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FINANCIAL SERVICES PRACTICE

Is this the year that banks finally begin getting culture right?

The next wave of banking leaders will be judged not for their heroics but for steady stewardship that enables their institutions to endure on behalf of clients, shareholders, and employees.

"Banking is, in 2015, at a low point in terms of customer trust, reputation, and economic returns," observed the Group of Thirty in its mid-year report *Banking Conduct and Culture*. Perhaps so, but in the not-too-distant future we may look back on 2015 as the year banking turned the corner on culture. The signs of progress are encouraging: recently appointed chief executives emphasizing the issue, a turn to less volatile lines of business, a redefinition of what counts as career success, and, perhaps most important of all, increased board involvement in culture change.

That progress has been obscured by misbehavior since the financial crisis, from the rigging of the LIBOR rate to money laundering to sanctions-busting. But the progress is real, beginning with the most recent crop of leaders at the top—a new breed of cultural stewards who stand in sharp contrast to the colorful (and often controversial) commercial "heroes" of the recent past.

For most of this century, the heroes (or, some would say, hotshots) held the stage. Their success was often defined by the ability to generate significant short-term profits, for which they were richly rewarded, often with rapid promotion and the lion's share of the annual bonus pool. Their desirable personal characteristics included commerciality, aggressiveness, a willingness to take outsized risk, a laser-like focus on the trees (not the forest), and an ability to live "in the now" when it came to relationships. This environment and these characteristics favored, or even produced, individuals who were highly specialized—experts at trading or selling a particular product, or covering a specific client segment, often with eye-popping results. But as we learned during the financial crisis and its aftermath, fearlessness can shade over into villainy and even threaten the stability of the global financial system.

Now, after a lengthy period of recovery during which banks and their leaders worked to come to terms with increasing regulation, a new generation of leaders is evolving—leaders who will be less colorful, less controversial, and less aggressive than those of previous generations. They will be judged less for their dynamism than for steady stewardship—stewardship that will enable their institutions to endure on behalf of clients, shareholders, and employees.

In 2015 alone, four major banks named new chief executives whose stated intentions about culture change or whose backgrounds in more cautious businesses suggest that the shift to stewardship is real. Standard Chartered's new CEO Bill Winters most recently ran an asset-management company and worked with the Independent Commission on Banking in Britain, whose recommendation to "ring-fence" retail banking from investment banking became law. Tidjane Thiam, Credit Suisse's new CEO, was formerly chief executive of British insurer Prudential. John Cryan, named co-chief executive at Deutsche Bank in June, is a former finance chief of UBS. Barclays' new CEO James E. Staley has said he intends to continue to reduce the investment-banking operation, establish a "collaborative relationship" with regulators, and complete the cultural transformation of the institution.[1]

A number of leading banks are already well along in redefining their business models. Credit Suisse, Morgan Stanley, and UBS have rebalanced their portfolio of business lines, expanding in stable

[1] Stephen Morris, "Staley says Barclays must complete investment bank repositioning," *Bloomberg*, October 28, 2015, bloomberg.com.

annuity-fee businesses like wealth management while contracting in more volatile businesses like investment banking. Certainly, banks are being driven, in part, by regulatory changes intended to create a roster of stable but profitable banks that are not systemically threatening, conduct little or no proprietary trading, and are fortifying their balance sheets while still being client- and consumer-friendly. But the leaders of these banks know that for a business model to succeed, their people must believe in it and their cultures must be adapted to it.

As a result, the old, extravagant measures of success will give way to a set of metrics more suited to stewards. Organizations will promote and financially reward individuals who can generate stable, sustainable profits over the medium-to-long term. Such profits will depend on sustained positive relationships with clients, whether they are institutional investors, corporate clients, or consumers.

Developing and maintaining such relationships requires skills that differ sharply from those used to generate short-term profits. Who will prosper in this new environment? People who have the patience and the commitment to do right by a client and by the overall organization, regardless of the short-term consequences for their personal profit. Career success will be measured in terms of promotions and financial reward accrued over a number of years versus marking to market on an annual basis. The time horizon for accountability in decision-making will also expand, with individual leaders held responsible for their decisions over the medium-to-long term. We are already seeing this at work in the growing prevalence of deferred compensation, financial clawbacks, and bonuses governed by multi-year versus single-year outcomes, as banks seek to align their policies and processes with the desired culture.

But by far the leading indicator of progress is the direct hand that boards are increasingly taking in shaping culture. In the past, boards were generally reluctant to get involved in culture change; they believed they lacked access into the process, as well as any way to oversee it. Today, many more directors are accustomed to thinking about culture and its profound effect on performance in the organizations they lead or have led, and they've been exposed to powerful new models of cultural assessment and change. Bank boards in particular have learned that even the most rigorous regulatory compliance can fall short; many financial-services organizations lost public trust with actions that were perfectly legal.

> *"Culture, values, and stewardship are not about what you say, but about what you do," says a director of a top-five global bank. "Every action has the ability to build or destroy credibility around these topics."*

In a series of recent interviews with board members of large financial institutions, Heidrick & Struggles found that directors almost unanimously list culture change at, or near, the top of their agendas. Appointing stewards as chief executives is only the beginning. "It is an ongoing and evolving journey, not a point-in-time event," says one director of a leading US bank that has been at the center of industry changes prompted by the financial crisis. "Sustained effort, relentlessness, and authenticity are required over multiple years—at least five to ten—to be effective," says a director of a prominent European bank with a cultural transformation already under way.

Furthermore, rather than viewing more stringent regulation as a necessary evil, many directors see it as "reflecting the needs and desires of society," as one put it. According to another director, what's required is a "shift from episodic interaction with regulators to making it an ingrained part of bank processes." This doesn't mean simply equating compliance with culture—it means integrating compliance into a receptive culture, thereby providing a framework for sound decision-making at all levels of an organization. Such decisions could encompass how to do business; which business to pursue; whom to hire, develop, or retain; or whether to take an action that is legal but may not be ethical. "Culture, values, and stewardship are not about what you say, but about what you do," says a director of a top-five global bank. "Every action has the ability to build or destroy credibility around these topics."

Maintaining that credibility requires total commitment from the board down to the most junior employee, say directors. An organization must identify, communicate, and reinforce the values underpinning the desired culture, and then measure the degree to which businesses and individuals live these values and hold people accountable through performance management and compensation. This comprehensive approach to culture, in turn, drives organizational performance, a notion that most banks have historically been slow to embrace. Today, however, that view is changing. With boards neither underestimating the magnitude of the task nor shying away from taking it on, 2016 just might be the watershed year for bank culture. ■

About the author

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This article is adapted from a commentary that originally appeared in *American Banker*. For more, click here.

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