



Risk consulting

**Risk editorial: Organisations' cultural
assessment and transformation**

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Organisations' cultural assessment and transformation

While the conduct of financial institutions at home and abroad has garnered considerable attention of recent years, a number of other industries have also had their fair share of poor press. Questionable practices in the construction sector, utilities and banking, as well as large retailers and their suppliers, have rocked the public's confidence time and again and led people to question the moral integrity of these organisations. Governmental bodies and agencies are similarly positioned. Concerns around bullying and harassment and a perceived lack of inclusiveness are giving them good reason to reconsider their own cultures.

It is not surprising then that leading organisations have begun to reflect on the culture and sub-cultures of their organisations. They are intent on assessing whether issues exist, their underlying causes and what actions could be taken to either change or enrich their organisational culture.

Of course, culture has always been fundamental to an organisation, points out KPMG's Gillian Kelly, Partner in Risk Consulting, and current culture initiatives should be undertaken to provide tangible benefits that support the medium and long-term sustainability of an organisation. Certainly it should not simply be viewed as a quick fix solution after being caught doing the 'wrong thing' or negative press.

"There is a strong focus on culture at present. However it shouldn't just be about organisations having to defend their culture. It should be about these organisations being proud of their culture. Organisations with the 'right culture' can create real opportunity and sustainable performance from that."

Gillian Kelly



Thinking big on culture

Culture is generally understood as “the way things are done around here”. In an organisation, it relates to people, performance, individual beliefs and leadership. It encompasses risk culture which addresses the articulation, communication, measurement and management of risks within an organisation. It also takes into account conduct risk, which seeks to identify and address risk in product design and sales practices and behaviours that have an impact on customers as evidenced in KPMG’s thought leadership, ‘Conduct Risk: Aligning product, customer and value’¹

We believe organisations need to tackle the issue of culture in its broadest sense to effect lasting change. While conduct risk and risk management are critical factors – and gain significant attention from regulators, boards and management – they are not enough in themselves.

It is only by taking a more holistic approach, understanding and addressing an organisation’s core strengths and weaknesses as regards leadership, individual beliefs and other organisational mechanisms (such as structure and policies and processes (intent), and associated operationalization (execution)), that a genuine transformation can occur.

¹ KPMG, 2017, Conduct Risk: Aligning product, customer and value

The balancing act

Organisations serve a number of important stakeholders, including customers, shareholders, employees, society, and their own organisation.

Organisations, and individuals within organisations, face decisions on a daily basis which affect these competing interests and potentially favour one stakeholder group over another. Unfortunately, rather than being carefully considered, these decisions are often unconscious or based on 'the way we have always operated'.

A consequence of this can be an almost unnoticeable drift towards shareholders and employees at the expense of customers and society.

The problem is it is very difficult to see this from inside an organisation. Further, such skewed behaviour isn't going to be adequately captured through a one-off culture survey. This means organisations need to be having a continual conversation about how they are doing, whether or not their orientation is evidently biased in one direction or another and how their make-up and DNA is driving culture within that organisation.

Whenever organisations are making a critical decision, they need to ask themselves whether they are servicing their people, their shareholders and customers. They need to consider the extent to which their service aligns with their organisation's values, purpose and strategic direction. It is essential that this is an ongoing commitment, a genuine part of the everyday conversation.

Considering Culture

Certain indicators may point to whether an organisation has a positive (or poor) culture. It is possible to see good examples in the utilities industry where they have tackled safety head on.

KPMG's Managing Partner Shaun Murphy, points to the firm's own ability to roll out a Business in the Community Ready for Work initiative successfully.

"Corporate Citizenship creates opportunities for everyone to make a difference in Ireland and overseas, working with outstanding Corporate Citizenship partners and helping people overcome challenges whilst learning new skills and solutions."

Ultimately, however, identifying an organisation's current state of culture has a very strong social science background, says Shaun Murphy. "That's what we bring to answering the question at KPMG. It's that deep understanding of where your strengths and weaknesses are. Today we have a much broader set of tools to apply to that – whether quantitative or qualitative research, lead or lag indicators – to understand where your organisation is at culturally."

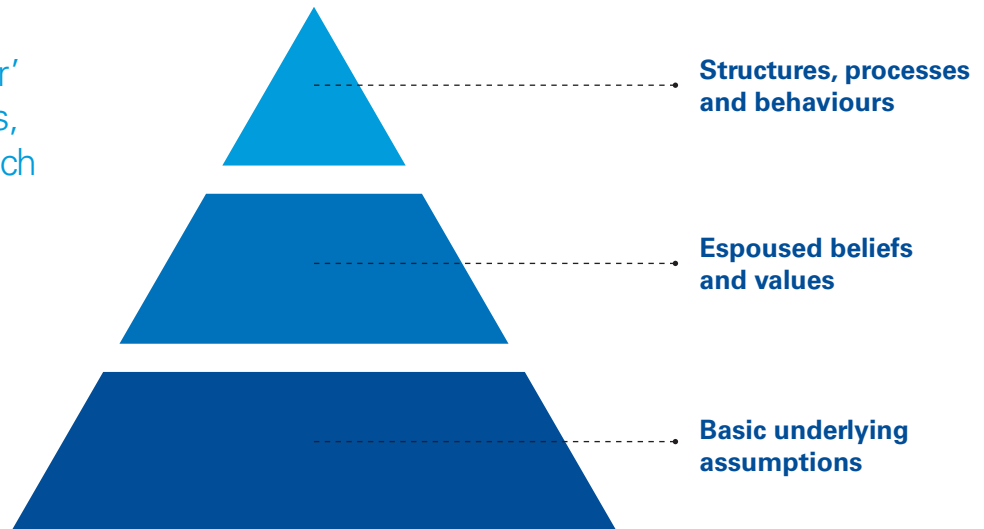
This isn't about one size fits all – a prescriptive list of dos and don'ts as it were. Clearly cultural considerations are unique to each organisation. "We can very easily fall into a trap of being black and white about what is a good culture or a bad culture for an organisation," observes Gillian Kelly.

"This is inherently problematic and it is for this reason that regulators won't be drawn to define a 'culture check list'", says KPMG's Janina Sweeney, Director, Risk Consulting.

Nevertheless, there are a set of cultural parameters that leaders can look to in their organisation in order to assess and understand their culture and determine whether it's in the right spot – even though that right spot on each of the parameters will differ from organisation to organisation.



“Culture is not a ‘factor’ or ‘variable’ in business, it is the context in which the business exists.”



A cultural diagnostic

We believe the first step in any cultural journey is a cultural diagnostic of an institution or business unit. This involves an in-depth, often independent, appraisal of where an organisation's strengths and weaknesses lie in terms of its culture.

Edgar Schein's model of corporate cultural identifies three layers of culture, which are as relevant to the public sector as they are to the private sector.² They include the things you can see in any organisation, (Structures, processes and behaviours); an organisation's norms and values, (such as espoused beliefs which drive behaviours), and basic assumptions, (being the rules that are taken for granted and hence almost indiscernible).

An organisation should interrogate each of these layers to help understand and assess existing strengths and areas for improvement. This may be best carried out by an outsider through such tools as interviews, surveys and workshops, as well as reviews that consider key values chains in the organisation to identify where the critical decisions are made and communicated. It is only then that it becomes clear which stakeholders' interests are favoured and how these biases drive outcomes that reinforce or work against the desired culture.

Many culture assessment programs focus too heavily on staff surveys. These can be useful but results often simply describe the current state (but not the underlying causes), or provide an abstract view of culture through. Both of elements can be useful but without the context of how the organisation operates and individuals' underlying beliefs, they provide only a partial understanding of culture.

There is also the common problem that the underlying culture of the organisation rejects the attempt to impose different behaviours. As a result an organisation needs to develop actions and insights that address the underlying causes of behaviours and align these drivers to the needs of the strategic change program and its objectives.

Modelling good behaviours

There is no doubt the leaders of an organisation are an important element of the cultural change itself. This goes well beyond their ability to direct the necessary changes however. They don't sit outside it, they are part of it. Rather than simply writing the values and watching the culture change, they've got to recognise themselves as critical in driving it.

It is also important to realise that these leaders go beyond the board and senior executives. In fact regulation is an indispensable part of cultural change in addition to the leaders who will have a direct impact by guiding the tone from the top. Regulation will be focused on all aspects of culture but the solution does not just exist in the boardroom.

Speaking out

If leaders are going to be effective at any level, however, they need to feel confident they can freely express themselves to ensure open and constructive engagement.

Similarly, employees throughout the organisation have to feel comfortable about speaking out. "One of the greatest risk mitigation measures from a cultural point of view is actually diversity – having an inclusive company culture," says Shane Garahy, Manager, Risk Consulting. Ultimately, it's about diversity of thinking.

Taking this further, disparate sub-cultures can work well in an organisation, inspiring creativity and innovation.

Taking time

There is no doubt that both the public and private sector are under considerable pressure from the 24 hour news cycle and quarterly reports among other things.

In some cases, it's a matter of stepping back and defining what is going to be important in the long term. "Holding firm to a position is critical when you're under pressure and not losing sight of the stated objectives. It's a quality that's evident in successful leaders but it's difficult when you're under pressure and you have to report to a short-term interest body," says Yvonne Kelleher, Director, Risk Consulting.

Leaders who can respond to any short-term challenge by acknowledging mistakes were made, then step back and work out what's going to be important in the long term are invaluable here. "You need a culture that can enable that and not get into the bad habit of blame and criticism. You don't want to risk throwing out everything."

This is important to keep in mind when effecting cultural change – particularly for sectors such as financial services that are under considerable pressure from the regulators. Paying mere lip service to cultural change, or simply ticking the boxes, cannot result in a sustainable solution. Regulation focus will be evidenced based, says Gillian Kelly.

"Organisations need to question whether they are putting things in place now because they are responding to regulators or because it feels like the right thing to do. Are they genuinely thinking about the medium term and longer term consequences?"

The case for change

While cultural change might appear daunting, there are many cogent reasons for embracing it.

Connecting the organisation with the people and communities it serves helps bring meaning and purpose to daily work. There is considerable evidence that 'purpose' is increasingly important in attracting and retaining the best talent. Research has also found links between such connections and sustained financial performance.³

Importantly, it also helps address the threat of disruption, including digital disruption, and enables organisations to respond appropriately to new competitive threats. For businesses, cultural change can provide for greater customer retention, market share growth and, ultimately, superior shareholder returns. In government, it allows its people to further improve what they are doing, providing even better services to the community and ensure that their services are making a difference.

A sound culture is also a significant risk mitigation. While the regulators haven't intervened in other sectors to the same extent as financial services, all organisations have to be cognisant of the potential for hefty fines and other costs if they fail to stem poor conduct.

Culture change is not just one thing and it takes time. "Just as culture assessment considers each layer of the organisation's culture, change interventions must also address each layer in a systematic way," says Gillian Kelly. Developing values in isolation will not change culture. Changes must be reflected by addressing critical processes and structures. Interventions can also be designed to address basic underlying assumptions but these can take time to shift.

Yet while cultural change is a challenging undertaking, it is an essential element in an organisation's long-term sustainability. It is unlikely that any business sector or government department in Ireland will escape significant transformation over the next decade. That will require new business models. Organisations that have invested in understanding and developing a strong culture will be best placed to face these challenges.

3 Sidosa, R., Sheth, J., Wolfe, D., "Firms of Endearment," Pearson Education 2004



Embedding a systematic context

Understanding how the different facets that make up the organisation, visible and invisible, can be **harnessed to drive change better**

Story telling for meaning

Creating and delivering a **compelling message** to various communities that outline the 'why' but also the localised 'what'

Facilitating solutions

Being a facilitator of ideas and **removing perceived blockages** to change that might otherwise stifle momentum

Assessing organisational networks

Understanding and **involving the different networks** that operate formally and informally across the organisation to influence key stakeholders and the masses

Applying multiple mindsets

Ensuring the appropriate **skills and capabilities** are brought together to drive the change forward

Transformational Leadership Skills

Pacing implementation

Not doing everything at once, keep **driving the priority activities** – those that will deliver maximum value

Creating strategic space

Ensuring people have the appropriate **headspace to maintain focus** but also continue to think about the bigger picture

Juggling political dynamics

Understand the competing agendas that might be at play and navigating a path that maintains momentum and brings people with you



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