Transforming Culture in Financial Services

Discussion Paper

DP18/2

March 2018

Disclaimer

The views in this paper should not be interpreted as reflecting the views of the Financial Conduct Authority – they are solely the responsibility of the authors. All errors and omissions are the authors' own.

You can download this Discussion Paper from our website: www.fca.org.uk. All our publications are available to download from www.fca.org.uk.

If you would like to receive this paper in an alternative format, please call 020 7066 9644 or email: publications_graphics@fca.org.uk or write to:

Editorial and Digital team
Financial Conduct Authority
25 The North Colonnade
Canary Wharf
London E14 5HS

How to navigate this document onscreen

returns you to the contents list

takes you to helpful References

Contents

Foreword

Culture in financial services is widely accepted as a key root cause of the major conduct failings that have occurred within the industry in recent history, causing harm to both consumers and markets.

For markets to work and firms to be successful, it is critical that they are seen as trustworthy. Social expectations have changed, and public interest has raised questions of trust in firms, and in the industry as a whole. To increase confidence, firms need to demonstrate they are working in the interests of consumers and the market.

Given its impact and the role it needs to play in re-building trust in financial services, firms' culture is a priority for the FCA. We expect firms to foster cultures which support the spirit of regulation in preventing harm to consumers and markets. These kinds of healthy cultures can also complement and support businesses' financial performance.

But changing culture can be hard. Some still see changing culture as a 'soft' discipline; and clarifying how to define, measure, and manage it in practical terms is difficult. Its intangible nature has left business leaders pondering how to influence and transform culture. The intention of this paper is to gather views from industry leaders, academics, and practitioners as a basis for debate on how to drive sustainable culture change.

To make sense of 'culture' from an FCA perspective, we start by defining it as the habitual behaviours and mindsets that characterise an organisation. But, having defined it we are still left with the question of how to measure it. We also need to ask, given the industry's diversity, can there be a 'right' culture in financial services?

To measure culture, we do not attempt to assess mindsets and behaviours directly; instead we recognise that there are numerous drivers of behaviour, many of which we and firms can identify and therefore manage. As a regulator, our focus is on assessing 4 of these main drivers: a firm's purpose, leadership, approach to rewarding and managing people, and governance arrangements.

We recognise that each firm's culture is different, and appropriately so. We do not believe there should be a 'one size fits all' culture and we do not prescribe what any firm's culture should be. However, we have set out minimum standards of behaviour, in the form of 5 Conduct Rules, which sit at the heart of the Senior Managers and Certification Regime (known as the Accountability Regime). The Accountability Regime currently applies to Banks but there are plans to extend it.

Our essayists agree with us that there is no one culture for firms to aspire to. However, they believe that healthy cultures have some specific characteristics that reduce harm. These are explored further through the essay collection.

So, how can regulation promote healthy culture? Two fundamental concepts underpin our thinking about culture and regulation. The first is that regulation has to hold the individual as well as the firm to account. This is why we consider it so important to define the 5 Conduct Rules and have them apply to all financial services individuals in the firm.

The second concept is that leaders can manage culture even if they can't measure it very well. This is deeply embedded in the Accountability Regime too. The regime aims to hold firms' leadership to account for their own behaviour and for taking reasonable steps to manage the behaviour of those in their areas of responsibility. It also aims to ensure that leaders have clearly articulated what they are accountable for and that key responsibilities neither slip through the cracks nor end up too diffused. It provides a robust framework for a culture of accountability, bringing much needed clarity to the accountability of all individuals and a focus on behaviour that goes beyond simply complying with the rules.

From start-ups to large corporations, clear accountability for individuals is fundamental. Our intention through the Accountability Regime isn't to change how firms organise themselves or impose a defined culture, but rather to develop a standard of accountability and conduct at all levels within a firm. Many firms have informally reported that this clarity of accountability has noticeably improved the effectiveness of their leadership.

We also use the idea that culture can be managed in our day to day supervision of firms. Using our 4 drivers as a basis to understand firm culture we can assess and provide feedback on the direction a firm and its leaders are taking to shape its culture.

Our essayists respond to the question about the role of regulation in culture with some interesting and provocative propositions. Some challenge whether regulatory intervention is always positive and provide examples of where it can be counter-productive.

Clearly, regulation is only one piece of the puzzle and the role of the regulator may be limited. So, the question remains – how can firms go beyond rules and standards to achieve real culture change? Throughout the essays there is support for the importance of a firm's purpose, leadership, and governance in influencing culture.

Questioning the role that staff incentives and management play in driving behaviour has revealed great insights into how internal and external motivation affects individual behaviour. These essayists argue that organisations take too narrow a view on incentives. They claim firms are missing out on the other factors that motivate people and generate healthier culture and better consumer outcomes. Some argue that, regardless of individual motivation, firms' cultural initiatives may be in vain unless firms also foster an environment where employees can 'speak up' and learn from mistakes.

This leads us on to the ultimate question of how the industry can drive forward healthy culture change. We recognise that leadership plays a significant role in changing culture; however, essayists argue that focusing solely on the 'tone from the top' can overlook the complexity of a topic like culture.

Understanding the dynamics of culture facilitates progress, but firms' behaviour will only transform for the better if change is chosen rather than imposed. A focus on culture is the responsibility of everyone in a firm. It should be a collaborative effort, by all areas and at all levels – and industry must take responsibility for delivering the standards it aspires to. By doing so, firms help to mitigate the risk that old habits of behaviour will repeat themselves, and so play a vital role in reducing harm to consumers, markets, and themselves.

Given the complexity of human dynamics it is unlikely there will ever be a 'quick fix' for change at an organisational, much less a societal, level. However, the importance of generating a meaningful debate on this topic reinforces the interdependence between the impact of effective cultures and restoring public trust. That debate is central to this Discussion Paper.

I see our role in this dialogue as being to ask the provocative questions, encourage discussion, strengthen current consensus, and speed up the pace of change for cultural transformation in financial services.

While the essays in this collection do not represent the FCA's views, this paper helps to highlight a degree of consensus between essayists as well as where there are opportunities for continuing debate. This paper also confirms the notion that behavioural science is directly applicable to a subject often seen as an art.

Last but not least, I would like to express gratitude to all who have contributed to this paper. Combining a multi-disciplinary set of perspectives allows for thorough exploration of the dimensions that shape corporate culture. It's clear that culture remains a topic where debate is really needed, and we intend to use this collection of perspectives as a springboard to discuss what can be done to put ideas into action.

Jonathan Davidson
Director of Supervision – Retail and Authorisations

Summary of Essays

THEME 1: Is there a 'right' culture?

	Company	Author(s)	Essay Title
1.1	Banking Standards Board	**Alison Cottrell**, Chief Executive Officer	A good culture is about more than ensuring good people don't do bad things – it's about enabling good people to do ever better things
1.2	London School of Economics	**Tom W. Reader,** Associate Professor, Department of Psychological and Behavioral Science	Identifying and measuring organisational culture in financial services
1.3	Nationwide Building Society	**Joe Garner**, Chief Executive Officer	A Duty or a Culture of Care?
1.4	Monzo Bank Ltd	**Tom Blomfield,** Chief Executive Officer **Maria Campbell,** Head of People **Harry Ashbridge,** Writer	Can you have your cake and eat it? Building a high performance business model that coexists with a culture of integrity.
1.5	Metro Bank	**Aileen Gillan,** Chief Risk Officer **Danny Harmer,** Chief People Officer **Amy Owen,** Enterprise Risk Director	FANS! Not customers
1.6	Independent	**Sue Lewis,** Independent Consultant and Non-Executive Director	Treating customers fairly?

THEME 2: Managing Culture – The role of regulation

	Company	Author(s)	Essay Title
2.1	Ethical Systems	**Azish Filabi,** Executive Director	Carrot or Stick? Culture as a Regulatory Approach
2.2	Independent	**John Sutherland,** FCA Senior Advisor	Why regulation alone will not influence firm culture and consumer outcomes and what else is needed
2.3	Formerly Investec Group	**Dr. Allen Zimbler,** Formerly Chief Integration Officer, Investec Group; now retired	The problems of measurement and the 'management' of culture
2.4	University of Nottingham	**Peter Cartwright,** Professor of Consumer Protection Law	Regulation and Reputation
2.5	NY Federal Reserve Bank	**Kevin Stiroh,** Executive Vice President, Head of Supervision Group	Misconduct Risk, Culture, and Supervision
2.6	Dutch National Bank	**Wijnand Nuijts,** Department of Governance, Culture and Organization Behavior	Managing culture: the role of regulation and supervision
2.7	Australian Securities and Investments Commission	**Andrew Fawcett,** Senior Executive Leader, Strategic Policy	Once more unto the breach: The impact of firm culture on breach reporting in Australian financial services firms

THEME 3: The role of reward, capabilities, and environment in driving behaviours

	Company	Author(s)	Essay Title
3.1	Bocconi University, Department of Management and Technology	**Dr. Celia Moore,** Associate Professor and Academic Fellow, Ethics and Compliance Initiative	How do organisations motivate people to act?
3.2	TSB Bank	**Paul Pester,** Chief Executive Officer **Rachel Lock,** HR Director	The role of reward in driving behaviour
3.3	Cambridge University, Judge Business School	**Dr. Eric Levy,** Assistant Professor, Marketing	Recruiting for and cultivating an ethical organisational culture: the role of moral identity
3.4	The Corporate Philosopher; Cass Business School	**Professor Roger Steare,** Corporate Philosopher in Residence, Cass Business School	Character, culture and conduct: why good people do bad things in a fear-driven culture
3.5	Academic Collaboration	**Professor Linda Treviño,** Penn State University, Smeal College of Business Organizational Behavior and Ethics **Niki A. den Nieuwenboer,** The University of Kansas **João Vieira da Cunha,** IÉSEG School of Management	The invisible role of middle management- unethical behaviour and unrealistic expectations
3.6	Forward Institute	**Adam Grodecki,** Founder and Director	The permafrost problem: from bad apples to excellent sheep. Creating an environment where we can truly think.
3.7	Academic Collaboration	**Professor Kate Kenny,** Queen's University Belfast, Management and Organisation Studies **Professor Marianna Fotaki,** Warwick Business School **Dr. Wim Vandekerckhove,** University of Greenwich	Creating a culture of learning through speak-up arrangements: Insights from recent research

THEME 4: Leading culture change

	Company	Author(s)	Essay Title
4.1	Credit Suisse	**Noreen Doyle,** Chair of the Board of Credit Suisse International **David Mathers,** CFO and UK CEO of Credit Suisse Group, Chair of UK Conduct and Ethics Board **Katarina Rosen,** Managing Director, UK Culture Programme and Global Lead for Conduct and Ethics Implementation	The Importance of Sustained Leadership in Embedding a Desired Culture
4.2	UBS	**Andrea Orcel,** President of UBS Investment Bank and Chief Exec for UBS Ltd and UBS AG London Branch	Creating a culture of ownership
4.3	BNP Paribas	**Louise Fitzgerald-Lombard,** UK Head of Human Resources **John Russell,** Special Advisor, Conduct & Culture	Solving the culture conundrum: Why it takes more than strong leadership
4.4	Mind Gym	**Octavius Black,** CEO and Co-Founder	Behavioral science reveals the route to culture change
4.5	Blacklight Advisory	**Ajit Menon,** Partner; Guest Lecturer of Organisational Development at London School of Economics	The Denial of Reality: An exploration of some of the unconscious forces at work in Financial Services
4.6	CIPD	**Peter Cheese,** Chief Executive **Ed Houghton,** Senior Research Advisor, Human Capital and Governance	Delivering on cultural change: who benefits and how can change be affected
4.7	Influence at Work	**Steve Martin,** Chief Executive **Dr. Robert Cialdini,** Founder and President	Influence, Culture and Change
4.8	City HR	**Andrea Eccles,** Chief Executive	A New Dawn for Cultural Transformation as Organisations Make Stakeholder Interests a Reality

Overview

Summary

Wells Fargo is one example in a long line of cross-industry organisations where culture is mooted as the root cause of scandals, crises and liquidations. The financial services industry, in particular, has demonstrated instances of rate-rigging, rogue trading and mis-selling in the last 10 years since the global financial crisis. Despite record fines, increasing investigations and an expanding compliance industry, misconduct remains. Why? What have we not learned?

Culture change is complex and difficult. Take drink driving. The number of drink drive casualties in Great Britain has reduced by 73% since 1979. Public attitudes have shifted dramatically. But drink drive deaths still account for around 11% of all road deaths. Despite some of the most severe drink drive penalties in Europe, we are not there yet. In the financial services market, the Senior Managers & Certification Regime (SM&CR) is a start, providing a minimum standard for firms to adopt and holding leaders to account for their actions. But there is still a way to go. Beyond rules and standards, what more can be done to improve culture? What does 'good' look like?

Previous publications (Group of Thirty, 2015) have done a good job of identifying approaches, processes and examples of good practice in culture based on the perspectives and experiences of banks. But counter to the view that culture is more of an art than a science, we wanted to take a more rigorous, evidence-based approach to understanding culture change. What can we learn from the latest scientific evidence on culture? What are the implications of the science for firms and regulators?

As the saying goes, two (or more) heads are better than one. Diversity of thought and perspectives stimulate innovative ideas and complex problem solving. To facilitate a rich debate and offer context, we have sought out thought-leaders from a wide variety of backgrounds – academics, leaders from firms operating in wholesale and retail markets, international regulators, change practitioners and more. Each essay presents a unique perspective on some of the core challenges in identifying, fostering and managing an ethical culture, as well as posing questions that remain.

You will hear from our essayists on whether there can really be a 'right' culture and, if so, whether it can co-exist with high performance and profitability. What is the role of regulation in managing culture – and is traditional regulation helping or hindering firms' cultures?

Bad apples, rotten eggs, excellent sheep and 'permafrost': these are some of the many labels given to people within organisations who have been thought to contribute to a negative culture. But are rogue individuals really to blame?

What are the underlying forces driving culture and how they can be leveraged to benefit firms, consumers and markets? Finally, what does culture change look like on the ground and who should lead it?

Is there a 'right' culture?

In 2014, Merriam-Webster, a dictionary maker, declared 'culture' their word of the year. They explained that people were desperate to know what the word meant and looked it up more than ever before. The announcement provoked lively debate about what 'culture' really means, exposing controversy and polarisation across practitioners and the public. For example, is culture an input to institutional behaviour? An outcome? Or is it the essence of who we are?

It seems we have moved on since 2014. Among our essayists there is broad consensus that culture is about behaviour. Simply put, culture is 'the way things are done around here' (see Essay 1.4: Blomfield, Campbell & Ashbridge). This includes the norms, values and practices which are revealed by how people think and behave (see Essay 1.2: Reader), as well as our behaviour when no-one is looking (see Essay 1.1: Cottrell).

Culture is not optional; it exists whether we like it or not. So what is the 'right' culture to have?

The first crucial question here is: 'right for whom?' A culture that leads to good financial outcomes for shareholders might not necessarily deliver for its employees or customers. However, our essayists suggest consumers, employees **and** shareholders can benefit from the 'right culture'. Joe Garner, Chief Executive of Nationwide Building Society (see Essay 1.3) argues that firms need an ethic of care to treat consumers with respect, empathy and compassion. And Metro Bank redefines customers as 'FANS' (see Essay 1.5: Gillan, Harmer & Owen). Clearly, many firms advocate a culture which focuses overtly on consumers. So, is the perceived trade-off between caring for customers and financial success simply a myth?

Our essayists argue that firms **can** have their ethical cake and eat it. A consumer-focused culture makes firms more attractive to potential customers and talented employees, which, in turn, increases firms' profits (see Essay 1.3: Garner), (see Essay 1.5: Gillan, Harmer & Owen). Monzo CEO, Tom Blomfield, and his team go further, arguing that a customer-centric culture aiming to deliver positive social impact is **necessary** for economic success. Using Uber as an example, they describe how initially successful companies with unethical cultures find it hard to sustain their position in the face of a consumer backlash. This shift to more values-driven business models is not exactly news.

But is it as simple as these firms suggest to align business and consumer interests? Sue Lewis, Chair of Financial Services Consumer Panel, writing as an independent consultant, would suggest not. She asserts that 'good' culture should lead to 'fair' outcomes for **all** customers (see Essay 1.6). Lewis claims that firms lack consistency in serving their customers based on the differential treatment of new versus existing customers, in order to chase short term profits. Her view is that without stronger regulation, consumer pressure is not enough to change firm behaviour.

The question of 'right' culture is broader than the consumer view alone. In fact, there is no single right culture, but instead factors that healthy cultures have in common. Tom Reader, from the London School of Economics (see Essay 1.2), outlines the indicators we tend to see in firms with a positive culture, based on cross industry academic research. These include adaptability, an emphasis on quality, integrity and supportiveness. However, he notes we don't yet know the most important (observable) cultural dimensions specific to financial services beyond the dimensions of risk management identified in financial sector research. To fill this gap, he outlines the indicators of success in comparable industries, such as aviation, including incident reporting and communication.

Firms' fundamental ambitions can also tell us what a positive culture might look like. Our industry essayists offer cultural 'visions' to which Monzo Bank, Metro Bank and Nationwide respectively aspire: compassion for consumers and going the extra mile. Yet there are notable differences.

Blomfield and colleagues see Monzo Bank's success as reducing stress and anxiety and saving people money, whereas Metro Bank aims to exceed customer expectations and create an emotional attachment to their brand. Nationwide likens success to the principle of 'love thy neighbour', through describing a House of Lords case in 1928 in which a café patron finally received compensation for illness caused by a decomposing snail in her drink.

In fact, while the right culture might be different for different organisations, more could be done to identify the cultural indicators for financial services to which organisations commonly aspire. Going a step further, Reader raises questions about how culture should be measured. Surveys, typically used for this purpose, may miss crucial factors, due to difficulties with self-reports and potential normalisation of unethical behaviour.

Similarly, Banking Standards Board's CEO, Alison Cottrell, (see Essay 1.1) highlights the importance of choosing the right measures of cultural success. She describes how a low rate of conduct breaches may not form a particularly high bar for firms to aspire to and that focusing narrowly on reducing non-compliance may have unintended effects. A good culture means more than ensuring that good people don't do bad things – it is about enabling good people to do even better things.

Future Considerations:

- Cultural attributes, such as openness, ability to speak up, and learning from mistakes are said to nurture healthier cultures and more successful organisations. What do you think are the cultural dimensions that are most important for healthy culture in financial services firms? Which do you consider to be unhealthy?
- Ethics <u>or</u> performance OR ethics <u>and</u> performance?: Our essayists debunk the myth that you can't have a healthy culture and be profitable. So, how do we – consumers, investors, shareholders, government – shift to valuing business success beyond profitability? Put another way, how do you make culture a more explicit measure of value and business success?

Managing culture: the role of regulation

This brings us to the role of regulators, whose existence is intended to mediate this relationship, and so, reduce harm in markets. While traditionally, many regulators used economic tools of influence, such as rules and enforcement, we now know more about what motivates behaviour – including cases where economic tools are ineffective or create unintended consequences. Regulators now increasingly recognise that behavioural levers are essential in the measurement and management of culture.
In this section, our essayists discuss the implications of the latest evidence on culture

for the role of regulators and their toolbox, how to effectively approach measuring culture and what regulators around the globe are doing at the moment.

Ethical Systems' Executive Director, Azish Filabi (see Essay 2.1), leads a discussion about principles versus rules, arguing that regulating culture means accepting that people are motivated by more than risk and reward. In a compliance or risk culture based on rules, there is a danger that people will focus narrowly on rules and underweight ethical considerations. Only an ethical culture based on principles will enable people to make good decisions when they have no precedent or rule to turn to. Filabi asserts that regulators have a role in requiring firms to prioritise the assessment and management of culture, as well as to encourage firms to learn about themselves and their past. FCA Senior Advisor, John Sutherland, corroborates this in Essay 2.2, describing how rules may incentivise firms to follow the letter and not the spirit of the law. He argues that, while this is not a new problem, it is in firms' interests to critically self-assess the impact of day-to-day management and governance on their culture, rather than to take a narrow legal interpretation of the rule book. Sutherland also notes that while there can be negative unintended consequences, there has also been positive feedback from directors on unexpected benefits of regulatory interventions, such as SM&CR.

Kevin Stiroh, Executive Vice President of the NY Federal Reserve Bank (see Essay 2.5), similarly argues that firms can benefit from reputation and 'cultural capital'. He sets out the market failures which explain why firms may not always prioritise cultural factors. This includes principal-agent problems, for example, that employees' incentives may not align with the long-term interests of other shareholders. Here, he sees a role for regulation to help re-align incentives, through both rule-writing and supervisory focus on the drivers of misconduct. However, like Filabi, Stiroh believes that because the causes of misconduct go beyond the traditional, economic cost-benefit analysis – involving a psychological understanding of the individual and the context in which they operate – a new and more flexible regulatory response is required.

Given the incentive for firms to protect their reputation, University of Nottingham Professor Peter Cartwright (see Essay 2.4) outlines how regulators can use publicity to influence behaviour, often as a form of credible deterrence. However, he also warns of the perils of ignoring unintended consequences and behavioural factors, such as information overload, which may limit its effectiveness.

One possible role for regulators is to measure and assess culture. Here our essayists diverge. Many argue that both regulators and organisations should make efforts to measure culture (see Essay 1.1: Reader, Essay 2.1: Filabi, Essay 2.6: Nuijts, Essay 4.3: Fitzgerald-Lombard & Russell, and Essay 4.8: Eccles). Filabi and Reader, in particular, outline some of the more innovative ways firms are using data for this purpose including machine learning, correlating anonymous survey results with behaviour, linguistic analysis of emails and Glassdoor reviews by employees and ex-employees.

Giving an opposing view, former Investec Chief Integration Office: Allen Zimbler (see Essay 2.3), contends that culture cannot be 'measured', since information that can be codified and quantified tends to be only the tip of the iceberg. The act of measuring comforts us by promising to make things rational, objective and predictable, but with culture it can give us false reassurance. Zimbler makes the case that regulators should aim to 'assess' culture by asking the right questions, in a bid to determine whether members understand their organisation's mission and values and to elicit how such values are lived day-to-day.

Indeed, we see that, when it comes to culture, regulators recognise limitations of the traditional toolbox and are responding by adding new tools to the traditional levers of law and punishment. Australia Securities and Investments Commission (ASIC)'s Strategic Policy Executive, Andrew Fawcett (see Essay 2.7), explains how ASIC is using questions and surveillance as well as data to investigate organisations' cultures of breach reporting. This includes reporting back on their findings to the public and feeding back to firms individually, in a bid to improve practice. The project is an attempt to acknowledge that mistakes happen, and encourage a more open approach to managing breaches.

Wijnand Nuijts from the Dutch National Bank's Department of Governance, Culture and Organisation Behaviour (see Essay 2.6) cites Schein's (2004) model of artefacts, values and assumptions, to illustrate the dynamic layers within an organisational system, and limitations of relying on surface level behaviour alone. He explains that the DNB studies culture using multiple frameworks and research methods, with its starting point the identification of group, rather than individual culture.

Clearly, there are perspectives which see regulators as being important in setting standards and adjusting firm incentives which otherwise cause unhealthy cultures within organisations. But it is not enough to rely on rule making and enforcement. Regulators are moving away from strictly using rule-based methods and incorporating behavioural science for assessing, understanding and influencing behaviour, which may ultimately have a greater impact on culture.

Future Considerations:

- There is consensus amongst essayists that regulation can only go so far and can even have unintended consequences. What other ways of regulating should be considered (e.g. rules vs principles)?
- How can regulators adapt their approach to supervising firms on culture?
- Evidence suggests that elements of culture can be measured. If this is true, what should be measured? How should this be done and who should be doing it?

The role of reward, capabilities and environment in driving behaviour

The classic article 'On the folly of rewarding A while hoping for B' (Kerr, 1975) sums up the influence of rewards on behaviour and the problems caused by faulty incentives within organisations. What gets rewarded gets done: but that might not always be what was intended.

Many previous attempts to change culture have focused on extrinsic incentives and disincentives such as changes to remuneration, targets and sanctions. There is considerable evidence that people respond to such measures. However, using the science of positive psychology and intrinsic motivations, like receiving praise and status, maintaining a moral identity or conforming to the crowd can be equally strong, yet overlooked motivators.

Bocconi University's Celia Moore exemplifies this in Essay 3.1, which describes the 3 'P's' that organisations can control to determine how individuals act. They can **point** employees in a given direction, such as setting sales targets. This can sometimes be too effective. For example, numerical targets often force people to neglect other priorities to meet them. Alternatively, organisations can provide **perspective** by framing the decisions that employees have to make. For example, an employee is more likely to treat a customer well if they are thinking of them as a 'pensioner' instead of as an 'investor'. Finally, organisations **propel** us in certain directions using social rewards like praise, respect and status to drive behaviour. In fact, people are motivated by both intrinsic and extrinsic factors. Cultural change should make use of both, while being aware of where traditional financial incentives or disincentives backfire.

Indeed, many practitioners have seen success by removing or modifying extrinsic factors like precise targets and performance-linked pay. TSB Bank CEO, Paul Pester (see Essay 3.2), explains how TSB recognised the negative effects of some extrinsic motivators. They scrapped individual sales-driven targets and rewards as well as access to comparative sales data, at branch and area director level. Using the John Lewis partnership model as inspiration, TSB now rewards staff based purely on service to customers. The bank claims that change is paying off with the award of Britain's most recommended high street bank and a growing customer base.

It's clear that process and incentives structures can be adapted, but are some people just intrinsically bad? The 'bad apple' view holds that most misconduct can be attributed to 'bad people'. These people are morally and ethically corrupt or lack capability. Judge Business School's Eric Levy (see Essay 2.3) explores the influence of individual differences on behaviour. He shows that individuals with a higher moral identity tend to make more ethical decisions and engage in more prosocial activity. Recruiting such individuals is one way to create a more ethical culture, although this is not a panacea.

In fact, individuals, including those with a strong moral identity, are affected by the environment they are in. The presence of performance-based financial incentives and reminders of money can make it harder for people to access their moral mindset, making them more likely to act selfishly. Likewise, simply bringing moral values to the fore, for example seeing a picture of Martin Luther King, Jr. can activate a higher moral identity and influence decisions.

The Corporate Philosopher, Roger Steare (see Essay 3.4), corroborates the importance of context, noting that good people do bad things when driven by fear and pressure to conform. For example, the PPI scandal, which has already cost billions in compensation and fines, was perpetrated by people working in a culture driven by short-term profit maximisation.

Forward Institute's Founder and Director, Adam Grodecki (see Essay 3.6), argues that we overestimate the power of individual character and underestimate the power of environment and company we keep. Moving the conversation from 'bad apples' to 'excellent sheep', he describes how groupthink, pressure to conform and lack of internal challenge form the basis of almost all post-crisis reviews. Because we are so influenced by those around us, organisations need to look to the outside and be judged by those with a fundamentally different view of the world, if we want to avoid bad decisions.

Grodecki, and Treviño, Den Nieuwenboer, and Vieira da Cunha (see Essay 3.6 and 3.5) agree that this confers a big role for the typically 'invisible' middle managers and their critical part in generating unethical behaviour. Middle managers have the power to translate the expectations of leaders into frontline practice, to legitimise dissent and to create time for their employees to stop, think and reflect. Treviño et al draws a distinction between employees on the frontline, who may give up on goals they see as impossible, and middle management, who may be coerced into deceitful practices to inflate performance or conceal poor results. This has implications for the goals set by senior management. While ambitious, specific and measurable goals are useful, if they are the only outcomes captured, employees may be more likely to aim to meet them – whatever the cost. This means it is essential that goals are realistic and that employees have the power and confidence to challenge them if they are unreachable.

Indeed, organisations which foster effective speak-up arrangements and cultivate psychological safety for employees tend to be better at addressing wrongdoing and avoiding dysfunctional behaviour (see Essay 3.6: Grodecki, Essay 3.7: Kenny, Fotaki and Vandekerckhove). Using whistleblowing as an example, Kenny et al. advise organisations to be responsive to concerns and to back up words with action.

The impact of trust in a workplace goes beyond whistleblowing. It is a critical factor for organisational learning and high performing teams (Edmondson & Lei, 2014) – two factors which are essential to competitive advantage in today's fast-paced market (Carmeli, Brueller, & Dutton, 2009; Cross, Rebele, & Grant, 2016). While academics in the 1980s believed that culture could be engineered, there is now more acceptance that it is something that 'is', with many complex influences and interactions. This means that declaring an 'open door' policy is not the same as cultivating an 'open door' culture.

By outlining the many ways in which behaviour is influenced, our essayists show that it is not enough to rely on traditional incentives and levers to create a positive culture. The levers of wider motivation should also be used and attention should be given to key influencers, such as middle management, as well as to speak-up arrangements that allow employees to raise concerns in a way that fosters psychological safety.

Further Considerations:

- Our essayists argue middle managers play a critical role in influencing behaviour. What can be done to better enable middle managers to succeed in their role as culture leaders?
- Everyone knows financial incentives influence behaviour. But our essayists argue firms think of incentives too narrowly. What other behaviour change methods should firms be using?
- Good eggs vs. rotten eggs: our essayists have differing views on how to get the 'right' people. Is the key to recruit or develop? For recruitment, what should firms look for? For development, what are the attributes to invest in?
- Setting challenging goals is seen as a powerful and effective performance management tool. But impossible goals can lead to unethical behaviour. Our essayists argue that organisations need to consider how individual components in the system (performance management processes being one part) affect other parts of the system in various and unexpected ways. How can performance management be better aligned to support the broader organisational system?
- A consistent, emerging from behavioural science is that creating psychological safety is good for culture and team success. Which insights can help inform the practical do's and don'ts of building psychological safety in firms?

Leading culture change

Traditionally, senior leaders were thought to play the biggest role in driving culture, since they could set the 'tone from the top'. Several of our essayists argue that while senior leaders do play a key role in influencing culture and should be held to account for cultural failings, everyone influences the culture they are in, from middle managers to the most junior employees (see in particular, Essay 4.1: Doyle, Rosen, & Mathers and Essay 4.4: Black) and even external forces such as monetary policy and Western culture itself (see Essay 4.5: Menon).

Leadership from Credit Suisse (see Essay 4.1) alongside change maker, Katarina Rosen, set out the qualities of an effective leader. These include self-awareness, authenticity, principled pragmatism and consistency. It is not enough for senior leaders to pay lip service to desired behaviour. They must embody it (see also Essay 3.7: Kenny et al.). and empower 'culture carriers', who can influence at all levels of an organisation. For example, Credit Suisse's senior leaders applied Maslow's hierarchy of needs to ensure that they were meeting employees' basic needs, such as safety, and took steps to manage change by addressing morale issues head on.

Indeed, Mind Gym's CEO, Octavius Black (see Essay 4.4), argues that the reason the 'tone from the top' is not enough, is that, like our overconfidence about our driving ability, we all believe we are more moral than average. For example, in Black's survey of 300 managing directors (MDs), some respondents rated themselves 8 out of 9 for honesty, but others only 6. In fact, most people cheat a little, up until the point they can no longer call themselves an honest person (Ariely, 2008). Instead, Black argues that organisations should look for 'derailers', the contextual factors which lead people towards undesired behaviour. Employees should feel safe and empowered to discuss these factors and managers should work to prevent discussions becoming toxic.

Our essayists also outline the influence of a clear values statement on culture (see Essay 4.3: Fitzgerald-Lombard & Russell, Essay 4.6: Cheese & Houghton, and Essay 4.8: Eccles). This involves identifying and collaborating with stakeholders, defining and communicating what the organisation stands for and using this to set expectations and design processes. Indeed, values statements appear to be popular across organisations today. Among the 51 financial institutions surveyed by City HR, 90% had a values statement (see Essay 4.8: Eccles). President of UBS Investment Bank, Andrea Orcel (see Essay 4.2), outlines how UBS put this into practice, learning from what has worked in the past and engaging all employees to set out three keys to success (pillars, principles and behaviours).

However, as UBS found, setting values and role modelling alone is insufficient. Employees need to feel ownership to truly invest in new values; a state of affairs that UBS addressed by handing over responsibility to local groups for named aspects of the culture strategy. Likewise, Steare (see Essay 4.4) advocates a more local approach, saying culture is best shaped, experienced and improved locally. A broader question remains regarding the balance between a global and local approach.

Like UBS, Ajit Menon, Partner at Blacklight Advisory Ltd (see Essay 4.7), states the importance of co-designing values with employees and taking a stringent approach when those values are contravened. This also means having the organisational systems – policies, and procedures on hiring, reward and development – aligned to the values. But we need to think beyond the individual firm when we talk about culture: we need to be interrogating the (unconscious) dynamics that exist in the overall system. For financial services firms, this system includes the industry, the regulator and society at large. He uses the story of Oedipus Rex to illustrate how groups, without co-ordination, can turn a blind eye to risks and dishonest actions, creating a system which entrenches negative behaviour.

Influence at Work CEO and Founder (respectively), Steve Martin and Robert Cialdini (see Essay 4.7) build on such unconscious dynamics, describing how conforming to prevailing cultural norms can lead individuals to fall down a 'slippery slope', in which they constantly redefine their acceptable boundaries of behaviour. They note that poor culture can cause stress, leading to poor retention of ethical employees and hence shifting the balance towards the values and behaviour of less ethical employees. They argue that any interventions to influence culture will need to be based on the three fundamental human motivations outlined in their essay and recommend training in the use of behavioural insights for leaders, managers and supervisors.

Putting this all together, a sole focus on 'tone from the top' has gradually given way to a more complex, multi-system approach to influencing culture and behaviour. While there remains an important role for senior leaders, influence happens at all levels of an organisation. The challenge is to recognise and align all levels of the system. Like losing weight, culture change is not an 8-week crash diet or a single project but a whole lifestyle change – an ongoing business priority.

Further Considerations:

- Transforming culture is very hard and most change programs fail. What makes it so hard, and what are the keys to success?
- Firms tend to focus on tangible, formal levers (such as purpose, policies, processes, hiring/performance management systems) to influence culture. What more can be done to leverage informal, less tangible levers, such as beliefs, and group norms?
- How can short term nudges be integrated with long term change initiatives?
- Counter to the wisdom that culture change needs to be driven from the top or centre, some of our essayists argue the importance of devolving some aspects of culture to the local level. For global organisations, how can culture be decentralised to local teams, while maintaining consistency in (good) outcomes and accountability?

Next steps

Culture is commonly held as the root cause of the global financial crisis. Ten years on, the SM&CR is setting minimum standards for individuals in firms and driving a culture of accountability for misconduct. The forthcoming extension of the SM&CR to all the firms we regulate, coupled with the introduction of Conduct Rules for all staff, will only serve to strengthen this standard. But alone it is not sufficient. The SM&CR provides a robust framework for individuals and leaders to think about their actions, but this needs to move beyond simple compliance with the rules. What else can be done?

Culture is traditionally regarded as more of an art than a science. In presenting the research and experiences of our diverse essayists, we have sought to bring rigour and evidence to the topic, challenging the notion that culture is an intransigent, flexible concept that it is difficult to take hold of.

This paper has acted to prompt debate amongst leading thinkers and practitioners on culture. Essayists agree a positive culture is a critical lever for driving business success, and that influencing culture requires an understanding of behavioural science. Similarly, while many of our essayists advocate holding senior leaders to account, many highlight the limitations of relying solely on senior leaders to drive change.

What is needed? Across our essays we see three key themes. First, there has been a shift from linear thinking about culture and conduct to a dynamic, systems perspective. Whereas linear thinking diagnoses one cause to one effect, a systems perspective acknowledges the whole system around the individual and the interactions and inter-dependencies between each part in the system. The question is not whether to focus on the individual or the broader organisational system. It is about examining the influences surrounding the individual, be it peers, managers, leaders, incentives, goals etc., and how aligned these factors are. Practically, this means a whole-system approach to culture with alignment between the formal (purpose, processes, structures, systems) and informal aspects (beliefs, norms and unspoken rules) and a focus on every individual in the system (organisation).

Second, it's important for organisations to foster psychological safety and learning as a means for employees to speak up, collaborate, and innovate. Third, there is a recognition that regulation – at least in its current form – can only go so far in improving culture. Firms and other industry stakeholders have a vital role to play. This also raises constructive questions for the role of the regulator: how can we support organisations to learn from themselves and others, rather than simply comply? What are the practical implications of a system perspective on how we supervise firms?

The question of whether culture can and should be measured remains controversial. Some argue precise measurement is both achievable and essential. Others argue it is not possible, obscures reality and distracts attention from the bigger picture. There is also disagreement on how change should be instigated: through cultural 'change projects' or intrinsic to the long-term business model, subject to ongoing assessment and management? Finally, what influence does the wider 'system' – for example, broader public policy and national culture have on firms? This is a potential area for future investigation.

Some important questions fall outside the scope of this paper, but could be usefully considered in other forums. This includes questions about the formation and management of sub-cultures and the importance of capability in fostering a positive culture. For example, how much is incompetence to blame for poor cultures and which skills should financial services firms invest in developing?

At this stage, we are not requesting formal feedback, but to complement this paper we have posed a series of questions to prompt further discussion and consideration by industry practitioners and others – policymakers, boards, regulators, shareholders – with an interest in the cultural impact of financial services. These questions will also help shape the agenda for our Transforming Culture Conference: Effecting real and sustainable cultural transformations within financial services on 19 March 2018.

What can you do?

This paper offers actionable insights for financial services leaders and practitioners to consider how they effect change in their organisations. These include:

- using behavioural science to guide incentives and cultural change
- looking beyond the role of leadership in effecting change
- applying strategic focus to the continuous process for adapting culture
- fostering environments of trust to encourage openness and learning
- applying a systems perspective in assessing both internal culture and external influencers

What will we do?

As a regulator, the FCA remains committed to understanding ways to improve culture in financial services. We intend to continue our engagement with the external financial services community to gather practical examples of how the insights from this paper can be applied in practice. In addition, there is an opportunity to incorporate insights from this debate into how we enhance our approach to supervision, enforcement and policy initiatives.

Finally, alongside our industry partners, we hope to explore questions such as how to raise management of 'culture' as a leadership discipline to the level of rigour and importance as 'strategic planning' and 'risk management'. Thus we will continue to pursue questions, such as what dimensions of healthy or unhealthy culture are most relevant to financial services; what skills are required of leadership to promote and manage culture; and what more can be done as a regulator to effect positive change to consumer and market outcomes.

1 Is there a 'right' culture?

1.1: A good culture is about more than ensuring good people don't do bad things – it's about enabling good people to do better things

Banking Standards Board

Alison Cottrell, Chief Executive Officer

The question of how to create or maintain a 'good' organisational culture has rarely been out of the spotlight in recent years, thanks primarily to successive examples of the consequences of a 'bad' one. A firm cannot choose whether or not to have a culture; only the type of culture it wants, and whether and how to manage it – a multi-faceted and ongoing challenge. What, however, constitutes a good organisational culture? And is the answer the same for all firms (and should it be)?

Culture is often defined as "the way that things get done when no-one is looking" (though how things get done when everyone is looking, or when only some people are looking, is arguably just as relevant). More formally and broadly, it refers to the collective assumptions, values, beliefs and expectations that shape how people behave in a group. These norms will help determine what is considered admirable, tolerable or shameful within the group, and the status of individual members. Little surprise, therefore, that culture change can be destabilising and met with resistance.

A firm's culture will reflect a range of factors including its history, employee composition, ownership, size, location, leadership, and external environment (e.g. regulation, competition). If a firm's culture[1] is, by definition, specific to that firm, the merits of measuring culture per se or comparing firms would appear questionable. What, in this context, does 'good' look like?

To answer this, we need to ask another question; good for whom? The value judgement, in other words, is not about the culture per se, but its outcomes. If there are outcomes that we would expect to be associated with a 'good' culture of any type, and to be less marked in a firm with any sort of 'bad' culture, we may then be able to draw comparisons that are rigorous, consistent and useful.

The choice of outcomes is clearly central to this exercise. We might expect, for example, a firm with a good culture to be better placed in terms of financial sustainability. Taking profitability, revenue or the share price as the primary outcome could, however – especially over anything other than a long time period – suggest a somewhat counter-intuitive picture of what a good culture looks like.

1 Or 'cultures', given that there may of course be several sub-cultures within a firm

An alternative outcome measure might be based on conduct. While we would certainly expect a regulated firm with a good culture to demonstrate good conduct, however, a low rate of conduct breaches might not strike many as a particularly high bar for a good culture. Focusing narrowly on compliance may also discourage employees from assuming responsibility or admitting mistakes, both of which we might regard as positive cultural characteristics.

For a firm in financial services (or in any sector), the outcomes most pertinent to assessing culture should relate to the people the firm exists to serve, i.e. its customers and clients. The Banking Standards Board's (BSB) own Assessment framework is based on customer outcomes, alongside – given the central role of banks and building societies in the UK economy, and the many people who work in the sector – outcomes for wider society and employees.[2]

Given that each firm is different and has its own culture, what can we say from the evidence about what helps create and maintain a good culture? There is a growing body of research on this subject from across a range of disciplines, but I want to highlight just three points here.

First, good cultures will tend to be characterised by a shared sense of purpose across the firm (focused, in a financial services context, on the customer) and strong alignment between this and the firm's values, incentive structures and other policies and procedures. Consistency matters.

Second, when people behave at work in a way that they wouldn't normally countenance at home or with friends, this is likely to reflect one or more of three types of factors:

- the 'push' factors from pressure or stress (e.g. a fear of failing to meet targets or expectations, or of losing face, status, job, friends, respect, purpose; the impact of exhaustion on judgement) – compounded, if sustained, by health implications;
- the 'pull' factors of reward and incentives (financial or non-financial, explicit or implicit), as well as perceptions of fairness; and
- the 'people' factors – most notably, the wish to conform ('if I'm the only one seeing or thinking this, it must be me that's wrong'), loyalty to or trust in colleagues and leaders, a sense of superiority to those outside the group, and numerous other all-too-human biases.

The way in which those responsible for a firm manage, reward, incentivise, equip and communicate with those who work in it, will shape the dynamics and coherence of the group as a whole. Management matters.

Third, challenging poor behaviour and norms is hard; as noted above, individuals tend to wish to conform to the group. By the time poor behaviour is called out or exposed, what has become accepted may have diverged a long way from what customers and society (and many in the organisation itself) would consider acceptable. Diversity does not make questioning and challenging nascent or established practices easy, but uniformity is a poor starting point from which to encourage it. Diversity (and just as importantly for its benefits to be realised, inclusion) matters.

2 For more on the BSB's Assessment framework, see www.bankingstandardsboard.org.uk

Finally, a good culture requires leaders who can set out clearly what is expected of everyone in the firm. The BSB's work suggests, however, that while this is necessary it is not sufficient. Leaders need not only to set expectations; they must also, visibly and consistently, live up to them. A leader who, for example, shares their own experience of having learned from mistakes, is likely to be far more effective at encouraging openness and accountability than one who applauds from the sidelines, however enthusiastically. A senior team that invests time and effort in encouraging feedback is likely to learn more if it simultaneously considers how it receives and responds to feedback. What is said, matters; but what is done, speaks even more loudly.

A good organisational culture is about more than avoiding good people doing bad things; it is about equipping and enabling good people to do ever better things. To create it, leaders need not only to tell a compelling story about the culture they wish to see in their firm, and why. They also need to be in the story about that culture, even when somebody else in the firm is telling it.

1.2: Identifying and measuring organisational culture in financial services

London School of Economics

Tom W Reader, Associate Professor, Department of Psychological and Behavioural Science

Introduction

Organisational culture refers to the norms, values, and practices that are manifested in how employees think and behave (Barney, 1986). Academics have investigated the beliefs and behaviours that indicate and typify an organisational culture, developed measurements for assessing culture, and examined associations between culture and institutional performance (Schneider, Ehrhart, & Macey, 2013).

Organisational culture research has led to the identification of 'cultural dimensions' that are important for institutional success and avoiding failure (Jung, Scott, Davies, Bower, Whalley, McNally, & Mannion, 2009). These are somewhat akin to personality traits, and describe characteristics that are consistent between and within organisations, and can be scaled (e.g. from weak to strong). For example, the organisational culture profile (O'Reilly, Chatman, & Caldwell, 1991) outlines cultural dimensions such as: (a) adaptability (e.g. innovating, taking risks); (b) collaboration (e.g. team orientated, cooperative, lack of conflict); (c) customer-orientation (e.g. listening to customers, being market driven); (d) detail-orientation (e.g. emphasizing quality); (e) integrity (e.g. having high ethical standards), (f) results-orientation (e.g. high expectations for performance), and (g) supportiveness (i.e. for treating employees).

Organisations strong on these dimensions (i.e. with a shared and positive culture) are expected to be more successful and resilient, with research showing associations with financial performance, sales, and service delivery, and staff turnover (Boyce, Nieminen, Gillespie, Ryan, & Denison, 2015; Chatman, Caldwell, O'Reilly, & Doerr, 2014; Hartnell, Ou, & Kinicki, 2011; Jacobs, Mannion, Davies, Harrison, Konteh, & Walshe, 2013; Yilmaz & Ergun, 2008).

Organisational culture in financial services

Increasingly, the topic of organisational culture in financial services is of interest to scholars and practitioners alike (Power, Ashby, & Palermo, 2013; Ring, Bryce, McKinney, & Webb, 2016). This has, in-part, arisen due to a series of institutional failings (e.g. rogue trading, mis-selling, systemic rate rigging) that have had significant consequences (e.g. fines, loss of consumer confidence), and reflect problems with organisational culture within financial services companies; for example, in terms of practices related to risk management, ethics and integrity, leadership, compliance, due diligence, reward systems, and responding to whistle-blowers (Leaver & Reader, 2017).

In other industries where cultural practices related to risk and ethics are key to institutional prosperity (e.g. aviation, oil, healthcare, rail, nuclear), more formalised and customised approaches have been taken to describing and measuring organisational culture. For example, within the largely privatised European Air Traffic Management industry, the specific 'safety culture' dimensions important for avoiding accidents and expediting the flow of air traffic within and between countries have been identified (Reader, Noort, Shorrock, & Kirwan, 2015). Reliable and valid questionnaire tools have been outlined (see Table 1), and these are used – by companies themselves, or in partnership with the regulator – to routinely assess the culture of European air traffic management organisations (Noort, Reader, Shorrock, & Kirwan, 2016).

Since 2007, over 30 international air traffic management organisations (with 20,000+ respondents) have utilised the survey to gauge and understand their organisational culture. Through a partnership between organisations, regulators, and academics, these data have been used to identify cultural strengths and weaknesses, and through further qualitative study, to support organisations in understanding and developing their cultures (with inter-organisational learning being especially successful). There is potential to extend this approach to organisational culture measurement in financial services: yet three important issues must be addressed.

Table 1. Safety Culture dimensions for European Air Traffic Management (ATM)

Dimension	Definition	Relevance for safety management	Example questionnaire items
Management commitment to safety	Extent to which management prioritise safety	Indicates organisational prioritisation of safety within an ANSP	• My manager takes action on the safety issues we raise • My manager would always support me if I had a concern about safety
Collaborating for safety	Group attitudes and activities for safety management	Indicates normative behaviours and attitudes amongst ANSP staff towards safety	• People who raise safety issues are seen as troublemakers • There are people who I do not want to work with because of their negative attitude to safety
Incident Reporting	Extent to which respondents believe it is safe to report safety incidents	Essential for identifying system weaknesses and learning	• People who report safety related occurrences are treated in a just and fair manner • Voicing concerns about safety is encouraged
Communication	Extent to which staff are informed about safety-related issues in the ATM system	Important for ensuring staff are aware of system changes that might shape safety-related activities	• Information about safety related changes within this organisation is clearly communicated to staff • We learn lessons from safety related incident or occurrence investigations
Colleague commitment to safety	Beliefs about the reliability of colleagues safety-related behaviour	Highlights reliability of ANSP staff for engaging in safety-activities	• Everyone I work with in this organisation feels that safety is their personal responsibility • My colleagues are committed to safety
Safety Support	Availability of resources and information for safety management	Indicates active support within the institution for maintaining safety	• We have sufficient staff to do our work safely • People in this organisation share safety related information

Source: Reproduced from Reader, Noort, Shorrock, & Kirwan (2015, p. 774)

Describing 'the right culture' for financial services

First, it is necessary to identify the dimensions of organisational culture that are most important to financial services. What are the beliefs and practices that are desirable and integral to organisational success, and why do they emerge (or not, in some cases)? Through outlining these, and developing a cultural framework that is "reduced and simplified to some observable properties that can be acted upon and audited by others" (Power et al., 2013, p. 18), organisational behaviour in financial services can be understood, measured, and changed.

Research in the financial sector has identified some of the dimensions that are important for effectively managing risk (Leaver & Reader, 2017). These include a culture of effective risk management (e.g. avoiding conflict between risk appetite and performance goals), management attitude towards risk (e.g. whether compliance breaches are tacitly accepted if they lead to results), and rules and regulation (clear policies, with training and facilities to support them). Yet, other cultural dimensions also appear important. For example, in terms of integrity (eg compliance, transparency, admitting mistakes, treating whistle-blowers fairly), customer orientation (e.g. responding to complaints, caring for customers), adaptability (e.g. responding to market changes, technology), and results-orientation (e.g. ensuring rewards are commensurate to performance, and not encouraging of poor behaviour).

Ultimately, conclusions on the cultural dimensions that are most critical to financial services should be based on empirical research (e.g. on associations between reward systems and risk-taking behaviour in financial services), and the priorities for the industry and its customers.

Measuring organisational culture in financial services

Second, consideration must be given to methodologies for studying organisational culture in financial services. If the cultural dimensions important to financial services are identified (alongside the specific attitudes and behaviours that underlie these), steps can be taken to measure them.

The idea that culture can be measured has been much debated: with psychologists in particular arguing that aspects of culture can be studied through the use of robust and sharp measurements (e.g. surveys, behavioural data). Typically, organisational culture is studied at three different levels (Schein, 1992). First, in terms of the 'espoused values' reported by organisational employees (i.e. what people say). Second, in terms of the 'artefactual' information that can be gleaned from an organisation's environment (i.e. what people do). Third, in terms of the 'underlying assumptions' that permeate how people talk and behave (i.e. implicit beliefs).

Surveys and interviews are used to measure 'espoused values', and are particularly useful for studying attitudes towards risk, leadership, and organisational priorities (e.g. for innovation, achieving results). Other dimensions of culture, for example integrity, are difficult to study through self-report. This is because 'unethical' behaviours can become normalised within a company (Ramamoorti, 2008), and are either seen necessary and unproblematic (meaning people do not recognise a problem), or denied (due to the lack of integrity). Furthermore, in a culture where people are discouraged or find it difficult to raise concerns, they often do not report on this due to perceived pressure to stay silent (Westrum, 2004).

In such cases, alternative culture measurements can be used. For example, Reader and Gillespie (2017) have discussed the use of 'unobtrusive indicators of organisational culture', whereby culture is measured through alternative data streams (e.g. linguistic analyses of emails, business intelligence data, annual reports, Glassdoor reviews by employees and ex-employees). This potentially overcomes concerns over normative biases and social desirability in organisational culture research, and also allows for culture measurements to be triangulated, and scaled across large samples of organisations.

Using organisational culture in financial services.

Finally, and to conclude, it is necessary to consider how organisational culture data might be used in the financial services. Organisational culture measurements are not performance indicators: but they do reveal patterns of thought and behaviour within an organisation. Crucially, for those leading organisations, they can explain the past, provide insight on the future, and reveal the gap between where an organisation is, and where it hopes to be (i.e. guide organisational change in an evidence based way).

When used in a coordinated and constructive manner across an industry (ie not as a league table), culture measurements can also be used to identify organisations that are outliers (i.e. as problematic, or excellent), specify best practices, and show trends over time. This approach is common in other industries that manage risk and complexity (Mearns, Whitaker, & Flin, 2001; Noort et al., 2016), and culture measurement has huge potential to both protect the financial services industry in terms of avoiding institutional failures, and support it in crystalizing the attitudes and behaviours that embody long-lasting success.

1.3: A Duty or a Culture of Care?

Nationwide Building Society

Joe Garner, Chief Executive Officer

Source: (Wilson, 2013), licenced by Getty Images.

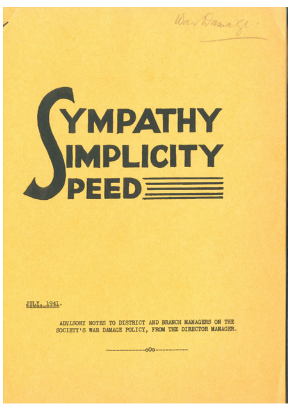
Just as I was joining the financial services industry in 2004, I was handed a publication from the FSA titled 'Treating Customers Fairly (TCF) – progress and next steps' (FSA, 2004). Fourteen years, £30 billion of redress and one financial crisis later, I do think that the industry is now – by and large – in a better place. Many firms have worked hard to improve, and the regulatory framework has been thoroughly overhauled.
We are governed by principles including a duty to conduct our business with integrity, a duty to pay due regard to the interests of our customers and treat them fairly, and a duty to pay due regard to the information needs of our customers, and communicate with them in a way which is clear, fair and not misleading.

These requirements sit alongside obligations under the general law, which make unfair terms and unfair credit relationships unenforceable. Governed by these Principles, Rules and Laws, we have written contracts in place with each of our customers. These contracts are required to define – with clarity, transparency and certainty – our duties, rights and obligations: what we commit to do for our customers, what our customers agree to do in return, and what happens if one of us does not do what we said we would do. Then again, things still go wrong. Plus, it's possible to treat someone fairly, but in a very uncaring way. And vice versa. So, some ask, should there be a legally underpinned Duty of Care on firms?

What do we mean by a Duty of Care? If we mean 'should firms care about their customers?' the answer is obviously yes. The nature of financial services makes it harder for people to understand products and propositions. They do not have physical form like other products people consume. Increasingly, even money exists only as a number. Financial services today are a curious mixture of data, arithmetic and trust. More than ever, firms have a duty to care, to help as best they can to understand the needs of their customers and meet them.

How is care different from fairness? Fairness is rooted in the moral virtue of justice. In a commercial context, it is mostly concerned with a balanced exchange of commercial value. Care is rooted in the moral virtue of love, and is a much broader value. While TCF mostly asks 'has the customer been treated fairly?', care asks the question 'has the customer been treated with respect, empathy and compassion?'. That's a much bigger question, and even harder to pin down.

So how do we make sure that firms do care? I have always believed that people care for other people when they feel safe and looked after themselves. A supportive and trusting environment enables the selflessness to put someone else first. As such, it is a cultural issue. It requires a culture where care is allowed to live alongside commercial imperatives, and compliance with the rules. At Nationwide Building Society, we talk about 'an ethic of care' which we trace back to our origins and philosophy. We were founded as a mutual on the principle that we can achieve more together than we can alone. We exist for the benefit of our members and are owned by them. This helps us care since we do not have the imperative of also satisfying shareholders hungry for returns on their investment. Our ethic of care has been visible throughout our history. For example, during the Second World War, we developed an approach for members who had lost their home through enemy action, the first word of which was 'sympathy'. Below is a photograph of the front of the guide containing the approach.



Source: (Score, 1941)

More recently we were among the first major financial institutions to set up a unit specifically to help vulnerable customers. We aim to make the right business decisions, but we define the right thing to be that which also demonstrates care for the individual. A recent example would be how in recent weeks, we moved quickly to directly employ over 300 people from Carillion as it went into liquidation.

And for our people, we have sought to reduce or eliminate those things that can compete with making caring and thoughtful decisions – such as forced performance rankings or individual financial inducements linked to performance targets.

While this ethos is surely easier in a mutual, it exists elsewhere too. Look in any product category or service industry. Within it, you will see a range of outcomes and service levels – linked to the degree of care within the organisations in that sector. Take airlines for example.

In financial services, all firms need to comply with the contracts, rules and principles that are listed above. Yet they compete on the extent to which they care for their customers, and customers in financial services vote with their feet (or increasingly mouse/finger). Nationwide has been privileged to be number one for current account acquisition for a while now – a feat that we attribute to our performance on service, and the care that is displayed by our people towards our customers (our members). So, given that caring is good business, why wouldn't the need to care be underpinned by a legal framework…a Duty of Care?

Well, what would happen if it was?

One day, in the summer of 1928 in Paisley, Scotland, a snail decided to end its days by crawling into a bottle. It is unclear exactly where or why, but this bottle was then filled with ginger beer and sold in a café to a lady who bought it for her friend – May Donoghue (Donoghue vs. Stevenson, 1932). As May was topping up her ginger beer, the decomposing snail fell out of the opaque bottle into her glass. Shortly afterwards, May fell ill with gastroenteritis and shock. In those days, since she had no contract (it was her friend who bought the drink) there was no legal redress. The court case worked its way to the House of Lords over the following years, and in 1932 Lord Aitken ordered £200 compensation. He based his ruling on the principle of 'love thy neighbour' and the ruling has been the basis of much of modern law in this area. It has also spawned an enormous amount of litigation.

Some argue that Duty of Care works in other areas, such as healthcare. However, the division of responsibilities between Doctor, Nurse and Patient is very one-sided. In financial services, the responsibilities are not quite so one-sided. If a Duty of Care was introduced into financial services, it would create a vague obligation beyond all existing terms, conditions, rules, regulations and laws. Inevitably, these would subsequently begin to become clarified and tested through a proliferation of claims in various circumstances. When can a firm lend to a customer? When can a firm authorise a payment? The very fundamentals of financial services would need to be redefined through a chaotic process of – quite literally – trial and error.

But even this is not a real downside of a legally imposed Duty of Care.

The real downside of a legally imposed Duty of Care is that it would make it necessary for all firms to introduce a very comprehensive new set of highly complex rules for their employees to adhere to. Care comes from the heart. Care cannot be imposed by law any more than any human beings will start to love someone because they are required to by law. Organisations that care for customers are those which care for their people and allow the natural desire to do the right thing to flourish. They avoid the things that get in the way of caring – like individual incentive schemes or fear of punishment.

If there are specific responsibilities or duties that it is felt are lacking from the regulatory framework today, then these should be addressed through changes to the rules. But if I ask most people I meet today about the cause of the financial crisis, most immediately say 'culture'. So, if we want firms – or rather the people in them – to genuinely care for their customers then we must pay attention to the culture within those firms and ask ourselves, how do we create a culture – not a duty – of care? People care because they care. Not because they have to.

1.4: Can you have your cake and eat it? Building a high performance business model that coexists with a culture of integrity

Monzo Bank Ltd

Tom Blomfield, Chief Executive Officer

Maria Campbell, Head of People

Harry Ashbridge, Writer

We were recently asked whether you can 'have your cake and eat it': can you have a 'good' culture (one that's customer-centric and has a positive social impact) while also being successful in the traditional economic sense?

The answer is emphatically yes. We believe that building and maintaining a successful, long-lasting, globally-impactful company requires a strong culture and coherent social mission.

In short, that's because culture and values are increasingly important to people (Deloitte, 2017). There's been a distinct shift over the last twenty years as companies with ambitions framed around the impact they have in their customers' lives have taken their place alongside the gas and oil titans of old. ExxonMobil want to be "the world's premier petroleum and petrochemical company." Whereas, Steve Jobs set up Apple to "make a contribution to the world by making tools for the mind that advance humankind."

And while it's true that some companies have been able to grow incredibly fast without seemingly 'good' cultures, they're finding it increasingly hard to sustain their positions. Take Uber: it's been able to ride a wave of cheap private capital to build a global behemoth, but is now faltering in the wake of revelations around alleged sexual misconduct and dubious business practices (Somerville, 2017). The new CEO, Dara Khosrowshahi, vowed to change the way the company does business: "Putting integrity at the core of every decision we make and working hard to earn the trust of our customers."

This doesn't just affect the younger tech companies; the wider business world is paying attention to the values-driven shift. In January 2018, Larry Fink, founder of the world's largest investment firm BlackRock, wrote this to CEOs of the companies he invests in:

> "Society is demanding that companies, both public and private, serve a social purpose. To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society. Companies must benefit all of their stakeholders, including shareholders, employees, customers, and the communities in which they operate." (Fink, 2017).

At Monzo, culture and mission are things we think and talk about a lot. We have the chance to build something that genuinely improves people's lives. If we do our jobs properly, Monzo will help reduce stress and anxiety, save people money, and put them firmly back in control of their finances. This mission is the '**why**' behind Monzo, and drives the work everyone here does every day. Our culture is '**how**' we work towards that mission.

We've heard culture described as "the way things are done around here." We set culture through what we do as leaders, the way we talk about our customers, the behaviours we reward or punish. Monzo doesn't have an explicit set of values published in an annual statement or painted on the walls of our offices. But last year we asked our staff "What three words would you use to describe Monzo's values?" and their responses were welcomingly consistent (Huckenstein, 2016).

We're transparent in the way we make all our development plans public, so everyone knows what we're planning to do and when. Our compassion comes through in the quality of service our customers get (and it's reflected by a Net Promoter Score (NPS) that's consistently around 75-80). And we try to be as fair as possible by collaborating with our community of customers on everything from our name to our pricing for cash withdrawals abroad.

That approach comes with challenges, of course. Our almost-absolute transparency leaves us open to the possibility of competitors getting to market with our ideas before we can. We make all our non-confidential internal emails open, and every team shares regular updates on their successes and setbacks, which opens up two additional risks for us to manage: information overload and distraction from our priorities. And nurturing an open culture in a fast-growing organisation takes up some of the time and energy we could spend becoming a sustainable business that makes money (which we don't do, yet!) These both compound the risk of a competitor executing on our public plans before we can, too.

But for us there's no inherent tension between short-term success and long-term goals. Ours is a long-term mission and, put simply, putting customers at risk of harm would never be a price worth paying to make short-term profits. To grow and be successful, we need to attract great people, and build trust with our customers. That takes years to cultivate and we could lose it in a second. We're only as valuable as our customers' opinion of us, so all our incentives are geared around them.

That focus gives us a competitive advantage in recruitment: we attract people who care about doing the right thing, who come here and do great work that moves us forward. And our honesty and integrity give customers faith in us, which has driven us to over half a million customers in just two years. So our honesty and integrity are absolutely fundamental to our economic success in the short and long term. We're doing this because it's the right thing to do **and** because all the signs suggest to us that it'll make us more successful in the long run.

1.5: FANS! Not customers

Metro Bank

Aileen Gillan, Chief Risk Officer

Danny Harmer, Chief People Officer

Amy Owen, Enterprise Risk Director

Metro Bank was the first full service, independent, de novo High Street bank in over 100 years, and started trading on 29th July 2010 when we opened our first store in Holborn, central London. We are a disruptive growth retailing model, creating FANS by surprising and delighting customers across every channel. FANS are customers who love your brand so much they promote it to their friends and family.
How do we create FANS? Through fanatical execution, integrated technology and superior service delivered by colleagues aligned to our unique 'AMAZEING' culture.

As Peter Drucker said: "culture eats strategy for breakfast." Our culture, built on transparency, fairness and customer focus, sits at the heart of how we deliver our vision and strategy. It is the essence of who we are. And it starts and ends with our people. So we hire colleagues with a passion for customer service and then focus relentlessly on arming them with the skills, knowledge, experience and professional qualifications to deliver consistently outstanding service and great outcomes, to customers. We are the only bank to offer a professional banking qualification to all our customer facing advisers.

Source: Danielle Harmer, Metro Bank

Cultural immersion for our colleagues starts before they join. We hire new colleagues via 'MFactors' where trained colleagues from across the bank meet with candidates to check they have the 'M-Factor' and buy into our culture. We know we can train people to be bankers but we don't believe you can train in a customer focused attitude. For their first two days with us every new colleague, from cashier to executive, attends 'Visions', our cultural induction. Metro Bank University trainers bring our behaviours to life through stories and practical exercises, and draw out what that means for every colleague and the role they play in creating FANS; 98% of our people say that they understand how their job contributes to this.

Our AMAZEING behaviours are simple, consistent and describe our customer and colleague-centric culture in a tangible way that everyone can see and understands:

Attend to every detail
Make every wrong right
Ask if you're not sure: Bump it up!
Zest is Contagious – share it!
Exceed expectations
Inspire Colleagues to Create FANS!
Nurture colleagues so they grow
Gamechange: this is a revolution!

We reinforce behaviours through the language we use to describe who we are and what we do. From our AMAZEING reviews (appraisals) and articles in our e-zine 'Revolution News' to the half yearly Revolution Updates (town halls), where all colleagues hear from Craig and the Executive Leadership team about our relentless customer focus, growth and successes. We also use Yammer to share stories that illustrate how our focus on creating FANS is working with recognition badges available for the best examples.

Culture needs to be pervasive, immersive, and consistent and align colleagues to the outcomes that you want to deliver to your customers. In our case, this means creating an amazing customer experience across every channel. People sometimes look for cultural silver bullets and quick fixes. There aren't any. Pop up banners and posters espousing "integrity" "respect" and "ethics" to signal the organisation's values have no impact. A million small things sit at the heart of culture. You only have to walk into a

Metro Bank store, telephony centre, or through AMAZE Central (our head office) to see how pervasive the culture is. From 'M' pins, to the sea of red adorning our colleagues on a Friday, everyone is an owner of the Bank and our culture. Ultimately, our culture is about our colleagues having a sense of belonging and purpose. If you want to create FANS, your colleagues need to be FANS, which is why we treat our colleagues the way we want them to treat our customers.

A culture that truly focuses on creating FANS and exceeding customer expectations will deliver great outcomes for customers. If you've got a culture driven by profitability, with a focus on reducing costs and driving productivity, then that is also just what you will achieve.

The focus on exceeding customers' and colleagues' expectations by delivering unparalleled service creates an emotional attachment to our brand… it creates FANS! Seven years of successful growth, market-leading net promoter scores and fantastic customer retention demonstrate how our culture sits at the heart of a high performance, long term, business model.

We are one team aligned to a single purpose: creating FANS. Embedding our culture, and reinforcing the behaviours that support it, is what sets us apart. Arguably other organisations could copy our products, hours, stores, or technology innovations if they were willing to invest in customers in this way. But they cannot copy our culture because that is the very fabric of who we are and why we are different. A group of people creating FANS by doing the right thing for customers.

1.6: Treating customers fairly?

Sue Lewis, Independent Consultant and Non-Executive Director

The FCA expects that 'All firms must be able to show consistently that fair treatment of customers is at the heart of their business model'. A good culture should lead to fair outcomes for consumers. But what does "fair" mean, and what should be the regulator's role in firms' culture?

The FCA says that firms should not exploit behavioural biases (FCA, 2017b). Yet that is exactly what they do. Long-standing home insurance customers pay on average 70% more for their annual premium than a new customer would (FCA, 2015).

Investment management firms launch better value fund share classes with lower charges but leave loyal customers in older more expensive share classes without informing them that cheaper share classes are available (FCA, 2017a).

Banks can reduce interest rates on existing customers' accounts by declaring an account "obsolete", although it's not of course obsolete to the saver.

Forty-one per cent of people with a '0% balance transfer' credit card do not pay it off at the end of the free credit term, reverting to the provider's standard rate.

These examples show firms put exploitation of inertia at the heart of their business model, not fairness.

The result is intense competition for new customers, with the expectation they will in time become loyal and highly profitable. While there is a huge choice of products out there, people struggle to make sense of the market. Lenders entice borrowers with low-interest headline rates but only have to give 51% of applicants the advertised rate. Other borrowers will end up with rates up to twice as high (Saga, 2017). Mortgage providers advertise low headline rates in percentages but add fees and charges in pounds and pence, making it difficult to compare offers.

The increased use of digital comparison tools to buy general insurance has led to a 'hollowing out' of policies, higher excesses and increased administrative costs. People's understanding of what their policy covers differs considerably from the reality (Fairer Finance, 2018). This is hardly surprising when terms and conditions can run to hundreds of pages, and use incomprehensible jargon.

Investors cannot work out what they are being charged or even whether they are getting regulated advice or not (Boring Money, 2016).

If a customer tries to withdraw funds beyond their overdraft limit, their bank can allow the withdrawal without telling the customer at the point of making the decision what charges will result.

The FCA says that firms 'must pay due regard to the information needs of their customers', yet it is clear they do not. Even if people can work out what they are paying, they can't usually judge what value they are getting; nor whether a different firm would treat them well. So they go for the cheapest option, a brand they recognise, or stay put. This undermines the FCA's competition objective: competition only makes the market work better if people switch to a better deal, or providers know that they could do.

Open banking has the potential to take number crunching out of switching decisions. It will also require banks to share service level indicators. This could make a difference, but it will be vital to ensure the indicators reflect fair treatment. Open banking also carries risks of a different kind of unfairness – how do people who don't want to share their data get a good deal?

Equally, how do people get a fair deal if they don't want to switch their bank? Aside from PPI, there were more complaints to the Financial Ombudsman Service about current accounts than any other product in 2016-17 (Financial Ombudsman Service, 2017). Yet the Personal Finance Research Centre found that people: "level of dissatisfaction is not great enough… they express a desire for regulators to tackle the culture and service standards of banks and do not think that customers should be expected to switch to get a better service" (Hartfree, J., Evans, J., Kempson, E., Finney, A., 2016). People do not get what they want from their bank, but put up with unfair treatment as they perceive all banks are the same (Davies, S., Kempson, E., & Wood, K., 2016).

The FCA does not say what 'fair' looks like. To get a judgement on this, consumers have to make a complaint to the Financial Ombudsman Service. Uphold rates are above 40% for banking, insurance and consumer credit complaints, suggesting that many firms are treating customers unfairly and not taking responsibility for doing so.

How much better it would be if bad things didn't happen in the first place.

Firms have no incentive to change. There is no 'first mover' advantage in getting away from an inertia-led business model. Treating customers badly doesn't make them vote with their feet, just complain a bit more. Complexity is more profitable than simplicity.

Reducing culture to 'tick box' compliance won't help either. Dealing with my late husband's finances, one bank treated me with callous indifference: 'We don't have anyone who deals with bereavement today, come back tomorrow'. Three months later I was still chasing the money. The other gave me tea and sympathy in a private room and paid up almost instantly. Both ticked the 'bereavement process in place' box but the experience suggested very different cultures.

As this anecdote illustrates, it is relatively easy for firms to show the regulator they have TCF processes in place, from boardroom discussion to front line reward structures. Most of us have worked in organisations with 'Our Values' stuck on the lift wall, arranged in some easy-to-remember acronym. Outside of the lift (or the regulator's earshot) the real culture emerges. People see who gets a bonus, a covetable job, or a promotion and they know why. It rarely has anything to do with what is written on the lift wall.

So what is the answer? First and foremost, firms are responsible for ensuring their culture generates good consumer outcomes. It is over a decade since the FSA gave them a deadline of December 2008 to demonstrate their fair treatment of customers (FSA, 2007). Even allowing for the financial crisis, missing a deadline by 10 years is a bit casual. Simply demanding proof of a good culture won't work. Customers don't have the power to force firms to change. A more radical approach is needed.

The FCA could look at mandating 'automatic upgrades' when firms introduce new products with better terms and conditions. It could demand that all firms' communications with customers could be understood by a 10-year-old, and that all costs and charges are clear and in pounds and pence.

It could also review the principles for business, to see if they are fit for today's market and advances in technology. The principles should bite on firms in a way they do not now. This might be through a duty of care on firms, or some other legal imperative.

Some of this might work, it might not. Ultimately, financial services are too important to the economy to be left to the ritual dance between the regulator and the regulated. There needs to be an alignment of the interests of providers with their customers. Among other things, this means rewarding long-term value creation, not short-term profits. And that means firms treating customers fairly, to their benefit, and that of firms, shareholders and the wider economy.

2 The role of regulation

2.1: Carrot or Stick? Culture as a Regulatory Approach

Ethical Systems

Azish Filabi, Executive Director

The interest in culture as a tool for regulation highlights the limits of the use of law and enforcement to regulating firms. If the old collection of strategies aimed to deter misbehaviour through the use of laws, corresponding regulations and their enforcement, expanding this toolkit to include a consideration of culture accepts that preventing misbehaviour goes beyond the cost-benefit analysis, economic model of decision-making.

A pure economic model would assume that individuals and firms make rational decisions in the face of regulatory fines, and that such incentives will deter them from wrongdoing. Expanding the model to incorporate the role of culture in shaping conduct encompasses psychological and behavioural calculations, often made in the midst of complex situational circumstances and systems. Thus, this expansion requires an understanding of social and behavioural science, particularly as it relates to ethics (Treviño, Haidt, and Filabi, 2018).

A traditional, economic model of regulation would favour a push towards more rules and strict compliance with those rules. Very broadly speaking, such an approach would develop a hypothesis on how incentives drive rational human behaviour and, if the rules are violated, regulators would increase fines as punishment (under a theory of deterrence) and/or create new rules to prohibit that observed behaviour. A behavioural approach, on the other hand, would not start with assumptions about rational behaviour, but rather develop a hypothesis about the irrational ways that individuals are likely to react to a rule; alternatively, it could be a hypothesis about the ways that individuals can be motivated towards good behaviour. They would then collect data and evidence of how people and organisations actually responded to rules, analysing the psychological underpinnings of the response, and then suggest a new approach as a result of that analysis. The goal would not be compliance with rules, but rather adherence to broader principles and goals. Ideally, such experimental analysis and data gathering would be done through randomised controlled trials, for maximum benefit of analysis.

In this respect, for most organisations, a focus on ethical culture, for which I advocate below, will speak to the individual's desire to work in adherence to shared organisational values, and would promote self-governance by tapping into intrinsic motivation. A strict compliance approach could risk crowding out ethics as individuals and organisations focus on external rewards for their programs and policies, particularly if the perception is that the goal for the organisation is to protect management from blame (Treviño, Weaver, and Gibson, 1999).

The regulatory interest in culture thus raises the question of what role regulation plays in motivating desired behaviour and culture, and what tasks the regulator should undertake to achieve its goals. In the context of financial sector regulation, this raises a specific question – how can prudential and conduct regulators who intend to influence the culture of supervised firms use tools other than enforcement processes to motivate firms to more proactively manage their culture (Bailey, 2017)? In other words, can regulators effectively and fairly bring an enforcement action against a firm for not having the "right" culture? And, if culture can't be regulated and enforced in the traditional ways, what specific tactics should the regulator take to advance this important topic?

The primary goals for any regulatory framework with respect to firm culture should be 1) to require that the firm's most senior leaders (it's Board and Executives) proactively assess and manage culture; and 2) to promote the creation of a learning systems at firms, which creates processes and feedback loops for growth and experimentation with respect to human conduct and behaviour.

Ideal cultures?: comparing compliance, risk, and ethical cultures

There is often a question of whether there is a certain "type" of culture that regulators should aim to promote. For example, should regulators advocate that firms have a culture of compliance, ethics, or risk management? To answer this question, we should define the ultimate goal of any regulatory relationship, which is to promote compliance with rules, as well as prudent risk management practices, including the overall safety and soundness of the financial system. These two outcomes, I believe, can best be achieved through promotion of an **ethical** culture.

A culture of compliance inherently directs the attention of the firm and its employees towards abiding with the law. Professor Don Langevoort defines the term succinctly as: "the shared beliefs – 'sense making' – inside any given organisation about the importance or legitimacy of legal compliance vis-à-vis other pressures and goals" (Langevoort, 2017). In a culture of compliance, senior executives elevate compliance with law as a priority at the firm, and then promote behaviours, communications, and systems that would push employees to keep legal compliance top of mind, before other interests, such as financial self-interest or profit, for example.

Compliance just with the law, however, is likely too limited. Legal requirements are often a porous and complex series of rules that are frequently gamed, or fall short of the regulatory goals of long-term safety and soundness. Some legal regimes recognise this limit and incorporate ethical principles (eg, treat customers fairly) directly into the law itself. Moreover, legal solutions are often devised by looking back on scandals and failures of the past, and not well equipped to address tomorrow's ethical mishaps. What would a compliance culture say about the vast array of behaviours that the law doesn't speak to – for example, what constitutes an unfair or deceptive practice vis-à-vis retail customers? When is it appropriate to disclose transaction level information about one client to another client of a different business line, where that information could help avoid adverse impact to that second client's business?

Similarly, a culture of risk management looks too narrowly at just the risk-taking behaviour of firms and individuals. Regulating for 'risk culture' would imply that the risk-taking behaviours and systems are the most important factors at play. For example, as Andrew Lo presents, the goal could be that firms try to predict the individual and group-level risk appetite by developing a model that considers competitive and peer pressures, financial and other rewards, and career risk, among other behavioural factors involved in the decision-making process of an executive (Lo, 2015). This model would provide highly valuable insight into risk-taking behaviours, which is indeed very important to firms and regulators. But it provides one perspective – the appetite for risk– on the overall organisational systems. Risk culture doesn't necessarily capture, for example, the role of abusive managers, which has been shown in research to be an important consideration in observations of misconduct, or the importance of organisational trust, the strength of which can improve the likelihood that employees will speak-up about wrongdoing in its early stages. Particularly if risk culture is narrowly focused on financial risk, it could overlook broader, ethical considerations relating to how individuals treat each other in the workplace (abusive management, fairness), which have been shown to be drivers of unethical behaviours in organisations.

Risk culture and a culture of compliance are both important perspectives on organisational culture; they each add value, but could neglect broader concepts with respect to ethical culture. As ethics expert and culture architect Caterina Bulgarella (2018) writes in an interview with Ethical Systems, "ethical behaviour underlines a powerful cocktail of ingredients (eg, self-regulation, moral awareness, ability to 'self-organise' in the face of missing information, etc.)." While better risk management and compliance are the outcomes regulators and firms seek, ethical culture is likely the broadest construct that can help attain those goals. A team of researchers at Ethical Systems is working on defining the necessary components of an ethical culture, which include organisational fairness, trust, abusive manager behaviour, ethical leadership, selfish orientation, benevolent orientation, lack of awareness about ethics, empathy, fear of retaliation about speaking-up, as well as efficacy and speaking-out.

There are, of course, overlaps in the various frameworks for conceptualising culture; even when regulating for ethical culture, there are variations in what a culture of ethics looks like across firms. That leads to the next matter – what should regulators focus on in their interactions vis-à-vis firms and what is the role of measurement with respect to culture?

Regulatory Objectives

I set out above two main objectives for regulatory involvement in this domain: 1) that firms be required to prioritise culture assessment and management; and 2) that regulators encourage the development of learning systems and organisations.

The importance of the first goal is clear – without the engagement of the firm's most senior leaders, any culture initiative is likely to fail. This includes not only tone and conduct at the top, but also allocation of resources towards assessments (though surveys and focus groups) of the existing culture at the firm, and engaging in meaningful change management initiatives when necessary. These actions need to happen **before** scandals occur, as preventive strategies, which is why regulatory involvement is necessary to keep leaders accountable.

A full treatment of approaches to culture assessment is beyond the scope of this essay, though several points should be emphasised. The first is that assessments should be conducted via anonymous and confidential surveys, preferably by a trusted third-party organisation, and should be correlated to meaningful behavioural and financial outcomes. Focus groups are also a useful approach, best conducted by outside parties to protect employee confidentiality. Furthermore, regulators should require that firms use the results of assessments in meaningful ways, to help improve their internal systems over time. The regulators themselves should exercise restraint in accessing the data, and make this policy explicit in their supervisory relationships. Confidentiality is an important aspect of truth telling in assessments, and a trusted relationship between the regulators and the firms is key to helping improve culture. Regulators should be specific about how they will grant trust in such instances – they could, for example, provide firms a qualified privilege to conduct assessments without being required to produce the results for inspection, absent special circumstances or scandals (eg, a large breach of ethical behaviour, such as the LIBOR scandal).

The emphasis on improvement leads us to the second objective – that firms be learning organisations. A learning organisation is one that promotes continual learning among its employees by fostering open discussion and systems thinking. In business theory and practice, many have studied and written about the impact of learning organisations to advance a myriad of business objectives, such as innovation, quality control, and business process improvements (Garvin, D. A., Edmondson, A. C., & Gino, F., 2008). For our purposes here, a learning organisation is one that continually collects data about itself and uses that information to align its systems towards the organisation's ethical values. Behaviour and culture constantly shift, as people are influenced by the formal and informal aspects of their environment (Treviño and Nelson, 2017). To best manage the interplay between mindsets, culture, and conduct, organisations need to take every opportunity to learn about their people and systems through measurement, data collection, and feedback processes (Garvin, 1993).

The role of the regulator in this respect is to supervise the elements of learning in the organisation, without crossing boundaries towards active management of those elements. Thus, the regulator should encourage the development of ethics programs and experimentation with program elements by companies, through feedback and data collection. For example, companies who are beginning to collect data through machine learning to analyse the behaviour of their employees (Engler, 2017) should correlate that information with culture assessments – what impact does it have on trust in the organisation? If trust goes down, what is the repercussion of such loss on the speak-up culture or employee engagement, and the likelihood that employees will call out misconduct in the future?

Furthermore, the supervisory process can be used to incentivise focus on the types of behaviours research shows to be helpful in fostering an ethical culture. For example, we know from research that psychological safety is important for effective team building and encouraging people to speak-up without fear of repercussions (Duhigg, 2016), ranging from embarrassment to disciplinary actions. To encourage this dynamic at firms, regulators who may be in the practice of asking firms about instances of punishment for misbehaviour could flip the dialogue to ask instead about instances of leniency (when appropriate) that led more trust and loyalty between individuals and the firm.

Conclusion

The lessons and methods of psychology and behavioural science are necessary as we enter a new era of regulation. That the 2017 Nobel Prize for Economics recognised the prominent role of behavioural science in our collective understanding of economics, through its award to Professor Richard Thaler for his contributions to behavioural economics, is a nod to how far we have come, but also how much more we collectively need to learn to advance our goals.

Our modern economic system necessitates a modern array of tools. With the inclusion of the many instruments and modules coming out of the behavioural science community, regulators can go beyond traditional methods to develop a comprehensive toolkit from which to build and support today's organisations.

2.2: Why regulation alone will not influence firm culture and consumer outcomes and what else is needed

John Sutherland, FCA Senior Advisor

The FCA is a Conduct of Business regulator using Principles and Rules to regulate activities within its regulatory perimeter. An example of a Principle is;

A firm must pay due regard to the interests of its customers and treat them fairly.

An example of a Rule would be a requirement to hold investment records for a set period. Judging whether a Principle has been met is more difficult than a Rule. The latter is fairly straightforward, in this case, on record keeping. Whereas the Principle involves nuanced judgement; **what is meant by the interests of the customer and what constitutes fair treatment?**

Consider a firm selling a product to customers with restrictive terms and conditions such that the use of the product is impaired. Complaints are refused on the grounds that the customers had ample time to read the terms and conditions and 'ticked' a box signifying acceptance. The firm's legal counsel confirms this interpretation. The point of this tale is to illustrate how an interpretation purporting to meet Rules and Principles, even where legally checked, may still act to the detriment of customers.

The definition of the word 'conduct' points to what else is needed;

Conduct is the manner in which;

- a person behaves, especially in a particular place or situation;
- an organisation or activity is managed or directed.

Behaviour is central to conduct. This behavioural ingredient was identified by the Parliamentary Commission on Banking Standards who found it difficult to identify anyone who would accept responsibility;

> "One of the most dismal features of the banking industry to emerge from our evidence was the striking limitation on the sense of personal responsibility and accountability of the leaders within the industry for the widespread failings and abuses over which they presided. Ignorance was offered as the main excuse" (House of Lords, House of Commons, 2013).

What followed was the Senior Managers and Certification Regime (SM&CR). SM&CR concerns behaviour, aiming to hold senior managers to account through their Prescribed Responsibilities (PRs).

The arrival of SM&CR was greeted in much the same way as when interviews were introduced into the fit and proper process in 2008. These interviews, through strict due process, could result in the interviewee being refused authorisation.

The reaction to this was broadly; "more paperwork and tick boxes from the bureaucrats" … "this is the end of the unitary board" … "no-one will want to be a bank director" … "the City of London is doomed". Ten years later none of this has come to pass.

More interesting is the important by-product delivered by supervisors following the introduction of the scheme.

Supervisors didn't simply put together and then undertake a structured interview. They also asked the firm to say how many people were on the long list, how the firm whittled the long list down to a short list and then how had they arrived at the candidate. In too many cases this led to silence, then a bit of feet shuffling, followed by the pink faced admission that the candidate was known to a board member from another board or golf club. There had been no structured recruitment process.

Once it became clear that supervisors expected a search for the best person available through the deployment of a quality recruitment process, guess what happened? Across the board the recruitment process became more professional and of higher quality.

In the case of the SM&CR there was the same noise; "more paperwork and tick boxes from the bureaucrats" … "this is the end of the unitary board" … "no-one will want to be a bank director" … "the City of London is doomed". Three years later and again none of this has come to pass; indeed, Australia has recently enacted similar regulation (Brennan, 2017).

As with Significant Influence Function (SIF) interviews there was a positive by-product to SM&CR. Accompanied by more feet shuffling and pink faces some firms had to admit they did not know who was responsible for what. Which is to say everyone was responsible (or depending on your point of view, no-one was), but drilling down to individual responsibilities had either not been done or done imperfectly.

Feedback from directors has subsequently been: "we didn't much like the idea at the outset but now the value is coming through, people are much clearer about what they are responsible for". Equally fascinating are the non-executive directors who have said, "SM&CR has changed the conversations that executives are having about what they do, there is much more care being taken to ensure PRs [Prescribed Responsibilities] are being met".

At which point it is worth examining a couple of the PRs;

h. overseeing the adoption of the firm's culture in the day-to-day management

i. leading the development of the firm's culture by the governing body as a whole

PR h) attaches to an executive, usually the CEO and i) to a non-executive, usually the Chair of the board. So, more rules, what difference does this make? Well, consider h and i. The core theme of SM&CR is personal accountability and Chairs and CEOs will look to evidence they are taking reasonable steps regarding direction of the firm's culture.

Not only that, but when supervisors review the effectiveness of the board, as they do from time to time as part of continuous supervision, what questions will be asked? Amongst questions about board effectiveness generally, each Significant Management Function (SMF) will be asked about the reasonable steps they are taking to meet their PRs. In the case of PR i) the chair will be asked to explain how the culture is being developed, and other board members will be asked how they think the chair is getting on with his PR i).

Returning to our tale, what was it that led to the restrictive terms and conditions? Maybe it was profit seeking by minimising use of the product. If so, but within the internal communications of the firm are behavioural exhortations about good customer outcomes, what culturally went wrong? And, remembering PRs h) and i), expect supervisors to ask that question of the Chair and the CEO.

The answer lies in behaviours; it is not enough to say what behaviour is required, it is what drives behaviour that matters. Therefore, in meeting PRs h) and i) the Chair and CEO will need to consider what drives behaviour.

There are four drivers of behaviour; trustworthiness of senior leaders, communications, decision making and incentives financial and non-financial.

There is a classic paper written over forty years ago rejoicing in the title: 'On the Folly of Rewarding A, While Hoping For B' (Kerr, 1975). If the tone from the top talks about B (customer outcomes) but senior leaders reward A (income generation) then expect customer outcomes to be paid lip service whilst income grows. Moreover, the workforce, and customers, will see senior leaders as untrustworthy.

Communication plays a key part in senior leaders establishing themselves as trustworthy. The official and public ambition to achieve great customer outcomes is easily trumped by the internal, private exhortations to concentrate on income. And, if communications only flow down the organisation, don't expect much speaking up.

The workforce might know the terms and conditions are aggravating customers, but if speaking up results in sanction then there will be no speaking up.

Compounding this, if financial reward (payment for income) reinforces non-financial reward (keeping your head down and not speaking up) then the road to perdition lies ahead.

In these circumstances internal and external employee surveys (such as the UK Banking Standards Board and www.glassdoor.com) will report;

- I do not always trust what our senior leaders say
- Sometimes I have to trade ethics for business
- Our strategy is unclear

As to decision making, that is about how decisions are made;

> "There is no sure way to tell in advance who is going lead for good and who for evil" (Schlesinger Jr., A. M. 2003).

One test is this: Do leaders lead by force or by persuasion? By command or by consent?

Concluding on SM&CR, it has not been designed as an enforcement tool only; if a firm is found wanting the answer is not necessarily a sanction. The answer may be the steps taken were reasonable but that lessons can be learned.

Supervisors don't just trust the rule book and neither should boards. The supervisors' questions can be asked by directors themselves, as long as critical self-assessment is possible and we have not slipped into believing our own rhetoric:

> "I do want to make very clear that there was no orchestrated effort, or scheme as some have called it, by the company. We never directed nor wanted our employees, whom we refer to as team members, to provide products and services to customers they did not want or need", John Stumpf, CEO Wells Fargo (An Examination of Wells Fargo's Unauthorised Accounts and the Regulatory Response: Committee on Banking, Housing and Urban Affairs, 2016).

Finally, this is not a new problem. 105 years ago a House of Representatives inquiry records;

> "COUNSEL FOR THE INQUIRY. Then do I understand the only check you would suggest...... is the check of the Comptroller of the Currency .....? SENIOR BANKER. Well, I say in general, yes; but prudent management must have its voice in it"(Financial and Monetary Conditions in the United States: Hearing before the Subcommittee on Banking and Currency, 1913).

2.3: The problems of measurement and the 'management' of culture

Investec Group; now retired

Dr. Allen Zimbler, Formerly Chief Integration Officer

The recurrence of financial crises culminating, most notably, in the global financial crisis experienced a decade ago must teach us that, firstly, we find it difficult to learn from experience, and, secondly, that while rules and regulations are essential in ensuring that "correct" practices and behaviours are adhered to, they are not sufficient in preventing wrongdoing in financial institutions.

It is perhaps a sad reflection that the banker, once regarded as the epitome of virtue, has now become regarded as unreliable, self-serving, even "greedy". But careful analysis of the crisis of 2007/8 will illustrate that it is certainly not just bankers and mortgage lenders who were complicit, but policy makers, rating agencies (who rated CDO's as Triple A), regulators, and even members of the public, who sought mortgages they simply could not afford.

Concern about the repeated incidence of such crises is appropriate, and has led to a proliferation of further rules and regulations, necessitating the hiring by financial institutions of large teams of staff focused primarily on governance and compliance. If bankers are to be believed, the cost of doing business has increased radically, and younger talent has fled to less restrictive industries as business has become harder to do.

Whilst there is obvious cause for the tightening of rules and regulatory requirements, they alone will not cure the ills. Rules, it would seem, are for breaking, if not illegally, then by talented groups of individuals for whom discovering the legal loopholes and helping firms navigate around them provides a well-rewarded vocation.

French and Bell (1978) first proffered the metaphor of an iceberg as a means of describing the difference between those 'harder', more overt and objective elements of an organisation (its systems, structures, stated strategies, financial control and reporting mechanisms, information technologies, procedures, marketing of products or services, etc.) which were above water level and were definable, measurable, open to inspection and even controllable, and the 'softer', more covert aspects.

These latter properties, inherent in each and every organisation, consist of the perceptions, emotions, attitudes, value systems, interpersonal dynamics, conflicts and even power agendas imported into the organisation by the human beings that inhabit it. And these are, by definition, below the water level of the iceberg, submerged, subjective, irrational, unpredictable, sometimes darker, unmeasurable. But they have a massive impact on an organisation and often subvert the rational, above-the-water level agenda, sometimes fundamentally. We have, sadly, too many examples of long-standing financial institutions with otherwise excellent reputations being damaged or even destroyed by the actions of individuals or groups of individuals.

There is thus much validity, in recent years, in financial and other regulators concluding that, whilst rules and regulations are obviously necessary, it is these subterranean factors that inform an organisation's culture and determine its behaviour. If we understand that people's behaviour is driven more by psychological and emotional factors than by logic (Kahneman, 2011), then the moral codes of a community and its consequent moral behaviour cannot be guaranteed only by rules. But if we do accept that a community's moral behaviour is guided primarily by its culture and the cherished values that underscore that culture, this poses a burden for those charged with being responsible for the good governance of organisations, and for regulators in particular.

The problem is not only in understanding that culture plays a singular role in determining the actions and decisions taken by individuals and thereby shapes an institution's attitudes towards all of its stakeholders. It inheres, rather, in a statement once made by Abraham Maslow, that "if you only have a hammer, you tend to see every problem as a nail."

Our approach to organisations from a supervisory and regulatory point of view, if not also from a Board and senior management point of view, has always been one of **measurement**, based on codifying and quantifying. We have developed sophisticated, rapid, data-based means of assessment and measurement and our instantaneous analytics can provide reams of useful information. But they address themselves, primarily, to the "top part of the organisational iceberg" – the part, that is, above the level of the water.

There is an aphorism that 'the more we measure, the more we achieve results.' Indeed it is often true. Moreover, resorting to measurement gives us a feeling of safety, as it promises to make things rational, objective, and predictable. It is no surprise, then, on concluding that culture has much to do with 'doing the right thing' and that it is thus a significant risk factor, that business organisations and their regulators should land naturally back into a measurement paradigm. Witness the speed with which consultancies, including some of the big audit firms, produced 'culture audits', 'culture prints' and 'culture maps'.

This, in fact, is precisely where the problem starts, because in defining culture, we are defining **intangible**, **qualitative** properties, such as meaning, or, as Edgar Schein (1984) put it in his famous definition, "patterns of assumptions" that are discovered, acquired, and emerge as people in a group learn to cope with "the problems of internal integration and external adaptation" – the problems of keeping the group or organisation together as it learns to cope with the constantly-changing world around it.

In these terms, culture might be possible to understand, but is very difficult to measure – how does one measure something as intangible as a pattern of assumptions emerging within a group, and shifting, dynamically, as the group begins to change, within a field that is constantly changing. Culture itself, then, is a dynamic **process**, and this poses serious challenges for measurement. In any determination, what is actually being measured is only as good as the measuring instrument being used, and the complex multiplicity of variables that constitutes an organisation makes it difficult fully to describe any organisation accurately, let alone to 'measure' its culture.

It is hard not to conclude, when people assert that they are measuring culture, that they are measuring an aspect, a dimension, perhaps a derivation of culture, but not culture itself. And, if this is the case, how will that help in regulating the complex and dynamic adaptive systems that are organisations?

Most regulatory authorities have already appropriately recognised that there are no uniform parameters or descriptors when approaching the question of culture, and respect the idiosyncratic nature of every organisation. But this obviously in no way lessens the obligation to develop ways of evidencing the presence (or otherwise) of effective mitigators of poor behaviour and wrongdoing within the organisation, in terms that are familiar to itself and therefore more representative. This is particularly so if a regulator like the FCA concludes, as it has done, that "the cultural characteristics of a firm are a key driver of potentially poor behaviour" (Adamson, 2013).

There is a significant difference, in seeking evidence, between measurement and assessment – measuring something does not necessarily fully assess or understand it, even if it satisfies our need to be vigilant and lessens the discomfort of ambiguity. As the organisation is dynamic, and is in a constant state of emergence, assessment should be sufficiently interpretive, and should also have an understanding of behaviour within the context of changing purpose and mission. In such a dynamic field, self-reflection through purposive dialogue and feedback provides a process that becomes self-regulatory.

The ability of an organisation to report meaningfully on its culture presupposes an **awareness**, a self-reflective capability that depends to a large degree on the extent and quality of dialogue that takes place in the organisation around issues of meaning. Typically, these have to do with the essential purpose of the organisation (the 'why') and its values (the 'how', or 'how not'). While this sounds a bit esoteric, it is actually simple; if a stated value is 'honesty and integrity' (which it often is), then how is this defined in the organisation in terms of what it **means**, and how it manifests in actual behaviours? How is it lived as an example by leaders? What are the consequences of any violation of the value; how is it taught to new entrants to the organisation as "the way things are done around here," and does a discussion of how the value has been lived form part of a performance review?

Such dialogue is time-consuming, but essential, and should form a part of the legitimate discourse in the organisation. It should be located within the daily operations of the organisational system, so as to become self-reinforcing and start crystallising the meaning system in a manner in which the 'evidence' of its value becomes increasingly obvious. Moreover, to ensure that dialogue is regarded as much a part of the serious, legitimate and rigorous work of the organisation as any other function, it should be **facilitated**. Different and distinct from the role of HR, the presence of an Organisation Development team in the organisation whose purpose is to ensure that dialogue takes place, is sufficiently self-reflective and robust, and pays obeisance to the values, is one strong guarantor that the culture is being well-served, and, in turn, becomes self-regulating. It is in this sense that culture becomes **strategic**, or in Peter Drucker's recently reported terms, "... eats strategy for breakfast" (Cave, 2017).

The challenge for regulators, in conclusion, is in **asking the right kinds of questions** rather than attempting to measure any specific culture; questions that seek to evidence an understanding of whether organisation members fully understand the overall mission and purpose of the business, whether they are familiar with what the values mean, how they are **processed** and lived on a daily basis, what the consequences are for not adhering to them, and how that contributes to a culture that, when lived, mitigates against bad behaviour.

2.4: Regulation and Reputation

University of Nottingham

Peter Cartwright, Professor of Consumer Protection Law

This essay seeks to ponder some issues that financial regulators think more about with particular reference to the use of reputation as a regulatory instrument. The aim of the piece is to encourage debate rather than to provide definitive answers.

Why do we have (Financial) Regulation?

It is well-known that the FCA itself has three operational objectives: to protect consumers; to protect financial markets; and to promote competition. But to understand why we have financial regulation we arguably need to focus less on objectives (what regulation is trying to achieve) and more on rationales (why we need to regulate to achieve them). Rationales are sometimes divided between economic and non-economic (Ogus, 1994). Economic rationales see regulation as trying to get markets to work more efficiently, in particular by tackling market failure. Non-economic (sometimes called social) rationales involve other public interest goals such as paternalism and distributive justice. Although they have received less attention than their economic counterparts, they are very important for understanding regulation. For example, Sunstein and Thaler's recent work on libertarian paternalism has been well-received by governments on both sides of the Atlantic. In part this is because it attempts to respect individual choice while "nudging" people in the direction thought most appropriate for them. But its's also persuasive because it draws on the findings of behavioural economics which cast significant doubt upon some classical economic ideas (Sunstein & Thaler, 2003). Distributive justice measures seek primarily to achieve a fair distribution of resources (Ogus, 1994) and form an important basis for the FCA's work on consumer vulnerability (Cartwright, 2015a).

Regulation, Culture and Regulatory Instruments

The FCA recognises that financial regulation and culture are closely connected. It requires, for example, that senior management "establish the right culture to convert good intentions into fair outcomes for consumers" and identifies six areas of management behaviour that can influence a firm's culture of customer treatment (FCA, 2016a). It also requires firms to "show consistently that fair treatment of customers is at the heart of their business model." If we take 'culture' to mean the ideas, habits, and behaviour of a particular group, we can easily see how regulation might influence this.

To effect change, the FCA has a plethora of regulatory instruments, or tools, at its disposal. The FCA's standards are, of course, designed to modify behaviour, and most firms and individuals can be expected at least to attempt to comply with the standards demanded (Kagan & Scholz, 1984; FCA, 2016b; Iscenko, Pickard, Smart, & Vasas, 2016). But the FCA also relies on enforcement to achieve this. It is well-known that the FCA can, for example, withdraw authorisation, issue fines and warnings, bring prosecutions, and seek injunctions. It can also utilise (negative) publicity to achieve its aims. This is a fascinating area for enquiry as it is relevant to a number of tools and a number of objectives. It is considered in a little more detail below.

What do we need to think more about?

The Risks of Regulation

First, regulators need to think about (a) what exactly they are trying to achieve by using a particular instrument and, (b) how the instrument might in practice not only fail to achieve that, but be counterproductive and backfire (Sunstein, 1997). It is comforting that in its examination of culture, the FCA clearly has been mindful of how regulation can potentially misfire, and that it is determined to learn appropriate lessons. What follows is a brief examination of the use by regulators of (negative) publicity in this context.

Regulation, Reputation and Adverse Publicity

The FCA sees an important role for publicity in achieving specific ends. To take one example, the FCA says that enforcement notices are published to do three things: to inform the public, to maximise the deterrent effect of enforcement action and to ensure that its decisions are transparent. This statement forms a useful basis for analysis, although it should be recognised that (a) there are many ways the FCA can generate adverse publicity; and (b) there may be other objectives in doing so.

First, publishing notices aims to inform the public. If a firm has behaved in a way that casts doubt upon its reputation, publicising that will in theory facilitate better consumer decision-making. The 'classical' economic vision of consumers is of individuals who will act rationally (ie consistently) in accordance with whatever their preferences are, provided they have all the information they need and an appropriate choice of suppliers/products. As the reputation of a firm is a factor that could influence choice for many consumers (it is essentially part of the quality of the product or provider) this assists consumers in making the choices they want (London Economics, 1997).

Second, publicity may aid what we know, particularly in the context of financial regulation as 'credible deterrence' (McDermott, 2013; Cartwright, 2015b). Traditional economic analysis of law suggests optimal deterrence will only be realised where individuals (or firms) weigh up (a) what they perceive to be the probability of enforcement action (say, prosecution) and (b) what they perceive to be the likely sanction against (c) the perceived gains (Becker, 1968; Ogus, 1994). Traditional sanctions (such as fines) may appear inadequate. This is primarily because they tend to be low, but is also because so many contraventions go unidentified or unpunished (Macrory, 2006). However, the fear of negative publicity might be a more compelling deterrent. According to research for the Office of Fair Trading, 89% of respondents agreed that the threat of adverse publicity associated with breaching consumer law was as important as any financial penalty (Office of Fair Trading, 2010). Firms cannot know what the impact of negative publicity is going to be and it is the fear of such impact that generates the deterrent effect.

Third, publicity is said to improve transparency. Although it has long-been argued that there is a role for constructive ambiguity in enforcement (which itself might assist deterrence) there are good public policy reasons for stakeholders to have accurate information about what firms are doing and what the regulator has done about it (FSA, 2008; HM Treasury, 2014). Writing as far back as the 1950s, Rourke argued that this is a motivating factor for many regulators (Rourke, 1957). It is also important to remember that publicising details of enforcement action may have an educative role for firms, making clear what is expected by shining light on action that falls short. Although this is connected in some respects to general deterrence it can be seen as a separate purpose of publicity.

So, the use of negative publicity by the FCA through the publication of enforcement notices might be justified on several grounds. However, we should also be mindful of its dangers. As noted above, a vital lesson for all regulators is that regulation does not always function as intended, and anticipating the ways in which it might fall short is imperative.

First, publicity might place too great a reliance on consumers to act on the information publicised. Much behavioural sciences research has found that consumers routinely display a host of biases and tendencies, and this casts significant doubt on the confidence that has traditionally been placed on them to make informed, rational decisions. (Kahneman, 2011). Indeed, information about reputation may create information overload and limit decision-making even further. The FCA is, of course, well aware of this danger and has investigated in detail its implications for financial regulation (Erta, Hunt, Iscenko, & Brambley).

Second, there is a danger that where viewed from the perspective of deterrence, adverse publicity is prone to be either inadequate or (more likely) disproportionate (Macrory, 2006). Where evidence of wrongful conduct is not taken seriously by consumers, firms may realise that they can act with (relative) impunity. Where consumers overreact, the sanction becomes disproportionate and difficult to justify. The problem with relying on publicity as a deterrent is that its effect is very difficult to determine in advance. The 'sting' is the market's response. The sanction becomes, in Coffee's words "something of a loose cannon" (Coffee, 1981). From the point of view of deterrence, a potentially disproportionate sanction may appear attractive. But from the perspective of proportionality it is difficult to defend (Yeung, 2002).

Third, from the perspective of transparency, information can easily be compromised. This is particularly problematic from the perspective of the firm. As the information is channelled, repeated, interpreted and exaggerated, it no longer reflects accurately the nature of the conduct in question.

Conclusions

The reasons for financial regulation and the powers of financial regulators are varied. One of the key tasks of the regulator is to ensure that the action taken matches the objective sought. This essay has taken a brief look at the use of publicity by regulators to illustrate the importance of recognising circumstances where action may not only fail to achieve its objective, but compromise it.

2.5: Misconduct Risk, Culture, and Supervision

NY Federal Reserve Bank

Kevin Stiroh, Executive Vice President, Head of Supervision Group

The following essay draws from a paper by the same author, 'Misconduct Risk, Culture, and Supervision', published in December 2017 (Chaly, Hennessy, Menand, Stiroh, & Tracy).

Polls have shown a precipitous drop in public trust in the financial services sector over the past decade (Gallup, 2016). This decline has coincided with many well-publicised examples of misconduct in the industry.

Root cause analyses suggest that this misconduct often occurs in organisations where improper behaviours are ignored or sometimes even encouraged. That is because people look to cues from the behaviour of the people around them to determine how to behave and interact (Aarts, Gollwitzer, & Hassin, 2014; Bikhchandani, Hirshleifer, & Welch, 1998). As existing members leave a group and new members join, the group's patterns of behaviour reproduce themselves and evolve. The extent to which patterns of behaviour impact a firm's functioning – by either encouraging or discouraging misconduct – can be thought of as the firm's 'cultural capital' (Chaly et al., 2017).

Cultural capital is an intangible asset. It cannot be touched or held like machinery and other physical assets, but its value to an organisation can be measured and assessed, and ultimately influenced. Like physical or human capital, cultural capital is an input in a firm's production function. It affects the type of goods and services a firm provides and how it produces them. Although it is not loss absorbing like equity capital, it can be loss preventing – influencing decisions, behaviours, and reducing misconduct risk.

A firm must invest in its assets – tangible and intangible – or they will deteriorate over time to the detriment of the firm's productive capacity. Yet there is increasing evidence that firms in the financial sector often underinvest in cultural capital.

One can turn to traditional economic theory to explain why this underinvestment occurs. Firms may operate with levels of cultural capital beneath both the social optimum and even the private optimum due to different types of market failures. For instance, firms may ignore the impact that misconduct by their employees can have on the financial sector and the real economy more broadly. Concerns about these kinds of externalities motivate the enhanced prudential standards that are currently applied to the largest, most systemically important financial institutions in the U.S. and which reflect the potential loss to society stemming from those organisations' failure or distress (Federal Reserve System, 2012).

Principal-agent problems can also play a part. Employees may have incentives to act in ways that don't always align with the long-term interests of other stakeholders in the organisation, such as the shareholders and creditors. This can lead to an environment that values excessive risk-taking, short-term gains, and underinvestment in risk-reduction and risk-control mechanisms.

Adverse selection is another type of market failure that can lead to an underinvestment in cultural capital. Firms with relatively low cultural capital may attract and retain employees, directors and clients more inclined to take imprudent risks and exceed internal limits and controls. High-quality employees or directors may leave such firms or decline to join them, contributing to a further deterioration of the firm's cultural capital.

Finally, firms seeking to reduce misconduct risk face a coordination problem, as short-term competitive pressures make it difficult for individual institutions to make long-term investments in cultural capital if other firms are not also making the same investments. Coordination failures often prevent private actors from achieving a common objective, even if it is in their collective best interest (Crockett, 2000).

The extent to which misconduct at one firm imposes costs on others, reflects imperfect incentives and asymmetric information, and is caused, in part, by coordination failures, it is not surprising that firms underinvest in cultural capital.

These market failures suggest a role for the official sector. Though some regulation may help re-align incentives at firms, bolstering cultural capital likely requires a more adaptive governmental response. The essential drivers of misconduct risk, for example, often relate to leadership and 'tone from above'. Such qualitative and evolving behaviours forestall precise regulatory solutions. They can, however, be addressed through supervision, which can adapt to nuance and change in a way that regulation cannot. Supervisors in many jurisdictions are increasingly focused on misconduct risk, and are developing new tools and practices for identifying low cultural capital and finding ways to influence and promote greater awareness and investment. Indeed, such a focus dates back to the origins of bank supervision, and its historical emphasis on the "responsibility and integrity" of bank directors and managers seen as critical to retaining and cultivating that most important of common resources, "public confidence" (An Act Supplementary to the Act to Incorporate the State Bank of Ohio, and Other Banking Companies, 1846).

2.6: Managing culture: the role of regulation and supervision

Dutch National Bank

Wijnand Nuijts, Department of Governance, Culture and Organization Behaviour

Introduction

Since the Great Financial Crisis, behaviour and culture has received growing attention from the supervisory community. Culture and behaviour are perceived to have been important determinants of the financial crisis and of many cases of misconduct. In this respect the G30 concluded that "poor cultural foundations and significant cultural failures were major drivers of the recent financial crisis, and continue to be factors in the scandals since then [ ]. Firms and their leaderships need to make major improvements in the culture within the banking industry and within individual firms" (Group of Thirty, 2015). And in its stocktake of measures against misconduct, the Financial Stability Board's Working Group on Governance Frameworks concluded that "the culture of an institution can defeat its formal governance" (Financial Stability Board, 2017).

These quotes should not be taken as isolated statements. In fact, they are underscored by long-standing – social, behavioural and organisational – research traditions, evidencing that organisational culture and human behaviour are crucial for a company's sustained success.[3] As such it seems logical that behaviour and culture play a role in financial supervision, as they offer additional instruments for furthering the supervisory objectives of solidity and integrity of the sector.

The question then is how financial supervision can employ complementary approaches relating to culture. This article offers some directions for such a development. It also describes several dilemmas that need to be solved and conditions that need to be met, for behaviour and culture to support the effectiveness of financial supervision. Before doing so, I provide a starting point for this exploration by describing several perspectives on culture, as well as its interplay with organisational structure.

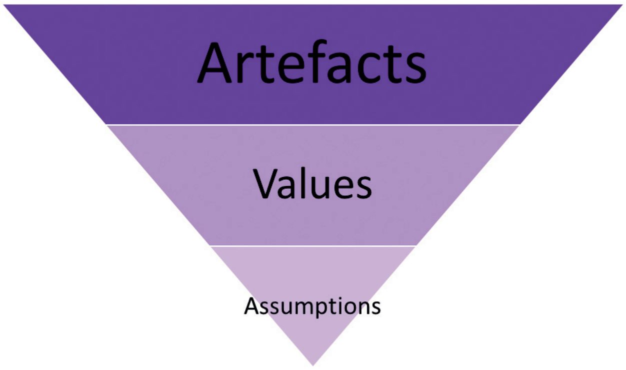
The interplay between organisational culture and organisational structure

There are various ways in which organisational culture has been conceptualised. The common denominator in these conceptualisations is formed by the shared values, beliefs, symbols and behaviours that characterise the way in which a firm operates (Sörensen, 2009). According to Schein (2004), culture simultaneously exists at three levels: i) assumptions, ii) values and beliefs and iii) behaviours and artefacts (see Figure 1).

3 See for example Sackmann (2011). Sackmann performed a meta-analysis of 55 scientific studies into the relation between culture and organisational performance and concluded that most of these studies support a direct link between corporate culture and firm performance.

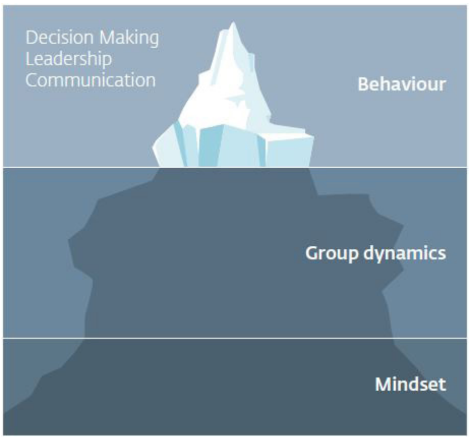
(Invisible) Assumptions and values are seen as drivers for (observable) behaviours, which – in turn – produce (observable) outcomes, like company performance.

Figure 1: Schein's mode of culture



DNB's supervision of behaviour and culture, which has been developed and executed since 2011, is to a large extent based on Schein's conceptualisation of culture. DNB's iceberg also consists of three layers (see Figure 2; Raajimakers, 2015). Mindset and group dynamics are both sub-surface levels, illustrating they are not immediately observable. The third layer, behaviour, exists above the waterline. In DNB's model, mindset corresponds with Schein's basic assumptions, beliefs and values, whereas group dynamics can be defined as the "interaction between different positions and patterns within a group or between groups, which affect overall [group/firm] effectiveness" (Raajimakers, 2015). Mindset and group dynamics are drivers of behaviour and other observable expressions of culture, at the individual, group or organisational level.

Figure 2: DNB's "iceberg" relating to behaviour and culture



DNB's supervision model on behaviour and culture takes group behaviour (instead of individual organisational behaviour) as its departure point. The focus is placed on the following specific behaviours, depending on the applicable context and framework:

- In the context of board effectiveness[4], it focuses on behaviours with respect to leadership, decision-making and communication.

4 Board effectiveness, (culture) change effectiveness and risk culture are three of DNB's behaviour and culture supervision frameworks. Other topics covered are integrity culture and strategic decision making.

- In the context of change effectiveness and culture change, it focuses on whether certain group behaviours contribute to or impede organisational transformations, eg relating to the firm's business model, performance or culture.

- In the context of risk culture, it focuses on how particular groups handle the trade-offs in decision making with respect to risk and reward.

- In the context or risk culture, it focuses on whether group behavioural patterns and their cultural drivers increase the risks for unethical conduct.

In short, DNB's supervision of behaviour and culture aims to identify: i) how basic assumptions, values, beliefs and group dynamic patterns influence behaviours, ii) how these behaviours in turn influence board effectiveness, change effectiveness, etc. and iii) if these behaviours create risks for the performance, risk profile and integrity of the firm. Following identification, DNB seeks to influence the firms to mitigate the observed risks.

DNB's approach also takes into account organisational structures. Like culture, organisational design and structure may be a powerful driver of behaviour. Their aim is to shape, direct and coordinate behaviour towards the accomplishment of common organisational objectives (Steiner, 1972). For example, in board effectiveness, DNB assesses decision making processes to understand whether they impede or encourage board debate and challenge.

Literature suggests that there is no sharp divide between culture and structure. Both mutually influence each other and, over time, tend to blend together, simultaneously exerting influence on behaviour. This interactive process is well-reflected in the following quote: "organizational culture represents the collective values, beliefs and principles of organisational members and is a product of such factors as history, product, market, technology, strategy, type of employees, management style, and national culture: culture includes the organisation's vision, values, norms, systems, symbols, language, assumptions beliefs and habits" (Needle, 2004). A concrete example of this interplay is included in Sheedy's conceptualisation of risk culture where organisational aspects, like governance structures, risk management systems and remuneration, interact with the underlying shared beliefs and individual perceptions of risk culture, and in concert influence performance and outcomes (Sheedy, 2018).

This definition reveals two further aspects:

- That culture is not a monolithic, but a multifaceted construct that includes numerous components. These components are not tied together through hierarchy, nor through a linear causal relationship. Rather, they constantly mutually influence each other in a continuous cyclical process.

- That culture is not static and does not exist in isolation. In fact, culture is (the product of) an adaptive response to environmental influences (at a certain point in time) and develops in order to address the challenges that are created by the internal and external environment. This evolutionary aspect of culture, has implications for the manner in which supervisors can, or perhaps even should, supervise culture.

Implications for supervision of behaviour and culture

The features and characteristics described above have the following implications for the design of the supervision of behaviour and culture, which DNB has taken as fundamental principles for its work:

1. DNB does not study culture for culture's sake. Its aim is to identify (and cause the mitigation of) prudential and integrity risks that may be determined by culture and behaviour.
2. It is possible to identify culture and behaviour, as well as its impact on firms' performance. First of all, culture can be broken down into a large number of identifiable components. Secondly, it is possible to measure these components by using established (quantitative and qualitative) methods that have been developed by various research traditions (eg DNB uses interviews which may reveal conformity pressures, and/or surveys to produce insight into the level of challenge or speaking up in parts of the organisation).
3. As culture and structure mutually influence each other, such methods are most effective when combined with approaches relating to organisational structure.
4. A supervisory approach on culture acknowledges and addresses the interplay between culture's constituent components. Therefore, having a complete view of these components and the way they interact is essential for a correct understanding of culture and its impact on the organisation.
5. DNB does not prescribe a specific culture or behaviour. Culture is an evolutionary construct; a response to internal and external challenges in order to safeguard the organisation's effectiveness and sustainability. For DNB this implies there is no blueprint for an ideal culture. Neither 'good' nor 'bad' cultures exist. Only effective or ineffective cultures.
6. Nevertheless, supervision of behaviour and culture is not entirely 'culture neutral'; it is obvious that intervention is required in case of irresponsible or unethical firm behaviour.
7. DNB does not conduct one-size-fits-all checklist assessments. DNB uses the above-mentioned frameworks to perform behaviour and culture assessments, but tailors these frameworks to fit the specific features of the firm, the environment in which it operates and the challenges that lie ahead.
8. Culture can be changed. Although this is a complex process, organisational cultures may be changed by working on the underlying beliefs, assumptions and values.
9. Culture change requires time and perseverance. As there are no "quick fix" structural solutions, culture change cannot be 'enforced' in the traditional meaning of the word. This implies that supervisors should abstain from immediate action, but instead should actively and closely monitor the firm's actions and commitment to achieve culture change, and do so over a longer period of time. Intervention is required if the firm is unwilling or obviously incapable of changing.

Final remarks

Organisational culture is an important determinant of firms' behaviour. As is organisational structure. Combining both perspectives into supervisory methodology creates opportunities. First to gain a better and fuller understanding of the firm's functioning and the causes for its performance. Second to create several additional options for intervention to achieve supervisory objectives.

2.7: Once more unto the breach: The impact of firm culture on breach reporting in Australian financial services firms

Australian Securities and Investments Commission

Andrew Fawcett, Senior Executive Leader, Strategic Policy

Introduction

The Australian Securities and Investments Commission (ASIC) is Australia's conduct regulator for corporations, markets, financial services and consumer credit.

ASIC's regulatory interest in culture is linked to our mandate, and primarily relates to conduct. Importantly, ASIC sees culture (the way we do things around here) as a key driver of behaviour within financial services firms. A sound culture – at both the firm and industry level – can be a driver of good conduct, which is central to investor and consumer trust and confidence, and market integrity.

We have outlined in our four-year corporate plan that we are incorporating consideration of a firm's culture into our risk-based surveillance reviews of the entities we regulate. We are particularly focused on issues such as remuneration structures, conflicts of interest, complaints handling, treatment of whistleblowers, and breach reporting to ASIC, which is the focus of this essay.

Culture and breach reporting

ASIC recognises things will go wrong from time to time – this is a natural part of doing business. Errors, mistakes and breaches provide an opportunity for regulated firms to learn and improve. Regulated firms in Australia are required to report to ASIC as soon as possible if an error, mistake or misconduct has resulted in a significant breach of their regulatory requirements.

We are interested in understanding the extent to which an organisation's culture supports the ability of the organisation to meet its breach reporting obligations. We are investigating some of the elements that we believe a sound breach reporting culture is likely to demonstrate, including transparency, effective communication and escalation, accountability, responsiveness (eg change to processes and systems) and customer remediation.

How a regulated firm meets its breach reporting obligations is an indicator of how effectively firms are able to identify and respond to problems when they, inevitably, arise. Is the firm's response effective, timely and transparent? Does the firm use lessons from breaches to improve? How are employees supported to raise issues that they identify as part of their day to day work? We are considering these, and other issues, in our Breach Reporting Review, discussed below.

ASIC's Breach Reporting Review

ASIC is undertaking a risk based surveillance project to assess how effectively firms are meeting their breach reporting obligations (the 'Review'). The Review will collect a data set that is unique, and will allow ASIC to provide insights into breach reporting practices across the financial services industry.

As stated above, we are investigating some of the elements that we believe a sound breach reporting culture is likely to demonstrate. To do this, we have requested information on a range of issues including data and documents to allow us to examine:

- Timeliness, efficiency and consistency of breach reporting practices.
- Alignment between stated values, and business practices observed (through formal policies, data and case studies).
- Technological systems that record breaches and other incidents, including whether data about these can be drawn upon by the organisation to help it to identify potential areas of concern within its business.
- Whether employees are supported in raising and discussing breaches, incidents and errors.
- Communication across the firm in relation to breaches, incidents and errors, particularly the tone from the top on these matters.
- Learning outcomes from breaches and incidents, including how learning is used to improve practices.

Motivating firms to improve their breach reporting practices and culture

In relation to culture, two key aims of the Breach Reporting Review are to:

- Understand the extent to which values and formal statements of behavioural expectations align with the business practices observed; and
- Influence behaviour and motivate improvements to the breach reporting culture of firms under review by benchmarking each of the firms under review against their peers.

We are reviewing the values set by firms which are relevant to breach reporting, as well as behavioural expectations set for employees in relation to reporting errors, incidents and breaches. We are then examining whether these high level statements align with business practices observed. This will help us to assess whether there is a 'gap' between the firm's stated values, behavioural expectations set for staff, and what occurs in practice.

For example:

- If a firm states that they have a zero tolerance for deliberate misconduct (as opposed to errors), the data we have gathered may be able to demonstrate whether they have applied consequence management in a manner that is consistent with this statement.
- Where a firm states that one of their values is excellent customer service, we can look at whether data relating to responsiveness for customer remediation following a breach show how they are performing relative to their peers.

We are seeking to influence firms by providing direct feedback and data on where a regulated firm sits relative to its peers. We think that providing benchmarking feedback can assist regulated firms to understand their relative strengths and weaknesses, and can act as a strong motivator to improve. ASIC, as the regulator, is well placed to gather industry data about breach reporting practices, undertake a benchmarking process, and provide individual feedback to firms.

Conclusion and next steps

We expect that a public report setting out our findings will be released in later this year. We will also provide individual feedback to firms around this time.

We think that a primary purpose of regulation is to influence the behaviour of regulated firms. One way ASIC can seek to influence the behaviour of regulated firms is to provide benchmarking feedback as a way of encouraging regulated firms to improve the way they manage problems that arise within their businesses. We will continue to consider culture in our surveillance work, with the goal of encouraging firms to consider whether their culture is supporting fair outcomes for customers, reducing poor conduct and ultimately maintaining community trust and confidence in financial services.

3 The role of reward, capabilities, and environment in driving behaviours

3.1: How do organisations motivate people to act?

Bocconi University

Dr. Celia Moore, Associate Professor and Academic Fellow, Ethics and Compliance Initiative, Department of Management and Technology

Do incentives matter? Of course they do. But organisations often think of incentives extremely narrowly, and spend a great deal of time and energy trying to design the 'perfect' compensation structures that will maximise performance without encouraging risky or unethical behaviour. This view ignores the many ways that organisations motivate individuals to act, with serious implications for employees' virtuous or vicious behaviour.

Organisations determine how individuals act because they control the following three 'P's.

Organisations **point** individuals in a given direction. They set employees objectives, goals, and targets, and specify what individuals are supposed to achieve. There's no denying that goals are an extremely effective motivator. However, they also cause us to neglect other priorities that do not have a specific numeric objective, and encourage us to meet them (or try to), whatever it takes.

For example, at Wells Fargo, salespeople were assigned a goal of selling eight products to each customer (Independent Directors of the Board of Wells Fargo & Company, 2017). This number was chosen, apparently, because eight" rhymed with "great" (Levine, 2016). Compensation and bonuses were tied to employees meeting this numeric target. And it worked – even though those products were often unwanted, and were "sold" to customers unknowingly. This is because when specific, challenging, numeric goals are set for us, we send to neglect other priorities while meeting them. This phenomenon is known as 'goal shielding' (Shah, Friedman, & Kruglanski, 2002). In the case of Wells Fargo, the 'Eight is Great' goal shielded employees from considering the ethical implications of opening accounts that clients neither wanted nor knew about.

Typically, we set hard targets to help us achieve squishier objectives: for most organisations, that objective is to be a sustainable and profitable business. People thrive when superordinate and vague objectives like this are broken down into manageable chunks, and that often involves setting specific, measurable, and time-bound targets, the popular S.M.A.R.T. goals that most managers have been trained to set and follow. However much we like being down in the weeds with our manageable tasks (Sell Eight Products), we need to keep reminding ourselves about the overall objective (Keep Wells Fargo Profitable).

Organisations also provide the **perspective** we use to approach our work. When we see a decision as a 'business decision', we make different choices than when we see that same choice as an "ethical decision" (Kouchaki, Smith-Crowe, Brief, & Sousa, 2013). Thinking of a customer as an 'investor' will elicit a different orientation towards them than if we think of them as a 'pensioner'. Organisations also incentivise our behaviour this way: by changing the lenses we use to interpret the goals and objectives we have been assigned to achieve.

In some of my own current research, I demonstrate that high levels of performance pressure actually change the way that individuals construe decisions, ultimately driving the decisions themselves. For example, in one simulation exercise, when we put individuals role-playing an insurance claims adjuster under pressure to 'perform at high levels', they were more likely to see the clients requesting reimbursement for health care expenses as 'customers' rather than 'patients', and ultimately more likely to deny the claim.

Organisations need to be careful about how they are intentionally or unintentionally framing decisions for their employees, because how we perceive a choice affects what choice we make.

Sometimes we can be motivated to employ a morally problematic perspective on a given decision, because such a perspective can help us achieve higher levels of performance. For example, when Oprah Winfrey interviewed Lance Armstrong about whether he felt like he had been cheating during all the years he doped in order to win the Tours de France, his reply was that "I didn't see it that way. I viewed it as a level-playing field" (Clarke, 2013). Once Armstrong saw the decision to dope not as cheating but as creating a level-playing field, it would have been psychologically much easier for him.

Finally, organisations **propel** us in the direction they have pointed us. They light the fire up our backsides, compelling us to move. This propulsion is social rather than financial. Humans are highly attuned to what elicits respect, praise, and status, and in many ways these intangible rewards are more motivating than money.

In a vast cheating scandal that engulfed the Atlanta Public District School Board in 2011, investigators discovered that 178 teachers and administrators had been manipulating student test scores in order to generate more funding for the troubled district (Office of the Governor, 2011). During the years of the unlikely (and indeed fraudulent) jumps in the standardised test scores, Superintendent Beverly Hall, who spearheaded the fraud, was consistently praised for her "remarkable turnaround" of the district, and was awarded Superintendent of the Year in 2009 (Judd, 2015). Even when you know what you're doing is wrong, it's hard to walk away from that kind of positive feedback.

In brief, organisations tend to think too narrowly about how they motivate employees' behaviour, focusing on financial incentives to the neglect of these other strong forces. These factors that organisations largely control – the direction they point employees in, the perspective they provide employees about how to understand their goals and objectives, and the positive social regard that propels them to act – represent under-considered and underutilised levers in the effort to raise the ethical standards of professionals in the financial services industry, or any industry.

3.2: The role of reward in driving behaviour

TSB Bank

Paul Pester, Chief Executive Officer

Rachel Lock, HR Director

The banking crisis revealed a crisis in the relationship between banks and the society they were established to serve. This anger was directed at banks who were seen to put short-term returns above the longer-term interests of consumers and society at large.

That is why when we set up TSB in 2013 we wanted to build a different kind of bank; we wanted to reset the relationship between banks and society by creating a bank that put customers and communities before short-term profit, as Henry Duncan sought to do when he set up the Trustee Savings Bank over 200 years ago.

So we created a bank with a clear mission to bring more competition to banking and ultimately make banking better for all UK consumers. A bank that works in partnership to serve the local communities we're a part of, rather than the other way around.

We recognised that we needed to find a solution for the 95% of consumers that felt that banks put profits before people.[5] We knew we needed to find a way to help those consumers who felt harassed every time they went into a branch to pay in a cheque, because they couldn't escape without attempts being made to flog them insurance, a credit card or a loan. And we realised that in order to do this, we had to start at the beginning and look at the way people who worked in the bank were encouraged to behave.

Delivering the right rewards strategy was one of a number of areas that we knew we had to get right. That is why we made the bold decision to scrap all sales targets, sales linked rewards and access to comparative sales data at a branch and area director level. Instead, we chose to reward our staff based purely on the service they give to customers.

5 YouGov, survey of over 2000 people conducted for TSB (2013).

Using John Lewis's reward philosophy as inspiration, we scrapped the complex bonus structure we had inherited and instead made all our employees Partners in the business. All TSB Partners, from our most junior new recruit to CEO, now share in the TSB Award, a form of annual profit share worth around 10% of salary and awarded purely on delivering great service to our customers. And crucially, this has seen a rebalancing of pay, with more money being taken home by our most junior Partners – the Partners in branch and telephony who spend the most time talking to our customers.

At TSB, Partner performance is assessed by reviewing their skill, attitude and behaviour, as opposed to any outputs. And we don't measure customer service in just one way. At a Partner level we conduct testing to ensure that our customers receive the best outcomes from Partner interactions. We also measure the effectiveness of complaints handling and take on board customer feedback. When it comes to deciding the TSB Award pool these measures are scaled up to focus on fair customer outcomes, Net Promoter scores and complaints resolution across the whole bank. This ensures that customer outcomes are at the centre of what we do, and builds a culture whereby everyone at the bank works in partnership to deliver great service for our customers.

By rebalancing reward at TSB to focus on customer outcomes, we believe that we have delivered a model where every Partner is invested in the long-term, sustainable growth of our bank, rather than short-term risk taking. We believe that we have developed a culture based on what customers truly want from their bank.

And our approach is working. We've already been recognised as Britain's most recommended high street bank and we've recently been named as the only bank in the Sunday Times 'Top 10 Best Big Companies to Work for'. Meanwhile, our Net Promoter Score – a key way of measuring what our customers think of us – has increased from -24 when we launched in 2013 to +25 in 2017. Given this, it's no surprise that customers are voting with their feet to join TSB, with 1,000 new customers opening accounts every day.

Our approach to reward – not rewards – is one of a number of important changes that we made at TSB to shift our bank's focus from one of supply to one of demand. In the run up the financial crisis, retail banks held firm to the belief that sales growth came from selling customers as many products as possible which led to a breakdown of trust with consumers and the mass mis-selling of products such as PPI. Our changes have shifted TSB's model to one where we attract customers based on what they want from their bank.

While this may be a new concept to banking, all we have really sought to do is professionalise the customer service role, rewarding our Partners not for each product they sell, but on the quality of their output – the service they deliver for customers. After all, a doctor isn't paid for the number of illnesses they diagnose, nor an accountant for each piece of financial information they review. Instead they are paid to give the best possible advice.

This is what customers want from their banks and at TSB, this is central to our ultimate mission of bringing competition to UK banking, and ultimately making banking better for all UK consumers.

3.3: Recruiting for and cultivating an ethical organisational culture: the role of moral identity

Cambridge University, Judge Business School

Dr. Eric Levy, Assistant Professor, Marketing

Taking into account the moral identity of potential and current employees, and nurturing it through the proper organisational policies and incentives, can be a valuable tool for helping to establish a more ethical organisational culture. Moral identity is defined as the importance that one attaches to moral traits such as being kind, caring, and considerate (Aquino & Reed, 2002). Moral identity is particularly important to consider in situations where organisations depend on individuals' ethical and moral behaviour (such as not engaging in misconduct), since "there are both theoretical and empirical reasons to believe that the centrality of morality to self may be the single most powerful determiner of concordance between moral judgment and conduct... People whose self-concept is organised around their moral beliefs are highly likely to translate those beliefs into action consistently throughout their lives" (Damon & Hart, 1992; p. 455).

This brief essay touches on some of the empirical academic research showing that: (a) individuals higher in moral identity are more likely to act in ethical ways, and that (b) organisational culture and incentives are important for nurturing individuals' moral identity and ethical work behaviours.

Organisations' ethical culture would likely benefit, and corruption and other deviant employee behaviours decrease, as a result of recruiting individuals higher in moral identity. This is because moral identity has been shown to be associated with prosocial and ethical behaviours such as giving more to charity (Aquino & Reed, 2002) especially when giving one's time (Reed, Aquino, & Levy, 2007), being less likely to harm others (Aquino & Levy, 2007), being more inspired by others' virtuous behaviours (Aquino, McFerren, and Laven, 2011), and being more likely to notice and speak out when others are treated unfairly in an organisation (O'Reilly, Aquino, and Skarlicki, 2016). Organisational unit leaders high in moral identity have also been shown to exhibit higher levels of ethical leadership (Mayer et al., 2012).

How can organisations recruit individuals who are high in moral identity? Though no research of which I am aware has addressed this issue, a multipronged approach is probably best. First, organisations must place value on recruiting such individuals. This seems obvious, but high moral identity may be negatively associated with other characteristics that may be valuable for success in businesses, such as competitiveness and dominance (Levy, 2016). Second, organisations could use the Aquino and Reed (2002) scale in their recruitment materials to determine applicants' level of moral identity. Although care should be taken about how this is presented to applicants, since applicants may want to try to paint themselves in a positive light. The issue of socially-desirable responding by job applicants is important (Rosse

J. G., Stecher, M. D., Miller, J. L., & Levin, R. A., 1998), though is beyond the scope of this essay. Second, aside from the moral identity scale, traditional measures of personality such as the Big 5 are associated with moral identity – for example, moral identity is positively associated with Agreeableness, Conscientiousness, Emotional Stability, and Openness (Levy, 2017). So, traditional personality measures may be a rough proxy for moral identity. Third and finally, organisations could try to recruit employees from organisations that are comprised of people who are likely to have a higher moral identity. For example, individuals in other business organisations that are known to have a highly ethical culture, or individuals who are members of university or other social/civic organisations that have a prosocial mission or goals.

However, recruitment of the right people is not the only factor to take into account when considering the role of moral identity. Importantly, an organisation's existing culture, and other types of incentives and situational factors have been shown to play a role in shaping the behaviour of people who may be more (or less) moral. For example, leaders higher in moral identity have been shown to have business units that exhibit less conflict and less unethical behaviour (Mayer et al. 2012). Thus not only are organisational leaders higher in moral identity and more ethical themselves, but so are the units under their supervision. Other research shows that making morality situationally salient, for example by having people write a paragraph with morally-relevant words (Reed, Aquino, and Levy 2007; Levy, Kim, and Reed 2017), or view a slideshow with moral exemplars such as Martin Luther King or Mother Theresa (Reed, Kay, Finnel, Aquino, & Levy, 2016), can activate a high moral identity. On the flip side, other research has shown that the presence of performance-based financial incentives (Aquino, Freeman, Reed, Felps, & Lim, 2009), or reminders of money (Vohs et al. 2006) can decrease accessibility of a moral mindset and increase selfish or deceitful behaviour.

Thus, to help create an ethical organisational culture, it is critical to not just recruit the right individuals, but also to ensure the presence of the right types of leaders, situations, and incentives. This may prove to be a challenge for organisations characterised by (and perhaps rewarded by) competitive behaviour in which people higher in moral identity may not typically thrive. However, the rewards of a more ethical organisational culture with less misconduct, and perhaps also less of a need for monitoring employees and reducing government oversight and fines, may be well worth the effort for increasing profitability.

3.4: Character, culture and conduct: why good people do bad things in a fear-driven culture

The Corporate Philosopher and Cass Business School

Professor Roger Steare, Corporate Philosopher in Residence

Since the 1960s, laboratory research conducted by psychologists such as Stanley Milgram, Philip Zimbardo and Solomon Asch strongly suggests that a majority of 'good' people will do 'bad' things if their group or community has a coercive culture that enforces compliance and conformity (Levilee, 2011). In other words, people of good character, working in a culture of fear, are more likely to conduct themselves badly and do the wrong thing.

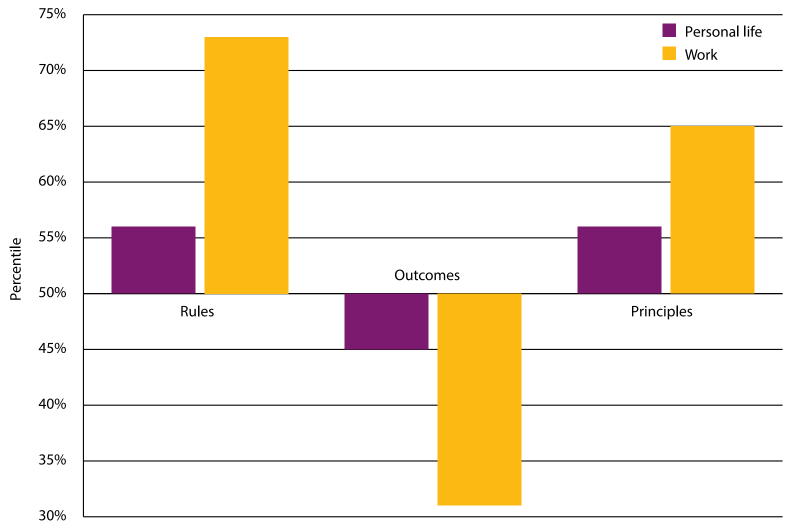
Over the last 3 years, the FCA has acknowledged that mis-selling and market-manipulation scandals have not only occurred within the context of an increasingly rules-based regulatory regime, they have been perpetrated by people working within cultures driven by a coercive focus on short-term profit maximisation, demanded by analysts, investors, Boards and senior management (Wheatley, 2014). When faced with even a subtle threat to their jobs or their careers, good people can do bad things when faced with the need to comply not only with regulation, but also with what we might call 'Rule #1: You will make the numbers… or else.'

This coercion has not only failed to prevent systemic fraud within financial services, it has also destroyed economic value for shareholders, customers and society. The PPI scandal alone has already cost over £35bn in compensation and fines (Dunkley & Arnold, 2017).

Since 2012, I have been conducting research into the character and culture of people using a psychometric instrument called MoralDNA. One of the most compelling insights offered by MoralDNA is its ability to distinguish between our personal and our professional moral characters. In psychological terms, we are able to understand how our moral identity is influenced on the one hand by family and friends, but on the other, by the culture we experience with colleagues at work.

The moral perspectives measured by MoralDNA are described by regulators as Rules, Principles and Outcomes. In moral philosophy we call these Deontology, Virtue Ethics and Consequentialism. In a paper published by EY for the 2015 IOSCO Conference (Steare, 2015), Graph 1 clearly shows the impact that workplace culture has on the moral character or identity of employees in financial services firms. In short, whilst bankers are primarily driven by rules and then by principles, their consideration for good outcomes for others, ie customers, employees and investors, is diminished. In psychological terms, employees are making decisions because they're afraid of personal consequences, and care less about other people – other stakeholders. This is why we call this the 'fear factor' in workplace cultures.

Graph 1 – Ethics in personal life and work
of financial services professionals



Source: MoralDNA™ Findings May 2015

So what can be done? How do we create workplace cultures where all employees are clear that their purpose is to serve others? How do we create cultures which are 'safe' both psychologically and in terms of prudential and conduct risk? How do we create cultures where people consciously balance the use of rules, principles and outcomes when making any and all decisions? And then conduct themselves appropriately?

It is my experience that whilst fear-based cultures dominate regulated firms, there are many leaders and teams who are already shaping local team cultures which are focused on customers; where colleagues feel safe to speak up; and where tough decisions are made with a more balanced moral philosophy.

Any firm will find individual leaders and teams who achieve their purpose in the right way. These leaders and teams should already include the Board and the Executive Committee. The character of these senior leaders and the cultures they collectively create, have a very significant impact not only on their own conduct, but of other leaders and teams across their firms.

It is my experience that culture is best shaped, experienced and improved locally. Yes, the team cultures of the Board and Executive Committee are critical to a high performing, high integrity firm. But good people will still exhibit poor conduct unless every leader and every team has the discipline to make good, principles-based decisions in every meeting; experiencing a culture of psychological safety; for the benefit of customers, investors and society.

3.5: The invisible role of middle management – unethical behaviour and unrealistic expectations

Academic Collaboration

Professor Linda Treviño, Penn State University, Smeal College of Business – Organizational Behaviour Ethics

Niki A. den Nieuwenboer, The University of Kansas

João Vieira da Cunha, IÉSEG School of Management

Ethical culture is a complex multi-layered organisational phenomenon that can be difficult to grasp. In this essay, we will therefore focus on a narrow aspect of ethical culture, but one that desperately needs more attention – the essential role of middle managers in generating unethical behaviour in a multi-level cultural system. Researchers' accounts of employee unethical behaviour have, until recently, mostly ignored the role that middle managers play because this role is typically harder to observe compared to the roles played by either top management or front-line employees. It has been even harder to observe how these hierarchical layers interact because the research methods we tend to use (surveys, experiments) are not well suited to capture ongoing, dynamic, multi-level processes. In the past, we therefore mostly talked about how top management creates ethical culture by setting 'tone at the top,' which certainly is important. Senior managers do influence culture by creating a tone that others follow. But the role of middle managers is perhaps even more important because it is their task to translate top management expectations into front-line employee behaviour. Our research studied a new desk sales unit in a large telecommunications firm, where one member of our team spent 15 months observing how middle managers induced unethical behaviour in their subordinates. Our team member observed formal and informal meetings, interviewed employees, and had access to emails and other company documents. The subordinates, desk salespeople, were brought in to sell smaller telecom products over the phone, allowing the company's higher paid field salesforce to focus on larger sales. This saved the company money and helped ensure smaller sales were profitable.

The multi-level process that we uncovered begins with top management who set difficult-to-achieve goals. Middle managers, who were incentivised based upon their subordinates' goal performance, found that their subordinates were unable to reach those goals for several reasons. However, middle managers didn't push back against the goals handed down. Instead, they creatively searched for what we call 'structural vulnerabilities,' which are places in the overall performance structure of the organisation that can be exploited to create and conceal fake performance. In our research, middle managers coerced subordinates, mostly through shaming practices, to engage in multiple behaviours that made it appear as if goals were being met when they were not. We discuss some of these below. Senior management ended up making important strategic decisions based upon the unit's deceitful performance. Essentially, they were flying blind, without good information about the unit's performance.
Our research is important because it surfaces this essential middle manager role.

It also highlights how goal-setting in organisations can contribute to unethical behaviour. And, it contradicts research suggesting that employees are often unaware of the ethical implications of their behaviour. Front-line employees in our study were ethically aware, and they resisted the unethical behaviour despite powerful incentives pressuring them to engage in it.

Most organisations use goal-setting for a very simple reason – it is a powerful and effective performance management tool. Long-established goal-setting research, taught to decades of management students, says that specific, difficult-to-achieve goals are highly motivating. However, research also says that goals that employees deem to be unreachable (for whatever reason) are not motivating and that employees will give up on trying to reach them. Our study revealed a very different angle on this long-held knowledge claim.

The front-line employees that we studied did think their sales and "sales work" (number of calls made, etc.) goals were unachievable. Many did not feel knowledgeable enough to be effective at selling products and the training they received did not resolve this problem. They believed that senior management expected them to do too much sales administrative work. They also complained that the management information system was onerous and absorbed too much time. So, front-line employees were inclined to give up on their performance goals. But their supervisors, middle managers, did not give up on the goals at all. As noted above, middle managers' incentive packages were tied to goal achievement by their direct reports. So rather than allowing employees to give up, middle managers got creative and coerced employees to fake performance in multiple ways. They searched for 'structural vulnerabilities' in the organisation's performance system that allowed them to make it look as if employees were achieving the goals even if they were not, creating a false representation of performance that was reported to senior management. For example, middle managers changed rules such as expanding the definition of 'sales calls' so that more types of behaviours counted toward their sales work goals (eg, internal calls and emails could count as external sales calls). They also changed sales peoples' roles. Amongst others, they instructed their direct reports to adopt an IT administrator role and to propose to the salespeople from the field salesforce (who targeted the same customers) to take over their sales-administration. In return, they would get credit for field salespeople's smaller sales that desk salespeople could claim toward their own sales targets despite having little to no involvement in the sale. Middle managers also instructed salespeople on how to make the data flow in the IT system look 'normal.' For example, when logging an order, which did not count toward their sales goals, as a sale, which did, managers instructed direct reports to let a few days pass between opening and closing the order in the IT system, as sales also almost never happened in a single day. Middle managers even developed queries to search the IT system for orders that could be claimed as sales. Finally, middle managers created informal reinforcement mechanisms (especially shaming mechanisms) to coerce subordinates to comply. For example, whiteboards were used to publicly display employees' performance from highest to lowest. All of this, plus the fact that many employees did not believe that they had better job options elsewhere, contributed to employees' ultimate submission to middle management's pressures. We have talked with many of our experienced students and other audiences about our findings. Unfortunately, we have come to expect the nods of recognition and the stories about how similar processes play out in their own organisations.

So, from a culture perspective, what is an organisation to do? The problem we have outlined arguably combines two of the most important ethical culture systems: performance management and leadership. Leaders create performance management systems and they often don't think carefully enough about the signals the system is sending about what the company and its leaders value. If the system is only set up to capture easily measurable performance outcomes, employees and their managers quickly understand that only those outcomes matter and everything else leaders might have said about ethics recedes into the background because it isn't being measured or rewarded.

If senior managers set the goals, they need to ensure that they are realistically achievable. Is a goal a stretch goal (which should be motivating) or is it an impossible to reach goal (which more likely produces the behaviour we've described)? How can senior managers ensure they are aware of how realistic their goals are, and the challenges employees face in reaching goals? That probably varies by organisation. But they need to talk openly with the employees who are tasked with achieving the goals. They should also encourage push-back about unrealistic goals from both middle managers and front-line employees, but they must recognise how difficult this is for any employee to do and create a 'speak up' environment that supports and cares for those who do push back.

It is essential to think about the design of the performance management system as a system that is 'linked.' In other words, if middle managers' compensation is tied to the performance of their subordinates (as it often is), middle managers are being incentivised to 'do what it takes' to get employees to "perform." In our case, that performance was deceptive. Also, consider that it is likely easier for middle managers to conjure creative ways for their subordinates to develop workarounds because they (the middle managers) are not the ones having to engage in the unethical behaviour. They have more psychological distance and are simply coming up with the creative ideas and then directing their subordinates to carry out the unethical behaviour.

As we noted above, the front-line employees in our study were uncomfortable with their unethical behaviour. Many also called it unethical and fraudulent and resisted as much they could. That was a surprising finding because recent research suggests that much unethical behaviour in business is 'blind' – that employees engage in it without ethical awareness. But most of the more than 100 front-line employees in our study were ethically aware. And, for many of those employees, their attitudes toward the organisation and its leadership were quite negative. In all, this creates a recipe for unhealthy organisations and unethical cultures.

Reiterating our main message, middle managers can play an essential role in driving unethical behaviour in organisations. In response to impossible to reach goals, and especially if incentives tie their compensation to their subordinates' performance, middle managers get creative. They use their organisational knowledge to find ways that their employees can make it at least look like they are achieving the goals imposed from above. Their employees may resist but, under pressure, they ultimately go along, making it look as if they are the source of the unethical conduct that can actually be traced to their managers.

For the complete research paper, please see:

Den Nieuwenboer, N. A., Vieira da Cunha, J., Treviño, L. K. (2017). Middle Managers and corruptive routine translation: the social production of deceptive performance. *Organization* Science, 28, 781–803.

3.6: The permafrost problem: from bad apples to excellent sheep. Creating an environment where we can truly think.

Forward Institute

Adam Grodecki, Founder and Director

Large institutions have the potential to drive dramatic and lasting changes in society. They are uniquely placed to address the profound challenges of inequality, sustainability and the health and wellbeing of us all. Yet they continue to disappoint. Trust in large organisations remains fragile – driven by ongoing institutional failings. And at the same time too often they are struggling to respond adequately to rapid technological advances and disruptive competitors.

It is a popular 'truth' that the answers to these problems lie either at the 'bottom' or the 'top'. It is assumed that organisational change comes either from wise and inspirational senior leaders, or from talented and motivated junior employees – probably 'millennials.' Middle and senior managers are cast as the barrier to all good progress and demonised as the 'frozen middle' or 'permafrost.'

At the Forward Institute we take a more positive and nuanced view. We recognise that most managers are talented and committed, yet also more 'captured' by the organisation than many other employees. We hear frequently that managers feel at the sharp-edge of constant organisational change, relentlessly squeezed from below and above and pressured to reconcile contradictory messages, such as "act in the long-term" but also "make sure you hit your monthly/quarterly targets" and "innovate" but "don't make mistakes." It is our belief and experience that in the right environment they are a powerful engine for progress and change.

In this essay, I argue that to unlock the 'frozen middle' we must move beyond individual character to understand the context managers operate in, and importantly how we are shaped by the company we keep.

Received wisdom tends to emphasise individual character and capability. Ethical issues can be blamed on 'bad apples', a few evil villains. A lack of innovation is due to inherently unimaginative managers. More recently, serious attention has been focused on the findings of social psychology that we tend to over-rate the importance of individual character and under-emphasise the significance of context and the power of the situation and incentives to compel behaviour. If we are to 'fix' the 'permafrost problem' the answer then is not to 'repair' managers through ethics or creativity training, but to address organisational culture, and the processes and policies that shape it.

One cultural factor comes out repeatedly in almost all post crisis reviews; group-think, a pressure to conform and a lack of challenge. The Chilcot review of the Iraq war, NASA's investigation into the Columbia space shuttle crash, and reviews of the Enron scandal and BP Deepwater Horizon disaster all highlight the fatal role of group dynamics that did not encourage candour. My colleague Margaret Heffernan, in her book 'Wilful Blindness', powerfully articulates the fateful consequences of shutting out dissenting views and hierarchy making it hard to express concerns to those with power (Heffernan, 2011).

In response, progressive organisations have started to try to build a culture of psychological safety where employees feel able to ask a 'stupid question', offer tentative thoughts, air dissenting views and whistle-blow on unethical activity. An environment where it is safe to take risks, learn from mistakes and ask for help. The most enthusiastic attempts have mostly been by technology companies who view such a culture as a pre-requisite for high-performing teams.

In tandem there is increasing attention on the vital importance of gender, socio-economic and ethnic diversity to tackle group-think. So organisations have started to move away from recruiting for cultural fit – 'hiring people like us' – and are gradually focusing on the structural bias that blocks too many people from moving into senior roles.

But to take the challenge of group-think seriously we need to go beyond building a psychologically safe culture and promoting greater diversity in the workforce. We must examine the deeper and pervasive structural incentives within systems that subtly but powerfully drive conformity in all of us over time. The incentives that lead us to be, in the cutting words of William Deresiewicz, 'excellent sheep.'

Organisations tend by nature to be insular. Competitive tension, complicated internal environments, incentive structures, office politics, proud histories and a complex web of intellectual property and anti-trust laws emphasise the organisation above all else. The result is an unhealthy internal focus which does not serve society or, ultimately, the organisation itself. We are all rewarded in some way for complying with organisational 'norms.' Most of us in large organisations get ahead by playing internal politics, delivering on internal projects and building our internal network. Technical expertise is valued over broad perspective and as we get more senior we also tend to narrow in our outlook. So over 10, 15, 20 years many of us, whatever our background, come to see the world through the same lens as our colleagues. We lose valuable perspective, miss changes in the external environment, and come to accept as 'normal' ideas and practices that are anything but.

This process of institutionalisation is often amplified as our work colleagues and acquaintances become our friends. Professor Herminia Ibarra refers to how we are all 'narcissistic' (drawn to people who are like us) and 'lazy' (we get to like people who are easy to get to know because we bump into them with minimal effort). Just as with the recent outcry over online 'filter bubbles,' so we all live in 'echo chambers,' surrounded by people at work and home who increasingly sound and think like us. And as President Obama said in his final presidential address, "over time we become so secure in our bubbles that we start accepting only information, whether it's true or not, that fits our opinion."

This is further compounded by the often overwhelming pressure on managers to be extremely focused and deliver short-term goals. This pressure, unsurprisingly, is not conducive to people looking wider. Processing information that conforms to our assumptions is easy; taking in information that challenges us to think in new ways is frustrating. Yet when we recently asked 2,000 people to rate their organisation on nine dimensions, the almost universally lowest reported score was 'my organisation allows me time to reflect.' Without time to think, and marinated in the status-quo, we cannot make sense of our experiences or develop our own voice. We are too busy to actually 'lead.'

Over time then, particularly in high-pressure roles, most of us naturally become institutionalised in how we think and act. One of our Fellows, a Director in a major multinational business, put it well: "my whole perspective was shaped with [my organisation]'s 'lens'. My view of the world was centred on [my organisation's] culture, our 'Purpose', and the current leadership style and views of the Executive Committee. It was all about us. I now feel uncomfortable the principles I was guided by were so narrow." Understanding the challenges of management then requires us to understand how people (and decision making) are significantly shaped by the company we keep.

This of course is not a new idea. It features in Greek Stoic philosophy (Epictetus wrote: "if a companion is dirty, his friends cannot help but get a little dirty too, no matter how clean they started out") and has been popularised by motivational speakers preaching "who you spend time with is who you become." However, the implications for reinforcing group-think have not been taken seriously by organisations. In fact many proactively aim for the opposite; explicitly trying to strengthen their culture so that an ideology permeates every employee. This is particularly true for successful organisations who, understandably, view their strong culture as a 'competitive advantage.'

Looking to the future

If this analysis rings true, it suggests that to unlock the power of middle and senior managers we must help them build critical external perspective. To develop what Professor Joseph Bower calls 'inside-outside leaders.' We have observed a few effective practices:

Help managers understand the impact of network diversity. Developing external perspective may feel like an unnecessary luxury but increasingly sophisticated tools, such as social network analysis, can visualise the problem.

Help managers broaden their perspectives. Provide managers with opportunities (external mentors, external conferences, trustee or school Governor roles, 'hackathons' with diverse external guests) and help build their observation and listening practices to make the most of their experiences.

Create time and space for employees to stop to think and reflect. Help managers build the habit of reflection, individually and with their teams.

Re-focus development activity outwards. In-company training often reinforces norms and existing ideas. Invest in challenging external programmes for key change agents and bring critical external perspective into internal programmes.

Visibly and consistently show that broad perspectives are important. Fine words and training programmes will mean little unless they are consistent with remuneration and promotion decisions, and senior leaders are seen to role model these behaviours consistently. For many managers the reality remains that the organisation really wants, in the words of Enron's CEO Jeff Skilling, "people with deep, specialist expertise and obsessive focus."

A caveat

The natural instinct for most leaders and organisations wanting external perspective is to turn to professional advisers, and to cultivate networks with people likely to bring near-term commercial advantage. The trouble is these professionals usually inhabit the same 'bubbles' as we do, specialise in the same industry and face their own incentives to not argue against prevailing organisational thought. The journalist Rana Foroohar, referring to the financial crisis, describes how many bankers and the professionals advising them seemed "befuddled about why people were so angry with them. No wonder – they had never met any ordinary people before" (Foroohar, 2017).

Time and again organisations miss the bigger picture, appear tone-deaf and fail to engage with big issues of public concern. No matter the impressive work that many technology companies are doing to break down internal silos and promote psychological safety, many appear to be in their own cognitive bubble, struggling to engage with legitimate public worries over monopoly, privacy, extremism and inequality. Too often falling back on beliefs that the rest of the world is stuck in 'old thinking' and 'doesn't understand.'

Organisations need to be radical and push themselves to reach into different 'worlds' and engage with those who see things in a fundamentally different way. People who will be far more challenging – 'appropriately disrespectful' – of assumed ideas and practices. There is enormous value in engaging seriously and openly with the public and with informed critics, proactively seeking challenge from thoughtful journalists, investors, unions and NGOs.

Lessons could be learnt from the public sector, for example the Metropolitan Police have mechanisms for managers in each Borough to engage frequently and directly with the public and vocal critics. Or KPMG's Responsible Tax Project which brings together traditional 'enemies', to have a "coherent discussion…it must include all stakeholders, in an open, honest and robust debate."

But we needn't always turn to the outside. Some organisations encourage managers to engage frequently and humbly with front-line colleagues who have to confront external realities directly and may live in a quite different social world. Pret A Manger requires head office managers to spend four days a year working on the front-line – preparing sandwiches and serving behind the counter.

This may sound like a lot of hard work, certainly more so than commissioning more compliance and ethics training. But the good news is that external perspective is also vital to build creativity and innovation. The most effective organisations create and use external networks to harness radically different perspectives, connect to different worlds and discover new ideas. So it is through paying careful attention to the company we keep that we can powerfully unleash managers to fulfil their creative potential and to do their very best work – for themselves, their organisation and the world.

3.7: Creating a culture of learning through speak-up arrangements: Insights from recent research

Academic Collaboration

Professor Kate Kenny, Queen's University Belfast, Management and Organisation Studies

Professor Marianna Fotaki, Warwick Business School

Dr. Wim Vandekerckhove, University of Greenwich

Drawing on recent research into how to foster and support effective speak up arrangements in a variety of organisational settings, we set out three key learning points for organisations wishing to develop a supportive culture for addressing and preventing wrongdoing through openness and transparency.

Importance of effective speak up cultures

The last five years have seen dramatic and fundamental changes in whistleblower, or 'speak-up' procedures for organisations. Prompted by a spate of important public disclosures, organisations are now mandated by law to implement effective arrangements enabling employees to disclose perceived wrongdoing. As yet few resources exist to help with this. The creation of effective cultures for speaking up is vital for the following reasons:

1. To effectively implement changes in legislation. There has been a significant shift towards encouraging effective speak-up arrangements in organisations by industry and sectoral regulators. To date fewer than 30% of organisations have such systems in place, so significant change is required. Regulatory bodies are simultaneously restructuring their own organisations to enable the receipt and effective use of information provided through external disclosures (see for example FCA, 2015b,c). The FCA now obliges all deposit-holding institutions to have a 'champion' in place: a dedicated senior person to deal with internal whistleblowing reports, with fines levied for non-compliance. Both the FCA and other regulatory bodies in the public health services such as the NHS Care Quality Commission (CQC), now have dedicated whistleblowing teams registering and following-up whistleblower concerns raised with them.

2. To address dangerous wrongdoing and dysfunctional behaviour in today's organisations. Effective speak-up arrangements enable organisations and societies to avoid major disasters (Devine and Maassarani, 2011) related to health and food safety, nuclear accidents, citizens' privacy violations and mis-selling financial products by banks. Attempts to alert the authorities to wrongdoing by internal personnel are currently on the increase. In health care for example, whistleblowing to the media led to the Public Inquiry into the Mid-Staffordshire Hospital Trust, and an enduring stream of NHS whistleblower cases triggered the recent Freedom to Speak Up Review, while in financial services both the FCA and the US Securities and Exchange Commission report increases in disclosures.

3. To prevent suffering on the part of genuine whistleblowers. Ineffective speak-up arrangements can lead to problems for whistleblowers. Despite the importance of courageous individuals who speak up, such individuals are often ostracised and retaliated against for disclosures that aim to counteract corruption and protect the public interest (Alford, 2001; Devine and Maassarani, 2011). In many cases, suffering and retaliation were exacerbated because few if any procedures were in place to facilitate disclosure and those who spoke up were exposed. Speak-up arrangements must focus on protecting the individual, as a first priority, and in-depth research is required to determine best practice for developing effective processes and structures.

4. To reap economic gains for organisations and societies. Whistleblowing is important from a societal and an ethical perspective, but it also saves money both for private and public sector organisations, preventing the dysfunctional behaviour that leads to financial and reputational losses by firms and public sector organisations. A recent study of over 5,000 firms shows that 40% of companies surveyed suffered from serious economic crimes that averaged over $3 million each in losses (Devine, 2012). Whistleblowers exposed 43% of these crimes, which means that whistleblowing was more effective than all the other measures combined: corporate security, internal audits and law enforcement. The absence of effective measures means that organisations and institutions are denied an opportunity to address the wrongdoing that whistleblowers perceive, early on in the process, and thus lose time, money and effort along with protracted and unnecessary legal battles.

In short, therefore, the development of effective speak-up arrangements is vital. The question of how best to do so has become urgent. While the recent spate of new legislation protecting whistleblowers is essential for encouraging speaking up against wrongdoing, it must not overshadow a key issue: the arrangements in place for speaking up within organisations. Implementing effective speak-up arrangements is now a key concern in the reform of corporate governance, public sector accountability, and professional responsibility.

As part of such efforts, academics and policy-makers alike stress the role of culture in fostering effective speak-up arrangements. But what is organisational culture, and how does it relate to this issue?

Organisational culture: Challenges and opportunities

Organisational culture typically refers to the shared organisational values, beliefs and norms (what is important and how things should be done) in a particular organisational setting. Since the emergence of an interest in organisational cultures in the late 1970s, mainstream management approaches tend to see culture as something an organisation 'has', and therefore as something that managers can intentionally shape and modify (Smircich, 1983). This lead to drives for 'cultural engineering' from the 1980s onward (Peters and Waterman, 1982), with the emerging cultural transmission recommendations typically grouped into two main categories. Firstly there are those that fall within the realm of human resources, and involve recruiting the 'right people', developing employees and encouraging communication. Secondly, 'symbolic leadership' devices are used by senior organisation members to demonstrate what is expected. Management by example is the epitome of such techniques ('walking the talk').

A contrary view has emerged that sees culture as something an organisation 'is', that is, it is made up of deep-seated and underlying values, beliefs and norms in a given environment. These emerge organically and therefore are difficult if not impossible to modify. In seeing culture as a complex social product, which comes from everywhere, the emphasis is on the fragility and dynamics of organisational life. Under this view, there is a greater focus on the subcultural and multicultural nature of organisations. These cultural differences are not only a product of varying experiences within the organisation (for instance, relations between workers and management), but also emerge and flow from 'external' experiences outside the organisation (for instance, professional identities, community influences and personal values).

These perspectives see culture management as complex; it is clear that an effective culture must be grown organically in order to be sustained and to ensure commitment from employees; it cannot be simply transplanted from an external source. Thus the development of culture must be in accordance with a specific organisation's history, tasks and objectives.

These insights informed our recent research into best practice for speak up arrangements in organisations. In our study: Effective Whistleblowing Arrangements (Vandekerckhove, Fotaki, Kenny, Humantito, & Ozdemir Kaya, 2016) we adopted an innovative approach by researching speaking-up from the point of view of those who operate the speak-up arrangements. We studied four large multinational organisations with expertise in this area, from the health, finance, engineering sectors. Our aim was to get insight into how speak-up arrangements rely on responsiveness, trust, and culture.

The role of culture in fostering effective speak up arrangements

We found that developing practices of speaking up that are both safe and effective relies on sustained organisational efforts to become as responsive as possible. Of course, responding to concerns raised through speak-up channels is not always easy. Whilst the person who raised the concern expects a quick and definitive answer, investigating the concern takes time and findings cannot always be communicated back. It is even more difficult to respond to a concern that was raised anonymously.

To overcome this obstacle, developing a culture of responsiveness is important. Somewhat counter-intuitively, organisations that respond to purely operational or very minor issues in an open and engaging way, will generate trustworthiness. These organisations will, in turn, remain credible and trustworthy when their responses to integrity concerns are less visible.

Whistleblowers, managers, alleged wrongdoers, and governing boards have different and often contradicting expectations of what responding to a speak-up should entail. This is why trustworthiness hinges on strong and clear mandates by those who oversee the speak-up arrangement in an organisation. They must be able to clearly communicate that speaking up is part of the how the organisation operates.

Sustained efforts to respond to concerns, and clear mandates for those who operate and oversee speak-up arrangements, create a shared understanding of the importance of responding to concerns. Over time, such effective speak-up arrangements nurture cultures that are conducive to open discussion of concerns.

From these insights and best practice in research on developing effective cultures, we make the following recommendations to organisations for the development of effective speak-up arrangements:

1. Be as responsive as you can. Explore whether employees who raised a concern can be included in developing a solution to the problem, as this can be an important event for collective sense-making, thus increasing trust in the effectiveness of the speak-up arrangement.

2. Continuously reinforce the message to managers at all levels that responding to concerns is part of management's role. Restrict their discretion about how to respond to voice.

3. Provide a variety of speak up channels and consider the potential of an independent advice channel.

Too often organisations take a simplistic approach, for example mistakenly assuming that declaring an 'open door' policy creates an 'open door' culture. Merely encouraging employees to speak up, without putting robust response systems in place, is a recipe for disaster, both for employees as well as for the organisation. Cultures are not created by mere declaration. The only way to create a culture where people are confident to speak up inside the organisation, is to work on responding well to concerns that are raised. Developing an open, responsive culture requires a well-organised, clearly mandated, and adequately resourced strategy. As in the world of finance, one reaps what one sows.

4 Leading culture change

4.1: The Importance of Sustained Leadership in Embedding a Desired Culture

Credit Suisse

Noreen Doyle, Chair of the Board of Credit Suisse International

David Mathers, UK CEO, Credit Suisse Group CFO and Chair of the UK Conduct and Ethics Board

Katarina Rosén, Head of Credit Suisse UK Culture Programme and Global Lead for Conduct and Ethics Implementation, Managing Director

As we embarked on our culture programme at Credit Suisse, we were not seeking to radically change the culture – rather our aim was to become more conscious and targeted in how we codified, embedded and continued to steer it. We sought to recognise our areas of strength and build on those, while we also acknowledged that the bar for our industry with respect to conduct and culture had risen considerably (and continues to rise) and we needed to strive to meet these higher expectations and make improvements in some areas.

Focusing on ethical behaviour is not new to Credit Suisse but in 2016 we moved to a consistent global culture effort, which has built on and consolidated various regional and functional initiatives. The benefits of this move to a strategic, global programme have been multifold: providing a simplified, clear framework of how we articulate our desired culture and behaviours, ensuring all our staff worldwide observe the same standards; enabling us to change and update key global processes which directly impact behaviour and decision-making; and most importantly demonstrating the commitment of the ultimate leadership of the bank, with our Group Heads of HR and Compliance acting on behalf of the CEO and entire Executive Board, being the driving force for our focus on culture. A key innovation has been the implementation of a new governance structure to support our management of culture with a Group Conduct and Ethics Board (CEB) and also dedicated individual Conduct and Ethics Boards at divisional and functional levels (and in the UK for our legal entities).

One of the early regional approaches which had considerable momentum with significant leadership involvement was in the UK. Our work here started in 2014 and, since 2017, has been fully aligned to the global approach. This essay seeks to use our UK experience as a case study to share some of the practical ways in which we have worked with senior leaders to support and embed a target culture.

The Role of Leaders in Shaping the Culture at Credit Suisse, UK

That culture and leadership are intertwined has long been recognised, and Edgar Schein (a former MIT professor and one of the most influential academics on the culture topic) argues that the interplay between culture creation, re-enactment and reinforcement is what creates this interdependency (Schein, 2009). Speaking practically, our experience has been that the buy-in and active involvement of the most senior leaders in setting and shaping the culture is critical to the success of any culture programme, using the title-driven hierarchies of the industry to our advantage.

Senior Involvement

Culture literature often refers to 'tone from the top' and how important this is in setting the right culture. But what does 'top' mean in a banking context? In the UK entity, we have found that having the local Chair and CEO act as the figurehead and champion of our culture work has been key to its success. Lip service is not sufficient – people can sense if that executive involvement is real or superficial. At Credit Suisse in the UK, the culture programme reports directly to the local entity CEO and staff are aware of this.

Steps to Success:

- Culture change needs to be **owned and articulated** by the CEO and the most senior Business Heads
- Leaders need to be intimately engaged with the **governance** of culture
- And actively involved in the **execution** throughout the programme

Establishing formal governance also lends weight and provides stability to culture initiatives and in the UK Senior Manager Regime (SMR) context is even more appropriate. We have a culture steering committee (the UK Conduct and Ethics Board) which involves the core leadership team (including all of our most senior divisional and functional leaders). This fits within our global Conduct and Ethics governance but has the specific accountability required in the UK of a fully independent board (with its own responsibilities) and ensures we meet the SMR requirements laid down on the Chair and CEO.

Meeting at least monthly, the committee members engage, share, propose and decide on real changes to the way we operate at Credit Suisse that we believe will positively impact our culture. As a result we have changed how we recruit people, introducing a 'culture interview'. We have also introduced a new 360 review mechanism for all Managing Directors and Directors that directly feeds into our year-end Performance Management and Compensation processes. From this 360 tool, the UK Conduct and Ethics Board also identifies and seeks to recognise true 'Culture Carriers' on an annual basis. The focus of the steering committee is broad – extending to inviting renowned positive psychologist Martin Seligman to talk to our staff and rolling out emotional resilience training to pockets of our sales and trading organisation.

While this committee broadly reflects our local Executive Committee, we have found that participants come to this meeting with a different mindset and approach due to the explicit focus on culture. 'Framing' the meeting in this way has enabled a rich, thoughtful dialogue. In fact we have often held additional or extended steering committees to discuss particular topics of importance – for instance a dinner at which we discussed the latest research on how to balance innovative and ethical behaviour. The breadth of steering committee membership also served as an incredibly stabilising force during times of leadership transition – enabling the programme of work to continue by providing ongoing and very visible commitment and support during the transition period.

To be successful however, leadership involvement cannot stop with the 15 individuals participating in a monthly steering committee. Rather it entails involving these individuals deeper in the programme execution. We have adopted a holistic approach to culture change – focusing on several workstreams ranging from Communications to HR Processes to Measurement, and asked each steering committee member to select one of these workstreams to sponsor. As workstream sponsors they not only provide strategic guidance to the teams executing on the ground, but also report back on these areas to the steering committee and local legal entity Boards as appropriate.

Figure 1: Schein (2009, pg. 131)

Schein: How Founders and Leaders Impose their Values and Assumptions

I Primary embedding mechanisms

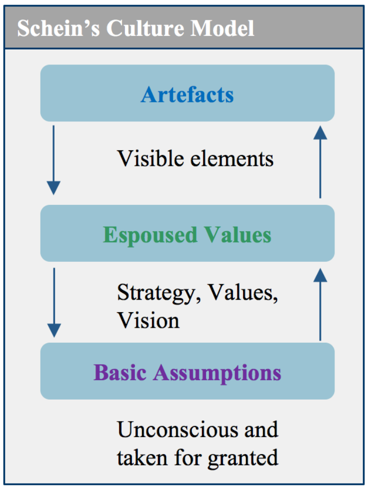
- What leaders pay attention to, measure, and control regularly
- How leaders react to critical incidents and organizational crises
- Observed criteria by which leaders allocate scarce resources
- Deliberate role modeling, teaching and coaching
- Observed criteria by which leaders allocate rewards and status
- Observed criteria by which leaders recruit, select, promote, retire and excommunicate

II Secondary articulation and reinforcement mechanisms

- Organisation design and structure
- Organisational systems and procedures
- Organisational rites and rituals
- Design of physical space, facades and buildings
- Stories, legends, and myths about people and events
- Formal statements of organisational philosophy, values and creed

Those who have studied culture will be familiar with Schein's (2009) model of how culture manifests at many different levels – from superficial **artefacts**, via **espoused values** to the deeper **basic underlying assumptions** (Figures 1 and 2). Leaders have a role to play at all three levels – from visibly communicating and endorsing the culture agenda to defining the espoused values that help us articulate our target culture. Practically, we have used many of the classic corporate communications routes to make this happen with visible installations of our values; senior leaders acting as spokespeople in Town Halls and featuring in internal videos; sending formal messages on the topic – all of which promotes a sense that this is valued and matters. However, while a necessary component, visible communication and verbal endorsement alone is not sufficient. The crucial layer is the deepest one in Schein's model. By leaders walking the talk, it allows basic assumptions to permeate the organisation that are congruent with the visible artefacts and espoused values. In many ways, the personal note that is sent from our leadership team to congratulate those select people who get identified as 'Culture Carriers' every year is even more important than the broader missive that is sent to our several thousand staff in which the Culture Carriers are publically recognised.

Figure 2: Schein's (2009) model



Characteristics of Great Culture Leaders

Self-Awareness

"Know thyself."
Plato

Self-awareness is incredibly important for any leader whose actions will be followed and emulated, and who wishes to authentically 'practise what they preach'. For instance, many of our most senior leaders would not perceive themselves to be 'scary' and indeed argue that their 'door is always open'. In reality however, the work of Megan Reitz and others at Ashridge University found that leaders often have an inflated idea of how easy it is for others to speak honestly to them (Reitz & Higgins, 2017). The risk of Authority Bias[6] is large in Investment Banks – with a focus on corporate titles and levels in the organisation, and anything that a leader can do to prevent this is helpful. Reitz and associates provide tips to enable others to speak up to leaders and it is being aware of these types of behaviours that will make a difference.

At Credit Suisse following discussion on Authority Bias, some of our leaders have changed how they operate to mitigate for this. Small but meaningful process changes have made a difference – for instance, in steering committee discussions rather than opining immediately the most senior person in the room now asks for others' opinions first, or on round robin emails by replying directly to the sender rather than cc'ing all.

Authenticity

"How will I direct my 'will to power', manage my self-interest, and act in accordance with my chosen values?"
Nietzsche

Staff will recognise if this is not genuine. The best way to be authentic is to find your own angle on the broader topic of culture and be passionate about that. The way culture is defined in corporates is broad enough to allow leaders to support overall ethical frameworks yet make a particular area their own passion – be that the benefit to clients, the need for diversity or clarifying our corporate purpose and moral licence to operate. We encourage leaders at any level in the bank to put their own stamp and language on the culture approach, while remaining within the corporate framework. For instance, we ask Managing Directors to present to new joiners at our Induction Day and give their own story and perception of the culture at Credit Suisse and the role they play.

Principled Pragmatism

"Sometimes a nudge – small, timely, and easy – may be all we need to make better decisions for ourselves."
David Halpern

A recognition that change, and culture change in particular takes time, but that small nudges and changes sustained over time will make a difference. We have started some things small – for instance the Culture 360 was introduced in the UK initially, but was eventually adopted globally. We often pilot things – previously testing an informal 'Culture Champion' escalation channel and right now we are trialling a reverse mentoring pilot. At the same time know which battles to pick and what is non-negotiable – for instance alignment on disciplinary decisions.

6 See the work of Social Psychologist Stanley Milgram in the 60s on Obedience to Authority (Billikopf, 2004) – where he conducted an experiment focusing on the conflict between obedience to authority and personal conscience and found that overwhelmingly the human need to obey authority overrules ethical considerations for the majority.

Consistency (of word and action)

"Example is not the main thing in influencing others.
It is the only thing."
Albert Schweitzer

Consistency is about making this sustained and regular and also a willingness to role model and act in a way that is aligned with what one is saying. Actions speak louder than words – our UK CEO not missing a single culture steering committee meeting since taking on the role in early 2016 sends a powerful message to other leaders. There are frequent opportunities for leaders to send these messages. One of our Managing Directors was asked by a team lead to support an action that would have compromised culture. She pointed to the culture statements installation in an adjacent office and started a five minute conversation on how the proposed action contravened it. The manager left with a powerful reinforcement of the Managing Director's commitment as well as a different course of action.

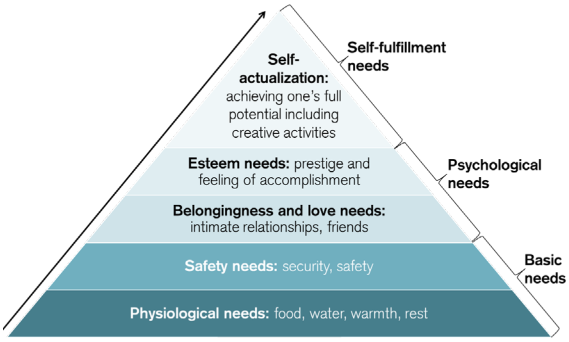
Engaging Leaders at Every Level

When people see senior leaders walking the talk, actively devoting their time and energy to this topic, making decisions that are in line with the espoused values of an organisation, it is a significant achievement. But it is incredibly easy to fall into the trap of assuming this is enough. To paraphrase Churchill, this is not the beginning of the end, it is simply the end of the beginning. The next step is to ensure that the next levels of the organisation – the day-to-day leaders in the form of middle management, those who have an essential role to play as a conduit in the organisation – are also engaged in the delivery of the culture message and by aligning their decision-making with the values. There are many ways to achieve this but we have done it quite simply with a cascade model of engagement. We started by involving over 88% of our Managing Director population at the outset to help us define the attributes of our target culture. These Managing Directors then ran face-to-face sessions with 86% of our Director population to communicate those culture goals. These Directors, in turn, then took responsibility for preparing and running sessions for the remaining staff in their business areas until we reached the whole of the organisation.

Role of Leadership in Managing Culture through Different Market and Organisational Contexts

Culture change takes time, and as such it is unlikely that the context in which you are operating will remain static. Often firms experience economic cycles that demand significant change and transformation, which can lead to morale and focus issues. This was a situation we faced at Credit Suisse in early 2016 as we implemented a new global strategy which entailed a large amount of change for the UK operations. We found that in a world where the change process was resulting in uncertainty, people's reactions were somewhat aligned to Maslow's Hierarchy of Needs (Figure 3).

Figure 3: Maslow's Hierarchy of Needs



Maslow's hierarchy of needs is a motivational theory in psychology comprising a five tier model of human needs, often depicted as hierarchical levels within a pyramid.

Maslow (1943, 1954) stated that people are motivated to achieve certain needs and that some needs take precedence over others. Our most basic need is for physical survival, and this will be the first thing that motivates our behaviour. Once that level is fulfilled the next level up is what motivates us, and so on.

It became apparent that to earn the right for us to continue the conversation on culture (perceived as a higher order concept) we first needed to address and tackle the more 'basic needs' (see diagram) that people felt were being threatened. In this context, we found that addressing any morale issues head on, by calling on classic leadership techniques earned us the right to continue our dialogue on culture in parallel.

The classic leadership techniques we used included extensive communication – not shying away from face-to-face conversations even when the message was not popular (ranging from an all-MD half-day on-site to organising for the Group CEO and Chair to come and address staff in a less formal setting) to developing a compelling end-state vision for the business so people can focus on the ultimate goal. Further, throughout, we made culture part of this two way dialogue.

Conclusion

By broadening the **definition of leadership** and in parallel encouraging grass-roots bottom up activity at this stage, we started to see a significant perception shift that the culture is actually evolving in a deliberate direction. Finally, the concept of a 'sustained' approach is key. Cultures are hard to change and one of the greatest challenges for any corporate culture initiative in the banking environment is a degree of cynicism in the very audience one is seeking to influence. Therefore once we had reached the whole organisation face-to-face we started again, reengaging MDs once more and most recently the Director population. In parallel, by demonstrating an ongoing, long-standing commitment from leadership – a commitment that outlasts individual tenures – we started to earn the trust and belief of the organisation in the cultural goals.

4.2: Creating a culture of ownership

UBS Investment Bank

Andrea Orcel – President, Chief Executive for UBS Ltd and UBS AG London Branch

These are challenging and disruptive times for financial services with many organisations reviewing their operating model and organisational structure. But any fundamental change to business is only as sustainable and effective as the culture that drives the way the organisation works. Simply said, culture is a common way of thinking that motivates people to act in a certain way. Managed effectively, culture is an economic and strategic asset, a source of competitive advantage and differentiation. If managed ineffectively or ignored, as seen during the financial crisis, it can become an economic liability or even lead to organisational failure. But culture is not something that can be 'done' to an organisation. A strong culture comes from each person taking ownership, ensuring that agreed ways of working together become embedded in the organisation's DNA and inform everything it does. A strong culture wins business and delivers economic success by doing the right things in the right way, ensures the quality of the employees it attracts, hires and retains, and is critical to winning the support of all stakeholders.

In 2011, UBS recognised that an overhaul of its business would be meaningless without re-focusing the culture on what historically made the bank strong. There was no clear consistent sense of identity and a series of past acquisitions meant that many employees felt more of an affiliation to their legacy culture rather than a unified UBS culture. UBS also recognised that companies with a strong, positive culture perform better, have fewer negative incidents and are more rewarding places to work. What was needed was a clear articulation of the appropriate behaviours, not only to minimise the risk of reputational and financial damage but also to be a positive differentiator, give better services to clients and foster long term value.

So the three keys to success (pillars, principles and behaviours) were launched at UBS. They are the foundation of our culture, helping us to achieve our vision and execute our strategy. They're integrated into everything we do and determine how we work with our stakeholders and each other, how we recruit, and how we make decisions. The pillars (capital strength, efficiency and risk management) would become the basis for our success in the industry. Our principles (excellence, client focus and sustainability) determine what we stand for. And the behaviours (integrity, collaboration and challenge) determine how we act as individuals.

Employees were engaged firm-wide, via town halls and smaller team meetings and multiple communication channels were used in each Business Division so everyone was clear on what was expected and how the three keys to success should be used on a day-to-day basis to make decisions and guide how we work together.

To ensure focus and tone from the top, organisation and measurement reviews took place and changes were implemented, including the incorporation of behaviours as part of the balanced scorecards for the Group Executive Board and overhauling the compensation model to ensure it supported the firm's strategy by promoting and rewarding behaviour. Now annual performance reviews of employees at every rank and in each of our 52 offices globally look not just at goal and revenue achievements but also at the behaviours that were deployed to achieve them.

The first phase of re-focusing our culture was initiated and driven by the senior leadership throughout the organisation and embedded in all HR core processes. Employees had to see that culture was being taken seriously, was being role modelled by the most senior leaders in the firm and that there was alignment across UBS. There was strong support from the Board. Senior leaders' action, coupled with a clear strategic roadmap, enabled us to knit the re-defined, re-focused culture into the fabric of the firm.

But providing purposeful leadership that models the culture from the top down is not enough. You cannot simply order people to embrace culture. It has to be owned and driven at all levels. A strong, sustainable culture only occurs when people's experiences in the way the organisation works together consistently match the defined values and behaviours. This requires a culture of ownership.

So each Business Division created its own initiatives and activities to embed the pillars, principles and behaviours. For example, in my Division, UBS Investment Bank, it was clear to me that success requires an 'adaptive approach' not a technical one – a bottom-up shift in values and practices, as well as a management team that is engaged in a passionate and ongoing dialogue with employees around the culture. An example of this was a Conduct Risk programme created by the business and delivered by the business which every single Investment Bank employee took part in.

To have a sense of ownership, employees also need to feel empowered to make change happen. So five employee action streams, all run by volunteers from across front-to-back functions and across ranks were created: Partnership Culture (strengthening collaboration across UBS to better serve clients), the Talent Place (to create the best career development in the industry), Wickedly Smart Working (succeeding at work and home), The Big Why (creating a culture of innovation and a DNA of community involvement) and Breaking Barriers (to help eliminate the barriers and complexity that get in the way of us doing our jobs well). Each action stream is championed by an Executive Committee member of the Investment Bank. The action streams address systemic issues which affect not only UBS Investment Bank but the industry. Their aim is to achieve something concrete (rather than make armchair proposals) by piloting, experimenting, sometimes failing, but always learning by doing about how to make progress against tough issues. There has been tangible success with an internal career mobility programme launched called Rotation 200 and Take 2, a programme to encourage more flexibility in working hours with the opportunity to take two hours per week for something personal ensuring coverage of work and clients through collaborating with team partners. Similar employee action streams and measures have been taken in other businesses and functions across UBS.

At the Group Level, several programs were run to create a culture of ownership such as line manager enablement training, flexible working models, and continuous feedback aligned with performance measurement. This includes a Group – wide integrated leadership development framework that ensures that from first time line managers to senior leaders, all develop in cross – Divisional settings to foster our 'one bank' approach. Furthermore, the Group Franchise Awards were recently launched to encourage and recognise those employees delivering on our behaviours. The first part of the awards recognises collaboration across the Business Divisions, ie how we work across the firm to benefit our clients. The second focuses on challenge, ie how we constructively question the status quo to simplify the way we work.

Creating and maintaining a diverse and inclusive environment is also at the heart of our culture but again is being driven both top down and bottom up. Diversity – of people, of ideas, and of perspectives – is critical to any organisation's ability to move forward; to adapt and overcome fast-changing times and challenges. Our global workforce is already diverse in many aspects and we consider this a competitive strength. However we are committed to further increasing diversity and acting inclusively. That's why in 2016 we launched our Career Comeback program, aimed at professional men and women who have taken a career break for a minimum of two years.

So what has been the impact? UBS is now one of the best capitalised banks in the world and has regained the trust of its stakeholders. UBS's turnaround has been publicly recognised, as evidenced by several awards. 'Euromoney' awarded UBS the Best Global Bank in 2016 as well as World's Best Bank for Wealth Management 2016. UBS received the 'Operational Risk' 2016 Bank of the Year award, recognising the firm's work to improve its operational risk management disciplines. 'Global Finance' named UBS Best Investment Bank in 2017 for the second year running. UBS's employee engagement scores have improved year by year, as measured by an annual employee survey with 80% employee participation. Results for employees feeling proud to work at UBS are particularly strong and employees in the UK would recommend UBS as a place to work to friends and family. In many cases, UBS now stands above the industry benchmark and alongside high performing firms, for example in providing a professional and respectful work environment.

But there is no time for complacency. Many culture programmes fail because they have not been given a continued strategic priority in the firm and an ongoing commitment and investment. Creating a strong differentiating culture doesn't have an end state for UBS but is a process of continual improvement and will continue to be a key priority and managed as other strategic business priorities.

4.3: Solving the culture conundrum: Why it takes more than strong leadership

BNP Paribas

Louise Fitzgerald-Lombard, UK Head of Human Resources

John Russell, Special Advisor, Conduct & Culture

You can't touch it, you can't bottle it, but it exists. Moreover, it matters more than ever before. Corporate culture – the shared set of beliefs, values and attitudes that shape how a company thinks and acts – is back on the boardroom agenda. Why? Because in a world of rapid and significant change, the challenge facing leaders is how to remain relevant – and a strong culture is an influential determinant of that. The hard part is that there is no management silver bullet to solve the culture conundrum. So, what levers do leaders need to pull when focusing on culture?

Define and communicate your values. Be clear about for what the company will stand and how it should act to build this reputation. Whilst 'top down' engagement is a critical success factor, for a set of shared values to be understood, legitimate and adopted throughout an organisation equally requires input, involvement and ownership from the 'bottom up'.

Be patient and persistent. Recognise that for cultural change to take hold takes time. As such, it needs to be kept at the top of the agenda, be actively managed, invested in, nurtured and occasionally kicked.

Set up a cultural change project. Organisations love projects: setting up work streams, deliverables and milestones. Projects provide focus, energy and are a good way to kick start culture change. The risk is that once the magic 'delivery date' falls, the project closes and the death knell for effecting real change is sounded. Be clear that while a project has merit, managing culture is a continuous process.

To this end, the creation of a Conduct & Control Office is one option to continue the journey in transforming the business in line with the Cultural values.

Measure and manage. The agreed shared values need to be measured and evidence provided to demonstrate whether they are being adopted, or not as the case may be. For example, "the right product to the right client and at the right time?" – are such questions asked before, during, or after execution?

The results should lead a healthy debate. There should be self-challenge: how can delivery against the values been improved? Identify the bad outcomes, the client complaints, learn from them and share those lessons internally. There should also be self-recognition: take pride in good outcomes, praise and share success. This strengthens the 'shared' nature of the values.

Examine how an organisation responds to internal and external audits and the associated recommendations. Unaddressed recommendations may mean bad outcomes continue to be delivered. Linking audit issues to the issue owner's variable compensation has proven to be a very strong motivator in this area.

When engaging with third parties, develop the right partnerships with the right business partners. Do they share your cultural values? How do you test that? And would you know if it diverged? Experience has shown that there is great value in periodic on site due diligence visits to third parties, where discussion is supported by evidence of aligned business practices.

Ensure the organisation's risk framework supports the delivery of the shared values. Policies and procedures need to be consistent with the risk framework, which should be aligned with and reflect the shared values. A strong set of internal controls is a pre-requisite but, wherever possible, simplify those controls and make clear to employees their responsibilities. Overly complicated and conflicting procedures may lead to inadvertent, or worse still, wilful breaches.

Maintenance. Keeping the cultural agenda alive recognises that everyone can influence, lead and own improvement. A safe 'speak up' environment is vital for this to be effective and should be created and nurtured based on respect for colleagues and their individual views. Similarly, ensure fair and protected treatment for whistleblowers.

Ensure that employees walk the talk. Many change initiatives assume employees will change their behaviour once a policy is issued. Not so. Appointing cultural ambassadors may be effective in establishing designated points of contact for the day-to-day process of embedding the shared values.

How should you deal with unwarranted or unapproved variations from the shared values? Unduly penalising employees may have the unintended effect of driving them to adopt practices even more at odds with the organisational culture, ie they attempt to overcome the penalty they feel they have suffered. Reducing their future risk-taking capacity may be more appropriate, particularly for those who seek to avoid or work around the risk framework.

People matter. Recruit the right people, namely those that will adopt and champion both culture change and an organisation's shared values. Pre-employment checks to review and test a candidate's cultural appetite help.

In appraising existing employees, demonstrating the shared values should feature in their performance measurement. Do employees receive recognition for turning down transactions that do not adhere to the shared values? They should.

And finally, culture should be discussed and reviewed continuously in an organisation's governance structures such as Board meetings, Executive Committees and Management Meetings. Strategic plans and goals should be aligned with the shared values, reflecting experience to date on current strategies and anticipation for what the future may hold. Feedback, public statements and open letters from clients are an important element in this discussion.

4.4: Behavioural science reveals the route to culture change

Mind Gym

Octavius Black, CEO and Co-Founder

Behavioural science reveals the route to culture change

I tell a good story; you embellish the truth; he lies.

I think outside the box; you bend the rules, he cheats.

I'm trusting, you're naïve, she's gullible.

We may behave in the same way as the people around us but we judge such behaviour very differently depending on who is doing it. When it comes to assessing ourselves at everything from driving to sense of humour, most of us think we're above average.

The same applies to our moral compass, only more so. When asked to score themselves across a range of ethical dimensions, such as 'principled' and 'trustworthy', people rated themselves up to 50% better than the average and only a smidgen below what they considered 'ideal' (Tappin & McKay, 2016).

But are bankers different from the average member of the public? I decided to run an experiment to find out. In it I asked 500 MDs at a well-regarded investment bank how honest they rated themselves, their 'ideal' and the average MD at the same bank, ie, their direct peers.

The results were unequivocal. On a scale of 1-9, the MDs rated themselves 8, the 'ideal' a little above, and scored the average MD around 6.

Whoever you ask – the experiment has been replicated with prisoners (Sedikides, C., Meek, R., Alicke, M. D. & Taylor, S., 2013) – we think the same: I am more ethical than you and we're both more ethical than them.

This psychological finding lies at the core of how to change culture and reveals why much of what we currently do to improve conduct is misdirected.

We know from other behavioural science studies that regulatory efforts such as penalty fines, zero tolerance and whistleblowing have, at best, limited benefit and may do unintentional harm, causing more ethical transgressions than if they didn't exist (Martin, 2006; Morrison & Martin, 2006; Tenbrunsel, & Messick, 1999; Waytz, Dungan, & Young, 2013).

This is not just theoretical. Researchers tested this idea by looking at historical institutional and regulatory data from 1999 – 2012 for S&P 1500 companies

(Shi, Connelly, & Hoskisson, 2016). Specifically, they were interested in how increased regulation and governance affected the ethical behaviour of senior managers when it came to fraud.

For instance, when institutional investors become involved in the running of an organisation, it typically leads to more regulation, including controls and demands on senior managers. We might expect that kind of attention to reduce fraud by managers. The research showed the opposite. The likelihood of financial fraud increased by 36% when dedicated institutional ownership increased from the average level by one standard deviation.

Realising that we see ourselves as unimpeachably more moral than everyone else shows why 'tone from the top', often considered the primary route for culture change, is a weak lever.

For me to consider anyone, let alone the ultimate boss, as more ethical than me, she would have to be angelic (which is rarely compatible with rising to the helm of any large institution, let alone a bank). An overtly unethical boss can do damage, giving permission for good people to stray, but good behaviour will barely register. Whilst there is plenty that the C-suite can do to change the culture, role modelling plays only a minor part.

Rather than top-down, a successful culture change strategy will focus on the individual. Specifically, its aim will be to get each of us to notice when our behaviour is inconsistent with our moral identity.

In a series of experiments, Professor Dan Ariely (2008) showed that we are all inclined to cheat by 5-10% – what he termed 'honest dishonesty'- unless someone notices. There doesn't need to be a negative consequence, such as a fine (which can, paradoxically, fuel ethical transgressions). What matters is that I am aware of the disconnect between how I like to see myself, and what I'm doing.

In organisations, there are plenty of ways to do this. One bank we are working with has started by running short workshops on the six derailers: the psychological situations where good people are more likely do bad things. For example, we are much more inclined to make ethical transgressions when we consider something to be unfair, or when we rate loyalty highly.

By recognising what leads us astray, we become better at self-regulating and so limiting our own bad behaviour. It also helps leaders spot the warning signs for ethical collapse in others. For instance, leaders might notice team members justifying questionable decisions, eg "Everyone does it this way" or unusual behaviour, such as shutting down and becoming defensive. Spotting and understanding these nuances allows leaders to take pre-emptive action.

Another bank is considering how to make the shift from 'speaking out' to 'speaking about'. A key plank in this strategy is equipping managers to talk about morals without moralising.

It's easy to take the high ground and tell someone that what they did was wrong. However, people are much more likely to change their behaviour when they talk openly about ethically ambiguous situations without feeling judged.

We are all jointly and severally responsible for these conversations. If you are a manager, it means asking your employees about more than just the tasks they execute: focusing on the 'how' as well as the 'what'. And if you're an individual contributor, it's about speaking up about transgressions- even if you're the only voice in the room. We know from the robust research around 'Minority Group Influence' (Moscovici & Nemeth, 1974) that, if just a handful of people express a clear and consistent point of view over time, it is enough to win over the majority.

Discussions about morality can escalate quickly. It's the manager's duty to prevent the conversation going toxic and make sure everyone feels psychologically safe. Investing in developing these skills will give a much greater ethical return than your typical conduct training.

Creating a space where people feel psychologically safe to speak up requires leaders and managers to notice and make people aware of even minor transgressions: "I heard you tell the client we'd done a major project for one of their competitors. I wasn't aware of that; what were you referring to?" Leaders should also be adept at subtly discussing ethical dilemmas on a regular basis, sharing their own stories and decisions as guidance.

Convention holds that changing culture is difficult and takes a long time. This is because the way we have gone about it is flawed.

Behavioural science reveals a faster and more certain way to effect culture which reduces risk, accelerates performance, wins over discerning clients and stems the burgeoning cost of compliance.

Within a few years all banks will adopt this evidence-based approach. The question is only which banks will be the pioneers and which the laggards.

4.5: The Denial of Reality: An exploration of some of the unconscious forces at work in Financial Services

Blacklight Advisory

Ajit Menon, Partner; Guest Lecturer of Organisational Development at London School of Economics

The financial crisis of 2008 shook the core of the financial services industry and created a wave of negative public sentiment as governments bailed out large institutions with public money. The popular discourse focussed on the behaviour of the industry. Tett (2009) speaks of unrestrained greed that impacted global markets and unleashed a catastrophe. In his book 'Flashboys', (Lewis, 2013) shows us how individualism trumps collectivism. "Everyone's trying to show how good their individual contribution to the team is. Because the team does not get the bonus, the individual does" (p143). Subsequently, firms have been sanctioned, individuals have been incarcerated and remediation work has been taking place over the past ten years within the industry. However, despite this we are still seeing things like rogue trading, pension scams and other such behaviour popping up across the industry.

This raises a number of questions. Did we learn nothing from 2008? Has the remediation not worked? Or is there something else in the system that we need to be cognisant of that we are currently blind to?

As an organisational psychologist I am acutely aware of the unconscious underlying dynamics within an organisational system. Culture plays a big role in this and unconscious cultural norms create the conditions for some of the behaviours we have seen. Culture shapes how things are done, it determines what is valued and what isn't within an organisation. Cultural norms are key in charting the course of organisational behaviour. Financial Services firms exist within a complex system that is made up of the industry, those who regulate the industry and importantly society or consumers. So, when we talk of culture, we should be interrogating the dynamics that exist in the overall system. Could we for a moment imagine that perhaps these behaviours and events have been a product of wider systemic contributions and that we may have all had a part to play in it?

Through this paper I invite you to suspend traditional modes of enquiry and experiment with a different lens, one of unconscious group dynamics. Whilst there are many at play I have chosen to focus specifically on collusion within the system.

I am reminded of the famous play by Sophocles, Oedipus Rex. The story begins when the Oracle of Apollo tells Laius, King of Thebes that his fate is to die at the hand of his son. Laius and his wife Jocasta instruct a shepherd to kill the child. The shepherd takes pity on the child, and saves his life by having him adopted by the childless King and Queen of the kingdom of Corinth. The child, Oedipus knows nothing of the adoption. Later in life Oedipus hears of the prophecy and decides to leave Corinth to avoid his fate. As he walks away he becomes embroiled in a fight in the forests and ends up killing a nobleman and his four servants. He then walks on to Thebes and is confronted by a Sphinx that is terrorising the city. He goes on to defeat the Sphinx and the grateful people of Thebes offer Oedipus the recently vacant crown and he marries the widowed Queen Jocasta.

Oedipus rules for seventeen years until the city is afflicted with a plague and it is through this disaster and the ensuing events that the truth comes forward. The Oracle reveals that the plague afflicts the city because of the presence of the killer of Laius. Oedipus then learns that the man he killed in the forests many years ago was his birth father Laius and the woman he has married is his birth mother. And, it is his presence that is causing the plague. This leads to devastating consequences and story ends with Oedipus blinding himself.

The complexity of the story is more than the sensational revelation of Oedipus's identity. It demonstrates a societal cover up of the truth. For their own reasons everyone around Oedipus ignores the reality that they were faced with for seventeen years. (Steiner, 1985) calls this phenomenon turning a 'blind eye'. A situation where we seem to have access to knowledge and information but choose consciously or unconsciously ignore it because it serves us a purpose to do so.

Could this denial of reality have possibly occurred in the lead up and through the Financial Crisis at multiple levels of the system. From an industry perspective, in the years running up to 2008, innovative techniques and new products that "offer higher returns for ordinary rates of risk" (Tuckett, 2011) were highly sought after. These innovative products were designed to maximise return and profits. "Between 2003 and 2008 bonuses in the City rose from £3.3 billion to £11.6 billion" (Vaughan & Finch, 2017). This gave rise to what (Stein, 2011) describes as culture of mania, one where there is a denial of vulnerability and an excessive need to celebrate triumph and demonstrate superiority. There are multiple cases of organisations turning a blind-eye to individuals who were engaging in activities that were dangerous and fraudulent but highly profitable. I have many examples where leaders condoned inappropriate behaviours or ignored them due to the profit the individuals brought in. This can be seen as recently as the case of the LIBOR rigging scandal. In their book 'The Fix', (Vaughan and Finch, 2017) say: "The revelation that one of their top traders was trying to rig Libor doesn't appear to have rung any bells with UBS's senior managers who seemed more interested in his trading prowess." By turning a blind eye to his actions, the organisational system condoned his behaviour, encouraged it and in effect colluded with him.

However, this is not limited to just the industry. All this served a purpose to the wider system. The good performance pre-2008 allowed banks to carry on issuing debt. In the United States housing loans were granted against almost negligible collateral and therefore risk was starting to be inappropriately priced. The famous NINJA loans, (no income, no job and no assets) allowed a number of people to have access to lifestyles that they would never have been able to afford. There was a symbiotic relationship (Schiff, Schill, Mellor, Schiff, Schiff, Richman, Wolz, Fishman, & Momb, 1975), between industry and society where one cannot exist without the other. Financial services provided attractive interest rates, high returns and easy credit which consumers readily took up. There was a deep rooted denial of the risk and a manic consumption of what was being offered. (Long, 2008) "The denial involved in turning a blind eye can become a conscious attempt to disguise a reality all too evident" (p2). We are still seeing examples of this. We know that consumer credit is rapidly increasing in the UK (Treanor, 2017). Analysts are predicting that sub-prime car loans will be the trigger for the next financial crash with a record £31.6bn in 2016 of car loan debt in the UK (Collinson, 2017).

The danger of turning a blind eye is that it sends a message that the behaviour is being condoned and in effect creates an environment of collusion. And even though information regarding the seriousness of the situation is usually available (eg disclaimers that houses will be repossessed if mortgages are not repaid) we usually avoid reaching the difficult conclusions that a proper evaluation of reality would give us.

So what does this all mean? How could we have avoided this? Culture really is the key to unlocking some of the unconscious dynamics we have seen.

From an industry perspective; organisations need to spend time building their culture and really getting back to the basic values that they stand for. Values become the lens through which we judge whether behaviour is appropriate or not. In strong values based organisations, individuals are aware of the boundaries of their behaviour and are empowered to call each other out when something does not seem right.
At a Wealth, Trust and Fiduciary business we involved groups of their employees in discussions around what they thought were the appropriate values for the organisation they worked for. We got the employees to co-create the value system and what this inadvertently did was to create strong buy-in to the behavioural principles at all levels.

Deciding on values is the easy part. Ensuring those values are at the heart of the day-to-day operation of the business is another thing entirely. Many of the City firms that I have worked with are adept at producing glossy pamphlets of their values. Sadly, some of these businesses tend to be less successful when putting those values into practice. This is all about leading from the front; leaders must live these values in everything they do at the company. There will be times when senior staff behave in a way that is contrary to the spirit of a firm's values. To grant immunity following serious misconduct is to set in motion a process that will lead to the breakdown of a healthy corporate culture. Leaders must take a stringent approach when holding to account those who behave in a fashion that contravenes the values and is detrimental to the culture of the firm.

Building and changing culture is not easy, it requires patience, courage and determination as you start challenging some of the deeply held assumptions that are entrenched within organisations. Leaders need to understand these assumptions and how they create the conditions for the behaviours in their firms.

An important part of culture building is ensuring that the organisational systems in place support the culture. Policies, procedures and systems, especially people policies that determine who is hired, how they are rewarded and developed should support the espoused values. For example, a client of mine regularly checks if the clients and vendors they work with are aligned with their values. They are clear about who they will do business with and who they will not, especially if they violate the values they stand for.

Whilst we focus on industry wide interventions we must not forget that there are multiple parts to this system. We also need to make interventions at the consumer and societal level. We need to start building more accountability for the choices that consumers make. Financial literacy is low within our societies and the consequences of taking on financial risk are not always fully understood. The FCA's recent Financial Lives survey has highlighted a lack of knowledge and confidence in the system (Financial Conduct Authority, 2017c). It is not going to be easy to change society's attitudes to spending. However, a lot more should be done to educate and create awareness around what is probably a basic necessity in our lives. We need to help consumers be alive to the consequences of making wrong, hasty and impulsive financial decisions.

So, going back to Sophocles, the good people of Thebes accepted Oedipus and the reality of his situation for seventeen years. If they had known that the consequences of ignoring reality and accepting him as their king would be to bring on the plague, I wonder if they would have acted differently. The denial of the truth served a purpose for different people in the story until they are faced with the fact that it is the cover up that causes devastating consequences for everyone involved.

4.6: Delivering on cultural change: who benefits and how can change be affected

CIPD

Peter Cheese, Chief Executive

Ed Houghton, Senior Research Advisor, Human Capital and Governance

The ten years since the financial crisis and subsequent recession has seen much change in UK business. Political and social flux, economic variability, new business models and ways of working fuelled by relentless technological innovation are all challenging business to be more agile and develop new capabilities. But the issues of mindset, behaviours and corporate cultures that lie at the heart of sustainable businesses, and in rebuilding trust, are proving both harder to understand and harder to fix.

Corporate culture, which perhaps most critically is manifested in how decisions are made and actions taken, but also in how people are engaged, aligned, and give of their best, has risen much more to the collective attention. Ongoing corporate scandals and behaviours continue to challenge us all, but we can also see the apparent continued short term profit focus of business versus longer term investment in sustainable business – particularly in the investment in the workplace and skills that is strongly linked to the UKs productivity challenges. Addressing these issues is clearly vital, particularly in the context of a post-Brexit world.

For the average employee or worker, trust and engagement have been eroding not least because take home pay remains stagnant against rising inflation and the quality of jobs in the economy is not improving (CIPD, 2017b; HM Government, 2017). At the same time reward for those at the top of the biggest UK business continues to grow disproportionately (CIPD, 2017c). It isn't only pay where inequality is felt. Stress levels are rising, and wellbeing and engagement for many has been declining.

So it's clear whether looked at through the lens of the individual worker (present and future) as a key stakeholder, or the wider economy and society, that how businesses behave and the context in which they make decisions is of interest to all. The question then is how can we encourage businesses and business leaders to change, and how can change to culture be achieved.

Encouragement will need to come through corporate governance (are Boards and executives understanding and measuring the right things), greater transparency (gender pay gap reporting is an interesting example), and key external influencers including investors and regulators. It must also happen through recognising the multiple stakeholders of a business, not just the interests of the financial stakeholder. Not only are employees a key stakeholder, but so are customers and suppliers, and the communities in which businesses exist, as well as the environment.

UK regulators, including the FCA and Financial Reporting Council, are now looking at approaches to corporate governance with corporate culture more in mind. The FRC Culture Coalition project explored the concepts of corporate culture and regulation (Financial Reporting Council, 2016a) recognising that the traditional corporate codes and the philosophy of comply or explain need to be positioned more alongside principles that can guide good practice and behaviours.

Understanding cultural change

Culture is not one dimensional, fixed, or singular in its nature. It is the result of interacting people, processes, procedures, systems and networks (CIPD, 2016). Many decades of behavioural science research have shown that prescriptive rule-bound environments don't build towards positive cultures and can lead to unintended and unwanted consequences eg following rules without any sense of individual accountability or understanding of outcomes, or even 'gaming' the system (CIPD, 2015).

Culture change needs to start with clarity of the principles which should guide the business and the HR and people management practices. These should be articulated through corporate value statements, as well as a refresh of what the wider purpose of the business is (that understands the multiple stakeholders). For the board this means that an organisation's business model is geared towards developing cultures which enable value creation and value capture for all of its stakeholders, not just the few (CIPD, 2017a; Edmans, 2011).

These are the foundations to lead culture change and should be widely communicated (eg Levin and Gottlieb, 2009 or Sangiorgi, 2011). There must also be honesty and objectivity about where the organisation's culture is today. Solid evidence and qualitative measures of culture and organisation development such as staff surveys alongside quantitative indicators should be consistently used and reported (Barends, Rousseau, & Briner, 2014). These can be correlated with value outcomes such as customer satisfaction, productivity or innovation drivers.

Principles and values are then reinforced through practices and processes, including training and communications, but particularly performance management and reward. What gets measured and what gets recognised or rewarded, gets done. Culture change starts from the top, so consistent tone, narrative and actions from the top send the signals throughout the organisation.

There must also be clear alignment between individual roles and objectives and wider purpose, strategy and outcomes. Managers at all levels need to live the espoused values and support their teams, as well as holding them to account. Employee voice is critical – are people able to contribute and challenge, be listened to, and therefore also to be treated fairly.

By considering multiple stakeholders, drawing on professional expertise, and building engagement into culture change, it is possible to shift cultures but it takes time and consistency. For leaders the opportunity is clear – inclusive, engaging and productive workplace cultures are good for positive business outcomes, foster trust, and provide greater opportunities for employees to benefit from work too.

4.7: Influence, Culture and Change

Influence at Work

Steve Martin, Chief Executive

Dr. Robert Cialdini, Founder and President

Recent findings in the behavioural sciences have lauded the impressive impact that small behaviourally-informed insights (often referred to as nudges) can have when attempting to influence behaviour. Unsurprisingly, many financial organisations have embraced these ideas to persuade consumers, win new customers and gain competitive advantage. Could these same approaches be helpful when seeking to influence behaviours and the cultural environment within the financial organisations themselves?

When seeking to influence behaviour and effect change, leaders have traditionally adopted a mantra that goes something like this: "To change behaviours, you first need to change minds". No surprise, then, that programmes and initiatives based on educating, incentivising and sanctioning people into compliance are commonplace. Whilst these approaches can sometimes be effective, an over reliance on them may result in organisations missing out on another potent lever of change; insights from behavioural science.

A consistent finding from several decades of research into human decision making and behaviour is that subtle shifts in context, small changes to an environment and even the mere variation in the way a message is framed can exert a powerful influence on behaviour and conduct (Dolan, Hallsworth, Halpern, King, Metcalfe, & Vlaev, 2012). This is especially the case when those changes align to fundamental motivations universal to the human condition. Three motivations in particular are worthy of note because they underlie – either individually or in combination – a significant number of strategies and approaches that reliably influence behaviour (Cialdini, Martin, & Goldstein, 2015). They are:

1. the motivation to make accurate decisions

2. the desire to associate with and gain the approval of others and,

3. the need to see oneself in a positive light.

For example, imagine while researching credit cards or savings plans, a consumer is informed that many others in a similar situation found the ABC Card to be a good choice or the XYZ Plan a decent option. Would knowing what similar others have done influence that consumer's ultimate decision? A substantial body of research indicates that it would (see Goldstein, Cialdini, & Griskevicius, 2008; Amblee & Bui, 2011; Martin, 2012 for examples). Rather than viewing this as an example of how easily people mindlessly follow the herd, it can be more instructive to recognise that following the actions of multiple, comparable others fulfils one of these fundamental motivations;

namely to make accurate decisions. If this is a popular choice made by similar others then it is probably a more accurate choice too. After all, it follows that the more common an action is, the more right that action is likely to be too.

But what happens if a commonly occurring act is a wrong one? Not wrong in an incorrect or inaccurate way, but in a moral way. For example, if people come to learn that others around them undertake risky, morally questionable or even downright dishonest practices, could those behaviours be unwittingly, even unnoticeably encouraging otherwise honest others to follow suit?

As uneasy as that thought may feel, research has shown that the frequency of an action is often used as a rule of thumb to determine its moral acceptability. A former graduate student of one of us once visited the U.S. Petrified Forest National Park with his fiancée – someone he described as the most honest person he'd ever known. At the park entrance they encountered signs warning visitors against stealing petrified wood. "Your heritage is being vandalised by theft of 14 tons of petrified wood a year," read the sign, "mostly a small piece at a time." He was still reading the sign when his otherwise law-abiding wife-to-be elbowed him in the side whispering, "We'd better get ours too."

The idea that immoral behaviours, if perceived as commonly occurring, can result in otherwise well-meaning honest people being persuaded to follow suit is not simply speculation on our part. Recent research (Lindström, Jangard, Selbing, & Olsson, 2017) finds that a person's view of what is morally right (and wrong) is strongly tied to the second of our fundamental human motivations – the need to associate and gain the approval of others. One way people can accomplish this is to adapt their behaviour to the conduct of those around them. Mirroring attitudes. Copying actions.

There is a sobering lesson for captains of financial organisations here. The use of nudges designed to sell more products and services like "this is our most popular saving plan" or "Rated UK's #1 credit card" may not be the only place where people are being influenced. There is another where the mirroring and copying of behaviours can have an effect. And the impact can hardly be described as optimal.

Every business has its culture; developed organically and influenced by the attitudes and behaviours commonly practiced by the people that work within it. If the frequency of a behaviour is correlated with its ethical acceptability – the common is moral bias – then regularly occurring and damaging behaviours such as the lack of due customer care and attention, risk-taking, even cheating could, due to the perceived frequency of these actions, not only come to be seen as a norm, but more morally acceptable too.

What are the implications? Research that one of us has recently conducted suggests that organisational environments (created by leaders who encourage or just allow the use of unworthy practices or questionable tactics) can experience a triple whammy of internal consequences: reduced employee performance; higher employee turnover and increased malfeasance (Cialdini, 2016). Specifically, the more unprincipled an organisational culture, the poorer workers perform primarily because climates like these create more stress. And stress leads to poor performance. Second, not only are the employees in such cultures more likely to be stressed, they are also more likely to quit. Stress pushes them to leave with firms facing the impact of financially expensive turnover costs as a consequence.

Of course not everyone leaves. Those comfortable with such climes (and presumably the resulting financial gains that often accompany them) should be happy to stay. In fact recent neuroscience studies suggest that people's behaviour adapts over time to dishonesty (Garrett, Lazzaro, Ariely, & Sharot, 2016). Repeated exposure to such climates can cause individuals to descend a 'slippery slope' of unethical behaviour and feel more comfortable breaking the rules as time goes on. And therein lies the third consequence. Those who feel comfortable cheating for your organisation will also feel comfortable cheating against it too.

Identifying how existent and prevalent these lapses in judgement and behaviour should be a worthwhile endeavour for leaders, managers and supervisors. So will dealing with their corrosive effects should they be identified. But how? Are we suggesting that simple behavioural nudges alone will be enough to deal with such challenges? Probably not, and even if they are then the impact is likely to be short term. When it comes to longer term change we would propose that a combination of efforts will be required. The right education, appropriate incentives and suitable sanctions will be crucial. But these behavioural insights will be crucial too because they will ensure that the more traditional efforts are channelled in such a way that they align to the fundamental human motivations outlined in this essay and that have been shown to exert a powerful influence on behaviour.

One way to accomplish this is to ensure that executives understand and are skilled at employing these insights. Accordingly, training in the major principles of influence and behavioural science and how to apply them is strongly recommended for leaders, managers and supervisors as part of an organisation's Culture and Governance strategy and delivery programme. Doing so might not only avoid that crippling triple whammy of unwanted implications. It could also serve to fulfil the third of these fundamental motivations. A healthy, profitable and ethical organisation that is seen by staff, customers, competitors and regulators alike in an extremely positive light.

4.8: A New Dawn for Cultural Transformation as Organisations Make Stakeholder Interests a Reality

CityHR

Andrea Eccles, Chief Executive

In a new era of accountability and 'putting the customer first' how are leaders shaping up to the challenge of securing stakeholder satisfaction?

For some, legislation and regulation have been the primary drivers. For other organisations, emphasis has been placed on creating the desired culture and 'doing the right thing' (Eccles, Newton, & Shaw, 2013). Irrespective of the approach, the motive for cultural transformation is the same: to proactively move forward from the financial services crisis by re-building trust and confidence in the sector. Leadership teams are seeking to embed organisational strategies and individual behaviours which restore stakeholder faith and build sustainable businesses. At the end of the day, most organisations recognise that good culture is not a defensive activity but one that is positive for business outcomes.

So, who are these stakeholders? In corporate parlance, all organisations have an intangible 'licence to operate' which means that they are not only accountable to their employees, customers and investors but also to the public, communities and environment in which they operate. The range of stakeholders who are impacted by the organisation and the way it does business are illustrated in the Social Licence Model below (Eccles, Newton, & Shaw, 2013).

THE SOCIAL LICENCE MODEL

Conversely, these stakeholders also have the ability to drive cultural change in both individual firms and the sector at large, but often in times of duress rather than success. For example, lack of belief in the company; the vision and strategy of its leaders; the behaviour of its employees or its method of operating can cause the following adverse consequences (Eccles, 2017):

- high employee turnover due to low engagement and individual recognition that the values exhibited internally are incompatible with those stated by the organisation
- withdrawal of customer business due to poor performance, conduct or customer experience
- loss of shareholder investment as strategies and behaviours are viewed as a risk to sustainable and ethical business
- sanctions imposed by the regulators or professional standards bodies, yielding significant fines and reputational damage
- censorship by the media, commentators, local and international communities – alongside 'the Court of Public Opinion' yielding mistrust in the firm and sector

Therefore, it is in the interest of the organisation's leadership to maintain a healthy appetite for acting in accordance with stakeholder interests at all times. Likewise, there are ways that leaders can respond to concerns and foster positive change. One way is the change of emphasis from the pre-crisis days when the focus on performance was principally on 'what' was achieved rather than 'how'.

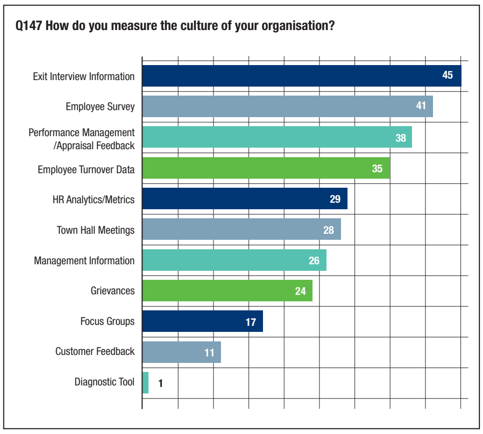
Looking at this from a macro-basis, the Edelman Global Trust Barometer 2017 puts the spotlight on four behaviours and corresponding actions that financial services companies could deploy which are specified below:

1. Use effective leadership in the interests of all stakeholders to solve customer pain points
2. Develop innovations to enhance the customer experience through smart technology investment
3. Contribute to the greater good and therefore develop a social purpose
4. Protect customer data via data security and privacy

Taking a micro-approach, what are leaders doing within their own firms to bring about cultural change? At the outset it must be stated that each firm has a unique culture which depends on a number of factors and there is no magic bullet to improving culture. Whilst there are a range of culture definitions and indicators, at the end of the day, "it is about the way things are done around here".

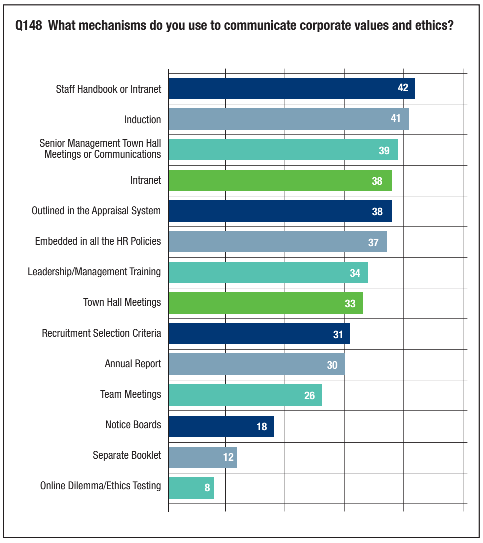
The City HR Benchmarking Survey 2016 provides some insights as to the serious regard given by leaders to setting, embedding and measuring culture. With data provided by 51 financial institutions in the City of London, from investment banking, retail banking and asset management, it was unsurprising to see that 90% had a values statement. What was really interesting is how leaders were communicating these values.

The main methods of communicating these were the staff handbook and intranet, the induction and on-boarding process, via Senior Management Town Halls and through alignment of reward with the performance management system. Organisations were also asked how they measured the culture within their organisation. The top three measurement activities were exit interviews, employee surveys and the appraisal scheme. The corresponding graphs and tables have been extracted from the survey to provide a more detailed illustration as to how leaders – and HR – are measuring the success of their initiatives.



Graph: 147 How do you measure the culture of your organisation?
All: 51 Participants

Answer	Responses	Percentage
Exit Interview Information	45	88%
Employee Survey	41	80.4%
Performance Management /Appraisal Feedback	38	74.5%
Employee Turnover Data	35	68.6%
HR Analytics/Metrics	29	56.9%
Town Hall Meetings	28	54.9%
Management Information	26	51%
Grievances	24	47.1%
Focus Groups	17	33.3%
Customer Feedback	11	21.6%
Diagnostic Tool	1	2%



Graph: 148 What mechanisms do you use to communicate corporate values and ethics?
All: 51 Participants

Answer	Responses	Percentage
Staff Handbook or Intranet	42	82.4%
Induction	41	80.4%
Senior Management Town Hall Meetings or Communications	39	76.5%
Intranet	38	74.5%
Outlined in the Appraisal System	38	74.5%
Embedded in all the HR Policies	37	72.5%
Leadership/Management Training	34	66.7%
Town Hall Meetings	33	64.7%
Recruitment Selection Criteria	31	60.8%
Annual Report	30	58.8%
Team Meetings	26	51%
Notice Boards	18	35.3%
Separate Booklet	12	23.5%
Online Dilemma/Ethics Testing	8	15.7%

Source: The City HR Benchmarking Survey 2016

Other formal methods of assessing the effectiveness of organisational culture are customer satisfaction surveys, industry ranking charts in areas of specialism or benchmarking data. An indication of how the public at large perceive an industry or organisation can again be derived from the Edelman Global Trust Barometer. Just as meaningful is how employees position the company and the media plays a role here with publications such as 'The Sunday Times Best 100 Companies to Work For' and Glassdoor. Unfortunately, the adverse consequences of culture and behaviour also occupy the headlines and trend on social media leading to public approbation. Some organisations are utilising wider market research tools including customer oriented metrics such as net promoter scores which essentially measure "how likely are you to recommend this product or company to your family and friends?"

Of course, there are a myriad of other cultural assessment techniques that leaders can adopt to measure stakeholder satisfaction. On the informal side, these include 'walking the floor' to see how employees behave, collaborate and interact with each other as well as tuning in to the conversations happening around the proverbial coffee point or water cooler.

Whilst these may be extrinsic measures of leadership success in cultivating the right culture, it is imperative to remain mindful of intrinsic factors, particularly those relating to diversity and inclusion. This was measured separately in the City HR Benchmarking Survey 2016, and it was evident that extensive energy and commitment is being invested in both meeting recommended targets and developing the right policies and measures.

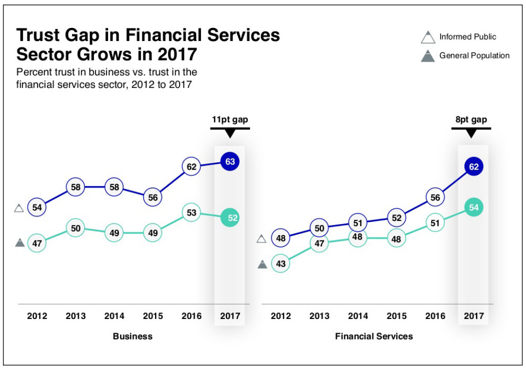
Thus far, cultural change and stakeholder satisfaction has been addressed from inside the organisation looking out. It would be remiss therefore not to mention the role of the Government, Regulators, Policy Makers and Professional Standards Bodies/Boards in driving change from the outside. Each of these is a champion in addressing the individual and organisational changes that must occur for society and the role of leaders in role modelling these behaviours and being held accountable when the desired outcomes fall short. Of particular note is the work being done by the Banking Standards Board, the Chartered Insurance Institute and the Investment Association for setting the bar high in a sector under scrutiny. This sits alongside the role played globally and cross-sector by the Institute of Business Ethics. Similarly, in the new dawn of regulation, there is no room for the abdication of responsibility, as enforced by the Senior Managers and Certification Regime[7] and other comparable global regulatory requirements. However, regulation alone cannot create a good culture – organisations also need to consider how they reward positive behaviours in a non-monetary sense to reinforce the desired culture that they want their people to achieve.

The final element that should not be overlooked as part of stakeholder management is that of the community and the need for organisations to demonstrate their social purpose. It could be argued that leaders have been very good at the former and are just getting up-to-speed on the latter. The financial services Sector has generally been highly active in the field of corporate social responsibility, and much of this positive effort is recognised in the Lord Mayor's Dragon Awards. However, if there were a call to arms, it would be how leaders can work collectively on a local and global basis to recognise the social purpose of their respective industry and to individually adopt strategies which are realistic and meaningful for their own business.

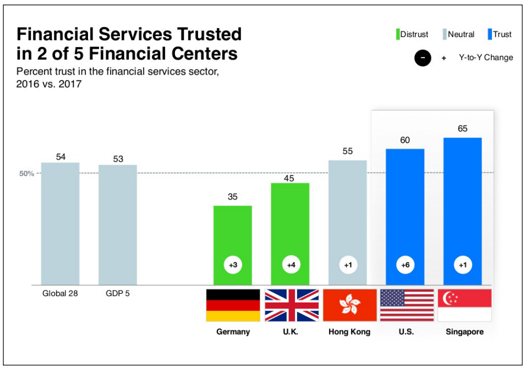
The role of leaders in cultural transformation can be summed up using the words of the Financial Reporting Council (Financial Reporting Council, 2016a, b). "The Board has a role to shape, embed and assess a desired culture and in-so-doing have regard to a wide set of stakeholders." Taking this one step further, there is a vital role for HR to play in supporting the leadership with culture change. This is because HR is the custodian of the people management processes that underpin culture throughout the entire Employee Life Cycle – from hire to exit, and incorporating induction, training, performance assessment, the alignment of appropriate reward, succession planning, speak up programmes and disciplinaries. This is as well as upholding and monitoring equal opportunities in all of these areas as part of the firm's diversity and inclusion programme.

7 The Senior Managers and Certification Regime. Derives from "Strengthening Accountability in Banking and Insurance" with numerous updates including the proposal to extend the regime to all firms engaged in financial services, and transitioning proposals for the insurance sector from the Senior Insurance Managers Regime to the Senior Managers and Certification Regime. See the PRA website via www.bankofengland/co.uk/prudentialregulation and the FCA website on www.fca.org.uk

This all begs the questions: where are we now on the cultural spectrum, what are leaders doing to change the landscape and who cares anyway? Organisations have made considerable progress on their journey to satisfy their stakeholders. Most leaders have set out their vision, embedded their values and are now measuring the effectiveness of their governance and strategies. All stakeholders care emphatically about the health of their sector. This is all evidenced by The Edelman Trust Barometer findings which shows a slow but continuing upswing in trust in the financial services Sector. According to Edelman's monitoring of trust ratings in the financial services sector globally over a five year timeline (2012 to 2017), trust has increased by 11 points from 43% to 54% (see below, left). However, the same survey also shows that the UK only scores a trust rating of 45%, which whilst this is a four point increase on 2016, does not yet elevate the UK from the 'Distrust' category (see below, right).



Source: Edelman Trust Barometer 2017 – Trust in Financial Services Services accessed 17 January 2018 via www.edelman.com



Source: Edelman Trust Barometer 2017 – Trust in Financial accessed 17 January 2018 via www.edelman.com

Therefore, for the benefit of all stakeholders, the overriding aim must be for a trust rating improvement in financial services both worldwide and at home. If the sector can sustain this, who will be the winners? You, me and the next generation, of course, in both our professional and personal lives.

A new glimmering horizon is emerging in culture and responsibility – may the clouds stay away and may the outcome be a sunny one.

Additional recommended reading:

City Values Forum & Tomorrow's Company. (2016). Governing culture: risk and opportunity: a guide to board leadership in purpose, values and culture. City Values Forum with Tomorrow's Company.

Montagnon, P. (2016). Stakeholder engagement: values, business culture and society. Institute of Business Ethics.

CIPD. (2016). A duty to care? Evidence of the importance of organisational culture to effective governance and leadership. CIPD.

References

Aarts, H., Gollwitzer, P., & Hassin, R. (2014). Goal Contagion: Perceiving is for Pursuing. *Journal of Personality and Social Psychology, 87*(1), 23-37.

Adamson, C. (2013, 19 April). The importance of culture in driving behaviours of firms and how the FCA will assess this. Presented at CFA Society – UK Professionalism Conference, London. Retrieved from: https://www.fca.org.uk/news/speeches/importance-culture-driving-behaviours-firms-and-how-fca-will-assess.

Alford, C. F. (2001). *Whistleblowers: Broken lives and organisational power.* Ithaca, NY: Cornell University Press.

Amblee, N., & Bui, T. (2011). Harnessing the influence of social proof in online shopping: The effect of electronic word of mouth on sales of digital microproducts. *International Journal of Electronic Commerce, 16*(2), 91-114.

An Act Supplementary to the Act to Incorporate the State Bank of Ohio, and Other Banking Companies. (1846), Chapter 299. *Laws of the State of Ohio,* vol. XLII.

An Examination of Wells Fargo's Unauthorised Accounts and the Regulatory Response: Committee on Banking, Housing and Urban Affairs, Senate (September 20, 2016) (Testimony of John Stumpf).

Aquino, K. & Reed, A. (2002). The self-importance of moral identity. *Journal of Personality and Social Psychology, 83*(6), 1423-1440.

Aquino, K. & Levy, E. (2007). Moral identity and judgments of charitable behaviors. *Journal of Marketing, 71*(1), 178-193.

Aquino, K., Freeman, D., Reed, A., Felps, W., & Lim, V. (2009). Testing a social-cognitive model of moral behavior: The interactive influence of situations and moral identity centrality, *Journal of Personality and Social Psychology, 97*(1), 123-141.

Aquino, K., McFerren, B., & Laven, M. (2011). Moral identity and the experience of moral evaluation in response to acts of uncommon goodness, *Journal of Personality and Social Psychology, 100*(4), 703-718.

Ariely, D. (2008). Predictably irrational: *The hidden forces that shape our decisions.* New York, NY: Harper Collins.

Bailey, A. (2017). Culture in financial institutions: it's everywhere and nowhere. Speech. HKMA Annual Conference for Independent Non-Executive Directors. Retrieved from: https://www.fca.org.uk/news/speeches/culture-financial-institutions-everywhere-nowhere.

Barends, E., Rousseau, D. and Briner, R. (2014). Evidence-based management: the basic principles. *Center for Evidence Based Management*. Retrieved from: https://www.cebma.org/wpcontent/uploads/Evidence-BasedPracticeThe-Basic-Principles-vsDec-2015.pdf.

Barney, J. B. (1986). Organizational culture: can it be a source of sustained competitive advantage? *Academy of Management Review, 11*, 656-665.

Becker, G. (1968). Crime and punishment: an economic approach. *Journal of Political Economy, 76*, 169-217.

Bikhchandani, S., Hirshleifer, D., & Welch, I. (1998). Learning from the Behavior of Others: Conformity, Fads, and Informational Cascades. *Journal of Economic Perspectives, 12*(3), 151-170.

Billikopf, E. G. (2004). *Milgram's experiment on obedience to authority.* Retrieved from: https://nature.berkeley.edu/ucce50/ag-labor/7article/article35.htm.

Boring Money. (2016). *Assessing online investment & advice services.* Retrieved from: https://www.fs-cp.org.uk/sites/default/files/final_online_investment_and_advice_services_summary_report_bm_30_regulator_doc_05_12_2016.pdf.

Boyce, A. S., Nieminen, L. R., Gillespie, M. A., Ryan, A. M., & Denison, D. R. (2015). Which comes first, organizational culture or performance? A longitudinal study of causal priority with automobile dealerships. *Journal of Organizational Behavior, 36*, 339-359.

Brennan, Pat. (2017, November 1). Treasury Laws Amendment (Banking Executive Accountability and Related Measures) Bill 2017. APRA. pp. 1-6. Retrieved from: www.apra.gov.au/Submissions/Documents/APRA%20Submission%20to%20Senate%20on%20BEAR.PDF.

Bulgarella, C. (2018). Featured interview: Caterina Bulgarella PhD, Culture Architect and Ethics Expert. Retrieved from: http://ethicalsystems.org/content/featured-ethics-expert-and-culture-architect-catarina-bulgarella.

Carmeli, A., Brueller, D., & Dutton, J. E. (2009). Learning behaviours in the workplace: The role of high-quality interpersonal relationships and psychological safety. *Systems Research and Behavioral Science, 26*(1), 81-98.

Cartwright, P. (2015a). Understanding and Protecting Vulnerable Financial Consumers. *Journal of Consumer Policy, 38*(2), 119-138.

Cartwright, P. (2015b). Credible deterrence and consumer protection through the imposition of financial penalties: lessons for the Financial Conduct Authority. In N. Ryder, U. Turksen and S. Hassler (Eds.), *Fighting Financial Crime in the Global Economic Crisis* (29-51). Abingdon: Routledge.

Cave, A. (2017, 9 November). Culture eats strategy for breakfast. So what's for lunch? Forbes Leadership. Retrieved from: https://www.forbes.com/sites/andrewcave/2017/11/09/culture-eats-strategy-for-breakfast-so-whats-for-lunch/#2e9dced97e0f.

Chaly, S., Hennessy, J., Menand, L., Stiroh, K., & Tracy, J. (2017). Misconduct risk, culture and supervision. *Federal Reserve Bank of New York*. Retrieved from: https://www.newyorkfed.org/medialibrary/media/governance-and-culture-reform/2017-whitepaper.pdf.

Chatman, J. A., Caldwell, D. F., O'Reilly, C. A., & Doerr, B. (2014). Parsing organizational culture: How the norm for adaptability influences the relationship between culture consensus and financial performance in high-technology firms. *Journal of Organizational Behavior, 35*, 785-808.

Cialdini, R. (2016). Pre-Suasion: *A revolutionary way to influence and persuade.* New York, NY: Simon and Schuster.

Cialdini, R. B., Martin, S. J., & Goldstein, N. J. (2015). Small behavioral science– informed changes can produce large policy-relevant effects. *Behavioral Science & Policy, 1*(1), 21-27.

CIPD. (2015). Show me the money: the behavioural science of reward. Retrieved from: https://www.cipd.co.uk/knowledge/culture/behaviour/reward-report.

CIPD. (2016, July 13). A duty to care? Evidence of the importance of organisational culture to effective governance and leadership. Retrieved from: https://www.cipd.co.uk/knowledge/culture/behaviour/governance-impact-report.

CIPD. (2017a). *Creating and capturing value at work: who benefits?* – Part 1 thematic literature review. Retrieved from: https://www.cipd.co.uk/Images/creating-and-capturing-value-at-work_2017-who-benefits-2_tcm18-33097.pdf.

CIPD. (2017b). *Creating and capturing value at work: who benefits? – Part 2 measurements report.* Retrieved from: https://www.cipd.co.uk/Images/creating-and-capturing-value-at-work_2018-who-benefits-part-2_tcm18-37078.pdf.

CIPD. (2017c). *Executive pay: review of FTSE100 executive pay packages.* Retrieved from: https://www.cipd.co.uk/Images/7571-ceo-pay-in-the-ftse100-report-web_tcm18-26441.pdf.

Clarke, L. (2013, 17 January). Lance Armstrong confession gets specific in Oprah Winfrey interview. *The Washington Post.* Retrieved from: https://www.washingtonpost.com/sports/othersports/lance-armstrong-confession-gets-specific-in-oprah-winfrey-interview/2013/01/17/de4f001c-6120-11e2-9940-6fc488f3fecd_story.html?utm_term=.73401f314493.

Coffee, J.C. (1981). "No soul to damn no body to kick": an unscandalised inquiry into the problem of corporate punishment. *Michigan Law Review*, *79,* 386-459.

Collinson, P. (2017). Sub-prime cars: are car loans driving us towards the next financial crash?. *The Guardian*. Retrieved from: https://www.theguardian.com/money/2017/feb/10/are-car-loans-driving-us-towards-the-next-financial-crash.

Crockett,A. (2000, 20 September). Marrying the micro- and macro-prudential dimensions of financial stability [PDF document]. Retrieved from: https://www.bis.org/review/r000922b.pdf.

Cross, R., Rebele, R., & Grant, A. (2016). Collaborative overload. *Harvard Business Review, 94*(1), 16.

Damon, W. & Hart, D. (1992). *Self-understanding in childhood and adolescence.* Cambridge: Cambridge University Press.

Davies, S., Kempson, E., & Wood, K. (2016). *Banking culture: a customer perspective.* Bristol: University of Bristol Personal Finance Research Centre. Retrieved from: https://www.fs-cp.org.uk/sites/default/files/fscp_banking_culture_-_report_-_final.pdf.

Deloitte (2017). *The Deloitte Millennial Survey 2017*. Retrieved from: https://www2.deloitte.com/global/en/pages/about-deloitte/articles/millennialsurvey.html.

Den Nieuwenboer, N. A., Vieira da Cunha, J., & Treviño, L. K. (2017). Middle managers and corruptive routine translation: the social production of deceptive performance. *Organization Science, 28*, 781–803.

Devine, T. (2012). *Corporate Whistleblowers Gain New Rights and Opportunities in the U.S.* Retrieved from: http://blog.transparency.org/2012/10/01/corporate-whistleblowers-gain-new-rights-and-opportunities-in-the-us/.

Devine, T., & Maassarani, T. (2011). *The corporate whistleblower's survival guide.* San Francisco: Berrett-Koehler Publishers.

Dolan, P., Hallsworth, M., Halpern, D., King, D., Metcalfe, R., & Vlaev, I. (2012) Influencing behaviour: *The mindspace way. Journal of Economic Psychology, 33*, 264–277.

Duhigg, C. (2016, 25 February). What Google learned from its quest to build the perfect team. *The New York Times Magazine*. Retrieved from: https://www.nytimes.com/2016/02/28/magazine/what-google-learned-from-its-quest-to-build-the-perfect-team.html.

Dunkley, E., & Arnold, M. (2017, 28 July). UK banks set aside further $1.5bn for PPI rush. *Financial Times*.

Eccles, A., Newton, E., & Shaw, H. (2013). Performance with integrity: linking performance to values. *City Values Forum and City HR Association.* Retrieved from: www.cityvaluesforum.org.uk/2.%20PERFORMANCE%20WITH%20INTEGRITY%20EXECUTIVE%20OVERVIEW.pdf.

Eccles, A. (2017). Culture: setting the tone at the top and measuring its effectiveness. In: Measuring Up: Advanced People Analytics for City Employers. *City HR Association 2017*

Edmans, A. (2011). Does the stock market fully value intangibles? *Employee satisfaction and equity prices. Journal of Financial Economics, 101*, 621-640.

Edmondson, A. C., & Lei, Z. (2014). Psychological safety: The history, renaissance, and future of an interpersonal construct. *Annu. Rev. Organ. Psychol. Organ. Behav., 1*(1), 23-43.

Engler, H. (2017, 16 May). Managing data on conduct, culture a common challenge for U.S. banks. *Thomson Reuters*. Retrieved from: https://www.reuters.com/article/bc-finreg-managing-conduct-data/managing-data-on-conduct-culture-a-common-challenge-for-u-s-banks-idUSKCN18C23B.

Erta, K., Hunt, S., Iscenko, Z., & Brambley, W. (2013). Applying behavioural economics at the Financial Conduct Authority. *FCA Occasional Paper 1*. Retrieved from: https://www.fca.org.uk/publication/occasional-papers/occasional-paper-1.pdf.

Fairer Finance. (2018). *Misbuying Insurance*. Retrieved from: https://www.fairerfinance.com/assets/uploads/documents/Fairer-Finance-Misbuying-Insurance-Research-Report.pdf.

Federal Reserve System. (2012). *Consolidated supervision framework for large financial institutions.* Retrieved from: https://www.federalreserve.gov/supervisionreg/srletters/sr1217.pdf

Financial and Monetary Conditions in the United States: Hearing before the Subcommittee on Banking and Currency, House of Representatives 1683 (Serial Nos. 429 and 504). (1913) (Testimony of Jacob H Schiff), Retrieved from Federal Reserve Bank of St. Louis: https://fraser.stlouisfed.org/files/docs/historical/house/money_trust/montru_pt23.pdf.

Financial Conduct Authority (2016a). Culture. Retrieved from: https://www.fca.org.uk/firms/fair-treatment-customers/culture.

Financial Conduct Authority (2016b) *Behaviour and Compliance in Organisations*. London: FCA Occasional Paper 24.

Financial Conduct Authority. (2015a). Encouraging consumers to act at renewal. Evidence from field trials in the home and motor insurance markets. *Occasional Paper No. 12.* Retrieved from: https://www.fca.org.uk/publication/occasional-papers/occasional-paper-12.pdf.

FCA (2015b). FCA introduces new rules on whistleblowing. Retrieved from: https://www.fca.org.uk/news/press-releases/fca-introduces-new-rules-whistleblowing.

FCA (2015c). Whistleblowing in deposit-takers, PRA-designated investment firms and insurers. Policy Statement PS15/24. London: Financial Conduct Authority. Retrieved from: http://fca.org.uk/your-fca/documents/policy-statements/ps15-24 (accessed 20th March 2017).

Financial Conduct Authority. (2017a). Consultation on implementing asset management market study remedies and changes to Handbook. *Consultation Paper CP17/18*. Retrieved from: https://www.fca.org.uk/publication/consultation/cp17-18.pdf.

Financial Conduct Authority. (2017b). FCA Mission: *Our Future Approach to Consumers.* Retrieved from: https://www.fca.org.uk/publication/corporate/our-future-approach-consumers.pdf

Financial Conduct Authority. (2017c). *Understanding the financial lives of UK adults: findings from the FCA's Financial Lives Survey 2017.* Retrieved from: https://www.fca.org.uk/publication/research/financial-lives-survey-2017.pdf.

Financial Ombudsman Service. (2017). Data in more depth about this year's enquiries. *Annual review 2016/2017.* Retrieved from: www.financial-ombudsman.org.uk/publications/annual-review-2017/pdf/Datamoredepth-AR2016-17.pdf.

Financial Reporting Council. (2016a). Corporate Culture and the Role of Boards: Report of Observations. *Financial Reporting Council.* Retrieved from: https://www.frc.org.uk/getattachment/3851b9c5-92d3-4695-aeb2-87c9052dc8c1/Corporate-Culture-and-the-Role-of-Boards-Report-of-Observations.pdf

Financial Reporting Council. (2016b). Developments in Corporate Governance and Stewardship 2016. *Financial Reporting Council*. Retrieved from: www.frc.org.uk/getattachment/ca1d9909-7e32-4894-b2a7-b971b4406130/Developments-in-Corporate-Governance-and-Stewardship-2016.pdf.

Financial Services Authority. (2004). *Treating customers fairly – progress and next steps*. Retrieved from: https://www.fca.org.uk/publication/archive/fsa-tcf-towards.pdf.

Financial Services Authority. (2007). *Treating customers fairly – guide to management information*. Retrieved from: https://www.fca.org.uk/publication/archive/fca-tcf-mi-july2007.pdf.

Financial Services Authority. (2008). Transparency as a regulatory tool. *FSA discussion paper 08/3*. Retrieved from: https://www.fca.org.uk/publication/discussion/fsa-dp08-03.pdf.

Financial Stability Board. (2017). *Stocktake of efforts to strengthen governance frameworks to mitigate misconduct risks*. Retrieved from: www.fsb.org/wp-content/uploads/WGGF-Phase-1-report-and-recommendations-for-Phase-2.pdf.

Fink, L. (2017). *A Sense of Purpose*. Retrieved from: https://www.blackrock.com/corporate/en-us/investor-relations/larry-fink-ceo-letter?cid=twitter:larryslettertoceos::blackrock.

Foroohar, R. (2017, July 3). Echoes of Wall Street in Silicon Valley's grip on money and power. *Financial Times*. Retrieved from: https://www.ft.com/content/3d5425ac-5dbf-11e7-b553-e2df1b0c3220.

French, W.L., & Bell, C.H., Jnr. (1978). *Organisation development – behavioural science interventions for corporate improvement (2nd ed)*. Englewood Cliffs, NJ: Prentice Hall.

Gallup. (2016, 1-5 June). Confidence in Institutions. *Gallup, In Depth: Topics A to Z*. Retrieved from: www.gallup.com/poll/1597/Confidence-Institutions.aspx.

Garrett, N., Lazzaro, S. C., Ariely, D., & Sharot, T. (2016). *Nature neuroscience, 19*(12), 1727-1732.

Garvin, D. A. (1993). *Building a learning organization* (Vol. 71, No. 4, pp. 78-91). July-August: Harvard Business Review.

Garvin, D.A., Edmondson, A.C., Gino., F. (2008). Is yours a learning organisation? *Harvard Business Review March 2008*. Retrieved from: https://hbr.org/2008/03/is-yours-a-learning-organization.

Goldstein, N. J., Cialdini, R. B., & Griskevicius, V. (2008). A room with a viewpoint: Using social norms to motivate environmental conservation in hotels. *Journal of consumer Research, 35*(3), 472-482.

Group of Thirty. (2015). Banking conduct and culture: a call for sustained and comprehensive reform. Retrieved from: http://group30.org/images/uploads/publications/G30_BankingConductandCulture.pdf.

Hartnell, C. A., Ou, A. Y., & Kinicki, A. (2011). Organizational culture and organizational effectiveness: a meta-analytic investigation of the competing values framework's theoretical suppositions . *Journal of Applied Psychology: American Psychological Association, 96*, 677-694.

Hartfree, J., Evans, J., Kempson, E., Finney, A. (2016). Personal current account switching: Why don't more people switch and what could encourage them to do so?. *Bristol: University of Bristol Personal Finance Research Centre.* Retrieved from: https://www.bristol.ac.uk/media-library/sites/geography/pfrc/pfrc1604-personal-current-account-switching-report.pdf.

Heffernan, M. (2011). *Wilful blindness: why we ignore the obvious at our peril.* London: Simon & Schuster UK.

HM Treasury (2014). *Review of enforcement decision making at the financial services regulators: final report.* Retreived from: www.gov.uk/government/uploads/system/uploads/attachment_data/file/389063/enforcement_review_response_final.pdf.

HM Government. (2017) Good work: the Taylor Review of modern working practices. *HM Government.* Retrieved from: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/627671/good-work-taylor-review-modern-working-practices-rg.pdf.

House of Lords, House of Commons. (2013). *Changing banking for good* (Parliamentary Commission on Banking Standards HL Paper 27-I, HC 175-I). London: The Stationary Office Limited.

Huckestein, J. (2016). *Transparent by Default.* Retrieved from: https://monzo.com/static/images/blog/2017-03-10-transparent-by-default/transparent.png.

Independent Directors of the Board of Wells Fargo & Company. (2017). *Sales Parctices Investigation Report.* Retrieved from: https://www08.wellsfargomedia.com/assets/pdf/about/investor-relations/presentations/2017/board-report.pdf.

Iscenko, Z., Pickard, C., Smart, L., & Vasas, Z. (2016). Behaviour and compliance in organisations. *FCA Occasional Paper 24.* Retrieved from: https://www.fca.org.uk/publication/occasional-papers/op16-24.pdf.

Jacobs, R., Mannion, R., Davies, H. T., Harrison, S., Konteh, F., & Walshe, K. (2013). The relationship between organizational culture and performance in acute hospitals. *Social science & medicine, 76*, 115-125.

Judd, A. (2015, 2 March). Beverly Hall dies; criminal case – and her legacy – unresolved. *The Atlanta Journal Consitution.* Retrieved from: www.ajc.com/news/breaking-news/beverly-hall-dies-criminal-case-and-her-legacy-unresolved/kWdRFDoS3Cze42IQTfYJOK/.

Jung, T., Scott, T., Davies, H. T., Bower, P., Whalley, D., McNally, R., & Mannion, R. (2009). Instruments for exploring organizational culture: A review of the literature. *Public administration review, 69*, 1087-1096.

Kagan, R. & Scholz, J. (1984). The "criminology of the corporation" and regulatory enforcement strategies. In K. Hawkins & J. Thomas (Eds.), *Enforcing Regulation* (67-95). Dordrecht: Kluwer.

Kahneman, D. (2011). *Thinking, fast and slow.* New York: Farrar, Straus and Giroux.

Kerr, S. (1975). On the folly of rewarding A, while hoping for B. *The Academy of Management Journal, 18(*4), 769-783.

Kouchaki, M., Smith-Crowe, K., Brief, A.P., & Sousa, C. (2013). Seeing green: mere exposure to money triggers a business decision frame and unethical outcomes. *Organizational Behavior and Human Decision Processes, 121(*1). 53-61.

Langevoort, D. C. (2017). Cultures of Compliance. *American Criminal Law Review, 54*, 933-977.

Leaver, M. P., & Reader, T. (2017). Safety culture in financial trading: an analysis of trading misconduct investigations. *Journal of Business Ethics*, 1-21.

Levin, I. & Gottlieb, J., Z. (2009). Realigning Organization Culture for Optimal Performance: Six principles & eight practices. *Organization Development Journal, 27*(4), 31-46.

Levilee, N.P. (2011). The role of obedience in society. *Inquiries Journal, 3*(5), 1-1.

Levine, M. (2016, 19 September). Tough targets and short-term projects. *Bloomberg View, Money Stuff.* Retrieved from: https://www.bloomberg.com/view/articles/2016-09-19/tough-targets-and-short-term-projects

Levy, E. (2016, 2017). Unpublished data.

Levy, E., Kim, S., & Reed A. (2017). Moral Identity and Brand Anthropomorphism. Working Paper.

Lewis, M. (2013). *Flashboys, cracking the money code.* England: Allen Lane.

Lindström, B., Jangard, S., Selbing, I., & Olsson, A. (2017). The role of a 'common is moral' heuristic in the stability and change of moral norms. *Journal of Experimental Psychology: General, 147*(2), 228-242.

Lo, A., (2015). Gordon Gekko Effect: The role of culture in the financial industry. *NBER Working Paper Series No. 21267.* Retrieved from: www.nber.org/papers/w21267.

London Economics. (1997). *Consumer Detriment under Conditions of Imperfect Information.* London: Office of Fair Trading Research Paper.

Long, S. (2008). *The perverse organisation and its deadly sins.* London: Karnac Books Ltd.

Macrory, R. (2006). *Regulatory Justice: Sanctioning in a post-Hampton World.* London: Cabinet Office.

Martin, A. (2006). Your company's best ally: A culture of integrity. *The CEB Journal of Finance, Risk, and Strategy, (4),* 17-20.

Martin, S. (2012). 98% of HBR readers love this article. *Harvard Business Review,* 23-25.

Maslow, A.H. (1943). A theory of human motivation. *Psychological Review,* 50(4). 370-96.

Maslow, A.H. (1954). *Motivation and Personality.* New York: Harper & Row.

Mayer, D. M., Aquino, K., Greenbaum, R. L., & Kuenzi, M. (2012). Who displays ethical leadership, and why does it matter? An examination of antecedents and consequences of ethical leadership. Academy of Management Journal, *55*(1), 151-171.

McDermott, T. (2013). *Enforcement and credible deterrence in the FCA.* Retrieved from: https://www.fca.org.uk/news/speeches/enforcement-and-credible-deterrence-fca.

Mearns, K., Whitaker, S., & Flin, R. (2001). Benchmarking safety climate in hazardous environments: A longitudinal, inter-organisational approach. *Risk Analysis, 21,* 771-786.

Morrison, E. W., & Martin, S.R. (2016). Beyond carrots and sticks: Encouraging a speak up culture. [PowerPoint slides]. Retrieved from: www.ethicalsystems.org/sites/default/files/uploads/EthicsByDesign_SeanMartinElizabethMorrison.pptx.

Moscovici, S. and Nemeth, C. (1974). Minority influence. In C. Nemetn (ed.), Social psychology: *Classic and contemporary integrations* (pp. 217-249), Chicago: Rand McNally.

Needle, D. (2004). *Business in Context: An introduction to Business and its Environment.* Torquay: Thomas Learning.

Noort, M. C., Reader, T., Shorrock, S., & Kirwan, B. (2016). The relationship between national culture and safety culture: Implications for international safety culture assessments. *Journal of occupational and organizational psychology, 89*, 515-538.

Office of Fair Trading. (2010). Factors affecting compliance with consumer law and the deterrent effect of consumer enforcement. *OFT* 1228.

Office of the Governor, Special Investigations, State of Georgia. (2011). *Investigative Report.* Retrieved from: http://files.courthousenews.com/2011/07/27/APS1.pdf.

O'Reilly, J., Aquino, K., & Skarlicki, D. (2016). The lives of others: third parties' responses to others' injustice. *The Journal of Applied Psychology, 101*(2), 171-189.

O'Reilly, C. A., Chatman, J., & Caldwell, D. F. (1991). People and organizational culture: A profile comparison approach to assessing person-organization fit. *Academy of Management Journal, 34,* 487-516.

Ogus, A. (1994). *Regulation; Legal Form and Economic Theory.* Oxford: OUP.

Peters, T. J., & Waterman, R. H. (1982). *In search of excellence: lessons from America's best-run companies.* New York: Harper and Row.

Power, M., Ashby, S., & Palermo, T. (2013). *Risk culture in financial organisations: A research report*.

Raajimakers, M. et al. (2015). *Supervision of Behaviour and Culture: Foundations, practice & future developments*. Retrieved from: https://www.dnb.nl/binaries/Supervision%20of%20Behaviour%20and%20Culture_tcm46-334417.pdf.

Ramamoorti, S. (2008). The psychology and sociology of fraud: Integrating the behavioral sciences component into fraud and forensic accounting curricula. *Issues in Accounting Education, 23,* 521-533.

Reader, T., & Gillespie, A. (2017). *Developing a tool to measure corporate culture from the 'outside'*. Retrieved from: http://blogs.lse.ac.uk/businessreview/2017/10/17/developing-a-tool-to understand-corporate-culture-from-the-outside/.

Reader, T., Noort, M., Shorrock, S., & Kirwan, B. (2015). Safety sans Frontieres:an international safety culture model. *Risk Analysis, 35,* 770-789.

Reed (II), A, Aquino, K., & Levy, E. (2007). Moral identity and judgements of charitable behaviors. *Journal of Marketing, 71*(1), 178-193.

Reed, A., Kay, A., Finnel, S., Aquino, K., Levy., A. (2016). I don't want the money, I just want your time: how moral identity overcomes the aversion to giving time to prosocial causes. *J Pers Soc Pschol, 110*(3), 435-57.

Reitz, M., & Higgins, J. (2017). The Problem with Saying "My Door Is Always Open". *Harvard Business Review*. Retrieved from: https://hbr.org/2017/03/the-problem-with-saying-my-door-is-always-open.

Ring, P. J., Bryce, C., McKinney, R., & Webb, R. (2016). Taking notice of risk culture– the regulator's approach. *Journal of Risk Research, 19,* 364-387.

Rourke, F. (1957). Law enforcement through publicity. *University of Chicago Law Review, 24*(2), 216-255.

Rosse, J. G., Stecher, M. D., Miller, J. L., & Levin, R. A. (1998). The impact of response distortion on preemployment personality testing and hiring decisions. Journal of Applied Psychology, *83*(4), 634-644.

Sackmann, S., A. (2011). Culture and performance. In. N. M. Ashkenasy, P. M. Wilderom, & M. F. Peterson (Eds.). *The handbook of organizational culture and climate* (188-224). London: Sage.

Saga. (2017, January 9). *Loan market needs to be clearer and fairer to all*. Retrieved from: www.saga.co.uk/newsroom/press-releases/2017/jan/loan-market-needs-to-be-clearer-and-fairer-to-all.

Sangiorgi, D. (2011). Transformative services and transformation design. *International Journal of Design, 5*(2), 29-40.

Schein, E. (1984). Coming to a new awareness of organisational culture. *Sloan Management Review, 25* (2), 3-16.

Schein, E. (1992). *Organizational Culture and Leadership.* San Francisco, CA.: Jossey-Bass.

Schein, E. (2004). *Organizational Culture and Leadership.* San Francisco, CA.: Jossey-Bass.

Schein, E. (2009). *The Corporate Culture Survival Guide (New and Revised Edition).* San Francisco: Jossey-Bass.

Schiff, J. L., Schill, A. W., Mellor, K., Schiff, E., Schiff, S., Richman, D., J., F., Wolz, L., Fishman, C. & Momb, D. (1975). *Cathexis reader: Transactional analysis treatment of psychosis.* New York: Harper & Row.

Schlesinger Jr., A. M. (2003). Foreword: On leadership. In S. W. Crompton, *Alexander the Great (6-10).* Philadelphia: Chelsea House Publishers.

Schneider, B., Ehrhart, M. G., & Macey, W. H. (2013). Organizational climate and culture. *Annual Review of Psychology, 64,* 361-388.

Score, H. (1941). Sympathy, Simplicity and Speed. *Co-operative Permanent Building Society.*

Sedikides, C., Meek, R., Alicke, M. D. & Taylor, S. (2014). Behind bars but above the bar: Prisoners consider themselves more prosocial than non-prisoners. *British Journal of Social Psychology, 53,* 396–403.

Shah, J.Y., Friedman, R., & Kruglanski, A.W. (2002). Forgetting all else: on the antecedents and consequences of goal shielding. *J Pers Soc Psychol, 83*(6): 1261-80.

Sheedy, E. (2018). Risk governance, structures, culture, and behavior: A view from the inside. *Corporate Governance*: *An International Review, 26*(1), 4-22.

Shi, W., Connelly, B. L., & Hoskisson, R. E. (2016). External corporate governance and financial fraud: Cognitive evaluation theory insights on agency theory prescriptions. *Strategic Management Journal, 38*(6), 1268-1286.

Smircich, L. (1983). Concepts of culture and organizational analysis. *Administrative Science Quarterly, 28,* 339-58.

Somerville, H. (2017, 28 November). *Uber may have just lost $20.5bn in value.* Retrieved from: http://www.independent.co.uk/news/business/news/uber-shares-latest-update-value-lost-billinos-softbank-japan-discount-ride-sharing-taxi-a8079511.html

Sörensen, J. (2009). The strength of corporate culture and the reliability of firm performance. *Administrative Science Quarterly, 47*(1), 70-91.

Steare, R. (2015). The challenges of risk, culture, behaviour and corporate integrity in financial services: findings from the MoralDNATM of culture and conduct in global financial services. Retrieved from: www.ey.com/Publication/vwLUAssets/EY-moral-DNA-paper/$FILE/EY-moral-DNA-paper.pdf.

Stein, M. (2011). A culture of mania: A psychoanalytic view of the incubation of the 2008 credit crisis. *Organisation, 18*(2), 173-186.

Steiner, L., D. (1972). *Group processes and productivity.* Academic Press Inc.

Steiner, J. (1985). Turning a blind eye: the cover up for Oedipus. *International Review of Psychoanalysis, 12,* 161-172.

Sunstein, C., R. (1997). *Free Markets and Social Justice.* New York, NY: OUP.

Sunstein, C., R. & Thaler, R., H. (2003). Libertarian Paternalism is not an Oxymoron. *University of Chicago Law Review, 70,* 1159-1202.

Tappin, B. M., & McKay, R. T. (2016). The illusion of moral superiority. *Social Psychological and Personality Science, 8*(6), 1-9.

Tenbrunsel, A. E., & Messick, D. M. (1999). Sanctioning systems, decision frames, and cooperation. *Administrative Science Quarterly, 44*(4), 684-707.

Tett, G. (2009) *Fool's Gold.* London: Brown.

Treanor, J. (2017). UK banks ordered to hold more capital as consumer debt surges. *The Guardian.* Retrieved from: https://www.theguardian.com/business/2017/jun/27/uk-banks-ordered-to-hold-more-capital-as-consumer-debt-surges.

Treviño, L., & Nelson, K. (2017). *Managing business ethics* (7th ed.). Hoboken, NJ: Wiley.

Treviño, , L.K., Haidt, J., Filabi, A.E., Regulating Ethical Culture, *Behavioral Policy* (forthcoming, Winter 2018).

Treviño, L.K., Weaver, G.R., & Gibson, D.G. (1999). Managing ethics and legal compliance: what works and what hurts. *California Management Review 41* (2), 131-151.

Tuckett, D. (2011) *Minding the markets. An emotional finance view of financial instability.* Palgrave Macmillan.

Vandekerckhove, W., Fotaki, M., Kenny, K., Humantito, I.J., & Ozdemir Kaya, D.D. (2016). Effective speak-up arrangements for whistleblowers: a multi-case study on the role of responsiveness, trust and culture. ACCA. Retrieved from: www.accaglobal.com/content/dam/ACCA_Global/Research/ACCA-ESRC%20Effective%20Speak-Up%20Arrangements%20for%20Whistle-Blowers.pdf.

Vaughan, L. and Finch, G. (2017) *The Fix.* West Sussex, United Kingdom: Bloomberg Press.

Vohs, K. D., Mead, N. L., & Goode, M. R. (2006). The psychological consequences of money. *science, 314*(5802), 1154-1156.

Waytz, A., Dungan, J., & Young, L. (2013). The whistleblower's dilemma and the fairness– loyalty tradeoff. *Journal of Experimental Social Psychology, 49*(6), 1027-1033.

Westrum, R. (2004). A typology of organisational cultures. *Quality and Safety in Health Care, 13*(2), 22-27.

Wheatley, M. (2014, 4 March). Ethics and economics. Speech. Worshipful Company of International Bankers, London. Retrieved from: https://www.fca.org.uk/news/speeches/ethics-and-economics.

Wilson, James. (2013, October 11). Love Thy Neighbour. New Law Journal. Retreived from https://www.newlawjournal.co.uk/content/love-thy-neighbour-1.

Yeung, K. (2002, September). Is the Use of Informal Adverse Publicity a Legitimate Regulatory Compliance Technique? *In Australian Institute of Criminology Conference on Current Issues in Regulation*: *Enforcement and Compliance, Melbourne* (pp. 2-3).

Yilmaz, C., & Ergun, E. (2008). Organizational culture and firm effectiveness: An examination of relative effects of culture traits and the balanced culture hypothesis in an emerging economy. *Journal of world business, 43,* 290-306.

Pub ref: 005626

FINANCIAL
CONDUCT
AUTHORITY

25 The North Colonnade Canary Wharf London E14 5HS
Telephone: +44 (0)20 7066 1000
Website: www.fca.org.uk