenge. The firm should promote a culture of open communication and effective challenge to:

- encourage a diversity of views in decision making processes;
- allow current practices to be tested;
- encourage a positive, critical attitude among employees; and
- promote an environment of open and constructive engagement, so people don't succumb to 'group think'.

Recruitment, training and rewards

The last driver I want to talk about relates to recruitment, training and rewards.

First, this means management should include behaviours and attitudes that aligns to the firm's values as part of staff selection. For example, firms might use psychometric testing to ensure potential staff have values aligned to the organisation.

Second, there should also be training to maintain staff knowledge about the firm's values and the attitudes and behaviours expected of staff, for example e-learning modules might be used.

Third, on rewards, remuneration and incentive structures should be aligned to the values of the firm. Rewards play a big role in driving conduct for two reasons:

- it affects an organisation's culture because it impacts on priorities and staff; and
- it acts as a motivator and reinforcer of conduct.

So, it is crucial that firms recognise performance in a way that not only promotes good conduct, but penalises poor conduct as well. Rewards can be integrated into the performance management system ensuring that bonuses and promotions are linked to good conduct which is aligned with organisational values.

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

ASIC update

I wanted to finish by saying that 2016 has been an eventful year for ASIC and would like to briefly touch on:

- law reform;
- industry funding; and
- ASIC's additional funding.

Law reform

The Murray Inquiry made a number of recommendations for law reform. I see this as critical to further progress our ability to be a stronger, more proactive and strategic regulator. In particular, these are:

- the product intervention power;
- the product governance obligation; and
- the review of ASIC's enforcement regime, including penalties.

The Government has committed to accelerating this law reform. It is currently undertaking the review of our enforcement regime, and is consulting on the details of implementation of the new product governance obligation and product intervention power.

Industry funding model

ASIC will also be moving to an industry funding model next year. As part of that announcement, the Government made a commitment to consult extensively with industry to refine and settle the model prior to implementation.

On 7 November 2016, the Government released a revised model for consultation, which has been developed with the benefit of the extensive feedback received from stakeholder consultations during 2015.

ASIC has long believed that those who generate the need for ASIC's regulation should pay for it, rather than the Australian public. We also think that an industry funding model is about establishing price signals to drive economic efficiencies in the way resources are allocated within ASIC. Industry funding will also improve ASIC's transparency and accountability. That means business will better understand the job we do by having greater visibility of the cost of doing that job.

We have worked closely with Treasury in developing the refined model for further consultation. We are continuing to work with Treasury and with those we regulate to see industry funding work well. Industry funding should make our funding base more stable for the future, so that we can continue to focus on meeting our future challenges.

Additional funding

Combined with this move to industry funding, the Government has also committed to a $127 million reform package. This includes providing $61 million to enhance ASIC's data analytics capabilities and our data management systems. This will allow us to implement a program of change we had been developing, but previously did not have the resources to implement in a timely way. It also includes $57 million to enable increased surveillance and enforcement in key areas of risk, including financial advice, responsible lending, life insurance and breach reporting.

These measures go to further strengthen our ability to proactively detect risks and misconduct, which in turn will serve to promote investor and consumer trust and confidence.

Conclusion

Markets can only properly fund the economy if investors have trust and confidence in them. And while naturally I see that ASIC has a key role to play, it is critical that both industry and regulators work together to continue to build that trust and confidence.