The current state of corporate culture

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CHECK AGAINST DELIVERY

Introduction

Thank you for inviting me to speak about the current state of corporate culture.

ASIC's vision is to allow markets to fund the economy and, in turn, economic growth; in doing so, contributing to the financial wellbeing of all Australians. We do this by focusing on our regulatory objectives of:

- promoting investor and consumer trust and confidence

- ensuring fair and efficient markets.

In August, we released our Corporate Plan for 2016–17, and outlined the key challenges and risks to our vision. In 2016–17, we are continuing to focus on the risks from poor gatekeeper culture driving poor conduct.

As part of my presentation this afternoon, I'd like to cover three key areas:

- why culture matters

- ASIC's approach to culture

- some of the practical things that directors and boards can do to promote a more positive culture within their organisation.

Why does culture matter?

So, why does culture matter?

Culture matters because it is a key driver of how people behave within their organisations. In some instances, the culture and practices that are embedded more broadly within an industry also drive how firms and individuals in that industry behave.

From a regulator's perspective, culture matters to ASIC because poor culture can be a driver of poor conduct, and we regulate conduct. 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. Good culture can benefit your organisation in several ways. For example, it can help with customer loyalty, brand and reputation, and attracting and retaining staff. In fact, studies suggest that intangibles can account over 80% of a company's value. Poor culture, on the other hand, can lead to misconduct and result in significant financial costs, including the cost of remediation, compensation and fines; not to mention the costs from reputational damage.

To illustrate, according to research by the London School of Economics and Political Science, the cost of poor conduct for the 10 most-affected global banks was approximately US$250 billion between 2008 and 2012.

What is ASIC's approach to culture and conduct?

I'd like to quickly touch on ASIC's approach to culture and conduct.

But before I do that, I'd like to stress that ASIC is not trying to micro-manage the culture of firms or dictate how businesses should be run. I'd also like to emphasise that culture is not something that can regulated with black letter law. For that reason, ASIC is not currently suggesting any changes to the existing liability regime for directors in this area.

As an organisation's culture represents the 'mindset of an organisation', it is ultimately an issue that organisations themselves must address. However, since ASIC is a conduct regulator, we do play an important supervisory role, particularly where poor culture has the capacity to undermine trust, confidence and market integrity.

So, what are we doing about culture?

First, we are focusing on culture by incorporating cultural factors into our risk-based surveillances. As we outlined in our Corporate Plan, the key areas we are focusing on include:

- reward and incentive structures
- recruitment and training policy
- whistleblower policy
- conflicts of interest

- nature and level of complaints and complaints handling

- remediation policy and procedures

- corporate governance framework to support customer-centric culture.

Where we identify poor culture, we will make this clear to the firms in which we see it. We think it is important to share this information with directors, given their role in guiding and monitoring the management of their company. Where poor culture leads to poor conduct, we will consider that in decisions we make about enforcement actions.

Second, we are continuing to raise awareness about the importance of culture through discussions with our stakeholders and delivering public messages, including through events held by the Governance Institute.

Last, but not least, we are focusing on promoting good governance practices. At ASIC, we think an appropriate corporate governance framework is a key cornerstone to a firm culture that is conducive to good behaviour and conduct.

What are the practical things boards and directors can do to promote a more positive culture within an organisation?

I'd like to focus briefly now on some of the practical things that boards and directors can do to promote a more positive culture within their organisations.

Tone at the top

First, we can't talk about culture without talking about 'tone at the top'. The board plays an important role in setting the tone at the top by:

- developing the desired values and behaviours for their organisation

- appointing a chief executive officer (CEO) and management team who not only align with the desired culture, but more importantly will drive that culture throughout the organisation

- overseeing culture, including holding the CEO and management team to account where they see a misalignment.

The board also plays a key role in influencing culture, by making sure:

- they are modelling the firm's desired behaviours and values when interacting with management and staff

- their own actions and behaviours support and advance the firm's desired culture.

Oversee culture

Another important consideration is how a board can gain better insights into their company's culture. For directors who are not involved in the daily operations of a

company, overseeing culture can be challenging. But there are a number of levers available to help with this. For example, boards can:

- make culture a regular feature on the board and audit committee agenda

- seek to interact with staff across the organisation, rather than limiting themselves to the CEO and executive management

- gather insights about team-specific issues and subcultures by developing relationships with key employees (e.g. line managers)

- ensure they have a broad perspective of the various competing issues impacting their organisation by engaging periodically with various stakeholder groups.

Promote diversity

As the Chair of ASIC's Diversity Council, I think promoting more diversity within organisations, particularly at the 'C-suite' and board level, is also another important mechanism for fostering a more positive culture within firms. This is because, for many of us who have spent our careers looking at our specific area of expertise, we can become conditioned to look at information in a certain way. By ensuring diversity of thought and perspectives through the organisation, including the 'C-suite' and board level, this should help mitigate the risk that issues that should be apparent would end up being neglected or going unnoticed.

Measure and monitor the firm's culture

Another aspect to consider is putting in place mechanisms to help with measuring and monitoring the 'gap' between the desired culture and staff perceptions and conduct. Many firms are currently looking at creating culture dashboards to help with capturing data on key indicators gathered through employee feedback and surveys, customer complaints, progress on employee training on culture issues. Internal and external audits can also help with the periodic monitoring of a firm's culture, since they generally touch many parts of the organisation and are exposed to a variety of cultural indicators.

Finally, a board should consider also monitoring on a regular basis how they are impacting the culture of their organisation. The Principles of Good Corporate Governance and Best Practice Recommendations (ASX Corporate Governance Council, 2003) in Australia make specific recommendations for the regular review of board performance. Similar best practice recommendations have also been adopted in Canada, the United Kingdom and the United States.[1]

The periodic review on board performance can, for example, be extended to include the impact of the board's composition and behaviour on the organisation's culture.

[1] Kiel, Geoffrey C and Nicholson, Gavin J (2005), 'Evaluating boards and directors', *Corporate governance: An international review*, 13(5), pp. 613–631, http://eprints.qut.edu.au/4935/1/4935.pdf

Conclusion

I'd like to wrap up my presentation by urging you all to think about your organisation's culture, and reflect on some of the changes you can make to foster a more positive culture towards 'doing the right thing', both within your firms and more broadly across the industries in which you work.

Thank you.