# finweek COLLECTIVE INSIGHT

**INSIGHT INTO SA INVESTING FROM LEADING PROFESSIONALS**

JULY 2018

**Inside**



# RE-WIRING THE BUSINESS CULTURE IN FINANCIAL SERVICES

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By Muitheri Wahome



**In the next issue**

Our next issue of *Collective Insight* will look at investment myths that need to be challenged, and will appear in *finweek*'s issue of 25 October.

If you want to submit an article, contact the Advisory Committee Convenor, Anne Cabot-Alletzhauser, with your ideas so that we can minimise topic overlap. Articles (approximately 800 words, plus illustrations) need to be submitted to cabota@aforbes.co.za by 17 September 2018. Please remember that this is a research publication and therefore market commentary or marketing materials will not be published.

INTRODUCTION

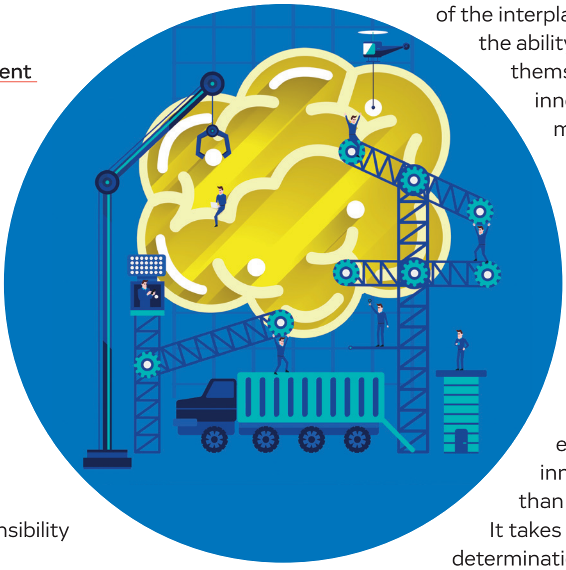
# Building the character and culture of a firm to ensure success

The financial services industry faces many challenges, even more so in a low-growth environment. In order to effectively manage change and take business forward, an effective culture needs to be created.

As someone who has spent many years researching asset management firms, I consider culture to be one of the most important enablers of success. Yet many leaders are often confounded by it.

Culture is shaped by the interaction of many influences and participants – be it regulation that sets the context within which a business must operate; social norms; changes in client preferences and needs; or technology.

Zwelakhe Mnguni, co-founder of investment firm Benguela Global Fund Managers, shared a fitting soccer analogy in a conversation on the topic noting that "without a culture an asset management firm would look like a soccer match in which players are just obsessed with scoring goals by themselves, instead of sharing the opportunity and responsibility with other players".



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While each player works hard and desires success, the lack of teamwork, a coherent framework, and purpose undermines their effort.

Just as a tree is recognised by its fruit, culture is revealed by our words and actions. It incorporates many intangibles – the oft ignored soft issues – that impact on a firm's ability to deliver outstanding results to clients and provide benefit to society at large.

How leaders get a group to work together and support aligned values, and get diverse thinking is at the heart of creating an effective culture.

Firms that foster environments that are open to ideas, encourage risk-taking, weigh both process and outcomes in assessing performance, practice long-term thinking, are competitive, collegial and celebrate achievement, usually manage to attract and retain outstanding individuals.

This gives them a competitive edge. While the longevity of firms is the result of the interplay of many factors, the ability of firms to reinvent themselves through innovative business models, processes, products and solutions that occasionally disrupt but add value to society, is critical among them.

## Learning from history

A look at history shows that to retain an ethos of creativity and innovation is often harder than you would expect.

It takes patience, individual determination, tenacity, a single-minded focus, and the sponsorship of senior management to remove bottlenecks when they happen.

In the 1960s, unit trusts were launched in South Africa. The idea here was to open up investing to individual investors – essentially everyone.

Scepticism was the order of the day from the life insurance industry giants. How could these possibly become a profitable product if investors could simply invest in and out of these products willy-nilly?

A common business maxim is, "if you can't measure it, you can't manage it". With culture it is perhaps more important to manage for what you can't measure.

But this innovation, coming at a time of rising public awareness of equities, resonated with South Africans.

Unit trusts have become the fastest growing pool of savings in South Africa. According to the Association of Savings and Investment of South Africa (ASISA), at the end of 2017, unit trust savings were R2.1tr compared to life insurance assets of R2.8tr.

## Looking to the future

While the future continues to offer massive opportunity for those firms that seek to remain relevant to client needs, leaders face many different challenges and firms must evolve to thrive and survive.

There is pressure on investment performance in a lower-return environment that has clients questioning the level of fees. There is competition from exchange-traded funds (ETFs) and lower cost index-tracking offerings that promise investors better value for money.

Financial services firms face a rising regulatory burden that continues to increase operating costs and crimp margins.

The need to do more with less, and rethink processes, harness technology to reach clients and create efficiencies is an immediate challenge.

Multitasking is the new reality as many firms trim their budgets. The stresses and strains of the changing workplace require careful change management in order not to impact staff morale, productivity and engagement.

Understanding a firm's strengths and weaknesses and concentrating on areas where there are nodes of excellence, or focusing on less heavily contested spaces with attractive opportunities for profitable growth, seems sensible.

In an economy hamstrung by a lack of growth, lacklustre investment markets and where the ability of individuals and firms to save and invest is constrained, investment firms may have to resort to mergers and acquisitions to grow and gain the scale required to withstand the cost pressures.

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**Zwelakhe Mnguni**
Co-founder of investment firm
Benguela Global Fund Managers

Every day therefore, leaders are faced with many different strategic choices where they need to react instantly, seldom with the luxury of time to ponder a way forward.

The character and culture of the firm – that which differentiates it from others – reflects the accumulation of the choices and trade-offs made in a constantly changing environment.

In this edition of *Collective Insight*, we are fortunate to have a wide range of contributions that cover several important topics. These include: the principles of a good culture; myths that need debunking about culture; practical advice for leaders on how to interrogate and build a strong conscious organisational culture; why transformation, gender diversity and inclusion are critical to the future of the financial industry; and the need for business to adjust mindsets in the context of technology's power to force change.

There is an account of surprising developments in the Australian financial services sector, historically held up as a model of good governance that illustrates what happens when the culture of an industry takes a wrong turn.

Linked to this are important discussions on the role of regulation and enforcement in the face of unethical conduct, lack of integrity and trust, and the importance of effective corporate governance.

A common business maxim is, "if you can't measure it, you can't manage it". With culture it is perhaps more important to manage for what you can't measure.

As the Future of Finance arm of the CFA Institute has been emphatically arguing, unless asset managers wake up to the radical changes taking place in the world around them, their livelihoods, to say nothing of the livelihoods of new entrants, will be at stake. ■

**Muitheri Wahome** is a financial services professional and is currently writing a book about the history of asset management in South Africa.

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Securing your financial well-being

By Richard Rattue

COMPANY CONDUCT

# What drives trust?

Companies in the financial services sector are the least trusted in the economy. Addressing this loss of confidence, does not have to be complex.

Companies in the financial services sector were again the least trusted among industries, according to the latest annual *Edelman Trust Barometer,* which has been measuring trust in business, NGOs, government and the media for the last 18 years.

Respondents are asked to indicate how much they trust businesses in a variety of sectors to do what is right. According to the 2018 report, trust in the financial services industry declined in 13 out of the 28 countries surveyed in 2017. Overall, the authors found trust in financial services had "stalled" last year, following a five-year rise since 2012.

However, that is taking the views of both the general population and the "informed" population into account. (The informed population is defined as people from the age of 25 to 64 who are college-educated, in the top 25% of household income per age group in each market, and who report significant media consumption and engagement in business news.)

When it comes to informed respondents, there were double-digit declines in trust in several markets, with the US suffering the worst decline of all. And, the report says, where informed population trust goes, general population trust follows.

In South Africa, financial services scored 52 on Edelman's Trust Index, placing it in the "neutral" range. However, the ranking reflects a six-point decline from 2017's report. Among the informed public, SA's financial services scored a slightly more encouraging 57, but still reflecting a six-point decline.

What drives trust? Researchers can make an expensive meal of what is really a very simple answer: conduct. Being as good as your word; walking your talk. Conducting your affairs with integrity and acting in the best interests of your stakeholders. Treating your customers fairly!

It's not surprising companies in the financial services industry are the least trusted in the economy. Despite the tsunami of regulation that has hit the industry since the global financial crisis, scandals continue to ensue both here and abroad. Consider the massive miss-selling of credit life policies over more than a decade in the UK; the loss of trust in global accounting firms such as KPMG; the Real Value Arbitrage Fund scandal; Fidentia; and of course, Steinhoff which, while not a financial services company, certainly lost a lot of investors an awful lot of money.

The Edelman report found a new unwillingness to believe information among respondents; a loss of confidence in information channels and sources. The rise of "fake news" certainly hasn't helped. Rather, it has instilled a growing scepticism about what is objective truth, and what isn't. Pity the poor investor in this scenario.

In terms of conduct, gaining an accurate picture of how financial services companies around the globe are conducting their affairs would entail a painstaking analysis of an array of factors, including:

- How a firm responds to, and deals with, regulatory issues;
- What customers are actually experiencing when they buy a product or service from front-line staff;
- How a firm runs its product approval process and what factors it takes into account;
- The manner in which decisions are made or escalated;
- The behaviour of that firm in certain markets;
- Remuneration structures.

The second point – what customers are actually experiencing – can be gauged to a certain extent by the complaints data of relevant ombudsmen. Again, obtaining an accurate picture would be difficult as you aren't necessarily comparing apples with apples.

Reports from the UK's financial ombudsman, for example, show by far the largest number of annual complaints compared to Australia, SA and Canada. Last year, they handled a staggering 339 967 complaints, up from 321 283 the year before. A significant percentage of this increase can be attributed to ongoing credit life complaints. In SA, where there are separate ombudsmen for various sectors, the short-term insurance sector generated the most complaints last year, with 9 097 (down from 10 175 in 2016).

What drives misconduct? Again, the answer doesn't take an expert to figure out. It is quite simply greed. As Michael Douglas famously said in the movie *Wall Street* in the late 1980s: "Greed is good".

A culture of greed has been ingrained in financial services firms for decades, and eradicating it won't occur overnight.

Greed leads to unrealistic sales targets being set by management, and signed off by the board. In turn, this leads at the very least to miss-selling and at the worst to out-and-out fraud.

Last year, Thomson Reuters asked compliance and risk practitioners from more than 750 financial services firms across the world, including banks, brokers, asset managers and insurers, how their firms are managing the challenges presented by the regulatory focus on culture and conduct risk. When asked what was the single biggest risk to conduct facing their firms, the overwhelming response was sales practices.

So what can companies do? To my mind the answer remains cloaked in simplicity and largely laid out in the content of this article. We have to get the basics right and make changes to the values that drive respect and trust. CEOs need to stand up to directors, who in turn need to stand up to shareholders who bully them into a "profits uber alles" strategy. It is simply not sustainable. ■

**Richard Rattue** is managing director of Compli-Serve SA.

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LONG-TERM INVESTING

By Vanessa Bell

INDUSTRY REGULATION

# It's not only the role of regulators

The financial services industry has had its fair share of controversy. But new regulations alone will not bring about the shift in culture needed in many organisations.

After arriving early for a recent meeting, the second person who arrived on time remarked to me – as others slowly drifted into the meeting room – how easily being late for meetings can creep into the culture of an organisation and become an acceptable norm. Typically, one could laugh this off as a small agitation by those who are good time keepers against those who are not. Seemingly then, this notion of culture might be something small, but is it?

Notably, one of the first things that the new South African president did was to insist on meetings starting on time. This may be considered small in the context of the many large problems that President Ramaphosa faced then, but in terms of instituting a better culture, it should be considered significant, in my view.

A new era has dawned in South Africa, not merely because of a new punctual presidency but, more importantly, also because of SA's new-era financial sector regulation under the Twin Peaks model.

There has been much recent media coverage of the change from the Financial Services Board (FSB) to the Financial Sector Conduct Authority (FSCA) as of 1 April 2018. As the name indicates, it is a conduct-focused approach by a new regulatory body, which will oversee all financial institutions – banks, insurance companies, retirement funds, effectively everyone in this industry.

Although there are many examples of highly principled people and institutions doing good work within the financial services industry, in general both here and globally, conduct within this industry has been far from exemplary. The FSB too has had its share of controversy, having faced accusations of being ineffectual, not tough enough or not acting fast enough to prevent some past industry debacles. To what extent then is culture responsible for unacceptable conduct in business practices, and what could a new regulatory approach mean for instituting a better culture within the financial services industry, if this is indeed needed?

What is not so new in SA is Treating Customers Fairly (TCF). Introduced some years ago and considered now as the backbone to regulation and supervision, it contains as part of its numero uno principle the idea that all financial firms should have TCF embedded into their corporate cultures.

**A culture of activism as a client is as important as the culture within organisations.**

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Still relatively recent in the financial world is King IV, which is intended to instil best practice in corporate governance. Not number one on the list, but not far off is principle number 2 (of 17 principles) which requires that a governing body of an organisation should be concerned about the ethics of the organisation such that an ethical culture is established and supported.

The King Reports have all always been applicable to corporate entities. What is a significant change is that King IV has introduced sector-specific supplements and through this, all retirement funds and their service providers should adhere to the 17 King IV principles. Retirement savings are for many individuals often the single-largest asset on which their retirement depends and thus best practice by those who look after this asset cannot be more important.

Pulling this together means, in simple terms, that the content of the ethical culture referred to in King IV in respect of service providers in the financial industry must be putting the interests of the ultimate client first. In other words, what is right for the client is the most important factor in business strategy, and the profitability of the enterprise secondary. As with most self-evident truths, this makes sense as such an approach must inherently promote the sustainability and profitability of that enterprise. The trick, of course, is how this is worked out in practice. Examples of how this has not been followed, to the detriment of the service provider, can however be found here and in other countries.

South Africa has followed in the footsteps of countries such as the UK in which 'outcome-focused' regulation, which both TCF and King IV are examples of, has been introduced under the Twin Peaks model as a means to get financial services industry participants to change their practices and business models. The Twin Peaks model of regulation was embraced as early as 1998 by Australia (followed by the UK and other countries, after the global financial crisis of 2008 caused many countries to re-evaluate their institutional regulatory structures). Therefore there is much in terms of past experience to indicate whether other countries have been successful in overseeing market conduct and outcomes of good corporate behaviour. As far as culture is concerned, the picture does not look pretty if recent events in Australia are anything to go by.

Against initial resistance by the Australian government on the basis that it was not necessary, a Royal Commission into conduct in the banking, superannuation (Australia's occupational pension funding system) and the financial services industry was established at the end of 2017. Although still yet to publish its formal interim report in September 2018, the media reports of what has come out of the hearings before the commission have been concerning.

In the banking sector for example, evidence was presented that a bank's financial planning business had been charging ongoing fees to dead clients. It's as blunt as this – dead people paying for advice – and in one case for more than 10 years. Another bank knew about the practice of staff members in its financial advice area illegitimately witnessing client beneficiary nominations for their superannuation funds to devolve upon their death. Often transgressions were picked up by junior staff members and reported, but bosses did nothing. Yet another organisation was described as having governance practices reflecting "an absence of a compliance culture." The responsible Australian regulator in turn was blamed for being "limp" in dealing with these issues. Much of this all comes down to culture.

Of course, in SA, we have little reason to claim moral superiority. An example of an unfortunate culture was the bulking scandal in around 2005. This secret profit scandal revealed how a service provider might cut corners at the expense of clients in order to maximise profits. What is interesting about this episode is how the prominent service provider concerned, as well as other providers involved, corrected the situation and, indeed, may be said to have altered its culture to ensure that such situations did not occur again.

Back to the present and whether a new regulatory approach means a better culture for SA's financial services industry. Opinions on the change value of adopting the Twin Peaks system of regulation have been mixed. Robert Vivian, professor of finance and insurance at Wits, believes there is cause for concern because on a cost-to-benefit basis he doubts that there will be greater benefits; but at the same time the costs of maintaining this new system will be significantly higher. Others, like Wits alumnus Dr Andy Schmulow, currently in the faculty of law at the University of Western Australia, thinks that the SA version of it will be "manifestly superior" to the Australian model and that Australia will be able to learn from us. Time will tell.

**Dr Andy Schmulow**
Senior lecturer in the faculty of law at the University of Western Australia

**Although there are many examples of highly principled people and institutions doing good work within the financial services industry, in general both here and globally, conduct within this industry has been far from exemplary.**

It is worth bearing in mind, however, that few things are one-sided and culture cannot be changed by expectations of the regulator and service providers alone. Retirement fund active members, for example, are notoriously apathetic about their retirement savings, as illustrated by the fact that most members have little interest in knowing who the people are who oversee their money or what goes on in the administration of their benefits. With the recent soccer World Cup in mind, I recall a survey being done around the time of a previous tournament in which fund members were asked to name all the players in their favourite soccer team. They could do this easily, but when asked who the trustees on the board of their retirement fund are, few could name even one person.

A culture of activism as a client is as important as the culture within organisations. There can be little doubt that interested clients, as opposed to apathetic clients, will improve service and the quality of the products offered by service providers.

As a client, being active in making sure that you get the advice that you pay for; that you understand the impact of the costs you pay for your financial outcomes; that you do not pay for advice after death, may be examples of small things but they matter. For example, if you die while being a member of a retirement fund, in terms of the Pension Funds Act, it will usually take 12 months for your benefit to be paid to your beneficiaries and you should not be paying ongoing advice fees.

Many organisations have complained about being overburdened by costly regulation, citing TCF as part of a "regulation rampage". Having a TCF culture should be embraced, not as a cost to the service provider, but as a means of enabling better service and products. It is not easy for a service provider to promote activist clients, but ultimately that will ensure a better environment.

I would hazard a guess that if culture in organisations was better on its own initiative, there would be less need for overburdening regulation. In the end, culture does matter. There are lessons and warning signs everywhere. ■

**Vanessa Bell** is a director of Jonathan Mort Inc, a firm of specialist pension fund attorneys. She is an independent trustee on boards of various retirement funds, and an independent non-executive director.

By Michael Judin

KING IV CODE

# Developing the social fabric of companies

For the financial services industry, achieving the four outcomes of the King IV Code is the start of a journey towards a conscious culture, which helps form the foundation of a business' success.

Naphtali Hoff, president of Impactful Coaching & Consulting, wrote that in addition to substance and essence, the concept of focusing inward to identify our deepest beliefs and passions is often referred to as "knowing your WHY".

Leadership expert Simon Sinek says that it is not enough to know what you do and how you do it; at our essence, we are most motivated by knowing why we do things. And it's through that awareness that we can best connect with, and communicate to others, that one of the most important consequences of conscious leadership is that it creates a conscious culture.

The definition I like best is that a conscious culture is a culture that embodies values, principles and practices underlying the social fabric of an entity. Conscious culture permeates an entity's actions and connects the stakeholders (all of them and not just the shareholders) to each other and to the company's purpose, people and processes.

**The judges of the high courts of SA have in effect made the King Code part of common law.**

And applying the principles of King IV utilising the recommended (or other) practices is the start of the journey, a never-ending one, to achieve the four outcomes in King IV; namely, an ethical culture, good performance, effective control and legitimacy.

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King IV is the fourth iteration of the King Code and Report, the brainchild of Madiba, and given effect to by Prof Mervyn King. Although the King IV Code is a voluntary code of compliance, aspirational in its nature, three very important issues of and concerning King IV should be borne in mind.

The first thing is that in referring to the code in their judgments, the judges of the high courts of South Africa have in effect made the code part of South Africa's common law; this branch of the law is as binding as the statutory arm of South African law. The second is that directors of entities, prescribed officers (those who exercise effective control of management and finances) and committee members should bear in mind the draconian consequences set out in the Companies Act when not complying with the duties and obligations that attach to them. King IV is their guide to ensuring that they do so comply.

Finally, when things do go wrong, directors, prescribed officers and committee members rush to the business judgment rule as set out in the Companies Act. That rule provides that such persons having followed certain prescribed principles set out in the Act will be in a position to contend that they have no liability in instances where it is alleged that they did not properly discharge their duties and obligations as set out either in the Act or common law. Having complied with the code will be especially important in proving that there has been compliance with those prescribed principles.

So understanding and applying the code is not only a nice thing to do, but one should regard it as obligatory to do so.

For those that have not acted in a conscious manner within a conscious culture, it is never too late to 'fess up, apologise and ask for forgiveness. Embracing this positive and rewarding route contributes to changing one's focus from profit only, to people, planet and profit. What exciting times we live in.

As has been written, large, older companies that want to move faster and become more innovative may face challenges doing so on a pre-digital foundation. However, with the right leaders and hiring practices in place, legacy organisations can adopt the cultures of digital giants like Amazon and Google to compete with and even surpass their offerings.

Couple that with a good and sound strategy for managing an organisation's overall governance, enterprise risk management and compliance with regulations – all on a foundation of good corporate governance – and we have the recipe for not only success for ourselves, but creating sustainable entities that care about the planet and about their people also. This is what the South Africa that lies ahead desperately needs.

As I have contended, the time to act is now. If we have not already achieved the four outcomes of the code, the anxiety which automation causes will be overwhelming. And artificial intelligence causes even more discomfort, contends Ronelle Kleyn, CEO of FluidRock Governance. She explains the fourth industrial revolution as a digital revolution that is characterised by a synthesis of technologies that is blurring the lines between the physical, digital and biological spheres.

We cannot, as a foundation to all of what is coming, have space for anything but a conscious approach and a total and utter dedication to striving towards achieving greater and greater success in our never-ending journey along the path of those four outcomes of the code.

I conclude by reminding us all that culture forms the backbone of how a company does business; ethically and in compliance with, or outside the lines and potentially in violation of many local and international laws. In a recent white paper from SAI Global, titled *Predicting Risk: A Strategic Culture Framework for the C-Suite,* Dr Caterina Bulgarella wrote, "culture at the epicentre of it all may seem like evoking a ghostly figure. Culture is not only hard to see but difficult to understand and measure. Yet, for all its intangibles, its importance cannot be downplayed." ■

**Michael Judin** is a senior partner in the law firm Judin Combrinck Inc. He is a member of the committee that wrote the Code for Responsible Investing in South Africa (CRISA), a member of the Main King Committee, chaired the sub-committee that wrote the Chapter for King III dealing with Negotiation, Mediation and Arbitration and was a member of the Task Team that wrote King IV.

By Khaya Gobodo

CORPORATE CULTURE

# Why culture is key in an organisation

In South Africa, leaders and corporations have an extremely important choice to make regarding the integration of diversity into the fabric of their specific corporate culture.

“Culture eats strategy for breakfast.” This might sound clever and original, but ultimately is not that meaningful. What it does do, however, is capture the imagination regarding how absolutely vital culture can be in the long-term success of any enterprise. This cannot be overstated in as far as it relates to a knowledge industry like asset management. Unlike other financial services subsectors, in asset management, almost 100% of the value created for clients is a function of experienced, diligent, insightful and creative groups of individuals. The best and the brightest. There are no balance sheet assets or vast branch networks to rely on to deliver the client value proposition.

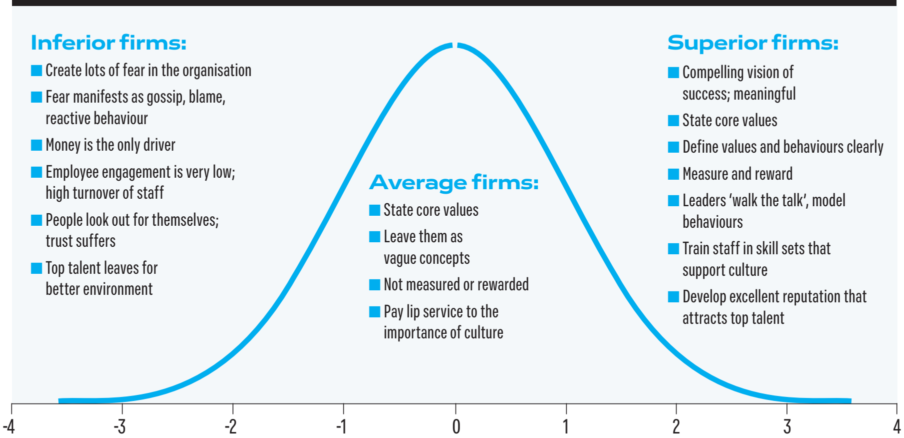
David Fisher, chairman of Capital Group, one of the best knowledge businesses in the industry, summed up the critical role that culture plays in asset management when he said: “Our only competitive advantage is culture.” This is because a strong culture allows organisations to attract and retain the best talent, which is the only real currency for success in our line of business. It substantially improves the odds of being able to organise those people into effective teams, with common values and a passion for delivering a compelling client outcome.

It sounds simple enough. So why is it so difficult to achieve in the real world?

The clue comes from understanding what organisational culture is: The values, beliefs, and behaviours that would differentiate one firm from others. The key word is behaviours. We all know how notoriously difficult it is to change our individual behaviour, let alone the behaviour of others. We know intuitively how significant the prize is for achieving the Holy Grail on culture. Work done by the Focus Consulting Group captures it very well in the chart above. It illustrates the difference in how superior firms embed its cultural desire within a firm.

The evidence regarding the value of culture in asset management as a knowledge business is undeniable. This is not really an issue that needs debating. When it comes to South Africa, however, there are some unique and critical questions that should be asked on how you address culture within a local context. This is because the evolution of corporate culture in SA is inextricably tied to the pursuit of transformation and diversity.

CULTURE AS A STRATEGIC ADVANTAGE FOR THE INVESTMENT FIRM




SOURCE: Focus Consulting Group Inc.

Leaders and corporations have an extremely important choice to make regarding the integration of diversity into the fabric of their specific corporate culture. This choice requires a high level of self-awareness, honesty and foresight. **As I see it, there are three choices that apply to the issue:**

**1.** Fight to preserve the existing culture, potentially at the expense of diversity;

**2.** Coast blindly without recognising the need to make an explicit choice;

**3.** Or adopt and evolve.

Choice one faces those organisations that have achieved exceptional commercial success as a result of a truly distinct and well-defined corporate culture. Many of these businesses have made the choice to protect their formula for success by focusing their recruitment and development strategies on hiring and advancing people that fit the pre-existing mould, irrespective of race and gender. In other words, they answer the diversity question within the context of a pre-existing culture. Fit in or… They drive transformation as long as they can find people who are naturally aligned with the existing cultural norms and behaviours of the organisation.

This may create a high-performance culture with success built on a unique clarity of culture; however, it does not create an environment where everyone can thrive. They take lower risk when introducing difference into the firm and therefore will potentially take longer to transform.

Choice two is one made unconsciously, I suspect, by most organisations. These are the businesses that are coasting along without a clear strategy that defines their approach to diversity. They are so frantically on the transformation journey that they don’t stop to consider the impact of bringing so many different people (by race, gender, background, aspirations) into an organisation, and what this means for culture and ultimate success for the business. My view is this will only result in mediocrity, for the firm and its clients.

The most rewarding choice is being made by organisations that are consciously transforming their cultures to embrace diversity. These businesses are dynamically creating an environment where the entire ecosystem thrives as a result of diversity. It is the most difficult to implement well because it requires real change. And as we all know, inertia is often more powerful than the desire to change.

It requires visionary leadership and deliberate and consistent actions to entrench this kind of new culture. The few that have managed to succeed in doing this are the businesses that represent the future our country deserves and I believe, as leaders, it is our responsibility to find the courage to pursue this kind of change. ■

**Khaya Gobodo** is head of asset management at Old Mutual Investments.

By Penelope Gregoriou

FEMALE LEADERSHIP

# Remove the ceilings

Instead of simply assimilating women into the existing corporate culture of the financial services industry, a true commitment to changing the structural and cultural status quo is needed.

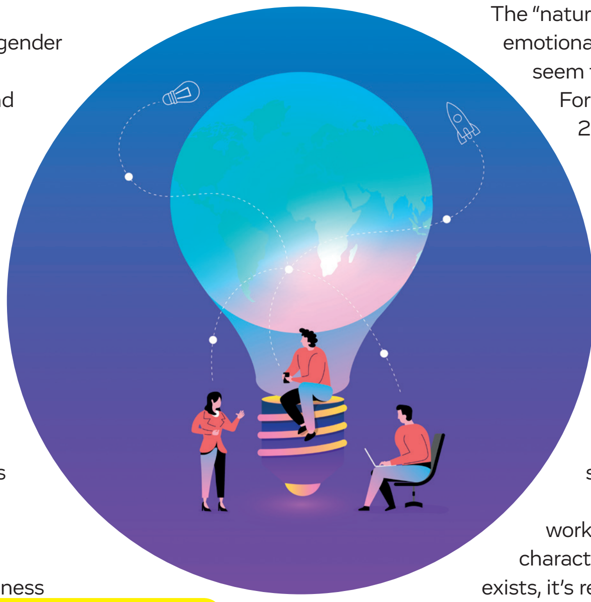
The asset management industry is one that has heralded many successes, but it could be said that gender diversity is not one of them.

With a McKinsey study revealing that only one-fifth of women in the industry are in executive positions globally, the status quo around the industry is one that is rooted in outdated beliefs about a female's prominence in it. As a result, the financial sector's pervasive business model is one that has made it difficult for women to progress professionally.

Another point of contention is whether this gender imbalance is being addressed with innovation and urgency – both from a moral perspective and a commercial one.

It would be easy to assume that gender diversity fits within a "nice-to-have" category, but social development and the modern client would challenge that assumption and say that it's a "need-to-have". If culture is one that places more focus on maintaining the current state of affairs rather than improving inclusion, then trust and loyalty will be compromised as a consequence.

The bad news is that a true commitment has not yet been made by the South African financial services industry, but the good news is that this can change.



## Invisible, but pervasive

Culture is as much a product of business strategies as it is of the perceptions of those that created them. There are two overarching issues that contribute to the barriers that prevent women from entering higher positions of power: structural and cultural. I am of the impression that cultural issues lead to the structural ones and thus, culture is what needs to be addressed with more urgency.

What inhibits women's vocation are the perceptions of the people that can impede on this trajectory – namely that women lack the ability and ambition to be key players in financial services and the perception that the one-fifth of women that already are, is enough. A gap is evidently present between perception and reality.

Only once addressing the misunderstanding that a woman is not able to confront the demands of a business because of the demands of her family, can this trajectory be given the traction it deserves. It's a pity that it's not experience or qualifications that prevent women from progressing, but something as abstract as stereotypes. But again, this can change.

Another misconception is that the nature of the industry isn't complementary, or rather, complemented by the leadership and working styles that women have. Qualities such as assertiveness, strategic thinking and confidence are perceived to be mostly exclusive to men. If we were to maintain stereotypes, a case could be made for women based on them too.

The "natural qualities of a woman" such as emotional intelligence and multi-tasking still seem to be irrelevant. The World Economic Forum (WEF) would beg to differ. In 2016, the WEF released their paper, *The Future of Jobs,* and they stated that the two new skillsets people need by 2020 are "emotional intelligence" and "cognitive flexibility".

Whichever angle you look at it, the input of female professionals cannot be underestimated.

I find it odd how a woman's working styles are called "different", but never "wrong". Yet the former seems to imply the latter.

Instead of embracing different working methods and personal characteristics to complement what already exists, it's regarded as necessary to assimilate women into the current corporate culture that is evidently flawed.

**Culture is as much a product of business strategies as it is of the perceptions of those that created them.**

## The right time for top-down management

When leaders acknowledge the gaps that are present in the female talent pipeline, there should be a deliberate integration of HR responsibilities and business strategies that leaders initiate regarding both corporate culture and the bottom line.

Data is vital for gaps to be identified and for promotions of current female staff and new staff to be tracked and reviewed. Data is impossible to overlook or argue with because it's objective to the changes that demand to be made.

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**Innovation should not start and end with the products and services that the financial industry provides, but should be a governing principle throughout the organisation.**

To be included, we need to be inclusive. The people who can implement new policies are not included in these conversations and thus, our conversations have been counter-productive.

### The catalytic client

Clients have the upper hand in their transactions with companies and this influence can prompt this culture that companies need to create.

Once leaders recognise what it is that more clients are asking for and responding to – diverse and inclusive cultures – they are in a better position to motivate transformative behaviour. The modern client is an insistent one, and trust and loyalty are the attitudes that lead to long-lasting relationships that the financial services industry requires to thrive.

Innovation should not start and end with the products and services that the financial industry provides, but should be a governing principle throughout the organisation and should reach the talent pipeline and the escalation of the women in it. Implementing innovation, not only for the goal of improving the bottom line, but in changing how the escalation of the female talent pipeline may contribute to that goal, is a categorical imperative. McKinsey said that gender parity could only be achieved by the year 2030. My question is the following: Why is this the case if we have everything we need to make this happen now? ■

**Penelope Gregoriou** is an intern at Alexander Forbes Investments, working in marketing and communications.

By Sarah Blake

FINANCIAL SERVICES

# What a culture of open means

Embracing the power of networks and connection will take your organisation into the future.

Culture is not just a social term, or a Sunday trip to Cinema Nouveau. Culture also has meaning in the biological world. Perhaps metaphors from the biological context can help us to understand the importance of culture in the organisational social context.

A culture is what is used to maintain biological bits – such as tissue cells, or bacteria – outside of an organism in a way that is suitable for later. Another use for culture refers to live organisms added to substances to transform them, such as cultures that transform milk into yoghurt or cheese. So "culture" is a living thing – and can be tiny and microscopic – that has a big impact. It maintains life; it promotes growth; it can transform substances.

When it comes to the social and organisational context, culture usually refers to the values, beliefs, attitudes and behaviours created by and agreed – overtly or not – by people. However, to understand how important culture is, consider how these values, beliefs, attitudes and behaviours can maintain, grow and transform an organisation.

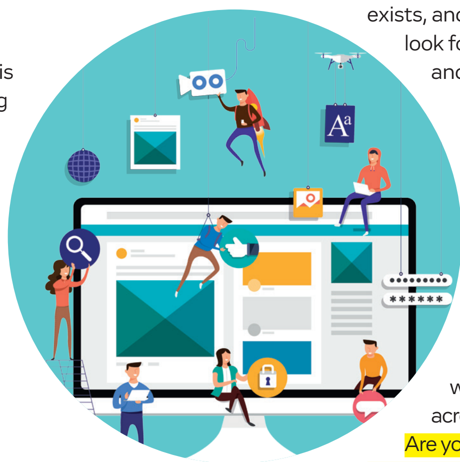
**Open organisations are more likely to build products and services that connect into and enhance a wide network.**

## Fintech and openness

From a financial services perspective, there is a sense that banking and banks are catching up with technology when it comes to openness. New regulations in Europe, for example, require banks to subscribe to data standards, and to make data available via application programming interfaces (APIs), allowing for other providers to build products and services through which customers can choose to interact with their banking data. The banks, therefore, will no longer be the sole gateway to a customer's data.

Technology has a long history of "open", with the internet being perhaps the most pervasive example of the power of open technology. The internet is a connected system of networks founded on the philosophy of open standards, open protocol architecture and open networking. This set in motion the ability for people to do new things with the network, unconstrained by the original design – and we are experiencing the richness this led to today.

But what has this got to do with culture? Articles and presentations from Vint Cerf, one of the "fathers" of the internet, and Tim Berners-Lee, inventor of the world wide web, demonstrate how the philosophies of openness were inherent in the early architects of the internet, and remain so today. They had a culture of openness. And this culture guided decisions made, and the thing built. Open was baked in, because open was the culture.



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## What does a culture of open mean?

A culture of open believes in the power of networks and connection. It looks for opportunities to build on existing networks, products and services, but also provides the means for others to build on top of it. A culture of open imagines a better world for all through collaboration, rather than a better world for me through insular competition.

Being open requires and finds power in vulnerability. For example, a culture of open will not build products and services that lock a customer in. Instead, a culture of open uses the fact that the customer is highly portable to drive innovation in delivering value to a customer in order to keep that customer.

Vulnerability also means that culture of open exists in and believes in a new trust: where customers and organisations trust each other to the benefit for all. And so a culture of open is inclusive. Principles of accepting vulnerability and building on trust provide opportunities for wider inclusivity, and then opportunity from that inclusivity.

A culture of open believes that we can all find ways to work better together, and are better for it.

Open organisations are more likely to build products and services that connect into and enhance a wide network, by building on what exists, and allowing others to build onto them. Open cultures look forward to others building on what they have created, and finding new opportunities from that.

A culture of open treats customers and data with care. Openness is about vulnerability and trust, and recognises the trust from and vulnerability of customers when they share data.

## Building the future

Open is coming to financial services. Whether that is embraced and leads to organisational growth and transformation will depend on organisational culture. Do you know how you, and your organisation, will embrace openness? How does collaboration work across teams and departments in your organisation? Are you competing internally for the same customer, or are you collaborating to create better solutions for the customers you have? How does your organisation feel about working with other organisations? Your direct competition? An organisation which might be able to provide a different view of your product for your customers? And how would you know if that is providing value to your customers? How would you know if that is providing commercial value to you, and to your partners? Do you call the organisations you work with partners or suppliers?

How are ideas and knowledge shared in your organisation? Who is allowed to share this? Who is allowed to critique and discuss ideas?

Open is not just another product set or feature. Open creates the future. ■

**Sarah Blake** is a user experience designer and part of the team at Kin, which uses the principles of open technology to build ways for people to collaborate around money.

By Jessica Matthysen

WORKPLACE INNOVATION

# Culture and why it matters

Many employees and companies dismiss the concept of culture as unimportant and irrelevant. But, if taken seriously and properly incorporated, it can unlock great potential in your organisation.

Over the past few years I have developed a taste for books that touch on employee/employer dynamics, organisational culture, personal development and psychology.

These books (see sidebar) are all trying to offer answers. Some of them take you for a walk alongside the author into their personal journeys – most of them into the world of frustration. It's a frustration that many people experience in trying to not just survive, but to make the leap to thriving at their employers, or making their businesses happy places for their staff.

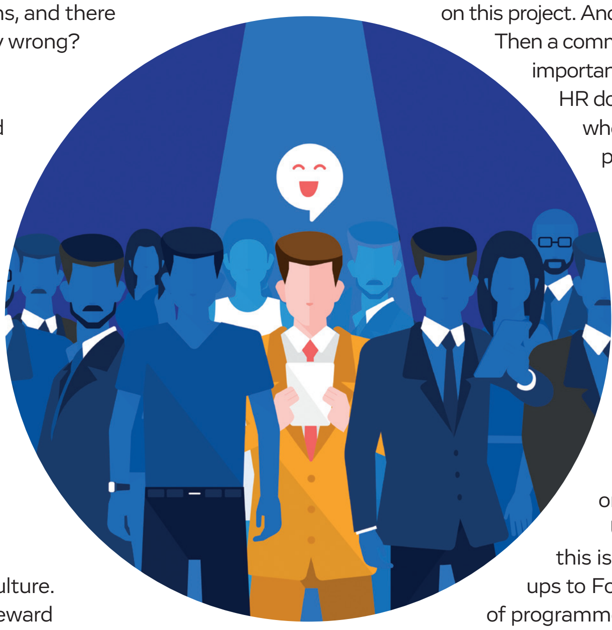
I too, have felt the frustration and I have felt powerless. Let's be honest, there are always problems, and there always will be. But what is fundamentally wrong? Is it me? Was it the job itself? Was it the environment, the salary, the commute to work? A list of endless questions plagued my mind.

To boot, it's not like companies themselves aren't aware of the problems. And hats off to them, they try, and a lot of them try really hard. But, it just seemed that no matter how many rewards programmes, team-building efforts or engagement surveys there were, something just didn't feel right.

Culture can be the key to unlocking the potential of organisations and the humans working there. Every company has a culture, whether you like it or not. The fact that the organisation exists and that humans work for it means it has a culture. Companies put together a multitude of reward programmes, policies, ceremonies, rituals and rites of passage. You could argue that their hierarchy and management system is similar to that of a tribe's kinship. Company values are plastered on everything sent from the human resources (HR) office, to email signatures, and the wall in the reception area.

In its online *Benefits Barometer* 2017, Alexander Forbes looked at the changing world of work and touched on the importance of seeing an employee holistically: "The more holistically employers can understand these needs, the better they will be able to structure policies and benefits that make sense for their employees – and this process starts with understanding employees in context. What are their responsibilities outside work? What are their attitudes and behaviours towards money? Understanding the history, values, psychology and responsibility lens of our individual employees is the right starting point for a meaningful discussion about a viable employee benefits framework."

How do we get the ball rolling on re-imagining our workplaces? Let's go back to what makes us human, and touch on a few things I believe are currently misunderstood, and challenge our beliefs about the power of culture.



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### Mistaken belief 1: Culture is not important, it's just the warm and fuzzy stuff

One afternoon a couple of years ago, I found myself in a beautiful, 40-seater boardroom, beginning the discussion on the importance of culture and trying to elicit resources to focus on this project. And I could see my efforts were stalling.

Then a comment was made about culture not being important: "It's just the warm and fuzzy stuff HR does, like putting chocolates on your desk when it's Worker's Day. Why is that our problem? We have far more important things that we should focus our time and resources on."

Which made me ask myself: Is there a mistaken assumption that culture *is simply* the motivation used by HR to make you work harder, faster, better? Or even just the pretty picture an organisation paints – the shopfront – to entice people into a company? Culture as internal marketing perhaps? A very one-dimensional practice.

Unfortunately, for many companies, this is exactly the perception. From start-ups to Fortune 500s, culture is viewed as a set of programmes, rituals and ceremonies that are mostly devoid of purpose and passion – a lot of them unimaginative and, at worst, boring. In many cases, HR policies are often in direct conflict with the values and culture of a company.

**In many cases, HR policies are often in direct conflict with the values and culture of a company.**

For example, do you tell employees and your customers that your organisation values sustainability – "We make every effort to go 'green'", yet you have mountains of paper piling up on every floor and insist on contracts being physically signed rather than accepting digital signatures? Maybe it's because it would cost too much to buy the software, or maybe you just don't trust digital signatures, or it could even be that in your industry it's not legal yet to do so.

So, while it is the prerogative of an organisation to make decisions and create its own policies, it is important that those decisions and policies are married to the core values you plaster on the walls of your halls.

Moral of the story? Be aware and be authentic. No point trying to be something you are not. Your employees and customers will sense it.

### Mistaken belief 2: Employees and customers should be treated differently

"Clients do not come first, employees come first. If you take care of them, they will take care of your clients," wrote Sir Richard Branson in a piece published on the Virgin website in 2016.

Another colloquial way to describe culture is to describe it as "the way we do things around here". Did you ever notice though, that the way we do things for our staff versus the way we do things for customers is different?

Why do we have different ways of handling customers and employees? Isn't it obvious that by treating your employees like you would your customers, you create massive and, might I add, free marketing and public relations? Just imagine all your employees singing your praises...

Let's take a moment to consider the impact of spending the same time and effort on creating beautiful websites, campaigns, user experiences, products and services for people you don't know intimately (your customers), as you do on your employees. Your employees are like family, they are the people you can trust. Who better to tell you the truth (if you create the environment to do so) than your employees? And the risk is far less.

### Mistaken belief 3: Culture is just another tick-box exercise with an end date

I don't know how many times I've heard some version of, "Don't worry, all we need to do is implement this programme by X date and then it will all be fine."

Hard truth here... No! It won't be. Believing that culture is something you can manage, like a project with an end date, is setting you up for failure. That's because culture is an ongoing movement:

- There's a constant ebb and flow of human beings who join and leave your organisation.
- Hopefully, people are not stagnating, but growing, developing, learning and maturing within your organisation. When this happens, their priorities, needs and wants evolve too.
- There are external factors out of your control, such as the economic climate, regulatory requirements, customer spending habits and, of course, the biggie: technology.

All these factors will affect both your culture and your strategy, two sides to the same coin (see mistaken belief 4).

Think about it like this: Culture is like a software programme for the human working condition within an organisation. For people to thrive (note, thrive, not survive), culture requires the same attention and dedication, and

Culture is like a software programme for the human working condition within an organisation.

## Some of Jessica Matthysen's favourite books on the subject of organisational culture include:

- *How to build a happy sandpit* by **Colin J Browne**
- *Legacide* by **Richard Mulholland,**
- *What's your moonshot?* by **John Sanei**
- *Turn the Ship Around* by **L. David Marquet**
- *Work Rules!* by **Laszlo Bock**
- *Start with Why* by **Simon Sinek**
- *Drive* by **Daniel H Pink**
- *Maverick!* by **Ricardo Semler**


the same methodologies as, say, app development, agile methodologies and throw in some *Lean Startup* (a book by Eric Ries). Constant reiteration. (But remember to replace 'customer' with employee – see mistaken belief 2).

### Mistaken belief 4: Do you believe your legacy is your culture?

My mother did her MBA while I was still in school. I can remember one of her stories very clearly from one of her classes. "Are you sellling drills, or holes in the wall?" Legacy says... you sell drills. It's been your product offering for years, maybe even decades. But really, what you are doing is selling a hole in the wall.

This is the problem with legacy. It's a mistake to assume that just because something has been done for generations, it must be right. Most people never question those assumptions, they never question the "authority", especially when there doesn't seem to be any overt harm in continuing the practice. Flipping the script from product offering to solution offering opens a whole new world of possibilities.

But if you want innovation, if you want creativity, if you are looking for continuous improvement, if you want to survive automation and digitisation, then you need to give your people the freedom to question everything, and the culture to make the change happen. Flip the switch and commit to 'legacide' (as written in Richard Mulholland's book) – constantly.

Mulholland says: "You need to understand that innovation is not limited to doing something new. In fact, more often than not, innovation should be about stopping doing something that's old – even if that thing is what made you succeed in the first place."

And the same can be said for culture. ■

**Jessica Matthysen** is head: customer success at Alexander Forbes Empower.

By Jim Ware

LEADERSHIP

# The leader's role in getting culture right

Leaders are pivotal in building a company's culture. The model below provides them with a structure to do so.

What does a leader need to do and think about in order to get culture right? How do you manage culture? 97% of investment professionals who took part in research by Focus Consulting Group (FCG), agree that "Strong culture contributes to success".

Strong culture attracts talent, improves morale, enhances decision-making, and increases client satisfaction, according to our clients. But getting this right is difficult.

To help leaders get it right, FCG has effectively used a model we call ESAR (experiences, stories, actions, results) for many years. The model starts with the basic question: What are we trying to achieve? What are the firm's goals? What results will satisfy our stakeholders (clients, employees and owners)?

Culture exists to support the firm's goals, so without the end in mind, culture efforts are misguided.

For our purposes, we'll assume that leadership has done its work determining the vision, mission, and strategy.

In other words, they've answered these questions:

- **Vision:** *Where* are we going? What does success look like?
- **Mission:** *Why* are we doing this work? What value are we adding?
- **Strategy:** *How* will we get there? What is our path to success?

Culture answers the question: Who are we? What is our code of conduct? Our values?

### ESAR helps leaders identify and shape culture to get it right. The three key pieces are:

### 1. Experiences
What do people experience in their everyday work life? These statements would be largely factual, such as, "I heard colleagues grumbling that no one speaks up in meetings." Another example might be: "I've never heard leaders explain how the bonus system works at this firm."

### 2. Stories
How do people interpret their daily experiences? What stories are created to explain the experiences?

In the first example above concerning candour, people might create various stories:

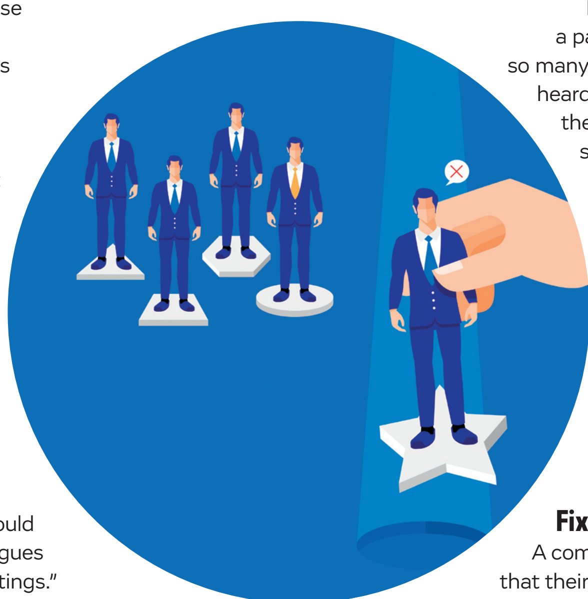
**a.** The leader has intimidated team members so that they are afraid to participate.

**b.** The team is bored with the topics, they don't participate because they have no interest.

**c.** The team is ill-informed, so they can't contribute intelligently.

As humans, we naturally interpret our experiences. Nature abhors a vacuum and so do our minds. We fill the gap with our own interpretation, right or wrong.

**Strong culture attracts talent, improves morale, enhances decision-making, and increases client satisfaction.**



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### 3. Actions
The stories that are created will drive our actions. For example, if the people in the meeting feel that they will be punished for speaking freely, then they will be silent.

Managing culture becomes an exercise in understanding how the experiences and stories in your firm are driving actions (i.e. behaviour). Feedback is an important tool because often leaders will not know what stories are circulating unless they receive real-time information.

For example, during a conference offsite a participant said, "One of the reasons why so many of us are nervous is because we have heard rumours that our new CEO is here to sell the business." The CEO – in the room – was shocked by this statement.

His response was an unequivocal: "No, that is not why I was brought in." In relatively short order that inaccurate story was cleared up, and the tension dissipated.

So, an important job for leaders is to listen for predominant stories: knowing the "buzz." Then, reinforce the good stories – the ones that drive good results – and address the bad ones that hurt morale and performance.

### Fixing the narrative
A common "bad" story held by staff members is that their boss does *not* want to be challenged. In other words, candour is not appreciated or supported in the culture. Sometimes, of course, the story is true. Some bosses do punish team members for pushing back on ideas. If that is the case, then the experience created by the boss needs to change.

The ESAR model is pointing to the "experience", not the "story" as the source of the problem.

**As humans, we naturally interpret our experiences. Nature abhors a vacuum and so do our minds. We fill the gap with our own interpretation, right or wrong.**

On the other hand, we have often found that the story is inaccurate. Actually, the boss does want pushback but has given contradictory signals. She may roll her eyes or make a sarcastic comment when someone offers a different view. An effective way to correct this inaccurate story is for the boss to address it directly: "I do want to hear your views, even when they differ from mine. Please test me on this." Then as a skilful follow up, the boss can begin asking, "Does anyone see this point differently?"

Most importantly, the boss must align words and actions. When a different view is expressed, the boss must show clearly that she welcomes it. In the beginning, it is useful to make this point forcefully by mentioning later in the meeting that you appreciate so-and-so for their earlier pushback. In this way, the boss can correct the bad story and improve the dynamics of the team.

## Managing mindsets

Managing culture effectively occurs when enough leaders and staff members understand and employ the ESAR model. Culture is the mindset of the firm. Mindset is the beliefs, opinions, expectations, and assumptions that are operative in a firm (i.e. the "stories"). The tricky part is that they are unseen. It is easier to correct culture violations that are seen, like coming late to work. It is harder to address the ones that are invisible, like distrusting your colleagues.

For example, the issue of distrust arose on one team because the leader was often absent, creating a story that he was selfish and detached from the team's success. The experience in this case was accurate: the leader was frequently away. And when the leader was present, he seemed uninterested in the team's work. The stories created by the team hurt morale and productivity.

We were asked to work with the situation and see if we could improve it. In interviewing the leader, we learned rather quickly that his wife had been diagnosed with late-stage cancer. They had three young children. The leader was in crisis. Rather than share this information with his team, he chose to keep it to himself.

When our interview was ending, we asked if he would be willing to share the news with his team. At first, he didn't see the point. It was a private matter, not involving work. We explained that in fact the situation was a work matter because he was taking time off and becoming detached from his duties. Rather reluctantly, this leader agreed to share his situation with his team. As you can imagine, this information had a profound effect on this team. The story that he was untrustworthy evaporated, and the team showed a genuine concern for him and a willingness to help in any way they could. By addressing the story, the leader resolved the situation. (There is a happy ending to this story. His wife has since recovered and remains in remission.)

Not all ESAR stories are this dramatic or so fully resolved. Nevertheless, the ESAR model is the core tool for addressing mindsets and behaviour in a firm. The best way to practice ESAR is to take situations at work and break them down into the components: experiences, stories and actions.

For example, say you overhear two colleagues gossiping that so-and-so got a poor job review because they saw him leave the HR director's office with an angry expression, muttering to himself. You can break down this situation as follows:

**1. Experience:** So-and-so was seen leaving the HR director's office.
**2. Story:** He was angry because he got a bad job review.
**3. Action:** Two colleagues then gossip about the event.

If your culture is built on trust and respect, then this action should be discouraged because gossip tends to erode trust. So-and-so would not be pleased with two colleagues spreading a story that he got a bad review. Whether it's true or not.

The proper action: find out the truth. Ask the person directly why he seemed upset after the meeting. Or, assume a good story. When you don't know the story, you get to make one up. In this case, you could make up a story that the conversation with HR had gone fine, but so-and-so had a bad stomach ache.

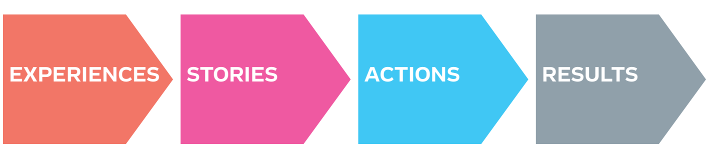
And, of course, refrain from gossip in all cases.

Too many leaders are passive around the experiences and stories that live in their firm. Actions and results are visible and therefore more easily addressed.

However, leaders who are unaware of – or unconcerned about – the underlying cause of the actions will not address the core issues. ■

**James Ware,** CFA, is the founder of Focus Consulting Group, and an author.

**MANAGING CULTURE: ESAR**




| What are people experiencing in the culture? | What stories drive the actions? | What actions lead to the results? | What is our vision of success? |
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