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**Corporate Culture – Would yours be seen
in a bad light?**

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Success in any walk of life whether business or personal involves having a philosophy or culture that defines you and sets out your beliefs, values, principles and behaviours. It shapes your decision making, guides your actions and defines the spirit by which you do things.

Culture is created by people and not by structures.

But what is Culture? Is Corporate Culture something separate?

Dictionary definitions – while explaining what culture is – also muddy the waters and reflect the challenges we face; in a corporate sense, culture is defined as “the set of shared attitude, values, goals and practices that characterises an institution or organisation”, but it is also defined as “the set of values, conventions, or social practices associated with a particular field, activity or social characteristic”. It is this overlay that plays into whether the culture is viewed positively or negatively.

The Financial Conduct Authority (FCA) defines Culture as “the habitual behaviours and mindsets that characterise an organisation” and sees culture transformation as “the dynamic process of irreversibly changing the cultural outlook of an organisation; and correspondingly, its policies, processes, and behaviours that result in a more effective mode of operation”.

Throw conduct into the mix and things get even more blurry, creating a problem for many organisations. While conduct and culture are entwined, they’re certainly not the same thing and it is probably true to say that culture drives conduct, and conduct drives culture.

The important point to appreciate is that there is no universal ‘good’ culture to aspire to.

"It's just not Cricket"

How often have we seen unethical corporate actions and excesses manifest in severe harm to customers, markets, society? Poor culture, leadership and governance are often cited as being at the root of what has happened.

Corporate Excess = Poor Corporate Reputation

Governments and regulators world-wide believe that culture drives conduct with both taking on the mantle of tackling the worst aspects of poor and bad cultural traits and actions within society. In this sense, culture is very much used as a tool to maintain an environment suitable for stability and growth.

The most vocal demand for cultural transformation has been from the financial services sector, primarily as a result of the perceived culpability for the global financial crisis of 2007–08. This crisis resulted from non-compliance with "weak" standards and rules, and led to opportunism, recklessness and predatory activities.

The FCA's 2019–20 Priorities and Strategic Plan sets out "Transforming Culture" as one of its 8 Cross-Sector Priorities, continuing its focus on

the culture and governance of firms. Having cut its teeth on the banks and asset managers through the implementation of various regulatory structures such as RDR, MiFID and SM&CR, it is expanding this focus into the Insurance market (IDD) and solo regulated companies.

That regulatory authorities continue to put culture first and foremost in their annual business plans shows that they believe there is still a long way to go; this view is supported by evidence of continuing scandals and poor behaviours (misconduct) reported in the media.



"Corridor of Uncertainty"

In business terms, it is any situation in which the right course of action is not clear.

Regulators no longer accept that culture and conduct are primarily driven by external influences, such as regulation; instead, conduct is also driven from within by the practices and values adopted by every employee within the firm. Equipping staff with the wherewithal, knowledge, principles, awareness of "good culture" enables them to successfully navigate the myriad of potential banana skins in their day to day roles.

"Power Plays"

Undertaking a culture audit is a valuable way to obtain assurance (or otherwise) that your firm demonstrates good culture in its operations and interactions with all stakeholders.

So, the three key questions you should be asking yourself of your firm today are:

1. What is our culture and is it well understood within the firm?
2. Is the culture we have set-out the right one for our firm and is it an asset or liability?

3. As a firm, are we living these values so that they are embedded throughout the firm?

If the answer to any of the questions is: "No", "Partly" or "I'm not sure" then it sounds like a more in-depth assessment is required.

"Into the Long Grass"

Doing nothing is not an option. Burying your head in the sand and hoping it all goes away because it sits in that "too hard to tackle right now" box does not help. Transforming culture is a long, arduous and complicated process; better to get on with it!

What is said obviously matters but what is done speaks even more loudly. Change must be embraced by everyone, driven through a conscious understanding of values to "Do the Right Thing". It takes a long time to cultivate a good culture, to build trust and to grow a positive reputation.



"Playing a straight bat"

Behaving in an upright, honest, respectful, and morally correct manner. Such basic expectations are set out in the FCA Rulebook, FRC Corporate Code of Conduct and enshrined in the Company's Act section 172 amongst others.

The FCA currently uses 4 core principles to assess corporate culture:

- 1. Assess the Firm's purpose**
- 2. Leadership**
- 3. Approach to rewarding & managing people**
- 4. Governance arrangements**

The Regulator also uses several other measures to assess culture including requesting evidence of:

- transparency in dealings with stakeholders
- treating customers fairly (e.g. responding to complaints, caring for customers)
- having an internal climate of admitting mistakes and treating whistle-blowers fairly
- aligning reward mechanisms with firm performance and behaviours

'Hard' cultural components, important as they are in espousing the firm's corporate values and risk framework, need to be supported by 'soft' cultural drivers to enable an effective culture framework.

Hard cultural components consisting of formal structures, rules and activities designed to reinforce the desired culture, known as the "What"	Soft cultural components based on intangible factors such as aspirational concepts and attributes, also classified as the "How"
<ul style="list-style-type: none"> • Organisation structure – board, committees, groups • Defined roles, responsibilities and authorisation levels • Policies, rules and defined policies and procedures • Codes of ethics / conduct • Training and awareness • Monitoring • Management information and reporting 	<ul style="list-style-type: none"> • Competence – being adaptable and having a willingness to learn • Trust and openness – teamwork, helping and relying on one another to solve problems • Strong leadership – direction and leading by example • High expectations – striving to improve, to raise the bar • Shared values – doing the right thing in the right way • High ethical standards – honesty, equality and fairness

The above soft components provide the required qualitative standards of behaviours which must be expressed and embedded in an organisation for the desired culture to be achieved.

A firm can have stated values, an excellent code of ethics and related policies but individual employee behaviour on the ground can be quite different and divergent for all sorts of reasons.

Basically, everyone must feel empowered to influence, lead and own required improvements.

'Board of Selectors'

The Board and senior management are responsible for defining the organisational culture, setting out and promoting the values and the behaviours they wish to see across their organisation. It is not enough to define the values and behaviours expectations, the Board must regularly assess how embedded these are in the organisation.

"Nervous Nineties"

When it comes to culture in your organisation, clarity on purpose, conviction of expectations and ambition and robust implementation are all required. Being clear about acceptable and unacceptable behaviours and "living" these for the benefit of employees sets the tone for organisation.

Key to ensuring you remain on course is an attitude that ensures control functions are valued, that the organisation has in place policies and processes by which it establishes cultural values and that breaches are not tolerated.



"Stumped"

Stumped? we can help.

XCL offer advisory and assurance services, helping you define, implement and embed culture frameworks as well as helping to assess the appropriateness of existing behaviours. Our insights into the prevailing culture assist organisations to identify areas that may require intervention to align with Board and senior management expectations.

Any organisation seeking to improve business performance and enhance its risk management effectiveness must be concerned with culture, including its risk culture. Our "experienced staff" model enables us to engage at all levels of the organisation to establish cultural drivers and exceptions to expectations allowing us to proffer recommended solutions to getting back on track.

If you are looking for a company that thinks differently, that will work with you to understand risks and that looks to add value by not just considering the obvious connections, you should contact us.



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