Leading Culture Change in Banking
Take the path to high performance in today’s demanding new environment

In an industry that historically has changed at a sedate pace, big banks have been altering the way they do things at dizzying speed. Facing narrow margins, tighter regulation and wary customers, they are forging new business models, transforming operational processes and re-orienting around service. At the same time, the ongoing digital and data revolution continues to bring wave after wave of change, making banks more technology-driven than ever. And in perhaps the most interesting about-face, financial services organizations are now taking culture change very seriously.

Talk to most bankers today and you will hear the word “culture” repeatedly. They know that strategies, operating models and organizational structures are only as durable and effective as the culture that holds them together. And they know that when you dramatically change those fundamental elements of business, you must also change the culture that underpins them.

The banking sector has been under intense scrutiny and pressure to make transformational change in recent years in the wake of the financial crisis. In 2012, Stephen Hester, then chief executive of part-nationalized Royal Bank of Scotland, called for a wholesale change in the culture of banks to refocus their behavior on meeting the needs of customers to restore trust in the industry.

"We have to address the root cause of the industry’s failings. And that, for me, is very clearly the need for better focus on serving the customer well in our collective cultural DNA." 1

Many banks, including Deutsche Bank, Citi, Barclays and Lloyds are responding with sweeping culture change strategies to restore trust, accountability and put customers back at the forefront.

• The new CEO at RBS, Ross McEwan, is taking over Hester’s mission of restoring RBS to being “a really good bank for customers, shareholders and society as a whole." 2

• Jürgen Fitschen, co-chairman of Deutsche Bank management board, has a stated goal of placing the institution at the forefront of culture transformation in the industry. ”We are determined to bring about deep cultural change at Deutsche Bank.” 3

• Citi’s new CEO Michael Corbat is trying to change the culture to bring more accountability and discipline through the use of score cards for top executives based on a set of weighted goals from five categories: capital, clients, costs, culture and controls. 4

• Anthony Jenkins, Barclays Group Chief Executive, is leading the ‘Transform’ program intended to make Barclays the ‘Go-To’ bank. “At the heart of Transform is an absolute conviction that Barclays’ long-term success is not solely a matter of financial performance, but also how we interact with all our stakeholders,” he states. He has implemented a new scorecard to measure and report on performance of people and the business based around the ‘SCs’ Customer and Client, Colleague, Citizenship, Conduct and Company. “As part of the Transform process, we committed ourselves to training all our employees on the importance of Barclays’ Purpose, helping people achieve their ambitions – in the right way and with our Values – Respect, Integrity, Service, Excellence and Stewardship. We recognize that putting these Values into practice is absolutely fundamental to our success in building the ‘Go-To’ bank,” Jenkins stated in a July 2013 report on the Transform program. 5

1 http://uk.reuters.com/article/2012/10/01/uk-rbs-hester-idUKBRE8991320121001
5 http://group.barclays.com/Satellite?blobcol=urldata&blobheader=application%2Fpdf&blobheadername1=Content-Disposition&blobheadername2=MimeType&blobheadervalue1=inlinem%3Bfilename%3DRead-the-update.pdf&blobheadervalue2=abinary%3Bcharset%3DUTF-8&blobkey=id&blobtable=MungoBlobs&blobwhere=1330701425561&ssbinary=true

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Four Principles For Successful Culture Change

When it comes to making culture change actually happen, big banks run into some disconcerting challenges. First, a monolithic, uniform culture can’t be imposed on the many sub-cultures that make up differing parts of a bank – the effort will have to be consistent, but flexible and create local agility. Second, changing the culture requires that you help people who are already highly successful personally change. Third, no matter how extensive the changes you make in policies and process, the sheer weight and power of tradition will likely reassert itself – change in policy or pay will not bring about culture change on their own.

While these challenges are daunting, they are not insurmountable. Over the past 35 years, we’ve identified four key principles that should guide and frame the process of culture change. To create a culture that will enable new strategic, operating and organizational models to flourish, leaders must:

1. Provide purposeful leadership that models the culture from the top down
2. Change the collective culture by genuinely creating individual change
3. Build pace, momentum and engagement across the whole organization
4. Create flexibility within divisions to ensure sustainability of the overall culture

The degree to which each of these principles is put into practice determines the degree to which the effort will succeed. Omit any one of them – or apply them half-heartedly – and frustration and reversion to the old ways are likely to follow. Get them right and you can create the conditions for a newly competitive organization and a culture that isn’t just designed for high performance but intrinsically drives it.

Providing Purposeful Leadership

Leaders should think of their organizations in terms of their own shadows – people watch what their leaders do and emulate them. Individually and collectively, leaders, through all of their actions, become role models for change – or not. And that includes not just the leaders in the C-suite but the top leaders in each of the bank’s divisions. If the leaders do not personally own the change, nobody will.

In addition to serving as role models, leaders have at least three additional means through which they can cast a longer shadow: communication, team dynamics and talent management.

- First, as a leader, you have many communication platforms. But whether you are using a team meeting, an internal newsletter, a town-hall style event or some other medium, you should convey a consistent and compelling story. Don’t simply define policy, list objectives or exhort people to change. Paint a picture of the future state of the organization and weave strategy, market plans, anticipated milestones and the new ways things will be done into a narrative that describes the journey that will take everyone there together. Be sure to tell the same story in public venues – to the market, the press and other observers – that you tell to your people. Nothing undermines confidence like a leader who tells one story internally and another publicly. A compelling story – and a leadership that genuinely lives the script – can burnish your employer brand both internally and externally. This is critical now when promising young talent is spurning the industry and experienced, older talent is leaving it.

- Second, the team is where people most often see culture in action. Any effort to reshape culture should be designed around teams as fundamental work units, with a change process focused at the team level. Additionally, champions of the change must be trained and embedded in each of these teams to coach colleagues and monitor and lead the
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... effort. You must also do things differently on your leadership team. If, for example, you have largely exercised command and control over your team and now believe that a more collaborative style will be required to pursue your strategy, you will have to alter team dynamics accordingly, beginning with your own behavior. If, on the other hand, you lead a business area that requires more entrepreneurial orientation in pursuit of new revenue streams and your team has largely operated by consensus (which should not be confused with collaboration), the team will need to operate differently, with members acting more autonomously.

• Third, ensure that talent is managed in the context of the new culture you are creating. In recruiting, promotion, retention and high-potential programs, make clear the qualities of leadership required to thrive in the new culture and offer people opportunities to develop those attributes. Programs should be developed to provide training on new skills, systems and policies, as well as specific training to instill the new mindset and culture. Turnover can also play a role in culture change. People who reject the new way of doing things may leave voluntarily or otherwise, while leaders with the desired experience and leadership competencies may be brought onto your team from outside the organization. The selection process should include a “culture fit” analysis to ensure a high likelihood that new leaders will be aligned with the culture you are creating. But because no one will be a perfect match for a culture, on-boarding should include personal development.

Many leaders have experience implementing a new strategy and structure and are relatively adept at doing so. However, few effectively use all of the resources at their disposal to reshape the underlying culture so that it aligns with and supports the business’s new focus and structure.

Genuinely Changing Individuals

Culture, in its essence, is composed of individuals and their fundamental assumptions and beliefs. If a new culture is to take deep root and endure, each of those individuals – from the leader through all levels of the organization – must embrace it. But personal change is just that – personal. You cannot simply order people to change. Further, information, rules, regulations and policies do not get at the deepest level of motivation. Rules may change behavior, at least for a while, but outward conformity to those rules does not mean that people have changed and does not guarantee that they won’t soon regress. Further, attempting to change adults who are already highly successful is perhaps the greatest challenge of all. They got where they are by doing things the way they have always done them and they likely ascribe that success to many of the leadership attributes and habits of mind that you wish to change.

Genuine and lasting personal change occurs only when people powerfully experience different ways of doing things and succeed at them. In our work on culture change with financial services organizations, we have found that the most effective way to make a lasting impression on individuals about the value of the desired personal changes is through experiential learning. For example, banks pursuing a cross-selling strategy and comprehensive customer care strategy require individuals who can collaborate across organizational boundaries. In fact, creating a cohesive culture in general requires such collaborative personalities. Through focused engagement and personal and team coaching, otherwise highly independent and even headstrong individuals can personally experience successful collaboration. Similarly, individuals who are highly accountable within their business or functional silos can undergo an experience of broader accountability that the new culture might require.
Building Pace, Momentum and Engagement

Cultures typically resist making the changes they most need. Resistance can be particularly hard to overcome in financial services organizations, many of which have default cultures that are decades old. Unless you can achieve a brisk pace, build momentum for the change and keep all employees engaged, the organization will remain stuck in its old ways or revert to them when the effort wanes.

Companies can be guided to transform their cultures, but internal leaders must be positioned to take the change to the whole of the organization quickly and comprehensively. In addition, these internal leaders of change must model the behaviors and values of the desired culture and drive the efforts to bring the culture to life to ensure sustainability. Ultimately, culture change will require a process of impactful insight and personal change that can create personal and lasting behavior shifts. Every person, enterprise-wide, must be engaged in the culture in a way that aligns to a new way forward in terms of behavior, action and results.

Creating Flexibility within Uniformity

To sustain change and create a culture that traverses all of the institution’s boundaries, you must align many factors: institutional practices, systems, performance drivers, communication and capabilities needed to drive towards the desired culture. Governance structures will need changing, as will decision-making processes. The same is true for daily rituals, such as meetings, team-based decision-making and measurement. Further, the organization should examine customer/consumer and supplier/partner touchpoints and, if necessary, adapt them to make the change real.

However, within this overarching culture, you must maintain flexibility by defining and promoting an appropriate sub-culture for each of the institution’s distinct business areas. Typically, these will include retail/commercial banking, investment banking, trading and wealth management. Each of these areas is structured differently, operates differently and faces different market dynamics. In addition, technology constitutes a hybrid sub-culture – it is distinctive, yet cuts across organizational boundaries, enabling business models and connecting the back, middle and front offices. While some elements of culture and its drivers will remain uniform across all five of these areas, other elements will need to be customized. To take a simple example, the structure of incentives and rewards should differ in each of these areas and be designed to reward desirable behavior there – and to discourage the kind of behavior that led many financial institutions astray in the past. However, as previously noted, desirable behavior ultimately springs not from policies but from individual experiences of personal change that are aligned with the desirable sub-culture as well as the overarching culture of the institution.

We find that many financial institutions, erring on the side of uniformity, try to create a one-size-fits-all culture that doesn’t take distinctive sub-cultures into account and remake them appropriately. The result is resistance in one or more of these business areas. The old local culture reasserts itself, the dysfunction eventually tears at the fabric of the larger culture and sustainability evaporates. Even with exemplary leadership, individual personal change and widespread engagement, your aspirations for changing the culture of a financial institution are likely to be disappointed in the long term if you fail to build the requisite flexibility within uniformity. All parts of the organization should speak a common language – but each in the appropriate dialect.
The Ultimate Goal: High Performance

Just as there is no one-size-fits-all culture for the distinctive business areas of a single financial institution, there is certainly no single model that applies to all institutions. However, the ultimate goal of any culture that enables your business to flourish remains the same: high performance against the measures you have established to gauge long-term success.

In our experience, cultures that generate high performance do share some constants. In the top quintile of such organizations, leaders and their teams:

- Focus on the customer
- Assume rigorous accountability for results across organizational boundaries
- Collaborate within and across organizational boundaries
- Flex and adjust with agility and speed to stay ahead of changing conditions and demands
- Demonstrate unwavering integrity
- Exude optimism and confidence

In these high-performance organizations, good ideas deliver on their promised return. Business models, behavior and beliefs work in concert. And, most importantly, culture translates into customers.

Case Study:

Creating An Agile Culture To Succeed In Rapidly Changing Environment

When the economic crisis struck in 2008, seemingly overnight, the industry that once chugged along at a sedate pace, suddenly faced dramatic change. A U.S.-based financial services company had expanded well beyond its regional banking and capital markets roots to a $38-billion financial services company with more than 13,000 full-time employees and national mortgage lending and commercial real estate businesses. Suddenly, like hundreds of banks and financial services companies, it was thrust into survival mode.
The company’s new CEO wanted to not just survive the crisis, but to come out the other side even stronger than before. He quickly shifted the company’s emphasis from expansion to refocus on its core businesses of regional banking and capital markets. He understood that to rebuild and shift strategic focus for the future, they would need to immediately re-examine the long-established culture of the organization and make needed shifts to respond to an environment that was rapidly changing.

“We had a very strong culture, but your greatest strength can be your culture and your greatest weakness at times can be your culture if it’s not aligned to the changing circumstances,” he noted. The CEO engaged culture-shaping firm Senn Delaney, a Heidrick & Struggles company, to guide the culture transformation, beginning with a diagnostic to better understand the areas of strengths and weaknesses in the legacy culture in order to build on strength and weed out behaviors that didn’t serve the institution well in the new operating environment.

“We believed that we needed to deal with the cultural aspects in order to create the business model and the momentum that we wanted. We couldn’t just go in and move everything around and make a lot of changes. We had to put it in context. We had to explain why we’re doing it, how we’re trying to position ourselves and try to align the culture around that because it would give us a lot more momentum when we got to the other side of the financial crisis.”

From the diagnostic of the culture, a culture transformation process was implemented to bring about the culture change needed for the vigorous turnaround with strategic focus on creating long-term earning power by improving profitability, productivity and efficiency, optimizing its business mix and investing in core businesses and talent. By shifting the long-established culture, a more flexible, nimble and accountable organization emerged. As a result, the financial services company has returned to profitability and improved performance and is now better prepared to adjust with agility to significant industry changes in the future.

“I think the culture work has helped us accelerate the process of building in that flexibility and nimbleness. Flexibility and nimbleness, in my view, come from communication, interaction and trust. Our core companies have done very well. They’ve been strong and getting stronger. That shows up in our customer satisfaction data, both our internal and our external surveying and it shows up in the anecdotes that we get, the experiences around the organization.”

The CEO learned some potent lessons along the way about leading culture change. “The culture of the organization and the environment that comes from the CEO and leadership in totality are critical to making an organization successful,” he said. “The culture is not going to make good decisions for you, but it’s going to give you an environment where your people can be fast, flexible and nimble and position your company for success.”

**Results from focusing on the culture:**

Continued success in executing on these strategic priorities has led to progress for the company’s core businesses of regional banking and capital markets through its financial services subsidiary.

- **2012 results showed solid performance and significant improvement in credit quality**
- **First-quarter diluted earnings per common share improved 42 percent from 2012 to 2013**
- **Maintained strong capital ratios, and improved productivity and efficiency while maintaining the highest levels of customer service**
- **Won 13 Greenwich Excellence awards for customer satisfaction in 2012**
- **The company’s regional banking arm has the largest market share in all three of the bank’s regions in the state, according to FDIC figures for third quarter 2013**
- **Regional banking arm has one of the highest customer retention rates of any bank in the U.S.; 95% of retail customers would recommend it**
- **Named to the 2013 InformationWeek 500 list of the nation’s most innovative users of business technology, the company’s fifth straight appearance on the list**
- **Regional banking arm received top grades in 2013 Phoenix-Hecht Treasury Management Quality Index™ in the middle market banking segment for customer service and overall relationship manager effectiveness**
Getting Started

Many culture-change initiatives fail because they have not been given the same strategic emphasis, ongoing commitment and investment as other key strategies. As in the examples at the beginning of this article, CEOs who have made culture change a part of their strategy and who demonstrate commitment and accountability for the culture as part of that long-term strategy point toward a successful outcome.

On the other end of the spectrum, if there is a widespread belief that culture change is a short-term fix-it program, it is destined to become another “flavor of the month” leadership training where people enjoy the experience, but go straight back to their comfort zone of behaviors and thinking.

Leaders of companies seeking long-term, proven, measurable and sustainable change will need to focus the four key principles of culture change:

1. Purposeful leadership
2. Personal change
3. Broad engagement with energy, momentum and mass
4. Focused sustainability.

How Healthy Are Your Organization and Teams?

The optimal way to get started on a culture shift is with an analysis of the current culture to define the behaviors at the personal, team and organizational levels that may need to shift and the traits needed to better support organizational performance and an organization’s business strategy.

Here are some questions to reflect on that can help you to identify potential problems in the health of your team and organization that would point towards a deeper culture analysis being needed.

- Have you created, communicated and reinforced a set of core values throughout the organization?
- Do those core values support your strategy, structure and mission?
- Do all senior team members “walk the talk” by living the values for which your organization stands?
- Does your organization see the senior team as being aligned on mission, strategy, goals and priorities?
- Are there high levels of trust, openness and collaboration in making decisions and teamwork?
- Do you hire people with attitudes and competencies that support your culture?
- Does your culture foster a willingness and eagerness among our people to lead and embrace change?
- How well does your company innovate beyond old solutions and, in an iterative process, rapidly learn from that innovation?
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Heidrick & Struggles is the premier provider of senior level Executive Search, Culture Shaping and Leadership Consulting services. For 60 years, we have focused on quality service and built strong leadership teams through our relationships with clients and individuals worldwide.

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Senn Delaney, a Heidrick & Struggles company, is widely recognized as the leading international authority and successful practitioner of culture shaping that enhances the spirit and performance of organizations. Founded in 1978, Senn Delaney was the first firm in the world to focus exclusively on transforming cultures. More Fortune 500 and Global 1000 CEOs have chosen Senn Delaney as their trusted partner to guide their cultural transformation. Senn Delaney’s passion and singular focus on culture has resulted in a comprehensive and proven culture shaping methodology that engages people and measurably impacts both the spirit and performance of organizations.

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