

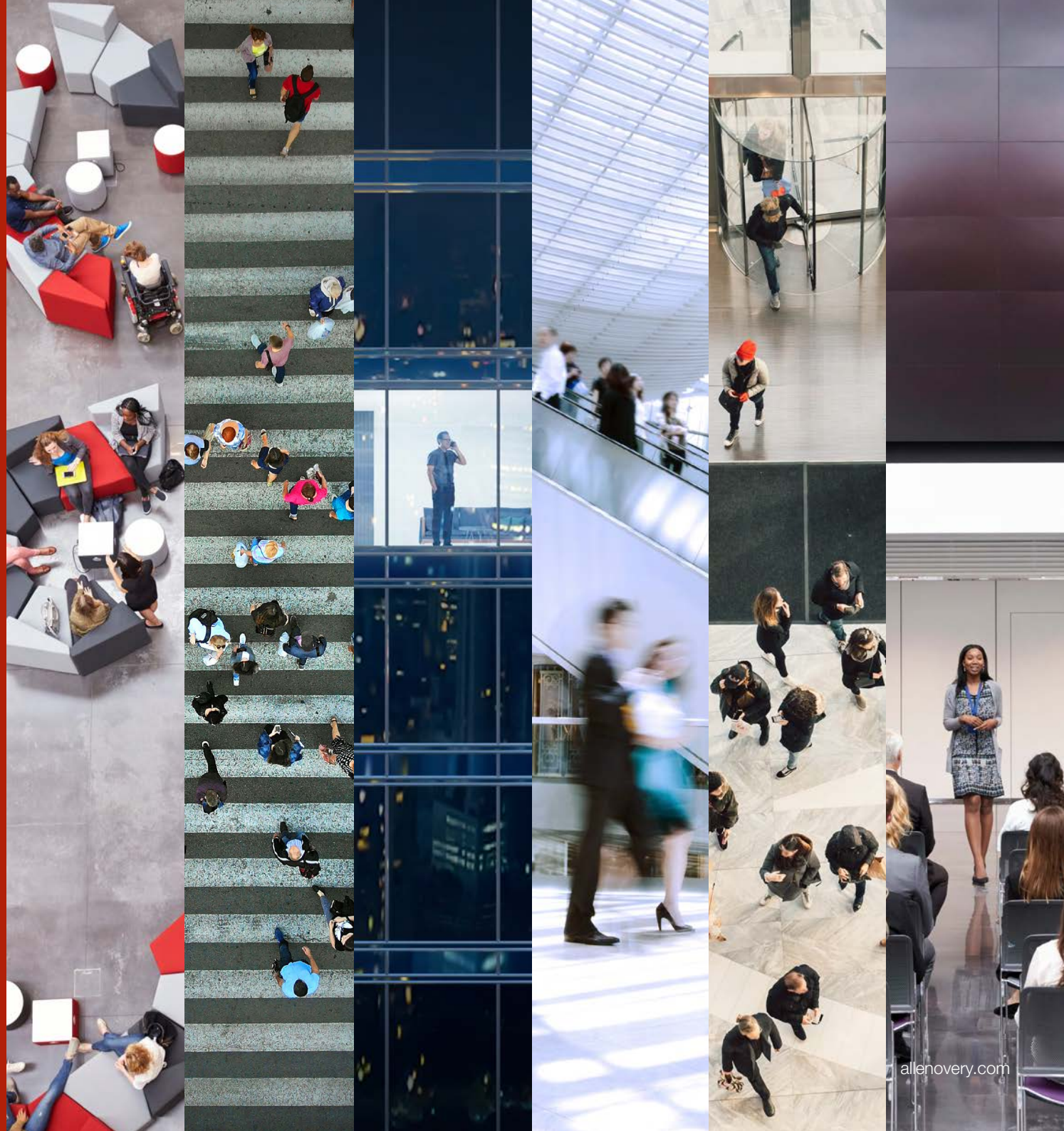
ALLEN & OVERY

Organisational culture in financial services

A global study into how the sector is approaching purpose, values and behaviour in the workplace

June 2023

Executive summary





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Foreword

Nearly 15 years after the global financial crisis, organisational culture continues to top the agenda of policymakers, regulators and senior boardroom leaders.

However, the post-Covid-19 world looks very different to the one that led to the crisis of 2007 to 2009. Different factors are at play.



Sally Dewar
CEO of A&O Consulting



Clive Garfield
Executive Director, A&O Consulting

Hybrid working, climate change, DE&I, the emergence of Generation Z in the workforce, the growing impact of employee and stakeholder activism and social media on corporate strategy and commercial operations have individually and collectively transformed many aspects of the financial services sector.

With these changes have come even greater scrutiny, challenge and risk. Today, trust and confidence in a firm and its management can be eroded and lost almost overnight.

It is against this backdrop that the role and value of organisational culture has to be measured. Having a strong culture that articulates and embeds the purpose and values of an organisation's operating model has never been more important.

At the same time, our understanding of the key components of a 'sound' culture has evolved significantly since the global financial crisis.

Factors such as the way business strategy and risk appetite are set, the quality of leadership needed to create an environment that is inclusive and psychologically safe, and role-modelling the right behaviours are each informed by and reflect an organisation's culture. More importantly, they directly and indirectly impact business decisions and outcomes.

At its heart, an organisation's culture represents 'the way we do things around here'. It includes a firm's overall attitude to identifying and managing risk (its risk culture), the way employees are encouraged to speak up with confidence, and the way senior leadership learns from mistakes.

Yet, despite the efforts of regulators, investors, market participants, clients, customers and employees to advance the culture agenda over recent years, we continue to read about failings that, to some degree, all point to poor culture.

Our goal in undertaking this global research study is to help financial services firms better understand both where the sector as a whole stands in its approach to culture, and to enable individual organisations to identify what they should do to improve further.

Above all, we hope our research helps to stimulate thinking and debate in the boardroom and among management teams that ultimately leads to a greater understanding of organisational culture and its long-term impact on performance and profit.



Assess your organisation's culture maturity

To find out more about our research, or if you'd like to register your interest in receiving a free culture maturity benchmarking report, comparing your organisation's approach against our global survey respondents, please complete this short [registration form](#).



Overview

We surveyed more than 500 senior leaders (covering business, in-house legal, risk, compliance, ethics and HR) in financial services firms across the world, from small organisations to large multinationals.

The overall findings of this research are interesting in a number of aspects:

- Technology has emerged as the biggest challenge facing financial services firms. Around **60%** of respondents to our survey believe new and emerging technology platforms pose the biggest threat to their organisation's culture.
- **More than half** of respondents say that managing a multi-generational workforce poses a significant challenge to their firm's culture over the next two to three years.
- Although people managers have a crucial role to play in setting the behavioural tone of their direct reports, survey respondents consider them to be the least committed to the culture of the firm compared to other senior leadership teams (for example the board or C-suite executives), or those in public or client-facing roles.
- Only **40%** of respondents rate their firm's leadership as excellent or close to excellent in terms of their communication skills and visibility across the organisation. In addition, only one third (**31%**) say that their firm's leadership excels at supporting employees who are based in different locations.

Moreover, our research shows that:

- There is no single standout type of organisation or sub-sector of financial services that is doing substantially better than others, indicating that organisational culture maturity is determined by the efforts of individual boards and senior leadership rather than a single external input that is driving overall behaviour.
- Societal influences that differ across jurisdictions (e.g. around hierarchy and age) play a part in defining organisational culture.
- There isn't a uniform, consistent approach to culture, rather there is a heterogeneous mixture of approaches, priorities and processes.
- While progress has been made over recent years to improve the focus on culture, more needs to be done to embed corporate values in an impactful and sustainable way.

In addition, we found that firms fall into three distinct categories of maturity – each with different characteristics that reflect the scale and scope of their strategy, the commitment and approach of their leadership, and the systems, processes and activities that they have put in place to reach and engage their workforce.

These categories are:



Developing

These firms are at the outset of their organisational culture journey. Their primary focus is on complying with existing regulations and demonstrating to their stakeholders that they have the fundamental components of a basic culture and employee conduct management programme in place. In general, they're less likely to have a fully formed strategy with detailed employee engagement goals and programmes, or have significant leadership buy-in and accountability. They have not aligned their culture and business strategies and they are therefore not able to embed their organisation's purpose and corporate values into their commercial activities. They are also likely to lack the management information needed to enable them to put in place concrete, measurable milestones and outcomes. Moreover, they may lack the expertise, budget and resources to bring about scaled cultural transformation within their firms.



Embedding

These firms are likely to have more detailed strategies and employee engagement plans in place. They have a deeper appreciation of the importance of cultivating the right culture. Their leadership team understands the need to role-model the values and expected behaviours that they would like the rest of the organisation to adopt. These firms have embedded a range of training and engagement programmes to support their workforce across different offices, functions and teams. Nevertheless, the approach of these firms is still likely to be fragmented. They have introduced many components of an ethically sound, inclusive and psychologically safe environment but they are likely to lack the coherent and cohesive approach needed to deliver organisation-wide cultural transformation.



Leading

These firms have typically developed a detailed strategy which they are implementing throughout every layer of the organisation. Their leadership teams have set the right tone from the top, and culture and its various components such as DE&I are discussed regularly by the board. These firms are likely to have created actionable policies, procedures and programmes that enable them to engage their workforce, and to listen and respond to their feedback. Their priority is to create measurable change that has a positive impact on business performance, and talent acquisition and retention. In general, they recognise that the challenge they face is that organisational culture is an evolving, ever maturing endeavour that requires a long-term commitment from leadership that is backed up with sufficient budget, resource and effort.

By structuring our findings in this way and by providing practical recommendations to help each category of firm to improve its approach to managing culture, we hope firms can use our analysis to benchmark themselves across a number of different areas to determine where to concentrate their time, investment and resources.

In addition to the recommendations, we have offered specific commentary and viewpoints throughout the report to draw out practical insights relevant to a particular theme or issue. These insights have been grouped as 'The A&O perspective'.

Our findings are broken down into the six pillars that we have used to judge effective cultural maturity:

1

Organisational approach

The ways in which financial institutions organise themselves, and the time and effort devoted to this is of critical importance to overall organisational culture. For this reason, we have given this pillar the highest weighting.

2

Achieving a sense of purpose

'Purpose' is organisational glue for all firms. Leading firms carefully consider their business culture and articulate it to their workforce, taking time to disseminate it and make it vital for employees.

In financial services, where regulators take ever-increasing interest in good conduct and culture, purpose can be a useful way to harness these organisational qualities.

3

Setting the tone from the top

Leaders have the opportunity to take ownership of a firm's culture through approaches such as role-modelling the appropriate behaviours.

Today, leaders are expected to be accessible, available and empathetic, willing to coach, listen and learn.

4

Governance of culture

Strategy is just one part of good organisational culture. The governance underpinning that strategy is critical to the success of any approach.

Given that regulatory expectations of board members and senior management are now well established, it is noteworthy that only **60%** of our respondents consider these two groups to be fully committed to continuing positive culture in their businesses.

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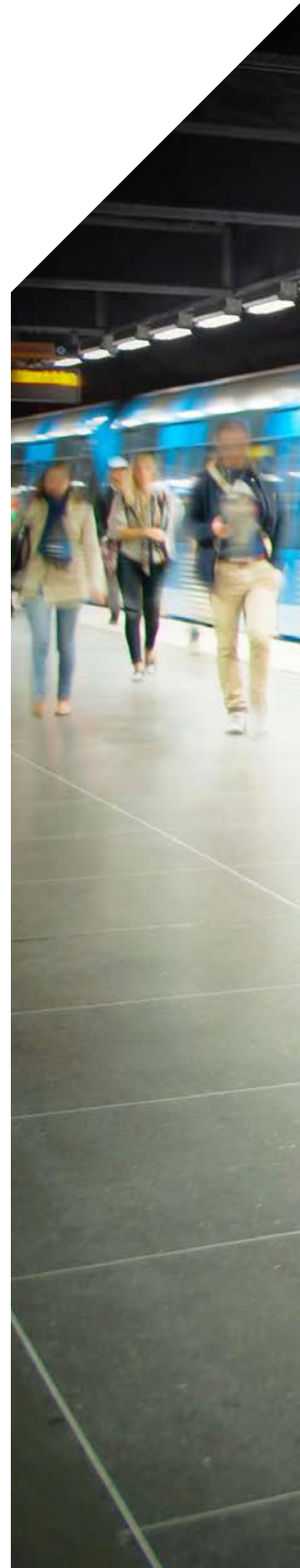
People strategy and training

All businesses have to balance productivity and quality with the culture of the firm and the conduct of its people. An important element is the management of employees so they have an environment which brings out the best in them.

6

Engaging employees

While leading from the top and setting the agenda on organisational culture is important, the reverse is also true – listening and responding to employees allows firms to understand and react to their needs and concerns.







Methodology

At the end of 2022, our researchers reached out to senior executives with responsibility for culture and conduct in leading financial services organisations around the world. We conducted more than 500 in-depth interviews across North America, the UK, Europe, the Middle East, Africa and Asia Pacific, with a focus on banking, insurance, asset management and payment platforms.

We asked respondents to answer a series of questions designed to gauge the approach of their organisation to culture and conduct. These questions were divided into six pillars: organisational approach, achieving a sense of purpose, setting the tone from the top, governance of culture, people strategy and training, and engaging employees.

For each of the six pillars, questions were specifically designed and weighted in order to collect data for a maturity segmentation. In the analysis process, we looked at the results from each respondent to these questions and worked out their scores on a total level and for each of the six pillars. We then measured the deviation from the total possible score for each respondent.

Based on these scores, the respondents were grouped into three segments: developing, embedding and leading.

Distribution of weighted normalised score

Based on 515 respondents

- APAC
- MEA
- North America
- Rest of Europe
- UK



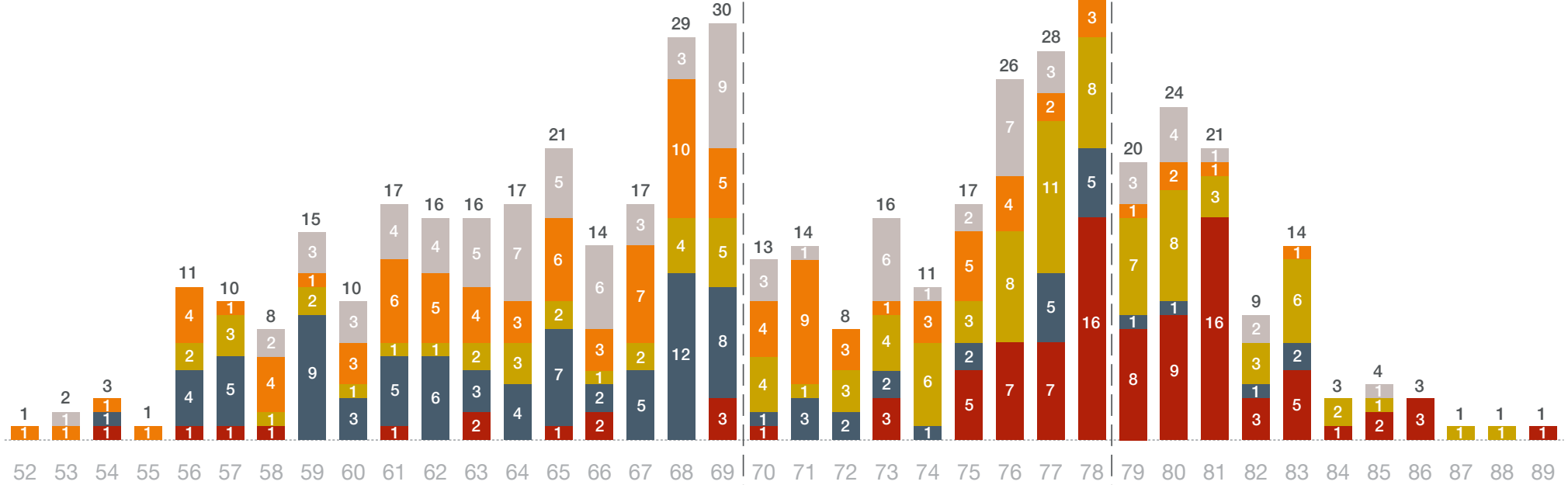
Developing
n=238 (46%)



Embedding
n=176 (34%)



Leading
n=101 (20%)



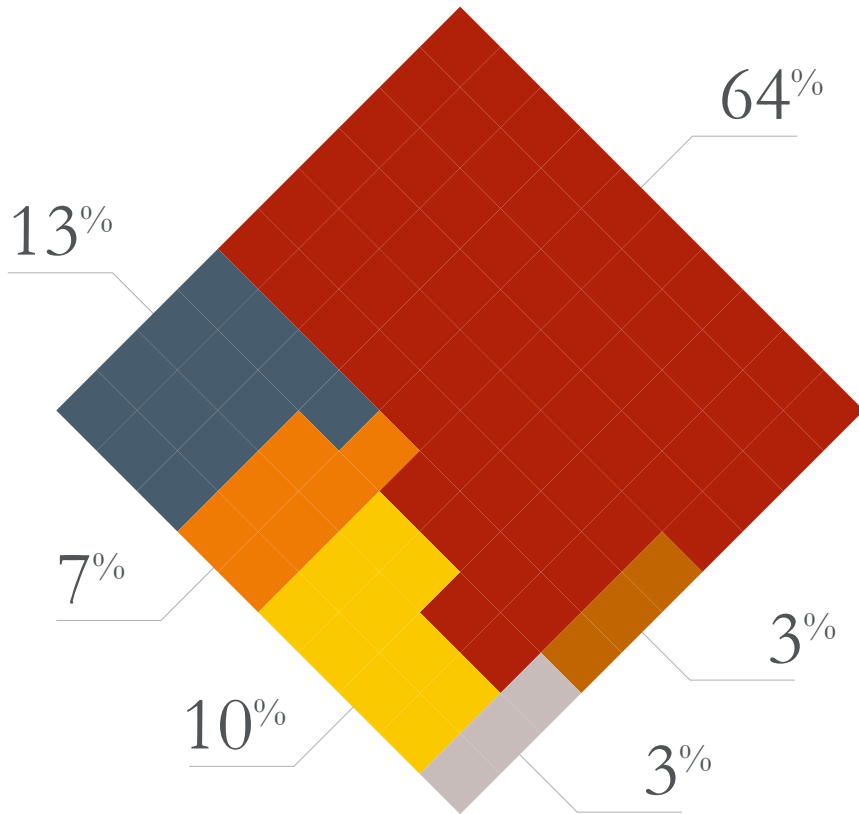
Overview of responding firms

Annual revenue
Average USD15,068 million

- USD1,000-10,000m (USD10bn)
- USD10,001-20,000m (USD20bn)
- USD20,001-30,000m (USD30bn)
- USD30,001-40,000m (USD40bn)
- USD40,001-50,000m (USD50bn)
- USD50,000+m (over USD50bn)

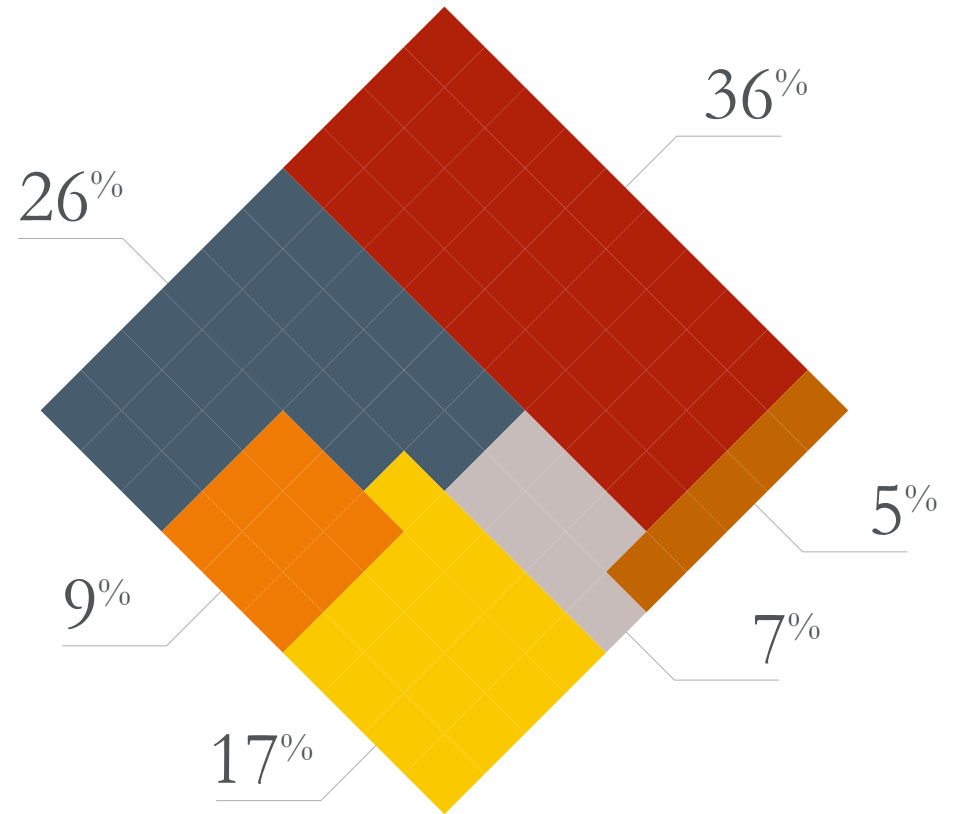
84%
Below
USD30bn (Net)

16%
Above
USD30bn (Net)

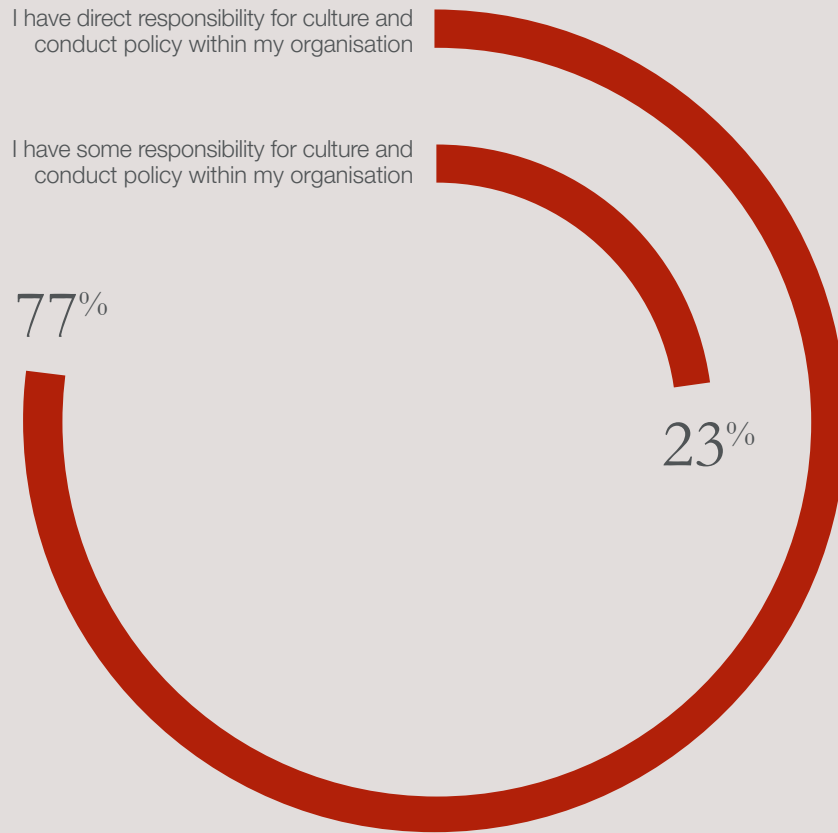


Number of employees
Average 22,146

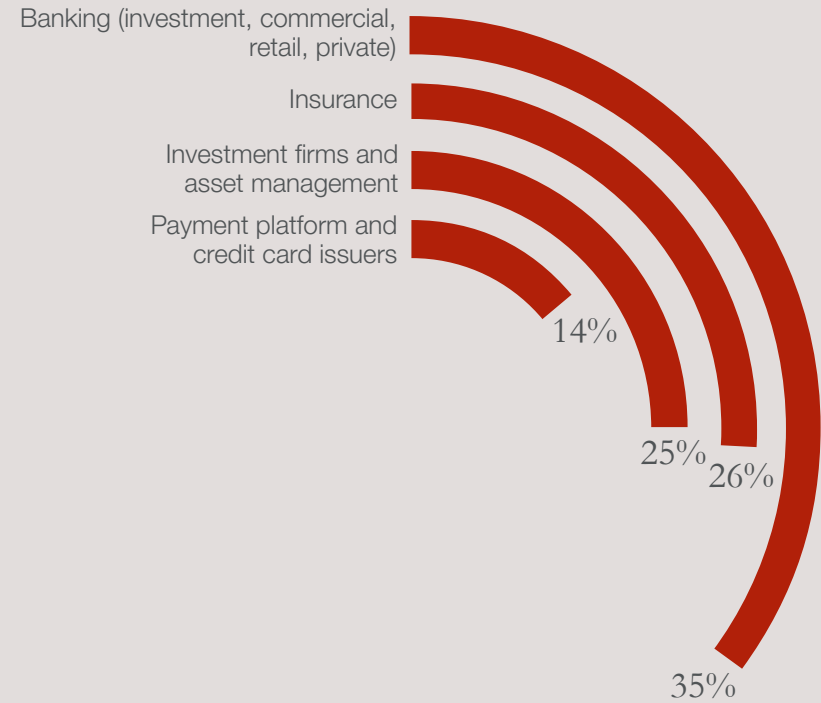
- Below 10,000
- 10,001-20,000
- 20,001-30,000
- 30,001-40,000
- 40,001-50,000
- 50,000+



Level of responsibility



Sector



Job title



Geography



North America

22%

UK

19%

Rest of Europe

20%

MEA

20%

APAC

19%

↑ 海峡会议厅 Straits Meeting Hall
↑ 2C 会议室 Meeting Room
↑ 宴会厅 音乐厅 会议中心酒店 Ballroom / Concert Hall / Conference Center Hotel

三层 Floor 3
会见厅 Meeting Hall
一层 Floor 1



A&O's culture offering

A&O's holistic cultural offering uniquely brings together legal and consulting experts in one solution that combines deep commercial and regulatory insight. This combination enables us to tackle many different moving parts in an aligned and complementary fashion in a way that stand-alone legal and consulting practices cannot.

How our approach differs

In approaching the problem from different angles, we can, for example, simultaneously tackle both policy and purpose, employment law and employee engagement, and handle litigation, investigations and low morale.

The criticality of culture:
the three pillars to help create and sustain organisational success



Issue: Culture is fluid and is increasingly under the spotlight. More and more frequently, following the #BlackLivesMatter and the #Metoo movements, organisations are taking a more considered and strategic approach to how they shape and sustain their culture.

Offering: Our pragmatic approach addresses every element of culture change, from initial assessment through to implementation, continuous monitoring and improvement.

Benefit: Taking a proactive approach to culture and creating an environment where employees feel safe to speak up is key to helping organisations prosper and at the same time ensure they are protecting their reputation.



Issue: Cultural aspirations are intrinsically linked to and brought to life via employee conduct. Staff must be clear on conduct expectations and instances of misconduct must be handled in line with cultural expectations. Often, instances of misconduct have implications for the wider culture of the firm, especially where the misconduct relates to bullying, harassment or any form of discrimination or retaliation.

Offering: A&O's combined offering means we can address the multi-dimensional aspects of conduct issues alongside what is going on within an organisation. We can help to create conduct frameworks setting out expectations and also investigate issues as well as designing and implementing remedial actions.

Benefit: We can help to proactively influence conduct, investigate misconduct and our regulatory insight allows us to anticipate areas of potential future scrutiny.



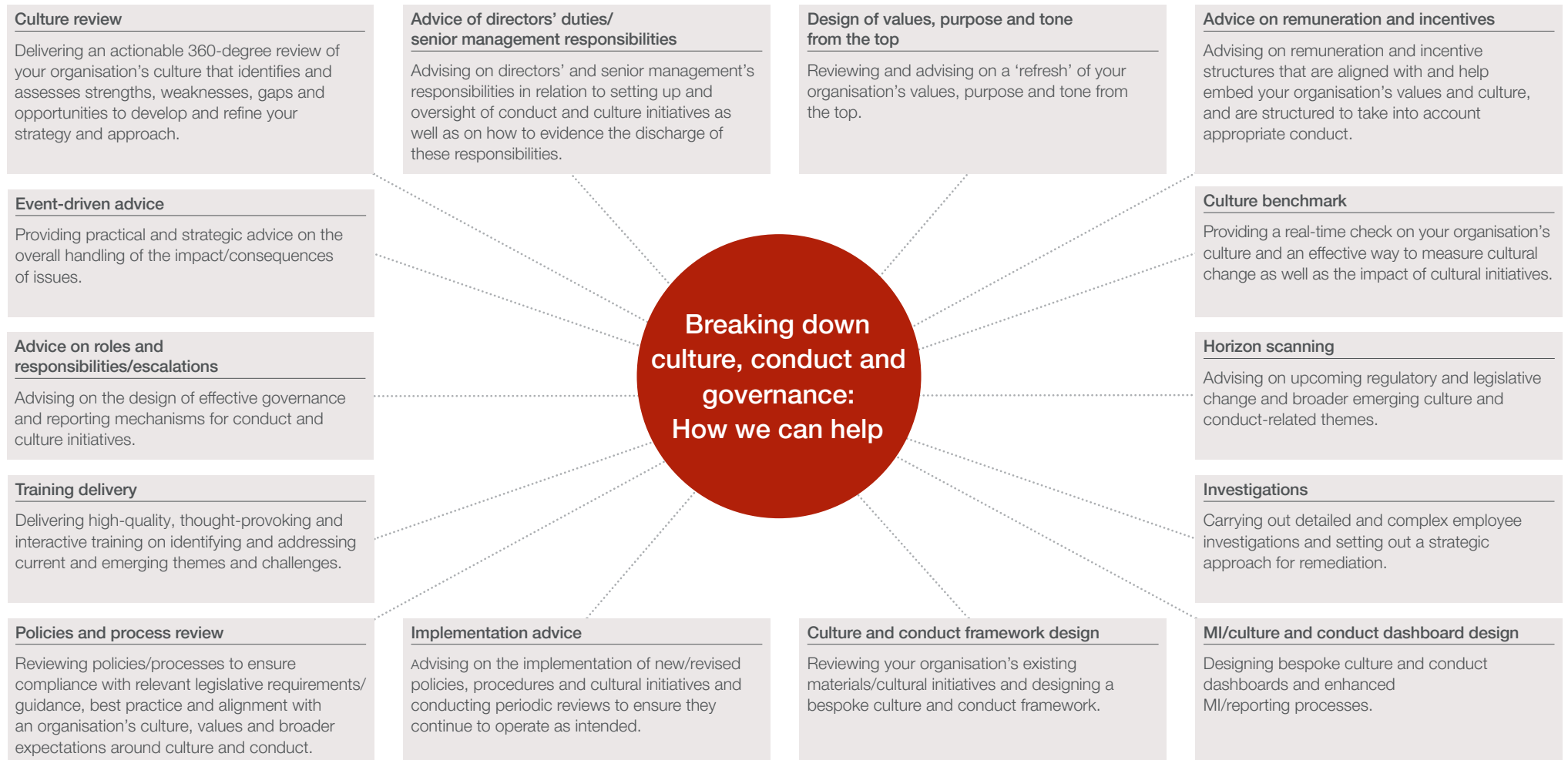
Issue: Unless the overall governance structure for culture and conduct is well thought-out and the ethos is rooted in the board's behaviours, the fundamental building block for a healthy culture is missing.

Offering: We can deliver a clearly communicated plan and design dashboards to implement and track the status of conduct and culture within your organisation so that it is embedded throughout your decision-making process.

Benefit: Having appropriate mechanisms in place to measure the effectiveness of your organisation's conduct and culture means you can ensure you are focusing your efforts on the things that can really 'move the dial'.

Our services

Our culture offering comprises a bespoke matrix of products, services and solutions, delivered by our combined team of change consultants, employment and disputes lawyers. These services can be adapted to suit all businesses and situations.



A snapshot of our client experience

We have advised a number of leading global corporates, financial institutions and asset managers on culture, conduct and governance issues. We have a keen appreciation of the regulatory environment that such organisations operate in, examples include advising:

A major U.S. bank

Developed an end-to-end culture strategy and framework for a major U.S. bank.

A private bank

Delivering culture, accountability, DE&I and psychological safety training to the senior leadership team in a private bank.

A global bank

Working with a global bank to strategically advise on improvements to the international manager programme including co-ordinating and interpreting advice from over ten jurisdictions.

An investment bank

Representing an investment bank in its defence of an employment tribunal claim of unfair dismissal, discrimination, whistleblowing detriment and victimisation. The claim was the first of its kind to include whistleblowing concerns about lockdown/remote working arrangements.

A global bank

Acting for a global bank in the defence of a belief discrimination and constructive dismissal claim.

A bank

Conducting an investigation into and advising on the legal and regulatory risks arising in respect of allegations of cultural failings, bullying and discrimination in one of a bank's business divisions.

An Irish subsidiary of a global bank

on a culture health assessment to review the impact of the pandemic on its culture.

A UK branch of an APAC headquartered bank

on a staff survey which led to us undertaking a Culture Health Assessment and putting a road map in place to address issues we identified.

A UK challenger bank

on an independent culture review.

A large professional services firm

on an independent review of governance, controls and culture on behalf of a UK regulator.

A Tier 1 asset manager

on a culture health assessment to determine the strengths and opportunities of the organisation's culture.

Multiple FTSE organisations

on global diversity data projects to understand the diversity of their employee population spanning 50+ jurisdictions.

Multiple organisations

on investigations into sensitive and high-profile cultural matters which attract media attention, making them board-level issues.

A large bank

on large and wide-ranging internal investigations into whistleblowing allegations of widespread bullying, discrimination, harassment, favouritism and victimisation of whistleblowers.

A global financial institution

on an investigation into serious allegations of non-financial misconduct made by a whistleblower, including allegations of bullying and harassment against a senior individual and related control failings.

Multiple financial services firms

on post-implementation issues relating to the UK SMCR, including advising on emerging conduct risks associated with remote working and internal investigations into breaches of the Code of Conduct and fitness and propriety issues.

An international bank

as an independent investigator on a sensitive and high-profile investigation of alleged sexual assault. This matter attracted substantial media attention and was a headline issue.

An interdealer broker

on the high-profile exit of a board member, including issues around the Remunerations Committee's exercise of discretion in respect to deferred awards and wider corporate governance and publicity issues arising from such a high-profile exit.

A global organisation

on a sexual harassment investigation and consequent senior management exit which involved the renegotiation of settlement terms following further details coming to light. We also advised on the regulatory references implications of the exit.

A corporate

on a potential breach of directors' duties by a former director.

Approximately 30 companies

from across the FTSE index and various other UK listed companies in relation to ongoing corporate governance arrangements. This includes remuneration policies; AGMs; periodic reporting obligations; shareholder meetings; the disclosure guidance and transparency rules and the UK Corporate Governance Code; institutional shareholder guidelines; articles of association; and board and committee terms of reference.

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