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Is culture entwined with conduct?

Corporate Australia has experienced something of a watershed moment over the last twelve months. The Royal Commission has identified systemic problems at the heart of many of Australia’s financial services (FS) organisations – companies whose activities ripple through everything from the national economy and major industries to the financial wellbeing of individual businesses and families. The Commission has unearthed a spectrum of issues that range from compliance breaches and fraudulent conduct to poor financial advice and ethically questionable practices.

Paradoxically, within the same landscape, retail (including FS organisations) have become increasingly purpose-led and customer-focused. Significant energy and investment has gone into ensuring that work has meaning and connects to a purpose; enabling employees to make a difference by delivering value to society beyond better shareholder returns and balance sheets. Organisations have also worked to make sure that the way of doing business is centred around providing a positive customer experience throughout the entire product life cycle in order to drive repeat business, customer loyalty and profits.

Interestingly, in part driven by local regulatory requirements, Australian institutions have been very active in assessing their risk culture and organisational culture more broadly compared to their global peers.

So why are we seeing a disconnect between the attention on *culture* and its impact on *conduct*?”

In short, the Royal Commission has shown us, through real-life examples and case studies, how organisations can drift away from their core purpose, values and duty to customers.

It has proven that no matter how well-intentioned, the FS industry’s efforts haven’t been nearly effective enough when it comes to fostering an effective risk culture. For too long, FS organisations have fixed their attention on “front of house” customer service and satisfaction rather than making difficult decisions about trade-offs to ensure the right prioritisation on addressing inadequate capability, systems and processes. The cumulative effect of not addressing these operational and capability issues has led to a ‘normalisation’ of the problems rather than taking accountability for fixing them.

There’s no denying that these events have eroded the trust customers have placed in the FS sector – and created a crisis of confidence within financial institutions. But it also represents a compelling opportunity to reset the ways in which organisations understand their culture and rethink the root causes and outcomes that are the result of this core culture.

Now is the time to look beyond the prevailing approach to risk culture taken by the majority of institutions to date. We’ve seen how the traditional way of handling it – the process of conducting reviews to assess problems and

come up with clear-cut answers and recommendations that are actionable in the short-term — continues to fail. This diagnostic-heavy methodology has certainly helped organisations identify issues and simplify how they are described and communicated to create better understanding, alignment and acceptance of the problem. We've seen that boards and management have listened and shown genuine concern when presented with evidence of a culture described as “avoidant” or “blaming” or one that sends a message to employees that say “turn a blind eye” or “don't speak up”. But identifying and labelling the problem isn't enough. Moving forward, more of a focus on the interventions that meaningfully change culture is essential. There is no doubt that this is a much harder task — and will inevitably require tough decisions to prioritise investment that results in real trade-offs as well as an ability to sustain the relentless commitment needed to fix complex and deep-seated issues.

Further, assessing culture by management interviews and surveying staff to understand their attitudes to risk or engagement levels provides only part of the picture. While the survey and interview based approach taken to date has no doubt raised awareness of the importance of risk culture, it has focussed too much on understanding staff perceptions and not enough on the infrastructure needed to support and encourage the right behaviours. A more three-dimensional approach considers employee performance and a deeper understanding of the conditions — including organisation structures, processes, systems, education and incentives — by which an employee's behaviour is shaped.

So where can we start? The following considerations offer new ways of thinking about and driving positive change across your organisation — both now and into the future.



Enable your people to deliver on a higher purpose

Problems can arise when an employee thinks about their job exclusively in terms of their day-to-day responsibilities without understanding how their actions fit into a larger part of an organisational puzzle or how the ‘role’ they play at work has implications for people and society beyond the organisation itself. Too often, though, people are hamstrung by organisational infrastructure or technological systems that encourage employees to focus on short-term tasks, work in silos, and engage with customers without accountability or transparency. Or, worse, they are rewarded and incentivised in a way that encourages risk-taking outside the organisation's appetite; including actions that give rise to the risk of customer detriment. It's increasingly important for business leaders to ask if their organisation creates an environment that supports employees to perform their role effectively and, ultimately, to consistently do the right thing. This means ensuring that the purpose and values are not just upheld by the leadership team but permeate every aspect of an organisation — even if this means reprioritising investment decisions about people, processes and systems.



Redefine the focus on the customer

For the last few years, customer-centricity has been the mantra of Australian businesses. But this phrase has often been defined in terms of customer experience, rather than longer term customer outcomes. It's also neglected a chain of connections between a product or service, an organisation's duty to the customer and the ways in which that transaction could impact the customer's financial wellbeing. Creating a good customer outcome isn't just about a point in time experience or convenience — for example, a sleek, customer-centric app, a five-star rating or even a seamless journey across multiple touchpoints. It's about making sure that employees, top to bottom, are conscious about whether or not they are doing the right thing by the customer. It's also about making sure they are empowered — through the right supporting infrastructure and motivational drivers — to conduct themselves in a way that goes beyond striving for short-term performance targets to prioritising the long-term interests of the customer.



Uplift risk management and compliance capability across the business

There's been a clear rise in recognition of the importance of conduct risk management and compliance in driving good customer outcomes. However, the intent of risk objectives and compliance obligations has often been obscured by both increasingly complex regulatory and operational environments, which has led to a focus on process over outcomes. In part this can be addressed by taking a disciplined approach to managing risk and compliance controls, including automating them where possible. Importantly, it should be accompanied by a more focused effort to provide the training and development to improve the capabilities in these areas. Employees at all levels need to know and understand the obligations with respect to their role — with a genuine commitment to their intent.



Conclusion

The relationship between conduct and culture is complex and ever-shifting. But the post-Royal Commission environment represents an opportunity to change organisational culture for the better and empower employees to focus on long-term customer outcomes. Ultimately, trusted and enduring relationships will be central to organisational success, for all stakeholders, well into the future.

References

Interviews w/Caroline McCombe and Amy Plowman

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