CAPCO JOURNAL

The Capco Institute Journal of Financial Transformation

Value dynamics

Disruptive forces reshaping financial services

Structural challenges

Healthy purposeful culture in finance: Instrumentalization and key drivers

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JOURNAL

The Capco Institute Journal of Financial Transformation

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Value dynamics

Welcome to the 61st edition of the Journal of Financial Transformation.

I am delighted to announce our new partnership with King's College London, a world-renowned leader in education and research, marking a new chapter in the Journal's long and distinguished history.

In this edition focusing on Value Dynamics, we explore a critical – and ever more pressing – challenge: how institutions across financial services create, distribute and sustain value.

As Professor Crawford Spence, our editor from King's College highlights in his own introduction, the forces shaping value dynamics across financial services are myriad, encompassing technological transformations, secular shifts, political and social structures.

As a firm that has been at the cutting edge of innovation for over 25 years, these value drivers intersect directly with the work Capco does every day, helping our clients around the globe transform their businesses for sustained growth.

The integration of innovative new technologies including generative and agentic AI models, the digitalization of currencies and payments infrastructures, the reimagining of customer experiences, the relentless evolution of market ecosystems, the vital role of culture as a value driver: these imperatives are where we see – first-hand – clear opportunities for our clients' future growth, competitive differentiation and success.

We are excited to share the perspectives and insights of many distinguished contributors drawn from across academia and the financial services industry, in addition to showcasing the practical experiences from Capco's industry, consulting, and technology SMEs.

It is an immense source of pride that Capco continues to champion a creative and entrepreneurial culture, one that draws on the deep domain and capability expertise of thousands of talented individuals around the world.

We do not take our hard-earned status as a trusted advisor lightly, nor our responsibility to make a genuine difference for our clients and customers every single day – placing excellence and integrity at the forefront of everything we do.

I hope the articles in this edition help guide your own organization's journey as you navigate the many complexities and opportunities ahead.

As ever, my greatest thanks and appreciation to our contributors, readers, clients, and teams.

Annie Rowland, Capco CEO

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Editor's note

This 61st edition of the Journal of Financial Transformation is the first with a new editorial team in place, and is the product of a formalized collaboration between Capco and King's College London. This collaboration – a leading financial services consultancy and a prestigious academic institution – embodies the Journal's ethos: a balance between academic rigor and practical accessibility.

Traditional academic journals often deal with more prosaic conceptual matters. Even when they focus on more practical concerns, the timelines and mechanics of double-blind peer review processes can mean that the insights that they offer risk being out of date by the time they are published. Conversely, traditional op-ed articles in the financial press are all too often heavy on opinion and pre-conceived ideas and can lack the heft that comes with thoroughly researched pieces of work.

The Journal we've published strikes a vital balance between these two approaches.

This edition has an overarching focus of Value Dynamics. Specifically, the various articles look at how value is created, distributed and sustained across financial services. In turn, the submissions are grouped into three broad themes.

Technological transformations are explored in terms of how these can bolster or hinder value dynamics if not managed effectively. A number of secular shifts are also discussed – these being long-term changes that are impacting value dynamics in the sector. Finally, structural challenges are highlighted that emphasize the importance of sticky, tricky social and behavioral issues that surround the execution of financial services.

Overall, these themes highlight challenges and opportunities in the sector and encourage us to think differently.

It has been a pleasure working on this issue with such a fantastic and diverse array of different contributors.

Professor Crawford Spence
King's College London

Healthy purposeful culture in finance:
Instrumentalization and key drivers

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Abstract

Our study on culture in finance is one of the first in its field to be grounded in extensive, original qualitative data on the lived experiences of senior managers in financial firms. This article presents key findings from 29 semi-structured interviews with current and former senior managers in U.K. financial firms and regulatory personnel. It then links the findings to practical takeaways that financial regulators, professional bodies in finance and senior managers and culture champions in financial firms can embrace to support the Financial Conduct Authority's regulatory vision of a healthy, purposeful culture.

1. Introduction

Transforming culture in financial services is a priority for the Financial Conduct Authority (FCA), although it steers away from prescribing a one-size-fits-all culture for the industry.[1] The FCA envisions healthy cultures as purposeful and safe. Safe culture relates to an environment where "leaders at all levels need to foster an environment in which employees feel comfortable to express their opinions, and crucially, are listened to when they do."[2] A purposeful culture is described as "what a firm is trying to achieve – the definition of what constitutes success" and purpose may be social, ethical, consumer-driven, or people-driven.[3] Purpose is one of the four drivers of culture that the FCA focuses on in its supervision, alongside leadership, the approach to rewarding and managing people, and governance.[4] The aim of our project, funded by the British Academy Leverhulme Small Grant, was to decipher the nuances and lived experiences of healthy, purposeful culture in financial firms.[5]

2. Methodology

We conducted 29 semi-structured interviews from July 2022 to October 2023. Although not amenable to generalizations, measurements and statistical claims, qualitative empirical research enabled us to form a detailed and in-depth study of organizational culture as a vague and contested concept. We developed an indicative list of questions to discuss and adapted it slightly depending on the experience and background of each interviewee. All interviews were conducted

[1] Financial Conduct Authority, 2020. "Transforming Culture in Financial Services Driving Purposeful Cultures," Discussion Paper 20/1, 3, March, https://tinyurl.com/57trw7mk
[2] ibid.
[3] ibid, 4.
[4] ibid.
[5] Operationalising Purposeful Culture in Financial Firms to Deliver Better Outcomes for Consumers: An Empirical Analysis, 2021/22 Round, SG2122\210367.

online via video conferencing, with durations ranging from just over 30 minutes to nearly an hour, and most lasting approximately 45 minutes. To protect the anonymity of our participants, we retained only transcripts of the discussions. Most interviewees were current and former senior staff from a range of firms representing various segments of the sector, while a smaller number were regulatory staff and other professionals who take a critical stance toward the financial services sector.

3. Results of the survey

3.1 Findings I: The concept and importance of organizational culture

All interviewees were asked whether they view culture as purely an outcome, with the operative cause being incentives, or if they perceive it as one of the factors shaping outcomes alongside incentives. There was an overwhelming consensus that culture matters in shaping behavior and only one interviewee saw culture purely as an outcome. This finding is important because it demonstrates that focusing on organizational culture as an objective in its own right is sensible from a policy and regulatory perspective. To bring about a cultural transformation in finance, it is not enough to simply change incentives, for example, by imposing regulatory sanctions on firms that misbehave or by regulating executive remuneration in financial institutions.

Still, although all but one interviewee highlighted the importance of culture, their observations often reflected an instrumentalization of culture and people for the competitive advantage of a firm and its profit-making. For instance, as one interviewee observed, "Although banks and financial institutions are not usually associated with ethics … there is a strong drive…in most institutions to cultivate [a] distinct culture, not only because we want to disassociate ourselves with the bad examples of the industry, but it also comes across as a matter of comparative advantage…"

In the same vein, viewing culture as a compliance exercise or "window dressing" was a common thread that ran through many of the interviews. As one interviewee aptly put it, "On a fundamental level, we need to do the tick-box exercise … We have huge diversity programs and diversity champions and positive examples, yes. In practice, if you see another area that is heavily contested, that is gender pay gap, yes, we have all of these examples, but if you see the numbers, the problem is still there … If we have a specific aspect, it relates to business and marketing reasons, it doesn't relate to someone that wants to change the world…"[6] Another senior manager genuinely admitted that, "I think diversity and inclusion has got better if that's part of the story, but it's only got better because people say that it has to get better as opposed to a natural sort of completely blind view of what people are … In truth, women in investment banking, particularly in that sort of advisory space in other parts of the business. I think it's better … very underrepresented."[7]

Many interviewees identified a strong connection between "purposeful culture" and ESG, emphasizing diversity and inclusion as top priorities for financial firms. However, many also admitted that there are practical impediments to achieving diversity and getting it through the pipeline. This narrow approach can be contrasted with the FCA's broader view, which regards culture as a construct that can ultimately lead to socially beneficial outcomes.[8]

6 Interview No 9.
7 Interview No 6.
8 Although diversity and inclusion are frequently emphasized as important elements of a healthy culture. See, for instance, Shepperd, E., 2023. "How to Flex you Organisation's Power through Culture and Conduct," speech given at City & Financial's Culture and Conduct Forum, November 23.

In such an environment, interviewees agreed that culture is not easily amenable to change and that the greatest opportunity for change lies not in the extreme cases, but rather in those that are not as clear-cut: “The really extreme examples of where something happens which is really not acceptable from a culture perspective. I think all organizations deal with that stuff now, certainly in the kind of financial services, bigger organizations, it’s clear that it’s not acceptable … The really good things [and the really bad things] at the top 10%, bottom 10% … get dealt with. It’s all of that stuff in the middle that you let slide every day, and nobody picks up on it … That’s where I think there’s the biggest opportunity to drive change.”[9]

3.2 Findings II: The drivers of culture – leaders, language, markets, metrics, incentives and regulation

When inquiring whether measuring culture could be an effective mechanism for promoting a healthy culture in finance, we detected a more nuanced approach and duality of attitudes. On the one hand, senior managers often believe that “business means metrics” and that culture can and should be measured, considering it critical for embedding good culture in financial firms. As one interviewee pointed out, “what gets measured gets done” and that “there is a whole suite of metrics around culture, around behaviors, around tone from the top, inclusion and diversity and all of the metrics around that would be really critical.”[10] On the other hand, interviewees also doubted whether metrics really reflect culture, suggesting that it is “ … so easy to manipulate … you can smell it and taste it, but putting that into a dashboard when we all love dashboards … is more difficult.”[11] Some thought that metrics can only provide signposts and indicators, which then must be fully explored and understood to expose their drivers.[12]

Although language and artifacts may seem to be a simplistic form of cultivating a healthy, purposeful culture, they still play a key role in financial firms, creating a sense of collective identity. Such diffusion of culture is often achieved organically, from the bottom up, rather than top down. For instance, it manifests through peer-to-peer internal communication platforms or “self-help groups” that highlight common employee challenges and offer ways to address them.[13] Moreover, the choice of specific terms used within the firm can play a key role in shaping the trajectory of a healthy culture. As such, one interviewee explained that the use of the term “back office” was perceived as derogatory: “In a lot of financial service firms … that generic group of non productive resource would be referred to as back office. Which I found culturally to be quite insulting. And because I was there for so long, I kind of eliminated that term … We used the term infrastructure to describe everything that wasn’t investing. And so there was cultural point around that made those people feel that they weren’t just back office and it made everyone who was doing the investing and the marketing probably think of them in a little bit different light.”[14]

When asked what drives a change in culture in financial firms, interviewees often highlighted market pressure as a key factor. When market pressure is present, it becomes a commercial imperative for a firm to adopt a purposeful culture; otherwise, it will struggle to attract a large pool of candidates. As one interviewee mentioned, “having a more purposeful culture

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9 Interview No 8.
10 ibid.
11 Interview No 3.
12 For instance, Interview No 1.
13 ibid.
14 Interview No 2.

has enabled [firms] to employ younger people."[15] Similarly, another interviewee suggested that "...when a business realizes that they're really going to not have ... the largest pool [of candidates] to recruit from, or they're not going to keep a certain demographic within their workforce, if they do not seem to be more active [in] this area, it becomes ... a commercial imperative for commercial advantage at least."[16] This quote highlights, once again, the instrumentalization of culture as a driver of behavioral change and a vehicle for remaining competitive and maximizing profits. Interviewees, however, were cognisant of the downsides of such a sceptical and narrow approach: "You've got four generations within your workplace. All of whom have had very distinct and different sort of introductions to the workplace and all act very differently. This is where you've got this lack of sort of alignment between different generations ... my fear is ... financial services because they're cash-rich, they will pay more money. That will be their solution. They won't choose to innovate in that space. They'll just choose to buy them what they need. But the individuals who are prepared to take that offer up are maybe not the types of individuals who are going to be connected to the next level of consumers coming through."[17]

Perhaps surprisingly, many interviewees did not view regulation as a strong driver for a change in behavior but rather as a framework that can introduce more clarity and focus within the realm of financial services provision. Some thought the threat of punishment was real and resulted in a change in behavior, while others knew that, in practice, enforcement cases against individual senior managers, for instance, based on the Senior Managers and Certification Regime, are few and far between. Acknowledging the limitations of regulation in driving good behavior, a senior manager stated, "I believe you can't just manufacture it by having a rule ... it is never going to work" and "You should have the rules to try and encourage it but it won't change it – all it will do is get compliance."[18]

In addition, it was evident that embedding culture throughout all management levels of a financial firm is far from straightforward. Many interviewees pointed out the noticeable differences between senior and mid-level managers in fostering a healthy culture. At the senior level, there is often a clear understanding of and buy-in to the culture and its importance. This observation aligns with the willingness of senior managers to participate in our project and dedicate their time to discussing culture with us. It stood in stark contrast to the mid-level management, who were overwhelmingly silent in their willingness to participate in the project. One interviewee offered an explanation to such disparity across the management levels in financial firms: "I think the reality of day-to-day pressures are different ... [I see] a huge level of buy in at a very senior level to purpose, to values, how would do things driving the right behaviors and a real commitment to driving purpose and driving change. I don't think that our middle management layers disagree with that as a purpose, but often you hear about the sticky middle permafrost ... where it's just harder because they're the ones stuck. They're the reality of and they're often the generation ... in the millennials bucket. They're managing families and two careers and a household and often elderly parents and they're the ones managing these Gen Z with all of their wild expectations of what it is to be in the world of work ... so I don't think it's a lack of desire, but it's the reality of what we are expecting that population to deliver that often gets in the way."[19]

[15] Interview No 11
[16] Interview No 2.
[17] Interview No 12.
[18] Interview No 6.
[19] Interview No 8.

While all interviewees felt that culture is an independent factor that shapes the behaviors of individuals within organizations, they also recognized that incentives and the structure of remuneration are a major driving force of organizational culture in finance. Senior managers often discussed the prevalent “culture around rewards” in financial firms, but believed that this was an area that could and should be changed. For instance, introducing incentives that are more group- and team-based, rather than individual-based, is seen as an effective mechanism for encouraging collaboration and fostering a good culture: “Financial services is phenomenally efficient in a purely economic point of view. The market drives behavior. It drives pricing … there is a very big bonus culture as you know. There’s a very big culture around rewards. Financial service firms go to a far greater extent than any other industry … to clarify the relationship between activity, output and financial reward. That means that if a company in financial services is serious around societal benefit, it needs to build it into the incentive structure. It’s not the only way, but it’ll be the most efficient way.”[20]

4. Implications for policy

Beyond its theoretical interest, our analysis reveals ways to improve culture in finance and provides recommendations for the development of financial regulation and broader policymaking. Indeed, there is a broad consensus among regulators, policymakers, academics and the finance industry regarding the need for change. Regulators should avoid imposing excessively detailed and complex layers of regulation, as these drive compliance-oriented processes and lead to undue dominance of bureaucratic culture. At the same time, principles-based regulation must be thoroughly and consistently enforced; otherwise, it decays into de facto self-regulation with serious repercussions in the development of firm culture.

Furthermore, remuneration regulation should seek to prevent the excessive concentration of power in the hands of individuals, such as senior management or highly-paid income generators. Strengthening the collective nature of performance measurement and restricting very high pay differential are policies worth considering. Regulators should also take steps to encourage and nurture the rise of professionalization in finance, working together with relevant professional bodies. Professionalism highlights the autonomy and moral agency of each

Figure 1: A schematic representation of the drivers of culture in finance

[20] Interview No 2.

Table 1: Key strategic takeaways

For financial regulators	• Simple, clear, and consistently enforced body of rules • Tighter rules on remuneration • Encourage professionalization
For professional bodies in finance	• Advocacy for professionalism • Development of ethics codes
For senior management in financial firms	• Setting the right tone – healthy culture above short-term profits • Ensure sufficient resources for mid-level management • Restructure performance metrics in remuneration towards team and firm level outcomes
For culture champions in financial firms	• Advocate the value of culture to senior management • Balance strong culture with individual autonomy for all workers

individual professional, while also emphasizing the need to strictly comply with high ethical standards and meet public benefit expectations. A strong culture of professionalism in finance could enable individuals to resist pressures to resort to unethical short-term profit maximization and contribute to better customer outcomes and broader societal benefits. In this regard, financial services professional bodies have a major role to play in advocating for the value of professionalism and ethics in finance.

From the perspective of financial firms themselves, senior managers must be proactive in setting the right tone and ensuring that mid-level management have the time, resources and incentives needed to drive desirable cultural change. Culture champions, such as chief people officers and heads of HR departments, need to work closely with senior management and often persuade senior management of the long-term value of a healthy culture above short-term financial results. A balance needs to be kept between having a strong cohesive culture with a shared common purpose and vision on the one hand and safeguarding the individual professional autonomy and moral agency of each member of staff on the other. Too weak a culture can lead to the formation of silos and individualist short-term agendas but, equally, too strong a culture can erase the moral compass of individual and facilitate uncritical compliance with socially destructive top-driven business practices.

5. Conclusion

Our research and analysis offer practical insights into the day-to-day implementation of a multifaceted construct, "purposeful culture," as a regulatory objective, as well as into organically developed internal cultural practices. The 29 interviews with senior managers in financial firms reveal a complex picture of culture in finance, which is in transition, pulled in different directions by the demands of markets, regulators, employees and broader societal expectations. While the discourse around good culture in finance currently operates mostly as an instrument to preempt and defend against intrusive regulation, research that sheds light on a nuanced and in-depth understanding of culture can enhance regulators' ability to design and implement more effective regulatory regimes. Our project recommendations, which will be fleshed out in future outputs, can thus support the regulatory vision of a purposeful culture, strengthen trust between financial firms and society, and lead to improved outcomes for financial services consumers.

About Capco

Capco, a Wipro company, is a global management and technology consultancy specializing in driving transformation in the financial services and energy industries. Capco operates at the intersection of business and technology by combining innovative thinking with unrivalled industry knowledge to fast-track digital initiatives for banking and payments, capital markets, wealth and asset management, insurance, and the energy sector. Capco's cutting-edge ingenuity is brought to life through its award-winning Be Yourself At Work culture and diverse talent.

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About King's Business School

King's Business School is a triple-accredited business school in the heart of London. It ranks amongst the top 10 business schools for research in the UK, based on the Research Excellence Framework 2021, and is consistently ranked in the top ten in the UK for business by the Times and Sunday Times Good University Guide, the Complete University Guide and the Times Higher Global University rankings.

The School advances world-leading education and research across four knowledge frontiers: (1) developing a modern workplace, (2) creating sustainable and socially responsible business, (3) Improving health and public services organisation and (4) strengthening economic and financial systems.

It is the ninth faculty of King's College London, leveraging interdisciplinary potential across the College. It drives pioneering thinking and engages the limitless energies of the city's businesses, policymakers, entrepreneurs and change-makers. King's Business School puts its commitment to drive positive change at the heart of its life-changing research and "London as a classroom" experiential education.

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