Strategy, Culture and Governance in Financial Services

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Vision, Strategy, Values and Organisational Culture

Vision - where we want to be (external)

- Source: Driven by the Board or critical core
- Perception: Marketing and Communications but now more crowd intelligence - the Cluetrain Manifesto

Strategy - how we're planning getting there

- People: One person's strategy is another's tactics - it's a question of level
- Strategic: Ambiguous, non-routine, complex, organisation wide, significant change, environment or expectation driven
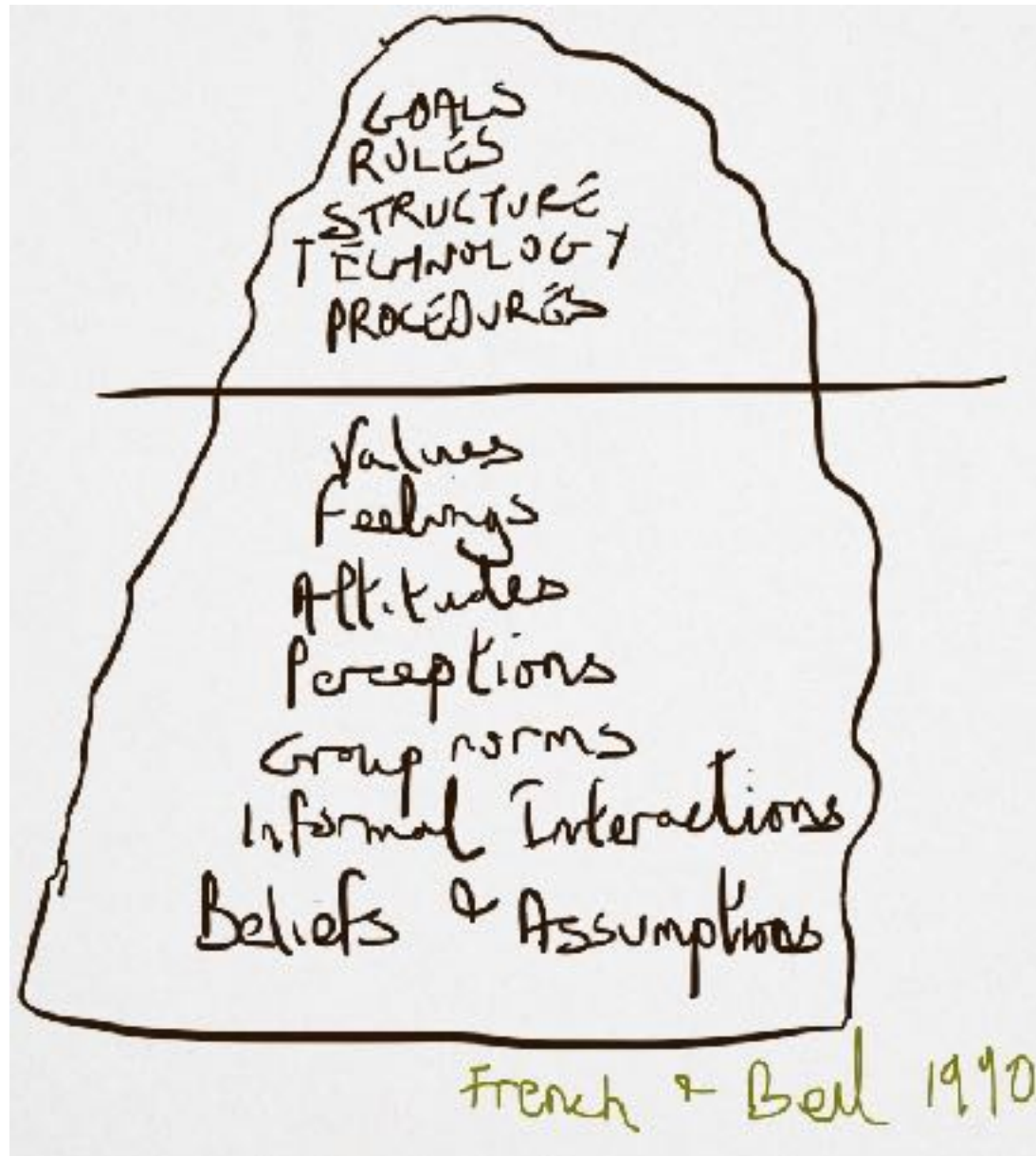- Operating: Routinised, operation specific, small scale change, resource driven

Values - our beliefs
- Explicit values - the new mission statement

Organisational Culture - what makes us cool, how we do things
- The type people we are and what we're passionate about

Organisational Culture vs Culture

GOALS
RULES
STRUCTURE
TECHNOLOGY
PROCEDURES

Values
Feelings
Attitudes
Perceptions
Group norms
Informal Interactions
Beliefs & Assumptions

French & Bell 1990

The Role of the Board

Envisioning

Accounting

Foreseeing

Auditing

Inspiring

Accountability
- To Owners
- To Regulators and Legislators
- To Stakeholders
- Ensuring Directorial Audits

Formulating Policy/Foresight
- Purpose
- Vision and Values
- Emotional Climate and Culture
- Monitoring External Environment

Communicating

Sensitising

Supervising Management
- Overseeing Management Performance
- Monitoring Budgetary Control
- Reviewing Key Business Results
- Ensuring Organisational Capability

Strategic Thinking
- Positioning in the Changing Markets
- Setting Corporate Direction and Processes
- Reviewing and Deciding Key Resources
- Assessing Risks
- Implementing Strategy

Reviewing

Positioning

Delivering

Short Term

Long Term

Deploying

Implementing

Operational Research

The Good - "The Science of Better"

- Soft Systems Methodology - complex problem analytics
- Knowledge Management - the ba
- Grounded theory - inductive/deductive reasoning
- Hard OR - e.g. Data Envelopment Analysis - functional analysis

The Bad - Hubris - we can replace management

- OR has a troubled history - 1950-70s in particular
- Much abused particularly by governments and state industries
- The Beeching Report e.g.

The Ugly - Management Consultants

- Organisational change agents - seldom trained or qualified
- Conductors of glib surveys
- Reflectors of clients wishes
- Producers of quadrants, organisational diagrams and lengthy reports

Knowledge Management driven Strategy
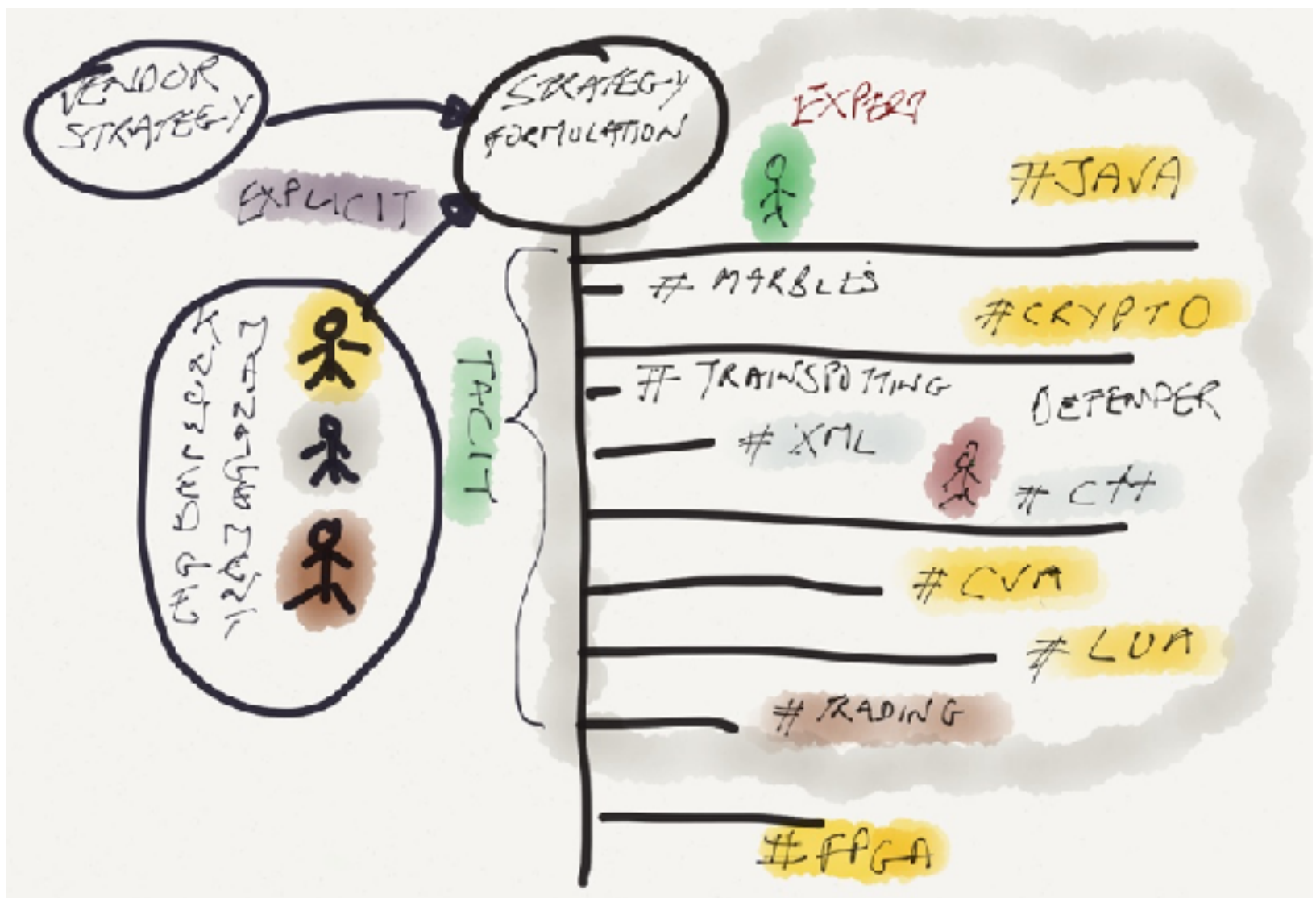
Business Failure - Tier 2 Investment Bank

Failure of Business and Technology Strategy

- Trading systems could not cope with onslaught of orders and cancels
- Wrong technology chosen as a remedy
- Business collapsed within six months

Culture

- Sub tier 1 - good but not good enough
- Business units dictated to IT
- IT seen as an overhead
- Cost reduction meant time and quality suffered
- No clear business strategy, vision or organisational values

Cause

- Failure of the Board to set the strategy, vision and direction
- Lack of Strategic Technology Vision
- Lack of Business Competence
- Lack of skill and experience to implement a tactical solution
- Hubris: "an overestimation of one's own competence, accomplishments or capabilities especially when the exhibitor is in a position of power"

Business Failure continued

Effect

- Trading slowed to a 30+ second response time
- Systems could not be easily monitored due to the poor performance
- Trading losses led to loss of business
- Loss in earnings, devalue of share price, reputation issues
- Business sold to Commerzbank

Resolution

- Get expert help quickly
- Stop trading until the cause is found
- Be honest with your clients
- Plan a tactical solution
- Re-establish a strong technology function
- Create a technology vision and roadmap to suite technology landscape
- Board to produce a business strategy and detailed implementation plans
- Establish effective monitoring regime
- Recognise that technology is a core competence
- Board to create an appropriate organisational culture and ethical values

Governance Failure - #KATHY

Organisation within an Organisation

- IRC Channel for control of management team
- Membership controlled by Head of Division
- Channel was unaudited, controls deliberately turned off

Culture

- Clique, in-crowd
- Termination of membership meant leave or redundancy follows
- Sycophancy, Dissent not tolerated, LCD culture
- Mediocrity and obedience, Cult of personality
- Victimisation, psychological abuse and bullying culture

Cause

- Ultimately a failure of the board to choose an effective CIO with the correct experience, skills, regulatory and legal knowledge.
- Supported by a silo approach from Chief Information Security Officer, Head of Legal and the Head of Human Resources

Governance Failure continued

Effect

- Loss of talent
- Annihilation of software engineering culture
- External Consultants hired to replace departed staff at great expense
- Inability to deliver IT projects - a string of failures
- Dumbed down organisation culture
- Loss in earnings, devalue of share price, reputation issues

Resolution

- Integrated HR, Legal, Technology and Information Security policy framework with defined process and enhanced controls specific to organisations IT systems.
- Establish comprehensive internal audit regime of the controls
- Review of board processes and committees
- Effective organisational reporting regime (KPI, KRI)
- Training regime and Certification for the board, CIO, CTO, CISO and HR
- Commitment to ethical culture

Governance Failure - Global Software House

Failed Acquisition and Technical Obsolescence

- Highly successful software Telex product in the 1980s
- Ported to over 200 platforms
- Company failed after expansion bid

Culture

- Sociopathic sole-proprietor
- Two competing technology camps, old guard IBM and new Unix
- Engineering excellence from both camps
- World leading product with global market
- Sales-driven, operational management worse than "David Brent"

Cause

- No strategic function: failure to understand the technology market and impending threats
- Lack of governance: Proprietor led strategy
- Indecision: emotional attachment to sunset technology
- Lack of due diligence: Failure to seek outside help in acquisition

Governance Failure continued

Effect

- Abrupt exit from the market leaving customers stranded
- Loss of senior staff from emerging technology camp
- Badly designed products emerged as mid-level engineers came to the fore
- Significant overheads supporting sunset technology

Resolution

- Sell off legacy business - management buy out.
- Establish effective executive board with key staff and non-executive directors
- Create effective governance structure to craft strategy and technology roadmap
- Sole-proprietor becomes chairman
- Experienced business development executive recruited

Controls Failure - Tier 1 Investment Bank

Wholly inadequate Risk Management System

- Leading Investment Bank
- Driven by the business
- Company failed due to lack of visibility of systemic risk

Culture

- Ivy League, Oxbridge, Public School, PhD grads
- Too clever to build effective IT systems
- Youthful and fashion driven culture
- Sales-driven, operational management abrogated to "safe hands"

Cause

- Silos: Three heads of risk - no overall control
- Lack of controls: No systemic risk view, spreadsheet models on a floppy disk
- Poor IT: segregation of duties, badly designed and written, risk management system not production quality, lack of testing
- No post-mortem: failures neither reported nor analysed

Controls Failure continued

Effect

- One day the losses peaked and a merger had to be organised by a national government
- Major brand disappeared overnight
- National humiliation

Resolution

- Effective software testing regime: function, unit and system test
- Production grade infrastructure with HA architecture and BCP
- Change control procedure of code and quant models
- Internal and External Audit of risk figures
- Cultural change: Software Engineers responsible for systems, quants for mathematics
- Effective KRI regime visible at board level

Future Corporate Culture

Generation Y et al

- Strengths
  - Drenched in information and exposed to past experience
  - Mentally tuned to the internet
  - Tech aware

- Weaknesses
  - Short attention span, Shallow, Distracted, Tired
  - Difficult to differentiate quality

- Opportunities
  - Knowledge Management
  - Internet of Things
  - Winning by sharing
  - Crowd Intelligence: collaborative

- Threats:
  - Workplace surveillance
  - Global Workplace
  - Automation

Conclusion - The Future of Strategy

Dynamic, Situational, Informed, Intelligence led

- Ethics: the Cluetrain ethos and crowd intelligence bring accountability
- Real-time: News/Event and SLA analytics: fast recognition and dissemination the external PESTLE landscape and internal SLAs. Performance at your fingertips, the end of batch mentality
- Peer-intelligence decision support: intelligence led systems to augment macro judgement
- A visual, interactive, supportive, accountable world