

*Successful companies are marked out by the strength of their culture.  
How can you actively shape your culture and turn it to your competitive  
advantage?*

# *Forging a winning culture*





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# Introduction:

## Time for a new take on cultural change

*We're pleased to introduce 'Forging a winning culture'.*

The first question an analyst is likely to ask a CEO is: 'What is your strategy for the future?' A better question would be: 'Do you have the right culture to succeed?'

From sharper customer-centricity to more assured control over risk, a winning culture can deliver decisive competitive advantages. It's going to be especially important in fostering the innovation and willingness to embrace change needed to compete in a financial services (FS) marketplace being transformed by digital technology, fast-shifting customer expectations and an influx of new entrants.

So to what extent is your business using its culture to get ahead? Culture is certainly front of mind in the boardroom. But this is largely a response to regulatory pressure rather than a competitive focus. Regulators in many parts of the world want FS organisations to tackle what they see as a dysfunctional culture, which has had its most extreme manifestation in recent scandals such as LIBOR and the Forex manipulation.

Yet, after several years of determined effort to reshape attitudes and behaviour, many boards have been left wondering why the culture within

### **What we mean by culture**

PwC defines culture as 'the assumptions or beliefs common in an organisation that allow you to predict how your people will behave and what they will achieve'.

their organisation hasn't really changed. While they've sought to impose a new tone from the top and adjusted compensation policies, how confident are they that their businesses aren't at risk of more damaging lapses? It's telling that the proportion of FS industry leaders who believe that lack of trust is a threat to growth has continued to rise.<sup>1</sup> Looking specifically at risk culture, a PwC survey of some 500 banks found that their executives rated their risk culture as C+ on average, when at least A- would have been expected given the investment and effort to date.<sup>2</sup>

Could the focus on cultural change as primarily a compliance requirement be destined to fail by positioning it as a bureaucratic distraction within the business? Might this approach even be detrimental by impeding agility and enterprise within FS organisations and innovation, investment and growth in the wider economy?

<sup>1</sup> 338 FS CEOs taking part in the 17th Annual Global CEO Survey 'Fit for the future: Capitalising on global trends', PwC, 2014

<sup>2</sup> Cure for the common culture: How to build a healthy risk culture, PwC, 2014



*59% of FS CEOs believe that lack of trust in their businesses is a threat to growth<sup>3</sup>*

### **Succeeding where others have failed**

In this paper we look at why it's time for a new take on culture, which would seek to unleash the full force of your culture by aligning it with your overall strategic objectives. Rather than simply responding to regulatory demands and fixing the failings of the past, the priority would be building for the future.

We also look at how to make change manageable by honing in on specific behaviours rather than seeking to overhaul your entire culture. The approach could be likened to a short, sharp surgical intervention. Crucially, this approach is also measurable, enabling your business to track progress and demonstrate this to customers, regulators and other key stakeholders.

A more far-reaching change in culture will take longer. But adjusting critical behaviours can help your business to set the right direction and build momentum for broader change.

We will be following up this paper with a series of practical summaries outlining the tools to use and key areas to focus on, as you look to deliver effective assessment, measurement and intervention.

## **Overview**

### **1. Culture drives strong performance**

Culture is a crucial source of competitive advantage and differentiation in an FS sector facing major transformation. This includes strengthening reputation, innovation and customer-centricity. Our analysis shows that a strong culture is more highly correlated with sustainable high performance than strategy, operating model, or product coverage.

### **2. Behaviour is proving difficult to change**

FS organisations have invested heavily in cultivating a culture that promotes risk awareness and ethical behaviour. Yet, regulatory challenges and allegations of misconduct have persisted.

### **3. There can be no cultural change without business buy-in and alignment**

If cultural change is simply driven by compliance considerations, it's difficult to gain buy-in within the organisation. Experience demonstrates that culture can only be changed if this is aligned with business objectives and what employees value. This alignment is the basis for a new take on cultural change.

### **4. Setting a baseline for tracking progress**

Culture is often seen as too intangible to evaluate and track. But by assessing the levers that influence it and the behaviour and outcomes it generates, it's possible to develop a clear and quantifiable assessment. This assessment can provide a clear indication of whether employees understand what is expected, whether they're translating this into their day-to-day activities, and whether rewards and other reinforcing mechanisms appropriately support this. This assessment can then form the basis for clearly targeted interventions that go beyond vague talk of cultural change.

### **5. Setting a clear and realisable agenda for change**

You can't change an entire culture and way of working overnight. But key judgements and behaviours can be shifted in a relatively short space of time, while helping to build momentum for broader change. So it's important to concentrate efforts on the few decision points and interactions that have the most telling impact ('moments that matter').

<sup>3</sup> 338 FS CEOs taking part in the 17th Annual Global CEO Survey 'Fit for the future: Capitalising on global trends', PwC, 2014

# *The role of culture in the future of FS*

*As the nature of FS and what customers expect from your business changes, your culture is set to play an ever more important role in your ability to sustain profitability and growth.*

**1**



Have you tried to change the culture within your business over the past three years? What have you wanted to achieve and why? How much difference has this made?

It's clearly important to be able to demonstrate to your regulator that you're seeking to enforce appropriate and sustainable behaviours. Indeed, this pressure continues to intensify. But if your employees see the need to reshape culture as being primarily driven by regulation, then any changes are likely to be skin deep at best. If your culture is viewed as a 'problem' to be fixed, then it's likely to be treated as a compliance rather than competitive opportunity, with functions like internal audit taking the lead rather than the board and the broader business.

### Business buy-in

To bring business teams on board and achieve real cultural change, it's important to establish clear commercial benefits, above and beyond the need to avoid regulatory sanctions and fines. A bank we worked with chose to review its culture following a regulatory intervention. But it quickly saw an opportunity to look beyond immediate remediation, at how it could use the initiative to strengthen customer understanding and engagement. The steps it needed to take to meet regulatory expectations and enhance customer protection flowed from this wider business programme.

### The power of culture

So why is culture so important? A winning culture promotes greater innovation, customer focus and risk awareness. Indeed, our analysis shows that culture is more correlated with high performance than strategy, operating model, or product coverage. In turn, there is likely to be a cultural element within almost any of the strategic, organisational and other major change programmes your business is pursuing at present.

But culture isn't just about conformance. Indeed, a strong culture can be liberating. The more confident you are that your employees will behave as you expect, the more licence you can give them to make decisions and capitalise on opportunities for growth. A strong culture also conveys what your organisation stands for, making it clear to recruits what they're buying into when they join.

### Culture as an agent of change

What role is culture likely to play in reshaping your business? Within each sector, there are different starting points and objectives. Within insurance and retail banking, for example, companies recognise the need for greater customer-centricity. But employees may lack the insight to know what customers really want or authority to meet their needs. Many organisations also want to develop a more technologically enabled approach, though many employees still prefer the comfort of familiar ways of working. The effort needed to shift impenetrable habits and routines is often heightened by concerns that changes may lead to job losses.<sup>4</sup>

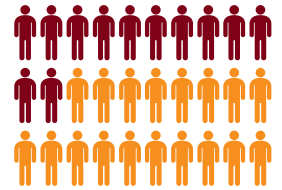
Within investment banking, businesses are looking to change assumptions about what it means to 'win' by promoting a more collaborative approach and longer term measures of success.

Asset managers have largely been spared the culture spotlight to date, but the need for more transparency on cost and comparative returns is starting to drive more focus here too, especially for those expanding into new markets.

For hedge funds and other alternative investors, one of the key cultural challenges is how to retain the entrepreneurial spirit in what are becoming less intimate and more regulated businesses as they continue to expand. Institutional investors expect more systematic controls to justify the inclusion of alternative funds in pension portfolios. By simply adding more sign-off procedures, alternative investors may be heightening complexity without changing what employees see as the right thing.

Each territory also has different starting points. While Australia didn't experience the disillusionment and dislocation seen in other Western markets, for example, culture is still seen as critical in differentiating an otherwise broadly similar set of 'big four' banks.

In Spain, by contrast, the rapid consolidation with the mutual banking sector is forcing staff to shift from what has been a largely public sector culture to more conventional commercial expectations. This manifests itself in areas ranging from new credit assessment criteria to more rigorous performance management. Banks also face the challenge of sustaining staff loyalty and engagement in much larger and less personal organisations. This underlines the importance of culture within major organisational change.



*40% of the banks taking part in a recent PwC survey don't believe there is a complementary balance of power between the risk and business functions within their organisations.<sup>5</sup>*

*"A culture of prudence and risk governance is a better guarantee of safety and soundness than all the rules on capital and liquidity that we can draw up."*

**Ravi Menon,**  
Managing Director,  
Monetary Authority of  
Singapore<sup>6</sup>

*"Are compliance programmes put in place by risk managers and general counsels understood as a kind of background noise that should not drown out all the noises urging employees to 'make their numbers' or are they seen as reflecting the views and priorities of senior management?"*

**Governor Daniel Tarullo,**  
Board Member,  
Federal Reserve

<sup>4</sup> Culture and behaviour in insurance is further explored in 'Insurance 2020: Unleashing the value from values' (<http://www.pwc.com/gx/en/insurance/insurance-2020-unleashing-the-value-from-values.html>)

<sup>5</sup> Cure for the common culture: How to build a healthy risk culture, PwC, 2014

<sup>6</sup> Speech to TR Pan-Asia Summit, September 2013

Japanese banks have made a series of acquisitions as they seek to strengthen their foothold in Southeast Asia. It's vital to retain and motivate local talent by ensuring they can see a long-term future for themselves within the wider group. The underlying challenge is how to adapt operational and governance models to the very different demands of these economically and culturally distinctive markets.

### ***Struggling to make an impact***

What these different objectives highlight is that changing culture is easier said than done. And while there has been progress, most boards are still finding it difficult to translate their high-level intentions into tangible changes that cascade through the organisation.

So why has change proved so challenging? Many FS organisations may be biting off more than they can chew. In our experience, they often start by trying to create an all-encompassing 'framework', which links culture to the organisation's vision, values and behaviours. But the lack of clear focus leaves them fighting on too many fronts to make a lasting difference and the commitment to change gradually ebbs away.

Particular challenges centre on how to overcome what can often be inward-looking and process-driven cultures. Moreover, while the experience of the financial crisis has spurred the development of a more risk-focused culture, there are signs that the pendulum may have swung too far the other way, with a reluctance to take risk now impeding innovation, enterprise and growth.

Yet, with the right focus it is possible to make a difference. In the next section, we outline how to make change manageable.





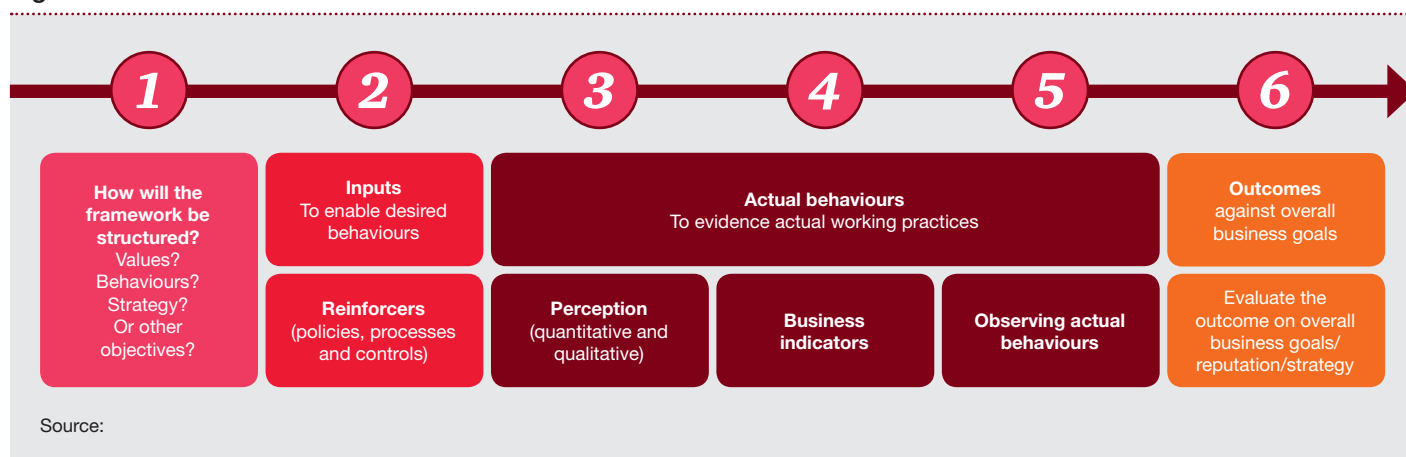
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# *How can culture be changed?*

*You can't change a culture overnight, but the judgements and behaviours that have the biggest influence on customer and commercial outcomes can be adjusted relatively quickly.*

2

**Figure 1: A framework for measurement**



Wholesale cultural change may be difficult to achieve. It might even be counterproductive by eliminating many of the positive aspects of your culture, as well as those you'd like to modify. A better approach is to look upon change as a surgical intervention, which focuses on specific behaviours rather than an overhaul of the entire culture.

The starting point is articulating exactly what you're in business to do and determining what role culture plays in helping you to achieve this. You can then begin to formulate a 'diagnosis', which seeks to identify the behaviours that need to be sharpened, the interactions where they have the most impact and how well these are aligned with selection, training, performance targets, bonus evaluation and other reinforcing mechanisms.

### **What gets measured gets done**

Effective measurement is crucial in creating an informed basis for this diagnosis. As Figure 1 illustrates, it can help you to identify key strengths, what areas need improvement and what actions need to be taken.

While culture may in itself be difficult to measure, you can gauge the attitudes and behaviour that stem from it. It's impossible to examine all the behaviours at all times. Therefore, it's important to identify and hone in on the 'moments that matter' – the interactions and decision points where behaviours have the most impact on

outcomes. These might include dealings with customers in areas ranging from assessments of product suitability to how complaints or insurance claims are handled. Within the organisation itself, they might include what goes into committee agendas, the relative readiness to challenge decisions, or why some people are selected for promotion and not others.

Specific measures would include lead indicators such as employee engagement, which can help to anticipate whether outcomes will be delivered or whether you're storing up risks for the future. This can be augmented with qualitative indicators, such as the nature of the interactions with your clients. Surveys and focus groups can help you to judge what your employees would do if they are confronted with a difficult situation or conflict ('hierarchy of priorities'). They may have head office telling them to put customers first, while their immediate boss wants more sales to meet revenue targets, for example.

Further questions include whether the desired behaviours are sufficiently and consistently enforced? The results can often be quite surprising for senior management. A bank we worked with believed that its core values were consistently communicated and understood throughout the organisation. However, closer scrutiny found that the behaviours didn't live up to the standards set by the group leadership. Procedures were bypassed or ignored. In many other cases, staff didn't really know what was

expected or how to apply the group's stated core values to their day-to-day decisions. A good way to gauge this consistency and alignment is to observe what people do when there are no clear guidelines or where there needs to be a trade-off.

The real value of measurement isn't the rating itself, but in helping to create a focused plan that goes beyond vague talk of 'cultural change'. Clear assessment and targeting provide an actionable agenda for leaders and a business case for how the changes can improve performance. Once the changes are underway, this initial evaluation provides a baseline from which to measure progress and demonstrate this to boards, supervisors and other stakeholders.



*75% of the banks taking part in a recent PwC survey say their staff are more motivated by financial rewards than less tangible rewards<sup>7</sup>*

### **Targeted intervention**

This 'diagnostic' will enable you to hone in on critical behaviours that need supporting, adjusting and have most influence on outcomes in the moments that matter. You can't introduce radical change too often. It's therefore important to reflect carefully on what you want to adjust, why and how.

Further interventions might focus on how to simplify pricing structures, reporting lines and overly complex areas of your business, which would increase transparency and make it easier for your employees to deliver the right outcomes for you and your customers.

The diagnostic can also help to identify vulnerabilities to conduct risk in areas such as mis-selling or sanctions' evasion. This can then be used alongside behavioural detection software and other developments to pinpoint teams or individuals that have or could compromise your organisation.

Communication is critical in ensuring that employees understand the relevance of any changes to their own working lives and what they might gain personally from doing more than simply following prescribed rules. Communication isn't just about telling people what they can and can't do; it is also about using stories – relevant to where they live, their culture and the business they operate within – to bring to life what they can achieve and the real implications if they fall short of what the organisation expects from them.

### **Steering through the moral maze**

A good way to help employee teams think about their hierarchy of priorities and how to balance them is to ask what they would do if performance began to dip. Take for example a situation in which they are a week away from having to report failure to meet targets for a second month in a row. The potential answers range from a 'fear of retribution' – hide results and hope they improve – through to a highly risk-averse and possibly unnecessary move to major remediation. In the middle would be a more balanced look at what could be done in the short-term and accompanying the results with plans for improvement. You can then ask them what they think their management would want to see, which is often far from clear. This kind of evaluation is not only useful in judging the attitudes within the business, but also whether employees understand what is expected, what drives their behaviour (e.g. fear of recrimination versus readiness to live by the organisation's values) and how aligned, what people are minded to do, is with what you want.

While some level of flexibility in approach is needed to take account of national or operational cultural variances, the expectations and sanctions should be aligned. It's also important to give people the right support. Examples include investing in the systems and training that would allow staff to genuinely understand and respond to what customers want.

People take their cues from their leaders – line managers as much as CEOs. It's therefore vital to ensure that your leaders consistently and unflinchingly support what they say by what they do – in short, 'walk the talk'. This might include insisting that sales and customer outcomes are treated equally within performance evaluation and reward, even if a dip in revenue is met with pressure from shareholders.

### **Rebuilding trust**

Trust is crucial to the long-term growth of your business and its ability to attract talent.

Big marketing campaigns or statements from the board won't achieve this on their own. Customers need to see for themselves, for example how they're treated when they come into a branch.

Our work with clients underlines the importance of ensuring that people within your organisation trust each other, as without this it's impossible to win trust from outside. This in turn requires a consistent approach in which no group or individual is seen to gain special treatment, even if they're a high revenue performer.

<sup>7</sup> Cure for the common culture: How to build a healthy risk culture, PwC, 2014

### ***Actions speak louder than words***

In a complex organisation, people's actions are influenced by multiple signals rather than big gestures. The signals that set and reinforce the unwritten rules within your business might include a meeting in which 90% of the questions are about the profitability of the deal and only one is about its ethics. What this says is that profit trumps ethics. Similarly, what one leader might expect could be subtly contradicted by another's behaviour in a subsequent meeting. Either the employee learns to go to one leader for some decisions and then another for others. Alternatively, they learn to make their own interpretations, since that's clearly how the leaders themselves behave.

Being seen to support society's goals will help your business to be viewed as more valuable and deserving of support and reward. A clear example is the Japanese insurance industry's response to the 2011 earthquake, as it actively sought out claimants and helped them to rebuild their lives. This has transformed the perception of insurance in the country.

### ***How long will it take?***

Behaviours can be changed faster than systems. But objectives, direction and timetables need to be clearly mapped out. If the targeted interventions take more than a year to be enacted, experience suggests that the process will lose momentum.

While changes in behaviour can be set in train relatively quickly, it may take at least two cycles of performance, evaluation and mobility before the outcomes can be fully realised or measured. Different areas of the organisation will require different approaches. Retail banking is quite command-driven and hence can be changed quickly, for example. But investment banking is more autonomous and therefore the adjustment will take longer.

By contrast, the underlying cultural change could take many years. The culture of a business is built around multiple promises, which are slow to unwind. Real change is therefore incremental. But these targeted interventions are a way to nudge people in the right direction and build momentum along the journey.

# Conclusion:

## Is your culture competitive?

*Reshaping your culture and the behaviour that underlies it might seem like a huge undertaking and there may therefore be a temptation to wait until other pressing priorities are out of the way. But targeted changes in behaviour can provide a useful catalyst for tackling the other challenges in areas ranging from market perception to sharpening customer understanding and a readiness to embrace change in a rapidly evolving market.*

We believe that there are six questions your organisation will need to address to ensure it can unleash the full force of its culture:

- 1 Does our organisation have a clear and compelling vision and set of values, and is what is expected as a result understood within the organisation?
- 2 What elements of our culture do we want to reinforce and what would we like to change?
- 3 To what extent is our leadership living up to our values and how is this demonstrated?
- 4 To what extent is staff behaviour aligned with our vision, how is this monitored and how are breaches addressed?
- 5 How clear and well-enforced are the accountability structures and reporting lines that govern the levers of our culture?
- 6 How effective are rewards, performance management and other reinforcing mechanisms in supporting our desired culture and behaviour?

Creating a winning culture is a powerful way to enhance your reputation, build trust and secure sustainable long-term growth. Failure to address these issues could leave you with stuttering growth and at risk from lapses.

In a period of change, culture could thereby be your greatest ally or your biggest enemy. How can you turn it into a force for good?

**Cultural and behavioural change is challenging. Drawing on our work with a range of FS clients, we will be publishing a series of succinct, practical summaries on the tools to use and the areas to focus on to help you deliver focused, manageable and measurable change.**

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