

Culture in Evolution

The role of the COO

1b or not 1b, that is the question

Written by Maurice Evlyn-Buften, CEO, Armstrong Wolfe



ARMSTRONG WOLFE

As we navigate the COVID crisis, now would appear the time for the COO community to shape the banking and asset management industries and address the imbalance created by the pursuit of profit over purpose.

How this can be done, and where the future of these two intertwined industries rests, are key questions to be answered.

The challenge before the crisis was to discover a new era of optimism, which has been exacerbated by recent events. How to refocus and trigger a liberated pursuit of profitability and benefits for all, but within an entrusted industry founded on good conduct is a question unanswered.

The industry will have to change in response to the impact on the worldwide economy and its workforce. To do so, this phase must be led by innovative, intellectual and inspirational leaders who are bound by ethical behaviour and principles. Just as the captain of a ship leads the vessel, it is the helmsman that steers it. Similarly, just as it is the CEO who sets the vision and drives the business, it is the COO who ensures it sails to calm waters in good order.

Since the credit crunch, most acknowledge that the role of the COO has morphed into being a CAO throughout the interim new regulatory era. The COO's office has been tasked to meet and deliver upon the seemingly unlimited book of regulation imposed upon the industry by ever vigilant and empowered regulatory bodies.

Pre-COVID, the COO's attentions were turning enthusiastically to assess how they can support revenue creation, whilst retaining the challenge of delivering lasting cultural change. Then COVID came, and BCP demands not experienced beforehand littered and filled the COO's in-tray.

Before COVID a few enlightened and optimistic COOs suggested an

opportunity existed for COOs to become more empowered to directly support the CEO, and to be given the explicit mandate to own the execution of the CEO's stated purpose and the consequent cultural change programme.

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In doing so, the COO becomes the ambassador for conduct, behaviour and ethics and, as such, is charged with delivering cultural change (on behalf of and in partnership with the CEO and the business, not as a servant to it).

If this mandate is held by all COOs, and if CEOs collectively see the untapped potential of the COO function, then an industry-wide and consistent approach could be achieved, with all COOs adhering to the common goal of raising standards and cementing cultural change.

It would not be the total solution and it is not the silver bullet, but it would help in no small part.

Note: The CEO needs to be a 'people person' and someone with empathy and a connection enshrined in their leadership style. The CEO must additionally partner the COO in the definition, communication and pursuit of purpose, which through effective messaging, helps to define and carry an organisation's culture.

(See fig.1)

Is this too big a mandate and simply a dream, or is it an opportunity for executive leaders within the COO community to leave a legacy? A legacy born from their response and management of two very different crises.

Some speak of this legacy in the sense of true obligation and a wish to see the industry they have dedicated their careers to left in good order for future generations. They joined an honourable profession and have seen its reputation torn asunder, where many in society would still declare it rendered morally lifeless 12 years on from the banking crisis in 2008.

Despite best efforts to repair this damage, the banking industry especially retains a tarnished status and perhaps significantly for its future, is no longer the 'go-to' industry for the best graduates - the people needed to lead it tomorrow.

Fig 1



Therefore, two possibilities exist for the industry's leadership today and within this spectrum, the COO:

1. The opportunity to be the leadership generation that lived through the banking crash and consequent economic downturn, managed and met the regulatory demands imposed upon it, then took the same industry through the COVID crisis but changed nothing.

Or

2. The generation that responded to these challenges and did something on and above what was required by them in law and from the regulators, building the foundations for a cultural revolution to take the industry towards a brighter future. A future with a collective, industry-wide purpose and vision; one that sits above profit and complements and contributes to the creation of enhanced and sustainable profits.

Here in rests the opportunity and herein lies the debate.

These are open-ended and lofty aspirations which need a structured and wholesome examination within the COO community to truly assess whether this approach is supported, viable or achievable. The optimists will say yes, and the pragmatists will nod in tacit agreement whilst seeing the hurdles to success as being too high or ambitious.

If we were to investigate the above and look for an outcome, there are a few questions that need to be answered:

1. What is the purpose of the banking/asset manager, including your company and role as a COO?
2. What is the present approach to conduct, ethics and behavioural training: does it work? If not, why not?

3. What could the COO achieve in cultural change and conduct if given greater empowerment?
4. How much core responsibility should lie with the COO regarding conduct and culture?
5. How do you meet these objectives whilst helping to grow the business, add value to clients and run a safe business?
6. What would be the principles that enable a COO to manage cultural change?

7. How do regulators view and position the COO's role in the context of owning cultural change and co-owning its accountability for its delivery?

In recent discussions, several COOs have expressed frustration with the regulators and specifically the FCA as to the seemingly entrenched view and perception regarding the COO's position and influence within the business. This impacts the ability for COOs to be taken seriously as an active leader and participate in external debate and dialogue in relation to conduct, behaviour and, more broadly, managing cultural change. There is hope though, that through the COVID crisis and the enhanced and visible role of the COO (and Chief Control Officer that supports the COO) that this perception and positioning may change.

Most COOs contend that they are firmly 1LOD and this is how the position should be viewed and engaged, not as a dilution or relegation to be anointed 1b or 2LOD. This debate is tied to defining where to place the COO role within the three lines of defence; regulators seemingly holding a contrary view to that of the COO's, where we can summarise this debate and difference in opinions as '1b or not 1b; that is the question'.

"We are part of the business, not separate from it. We are the instrument that helps to define and execute the conduct agenda, and an active participant at the leadership table in relation to shaping and driving cultural change. Until we are

viewed as 1LOD and not 1b, we will not be able to play our full part in helping the industry to drive cultural change."
(Global COO within Markets)

This frustration is understandable, where the perceived positioning of the COO can be openly seen within the FCA's summary on Conduct Risk Programmes (Reference: FCA website, first published: 12/04/17, last updated: 21/04/17), as follows:

Conduct risk programmes should be tailored to the needs of each firm based on its:

- Size
- Business model
- Geographic reach

While there is no 'correct' answer, these features are generally recognised by firms as effective:

- Highly visible CEO sponsorship together with engagement and challenge by the Board
- Senior executives taking leading roles in programme design co-owning its accountability for its delivery?
- Detailed roll-out plans with clearly defined short-term and long-term goals
- Clear ownership and responsibility for programme implementation by senior executives, sometimes supported by conduct specialists within the organisation
- Programmes integrated within strategic or operational risk management frameworks
- Use of a standardised conduct risk self-assessment process across the firm

10 Principles for a COO to lead cultural change

Note: Empowerment, communication and influence support the COO's ability to deliver cultural change effectively through a principled approach, but leadership galvanizes and strengthens purpose. (See fig.2)

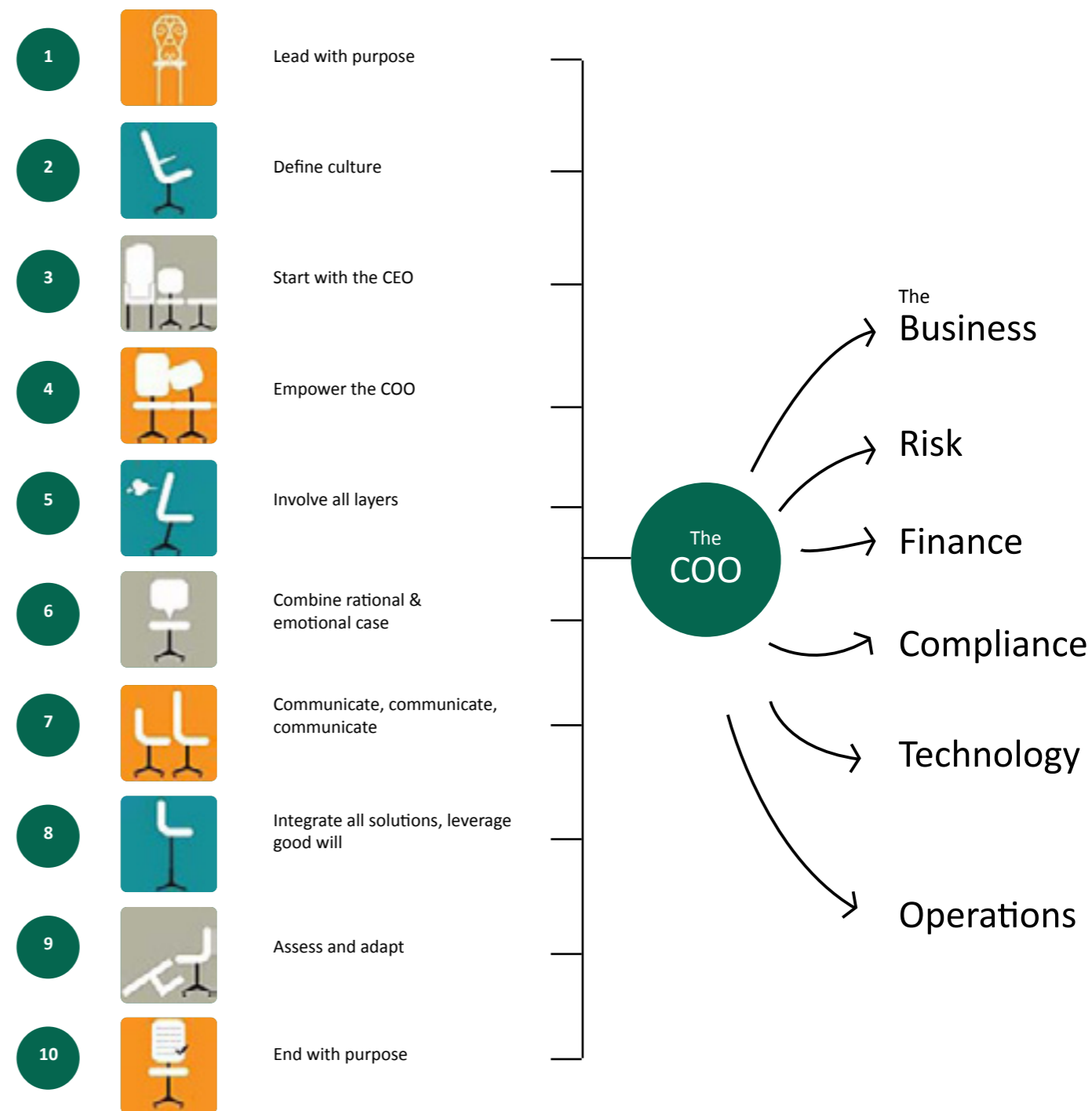


Fig 2

- A firm-wide taxonomy for conduct risk types, enabling consistent data capture and risk reporting
- A forum to compare conduct risk across business lines and functions
- Regular discussion at Board level of conduct, culture and programme implementation
- Active engagement in the programme by internal audit, including monitoring the programme's early stage effectiveness
- Training, promotion, performance management and remuneration all linked to conduct and culture objectives
- Long-term conduct risk initiatives becoming fully embedded in business as usual
- For international firms, adoption or at least support of the UK programmes from the head office

Programmes with the following features did not always generate the desired results:

- One-off or stand-alone projects with a short timeframe
- Compliance or the COOs being the primary driver of the programme
- Top-down mapping of desired conduct outcomes to business-level risks that were not balanced by similar bottom-up efforts by business units to identify where conduct risks could arise
- Disjointed or uncoordinated efforts by different business units
- Significant business units, control or operational functions being excluded
- Not examining if conduct risk arising in one area could arise in another

- Programme focus being limited to front office senior personnel, with limited or no involvement from middle and back office, risk, control and other support functions

Interestingly, while the above did not always generate the desired results, cases will exist where they did. Additionally, if the COO was mandated and engaged correctly, it is probable the number of positive outcomes would increase. The COO also reaches into the business front-to-back and therefore can influence, shape and imbue a consistent cultural messaging, where some programmes have most assuredly focused too much on the front office alone.

Naturally, if the COO were to gain this acknowledgement and engagement, it would also attain the burden of accountability and responsibility, perhaps becoming an automatically named position within the Senior Managers Regime (SMR) or Significant Influence Functions (SIF), as outlined.

Whether this is desirable for all COOs in position today is unlikely, as this burden is a heavy one to carry, but once depersonalised, the industry may benefit from the COO position being anointed as such. It would also manifest itself in the work to be done in defining what criteria a COO would need to demonstrate they had the 'experience, competence and knowledge' to be a COO.

How we assess applicants for key positions at a firm. We regulate two types of individual:

- Those with significant influence over a firm's conduct, and those dealing with customers (or their property)
- To ensure firms are effectively governed and able to deal with their customers fairly, only individuals with the appropriate skills, capabilities and behaviours should be appointed to these positions.

Firms must have balanced and effective boards, with a competent executive

team, so we consider any appointment in this light.

We assess applicants for key positions to make sure they are up to the job and that they carry out their role effectively. We will continue to take a risk-based approach to approving individuals who perform controlled functions.

For significant influence functions (SIF) in higher-impact firms, we will interview where appropriate. Applicants do not have to sit a formal exam, but we do expect them to be able to demonstrate experience, competence and knowledge in the function that they apply for."

(Reference: FCA website, Significant Influence Functions. First published: 12/05/15, last updated: 13/05/16)

This approach and outcome would require a mindset shift with the regulators across the industry and for many of the CEOs and business heads (that may not use and/or see their COO in this empowered capacity).

More so, it would require the COO community to embrace this mindset shift and to work with the CEO community to ensure all within the business understand this paradigm shift.

(See fig.3 on page 7)

Any outcomes should therefore be focused on providing a:

1. Repositioning and education of the regulators as to the exactness of the COO role as a core component of executive leadership and therefore the 1LOD spectrum
2. Common code of practice by which the COO community align their approach to defining purpose and maintaining, managing or changing culture
3. COO examination, leading to an accreditation, to help aspiring COOs prove demonstrable experience and capability*

*This course would focus on personal leadership and accountability, conduct

and ethics, and defining self and collective purpose. Additional modules would relate to the core responsibilities of a COO, such as talent and financial management, regulation and technological innovation.

Earlier, the difference in opinions between the regulators and the COOs in defining the COO as 1b or not 1b is indeed the question at the heart of this debate. Here there are echoes of the soliloquy spoken by Prince Hamlet in the so-called 'nunnery scene' of William Shakespeare's famous play, Hamlet.

Act III, Scene I

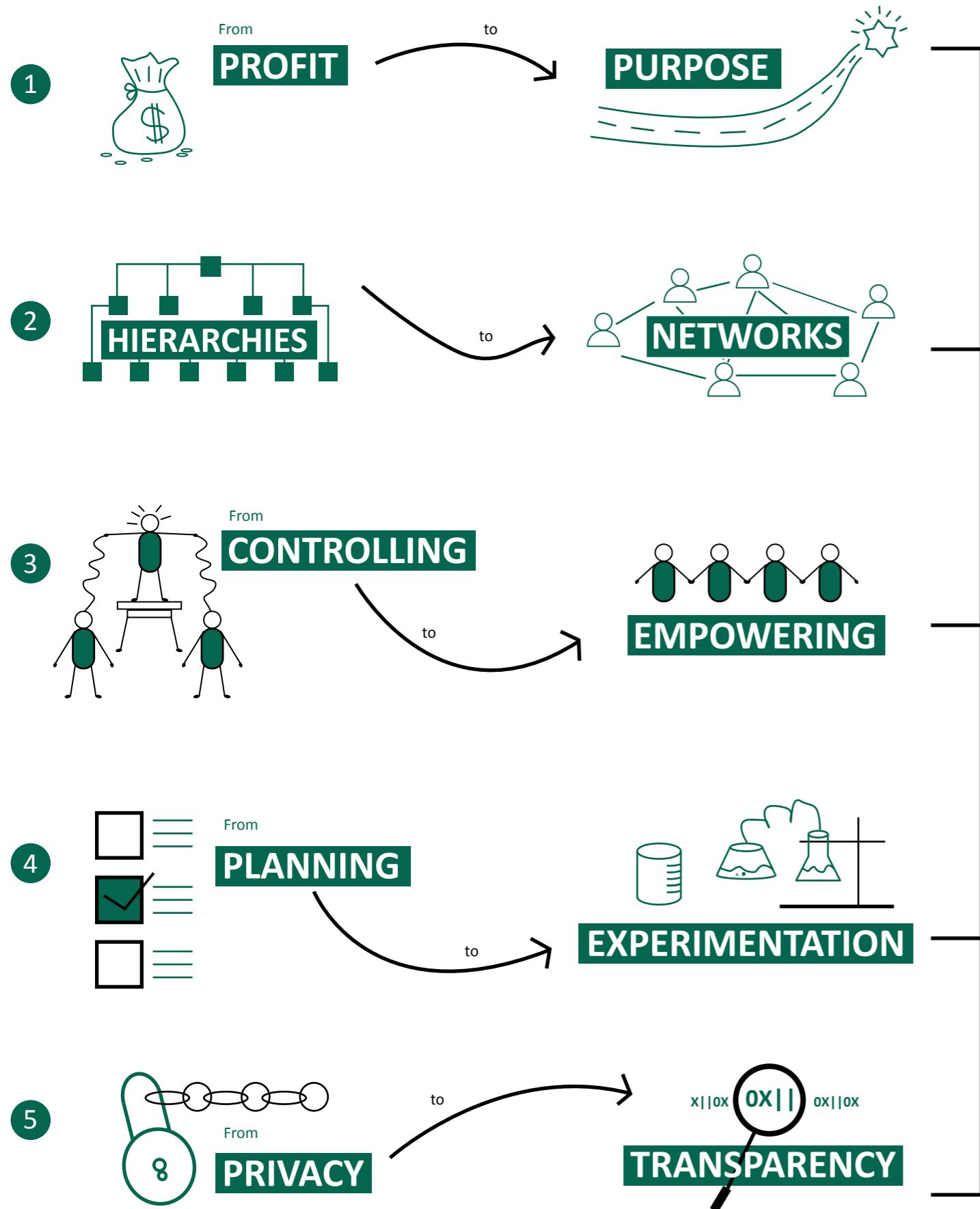
“To be, or not to be, that is the question: Whether 'tis nobler in the mind to suffer. The slings and arrows of outrageous fortune, Or to take arms against a sea of troubles And by opposing end them”

Taking the opening line and changing it to '1b or not 1b, that is the question' is a poor play on these well-known words. In context to this article, its follow-on lines 'Whether 'tis nobler in the mind to suffer the slings and arrows of outrageous fortune or to take arms against a sea of troubles and by opposing end them'. would appear highly fitting to the challenge facing the COO community and the choice that exists to address, meet and oppose the 'sea of troubles' that has beset the industry they have carved out their careers for over 20 years or not.



CEO & COO in Partnership

5 Principles which enable a Mindset Shift to drive Cultural Transformation



Note: Any shift in mandate, focus and leadership positioning of the COO's role would require trust, communication and a cohesive leadership approach between the CEO and COO to be successful.

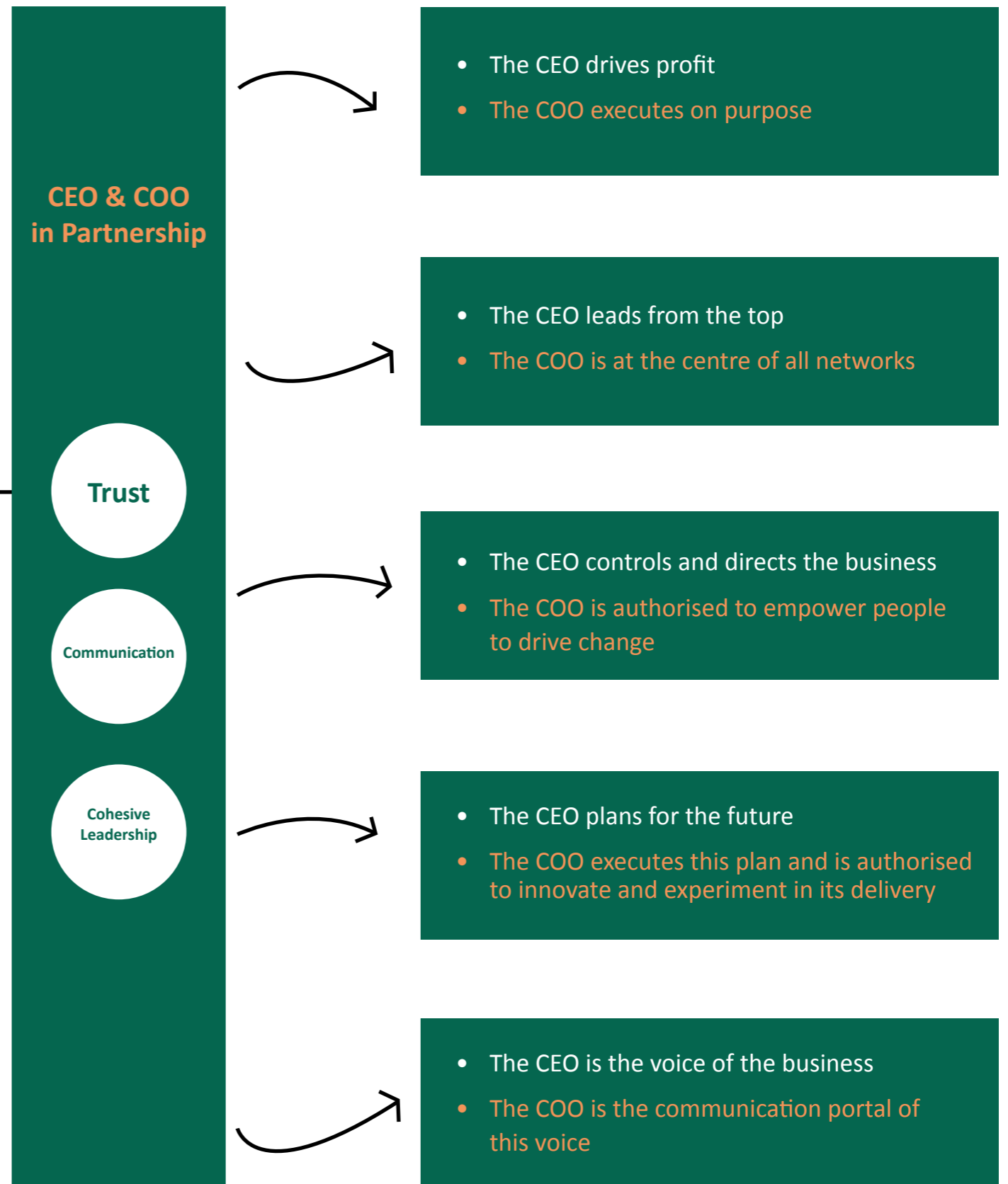


Fig 3