

# Risk Culture



**Eye of the storm**  
String of battles galvanises banks page S3

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## Moments of truth uncover priorities

### Accountability

Jonathan Shapiro

"Moments of truth" is how KPMG's Adrian Fisk describes the cultural fingerprints companies leave on important documents that reveal the true DNA of the organisation.

These are left on the board papers, financial reports and investment decisions throughout an organisation.

"When a decision is made to either hire someone or design a product or set a strategy, you can see in the document what the organisation prioritises," Fisk, who is national industry leader, financial services, says. "Does it prioritise its customers, does it prioritise its shareholders, does it prioritise the community?"

Defining and quantifying "culture" is a challenge facing Australia's top companies that are finding that shareholders, customers, regulators and the public have no tolerance for businesses that cannot get it right.

How to measure culture and manage the risks is as topical as ever, as the conduct issues facing our financial institutions has become front-page news.

At a recent roundtable co-hosted by KPMG and *The Australian Financial Review*, the most prominent minds on the issue debated how culture could be transformed from a risk that needs to be managed to a quality that should be fostered.

Simon Longstaff, the executive director of the Ethics Centre, believes lawmakers have done a pretty good job of defining culture in the Criminal Code Act, which serves as a useful starting point. That is "an attitude, a policy, a rule or a course of conduct within the corporation as a whole or in the place where the alleged offence occurred".

Longstaff says consistency and accountability form the bedrock of organisational culture. "For an organisation that says one thing and does something else, that causes the cynicism which is like an acid that eats away at the bonds of any community."

The Australian Securities and Investments Commission has emphasised the importance of culture to drive both good and bad behaviours. Commiss-



The Australian Financial Review and KPMG's Risk-Culture roundtable – from bottom left, Adrian Fisk, national industry leader, financial services, KPMG; Steven Munchenberg, managing director, Australian Bankers' Association; Ian Shiels, partner in charge, financial risk management, KPMG; Professor Elizabeth Sheedy, associate professor (financial risk management) Macquarie Applied Finance Centre; moderator, AFR's Jonathan Shapiro; Sally Freeman, national managing partner, risk consulting KPMG; Christopher Zinn, consumer advocate; and Simon Longstaff, executive director, St James Ethics Centre. PHOTO: JEREMY PIPER

sioner John Price says they are guided by "tells" that may reflect a wayward culture. These include how many complaints they have received about a financial institution, or have been received by an external dispute-resolution scheme.

"A firm that reports very few breaches might in fact be of concern to a regulator from the point of view of either they have the most efficient compliance arrangements in the market, or alternatively, those compliance arrangements might not be working the way they should," he says.

Macquarie Applied Finance Centre Associate Professor (Financial risk management) Elizabeth Sheedy says the culture is "underlying values and assumptions of an organisation".

"The reason why we study those particular cultures is because we know that those are much more predictive of certain behaviours. After all, that's why we care about culture in the first place, because it drives behaviour."

Steve Munchenberg, managing director of the Australian Bankers' Association, believes a practical definition of culture within an institution is: "what does this community expect of me?"

So how should organisations manage their cultures? KPMG's partner in charge, financial risk management, Ian Shiels, says two of the most powerful tangible steps he has seen are "escalation and consequences management".

"We've used a tag at KPMG of 'don't be the most senior person to know something' and kind of everybody enforces that," says Shiels. "If there's a problem and it gets identified and then there's an outcome, then that actually is a circle that actually works."

Sally Freeman, KPMG national managing partner, risk consulting, says accountability at the front line is the key to improving culture.

"We need to understand what motivates individuals at the forefront of our business and why they are engaging in the conduct that they are," she says.

**We need to understand what motivates individuals.**

Sally Freeman, KPMG

be effective," she says. "The culture is either going to make those structures sing and give them their power, or it's going to make them ineffective."

Some believe that fostering a strong culture requires a change in deeply ingrained mentalities.

"We all teach our kids not to 'dob' from primary school," says Fisk. "We teach people that don't raise a problem unless you've got solutions. And there are some underlying beliefs there that also need to be evolved."

And organisations that confront their cultural failings should be given the opportunity to do so.

"There is a risk as you go through those processes that you'll find more things, because you are teaching people to raise more issues," says ASIC's Price. "It's about giving those organisations the right permission to be able to say 'we're on a journey, we're going to get more things coming up for a while, but ultimately this is our goal and we're going to clearly plan to get there'."

If you risk culture...



Simon Longstaff says things unravel when companies pretend to be one thing but behave like another. PHOTO: JEREMY PIPER

# Customer focus not the only corporate solution

## Collaboration

James Sherbon

"It's not always about the customer." That was the verdict at the recent Risk Culture roundtable co-hosted by *The Australian Financial Review* and KPMG.

The discussion, which ranged from free-range eggs, to workplace safety and child labour, saw the panel agree that the needs of all corporate stakeholders should be considered, not just customers, in corporate decision-making.

Yet while it's not always about the customer KPMG's national industry leader, financial services, Adrian Fisk says that to primarily focus on the shareholder and not equally focus on the customer or community is risky.

Then again, The Ethics Centre executive director Simon Longstaff says the focus on the customer is not the holy grail way for an organisation to formulate culture.

"It's up to you: if you want to be an organisation that focuses on others and customers and gives them a priority, that's fine, you've just got to tell everybody that that's what you do," he says.

"And then you have got to be prepared to be that thing, and if you think that you can survive in the marketplace where you compete for capital and for colleagues to work with you and for

customers on that basis; fine.

"It's when you pretend to be one thing and are actually something else, then all of this starts to unravel."

ASIC Commissioner John Price says: "I don't think we should be looking for a one-size-fits-all culture, but I suppose it's around trying to nudge people in the right direction where you think they can be."

He harks back to the Murray Report, which he says called for a financial system where the interests of customers and financial institutions are more closely aligned. "From the point of view of a financial conduct markets regulator, when ASIC talks about culture it's often talking about making sure that people in the financial system don't unfairly or unduly damage their customers or the market," Price says.

"Some of the comments out of the Murray inquiry were around the need to develop a financial system where the interests of the people in that financial system and their customers are a lot more aligned."

KPMG's national managing partner, risk consulting, Sally Freeman says being a good corporate citizen is much broader than putting customers first.

"It is about suppliers and how you engage with them, it's about your employees and what sort of employer you are. The environment in which you operate in is as broad, and it's got to

include your shareholders and customers and it's finding the right balance between those drivers in your business that enables you to be ethical on many fronts."

Consumer advocate Christopher Zinn from Determinedconsumer.com.au says that while John Maynard Keynes and Adam Smith say the consumer is at the heart of all production "I am very wary when I hear someone say they are consumer-centric because it's actually, what does that mean?"

He queries what it actually means for the consumer to be in the driving seat.

Longstaff used a hypothetical example of a company that says publicly that it is entirely oriented towards the well-being of consumers, yet it "had employment conditions amongst the supply chain which violate all sorts of tenets of reasonable behaviour".

"It's reasonably predictable in this day and age at least, in a country like Australia, that should that become evident it would have a very considerable negative effect on the prosperity of that organisation," he says. "If you don't treat suppliers in a manner which is consistent with what you say you stand for, the customer concludes it's a sham."

"It's a bit of marketing spin in order to get me on the hook, when in reality a person of integrity would be trying to treat everybody according to this and not just me."

# Hired for skills, let go for their behaviour

## Employees

Jonathan Porter

The nation's firms should be doing more to understand their own organisational culture, according to KPMG's national managing partner, risk consulting Sally Freeman.

Speaking at a recent roundtable co-hosted by *The Australian Financial Review* and KPMG, Freeman says that organisational culture could be defined as "how we understand what motivates individuals at the forefront of our business and why they are engaging in the conduct that they are".

"And that comes back to our people and I think when we think about people we hire a lot around skill sets and capabilities and the sorts of people that we want to have on board and then we fire because of behaviours and cultural fit and other things."

She queried whether Australia's managers "do enough in really understanding our culture and the people that we bring into our organisations and how that will then fit with what we want to drive going forward".

According to associate professor (financial risk management) for Macquarie Applied Finance Centre, Elizabeth Sheedy, organisational culture reflects the underlying values and assumptions of an organisation.

"What are the real priorities of the organisation? Should we be distinguishing between risk culture and organisational culture more generally?"

She says the distinction between the two is a good place to start when tackling the question of organisational culture. "What are the key priorities

within that culture? The way the research has developed in this field is that there has been research in a number of specific or strategic cultures.

"Some of the cultures that have been researched are safety culture, ethical culture, customer service culture and innovation culture."

"The reason why we study those particular cultures is because we know that those are much more predictive of certain behaviours and, after all, that's why we care about culture in the first place – because it drives behaviour."

For example, she says, if you want your firm to behave ethically look at ethical culture, if you want good customer service focus on customer service culture, and so on. "We have got all these different strategic cultures. It's not feasible that any one company is going to have all of them."

"If you have 10 priorities, that's basically saying none of them are a priority."

Inevitably, she says, organisations have to pick a small number of areas in which to give a crash-priority focus.

"I don't know what the magic number is, two or three or four, but it's a small number and those are the priorities and it seems to me that the crucial ones that we are all concerned with at the moment are ethical culture and risk culture."

"I see those two overlapping because in a broad sense misconduct is one of many risks that a bank would be, or a financial services organisation would be, concerned about."

Executive director of the Ethics Centre Simon Longstaff says he sees things differently from Sheedy, taking a genetic view of our nation's corporate

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Sally Freeman asks if managers really understand the people they bring in.

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# Service is key to banks' advantage

## Reputation

Jonathan Shapiro

A court battle with the regulators over interest rate rigging, a media expose about dubious life insurance claim denials, and an endless string of accusations about poor financial advice has put the nation's banks at the centre of a national debate about corporate culture.

Steven Munchenberg, the managing director of the Australian Bankers' Association, is very much in the eye of the storm and, while he's not making any excuses for his members, he believes that the apparent cultural crisis facing banks will galvanise them to be better prepared for the digital future.

"Culture is going to be a fundamental driving determinant of competitive advantage because, particularly with technology and more and more experience, it is going to become seamless and therefore undifferentiated," he said at the recent Risk Culture roundtable

co-hosted by *The Australian Financial Review* and KPMG.

"The digital disruption that is already happening is just going to intensify. This is absolutely forcing banks to drive this alignment."

Whether it is warranted or not, the behaviour and conduct of the banks does attract more scrutiny than other industries. While the car makers, pharmaceutical companies and retailers have been exposed by regulators and the media, the rage tends to be maintained for longer when it comes to the banks. "That can create more suspicion, whether that's warranted or not," he says.

The banks are, of course, intermediaries. The middle man is always viewed with a degree of scepticism. But Australia's banks have had a long history of cultural failings and fixes.

Simon Longstaff, executive director of The Ethics Centre, says history will repeat itself.

About 20 years ago, the two large Sydney-centric banks – Common-



Steve Munchenberg says banks are viewed with scepticism. PHOTO: JEREMY PIPER

wealth Bank and Westpac – battled for dominance and they chose to follow different paths. A series of dubious incidents, including the so-called Westpac letters, prompted Westpac to make a clear decision to be a leader in serving customers, social responsibility and sustainability.

Commonwealth Bank "structured themselves very much around other considerations", Longstaff says.

He says, 20 years on, the differentiation between the banks is less clear.

"But I predict in the future those sorts of clear choices will become more evident because that will be the base of the competition," Longstaff says.

Consumer choice advocate Chris-

topher Zinn says there is demand from groups like his and from start-ups to get hold of data that regulators possess that can reveal the cultural strengths and weaknesses of banks.

"I would love to have a comparable, cultural audit of the four banks so people can say, 'well, who is the most customer centric?'" he says.

"We could actually use that, so culture becomes something banks can build a competitive advantage around."

In an age of social media, there is no doubt customers are empowered and will drive change. For instance, if internet banking crashes, customers will find out via Twitter before the bank itself is even aware of the problem.

Digital disruption that is already happening is just going to intensify.

Steven Munchenberg, Australian Bankers' Association

The banks, Munchenberg says, are very much aware of the public perception problem they are facing.

The industry has focused on two issues as a means to improve culture. One is better alignment of interests and the other centres on accountability and transparency.

"How do we actually make people feel that it's the right thing to do to blow the whistle internally and if they are still not satisfied externally?" Munchenberg asks. "And how do you make sure the customers, when they haven't been treated right, feel that they actually have a voice?"

He believes market forces will ensure the banks get their cultures right.

ASIC commissioner John Price agrees and says banks and other companies need to think about issues of culture as more of a competitive advantage rather than a regulatory compliance issue. "That's critical, in my view, and it's made more timely by digital disruption," Price says.

# Building better behaviour starts with board, not regulator

## Business structures

Mark Eggleton

When it comes to discussions on corporate culture, it's interesting to note that Google's parent company Alphabet has dropped its "Don't Be Evil" mantra from its code of conduct. It comes at a time when consumers are consistently looking at how a company operates and Google itself continues to be associated with numerous privacy violations as it collects data on every user's move.

Yet while Google might realise its mantra no longer can be realistically applied, the key problem for organisations is they don't really know how to create the right culture and make sure it sticks. Wander through most organisations and there will often be numer-

ous cultures in play – ranging from those people associated with the leadership team to those associated with previous regimes.

According to associate professor (financial risk management) Elizabeth Sheedy from the Macquarie Applied Finance Centre, the whole issue of how we fix culture needs a lot more research.

"There is very little research in this area. There are hypotheses but not much actual evidence. It would be really great if we as an industry could really take this research agenda seriously and actually get that evidence to guide our behaviour, to guide our management," she says.

Guiding corporate behaviour does not mean regulation though, says Australian Bankers' Association managing director Steven Munchenberg.



Elizabeth Sheedy says the issue of how we fix culture needs a lot of research.

"You can't regulate culture. What you can do is have a pile of indicators that reveal how closely an organisation is aligned to what it stands for and what it does," he says.

Sally Freeman, KPMG's national

managing partner, risk consulting, says you need to have the right structures in place to get the "regulatory tick" but it's all about "structures-plus".

She says the question comes back to how organisations get that "plus" and that involves solid leadership.

For Sheedy, organisations can fall into the trap of formulating too many structures. "They have built up layer upon layer of structure and it becomes inefficient and it irritates the employees and they learn to work around them. So a lot of that [building the right sort of culture] can be stripping back some of those structures and saying what are the necessary cogs that will interface with behaviours and then how do we actually drive those in the right direction and then empower people with trust."

The Ethics Centre executive director Simon Longstaff says the notion of "structures-plus" is right.

"Getting culture right starts with the board who are in the position to specify what the core values of an organisation actually are and it should be possible to see these expressed consistently across the organisation as a whole," he says.

"It's not a monolithic culture but instead one based on the concept of 'family resemblance'. I think if you loosen up culture to that degree you make it a far better organisation that's able to respond to the conditions it's operating in."

"The key for the board is to leave this in good shape from successive board to board. Moreover, with every change of leadership you can then persistently maintain organisational culture."



# Take time to listen to whistleblowers

## Transparency

Mark Eggleton

Australian organisations need to make employees feel that reporting wrongdoing is the right thing to do, especially in the wake of recent events in the financial sector as well as at retailers such as 7-Eleven.

This was one of the key points raised at the recent Risk Culture roundtable co-hosted by *The Australian Financial Review* and KPMG.

The managing director of the Australian Bankers' Association, Steven Munchenberg, says there needs to be a major focus on transparency and accountability and part of that is about "making people feel it's the right thing to do to blow the whistle internally and, if they are still not satisfied, externally".

ASIC Commissioner John Price agreed Australian organisations need to change the ingrained idea that it's not right to "dob" on your colleagues, which is a hangover from most of our school days.

KPMG's national industry leader, financial services, Adrian Fisk, says we are teaching people that you don't raise a problem unless you've got solutions.

This call for people to come forward comes at an increasingly febrile time for whistleblowers. Both sides of politics are doing their best to make it harder for whistleblowers across all walks of life. The current mass surveillance scheme supported by the Coalition and the Labor Party, in many ways, ingrains the idea that "dobbing" is worse for the "dobber" than the individual or organisation accused of wrongdoing.



ASIC Commissioner John Price says ingrained ideas on "dobbing" must change. PHOTO: JEREMY PIPER

Munchenberg and Price were making their call in reference to organisations and how they are creating and fostering the right sort of corporate culture. According to Munchenberg, part of creating the right culture is about ensuring customers feel they are being treated right and feel "they actually have a voice".

"If you feel with any big institution they have not done the right thing by you straight away, you tend to start off feeling pretty disempowered," he says. "By shining a light on wrongdoing, by

giving a stronger voice to people calling out the behaviours and the conduct that's not right, that helps drive towards a stronger organisational culture. It's about closing the gap between what you say you stand for and what you demonstrate you actually stand for."

Executive director of The Ethics Centre, Simon Longstaff, told the roundtable that on most of the occasions when things do go wrong it's not because of "wicked people who have set out in the course of their days to do bad things". "A lot of the bad things that

happen are done by good people doing bad things and a lot of the good things are done by indifferent people who happen to do it just as a matter of habit," he says.

For Longstaff part of the problem is organisations often lack the capacity to reflect on their decisions because they often don't ask: "Why do we do this?"

He says it's often a legacy from the past because an organisation has always behaved a certain way – "the way we've always done things".

They need to promote the idea that

**It's about closing the gap between what you say you stand for and what you demonstrate you actually stand for.**

Steven Munchenberg, Australian Bankers' Association

individuals can think about an issue and then report it, rather than being immediately dubbed a whistle-blower for having raised an inconsistency.

"Individuals instead need to be praised and supported. They need to be told: 'This is fantastic, you just provided us with a vital piece of intelligence'."

KPMG's Fisk says it is important to change the culture that "if you're calling out a problem, you are very much swimming against the tide, and so the organisation and culture will resist that strongly". Yet according to the ABA's Munchenberg, one of the scarier things for a senior executive is when it's something they don't know about. What should be driving internal escalation is knowing everything and that means teaching people to raise issues of wrongdoing.

For ASIC's Price, the words of Australia's Chief of Army Lieutenant General David Morrison during the investigation into bullying and harassment in the defence forces resonate most on the whistleblowing front: "The standard you walk past is the standard you accept. That goes for all of us, but especially those who, by their rank, have a leadership role."

## From page S2 Hired for skills, let go for behaviour

bodies. "If you think about the analogy of DNA, genes, they're expressed, in human life in different ways; there are epigenetic factors to do with the environment which can affect this," he says.

"And so the analogy works in relation to organisations and culture, between values and principles which are like the genes, and then how these things are expressed in particular environments, they are slightly different in different environments, is what is actually the culture."

That gives rise to a range of things, and some of them are artefacts, he says.

"And I agree with Elizabeth [Sheedy]: If you think about a limited number of genes that you might focus on within a particular organisation, it might be, say, a value around safety, or it might be a value around risk, or it might be a number of other things."

"But whatever these things are that you claim at the core of what you're doing, it should relate to your central purpose."

Part of the problem, he says, is that organisations may say they have a particular purpose, "and yet when you actually experience them on a day-to-day basis things are a little different".

"And that's one of the principal sources of risk. The risk lies in the fact

that if people say: 'well you say one thing and you do something else, therefore you don't mean it, I don't have to be bound by it', then I'll supplant what I do."

However, he says it is not acceptable for a firm to pick just a few areas to treat as priority. "You can't pick just one thing and expect the others to look after themselves, because it's a comprehensive framing of these issues which people respond to."

Consumer advocate Christopher Zinn from Determinedconsumer.com.au says that the nation's start-ups could wind up disrupting the organisational culture landscape.

"We've been talking about large organisations – I'm involved with a number of start-ups who see them-

selves as disruptors in the fintech area."

He says start-ups have to effectively create a culture that will mirror their wish to be disruptors of legacy companies and industries.

Adrian Fisk, KPMG's national industry leader, financial services, says one of the challenges of the discussion is that organisational culture often means different things to different people. "If I think about the way culture is traditionally referred to in management texts: it's the way things get done around here."

"If I think about how some of the debates being played out at the moment, there tends to be a discussion around culture without focusing on, are we really talking about how customers and all the stakeholders are

treated within an organisation? Are we talking about something different, about how risk is managed within an organisation, so that organisation does not imperil its own future?"

Managing director of the Australian Bankers' Association Steven Munchenberg says there is a danger of over-complicating the definition of organisational culture. "And at the end of the day, I think for practical terms, what it means for any individual working within an institution is: 'What does the community expect of me?'" he says.

He believes a single organisation can consist of a mix of cultures. "This applies to government institutions, to banks, to religious institutions. You've actually got a whole mix of cultures. And then you have legacy cultures."

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