



# Organisational Culture in the Financial Services Sector

**What's Now and What's Next**

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# Introduction

As we enter the second quarter of 2021, the importance of organisational culture has never been more evident. **Culture is top of the agenda for C-Suites and Boards** and is included today in most discussions around strategy and risk. Despite this, it still poses a difficult and often misunderstood challenge for organisations and **the promised benefits of the transformational programmes undertaken in recent years are not being fully realised.**

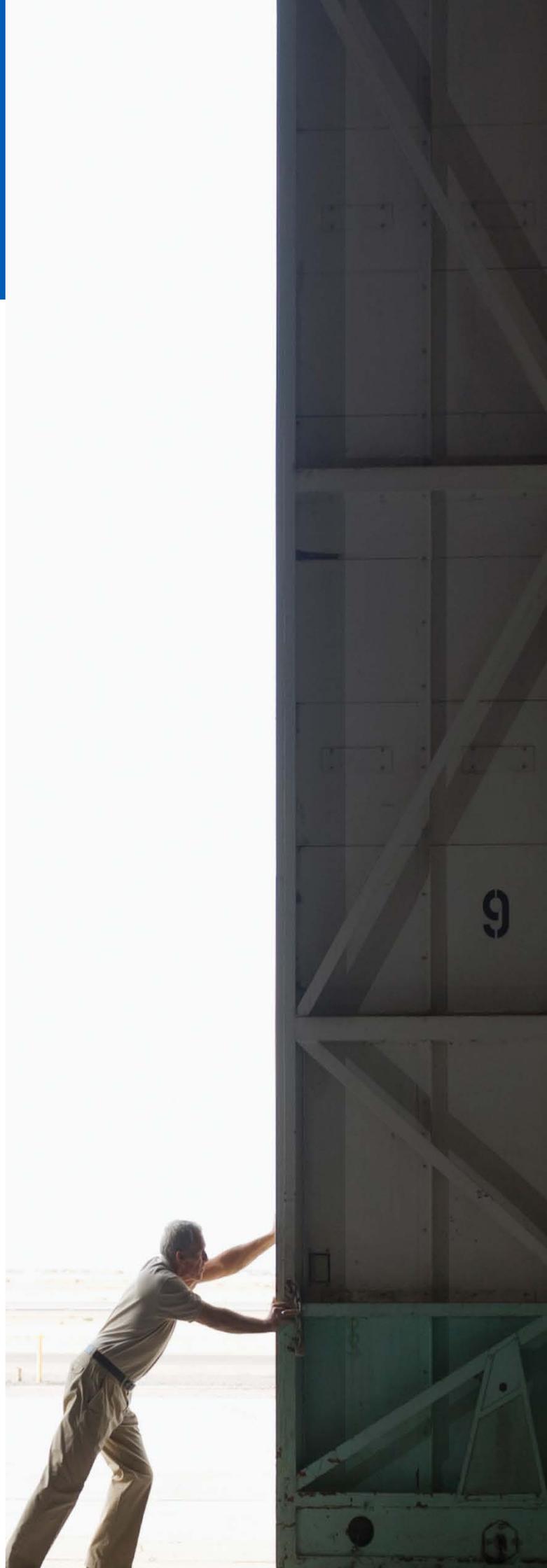
Historically, we have seen how unforeseen events can result in a substantial decline to an organisation's reputation. Global social movements and the ongoing impact of Covid-19 are no exceptions. Risks are emerging from all angles, resulting in increased focus from regulators and investors on how culture is shaped, embedded and managed in financial services organisations. Culture has been acknowledged as critical **to enabling the organisation to respond dynamically and ensure long-term success.**

While many organisations recognise the need to manage or change culture, **they don't always know where to start or how to tackle the problem.** It is **crucial that organisations align people and risk**, or change can be disjointed and the impact fragmented. In this paper, we will outline our **"Two Sides of the Same Coin"** approach to embedding a resilient, dynamic and sustainable culture in financial services organisations.

Simply complying with rules and regulations is no longer sufficient and that is why **in KPMG, we take a holistic approach to culture and developing new ways of working.** An organisation's culture must be considered through **both a people and risk lens, to ensure a unified approach and mindset.** Our specialist team combines a depth of experience from our Risk and People and Change consulting practices, who have developed an innovative and market leading approach. This approach promotes the view that people and risk are closely intertwined and a **robust risk culture is strongly influenced by a well embedded organisational culture and vice versa.**

Financial services organisations have an impetus to embed their desired culture across every level of their organisation. The expectations and mindset of customers and employees are evolving and complacency can be fatal in today's global context. It is clear that it is time for organisations to **conduct a stocktake** of their progress to date, **re-assess their culture journey** and **address any gaps** to promote and embed an effective and resilient culture.

All culture journeys require a consistent and focused effort from the top down. **The organisations that recognise and adopt the two sides of the coin approach will be the organisations that endure and excel .**



# The Journey So Far

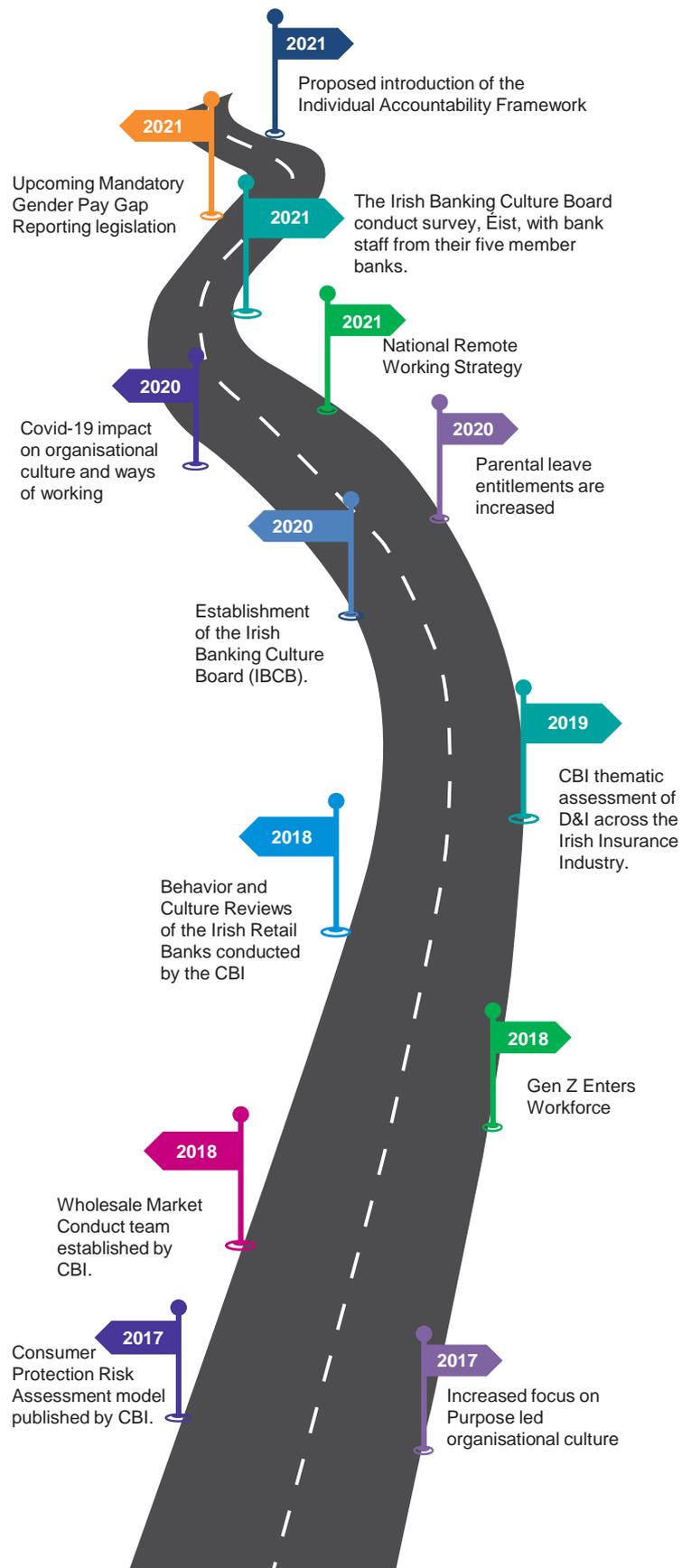
In the wake of the global financial crisis, Irish financial services organisations have invested heavily to improve their risk models and to establish oversight, processes and structures **to understand employee behaviours and improve customer outcomes**. Despite these efforts, the needle is not moving as rapidly as regulators and organisations would like. As illustrated in our Irish cultural roadmap diagram, there is a ramping up of regulator attention and social drivers that necessitate strategic cultural change.

What is driving **this increased focus on culture**? This can be explained by 5 key critical factors:

1. The **increase in significant misconduct issues**, such as the Central Bank’s large scale thematic reviews into Payment Protection Insurance and Tracker Mortgages have highlighted the need for organisations to create and sustain a robust approach to risk mitigation.
2. The proposed introduction of the **Individual Accountability Framework (IAF)** in Ireland has cast a spotlight on culture. Legislation to facilitate the introduction of the IAF is expected in Q2 2021, which will include enhancement to the Fitness & Probity (F&P) Regime and Senior Executive Accountability Regime (SEAR), resulting in a regulatory responsibility to focus on culture strategy and implementation.
3. **Global social movements** of late are driving the need for companies to review their Inclusion & Diversity (I&D) policies and initiatives. In a globalised world, representation is seen as a key success factor for a business, from the point of view of both employees and customers. Companies must take meaningful action to address I&D and implement best practices.
4. Today, organisations are being disrupted globally by **changing customer expectations**, new players in the ecosystem, new regulations and open banking.
5. Despite the unprecedented disruption experienced in the workplace due to Covid-19 in 2020, many companies continued to hire and some expanded. As we **evolve towards a hybrid working environment**, effective talent management and a positive employee experience is crucial to embed a culture which will deliver against the organisation’s strategy.

On an increasingly transparent and diverse playing field, and in this period of significant change and uncertainty, a resilient organisational culture is not a “nice to have” but rather a critical success factor. Employees need to be connected, engaged and empowered and feel like they belong to an organisation in order to continue working effectively and will require the digital tools and applications to stimulate creativity, productivity and support inclusivity.

Irish organisations should now focus on aligning leadership with an understanding of the organisation’s as-is culture through undertaking reviews of progress against current and planned culture initiatives. Organisations need to engage in creating a shared cultural ambition and build the vision for the future, ensuring that behaviours, actions, values and mechanisms both reinforce the right culture and mitigate risks. The common challenges facing organisations when implementing culture change are outlined in the next section.





# People & Risk: Two Sides of the Same Coin

Culture is all about people and their beliefs and behaviours. No matter what culture an organisation aspires to have or whether we look through the lens of risk, innovation or customer centricity, if the desired culture is not understood, lived and embraced by your people, your organisation will fall short of it. Organisational culture can be an amorphous subject, so demystifying the challenge and knowing where to focus the energy of the organisation at the point of need on your culture journey is the key to success. We believe that it is necessary for organisations to take a holistic approach when seeking to manage or change their culture. Too often organisations fragment their efforts, with different teams designing and embedding various initiatives in areas such as risk, Inclusion and Diversity (I&D) and innovation, to name but a few, while never coming together to ensure the coherence of these initiatives in the context of the overall desired organisational culture.



This visual represents our point of view with regard to priority coverage across the organisational culture spectrum for financial services organisations. It illustrates that when it comes to organisational culture, people and risk comprise two sides of the same coin. Each are intrinsically shaped by leadership behaviours, underpinned by I&D and have been shown to have a direct impact on customer experience and the outcomes delivered by the organisation. When planning culture initiatives, it is not enough to solely communicate the desired values or behaviours, it is essential to think about the employee experience in your organisation and whether this positively reinforces or hinders the culture you want. When we talk about risk culture we must be cognisant that this is an expression of the overall organisational culture and it is ultimately lived through employee behaviours which are dictated by the employee experience in the organisation.

## The benefits of considering risk and people as two sides of the same coin are:

- A two sides of the same coin approach to organisational culture ensures that no matter what lens we view culture through we are aligning the employee experience with the risk strategy, and shaping and managing the culture in line with this. This delivers coherence across the organisation with the employee experience reinforcing the desired risk culture and behaviours.
- It enables organisations to move from a “theory” to “reality” mindset so that risk appetite, culture and operational risk are seen as interlinked and resonates at all levels from the top down reaching across the 3 lines of defence.
- It ensures a consistent experience for employees and avoids the dissonance that often occurs when the organisation’s stated values and strategic priorities are in conflict with the lived behaviours day to day. This builds trust internally and reduces the risk of employee behaviours being misaligned with the desired risk culture when they are confronted with dilemmas or when under pressure.
- It results in a better experience for the customer, as all actions employees take are consistent and coherent with the values and purpose of the organisation resulting in trust being built between the customer and the organisation.

# What's Next for the Financial Services Sector



What is next for financial services organisations when it comes to culture?

## 1. Your culture journey never stops, it is continually evolving

Most financial service organisations have started the job of shaping their culture, with many embarking on wholesale cultural transformation journeys. However, what has become increasingly clear is that this will be a never-ending journey requiring sustained, consistent and focused effort. It takes time to change embedded assumptions, norms and beliefs. Alongside the planned culture change programme, culture is always evolving whether it be in response to a shift in the organisational strategy, a change in the composition of the workforce or an external disruption in the environment. Covid-19 has left no organisation untouched and culture rose to the forefront in meeting the challenges of 2020, with those organisations with tightly aligned cultures benefitting from a more coordinated and seamless transition to remote working. This year has prompted all organisational cultures to evolve, and organisations must stay focused and steer culture in the right direction if it starts to diverge from the intended path.

“An organisation's culture journey is never done”

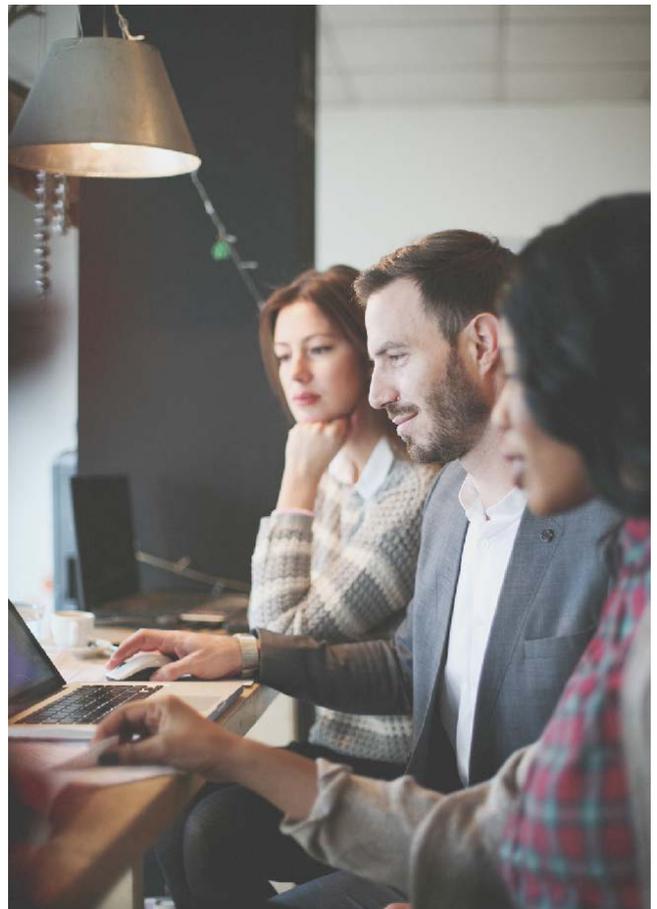
*Jenny Minogue, Lead Supervisor on Culture for the Central Bank of Ireland speaking at a recent KPMG event.*

## 2. The new culture challenge is the post-Covid work environment

The post-Covid work environment is top of mind for everyone and the question of how it will impact organisational culture is yet to be fully answered. Office centric ways of re-enforcing culture such as the signals given by the design of the office, the dress code or lack thereof and the atmosphere in the office can no longer be relied on. Team rituals typically enacted in the office may no longer work virtually. The impact of role modelling by senior leaders, inclusion and culture champions throughout the organisation is greatly reduced. With some implicit and explicit signals of culture lost, what does that mean for sustaining a feeling of belonging and shared purpose for employees? Will remote or hybrid workforces lose some of the social glue that is essential to a shared understanding of culture? The focus for financial services organisations now is to be intentional about establishing new touchpoints with employees, continue inclusive communication, encouraging diverse perspectives and reimagining and experimenting with new ways of keeping the culture alive for everyone no matter where they are working.

## 3. If the needle is not moving, brave choices may be needed

Culture is self-reinforcing; employee behaviours send out a visible and immediate signal to others in the organisation and this is more pronounced with senior leadership. To encourage the desired shifts in culture, compensation and culture must be linked and the right behaviours must be incentivised. A proportion of compensation for senior leaders should be tied to the long-term performance of the organisation to ensure sustained focus and commitment to culture. Throughout the organisation compensation and incentive frameworks can be designed to take into account risk. More importantly when breaches or transgressions happen, they can be a powerful opportunity to shift the culture of the company in the right direction by taking bold action. This should be deliberately directed by senior leaders, with oversight from the board.





## Common Challenges



At KPMG, we have supported and reviewed the efforts to deliver culture change made by many organisations. In the past decade, we have worked on culture audits and change programmes with businesses throughout the industry, talking to employees at every level of these organisations to build a detailed picture of where culture is becoming a positive force for good, and where there is still work to be done. These are some of the key challenges we see:

### 01 Organisations lose sight of the big picture

When it comes to culture, organisations need to be holistic in their approach. However, too often focus is fragmented, efforts are disorganised and too many initiatives are ongoing. This results in no one putting together the pieces of the jigsaw. We see success when organisations have an aligned and coherent approach to managing and changing culture, focusing on the few right things that will make a difference and making sure all efforts undertaken are joined up and positively reinforcing each other.

### 02 The employee voice gets lost

Organisations often rely on a snapshot of employee sentiment at a point in time and base interventions on this. During culture change, emphasis is put on creating and communicating a strong narrative and demonstrating inclusive behaviours through all available channels but most organisations neglect to spend enough time listening to employees to understand the impact of changes that are being made. We see success when organisations continuously listen and seek feedback from employees and promote equity, thus closing the perception gap that more often than not exists between senior management and the rest of the workforce.

### 03 Culture change is not being measured

Although parts of culture are intangible, behaviour change can be measured, and many data based methods are now available to organisations to do this. Behaviour change must be monitored to know when progress is being made and when the course needs to be adjusted, helping to embed and sustain the desired changes. We see success when organisations set concrete metrics and KPIs for their cultural transformation programmes against the strategic priorities these changes are supporting.

### 04 Missing the middle

Too often middle management are not equipped with the knowledge or tools to role model the right behaviours, to coach their team members to live the right behaviours and to be conscious of their biases and blind spots. They are often not empowered to match rewards to behaviours meaning we see many cases where reward structures don't incentivise positive behaviours reflecting the desired culture. We see success where people leaders at all levels of the organisation are involved, empowered and equipped to deliver real behaviour change.

### 05 Keeping the customer front and centre

When embedding culture change, customer centricity and a focus on understanding the impact on the customer should be front and centre. Leaders must drive the fair treatment of customers by demonstrating it personally in their values and behaviours. We see success where decision making at all levels reflects a relentless focus on the experience of the evolving customer base and the fair treatment of customers.

# How KPMG Can Help

## Collaborative Approach



We have invested heavily in a depth of knowledge across both the people and risk aspects of organisational culture. Our team combines experts from our People and Change and Risk Consulting Practices. This two sides of the same coin approach allows us to dial up specific elements of our model depending on your needs.

## Global Network



We have access to our KPMG global network and advisory panel which includes behaviour and culture Subject Matter Experts from the Netherlands, Canada, Germany, UK and Australia. Our tailored solutions leverage this global expertise.

## Tried and Tested Methodology



KPMG's Behaviour and Culture Toolkit and four phase approach to culture change, are tried and tested methodologies that have been successfully integrated across multiple organisations and has been adopted by the Dutch National Bank (DNB). We take the time to understand how your organisation works and tailor our methodologies to your organisation's needs.

## Regulatory Insight



We have a deep knowledge of the Regulator's expectations. We have regular touchpoints with the Central Bank of Ireland and as such are well positioned to assist on regulatory culture change projects that will support a robust organisational culture.

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