A&O Consulting

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Tackling Culture

Culture Case Studies – 7 Common Themes

2019

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Introduction

"What is the difference between a bank, a national sports team and a car manufacturer?

When it comes to deep cultural failings leading to widespread damage to reputation and loss of confidence across entire sectors – nothing!

We have considered the root causes of these cultural failings – from three real examples across very different sectors – and found that seven common culture and conduct themes emerge.

We hope that, by understanding these themes, leadership teams from all sectors will be better able to focus on culture in a meaningful way, and avoid the potential pitfalls that can have significantly damaging effects.

The financial services sector is one of the most heavily regulated industries globally, with focus on culture and conduct increasing significantly in the aftermath of the 2008 financial crisis. In the UK regulators have been at the forefront of tackling conduct issues including through a combination of: 1) increased accountability of senior employees; 2) greater scrutiny over compensation frameworks; and 3) requiring firms to explicitly consider their conduct risks and how those risks are being managed. Financial services regulators globally* are also focussed on the way boards and senior leadership define and reinforce their firm's culture as well as the behaviour expected from all levels of the organisation. Despite ten years passing since the financial crisis, the spotlight continues to be shone on the culture and conduct across financial services globally – most recently in Australia where a Royal Commission review** has found widespread misconduct in financial services.

The UK's Financial Conduct Authority (FCA) has said that nothing short of a cultural transformation in the sector is required but concedes that this is not easy to achieve and therefore requires the long term commitment of an organisation's senior leadership. There is no single agreed definition of culture, nor can rules on culture be imposed by regulators. Good culture – what it looks like, and how to achieve it – needs to be determined by each individual firm based on its own values, people, business strategy, clients and markets.

As such, good culture needs to be at the heart of the way each organisation operates every day. "Clearly regulation is only one piece of the puzzle and the role of the regulator may be limited. So the question remains – how can firms go beyond rules and standards to achieve real cultural change?" (Transforming Culture in Financial Services, FCA, March 2018).

As our analysis shows, the picture beyond financial services is not dissimilar, with poor culture and conduct invariably being at the heart of scandals impacting entire sectors. The examples we have chosen are not unique, and they serve to illustrate that failing cultures – often driven by the need to win at all cost, a lack of clarity around expected behaviours, a leadership team which does not actively role model those behaviours, and an environment where employees do not feel free to speak up without fear of repercussion. Such cultures consistently contribute to events that cause significant reputational damage and overall loss of confidence to the organisation, and in some cases, to the entire industry.

Having a clear organisational purpose bolstered by a set of core values and supported by consistent messaging is just the start – we have helped organisations across different sectors as they tackle similar issues to those described in the attached brochure and have considerable experience designing and implementing large scale culture and conduct change programmes."

Sally Dewar, CEO of A&O Consulting

* Including the Federal Reserve Bank (FRB), Office of the Comptroller of the Currency (OCC), European Central Bank (ECB), Hong Kong Monetary Authority (HKMA), Australian Securities and Investments Commission (ASIC), Australian Prudential Regulation Authority (APRA), Monetary Authority of Singapore (MAS) and the Reserve Bank of New Zealand (RBNZ)

** Royal Commission review into Misconduct in Banking, Superannuation and Financial Services

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Culture – common themes

Based on a review of publicly available information covering a number of organisations where major cultural failings have resulted in significant reputational issues, we have identified seven common themes relevant to culture. These themes are not industry-specific, but understanding them could help senior executives avoid some of the pitfalls when it comes to culture and its importance in long term business success.

These themes are as follows:

	Problematic themes	Target states
1	**Increased pressure to produce results**	Business and/or performance targets need to focus on long term, not short term, success and incentivise employees in a way that drives appropriate behaviour.
2	**No/limited culture framework**	A clear organisational purpose linked to core values should define the way an organisation operates and the standards it holds itself and its employees to.
3	**Lack of respect and poor moral judgment**	This culture framework should foster respect at all levels and give guidance on exercising respect and good moral judgment.
4	**Lack of tone from the top**	Leadership should be ambassadors for the organisation and positively promote the organisation's culture, role modelling the behaviours expected in line with the core values.
5	**Lack of collaboration and openness**	Collaboration, openness and a willingness to escalate and share issues should be encouraged at all levels.
6	**Normalisation of poor conduct**	Organisations should aspire to have an operating environment which promotes personal accountability and responsibility to do the right thing regardless of others' behaviours, as well as speaking up if employees witness behaviour that contradicts the core values of the organisation.
7	**Insufficient penalties to deter poor conduct**	A fair and transparent investigation and penalty process, consistently applied, should be in place to address poor conduct and to act as an effective deterrent.

1. Culture Case Study: A bank

Following a number of systemic failures across the banking sector globally in the past decade, there has been universal acknowledgement that deep cultural issues prevailed across the industry. The key issues that have been identified as widespread across the industry and how regulators and banks have sought to address these issues are set out below:

KEY FAILINGS	FOCUS AREAS FOR IMPROVEMENT
1. A focus on financial gain, with a disregard for risk Compensation and rewards were not properly aligned to risk management, with bonus payments directly linked to revenues and/or profits, and little attention paid to non-financial performance indicators and long term risk.	**1. A focus on a sustainable long term business strategy which upholds the firm values** A regulatory focus on remuneration now requires incentive structures to be more closely aligned to non financial performance indicators as well as long term business results and risk management.
2. Culture frameworks were fragmented within organisations A lack of clear organisational purpose aligned to core values, which could be linked to business strategy and individual objectives, enabled sub optimal cultures and standards of unacceptable behaviour to develop.	**2. Codes of conduct applied firm-wide to address cultural fragmentation** Codes of conduct underpinned by core values, consistently applied across businesses and geographies are expected to be in place, understood and adhered to alongside regular, relevant, mandatory training to reinforce expectations.
3. Lack of respect and moral judgment Poor behaviour amongst employees was able to persist unchecked within firms and across the banking sector more generally due to insufficient frameworks around expected behaviours.	**3. Clear guidelines around core values promoted across industry and internally** There is greater clarity from regulators on what is expected in terms of firm and individual behaviour regarding non financial risk including with regard to respect, bullying and harassment.
4. Poor leadership (tone from the top) Bank leadership did not collectively own the culture of the firm, nor appropriately role model behaviours to encourage long term business decision making which promoted good customer/client outcomes.	**4. Promotion of individual accountability** Boards and senior management have now increased regulatory responsibilities regarding culture and conduct issues both at a firm and individual level. This needs to be underpinned by compensation frameworks which promote good cultural standards.
5. Siloed organisational structures and lack of collaboration This led to businesses operating independently (and often not in accordance with commonly applied policies and procedures), and different standards of acceptable behaviour emerging. Lessons learned exercises were rare.	**5. Strong industry and organisational incentives for conduct collaboration** Firms are encouraged to adopt unified compliance structures across all businesses and to have common global standards to address conduct risk. Lessons learned reviews are becoming more common.
6. "Normalisation" of poor behaviour Fear and blame cultures meant employees were unwilling to speak up when witnessing poor conduct. This was compounded by the "I'll go down, you'll go down" culture and a perceived lack of action taken in response to whistleblowing.	**6. Encouraging escalation and whistleblowing** Regulators are focussed on ensuring that the raising of concerns is encouraged both formally and informally, and that whistleblowers are protected. Independent teams responsible for investigating concerns are established, with clear reporting lines in place.
7. Penalties did not act as a deterrent Regulatory fines were treated as a 'cost of doing business'. Individuals were encouraged to take risks and rarely challenged on their behaviour if they hit their revenue targets.	**7. Regulators have clarified the need for individual accountability** Through the introduction of regulatory-driven accountability regimes, senior managers can be subject to both malus and clawback, by their firms, and civil and criminal penalties for wrongdoing by regulators.

2. Culture Case Study: A national sports team

Top level sport is big business, with pressures on individuals and teams higher than ever to perform well and to win. There have been some significant conduct breaches by individuals, teams and sports associations which risk widespread disrepute. We have analysed official reports of a recent scandal within a national sports team and identified the following key findings:

KEY FAILINGS	FOCUS AREAS FOR IMPROVEMENT
1. A focus solely on player performance and results, no matter the cost A desire to win at all costs impacted team management, on-field tactics, player selection and rewards/remuneration (which were predominately based on wins).	**1. Player conduct becomes an integral part of the measure of performance** Player compensation should be based on a number of factors where winning or losing is balanced against overall conduct.
2. Absent or vague culture framework or standards for behaviour Players had unclear guidelines regarding the behavioural standards and organisational values they should apply to achieve expected performance targets.	**2. Clear culture framework, standards and supervisory bodies established** This requires a formalised culture framework which codifies how players are expected to behave, making this a key part of overall player performance.
3. Lack of respect and moral judgment A lack of concern for players, a focus on winning and the lack of clearly defined core values enabled a culture where bullying and cheating were accepted, allowing for a trend of poor behaviour to emerge.	**3. Respect is expected towards colleagues and opponents alike** Treating each other with respect must be part of the culture framework and core values and this should be instilled in players and management alike through training, development of moral judgment and emotional maturity.
4. Tone from the top was not aligned with any culture standards and core values Leadership did not have clearly defined core values, against which they were held to account, and in an organisation where the focus was on winning, were not seen to consistently treat players well.	**4. Leadership must elevate culture and behave in line with organisational values** Leadership must live by the established values and culture and manage their teams responsibly. Non-commercial incentives must be as important as financial incentives.
5. Lack of openness, collaboration Openness and good communication were not encouraged by leadership – players did not feel able to speak up.	**5. Communication and engagement within the sporting industry should be promoted** Leadership need to work hard to re-build trust and to operate in a way to encourage openness and collaboration (including with charitable and other grassroots organisations).
6. "Normalisation" of bullying and poor behaviour to achieve results Bullying and dishonest behaviour became the new norm – a lack of any call out of poor behaviour at any level led to the tacit acceptance of cheating.	**6. Poor behaviour is recognised and called out at all levels** Harassment, bullying and cheating must not be tolerated at any level of the organisation – players and other employees need to be encouraged to speak up.
7. Lack of accountability and penalties that address poor conduct Players responsible for consistent poor behaviour were rewarded for matches won, without any consequences for, or mention being made of, any poor conduct.	**7. Clear and appropriate consequences for poor conduct, consistently applied** Players and management displaying poor conduct should be held accountable for their actions and penalised appropriately according to a clear and transparent process.

3. Culture Case Study: A car manufacturer

Car manufacturers have suffered from numerous well publicised conduct scandals in recent years, with the emissions testing scandals in particular having significant implications for the companies involved. A summary is set out below of the key emerging themes and areas of focus:

KEY FAILINGS	FOCUS AREAS FOR IMPROVEMENT
1. A focus solely on business performance and financial gain Competition across the industry increased the pressure on organisations to expand and push the boundaries of innovation, with insufficient regard for existing rules and regulations.	**1. Acting responsibly becomes a key part of the business performance goals** Leadership need to balance maximising short term business performance whilst meeting all required emission standards, with a long term growth strategy.
2. Culture frameworks ignored in favour of achieving performance goals Clear culture frameworks, core values and policies setting conduct expectations were either non-existent or not prominent in guiding employees on expected behaviours.	**2. Formalised culture and conduct frameworks** Culture and conduct frameworks and core values should be developed or refreshed and should clearly set out the way the organisation will conduct itself and what it expects from its employees.
3. Lack of respect and moral judgment Examples of bullying or unfair dismissal have been cited, as well as reported instances of inappropriate pressure being placed on employees by management.	**3. Aggressive and bullying leadership traits need to be eliminated** Leadership training and zero tolerance for poor behaviour at all levels should be in place, and consistently enforced.
4. Tone from the top was not aligned with any cultural standards Leadership did not role model high standards of conduct, setting aggressive goals which encouraged employees to hide bad news and to meet performance targets at any cost.	**4. Effective governance and a leadership team who define the organisation's culture** The Board and senior management need to be clear about their organisational purpose, the values they are holding themselves and their employees to, and ensure that they are embedded in governance and policies throughout.
5. Lack of openness, collaboration internally and with industry Some employees have said that they were afraid to admit failure, and across the industry there was insufficient effort made to collaborate to achieve, for example, pollution reduction objectives.	**5. Promote communication and engagement** Organisations which promote less autocratic, more integrated and inclusive structures both in the decision-making process and the way in which employees interact, can achieve improved collaboration and engagement.
6. "Normalisation" of behaviour based on previous behavioural trends Perceived inaction on those who exhibited poor conduct led to employees rationalising this behaviour not only as acceptable, but over time, as the norm.	**6. Poor behaviour is called out at all levels** A 'speak up and listen' culture should be promoted, encouraged and rewarded at all levels within organisations. This takes time to build (trust between employees and leadership).
7. Lack of accountability and penalties that address poor behaviour Penalties or fines for poor behaviour were not sufficient to act as a deterrent either to individuals or to organisations.	**7. Clear framework of penalties are established in the market** Greater accountability at all leadership levels, better governance, improved policies and more transparency regarding breaches will promote better standards of conduct coupled with a penalty framework that deters poor behaviour.

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