Culture's deadly sins: what we've learnt from the Banking Royal Commission (so far).

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If you walk through the offices of any of Australia's financial institutions, you will be met by rigorous systems and processes designed to drive behaviours steeped in values purported to be honourable and virtuous. The many millions of dollars these institutions have spent on consultancies to develop cultural programs is also telling of their efforts. So, how is it possible that we are in the midst of Australia's most scandalous banking crisis?

Unless you've been living off the grid this year, you would have at least heard about the Australian Royal Commission's inquiry into misconduct in the banking, superannuation and financial services industry; the Interim Report was released late last month. Earlier in the year, the Australian Prudential Regulation Authority (APRA) released its Prudential Inquiry into the Commonwealth Bank of Australia (CBA).

Here's our take on the culture uncovered within our financial system.

Sin 1: Greed

In response to the *Interim Report*, Federal Treasurer Josh Frydenberg said '... greed ... has permeated the culture, conduct and compliance of our financial system'. The Interim Report was damning, stating that a culture of greed led to many of the behaviours uncovered through the commission. Commissioner Hayne stated: 'All the conduct identified and criticised in this report was conduct that provided a financial benefit to the individuals and entities concerned'. As Peter Drucker said, 'what we measure gets managed'. It's the oldest saying in the management handbook. And it is this benefit that has driven the behaviour of individuals, teams and organisations to focus on sales and results above all else – not customer service, satisfaction, staff morale or ethical decision making. The organisations in the spotlight of the Commission would not be in such hot water if their measurement systems had been more genuinely, *culturally* balanced. If you look at the performance scorecards in these organisations, they will rightfully tell you that the systems *are* balanced – 'we reward behaviour as much as outcomes – the how and the what' – and yet...here we are.

Sin 2: Sloth

Complacency. Many of the organisations on the stand might have received some warning signs but none acted on them. For example, it was reported that junior staff raised issues of concerns, many

times, with their supervisors, who failed to take these matters further. Imagine if they had. It takes courage for a staff member to raise an issue with a leader. If they do, it usually means that it's of some significance and should at least be investigated. To do nothing is a sin itself. This culture of complacency – where, given the financial success of the organisation – staff and management became lazy and accepted suboptimal outcomes. Junior staff learned that it was easier to 'go with the flow' than to ask questions or challenge decisions – speaking out or acting in these cultures was a career limiting move. We remember this only too well from Enron, the GFC ... we have such short memories, as the controversial Strauss-Howe Generational Theory reminds us about the cycles of history.

Sin 3: Pride

APRA's inquiry into CBA criticises the bank's high trust, collegial culture. This atmosphere of collegiality sounds like a good thing in the land of culture, and the bank prided itself on the culture change journey they had been on to move from a 'combative' culture to a collaborative one. However, it appears the swing went too far back towards empowerment, confidence in abilities, and lacked challenge and constructive feedback. This in turn led to over-confidence and over-collaboration meaning that decisions were slow, made more around process rather than outcomes and lacked accountability. Similarly, there was no introspection or time to learn from mistakes when decisions did not lead to the best outcome – the bank wasn't willing to admit mistakes and find ways to ensure they didn't happen again. Immediate fixes were put in place, but underlying problems were not addressed.

Repenting our sins

So, what can we learn from all this? More reports are to come: from the institutions, the regulators and the Final Report of the Royal Commission is due in February 2019. In the meantime, there are several lessons to consider.

1 Get control of reliable people and customer data

When there are deep cultural issues, often HR is hamstrung to act even though we might know that something is amiss. Often there isn't any evidence on which to base decisions, or to support an escalation to the CEO or Board. The clues related to leadership behaviour that may surface in employee survey data can be buried if the survey vendors are changed, as are the survey questions. Questions on a survey need to remain in place long enough to reveal trend data and historical patterns of behaviour. Even if the survey data is reliable, if executive bonuses are directly linked to engagement scores may result in perverse outcomes. These complex institutions restructure frequently, which also tangles the data so that trends related to leadership issues also vanish. Customer data that signals red flags drowns in a sea of apathy, organisational chaos and confusion.

2 Update reward and recognition systems

A close look at how individuals, teams, and organisations are rewarded will reveal the kinds of behaviour it's driving. As the Interim Report states: 'Employees of banks learned to treat sales, or revenue and profit, as the measure of their success'.

A balanced scorecard approach that takes into consideration values, behaviours, customer satisfaction and other factors is the sign of an organisation that wants to entrench a culture of trust and accountability.

3 Promote a 'speak up' culture`

Make it acceptable and even commendable for people at all levels to challenge the decisions made by others. Diversity leads to better outcomes – your organisation should encourage questioning, challenge, black hat thinking to drive the best decisions for both customers and the organisation. Promote and talk about instances where a decision or behaviour of a senior leader has been challenged successfully and the impact it had. Be clever about how you do this – for example JOST&Co have had success in running design thinking sessions where people build trust and empathy and share issues and challenges in a constructive way.

4 Make risk management a priority

Much of the APRA report talks about the lack of focus on risk and the influence the risk function had on the rest of the bank. It's been suggested that the risk function must partner with HR/ People and Culture to understand and influence the deeper drivers of culture.[1] We agree. We also wonder – could the Chief Risk Officer morph into a Chief Culture Officer as a role that reports to the board? It is important to think about structure, and work with risk owners at your organisation to determine how to ingrain risk management processes that enable a culture of risk ownership.

5 Establish clear decision-making processes and roles

If you don't have a decision-making framework in place already – build one. Ensure that everyone understands their role, accountabilities and expected behaviours within that framework. If you have one, review it and redistribute it; make it forefront for your executives. If it is a collaborative decision-making framework, ensure that someone is held accountable.

6 Encourage reflection and learning

CBA was criticised for having a culture that focused too heavily on process, rather than outcomes and the bigger picture. Give your organisation time, space and permission to reflect upon actions and learning from past experiences. We tend to do this well for large projects, but not for day-to-day operations. Implement the 'retrospective' if we're talking agile.

7 Comply with the law

This is not discretionary, but a fundamental principle when holding a position of trust. As a driver, when one hits a 60 km zone, they may allow themselves a slide into 70 km; 'it's only a little bit over' is the general sentiment behind the action. But, there are consequences. Similarly, the slide into criminality is just as easy for organisations … we need hard lines and it's HR's duty to uphold them.

8 Rebuild trust and restore faith

'I should have spoken up', 'I didn't know'. These are some of the revelations from employees during the banking royal commission. Customers and regulators are not the only people deeply disappointed in the finance industry, many employees are, too. Employee engagement and attracting talent should be high on the HR agenda as part of the crisis management plan, as is rebuilding trust in the organisation's leadership.

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[1] *Establishing a culture of risk ownership: Responsibility, accountability and outcomes in a post Hayne royal commission world:* a report by Andrew Brown, Adaptive Cultures in partnership with McGing and Co, published by the Actuaries Institute, October 2018.

Some final thoughts

If a financial institution next year took financial metrics out of their scorecard, and focused only on employee and customer satisfaction as the key drivers of performance, do you think there would be a change in the culture? We do.

To have the analysts drive the metrics delivered incredible shareholder return, at the cost of our legal and social fabric. These types of corporate crisis are not new – and in the words of Simon Sinek 'The concept of shareholder supremacy, where we prioritise the needs of an external constituency over the needs of our people, is like a coach trying to build up a strong team by prioritising the needs of the fans over players.'