For many financial services organizations, rebuilding trust with customers will require a focus on culture — not just compliance. Two forward-looking banks are leading the way.
Almost everyone acknowledges that banks and financial services firms must change their culture if they are to regain the trust they have lost over the past several years. But progress across the industry has been uneven. The majority of banks are talking about culture change, and some have embarked on it tentatively. But only a few are unlocking its full potential: not simply to minimize bad conduct but also to enable their business to flourish and gain competitive advantage. Here is how they are doing it and what other banks can learn from them.

The global financial crisis and subsequent misbehavior, from rate rigging to rogue trading to mis-selling of products and more, has convinced bankers and regulators alike that the deeper problem for many banks is one not of compliance but of culture. Unless financial institutions fundamentally alter their culture, say the bank directors and CEOs we talk with, we will continue to see behavior that erodes the trust of customers. And if banks do not change their ways, regulators have made it clear that they will step in more forcefully.

In this climate, it is tempting to equate culture with practices that promote ethical behavior. But a healthy culture encompasses far more. It not only minimizes bad conduct but also aligns behavior with strategy and supports accelerated performance. Narrower conceptions of culture change may lead to a new “Values” section on the website and additional ethics training for employees—but they often overlook all the factors that impact business performance. This is particularly damaging at a time when many banks are redefining their business model in light of competitive threats from digital upstarts and challenger banks, increased costs of compliance and regulation, and a need to hold ever-greater levels of capital on their balance sheet. Unless banks can comprehensively remake their culture to support their new business model, they will likely produce disappointing results — and the potential for bad behavior will remain as high as ever.

Understandably, leaders of financial institutions may view such comprehensive culture change as daunting. It is complex; it has many moving parts; and for large institutions, it can involve tens of thousands of employees spread around the world. Most challenging of all, it’s not just about changing policies and processes; it’s about changing peoples’ mind-sets. But if the culture is to be sustainable and meet the ultimate goal of accelerating performance, the effort must be broad and it must go deep. It must be broad in the sense that it reaches across businesses, functions, geographies, and all levels of the organization to align public purpose, values, strategy, incentives, and behaviors. It must be deep in the sense that it reaches down to the fundamental assumptions, beliefs, and motivations of each individual so that employees personally embrace the new culture and live it daily. A closer look at how two forward-looking banks are approaching this challenge offers lessons for the many other financial services organizations now taking a close look at their culture.

Going broad

Consider how a global bank, plagued by a series of scandals, responded not by simply putting in place more controls but by embedding values in a much broader context. Under the leadership of a new CEO, Bank A, as we will call it, began with a series of road shows in which leadership met with small groups of managing directors and made the
case for change. Next, Bank A’s top 200 leaders from around the globe convened to determine what needed to be done. They concluded that the bank should radically adjust its business model, develop new leadership roles and skills, listen intently to the voice of the client, and reconfigure structures and processes. Most importantly, they determined that they would integrate all of those elements into a unified, purposeful culture. Integrity, they believed, depended on such integration.

They moved swiftly to adjust their strategy and business model, reducing exposure to capital-intensive and regulatory-heavy businesses like trading and investment banking. Instead, they focused on less risky businesses that provide steadier streams of income and less temptation to bend the rules. In addition, Bank A eliminated hundreds of intrabank, service-level agreements, whereby different parts of the bank traded with each other, simplifying the organizational structure and moving from a culture of counterparties to a culture focused on customers.

To get its leadership in step, Bank A hosted two-day, off-site meetings focused on culture and values in each region; these meetings included the company’s top 250 leaders. Subsequently, all 250, joined by a neuroscientist and a leading academic psychologist, convened for three additional days to learn what was expected of them and how to model the bank’s values. The program was then rolled out to the next tier of leaders, some 4,000 executives in all. In addition, low-level executives who managed junior employees and previously had little power were given the authority to make basic decisions and schooled on the core principles that should guide those decisions.

Although giving frontline employees more autonomy when the goal is to reduce misconduct might seem paradoxical, this action in fact points to the great advantage of a broad, integrated approach to culture. When behavior is governed by thousands of regulations, as it is in banking, practicing control usually results in less control. But when employees are focused on clients and guided by principles rather than rules, they are far less likely to take the kind of hairsplitting approach to compliance that can lead into gray areas. Instead of seeing how close to the line they can go without stepping over, employees are far more likely to stay well on the safe side, where they can be trusted to make decisions that are in the best interests of clients and the firm — not to mention the society that depends on banks for financial stability.

Bank A also altered structures and processes, most strikingly its approach to performance reviews. These year-end employee assessments are now weighted equally between financial performance and behavior, a “50/50” approach long favored by some regulators (and recently recommended by the Group of Thirty in its report Banking Conduct and Culture: A Call for Sustained and Comprehensive Reform). The bank also redesigned incentives and rewards to focus less on individual performance and more on group performance. In addition, a significant ethics and values component was integrated into the induction process for new employees.

To refocus on customers, Bank A created in its wealth management business a new role devoted entirely to managing client satisfaction. The client onboarding process, which had previously involved lengthy and complicated screening, was streamlined. In addition, the bank created the role of Chief Investment Officer. He and his group monitor the capital markets, foreign exchange, and the like on a minute-by-minute basis and advise wealth management clients on how to optimize their portfolios. And to ensure that the world gets the message about the bank’s new way of doing business, the customer focus and strategy work came together in a new brand identity that is not simply a marketing tool but a genuine expression of Bank A’s revitalized culture.
Recognizing that the strength of the culture is a leading indicator of how well Bank A will perform in the future, leaders created a set of “health metrics” to be pulled together in a single report and conveyed quarterly to the board of directors. Customer metrics track satisfaction, referral rate, and complaint level. Employee metrics track attitudes and engagement, turnover rate among top performers, and level of trust in senior management. Operations metrics include system failures, security breaches, and risk incidents related to employee conduct. The bank also wanted to track how it is performing in the eyes of society, so it interviews a representative sample of observers and interested parties quarterly about their trust in the bank. In the four years since Bank A embarked on its sweeping culture change, performance against all of the health metrics has steadily improved. And the belief that health predicts wealth has certainly proved true: in that four-year period, the bank has created 30% more shareholder value than its nearest competitors.

Going deep

To understand what it means to go deep, consider how a major consumer banking organization we’ll call Bank B approached it. Like Bank A, Bank B pursued comprehensively broad culture change, reaching across the entire organization and encompassing strategy, values, processes, and behaviors. Over the years the bank had grown through acquisitions. The result was a multitude of legacy cultures and inconsistent customer experiences spread across a variety of consumer businesses. To unify the brand and the businesses, win a larger share of wallet, and create a consistent “customer-first” mind-set — including a focus on ethics driven not by fear but by a clear purpose — the bank embarked on a top-to-bottom culture change.

Bank B’s senior executives began with a culture assessment to diagnose where the current culture stood in relation to six essential characteristics of high-performing companies: accountability, collaboration, openness to change, integrity, positive spirit, and clear purpose. They found that the culture did not adequately support collaboration, openness to change, and positive spirit. This begged the question: Based on this assessment, what is the likelihood that we will be able to execute on our strategy? They concluded that the bank had some of the desirable elements in place, but to realize the full potential of the strategy everyone from the CEO down to frontline employees had to shift their behavior. The bank was then able to begin defining the culture it needed, which included some legacy elements, some aspirational elements, and some highly customized elements.

But making sure that the desired culture takes deep root in each individual presents some significant challenges. For example, personal change is just that — personal. Individuals cannot simply be ordered to change; they must genuinely embrace it or they will continue acting on deeply ingrained habits.

To “unfreeze” old habits, Bank B conducted workshops in which individuals became aware of their habits and experienced working in new ways. Such experiential learning, in which people actually succeed because they behave differently, is by far the most effective way to drive home values and change behavior. For example, the bank’s desired culture requires a high degree of collaboration across regions and functions, yet most of its employees had been conditioned by the organization’s longstanding ethos of independence. Nevertheless, through experiential learning in a series of team exercises, even the most independently minded individuals began to feel the advantages of being in a highly collaborative culture. Similar exercises were designed to help participants
experience the benefits of the other desired elements of the new culture. The participants emerged from these workshops with a new commitment, powered by experience, to change one or more of their habits to align with the desired culture.

Before reaching out to the company’s tens of thousands of employees, Bank B immersed its senior executives in the program to ensure they understood their role in living and leading the culture. Next, the bank trained a group of internal facilitators to take the workshops to all managers. The facilitators introduced the culture’s principles and engaged their teams in monthly culture conversations to apply the principles to their jobs. For example, one of those principles is “be here now.” It is intended to counteract a familiar phenomenon: most employees have so much to do and are so busy multitasking that they may give customers (and colleagues) short shrift, putting them off or passing them on to someone else. So, in a brief conversation led by the manager, team members discussed what actions they would take to reduce distractions in order to focus on building relationships. In the subsequent months, the managers were able to introduce additional foundational principles that their teams could apply to their work to bring the culture to action. The bank provided online resources to managers and individual contributors to aid them in preparing for these ongoing discussions. It is important to note that these were genuine conversations, not training, and though brief — only 15 or 20 minutes each — they deeply engaged the participants and resulted in new behavior.

Bank B established a dedicated executive team to provide oversight for the entire process. Besides overseeing deployment of the culture program throughout the organization, the team realigned policies and processes to help ensure that the change could be sustained. Like Bank A, Bank B introduced a cultural dimension into each of the company’s people processes — hiring practices, onboarding, performance reviews, compensation, promotion, development, and identification of high-potential individuals. Henceforth, employees would be judged not just on what they did but also on how they did their work. For example, the basis for compensation was adjusted to reflect, in part, how well the bank performed, thus reinforcing collaboration and creating a unified organization focused on the customer.

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and its people, Bank B’s leaders are confident that the magnitude of the financial returns will reflect the magnitude of the bank’s transformation.

Lessons learned

We believe that much can be learned from the experience of these two quite different banks — lessons that apply to all financial services organizations, especially in the current climate. Chief among them:

- **Change begins with purposeful leadership that models the culture and spearheads the behavioral changes that are required.** The top leadership of both banks initiated the transformation of their organization and assumed responsibility, both internally and externally, for ensuring that it succeeded.

- **Culture change must be broad.** Unless the effort reaches across organizational boundaries and structures and aligns strategy, processes, and behavior, it is likely to become little more than boilerplate language in corporate communications.

- **Culture change must be deep.** Unless individuals change their behavior, the organization will revert to its old ways. Changing people, especially people who are already successful, requires great care and effective learning methods.

- **The focus should be on positive change, not negative reinforcement.** Both banks created a culture with a positive spirit, inviting employee allegiance and customer trust. Organizations that focus narrowly on compliance are likely to see it backfire, resulting in lower morale and the kind of resentment that often fuels rogue employees.

- **Build pace, momentum, and engagement across the whole organization.** Unless you can achieve a brisk pace, build momentum for the change, and keep everyone engaged, employees will fail to see the sharpness of the break with the past and the urgency of the effort. Both banks positioned internal leaders to take the change to the whole of their organization quickly and comprehensively.

- **The reward is better performance.** A healthy culture designed to unlock the full potential of new strategic, operating, and organizational models can lead to significant returns.

By learning these lessons and putting them to work, banks can shape a culture that is not only healthy but sustainable, built to withstand short-term pressures, endure through the inevitable changes in personnel that take place over time, and thrive under any regulatory regime.

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