

CONNECTING CORPORATE CULTURE WITH THE BOTTOM LINE

Society of Corporate Compliance and Ethics
Scottsdale Regional Conference
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HELLO!



ANDREW DOWNIN
Chief Marketing & Strategy Officer
Vantage West Credit Union



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DISRUPTION IS (HAS BEEN) UPON US



BORDERS



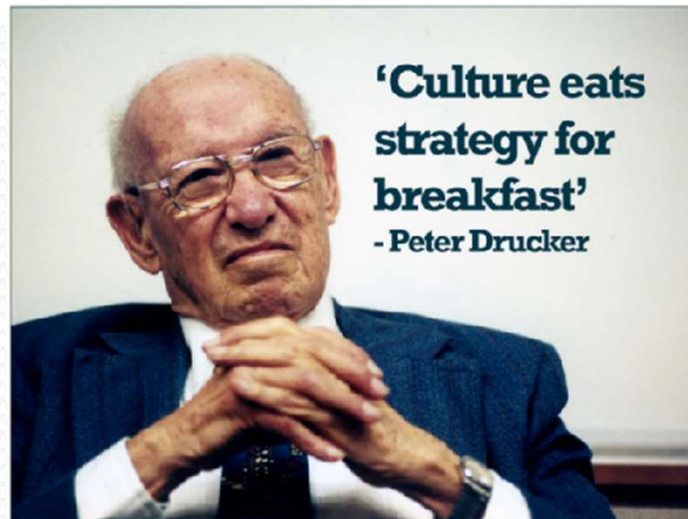
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STRATEGY DETERMINES HOW WE STAY RELEVANT



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BUT WHAT DOES ORGANIZATIONAL CULTURE DETERMINE?



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HIRING FOR CULTURAL FIT STARTS IN THE MARKETING DEPARTMENT



Source: <https://www.adweek.com/creativity/50-years-later-heinz-approves-don-draper-pass-the-heinz-ads-and-is-actually-running-them/>

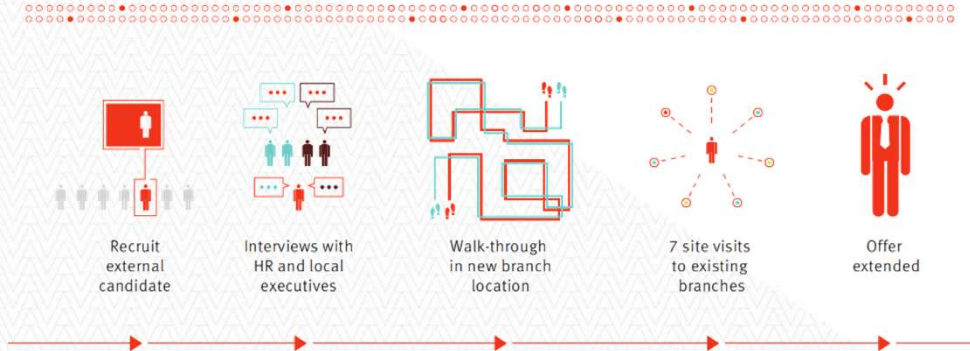
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RECRUITING AND COMP TO ENSURE CULTURAL FIT

- Entry-level focus
- Six month process
- High base salaries + long-term profit sharing

HANDELSBANKEN'S HIRING TIMELINE

12 interviews over 6 months



Source: Filene Research Institute, *Designing Credit Union Culture for High Performance*, 2016.

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WHO ARE YOU COMPETING AGAINST FOR TALENT?



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THE LAWS OF ATTRACTION

Improve the quality and quantity of applicants by adopting key attraction and recruiting strategies.



Source: Filene Research Institute, *Designing Credit Union Culture for High Performance*, 2016.

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CSP IS POSITIVELY RELATED TO ORGANIZATION ATTRACTION

When considering a role at an organization with high levels of CSP, applicants expect:

- 1 | to experience **pride** by working for an organization with strong ties to the community
- 2 | to experience high level of fit between their personal **values** and the organization's values
- 3 | that organizations engaged in CSP will also **treat employees well**

KEEP IN MIND

- Applicants unfamiliar with an organization rate it as less attractive regardless of CSP
- Industry reputation plays a role in attraction

Source: Filene Research Institute, *Designing Credit Union Culture for High Performance*, 2016.

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ORGANIZATIONS THAT ATTRACT TOP, PRO-SOCIAL TALENT

REI

employs communication efforts that increase its **media attention** and grow its applicant pool.



The Bridgespan Group

emphasizes the **positive social impacts** of its work and **post-Bridgespan Group career options** to successfully attract top talent in the management consulting industry.



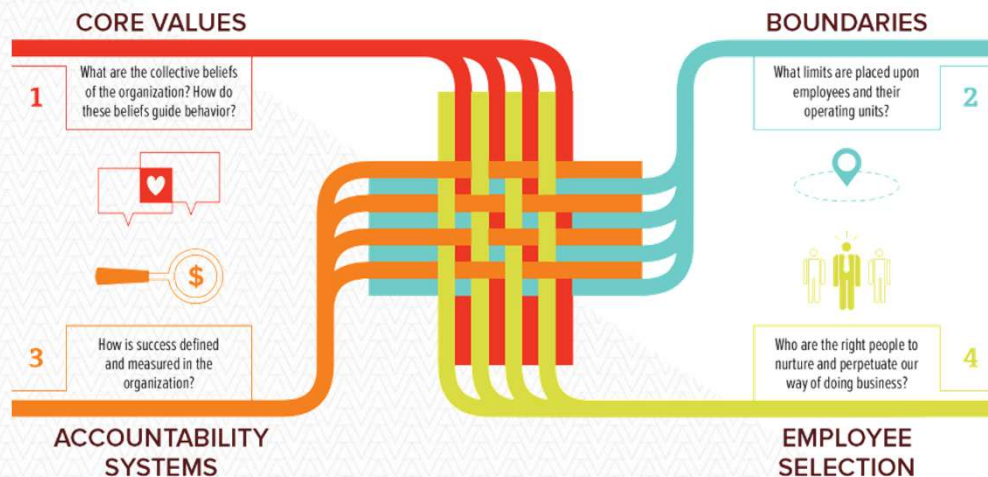
Vantage West Credit Union

uses **recruiting and hiring practices, including attention-getting videos** that seek a balance of banking experience and cultural fit.



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ORGANIZATIONAL CULTURE: FOUR DIMENSIONS



Source: Filene Research Institute, *Designing Credit Union Culture for High Performance*, 2016.

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HANDELSBANKEN STUDY

- Quickly growing bank in Sweden & EU
- 600+ branches
- Decentralization and empowerment model
- Strong growth and earnings with low loan losses (including during financial crisis)

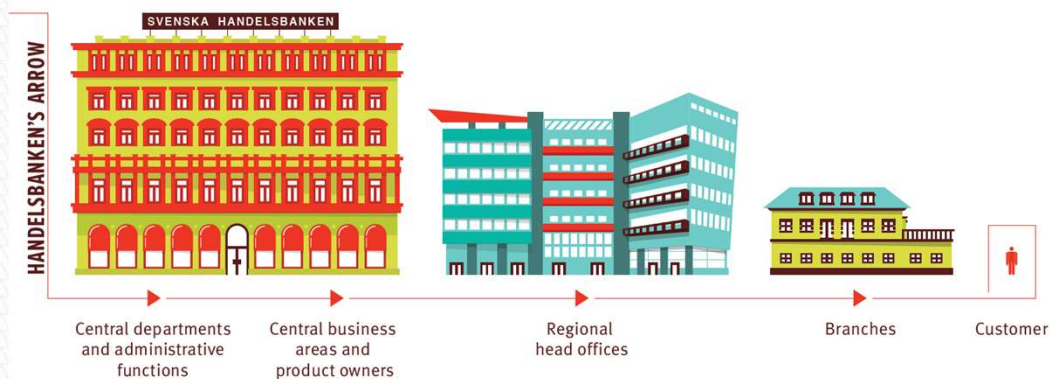


Source: Filene Research Institute, *Designing Credit Union Culture for High Performance*, 2016.

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HANDELSBANKEN'S CORE VALUES

- Customer centricity
- Decentralization
- Employee empowerment

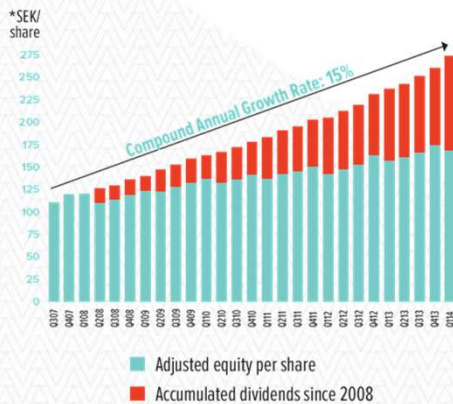


Source: Filene Research Institute, *Designing Credit Union Culture for High Performance*, 2016.

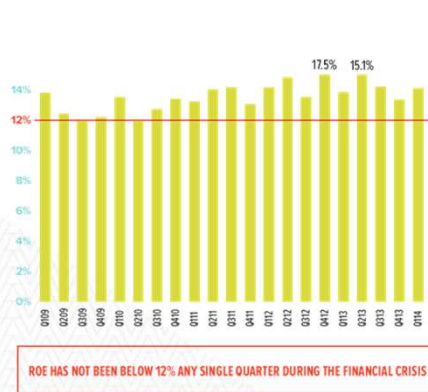
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STRONG FINANCIAL PERFORMANCE

AVERAGE ANNUAL GROWTH IN EQUITY
(INCLUDING DIVIDENDS)



EARNINGS STABILITY IN AN UNSTABLE
ENVIRONMENT

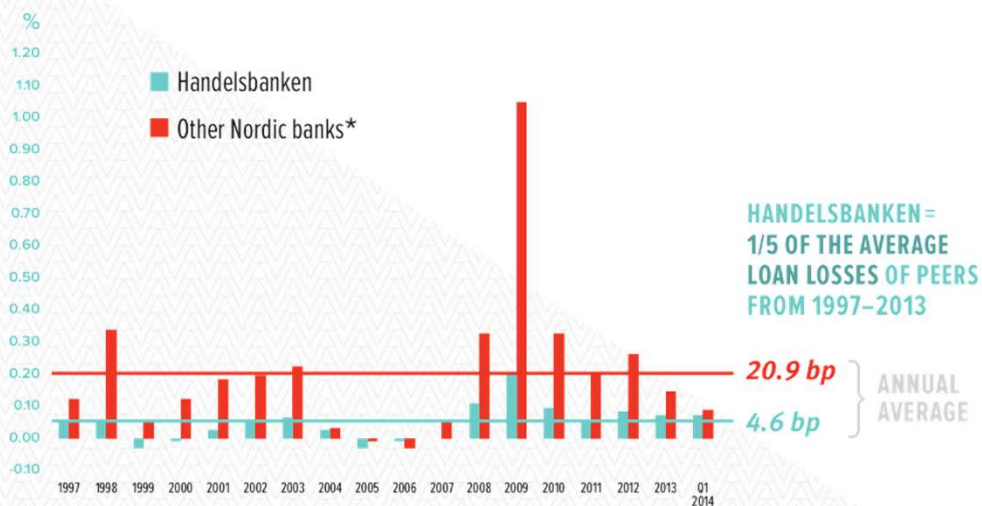


All data in the figures have been adjusted to conform to the new regulations.
*SEK: Swedish Krona

Source: Filene Research Institute, *Designing Credit Union Culture for High Performance*, 2016.

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EMPOWERMENT HASN'T LED TO HIGH LOAN LOSSES



Source: Filene Research Institute, *Designing Credit Union Culture for High Performance*, 2016.

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“CHURCH SPIRE” PRINCIPLE SETS BOUNDARIES

- Branches don’t serve who they can’t “see”
- All customers are the primary responsibility of a single local branch
- Owners’ mindset and clarity of roles



Source: Filene Research Institute, *Designing Credit Union Culture for High Performance*, 2016.

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ACCOUNTABILITY OCCURS AT THE LOCAL LEVEL, TOO

- Branch profit & loss statement—including direct and indirect costs
- Peer comparisons encourage competition and learning
- Regional managers provide oversight and counseling

INCOME	
Net Interest Income (Corporate Loan, Mortgage, Credit Card, etc.)	\$
Other Income	\$
EXPENSES	
Credit Losses/Loan Losses	\$
Capital Charge	\$
Depreciation Expense	\$
Interest Expense on Accumulated Loss	\$
Branch Staff Salary Expense	\$
Branch Rent Expense	\$
Credit Team Services Expense	\$
Other Central Services (Including executive salaries)	\$
BRANCH PROFIT/LOSS	\$

— BALANCE SHEET RESPONSIBILITY —

— LOSSES IN PRIOR PERIODS —

— COSTS GENERATED IN OTHER UNITS —

Source: Filene Research Institute, *Designing Credit Union Culture for High Performance*, 2016.

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CULTURE'S IMPACT ON INNOVATION



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PSYCHOLOGICAL SAFETY

**A PSYCHOLOGICALLY
SAFE CULTURE IS
IMPERATIVE FOR CREATING
OPTIMAL CONDITIONS FOR
SHARING KNOWLEDGE.**

- Provide a safe means for the sharing of ideas
- Model that the best ideas are valued and implemented
- Give credit when it's deserved
- Support a culture that values sharing information and risk-taking

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COLLECT YOUR EMPLOYEES' IDEAS § *

- Innovation committees
- Old-fashioned suggestion boxes
- Intranet

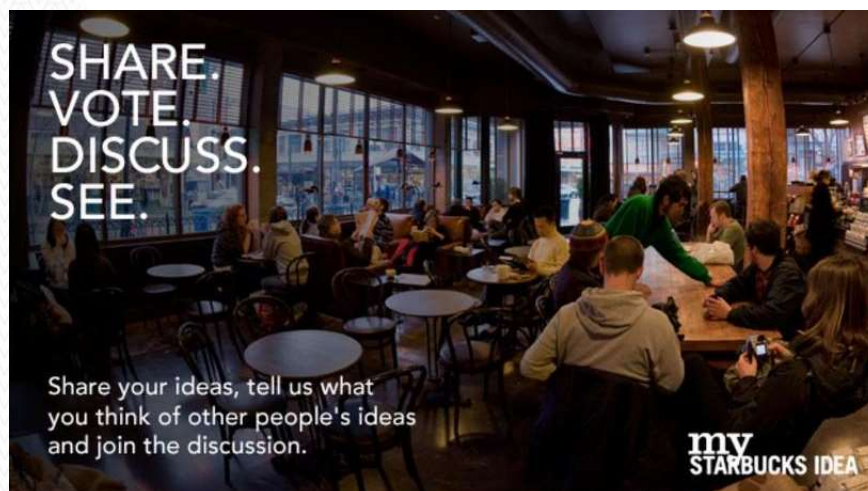
§ Ask ALL your employees

- * Follow up whether ideas are implemented or not



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COLLECT YOUR CUSTOMERS' IDEAS



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SHARE YOUR THOUGHTS



How is your company/firm's culture designed to encourage sharing of untested ideas?



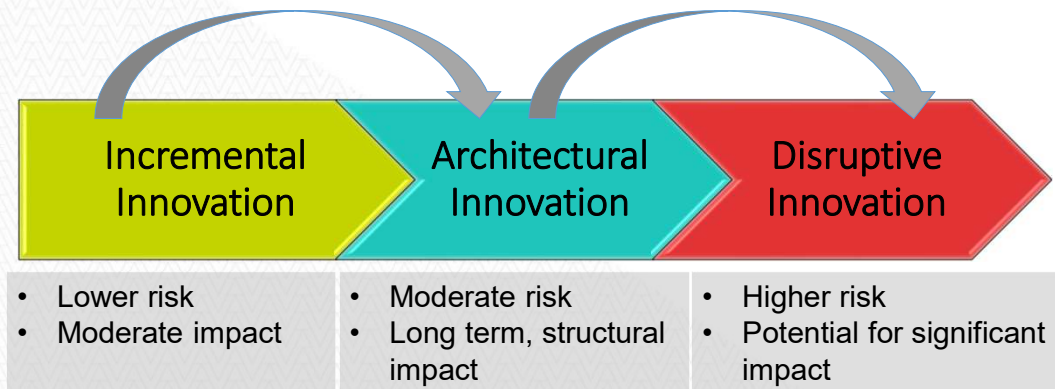
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REVISIT HOW YOUR ORGANIZATION APPROACHES RISK



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DEVELOP A BALANCED PORTFOLIO APPROACH



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AT&T IN THE EARLY 90s



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“We overestimate the change that will occur in the next two years and underestimate the change that will occur in the next ten.” – Bill Gates

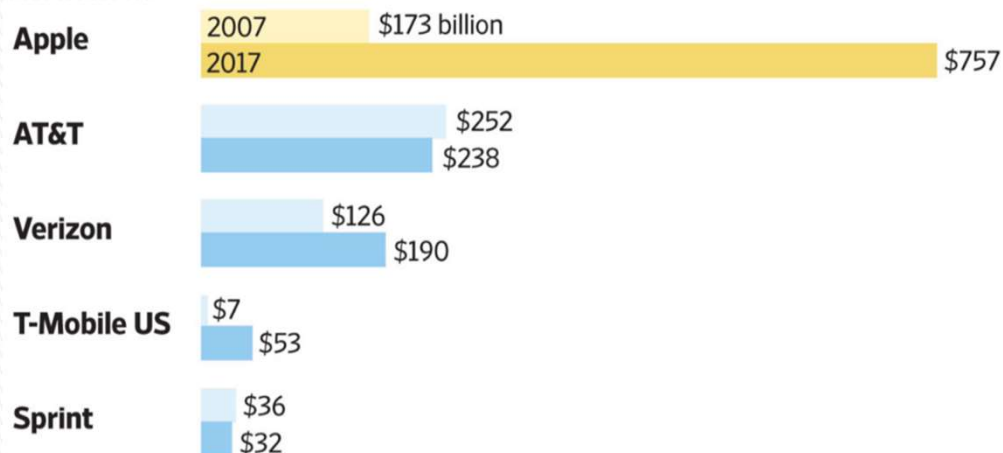
- AT&T’s mobile phone forecast for 2000
 - 900,000 users maximum
 - Heavy handsets, pricy service
- Delayed significant market entry
- Overly focused on delivering the “rails”



Source: Filene Research Institute, *Structures for Innovation*, 2017.

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MOBILE PHONE MARKET CAPITALIZATION



Source: Filene Research Institute, *Structures for Innovation*, 2017.

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FINDING THE RIGHT BALANCE



EXPLOIT  **EXPLORE**

Source: Filene Research Institute, Structures for Innovation, 2017.

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YOU MUST DO BOTH...WELL!



EXPLOIT  **EXPLORE**

- | | |
|---|--|
| <ul style="list-style-type: none">• Efficiency and lower cost• Control and process• Success measured by production and accuracy• “Business as usual” | <ul style="list-style-type: none">• High uncertainty and high cost• Trial and error• Success measured by insights, speed to market, first-mover• “The vast unknown” |
|---|--|

Source: Filene Research Institute, Structures for Innovation, 2017.

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ORGANIZATIONAL AMBIDEXTERITY



Structural ambidexterity

Separate profitable core businesses (exploiters)
from next-stage ventures (explorers)



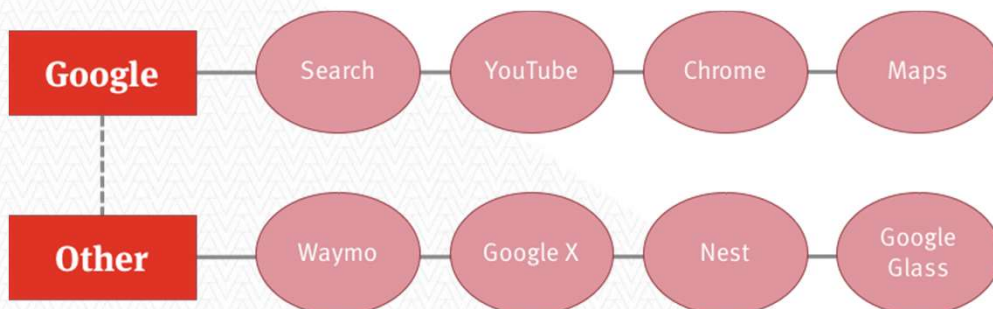
Contextual ambidexterity

Each department is responsible for both
exploitation and exploration

Source: Filene Research Institute, Structures for Innovation, 2017.

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Structural Ambidexterity Alphabet (formerly Google)

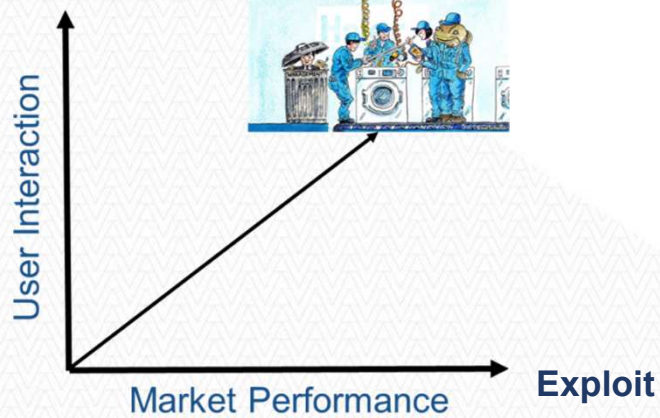


Source: Filene Research Institute, Structures for Innovation, 2017.

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Contextual Ambidexterity Haier (China)

Explore



Source: Filene Research Institute, *Structures for Innovation*, 2017.

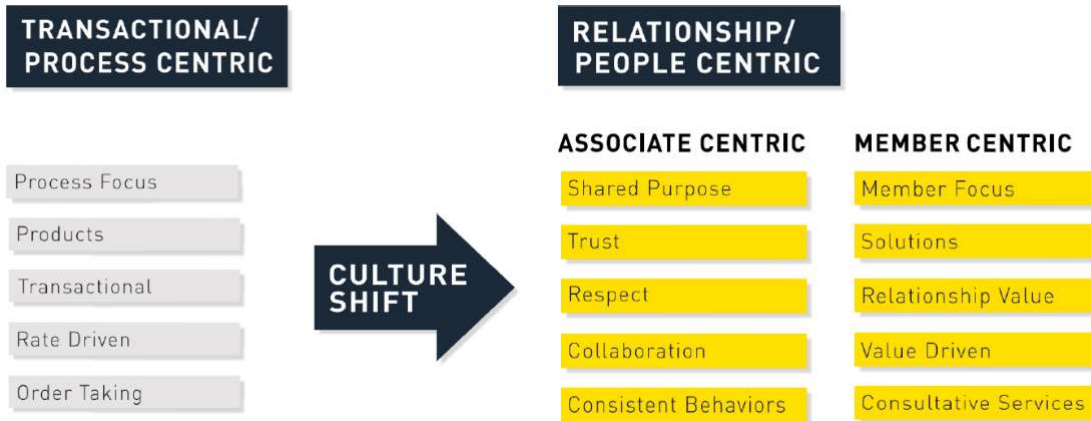
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A THIRD MODEL: CORPORATE AMBIDEXTERITY

- Most small to midsize companies resort to contextual ambidexterity
- Our expectations, support, and monitoring systems don't keep up
- Cost and complexity prevent most companies from instituting structural ambidexterity
- **Corporate ambidexterity**—business units or investments specifically focused on exploration

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CULTURE: FROM TRANSACTIONS TO RELATIONSHIPS



Adapted from D. Hilton Associates

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REPORTING HOTLINES AND ORGANIZATIONAL PERFORMANCE

- George Washington University research
- Anonymous access to NAVEX Global whistleblowing report database
- 3 million+ report records for 5000 public companies
- Positive correlation with
 - Greater profitability and workforce productivity
 - Fewer material lawsuits
 - Lower settlement costs
 - Fewer external interactions with regulators/other agencies

Source: Stubben & Welch, *Evidence on the Use and Efficacy of Internal Whistleblowing Systems*, 2020.

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BEST PRACTICES FOR THE IMPLEMENTATION OF AN EFFECTIVE WHISTLEBLOWER REPORTING PROGRAM

- Integrate as part of company's corporate compliance and ethics program
- Ensure anonymity, confidentiality, and no retaliation
- Consider whistleblower incentives (only about 10% do)
- Positive tone at the top
- Consider multiple uses for the hotline, including as a helpline
- Use a third-party provider
- Evaluate, test and audit

Source: Elements of an Effective Whistleblower Hotline, Harvard Law School Forum on Corporate Governance, October 2014

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CONNECTING CORPORATE CULTURE WITH THE BOTTOM LINE

- ❶ Recruit for cultural fit
- ❷ Compete on your cultural uniqueness
- ❸ Align values, accountability and boundaries
- ❹ Develop a pro-innovation culture/structure
- ❺ Explore whistleblower systems



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QUESTIONS?

Thank you for your participation!

