

Leading from within

The new Conduct Risk concept you need to know about

The need for Boards and executive management to establish “Tone from the Top” is widely documented. For many years, the focus has been on the highest rung of an organisation’s hierarchy and its importance in setting the right culture and behaviours.

However, a new concept has recently been introduced into the Conduct Risk lexicon: **Tone from Within**. This is an individual employee or contractor’s role in driving the right culture and behaviours to help an organisation achieve its Conduct Risk outcomes, such as fair treatment of customers and maintaining market integrity.

What is Tone from Within?

The expression emerged in the recent 5 Conduct Questions report published by the UK’s Financial Conduct Authority (FCA) in September 2020. The FCA defines Tone from Within as “one’s individual mindset, preferences, beliefs, habits and pre-dispositions” when it comes to issues of Conduct Risk. In Australia, ASIC is also emphasising an individual employee’s own role in managing Conduct Risk of their team, as well as the importance of individual accountability (particularly at the Executive/Board level).

The Australian Financial Markets Association has emphasised the importance of an “individual employee’s own independent responsibility and personal motivation” in its recent [Conduct Training Practice guide](#).

So, what does this mean for Australian organisations?

This concept sends a strong message to individuals about their personal responsibility in challenging their own biases, behaviours and habits when working for an organisation. Individuals need to take on personal ownership for Conduct Risk management within their own teams. Many employees would likely argue that they do this already; however, Conduct Risk is a broad and complex topic that requires ongoing investment of time and learning.

To cultivate a strong Tone from Within, we would encourage organisations to think about the evolution in best practice such as communication and training.

	Less mature approach	More mature approach
Training	<ul style="list-style-type: none">– Emphasis on rote learning, which can sacrifice impact in place of fact memorisation– Content that is legalistic with a focus on the ‘Can We?’ and lacking in emotional resonance– Black and white examples that impose an obvious ‘right’ answer– Leaders are infallible and always get things right– Centrally-run training – predominantly elearning or large audience training, seen to be led by external firms rather than management	<ul style="list-style-type: none">– Emphasis on emotional resonance and creating inquiring minds, rather than rote learning– Challenging and relatable grey area scenarios that show the difference in outcomes between ‘Can We?’ and ‘Should we?’– Use of authentic leadership to undertake face- to-face leader-led training in smaller groups that encourages openness, discussion and self-reflection– Use external firms in the background to help build impactful material and capability

Less mature approach

More mature approach

Communications

- Directive communications to employees and failures typically seen through the lens of employee misconduct
 - Messages cascaded from functional executives such as CRO, CCO, Head of HR, GC, CFO and COO
 - A flick and forget/tick box approach to communication with no/limited follow up
- Targeted and impactful communications by Chair and CEO (and each Executive as it relates to their own teams) that explain the Conduct Risk outcomes an organisation needs to achieve
 - Equipping employees with the resources for self-reflection and self-challenge such as examples of real-life scenarios where the organisation may be at fault, and recognising that more needs to be done to create the right environment
 - Messaging continually reinforced using a variety of techniques and the use of follow ups/check-ins

What do you need to create the right Tone from Within?

Adopting a 'Tone from Within' approach is a smart and effective way to evolve your Conduct Risk strategy, framework and practices.

A&O Consulting can help you.

We are Conduct Risk specialists, meaning we have the expertise to give you practical and sustainable solutions.

Our clients benefit from:

- our detailed knowledge of emerging best practice in the practical aspects of Conduct Risk management – such as enhanced policy and governance frameworks, management reporting techniques, multi-channel training, communications packages and Conduct Risk assessments
- our industry experience working inside global institutions and regulators, meaning we know where to concentrate effort (and how to avoid pitfalls and unnecessary rework).

Our team

For more information on how we can help you and your organisation cultivate Tone from Within, please reach out to us:



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