

## FCA Calls on Firms to Develop a Purposeful Culture

*The FCA's latest paper on culture explores how firms can improve culture through a meaningful purpose.*

### Key Points:

- The FCA explains how it expects firms to develop a more purposeful culture, and the benefits this can bring to an organisation.
- The paper provides firms with some new views and ideas to consider as part of their cultural change programmes.

### Background

The FCA is continuing to focus on firms' culture and has published a new [Discussion Paper](#) (DP20/1) on the topic. This paper focuses specifically on how having a clearly defined purpose is integral to a healthy culture.

Similar to the Discussion Paper on transforming culture in financial services published by the FCA [two years ago](#), the paper features a foreword by the FCA setting out its views and thoughts, followed by a collection of essays that present a range of perspectives from industry leaders, professional bodies, and culture experts. These essays set out how leaders in financial services might go about overcoming the barriers to embedding meaningful purpose in their organisations.

Although the FCA does not prescribe what a firm's culture should look like, it has articulated what it believes to be the four main drivers of a healthy culture. These are:

- A meaningful purpose
- An inclusive environment where it is safe to speak up
- Effective leadership and governance
- Employees that have the necessary capabilities and are motivated by appropriate incentives

These drivers were first articulated in 2017 and so do not represent new ideas. However, this is the first time that the FCA has focused on precisely what it expects from firms in relation to developing a meaningful purpose. The paper presents some helpful and tangible ideas that firms can integrate into their businesses. Although culture can be a difficult topic, because it is notoriously hard to articulate and measure, purpose tends to be an element of culture that is easier to curate and define.

## **What is purpose?**

The FCA describes purpose as “what a firm is trying to achieve — the definition of what constitutes success...and the motivation for people to go to work for them”. The regulator makes clear that, as with culture overall, it will not dictate or prescribe what a firm’s purpose should be. Therefore, it is for a firm to define its own purpose, and it is implicit within this that the FCA will judge firms on what their purpose achieves, rather than what their purpose is.

The FCA explains that purpose could relate to a number of things — it might be social, ethical, consumer-driven, or people-driven. It could also be articulated in various ways, for example through a mission, a vision, or values. Ultimately, the FCA considers that purpose needs to mean something to a firm’s employees, and resonate throughout the organisation, and the FCA says that “in many sectors and for many years, the stars haven’t aligned [which] created unhealthy cultures”. Firms need a purpose “beyond just making money”.

## **Why purpose?**

As well as being a key driver of culture, the regulator emphasises that society now expects firms to have a more purposeful culture, citing the rise in awareness of the importance of issues such as climate change, diversity and inclusion, ethical use of data, and acting in the best interests of customers. The FCA states that “customers who experience firms acting purely selfishly may vote with their feet”.

Picking up on non-financial areas of concern recently brought to firms’ attention by the FCA, the regulator highlights that it considers that purposeful cultures will create environments in which individuals feel safe to speak up, and in which diversity is encouraged. According to the FCA, maintaining a healthy, purposeful culture should lead to better outcomes for consumers and markets, and healthy and sustainable returns for shareholders. It should also lead to a healthier and less stressful environment for employees, and a reduction in increasingly concerning mental health issues. Further, the FCA is of the view that a strong purpose can attract future talent, help businesses identify and manage risks, and help firms focus on their longer-term goals over short-term pressures.

## **What gets in the way?**

The FCA explains that, while a great deal of progress has been made by the industry in improving culture, there remain some outstanding issues that are preventing the adoption of healthy cultures in financial services.

A key issue that the FCA has identified in relation to firms’ developing their purpose is fear. The FCA explains that firms are often afraid to focus on longer-term goals when faced with the pressure to meet shareholders’ expectations and deliver on profits in the short term. Firms may also be concerned about breaching regulatory rules, or not meeting regulatory expectations. They may also be unwilling to be the “first mover” in taking the right steps when competitors are not making the same sort of changes.

## How can firms become more purposeful?

The FCA stresses the importance of purpose being propounded not only from the top of an organisation, but also from middle management. Indeed, much of the FCA's thinking was informed by feedback sessions it organised with individuals with ten years' experience (sometimes referred to as the VP layer). The FCA expects that firms will need to align decision-making, recruitment and internal progression with organisational purpose, and for middle management to be empowered to lead teams in acceptance with the firm's values, for purpose to resonate throughout an organisation and really be authentic.

The essays contain a range of ideas that firms can take on board and the FCA encourages firms to see if they can adopt at least one new idea to help create a more purposeful culture. One essay discusses how business leaders have begun to recognise the importance of a sense of purpose within the office and the positive impact that a sense of purpose can have on morale and production. A strong sense of purpose is key to any successful business and "builds confidence, aligns employees with management's strategy, creates loyal customers and informs stakeholders". Another essay explains that purpose for a business now goes far beyond profit-making and that serving customers and improving society are higher purposes for which businesses can aim. Tips for firms include rediscovering rather than inventing their purpose, measuring their "purpose gap", and engaging in a healthy dialogue with customers and society.

The essays discuss the success of companies that have a strong purpose compared to companies that do not have a clear purpose. However, how do organisations go about deciding what their purpose should be? Key messages include that purpose cannot be manufactured and should be demonstrated through action, a company's purpose should be linked to its values, and if a company cannot immediately name a few examples that illustrate its purpose then it has probably not worked out its true purpose. A sense of purpose can also be adopted by different sectors to increase engagement with customers and employees, to create stability and to build trust and confidence. Further, to be effective, purpose must be authentic, and will probably reflect the history of (perhaps even the founding principles behind) the firm.

Firms should read the paper with interest and consider how they are addressing this key driver of culture. The regulator's focus on culture is set to continue and so it is crucial that firms take note of the FCA's developing expectations in this area. The FCA does not request formal feedback on the paper, but it is clear that the FCA will look to see how firms have considered the paper in its ongoing supervisory work on culture. The FCA also makes clear that if a firm's purpose and associated business model is contributing to, or exacerbating, the risk of potential harm, the firm can expect increased supervisory scrutiny.

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If you have questions about this *Client Alert*, please contact one of the authors listed below or the Latham lawyer with whom you normally consult:

**David Berman**

david.berman@lw.com  
+44.20.7710.3080  
London

**Stuart Davis**

stuart.davis@lw.com  
+44.20.7710.1821  
London

**Sam Maxson**

sam.maxson@lw.com  
+44.20.7710.1823  
London

**Kishore Bhindi**

kishore.bhindi@lw.com  
+44.20.7710.4785  
London

**Carl Fernandes**

carl.fernandes@lw.com  
+44.20.7710.4777  
London

**Rob Moulton**

rob.moulton@lw.com  
+44.20.7710.4523  
London

**Sherryn Buehlmann**

sherryn.buehlmann@lw.com  
+44.20.7710.3043  
London

**Nicola Higgs**

nicola.higgs@lw.com  
+44.20.7710.1154  
London

**Denisa Odendaal**

denisa.odendaal@lw.com  
+44.20.7710.1845  
London

**Brett Carr**

brett.carr@lw.com  
+44.020.7710.4695  
London

**Gabriel Lakeman**

gabriel.lakeman@lw.com  
+44.020.7710.4645  
London

**Jonathan Ritson-Candler**

jonathan.ritson-candler@lw.com  
+44.20.7710.1815  
London

**Charlotte Collins**

Knowledge Management Lawyer  
charlotte.collins@lw.com  
+44.20.7710.1804  
London

**Anna Lewis-Martinez**

Knowledge Management Lawyer  
anna.lewis-martinez@lw.com  
+44.20.7710.1025  
London

**Katy Sanders**

katy.sanders@lw.com  
+44.20.7710.4548  
London

**Becky Critchley**

becky.critchley@lw.com  
+44.20.7710.4519  
London

**Anne Mainwaring**

anne.mainwaring@lw.com  
+44.20.7710.1018  
London

**Sean Wells**

sean.wells@lw.com  
+44.20.7710.4662  
London

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