



Financial services cultural assessment and transformation

Much has been written about the conduct of financial institutions locally and globally in recent years. The media has focused on the behaviour of financial advisors, the design of products, market conduct and various regulatory investigations. Attention has been placed on the negative impact that these factors have had on customers.

As a result customer and regulatory trust in financial institutions has been eroded and in response, governments and regulators have introduced new laws and requirements in respect of risk culture and conduct risk. In the United Kingdom, UK banks spent 9.9 billion pounds in remediation activity in 2014. Globally, fines and penalties for financial services organisations total in the tens of billions of dollars.

Boards and management are reflecting on the culture and sub-cultures of their organisations more than ever before. They are assessing whether issues exist, their underlying causes and what actions can be taken to evolve their culture, including protecting those critical features that have served them well. Forward thinking leaders have identified that a positive culture can be a differentiator in a saturated financial services landscape, both for staff, customers and investors.

This paper reflects on the issue of culture in financial services, how it can be understood, the case for change and the actions that can be taken to improve the culture in order to drive better outcomes for all stakeholders.

“I came to see, in my time at IBM, that culture isn’t just one aspect of the game - it is the game. In the end, an organisation is nothing more than the collective capacity of its people to create value.”

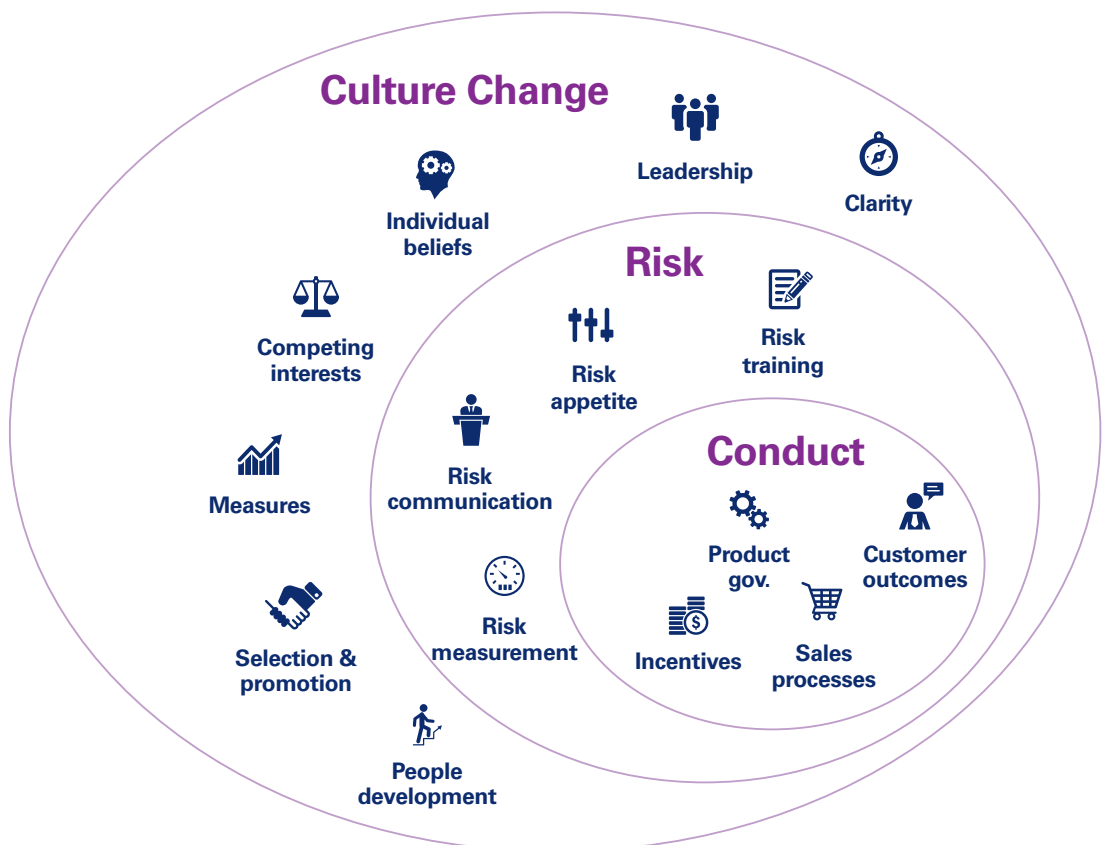
Lou Gerstner Chairman of IBM

Culture, risk culture or conduct risk

Quite often financial services institutions refer to culture, risk culture and conduct risk interchangeably. It is helpful to have a clearer definition and articulation of the inter-relationships.

Risk culture addresses the articulation, communication, measurement and management of risks within an organisation. Conduct risk seeks to identify and address risks in core product design and sales practices and behaviours that have an impact on customer outcomes. Culture is often described as ‘the way things are done around here’. It is a complex product of a broad range of drivers and includes people, performance, individual beliefs and leadership. There is significant focus by regulators, boards and management on risk culture and conduct risk.

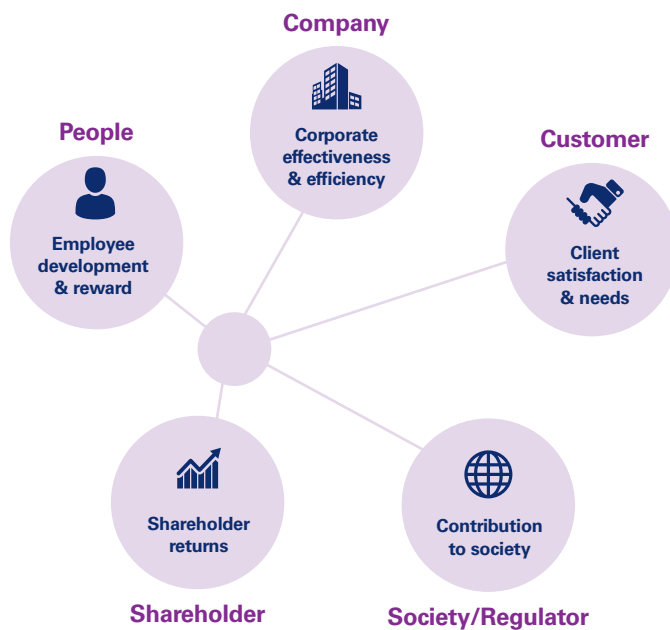
KPMG considers that a financial institution is best served by focusing on the broader topic of culture to effect lasting change. A broader cultural program, while addressing the specific issues of conduct and risk management, will also focus on the key issues of leadership, individual beliefs and other organisational mechanisms, such as the people value chain. This broader, more holistic approach, ensures a greater chance of successful transformation.



The cultural challenge in Financial Services

Financial institutions serve a number of important stakeholders, including, customers, society (including via regulators), shareholders, employees and the company itself. Each of these stakeholders have different and competing needs.

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 recent global KPMG study¹ confirmed our observation that a number of financial institutions have become more focused on increasing shareholder value and rewarding their employees (through incentives) and less focused on value to customers and impact on society. This is understandable given the 'war for talent' and the powerful force investors exert on management (as evidenced by the time invested in investor presentations and roadshows).

This drift towards shareholders and employees has occurred over time and has manifested itself in a number of areas, including:

- sales incentives that can encourage employees to focus on targets and product campaigns
- organisational structures that drive a focus on product manufacturing and distribution over customer centricity
- portfolio view of the customer with a focus on cross selling that encourages product development and sales of products that may not offer customer value
- complex products and opaque pricing that benefit the shareholder over simple and transparent products that benefit the customer
- minimal and legalistic regulatory implementation over principles and values driven compliance.



1. 'Cultural (r)evolution', KPMG & British Bankers' Association, July 2015.

**“I don’t know who
discovered water, but I’m
pretty sure it wasn’t a fish.”**

Marshall McLuhan

There is no question that the vast majority of executives in the industry genuinely want to act in the best interests of clients, create brand advocates and achieve a positive impact on society. The pull towards shareholders and employees has arisen over time and as a consequence is very difficult to see from inside a financial institution. Financial Services institutions are attempting to become more balanced to address these issues with greater focus on clients and the community.

The case for change

An opportunity exists to redefine the culture of financial institutions, make them more balanced and achieve the following objectives:

- **Reduce regulatory cost** – in the UK financial institutions have spent 38.7 billion pounds in fines, remediation costs and management costs. In Australia, regulatory change programs and investigations have been very costly and more importantly consume valuable executive and board member time.
- **Stem further political intervention into financial markets** – with trust in financial institutions low, interventions have been legislated in key areas such as capital (Basel 3), customer engagement (FoFA) and key business activities such as derivative trading (Dodd Frank OTC reforms) and payments (New Payments Platform).
- **Provide positive response to disruption** – including digital disruption. New participants with a sharp focus on customer engagement are targeting the profit pools of financial institutions. A rebalanced organisation towards customer and communities is better placed to respond to this disruption.
- **Respond to new competitive threats** – a similar response is required to address the competitive threat of new entrants in the market, such as technology players, retailers and other organisations which are exploring a broader financial services offering.

In addition, we consider that better productivity and people engagement can be achieved through a greater focus on customers and communities. Connecting the organisation with the people and communities it serves helps bring meaning and purpose to daily work.

In any change of this significance, great care will be required to manage the downside risks and ensure that desired end state is valued by all stakeholders, including shareholders.

A more balanced view across all stakeholder needs should result in higher customer satisfaction, improved retention, market share growth and highly motivated employees. As a result the organisation will deliver superior shareholder returns.

Cultural diagnostic

The first step in any cultural journey is a cultural diagnostic of an institution or business unit. Edgar Schein's model of corporate culture identified three layers of culture:²

- **First layer:** The things you can see in any organisation, the mechanisms, policies, procedures, structures, compensation plans, reporting and products.
- **Second layer:** Norms (what we do) and values (what we should do). They are the way that people within the organisation behave.
- **Third layer:** Basic assumptions are the rules that are taken for granted. They are often so ingrained in business that they are hard for an insider to see. For example 'growth in the business is critical', or 'what matters are hard numbers'.

Our approach to understanding culture recognises the importance of each of these layers and seeks to understand how they operate today to identify both existing strengths and areas for improvement.

KPMG's approach to diagnostics includes:

- **Attitudes and beliefs:** People interviews, surveys, workshops to understand norms and basic assumptions present in the financial institution conducted by sector professionals combined with organisational physiologists.
- **Processes and outcomes:** Reviews that consider key value chains in the business such as strategy, product development and sales, human resources, risk, investment and performance to identify the 'moments of truth' where key decisions are made and communicated. These moments of truth dictate which stakeholders interests are favoured and drive outcomes that reinforce or work against the desired culture.

This cultural diagnostic provides a clear reflection of the current culture of an organisation for management and the board to begin to consider how to shape the future culture. The diagnostic also identifies key mechanisms and norms that can be used to drive cultural change.

Many programs stop at the first layer without considering the norms and basic assumptions. This is ultimately why many change programs fail. Similarly, it is often necessary that a review is performed by an independent party because basic assumptions are very difficult to see if you 'live' in the environment.

2. Schein, E.H. (1985). *Organizational Culture and Leadership*. San Francisco: Jossey-Bass.



Achieving balance

Once a cultural diagnostic identifies the current strengths and challenges within an organisation, the more difficult issue of making cultural change arises. KPMG takes a systematic view to cultural change. Our proposition is that achieving improved balance within a financial institution requires the reconciliation of competing interests that occur in conducting critical business activities.³

Financial institutions' business models create dilemmas that they have to consciously or unconsciously resolve, for example:

Incentives		
Incentives to motivate individual sales staff	VS	Incentives designed to provide the most suitable products/enhance customer well-being
Simplicity and complexity		
Propositions that address bundles of related financial needs	VS	Simple/transparent products that address basic customer needs
Pricing		
Providing customers with value for money	VS	Maximising revenue and margins
Lazy money		
Educating customers to enable them to help themselves	VS	Maximising margin from all balances
Legacy products		
Ensuring customers always hold the best product for their needs	VS	Maintaining margin and profitability from the back-book

Our firm, through its acquisition of Trompenaars and Hampden-Turner (THT) has a proven approach to the identification of resolution of competing interests essential to finding a new balance.

3. Fons Trompenaars and Charles Hampden-Turner, *Riding the Waves of Culture: Understanding Diversity in Global Business*, McGraw-Hill, Second Edition, 1998

Making cultural change

Once the executive defines the future balance for the organisation by reconciling the critical dilemmas and sets the appropriate case for change, the organisation is now clear about the scale of the problem and the change that is required.

The right combination of tangible and intangible, structured and unstructured interventions to make the change can now be identified using the insights from the diagnostic phases.

These interventions occur at the three levels of Schein's model of cultural change⁴:

- **First layer – The things you can see**

Important practices within an organisation are changed using the interventions identified in the diagnostic phase. It is not necessary to make change to all elements of a value chain, we consider there are moments of truth that can have the greatest impact.

Key moments of truth in the people lifecycle includes hiring, on boarding, promotion, remuneration and exit. In the client lifecycle key moments of truth can include, product design, product governance, sales training, incentives, KPIs, complaints, legacy products, etc. Our experience is that these changes require careful consideration as unintended consequences of change may result.

- **Second layer – Values – make them clear and known**

The challenge with concepts such as Values is the 'value' is limited if they become intangible and become just the 'stuff on the wall.'

Values drive the most benefit for an organisation when they are used to reconcile the everyday dilemmas faced by the business. It is important to coach an organisation in the purpose of values, dilemma identification and resolution. This enables the organisation to embed the change in decision making and to future proof the business.

Organisations often need to undertake a 'Values to Behaviours' exercise that converts the words into behaviours that people will see when the organisation lives its values. This involves workshops to identify the behaviours and training to ensure understanding and importantly assessment processes including 360 degree feedback to monitor performance.

- **Third layer – Challenge the basic assumptions**

A series of interventions are required at the individual and organisational level to reinforce or challenge certain basic assumptions. A number of tools and techniques can be used to enable change to leadership and individual behaviours to embed sustainable change.

Implementation design

A tipping point is created with the use of proven interventions and integrated design thinking including; large scale leadership events, leadership development, communication, people developmental activities, changes accountability etc.

We recognise that metrics and reporting are necessary to track whether the right change is being made but caution an approach that has an over reliance on metrics. Culture is by its very nature, intangible and can be very difficult to put on a score card.

⁴ Schein, E.H. (1985). *Organizational Culture and Leadership*. San Francisco: Jossey-Bass.

Final observations

The financial services industry faces significant transformation over the next 10 years. This transformation is being driven largely by digital and regulation and will lead to a fundamental change in business models of our financial institutions.

Leading organisations recognise the strengths and weaknesses of their existing culture and sub-cultures and are actively evolving their organisation to respond to this transformation. Many organisations have already undertaken diagnostic work and have begun significant change already.

A recent KPMG study with the British Bankers Association⁵ found that most organisations go through three distinct phases in the process of achieving cultural change. Despite 'culture' being at the top of executive to-do lists for many years the reality for the majority of financial services firms is that they are only just beginning to examine how to implement tactical cultural change.

Cultural transformation is difficult and often takes considerable time and effort to change and so regulators and boards will need to allow organisations with a clear vision, the necessary time to implement and embed this change.

5. 'Cultural (r)evolution', KPMG & British Bankers' Association, July 2015.

Contact us

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