The importance of corporate culture

A speech by Greg Medcraft, Chairman, Australian Securities and Investments Commission
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Introduction

Good afternoon everyone. Thank you for inviting me to this luncheon to talk about the importance of corporate culture.

At ASIC, we are interested in the conduct of financial services organisations – and ASIC sees organisational culture as a significant driver of conduct within firms.

Culture is one of the major root causes of misconduct, so today I'd like to you talk about three things. First, what culture is and why it matters. Second, the key drivers of culture, and third, the role of firm values in setting and assessing culture.

What is culture and why does it matter?

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. It works silently in the background to direct how an organisation and its staff think, make decisions and actually behave.
Andrew Bailey, Chief Executive at the United Kingdom’s Financial Conduct Authority recently commented that culture was ‘everywhere and nowhere’. He explained that this reference was meant to convey that almost everything that goes on in an institution affects its culture, but there is no distinctive external ‘thing’ called culture that acts as an input to institutional behaviour.

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. 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.

In terms of what ASIC will do, 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 your organisation. For example:

- increasing customer loyalty, brand and reputation
- reducing or avoiding the financial impact of fines or remediation
- attracting and retaining staff, and
- improving the quality of decision making by valuing diversity of thought and making the most of differences.

Poor culture, on the other hand, can impact on the way we do business and make decisions. It 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.

Importantly, companies also need to be aware that customer expectations have changed, and people are more empowered than ever. We now live in a world with technology and social media at our fingertips. Individuals have unprecedented access to information and, as a result, if businesses are not behaving in the right way, the crowd will let them know, if not the headlines.

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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, you can obtain insights into how your culture is aligned with your organisational values.

As I talk through these drivers, you will see that good governance is important across the implementation of these drivers.

I want to emphasise we are not advocating a one-size-fits-all approach to firm culture. There is no ‘correct’ culture that will be right for every organisation. We understand every business is unique; therefore, organisations need to tailor what I’m going to speak about to the nature, scope, size, and complexity of their business; as well as their own organisational values.

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 these values.

As such, the leadership team needs 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 it 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 ‘groupthink’.

Promoting effective communication and challenge also means that we need to be focused on the composition and diversity of our workforce, and in our recruitment processes. Research shows that diversity has a positive influence on decision-making processes, reducing ‘groupthink’ and encouraging positive challenge.

**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 align with the firm’s values as part of staff selection.

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, 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. First, it affects an organisation’s culture because it impacts on priorities and staff, and second, 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.

**Role of firm values**

So now I want to come back and talk specifically about values.

A firm should have a statement of its purpose and values, which sets out what it is trying to achieve (purpose) – and how it will go about achieving this (values).

The values should shape how all employees of the organisation behave, and should be incorporated into all of its business practices and governance structures. For example:
- 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
- how staff behave, and
- the consequences for breaches of internal policies, procedures and internal limits.

Translating the firm’s core values into business practices and governance structures is important, because it ensures there isn’t a gap between the firm’s desired values and actual conduct.

Under the board’s stewardship, the management team should promote, monitor, and assess the impact of the firm’s culture on conduct and make changes where necessary.

It’s important that staff have direct access to the board and leadership team. It’s also important that there is a process in place for periodic reporting to the board on culture and conduct issues.
At ASIC, we are running two pilot projects to implement our approach to culture. One is in relation to the sale of direct life insurance, and the other relates to breach reporting practices.

In both of these projects, we will be considering whether the firm has stated values that focus on delivering good consumer outcomes and supporting strong compliance – for example ‘doing the right’ thing by their customers, as well as accountability, integrity, and honesty.

We will then consider how these values are embedded in policies and processes of the organisation and translate in to actual behaviour ‘on the ground’.

**Conclusion**

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

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.

Firms with a values-led culture, supported by effective policies and processes, 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.