



**ASIC**

Australian Securities & Investments Commission

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## The importance of corporate culture

*A speech by Greg Medcraft, Chairman,  
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### **CHECK AGAINST DELIVERY**

#### **Introduction**

Good afternoon everyone. Thank you for inviting me to this boardroom lunch today.

I wanted to talk specifically about the changing landscape we find ourselves in today – and why, more than ever before, corporate culture is critically important.

So, today I have three points I would like to talk about:

- the rate of technological change we are experiencing today that is unprecedented – this is the fourth industrial revolution
- why the culture of firms is critical to building and maintaining trust in this environment
- the drivers of culture.

#### **Technological change**

We are living in an era where technology is changing our lives at a rate that many of us are grappling to keep pace with.

Artificial intelligence – or AI – is at an early stage, but it is developing faster than we once expected. We are on the cusp of machines that can understand the world and

respond effectively. The combination of internet-connected networks and machine-learning algorithms is setting the platform for forward leaps in the ability of machines to understand spoken, written and visual communications. And with technological improvements in speech and image, AI is moving towards ever-increasing personalisation applied to, for example, education and medicine – for instance, the fascinating ability to now use holographic learning to teach doctors anatomy.

AI applications in financial services have the potential to improve consumer outcomes across a variety of channels. For example, apps can create consumer value by automating and optimising personal savings. You can even imagine a personal financial concierge who automatically helps you optimise your spending, savings and investment based on your own personal habits and goals.

We have seen an explosion of investment in fintech activity over the last couple of years. In 2016, global investment in fintech companies hit \$24.7 billion. It's clear that fintech is a big part of where the future of finance is heading. Not to forget the emergence of distributed ledger, and its potential to disintermediate and remove significant costs from the financial system.

We are starting to see the reinvention of the banking model, with talk of 'ecosystems' that are not just focused on financing. The potential of businesses such as Facebook, Amazon and WeChat in this area is immense.

We also see the challenges of fiat digital currencies that could reshape banking and payment systems dramatically.

## Cyber resilience

The growing use of technology to capture, store and analyse data increases the risks of that data being misused, and the systems used to capture and store that data being subject to cyber attacks. Cyber security now features high on the agenda of leaders across all sectors. In recent weeks, cyber crime has captured international headlines yet again.

The average cost of cyber crime to Australian companies is now estimated to be over \$5.6 million per incident. The increasing incidence, complexity and reach of cyber crime can destroy a company's value overnight – dragging its share price and reputation down with it.

For customers, it directly relates to how safe their data is in your hands – can you deliver a seamless service that meets their needs despite the digital threats to your business?

In April, ASX launched the [ASX 100 Cyber Health Check Report](#) (PDF 5.17 MB) in collaboration with ASIC, Government and industry. While companies are managing cyber risk better, there's still more to do. Some of the biggest issues are:

- interdependency recognition
- transparency of disclosure of attacks
- measuring resilience.

## The importance of culture in building and maintaining trust

Driven by evolving technology, incumbents are seeing their business models challenged by new digital entrants. At the same time, their behaviour is being magnified in real time through the 24-hour news cycle, social media and the crowd.

Central to these new challenges is having the right culture that enables you to build and maintain trust with your customers.

### Culture

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 UK 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.

And why is culture so critical in this landscape?

Word-of-mouth and reviews (i.e. the crowd) have become increasingly influential in consumer decision-making. Personal recommendations have been effective in driving attitudes towards a brand and purchasing behaviour, but social media has now magnified and intensified the power of these recommendations. The power of consumer reviews and positive word-of-mouth can help build and maintain trust in a company’s brand.

On the flip side, social media and the 24-hour news cycle mean that companies are increasingly held to account for any perception of poor behaviour. If they are not behaving in the right way, the crowd will let them know, if not the headlines – often with damaging effects on their brand and reputation.

Creating a sustainable business today is not only about the quality of the product or service that is delivered. It is also about the quality of a firm’s conduct, both internally and externally. If the culture and values of a business are not aligned with customer outcomes, it is easy to see how a trust deficit will emerge, and this will impact its long-term sustainability.

## 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.

I want to emphasise 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. We understand every business is unique; therefore, they 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 should set the values and principles of an organisation’s culture.

The [OECD Foreign Bribery Report](#) (PDF 2.3 MB) found that corporate leadership is involved or at least aware of the practice of foreign bribery in most cases, rebutting the perceptions of bribery as the act of rogue employees.

Values should be reflected in the business’s strategy, business model and risk appetite, and CEO selection. The leadership team should then lead by example by demonstrating the conduct that supports the organisation’s values. In other words, they should not only talk the talk, they should also walk the walk.

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 values 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 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
- 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 group think and encouraging positive challenge.

## **Recruitment, training and rewards**

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

This means management should include behaviours and attitudes that align to the firm's values as part of staff selection. There should also be training to maintain staff knowledge about the firm's values and the attitudes and behaviours expected of staff, for example learning modules might be used.

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
- 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 that is aligned with organisational values.

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 second 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, from both my perspective – and from your perspective – culture matters.

We are living in a time where innovation and evolving technology is the new norm. We are living with new possibilities that were previously unimaginable.

In this world, our efforts must be squarely focused on fostering trust and confidence. 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.