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# Addressing Culture and Its Associated Risks in Financial Institutions:

## A Character-Infused Approach<sup>1</sup>

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## Introduction

This article focuses on the challenge of changing organizational and sub-unit cultures of financial institutions to better manage the many forms of cultural risk (see sidebar) and thereby improve organizational performance. We propose that a focus on key character dimensions in all employees, but specifically those in risk leadership roles, will result in accelerated culture change, improved risk management, and better organizational outcomes. We address specific executive and governance actions to assess and develop the character dimensions. We conclude with steps to develop a character-infused culture that will be superior at managing different types of cultural risk threats and opportunities and can be a source of competitive advantage.

## Organizational Culture

A practical definition of organizational culture is provided by Alison Cottrell, CEO of the Banking Standards Board:

“ [Culture] refers to the collective assumptions, values, beliefs and expectations that shape how people behave in a group. These norms will determine what is considered admirable, tolerable or shameful within the group, and the status of individual members.<sup>3</sup>

Jay Clayton, chairman of the U.S. Securities and Exchange Commission, elaborated:

“ [A]n organization’s culture is, in large part, defined by the countless daily actions of its people. Culture is not just what is said by management, but what is done ... day in and day out throughout the organization, with colleagues, customers, suppliers and regulators.<sup>4</sup>

Culture influences whether and how people perceive risk, how they engage others within their organizations in discussing and analyzing risk, whether they report it promptly and accurately to senior management and regulators, and how they mitigate and otherwise manage risk and deal with the consequences of their actions. Culture affects people differently depending on the degree to which they identify with the group and are subject to its influences and pressures to conform.

Seldom do large, complex organizations have one, single, monolithic culture. They usually have sub-cultures within the organization, whether explicitly understood and managed, or not. Culture in one division of a company, such as the private equities group in a large insurance company, may be different to that in the mainstream insurance administration or benefits group. The culture in a subsidiary may be different to that in the parent company, and the cultures may vary even more when organizations operate in different countries. Yet actions in one part of an organization can significantly impact the income statement, balance sheet, or reputation of the whole.

Cultures and sub-cultures are typically developed over a very long time and, once created, can prove extremely resistant to change.<sup>5</sup> Some organizations and their sub-units have “strong” cultures in which

values, beliefs, assumptions, and behaviours are widely shared and clearly manifested; other organizations have “weak” cultures in which the values, beliefs, assumptions, and behaviours vary in the extent or degree that they are shared and practiced. Both cultures may be difficult to change.

## Culture’s Impact on Performance

Culture influences many things in organizations, including

- if, how, what, when, and why people perceive what is going on in their organizations and in the environments within which their organizations operate;
- whether people recognize, surface, and discuss culturally inconsistent behaviours and bring them to the attention of senior leadership, or suppress them; and
- whether people turn a blind eye to certain behaviours, condone, suppress, or ignore them.

A culture of blind obedience to authority, meek acquiescence to decisions and actions even though you think they are wrong, admonitions to “get with the program,” and similar norms will allow well-established psychological phenomena such as “groupthink” to flourish. There may be occasional rumbles of disagreement, but these are summarily dismissed if the individuals haven’t already censored themselves.

In contrast, when the culture encourages people to constructively challenge authority, question how things are done, and speak up when they see something going wrong, risks are more likely to be identified, analyzed properly, and well-mitigated. Discussion and debate may slow the decision-making process, but they should be looked at as an investment in decision quality. A senior executive of a large, international bank described to one of the authors the lessons learned from the 2008 financial crisis:

“Simply put, what I think I have learned most about leadership in the last few years, being in the financial services industry, is how little we have collectively placed on the importance of appropriate questioning. To me, that is the essence of risk management, not preparing spreadsheets or ticking boxes. Risk management is appropriate questioning.

Culture influences all facets of organizational practices and routines. The oft-repeated phrase by management guru Peter Drucker, “Culture eats strategy for breakfast,” is a reminder of that. Clayton reinforced the pivotal role of culture in a recent speech, noting, “First, to effectively manage the business of your organization on a day-to-day basis and over the long term, management needs to know what the culture of the organization is today, including the key drivers of that culture.”<sup>6</sup>

In the 2008 financial meltdown, there were relatively small, independent units that took risks and were able to leverage the balance sheets of the larger, more risk-averse corporations to which they belonged. The small units could take those risks because the appropriate control systems were not in place and the small units and their larger entity did not share a common risk-management culture. While sub-cultures may exist in different parts of an organization, none of them should be strong enough to blind top management and the board of directors to overall corporate risk or to incentivize employees to commit acts of malfeasance.

Issues around business culture and corporate or individual malfeasance continue to be front page news in the financial and popular press. Recent examples include Volkswagen’s emissions scandal,<sup>7</sup> Uber’s sexual harassment issues,<sup>8</sup> United Airlines’ treatment of passengers,<sup>9</sup> McKinsey’s activities in South Africa,<sup>10</sup> and the sales practices of various telecom companies.<sup>11</sup> However, perhaps no sector has faced the same criticism, costs, and unwanted attention as has the financial services sector—the result, in part, of the importance of this sector in delivering critical public goods that profoundly affect the day-to-day lives of everyone.

Errant organizational culture clearly played a central role in precipitating the financial crisis, and it played a role in scandals well beyond that event (e.g., bench mark manipulation, improper sales practices, and rogue traders). The most recent estimates are that world-wide, financial services firms have paid more than US\$340 billion in penalties and fines related to the financial crisis.<sup>12</sup> Conduct related losses are even more severe—estimated to be in excess of US\$600 billion since 2010.<sup>13</sup> The indirect literal and figurative costs in financial costs and human misery to economies, organizations, communities, and individuals who suffered the consequences of those firms’ behaviours cannot be estimated, but they probably dwarf the identified penalties and fines.

The vexing persistence of these issues and their associated risks are central to the concerns of the world’s leading financial institution regulators. On March 19, 2018, the Financial Conduct Authority (FCA) held its annual forum in the series *Culture and Conduct for the Financial Services Industry*.<sup>14</sup> In the very first paragraph of the conference discussion paper, Jonathan Davidson, FCA’s director of supervision, stated, “Culture in financial services is widely accepted as a key root cause of the major conduct failings that have occurred within the industry in recent history, causing harm to both consumers and markets.”<sup>15</sup> This sentiment follows the lead set by Andrew Bailey, then chief executive of the Prudential Regulatory Authority, when he stated in a speech given at the City Week 2016 Conference, “Culture has a major influence on the outcomes that matter to us as regulators. My assessment of recent history is that

## Culture Risk

*Systemic Culture Risk* — The risk that aspirational culture is poorly constructed, defined, or implemented.

*Latent Culture Risk* — The risk that culture is not operating in the way intended or assumed (likely poorly monitored); may include confusing ends (results) with means (process).

*Localized Culture Risk* — The risk that culture contains high variability or areas that are problematic.

*Conduct Risk* — The risk that the actions or behaviours of individuals are inconsistent with articulated standards, policies, and guidelines (and perhaps even laws).

*Cultural Misalignment Risk* — The risk that an organization’s structures, processes, and behaviours are misaligned and promote inconsistent actions and behaviours.

*Cultural Agency Risk* — The risk that individuals overly defer to authority and leadership.

*Culture Complexity Risk* — The risk that an organization overly relies on rules at the expense of judgment.

*Character Imbalance Risk* — The risk that prioritized values become privileged and lead to an imbalanced culture.

*Solvency Risk* — The risk that an organization lacks long-term advantage as a result of a suboptimal culture.

Source: Global Risk Institute

there has not been a case of a major prudential or conduct failing in a firm which did not have among its root causes a failure of culture as manifested in governance, remuneration, risk management or tone from the top.”<sup>16</sup>

The Federal Reserve Bank of New York (NY Fed) voiced its concern with its fourth conference, *Reforming Culture and Behavior in the Financial Services Industry*, held on June 18, 2018.<sup>17</sup> John Williams, president and CEO of the bank, remarked:

“ We must stay vigilant around the “softer” side of supervision. Strong culture and robust corporate governance are our first lines of defense.”<sup>18</sup>

Financial institution regulators, boards, and management are being called on to elevate culture risk to the highest levels of their enterprise risk frameworks. (We define culture risk as the risk that the desired, aspirational culture is poorly constructed, defined, or implemented. See the sidebar for additional definitions.)

In this article, we propose a complementary, character-infused approach that regulators, boards of directors, and executives can employ to develop every individual’s character and foster a constructive culture that will be less likely to result in acts of malfeasance. The result will be a higher performing workforce that can achieve and sustain excellence across all organizational activities.

## What’s Not Working Well Enough

Materials from FCA’s and NY Fed’s 2018 conferences on culture provide details regarding the comprehensive, extensive, expensive, and good faith initiatives undertaken by financial services firms to address the issues with cultural risk that plague their organizations and industry. These initiatives are professionally and carefully implemented investments intended to strengthen different drivers of culture.

A sample of efforts undertaken to date include

- separate board and operational committees focused solely on culture and conduct;
- revised value statements and codes of conduct;
- conduct risk awareness programs for staff;
- town halls where executives meet with staff to discuss culture;
- changes in remuneration including compensation clawbacks, limits, and deferrals;
- changes to performance evaluation systems to limit unintended outcomes or perverse incentives, but also balance conduct and behaviour with achieving business goals (e.g. use of balanced scorecards);
- Front office dashboards to review conduct and culture metrics;
- Recognition programs to praise and reward staff for exemplary conduct;
- Staff surveys measuring a plethora of metrics including engagement and corporate transparency;
- Assessing new recruits from a culture and conduct perspective, including behavioral interviewing;
- Establishing and maintaining whistleblowing hotlines that seek to protect the whistleblower; and
- Broad-based conduct training programs, including scenario-based training.

The resources that have been dedicated to addressing culture risk in financial services firms have been extraordinary, and likely without historical precedent. Armies of experts, consultants, auditors, and compliance officers have been deployed in the endeavour. And these efforts are in addition to the numerous regulatory changes that have been made to strengthen the liquidity, capitalization, infrastructure, and stability of the financial institutions and the industry generally. Yet, although progress has been made, it is still regarded by virtually all participants as not being enough.

At the 2018 NY Fed conference, Williams summed up his position on culture in his closing remarks:

“Although we have seen marked improvements in the critical areas of capital, liquidity, and resolution, we have not yet fully addressed the root causes of many of the problems that have plagued the financial sector. ... Underlying these scandals is often an inadequate corporate culture, where accountability and ethical culture have fallen by the wayside.<sup>19</sup>

With respect, we believe that Williams’ call to action will not achieve the desired goal of changing organizational and sub-unit culture unless the efforts address the **character** of leaders at all levels of governance and management in the organization. Character influences culture, culture influences behaviours, and behaviours affect outcomes.

## A Call to Engage Leadership Character

There is an expanding commentary around the role of the individual in effecting positive, sustainable culture change. One early and highly influential proponent is Christine Lagarde, managing director of the International Monetary Fund (IMF) since 2011. In a speech she gave at the NY Fed’s 2015 conference on culture, Lagarde focused on individual accountability as a “catalyst for cultural renewal”:

“In essence, what is needed is a culture of **greater virtue and integrity** [emphasis hers] at the **individual level** [emphasis ours] in the financial industry.<sup>20</sup>

Lagarde went on to say:

“Change in culture must come from *within*. ... [B]y promoting and instilling “virtuous” norms in individuals in the firm, a cultural renewal within the firm can be induced.<sup>21</sup>

This theme is being repeated by other commentators across the financial services industry. In three instances related to the 2018 culture conferences sponsored by the FCA and the NY Fed, the role of the individual was highlighted and emphasized:

- In his essay “Creating a Culture of Ownership,” Andrea Orcel, at that time president and chief executive for UBS Limited stated, “You cannot simply order people to embrace culture. It has to be owned and driven at all levels.”<sup>22</sup>

- In his essay “Behavioral Science Reveals the Route to Culture Change,” Octavius Black, CEO and co-founder of Mind Gym, wrote, “Rather than top down, a successful culture strategy change will focus on the individual. Specifically, its aim will be to get each of us to notice when our behavior is inconsistent with our moral identity.”<sup>23</sup>
- During the NY Fed’s conference panel discussion “Auditing Culture,” panellist Elizabeth Arzadon observed, “[F]irms tend to overestimate the power of formal processes, and under-estimate the need for sound individual judgment.”<sup>24</sup>

This theme is also consistent with the views we expressed in a previous article when we concluded, “Reframing misconduct in the financial services sector to add character-driven judgment to the moral issue represents a more complete formulation of the problem.”<sup>25</sup>

Many would reasonably argue that there already has been a substantial focus on the individual. Extensive staff training, conduct awareness programs, and recognition programs are all examples of when senior organizational leadership has imparted to middle management, lower management, and front line staff the cultural values of the organization and conveyed how every individual is expected to behave under a variety of circumstances.

Many leaders think that this is as much as they can be expected to do. During the NY Fed’s 2018 conference, the first panel of the day presented three globally prominent, influential leaders in a broad discussion on finance, culture, and society. The moderator observed the bottom-up, individual nature of culture. However, the three panellists countered, “[L]eaders seeking to change a culture can only institute change from the top down.”<sup>26</sup> This top-down, bottom-up tension explained the reluctance of some leaders to over-commit to culture programs. The panel’s moderator commented on this reluctance by quoting Arzadon: “Leaders know culture is powerful—they can see its effect. ... [B]ut the bigger barrier is that deep down, leaders avoid embracing the issue of culture because they lack confidence in their ability to do anything about it.”<sup>27</sup>

We do not agree that leaders are limited to manipulating top-down levers such as organizational structure, systems, processes, and task design to manage culture risk. These are all important but, as Lagarde proposes, organizational leaders must also instill “virtuous norms in individuals” and create a culture of “greater virtue and integrity at the individual level.”<sup>28</sup>

This is not a top-down versus bottom-up debate. The top-down pressures need to be present to initiate culture change and mitigate culture risk. However, these initiatives will be unable to anticipate every situation and needed adaption. In and of themselves, the initiatives do not provide an organization’s members with the means to (i) be aware of the inevitable conflicts between virtuous values and business goals, especially when these conflicts can be subtle, and (ii) make the wise judgements and take the necessary decisions and actions to successfully resolve the conflicts. These top-down initiatives are necessary but not sufficient to change culture and sustain a “new normal.”

We propose complementing existing approaches with an individual-level, **character-infused** approach. By this, we mean that members of the organization, and in particular the leadership group, embody the strength of character that drives a set of behaviours that become the foundation, if not the very essence of the desired culture. A culture built on the foundations of well-developed, balanced leadership character will minimize conduct risk, reduce cultural misalignment, and ensure that individuals feel able to challenge authority, speak up when they see inappropriate actions by more senior people, and exercise their judgment

when no rules exist or where the situation shows the rules to be inappropriate. Indeed, character-infused culture stands a very real chance of giving an organization a sustainable competitive advantage.

At its core, a character-infused culture becomes the *de facto* culture (as we describe in the next section) because it defines the set of desirable behaviours at the core of an organization's culture. A character-infused culture ensures that the top-down organizational structures and management processes that have been designed to guide behaviour are dynamically and contextually interpreted and acted upon in a manner consistent with the intended culture. Indeed, it is that very character-infused judgment that will iteratively shape the organization's policies and processes so that they reflect character rather than being corporate artefacts meant to shape character. It is only by developing a character-infused culture that the "say-do" gaps that often occur when leaders do not reflect the intended culture can be eliminated—substantially, if not completely.

In our own qualitative research of this aspect of culture management in the context of the causes and aftermath of the 2008 financial meltdown, we concluded that while business leaders recognized the central importance of character, they lacked an accessible vocabulary with which to discuss character with others, either individually or collectively. Business leaders were, understandably, loath to wade into discussions with people using the language of ancient Greek or even modern philosophers and concepts that were seldom addressed in working organizations, business schools, or management training and development programs. Business leaders were also hesitant, perhaps even squeamish, to engage in conversations that addressed something that they perceived to be as personal as character. Because they felt unsure about how to even start such conversations, business leaders usually avoided the conversations, even though they acknowledged their importance.

## The Ivey Leader Character Framework<sup>29</sup>

Individual character can be assessed, managed, and developed, and the Ivey Leader Character Framework provides the means. The vocabulary, concepts, and a usable and tested framework enable an organization to define, assess, and develop the character, and thereby judgment, of every member of the organization. By doing so, the organization reinforces or changes its culture. Implementing this process in a robust and methodical way is central to engaging the best of each individual and is a prerequisite for organizational cultural effectiveness and excellence. Once embedded in an organization, this character based leadership becomes a strategic asset, driving superior performance while also raising the standards for behaviour and conduct.<sup>30</sup>

The origins of the Ivey Leader Character Framework date back to 2009 when we tried to understand the root causes of the then-recent financial meltdown.<sup>31</sup> In one of the first of 10 initial, large group discussions about the root causes of what had happened, one of the participants raised the subject of character and others expanded the discussion. Even as we tried to move the discussion on to dealing with incentive schemes, short-termism, inadequate and bounded algorithms, and the like, participants kept bringing us back to character.

Nobody had defined character well in the literature at the time, nor had we. But there was an emerging consensus that in addition to other causes such as poor control systems, excessive reliance on limited and

incomplete quantitative models, inadequate regulation, and competitive pressures to perform, there were some key character deficits that allowed, and perhaps even encouraged, individuals, teams, and organizations to take on excessive, poorly defined, and misunderstood risks.

In our original discussion groups, as well as in subsequent group discussions, people identified organizations that avoided these types of risk—organizations in which the presence of strong leadership character appeared to influence those at all levels of the organization to be sensitive to the potential risks, analyze them systematically, and reject them. There were financial institutions that did not sell high-risk structured products, did not bundle sub-prime mortgages into bonds for which they could get misleadingly high ratings, and resisted pressures to perform by taking unwarranted counter-party risks. Not all customer service reps opened fake accounts to get rewards or to avoid punishments; not all pension plan administrators stuffed employees' pensions or other savings accounts with high-fee investment products that benefitted employers rather than the employees whose funds were invested. And not all—maybe even just a tiny number—of middle-level investment managers tried to manipulate rates.

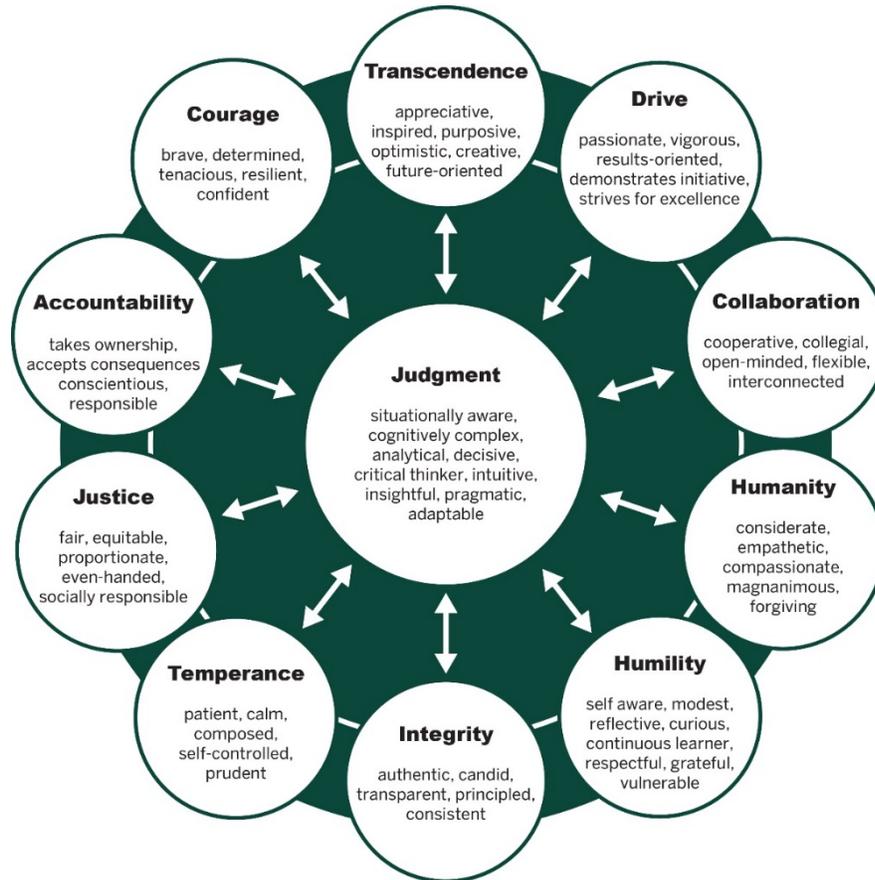
But people did do these things. Others endorsed them or turned a blind eye to what was happening. And because the behaviours were rewarding and no one seemed to mind, the behaviours became “the way things are done around here”—another phrase used to describe culture.

We use the term leadership not in the sense of hierarchy or position, but to identify those people who exercise leadership regardless of where they sit in the organization. In addition to the organizational structures and management processes, culture requires an “all-hands-on-deck” mentality, and like a ship, culture will run aground without it. The disposition to lead means individuals are continually bringing their strength of character to the organization so they can exercise quality of judgment and decision-making. The anatomy of many cultural breakdowns in organizations can be traced back to what we would see as weaknesses of individual character, typically reflected in acts involving poor judgment.

The qualitative discussion groups we held led to a decade of peer-reviewed research designed to understand leader character in organizations. Building on centuries of research in the field of character, from Aristotle to the present day, we developed the Ivey Leader Character Framework. Recent research has established its validity.

Our research revealed 11 dimensions of character that work in an integrated network (see Figure 1). These 11 dimensions are based on character research that is universal and applies across national and industrial sectors. Associated with each of the 11 dimensions are sets of behaviours, referred to as elements, which collectively reveal character.<sup>32</sup>

**Figure 1: The Ivey Leadership Character Framework**



In our framework, **dimensions** are the 11 high-level constructs, and **elements** are the habitual or usual behaviours that represent the dimensions. We use the qualifier “habitual” to describe behaviours, recognizing that not everyone demonstrates each and every dimension and its associated behaviours all of the time, under all circumstances. For example, while Integrity, Courage, and Temperance are three dimensions in our character framework, it is obviously improper to be transparent and candid about confidential information, and foolhardy to demonstrate courage unless and until one has thought through how and when to produce desired event outcomes, preferably without committing career suicide. And leaders must demonstrate some degree of impatience in correcting malpractice and malfeasance to ensure that the faulty “business as usual” will no longer be tolerated and the situation changed with a sense of urgency.

All of these 11 dimensions matter. Indeed, a virtuous character dimension such as Integrity can become or morph into irritating, annoying, and ineffective self-righteousness when it is not balanced by others of the 11 character dimensions, such as Collaboration, Humility, and Humanity. As authors and researchers, we wish that there were a smaller number of dimensions, but we have resisted exhortations to reduce them to three or four “critical” dimensions. Character is a multi-dimensional construct!

Organizations often overweight some dimensions of character in their formal values statements and underweight others. For example, when we look at the values statements of many business organizations,

we see focus on the dimensions of Accountability, Integrity, and Drive but not much about the importance of Humility, Humanity, and Temperance. This kind of configuration sets the stage for bullying and a culture of harassment and dogmatic leadership, which are the antithesis of the safe psychological state that encourages constructive dissent. Failure to emphasize that Courage is a valued characteristic diminishes internal, constructive dissent; ignoring Justice can lead people to believe that it is acceptable to develop and sell products that might be unsuitable for customers; ignoring Temperance when Drive is emphasized can lead to hasty, poorly thought-through decision-making; not emphasizing Collaboration encourages silo-based behaviors; and so on.

These concerns are not simply academic. In the study of the 2008 financial crisis undertaken by several of the authors, a senior financial executive stated, "It is essential to create a culture that is open and honest so that the leaders are in touch with what is happening in the organization. If you asked a difficult question or if you were a contrarian, you were decimated ... you were thrown out." <sup>33</sup> Clearly that organization's culture had an imbalance among the character dimensions that stifled constructive criticism and appropriate questioning, with devastating consequences.

Table 1, below, outlines what happens in organizations if each of these character dimensions is greatly diminished or even completely absent within organizations. The table also shows the obverse: what happens when the character dimensions are clearly present.

**Table 1: When Leader Character Dimensions are Absent and Present**

Dimension	If Present	If Absent
Judgment	Recognize key issues; solid decision making	Poor decisions, confusion, & resistance to change
Courage	Decisions are made; opposition to poor decisions; innovation thrives	Agreement of poor decisions; satisficing rather than maximizing is the norm; moral muteness prevails
Drive	Sustained momentum around focused priorities & high productivity	Lethargy & low productivity
Collaboration	Effective teamwork enhancing productivity; diversity in teams	“Every man for himself” mentality; lack of information sharing
Integrity	Trust, transparency & effective communication	People operate from a position of self-interest & mistrust
Temperance	Effective risk management; thoughtful consideration	Short term gains dictate strategy; desire for instant gratification
Accountability	Ownership; commitment to decisions	Failure to deliver results & take responsibility
Justice	Fairness fostering trust; going above & beyond Willingness to identify & discuss mistakes; support of	Inequities exist; favoritism & nepotism
Humility	Willingness to identify & discuss mistakes; support of continuous learning	Arrogance & overconfidence; complacency
Humanity	Deep understanding of what is important to stakeholders	Failure to acknowledge critical social interactions
Transcendence	Commitment to excellence; clarity & focus; inspiration motivates innovation	Narrow goals & objectives; failure to acknowledge, appreciate, & strive for excellence; not inspired

Words matter, and people pay attention both to what is said and what is left unsaid. Well-intended desire to keep things simple sometimes leaves out what is important. We have come across cases in which senior leaders have discovered malpractice or malfeasance within their organizations and heard the people involved saying something like “That’s the way it’s always been done around here” or “That’s what the boss wanted,” and been genuinely surprised or even shocked by people’s perceptions. “What on earth led them to believe that this is what I wanted?” is, more often than not, predicated on what leaders have said or failed to say in the past.

Words alone will seldom help others understand what these dimensions mean in their work and life contexts. As an example, many organizations identify Integrity as an important cultural and individual value, but they fail to recognize that simply stating that the value is important or even essential does not deliver it. This requires unpacking what Integrity means, identifying behaviours that demonstrate it, establishing what it takes to be a person who acts with Integrity in *this* organization, and describing how to develop Integrity as a personal strength. Simply declaring a value is imperative is like telling someone to run a marathon without giving them a training regimen or providing them with the necessary time, materials, and support ... or even telling them that a marathon is approximately 26 miles (42 kilometres) long!

Judgment at the centre of the framework reveals that decisions and actions are dependent on the strength and salience of each of the other 10 character dimensions. For example, Judgment that is habitually underweighted on dimensions such as Integrity and Humility and overweighted on dimensions such as Drive and Courage, will inevitably be flawed, leading to behaviours that are at best unethical or, at worst, illegal. This imbalance manifests itself, for example, when specific and quantifiable yet unattainable goals are set by an organization, and individuals ignore all other considerations—such as how objectives should be met—in an effort to meet these goals.

What happens when top-down systems or policies collide with character-infused cultures? Top-down, leadership driven incentive systems that encourage high job performance often have the unintended consequence of eliciting behaviours that put an organization's reputation at risk. In some cases, these systems are launched into organizations without any reference to the character dimensions that must be in place to ensure that the systems will not be used in the wrong ways for the wrong purposes.

You can have incentive systems for both performance and behaviours that are consistent with character-infused culture. People will not open fake accounts, or sell inappropriate products to the wrong people, or misrepresent pricing schemes, or stuff securitized products with junk if there is a character-infused culture that emphasizes Integrity, Judgment, Humanity, and Accountability, as well as Drive. And if people see others trying to do something improper like that, they will not remain silent and, therefore, complicit.

We can only speculate about what might have happened differently in the buildup to the financial crisis had the leaders of large financial institutions been driven by a more complete balanced set of values and had taken steps to ensure that their cultures were character-infused.

The Ivey Leader Character Framework provides a unique conceptual framework, based upon a sound research foundation that has been, and continues to be, tested in real-world settings to achieve this state. Indeed, strengthening character to improve judgment and, therefore, conduct has led to a "significant and growing interest in this approach from boards and senior management in financial services, regulators, the professions and industry in general."<sup>34</sup>

## Applying and Integrating the Character-Infused Approach to Personal Agency

Regardless of whether you are defining culture, redefining culture, assessing culture, or simply reflecting on culture, we recommend incorporating character to create the necessary personal agency at the individual level for the culture to be properly manifested. Full engagement of the individual's best character and judgment is critical to achieving the aspirational culture and attending to the risks that would otherwise undermine or thwart it. The Ivey Leadership Character Framework in Figure 1 represents the essential character-based behaviours that virtually all organizations seek but seldom consistently and universally achieve.

This framework and the character based leadership it supports is being adopted, adapted, and implemented across a wide variety of sectors, industries, and organizations. Sectors include both public (federal, provincial, and municipal) and private industries, including defence, construction, finance, and professional sports.

Introducing, implementing, embedding, and sustaining a character-infused program is being viewed as a positive, building process. The intention of those pursuing character based leadership is to strengthen the character of every individual in the organization through a cycle of awareness, assessment, and development. The intention is not to seek out and eliminate those with poor or weak character, but to use the individual’s and organization’s resources to strengthen that character. Many (perhaps most) people are not aware that character can be objectively assessed, measured, and developed; they become excited by the possibilities that such change could produce for them, both personally and professionally. A recent academic article has focused on the implementation approaches that character based leadership programs can employ.<sup>35</sup>

Although the Ivey Leadership Character Framework provides an important foundation for character based leadership there are two essential steps. First, the framework needs to be incorporated in all stages of the human resources cycle, from initial hiring, through compensation, promotion, and development to resignation, retirement, or termination (see Figure 2). This process requires considerable planning and skilled execution, and it requires strength of character in those assigned and engaged with this task. (For example, you need to possess strong character to attract, select, and retain a character-infused workforce.)

Problematically, the process sometimes involves dealing with high producers who do not exemplify the character dimensions that are wanted. This has been abundantly clear in the terminations of senior executives for alleged sexual misconduct in the wake of the #MeToo movement. A culture of treating everyone with respect, providing opportunity for all to fulfill their potential, creating a safe and nurturing work environment, and striving for high-level performance will only be created when the people in charge have the right combination, reservoir, and balance of character dimensions.

**Figure 2: Leadership Character and Organizational Processes**



An essential resource in the assessment and development of an individual's character is the Leader Character Insight Assessment (LCIA).<sup>36</sup> This tool, available in both self-assessment and 360° versions, provides a tested, reliable, and valid measure of each dimension (and its constituting elements) of an individual's character. The tool provides an individual with an inventory of their relative character strengths and weakness based upon self- and external observations of their behavior. The LCIA also provides detailed resources and activities to help the individual develop any specific dimension of their character.

The second step is to integrate the concepts and language of the framework in the corporation's organizational design and management processes. This includes integrating the framework with many of the top-down programs previously referred to and already underway across the financial services industry.

We have three final interesting and valuable points regarding the application and integration of the Ivey Leader Character Framework:

- We have observed that where leader character frameworks have been embedded in organizations, a profound sense of gratitude has emerged among the organization's members. Developing and strengthening character not only enhances professional performance, but also overflows to all aspects of an individual's life. The strong judgment necessary to navigate difficult cultural and business issues is the same strong judgment that is employed to make difficult personal, family, community, and citizenship decisions. Character affects the whole of the person, and many are grateful that their organization is investing in them in ways that benefit not just the organization's goals, but also the personal lives and interests of its members. This gratitude also has the effect of making leadership character programs highly engaging and sustainable, thereby further embedding the desired culture.
- A character-infused culture also provides a degree of protection from the "bad apples" that inevitably crop up in any large organization. Unacceptable behaviour becomes easier to identify, which limits the potential for misaligned leadership and deviant cultural influence.<sup>37</sup> This provides an enhanced measure of mitigating culture risk. Cultures attract people with shared values and repels deviants.
- We have witnessed a "character contagion" that begins to take hold when an organization pursues a character-infused culture. There is a self-reinforcing cycle of awareness, discussion, and action that not only precipitates behavioural change, but also establishes a new and continuously improving standard for behaviour. This resonates with Bailey's (now chief executive of the FCA) thoughts, "[I]t would be at best incomplete to characterise the drivers of culture as being the activity of stopping bad things from happening, important though that is. ... [C]ulture is about encouraging and incentivising good things, positive ethical customs."<sup>38</sup>

## The Future of Character-Based Culture

The intention of this article is to spur interest and engagement in character-infused approaches at the individual level to manage organizational culture and its attendant risks. For readers that are persuaded by this discussion, we recommend two additional avenues for future consideration and effort:

- We encourage further investigation into the metrics that could be used to benchmark organizational culture from a character perspective. For example, an organization (or its sub-units) possesses dimensions of character in the same way that individuals do, as we have revealed in Table 1. We see substantial opportunity for developing and using metrics associated with these character-related behaviours and, in particular, being able to identify when potential virtues are operating as vices as a result of overweighting some dimensions of character and underweighting others.
- It is widely accepted that context has a significant (and according to some, decisive) effect on character and culture.<sup>39</sup> There is significant opportunity to track the capacity of a character-infused culture in resisting negative contexts, while fomenting and leveraging positive contexts. The Ivey Business School is currently pursuing this line of research and early, indicative results are showing some degree of promise.

## Summary

Every organization possesses a culture and most have sub-cultures within them. Culture is an essential element determining the long-term success or failure of that organization. However, despite the pervasive nature and importance of culture, managing and addressing it has proven to be an extremely complex, arduous, and challenging task. Nowhere have these challenges been more evident than in the financial services industry. Poor culture was at the centre of the financial crisis and has been implicated in the many financial scandals that have followed, from benchmark rate-rigging to customer overselling.

To attend to these risks, financial services organizations have been investing heavily in culture programs. We observe that these initiatives are top down in nature and address the organization's structure and management processes. All members of the organization are typically included in these programs in one way or another, with instruction provided in the aspirational culture and the associated behavioural expectations. Yet among industry leadership, there is the pervasive sense that although progress has been made, it is not yet enough.

In our view, the approaches deployed to date fall short of instilling what Christine Lagarde advocates; that is, a "culture of greater virtue and integrity at the level of the individual." At its essence, the personal agency of all members of the organization must be fully engaged, and, equally, all must be equipped with the means to effectively and sustainably achieve the aspirational culture. Character, the essential ingredient in individual personal agency, does not receive adequate attention and support.

A complementary character-infused approach to fully engage every individual's character is needed, strengthening the organization's judgment and decision-making at all levels, which is essential to effectively living the aspirational culture. With the Ivey Leader Character Framework, a unique, academically rigorous, real-world approach is available. Experience from implementing this approach to culture is demonstrating that, with careful planning and execution, embedding the framework is sustained by increased professional and personal effectiveness. A character-infused and enabled personal agency at the level of the individual, facilitated by the Ivey Leader Character Framework, can be a foundational component to addressing and achieving the strategic benefits of a sustainable, advantaged culture.

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## Endnotes

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