Balancing profit and customer care: Exploring the conceptual attributes of risk climate in the Australian banking sector

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Abstract

This thesis aims to contextualise the risk climate construct to aid the banking sector change journey. Specifically, this study explores the conceptual attributes of the climate construct in the context of the banking sector. The conceptual attributes of the climate construct are relative priorities, alignment of espousals – enactments and internal consistencies. This study utilises the conceptual attributes to further the conceptual development of the risk climate construct. This study brings a novel and critical perspective towards understanding the Australian banking sector from the theoretical lens of organisational climate. In doing so, this study develops knowledge of the relative priorities within the banking sector, and the situations in which they occur. The study employs semi-structured interviews with subject matter experts as the main data generation technique. The research questions were developed based on the conceptual attributes of the climate construct. Data generated from semi-structured interviews with 12 subject matter experts working in senior roles was critically analysed through the lens of organisational climate theory. The findings reveal that the relative priorities in the banking sector relate to customer care and profit motive. The findings focus on the specific situations where customer care and profit motive compete. Based on these findings, this thesis highlights the importance of including customer care into investigative frameworks relating to misconduct in the banking sector.

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Australian Prudential Regulatory Authority (APRA)

Heightening your Awareness of your Research Philosophy (HARP)

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Chapter 1: Introduction

The Australian banking sector is a significant industry both nationally and globally. In 2022, the market size of the Australian banking sector measured by revenue was $127.6bn and it provided employment for 241,700 people (Treisman, 2023). The banking sector impacts almost the entirety of the Australian population with 99.32% of Australians aged over 14 years of age owning bank accounts (Global Findex Database, 2023).

The Australian banking sector also plays an important role in the Australian economy. The main function of banks is to accept funds, also referred to as deposits, from people with those funds, group them, and lend them to people who need funds (International Monetary Fund, 2023). This is a complex process and should not be assumed this process is as simple as "deposits in – money out". These functions mean that banks interact with, and impact, almost all the Australian population. Because of this, the conduct of those in the banking sector is of significant national interest, and hence must adhere to regulatory, ethical and community standards.

Due to increasing media reports and public concerns that these standards were not being met, the Australian banking sector experienced unprecedented scrutiny for its treatment of customers (Hayne, 2019). This issue precipitated the 2018 Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (known as the Banking Royal Commission). The Banking Royal Commission was initiated by the then Liberal Prime Minister, Malcolm Turnbull, and led by former Justice of the High Court, Kenneth Hayne KC. In Australia, royal commissions are a form of non-judicial and non-administrative governmental investigation and as the highest form of inquiry on matters of public importance are only established in rare and exceptional circumstances (Prasser, 2006).

The Banking Royal Commission was established after a series of banking and financial scandals. These scandals included the Commonwealth Bank of Australia whistle blower allegations of fraud, forgery, and management of coverups (Vickovich, 2021) and the Westpac Banking Corporation admitting to breaking the law after it was hit with six lawsuits by regulators over its poor treatment of customers, including charging fees to dead people. Unfortunately, these scandals were not limited to just these institutions or isolated events, instead, they were evidence of systemic failures across the whole sector. The extent of the problem is evidenced by the wide-ranging cases called upon by the Banking Royal across the sectors of banking, insurance and superannuation. The purpose of the Banking Royal Commission was to inquire into, and report on, whether any conduct by those financial entities fell below community standards and expectations (Bradley & Knoll, 2019). Community expectations in this context can be analogised to the "reasonable person" standard that permeates all areas of the law (Yorke, 2000). The Banking Royal Commission found misconduct[1] was inherent across all activities and services in the sector. The Banking Royal Commission determined two key reasons for the misconduct within the banking sector: greed at both an individual employee level as well as at an institutional level, and a lack of punishment for misconduct (Hayne, 2019). As Commissioner Hayne (2019: p1) stated:

> "The pursuit of short-term profit at the expense of basic standards of honesty…from the executive suite to the front line, staff were measured and rewarded by reference to profit and sales."

In response, the Banking Royal Commission made recommendations for significant structural and cultural change within the sector. The Banking Royal Commission's emphasis on governance, remuneration, and culture brought about greater regulation from the Australian Prudential Regulation Authority (APRA) in the form of immediate significant structural change (Hargovan, 2019). As did the Australian Banking Association (Ludwig, 2015). While regulatory and structural recommendations have been implemented, the sector is struggling to make similar progress on how to bring about significant cultural change (Financial Stability Board, 2014; Price, 2019; Sheedy & Griffin, 2014; Sheedy, Griffin, & Barbour, 2017).

This thesis used organisational climate as theoretical lens to investigate the challenges the banking sector in Australia faces in managing the cultural change required to balance the competing demands of profit and customer care, and thereby

[1] Misconduct is behaviour that is inconsistent with employee obligations or duties; a breach of company policy or procedure; or generally unacceptable or improper behaviour.

not just adhering to but hopefully exceeding adhere to regulatory, ethical and community standards. The focus will be on how managers understand how to manage the tension between customer care and profit maximisation. Organisational climate (Barbara & Schneider, 2014; Ehrhart, Schneider & Macey, 2013) is employed in this research as it has demonstrated utility in facilitating cultural and behavioural change when there is a need to balance competing values and priorities, for example, such as safety-performance (Zohar & Luria, 2004) and customer service-efficiency (Schneider, Chung & Yusko, 1993).

1.1 BACKGROUND TO THE PROBLEM

The Banking Royal Commission found misconduct was inherent across all activities and services in the financial services and banking sector. It uncovered practices such as fees for no service, employee incentives not aligned with customer interests such as trailing commissions[2], junk insurance products[3], conflicts of interest, failure of compliance systems and tardiness of breach reporting and remediation (Hayne, 2019). These activities were reviewed across seven rounds of public hearings between 13 March 2018 and 30 November 2018, which exposed behaviour that fell well below community standards and expectations and created a lack of public trust in these institutions (Gilligan, 2018).

The poor treatment of customers by banks and financial services providers regarding financial products was heard in the first round of public hearings. This round identified breaches of responsible lending obligations and conduct by Australia's leading financial institutions including, Australia and New Zealand Banking Group Limited (ANZ), Aussie Home Loans, Commonwealth Bank of Australia, Citibank Australia, National Australia Bank and Westpac (Hooper, 2019). The second round of public hearings investigated the alleged conduct of financial advisors and the wealth management sector, and the adequacy of the current legal and regulatory structure. The third round of public hearings focused on the dynamics

[2] A type of commission that is paid to a broker or advisor on an congoing basis or as consecutive payments for the duration of an investment. They are problematic because they can incentivise mis-selling by incentivising brokers to maintain investment in a product to continue payments or to promote products that pay a higher fee to them.

[3] 'add-on' insurance products that provide little or no value to customers.

between banks and small and medium enterprises, in providing credit to businesses, the extension of unfair contract terms legislation to small business contracts and current legal and regulatory regimes, as well as self-regulation under the Code of Banking Practice. The fourth round of public hearings looked at the lending practices affecting Australians in remote and regional areas with themes including changes to lending conditions, access to appropriate banking services, restricted support to distance from local branches, and the use of property valuations. Round five heard examples of systemic issues of bad behaviour and misconduct across the superannuation sector, including conflicts of interest, lack of customer focus, a strong sales mentality, flawed advice, deficient risk management processes, poor culture[4], and leadership condoning behaviour by inaction. Round six raised issues over the sale, promotion and design of life and general insurance, including inappropriate and “junk” policies, and products that did not meet customer needs and targeted the poor and disabled. Round seven, also the final round of public hearings, focused on major policy issues arising out of the previous six rounds.

The Banking Royal Commission resolved that there were two main causes for misconduct in the banking sector; first, the primacy of shareholder value creation and maximisation of profit, and second, insufficient deterrent and punishment for misconduct (Casson, 2019a; Price, 2019). The Banking Royal Commission also exposed that instances of misconduct were not isolated and were far worse than anyone envisaged pointing to the overbearing sales-driven culture of banks and its associated incentive system as being directly linked to the misconduct considered and suggesting that those who run the organisation (the boards and management) were responsible (Comino, 2020). The Banking Royal Commission highlighted remuneration, culture, and governance (Casson, 2019b; Hayne, 2019) as the keys to change and ensuring appropriate conduct because misconduct was deemed to be a result of cultural deficiencies, not just a few bad actors (Hayne, 2019). The Banking Royal Commission found that boards need to address the problem of culture and its primary and idiosyncratic effects on quality standards within their organisations (Casson, 2019b) and raised concerns as to whether misconduct was attributable to

[4] Organisational culture is defined as the shared beliefs and values of those within the workplace (Alvesson & Berg; 1992; Ehrhart et al., 2013; McShane, Olekalns, Newman & Travaglione, 2016; Power, et al., 2013; Schein, 1990; 2010).

culture and governance (Price, 2019). The culture within the banking sector was determined to be too focused on profit at the expense of customer care[5] and the Banking Royal Commission specifically recommended developing a risk culture that addresses misconduct.

The Banking Royal Commission's emphasis on governance, remuneration, and culture brought about greater regulation from the Australian Prudential Regulation Authority (APRA) in the form of immediate significant structural change and an examination of the existing culture within financial institutions (Hargovan, 2019). The structural change involved abolishing the financial services arm within institutions in the banking sector. This structural change was geared at addressing the conflict of interest that comes with a financial institution having direct ownership over various stages of its production process. The banking sector was making and selling financial products as well as providing financial advice regarding those financial products. The banking sector no longer provides financial advice and no longer provides remuneration for the sale of financial products. Since the Banking Royal Commission, the banking sector is also more heavily governed by APRA regarding financial products and the provision of financial products to the customer. There were other regulators Australian Securities and Investments Commission, , Australian Competitor and Consumer Commission, Reserve Bank Australia and Australian Tax Office. The 2017 legislation (Corporations Amendment (Professional Standards of Financial Advisers) Act 2017) was also released to improve professionalism in financial planning that was being implemented around the time of the Banking Royal Commission.

1.1.1 Recommendations for Significant Cultural Change

While the increase in risk and compliance requirements and major changes to organisational strategy and structure took place almost immediately after the Banking Royal Commission published its final report, the establishment and maintenance of a risk culture is an ongoing challenge for the banking sector (APRA, 2016; Deloitte, 2021; Hooper, 2019). The sector is still struggling with how to manage this cultural change (Financial Stability Board, 2014; Price, 2019; Sheedy &

[5] Customer care is denoted as looking after the financial position of the customer.

Griffin, 2014; Sheedy et al., 2017). Through its focus on poor behaviour[6] and not just breaches of the law the Banking Royal Commission emphasised *"issues relating to culture are often at the root of misconduct"* (Price, 2019 p. 49). The Banking Royal Commission made its recommendations with the intent that the banking sector would be able to culturally manage the risk of misconduct. The existing culture was seen by the Banking Royal Commission to be too focused on profits at the expense of the customer.

Despite repeated sector failings (i.e., Global Financial Crisis, the Banking Royal Commission) and calls for significant culture change to balance profit with customer care, depressingly little progress has been made (Sheedy & Griffin, 2014). The banking sector has engaged in denial to avoid enacting change (Crofts, 2020). This denial has manifested in denial strategies such as literal denial (nothing happened), interpretive denial (something happened but it's not what you think) and implicatory denial (it happened but action is not needed and/or possible) (Crofts, 2020). Such denial is indicative of the low likelihood that true change could or would occur. The sector's inability to make positive cultural change is unfortunately not a new problem, as a change in culture across the sector was noted as required in response to issues that caused the global financial crises in 2007-2009 (Sheedy & Griffin, 2014; Sheedy et al., 2017). These issues included excessive risk taking, regulation and policy errors where culture was identified as an underlying cause. According to the global industry association, Institute of International Finance "it is critical for governance to embed a firm-wide focus on risk. The recent market turbulence has provided clear evidence that effective cultivation of a consistent 'risk culture' throughout firms is the main enabling tool in risk management" (IIF, 2009, p. 11). However, risk culture has been seen as the final frontier post the Global Financial Crisis (APRA, 2016; Financial Stability Board, 2014), and appears to still be an ongoing sector challenge.

Cultural change within the banking sector is an ongoing work-in-progress. Several professional service providers, for example Deloitte[7] and PwC[8] Australia, are

[6] Behaviours that had a significant detrimental impact.
[7] www2.deloitte.com/au/en/pages/risk/solutions/risk-culture-ethics
[8] https://www.pwc.com.au/financial-services/royal-commission.html

developing whole business lines around the challenge of eliciting culture change with the purpose of trying to balance profit and the customer to manage the risk of misconduct. Information papers issued by authorities within banking preceding the Banking Royal Commission but succeeding the Global Financial Crisis pointed to deficiencies in institutional attitude toward risk taking (APRA, 2016). These deficiencies in institutional attitude towards risk taking have perpetuated misconduct. Thus, the banking sector is trying to establish and maintain a risk culture conducive to managing the risk of misconduct through balancing profit and customer but is having difficulty eliciting the desired change.

System level culture change models and approaches appear unable to provide guidance on how to operationalise a culture change from the primacy of the profit motive to one which balances profit with customer care (PWC, 2019[9]). The term "risk culture" is used in the Banking Royal Commission and by professional associations but links with the term "risk" (and its various applications i.e., risk appetite, reputation risk, financial risk) may hinder rather than help with cultural change. This is because cultural change is about reconciling, acknowledging, and managing the inherent tension between profit and the customer, as noted by Hayne (2019), whereas risk is the effect of uncertainty on objectives (ISO3100, 2009). This raises the question of how the sector can drive change to assist managers and staff to balance profit and customer care. This requires an approach responsive to changes in the priorities in the work environment such as when profit may be prioritised over the customer.

An established area of research on understanding the impact of competing values and priorities, and how to resolve them to facilitate improvements in organisational effectiveness is organisational climate. Organisational climate has examined, for example, improving safety outcomes while maintaining productivity (Zohar, 2002; Zohar & Luria, 2004; Zohar & Polachek, 2014), and balancing quality customer service and cost efficiency (Schneider et al., 1993; Schneider, Wheeler & Cox, 1992). In the next section, organisational climate research is reviewed, and the case made that it is an appropriate theoretical perspective for investigating how the

[9]www.pwc.com.au/financial-services/pdf/pwc-royal-commision-reprot-feb12.pdf

banking sector can drive change to assist managers and staff to balance profit and customer care.

1.1.2 Organisational climate

Organisational climate has been defined as the shared meaning organisational members attach to the events, policies, practices, and procedures they experience and the behaviours they see being rewarded, supported, and expected (Ostroff, Kinicki & Muhammad, 2013). There is general agreement within the organisational behaviour field that climate is the shared perceptions of those within the workplace and culture is the shared beliefs and values of those within the workplace (Alvesson & Skolberg; 1992; Ehrhart, Schneider & Macey, 2013; Ostroff, Kinicki & Muhammad, 2013; Power, Ashby & Palermo, 2013; McShane, Olekalns, Newman & Travaglione, 2016; Katz & Kahn, 1978; Pettigrew, 1979; Rousseau, 1990; Schein, 1990, 2010). Organisational climate, as a construct, has characteristics such as its focus is perceptions of immediate and visible aspects of the organisation (Ehrhart, Schneider & Macey, 2013). Organisational climate is an approach designed to understand (and change) how employees perceive the relative priorities in their work environment, such as safety versus productivity or customer services versus cost efficiency. The immediacy and visibility of climate makes it easier to observe and measure than culture (Barbera & Schneider, 2014). This more micro focus and closer proximity to behaviour (Ehrhart, Schneider & Macey, 2013; Ostroff, Kinicki, & Muhammad, 2013; Zohar, 2008) may mean that employing a climate-based approach could assist in balancing the tension between the competing demands of profit and the customer care. This thesis will investigate the utility of a climate-based approach for understanding the tension between profit and customer care.

Climate is the result of employees' experiences with policies, procedures, and practices. Policies, procedures, and practices are the building blocks of the organisational environment (Schneider, Gonzalez-Roma, Ostroff & West, 2017; Zohar, 2009). Policies, procedures, and practices exist at multiple levels in an organisation (Zohar, 2009). Organisational climate, as a theoretical construct, allows researchers to study relative priorities between and among policies, procedures, and practices at a single level of analysis (e.g., work group) through to multiple levels of analysis (e.g., group level and organisational level). Organisational climate provides guidance on how to drive change from the primacy of the profit motive to one which balances profit with customer care at the various levels within an organisation in which these relative priorities exist.

Organisational climate has an established base of research studies that have helped many fields manage competing priorities in the workplace such as safety and service (Schneider, Ehrhart & Macey, 2016; Ehrhart, Schneider & Macey, 2013; Katz & Kahn, 1978; Ostroff, Kinicki & Muhammad, 2013; Zohar, 2008). There has been some initial research on risk climate specifically which has examined the relative priority given to risk and its management within financial institutions (Sheedy, Griffin & Barbour, 2017). Risk climate is defined as "the shared perceptions among employees of the relative priority given to risk management, including perceptions of the risk-related practices and behaviours that are expected, valued, and supported" (Sheedy et al., 2017). Sheedy and colleagues made a significant contribution in identifying and developing risk climate and developed a timely response to the banking industry's need with the development of the risk climate construct and their survey.

The work of Sheedy et al., (2017) was timely and provides a good foundation from which to begin an examination of climate construct within the banking sector. However, the timeliness of Sheedy et al work may have come at the expense of construct development as their measurement tool was created in a manner inconsistent with guidance from seminal authors in the field of organisational climate (Zohar, 1980; 2009; Schneider, 1980; Schneider et al., 1993) and did not contextualise their measures. Sheedy et al (2017, p. 114) reflect "the generation of items for our scale was not theory-driven but based on a bottom-up approach. While this scale offers a basis for further exploration, there is a need for further conceptual development, which could result in other dimensions not identified here." Contextualisation is the exploration of the context in which the phenomenon exists and developing the construct in a manner that the researcher is assured they are measuring what they think they are measuring. It needs to be noted that a lack of contextualisation is not uncommon in the initial development of a facet climate construct, as it also occurred in the development of many types of climates including safety climate, service climate, justice climate and more (Naumann & Bennett, 2000; Schneider, Chung & Yusko, 1993; Zohar & Polachek, 2014; Zohar & Luria, 2010; Zohar, 1980). Though there were some fields of climate research where the researchers conducted qualitative research to contextualise investigative frameworks in the fields of safety climate and service climate (Schneider, Wheeler & Cox, 1992; Schneider, 1975; Zohar, 1980). This research aims to extend Sheedy's et al., (2017) work by conducting qualitative research to undertake the contextualisation needed to identify the tensions specific to the competing priorities of profit and customer care.

1.2 RESEARCH STRATEGY

Consistent with research in fields such as safety climate and service climate this study will adopt organisational climate as the theoretical base to explore managing competing priorities (Barbara & Schneider, 2014; Bowen & Ostroff, 2004; Kozlowski & Doherty, 1989; Lewin, Lippitt & White, 1939; Zohar & Polachek, 2014). This research study draws its methodological approach from these organisational climate fields applying a qualitative approach within a critical realist paradigm.

The overarching research question is: *What are the cues in the workplace that employees in the banking sector (deposit taking institutions) use to interpret the importance of risk and its management?* The research sub-questions used to answer this question and explore organisational climate are structured using the three conceptual attributes of the climate construct: *relative priorities*; *alignment between espousals and enactments*; and *internal consistency.* The research sub-questions are:

1. What are the tasks or demands that compete with risk and its management for priority?
2. What espousal – enactment gaps exist regarding the perceived importance of risk and its management?
3. What internal inconsistencies exist among risk policies and procedures implementation?

Data for this study was collected via semi-structured interviews with 12 subject matter experts working in the banking sector. The study participants consisted of managers (including c-suite, general management, and managers) from divisions including finance, people and culture, risk, and assurance, and legal. Data were analysed qualitatively using participant views on the variety of organisational policies and procedures that comprise the risk climate in their organisations. Analysis employed a deductive approach based on the conceptual attributes of the climate construct, and an inductive approach to identify themes, meanings, and patterns.

1.2.1 Significance and contribution

The central idea behind this research is that conceptual development of the risk climate construct has the potential for significant theoretical, methodological, and practical contribution. First, it contributes to the organisational climate literature by extending it to financial services by investigating the utility of organisational climate to understand the competing demands of profit maximisation and customer care. Second, this theoretical extension may result in an applied contribution by assisting the banking sector to understand how to drive cultural change to assist managers and staff to balance profit motive with customer care. Third, this study provides a methodological contribution through contextualising of the risk climate construct via theory-driven qualitative research consisting of conceptual attributes of the climate construct (Sheedy et al., 2017; Schneider & Wheeler, 1992; Zohar, 2010).

The research gap this thesis aims to fill is the conceptual development and contextualisation of the risk climate investigative framework developed by Sheedy et al., (2017). I address this gap using the conceptual attributes of the climate construct postulated by Zohar (2009). The conceptual attributes of risk climate in the banking sector were given context through respondent accounts of their general experiences within the banking sector. The conceptual attributes are driven by evidence-based research and theory from seminal authors (Schneider, 1975, Zohar, 2009) in the field of organisational climate, with contextualisation to the work environment. In this case, risk and its related management is required because contextualisation will provide the foundations for clarity around the construct of risk climate. Increasing clarity about the construct of risk climate will allow practitioners to manage the development of a positive risk climate that will be more likely to result in the behaviours desired by shareholders, regulators, customers, and the general public.

1.2.2 Motivation for undertaking the study

My motivation for studying the banking sector stems from my concern as a member of the public to the depth and breadth of misconduct exposed by the Banking Royal Commission. As a subject matter expert with experience designing, developing and implementing measurement tools to measure culture in large organisations such as Queensland Police Service and the Australian Defence Force, I was motivated to study risk climate in the banking sector and to contribute ways to measure the constructs of culture and climate. Understanding the importance of valid measurement of these constructs I commenced this research as a quantitative study with the aim of developing a survey to measure risk climate in the banking sector. However, through initial efforts to construct and validate the measurement tool, I realised that qualitative research was required prior to commencing quantitative research to conceptually develop and contextualise the tool. There has been some research (Sheedy et al., 2017) conducted to assist the banking sector to manage the risk of misconduct, however, the research conducted by Sheedy et al., (2017) required further conceptual development through qualitative research to aid its effectiveness. This led me to reorient the project to adopt a qualitative research approach to identify themes relating to the relative priorities in the banking sector in the belief that understanding these relative priorities within banking is an important contribution to managing them. Further motivation are the 10,000 submissions to the Banking Royal Commission, and the 70,000 complaints made to the Australian Financial Complaints Authority. The impact on the Australian public as a result of misconduct is unfathomable.

1.3 THESIS OVERVIEW

This chapter has provided a summary of the research problem and using the findings of the Banking Royal Commission and associated public and academic commentary has argued for the need to focus on organisational climate and culture to responsibly manage competing priorities in the banking sector. Chapter 2 provides a synthesis of the literature regarding organisational climate in relation to its theoretical underpinnings, contextualisation, risk climate, summary, and implications. The final section of this chapter presents the conceptual framework for this research.

Chapter 3 outlines the critical realist paradigm upon which shaped the research design and provides reasoning for selecting a qualitative research approach. The research questions and associated objectives to achieve the research aim are outlined. The research findings are reported in Chapter 4. Chapter 5 provides a discussion of the implications of these findings and compares these against propositions from the existing literature. The practical implications of the results for the banking industry are also described. Chapter 6 highlights the research contributions and limitations and future directions for research are discussed.

1.4 CONCLUSION

In response to the Banking Royal Commission, the sector enacted major changes to organisational strategy and structure, but driving the required cultural change is an ongoing challenge for the banking sector (Hooper, 2019; APRA, 2016; Deloitte, 2021). This thesis will explore the utility of organisational climate as theoretical perspective to understand the cultural challenges in balancing the relative priorities of profit maximisation and customer care. This study will utilise a qualitative approach to further develop the risk climate framework developed by Sheedy et al. (2017) to progress risk climate research. Specifically, I aim to improve the conceptual development of Sheedy et al.'s (2017) risk climate via contextualisation of the construct. This conceptual development of the risk climate construct has the potential for significant theoretical, methodological, and practical contributions.

Chapter 2: Literature Review

2.1 INTRODUCTION

Managing the risk of misconduct through balancing profit motive with customer care is acknowledged by governing bodies (APRA, 2016) and the importance of risk management was highlighted by the Hayne (2019). This research considers the utility of organisational climate, specifically risk climate in enacting change in the banking sector through balancing priorities to drive cultural change. The gap in the literature this study seeks to examine is the conceptual development and contextualisation of the risk climate investigative framework developed by Sheedy et al., (2017). This will be done via the application of the guidelines for the development of organisational climate construct via the identification of conceptual attributes as developed within the safety climate literature by Dov Zohar (Zohar, 2002; 2008; 2009; Zohar & Luria, 2003; 2004; 2005; 2010; Zohar & Polachek, 2014).

This chapter reviews the organisational climate literature as a foundation for understanding the theoretical underpinnings of organisational climate, the conceptualisation and contextualisation of organisational climates and then its application to risk climate research.

2.2 THEORETICAL UNDERPINNINGS OF CLIMATE

2.2.1 Defining organisational climate

Organisational climate has been defined as the shared meaning organisational members (i.e., employees) connect to the policies, procedures and practices experienced in the workplace, as well as behaviours that are rewarded, supported and expected (Ehrhart, Schneider & Macey, 2013; Katz & Kahn, 1978; Ostroff, Kinicki & Muhammad, 2013).There is general agreement among researchers that perceptions become meaningful and shared based on the social interactions employees will have with each other as part of their work life (Denison, 1996; Ehrhart, Schneider & Macey, 2013; James & Jones, 1974; Jones & James, 1979; Schneider, Gonzalez-Roma, Ostroff & West, 2017). In simpler terms, climate as a summary perception result from observations of what is rewarded, supported and expected in an organisation as well as experiences with aspects of an organisation.

A summary perception is a nod to the climate construct being originally conceptualised as a Gestalt construct from which employees perceive, make sense of, and derive meaning from the social context of organisations (Ostroff & Schulte, 2014). The history of climate literature focuses on the Gestalt psychology heritage of organisational climate (Hofmann, Burke & Zohar, 2017; Schneider, Gonzalez-Roma, Ostroff & West, 2017). The Gestalt tradition emphasised climate as a composite of many perceptions and experiences where a Gestalt (i.e., a whole) is formed out of many observations and experiences (Schneider et al., 2017). That is, organisational climate is a Gestalt that is formed from the shared (summary) perceptions of many people, or more specifically, in the case of organisational climate, employees.

The shared meaning of these summary perceptions occurs through the mechanism of social interactions among employees within a workplace setting (Lewin, Lippitt & White, 1939; Schneider et al. 2017). Thus, these summary perceptions become meaningful and shared based on socialisation and interactions between employees (James & Jones, 1974). The term to describe this process is symbolic interactionism. Symbolic interactionism refers to a theoretical viewpoint that meaning and reality are socially interpreted and arises from cognitive interactions among people who are seeking to understand their environment (Blumer, 1969; Stryker, 2008). Zohar (2009, p. 1519) describes this as “the meaning of things and the interpretation of events arise from the interplay between one’s own perceptions and those of others in the same situation”. Symbolic interactionism is the underlying mechanism through which employee perceptions become shared. The social nature of humans means that natural socialisations and interactions occur in all work environments. In the banking sector, employees interact in relation to daily occurrences within their work environment. These socialisations and interactions are how employees in the banking sector perceptions become shared and are what the climate literature refers to as symbolic interactionism.

In brief, organisational climate is a phenomenon resulting from the shared perceptions of the relative priority given to the policies, procedures, and practices organisational members experience in their workplace, as well as the behaviours they see being rewarded, supported, and expected. In the banking sector, these experiences and observations would indicate to employees the relative importance of both profit and customer care.

2.2.2 Types of strategically focused climates

Organisational climate involves the idea that employees' shared perceptions of the importance of something within the organisation create a climate (Klein & Sorra, 1996). The importance of "something" is revealed through its prioritisation or de-prioritisation. While few explanations of organisational climate explicitly incorporate the concept of relative priority, it is important to highlight that if employees perceive a strategic focus is a key priority, then there will be a strategically focused or outcome climate (Ostroff, Kiniki & Tamkins, 2003; Schneider, Ehrhart & Macey, 2011; Zohar, 2009). Strategically focused climates or outcome climates involve a focus on the strategic outcomes in organisations (Barbera & Schneider, 2014). For example, in the banking sector, the prioritisation of achieving a profit might have meant there would be shared perceptions (i.e., climate) for profit.

In the climate literature, there has been a development of a body of research on strategically focused climates (Barbera & Schneider, 2014). Examples of strategically focused climate include safety climate (Zohar & Luria, 2004), risk climate (Sheedy et al., 2017) and service climate (Schneider, White & Paul, 1998). When a strategic focus involves the performance of high-risk operations the resultant shared perceptions define the safety climate (Zohar, 2000; 2009). Similarly, when a strategic focus involves the relative importance of risk and its management then the resulting shared perceptions define risk climate (Sheedy et al., 2017). Service climate (Schneider, White & Paul, 1998) is another strategically focused climate. Climate for service refers to employee perceptions of the practices, procedures, and behaviours that get rewarded, supported, and expected with regard to customer service and customer service quality (Schneider, White & Paul, 1998). When a strategic focus involves customer service quality then the resulting shared perceptions define service climate. This current research project is concerned with the strategically focused or outcome climate of risk climate.

2.2.3 Climate – behaviour relationship

Strategic climates can be a predictor of employees' behaviour with regard to the organisation's achievement of its strategic goals (Schneider, White & Paul, 1998; Schneider et al., 2011; Yagil, 2014; Zohar & Polachek, 2014; Zohar, 2000; 2008). Climate perceptions relate to the experiences employees have had with fundamental properties of the work environment such as policies, procedures and practices (Zohar, 2000; 2009). These climate perceptions inform employees about the desired role behaviour (Katz & Kahn, 1978; Zohar, 2000; 2008). An employee's behaviour is determined by their role and the employee's perception of how they should behave (Chan, 1998; Schneider, Gonzalez-Roma & West, 2017; Katz & Kahn, 1978; Klein, Dansereau, & Hall, 1994; Kessler, 2019; Schneider, Salvaggio & Subriats, 2002). In the context of this study, role behaviour might refer to an employee's risk behaviour that is determined by the role of the employee, and the employee's perception of how they should behave. For example, risk-related role behaviour might be an employee's behaviour such as conducting a risk assessment to ensure appropriate customer care when providing financial services. The strongest predictor of behaviour is when there are behaviour-outcome expectancies (Diefendroff & Seaton, 2015; Zohar, 2008). Climate perceptions relate to behaviour-outcome expectancies because climate perceptions reveal the kinds of behaviours that are rewarded, supported and expected (Zohar; 2009). The behaviours that are rewarded, supported, and expected indicate the true priorities that exist within a work environment (Zohar, 2000; 2008). In the banking sector, the priorities the Banking Royal Commission identified as being rewarded, supported, and expected were related to profit maximisation.

Employees can use cues in the workplace to interpret the importance strategic goals in an organisation. These cues are mechanisms in which leaders and organisations can intentionally reward and support desired behaviours. The true priorities among competing facets are the main target of climate perceptions and indicate likely consequences of alternative role behaviours. The Banking Royal Commission revealed such behaviours as opening fake bank accounts to meet financial targets as opposed to the consequences of reporting losses to shareholders. These perceptions of the consequences of reporting losses to shareholders would inform behaviour – outcome expectancies. These expectancies provide the strongest prediction of actual behaviour (Bandura, 2005; Lawler, 1971; Vroom, 1964). Thus, climate perceptions of the relative importance of a strategic focus within the work environment indicate the behaviours likely to be rewarded, supported, and expected. These climate perceptions involve the true priorities in the work environment and inform employees about the desired behaviour.

It is the identification of what the true priorities that banking employees currently hold that is required to drive behaviour change. I argue that this is what Commissioner Hayne (2018, p1) was referring to when he stated "The pursuit of short-term profit at the expense of basic standards of honesty…from the executive suite to the front line, staff were measured and rewarded by reference to profit and sales." The utility of the climate-behaviour relationship for the banking sector is to facilitate performance improvements through behaviour change. The facilitation of behaviour change is necessary to help mitigate the risk of misconduct so that profit is not prioritised at the expense of customer care.

2.2.4 Leader behaviour

In any work environment there are priorities that are relative to one another and compete for importance (Zhang, Pirzadeh & Lingard, 2018; Zohar & Luria, 2010). Leaders have a role in communicating priorities in the workplace (Schneider et al., 2017; Zohar & Erev, 2007; Zohar & Luria, 2010). One of the ways priorities are communicated in a work environment within an organisation is through the leader's behaviour. The leader's behaviour sends messages to the employees about which specific imperatives are valued and prioritised (Schneider, 1975). The behaviour of a leader becomes a pattern over time (Zohar & Erev, 2007; Zohar & Luria, 2010; Zohar, 2002). This pattern is interpreted by employees to reflect the leader's priorities (Zohar, 2009). It is the priorities the leader's behaviour reflects that shape the climate, or in other terms, the leader's behaviour is an antecedent to organisational climate (Gonzalez-Roma, Peiro & Tordera, 2002; Zohar & Luria, 2002; Zohar & Tenne-Gazit, 2008; Zohar, 2002). The safety climate literature describes the relationship between climate and leader as a "social learning process in which group members repeatedly observe and exchange information with their leader as means for interpreting the organisational environment" (Zohar, 2009, p. 1519). Most notably, leader behaviour informs group members as to relative priorities as well as the behaviour that is valued and supported by both the leader and the larger organisation (Zohar & Polachek, 2004; Zohar, 2009). An example could be if a supervisor says to fix that piece of equipment as fast as you can (but make sure you do it safely) compared to a supervisor demanding the employee fix it now with no mention of safety. When a leader prioritises balancing safety with production, there will be a positive safety climate, and when a leader consistently does this, there will be a strong positive safety climate.

The leader's behaviour communicates the priorities in the workplace. Employees will use the leader's behaviour as a cue to interpret the relative importance of a strategic focus in an organisation. Leader behaviour exists at multiple levels in an organisation (Zohar & Luria, 2005). There can be multiple referent points acting as sources of information informing employee's perception. Leader behaviour at multiple levels in organisations in the banking sector have prioritised profit maximisation (Hayne, 2019), so explicit correction of this is likely to be an aspect driving change. A critical element in developing climate measures is identifying specific incidents of managers prioritising (or not) the subject of focus (Zohar & Polachek, 2014; Schneider et al., 2017). In this thesis, the subject of focus is balancing customer care with profit is an important step in defining risk climate. This current research project identifies such occurrences where leaders have or have not balanced the priorities of profit with customer care within the banking sector.

2.2.5 Conceptual and methodological considerations

Conceptual and methodological considerations are a part of the organisational climate literature. While full coverage of the conceptual and methodological considerations relating to climate (i.e., climate strength and configural approaches) is beyond the scope of this paper, there are some considerations that need to be addressed for this research. The focal consideration is the levels of analysis and data aggregation issue which has been prominent in the climate literature for decades (Barbera & Schneider, 2014; Ostroff, Kinicki & Clark 2002; Schneider et al., 2017).

Organisational climate research has almost entirely used employee survey methods with those surveys focussing explicitly on observable experiences that people have in work settings (Barbera & Schneider, 2014; Schneider et al., 2017). Early climate research focused on the foundations of construct definition and measurement (Barbera & Schneider, 2014). Another term for the era of early research was "feeling the elephant" as early researchers explored various parts of the elephant but not the whole elephant (Ehrhart, Schneider & Macey, 2013). The exploration of parts of the elephant introduced the issue of levels of analysis and data aggregation, as well as the development of focused climates.

Researchers realised specificity was needed to determine which part of the elephant was being explored (e.g., safety) and by whom (e.g., an individual, a work unit or the organisation). This led to research on focused climates and multilevel research (Kozlowski & Klein, 2000; Schneider, Wheeler & Cox, 1993). As noted in section 2.2.2, that focused climates are specific to a strategic objective of an organisation. Multilevel research stemmed from clarification of the levels of analysis issue and data aggregation. Level of analysis refers to the "level" climate is investigated – which can be individual, work unit or organisation and data aggregation refers to data being aggregated to the level it is being analysed (James & Jones, 1979; Klein, Tosi & Cannella, 1999; Kozlowski & Klein, 2000). For example, higher-level climates are created through the data aggregation of individual climates (Jones & James, 1979). However, employee perceptions must be of the same phenomena for individual data points to be aggregated to a higher-level construct (Jones & James, 1979).

The conceptual and methodological considerations relating to aggregating data to the level of analysis include the measurement of climate. Items within a survey measuring climate should be written to the level of analysis the data would be aggregated (Schneider, 1975). For example, the item wording when measuring at the work unit level of analysis should consist of "We" and/or "Our work team" versus referring to the individual level of "I" and/or "My" (Klein, Conn, Smith & Sorra, 2001; Schulte, Ostroff, Shmulyian & Kinicki, 2009). The use of different referent points has been used in survey development which has limited the accuracy of measurement tools (Schneider et al., 2017). For example, the use of different referent points such as using "I" when measuring at the group level of analysis impedes the accuracy of measurement because "I" is not reflective of a group level phenomenon. As such, studies at a group unit level of an organisation need to have referent points for perception targets such as "we" for group-level perceptions (Chan, 1998; Schneider et al., 2017). There have been many researchers who have investigated group-level climates using surveys with group-referent items (Barbera & Schneider, 2014; Drexler, 1977; Kozlowski & Klein, 2000; Schneider et al. 2017; Smith-Crowe, Burke, Cohen & Doveh, 2014).

These researchers adhered to the referent-shift literature which is necessary to study climate at various levels of analysis with organisations. As part of the progression of organisational climate being studied at a single level of analysis to a multilevel construct there was an effort to discriminate between the priorities of senior management and those of supervisors and reduce conceptual ambiguity (Kozlowski & Klein, 2000). The priorities for senior management stemmed from patterns emerging from policies and procedures in use. Senior management is more involved with setting the policies while supervisors are involved with their implementation. Policies define strategic goals and the means for their attainment (including procedures that translate policies into tactical guidelines), practices relate to the execution of policies by supervisory leaders across the organisational hierarchy. This discrimination is helpful to understand why the conceptual development of climate should involve situations that indicate priorities residing in the work environment at multiple levels (Zohar, 2008).

The conceptual and methodological consideration of the levels of analysis issue applies to the current research project because the banking sector requires the facilitation of change through balancing priorities across multiple levels of an organisation. Thus, the exploration and measurement of organisational climate, in this case, risk climate in the banking sector, should allow for the investigation of relative priorities specific to the facet of risk on a multilevel basis and consideration of the "referent shift" literature is appropriate in this context.

2.3 CLIMATE CONCEPTUALISATION AND CONTEXTUALISATION

2.3.1 Safety climate construct development

In this section, I review recommendations for the construct development of facet specific climates. I first review the construct development of the safety climate construct. Safety climate is a strategically focused facet specific construct developed over more than 30 years (Zohar, 2009), it has undergone substantial conceptual and methodological development, making safety climate a body of literature that is considered seminal research (Barbera & Schneider, 2014). The development of the safety climate construct provides guidance on the requirements for developing risk climate as a construct. Safety climate reflects employees' perceptions about the relative importance of safe conduct in their occupational behaviour (Zohar, 1980). The conceptual development of the safety climate construct began with Zohar (1980) conducting qualitative research. In this study, a 40-item measure of organisational climate for safety was constructed and validated. The pivotal aspect of this study is the definition of safety climate reflecting employees' perceptions about the relative importance of safe conduct in their work-related behaviour in the context of general production processes. In other words, safety climate research has included the relative priorities or competing demands of safety and production as part of the questionnaire development since its conception.

In 2000, Zohar further developed questionnaire items reflecting these relative priorities or competing demands. An example of a survey item is "Whenever pressure builds up, my supervisor wants us to work faster rather than by the rules". This item captures the tension between production pressure and working safely. In 2005, Zohar and Luria extended the development of the safety survey instrument to incorporate multilevel theory. The incorporation of multilevel theory involved identifying relative priorities at the relevant levels of the organisation. For example, an item representing the organisational level safety climate would be "Top management in this company considers safety when setting production speed and schedules" whereas an item representing the group level safety climate would be "My direct supervisor emphasises safety procedures when we are working under pressure". These items differentiate between the levels of an organisation through reference to "top management" for the organisational level and "my supervisor" for the group level. The items depict the level being analysed because senior management is more involved with setting the policies while supervisors are involved with their implementation. This distinction is evident through the wording used when describing the item. For example, the organisational level item referred to "setting production speed and schedules" whereas the group level item referred to "emphasising safety procedures". The distinction being the organisational level involves policies and procedures whereas the group level involves practices. This is an extension of the "referent-shift" literature where not only does the item classify the level of analysis (e.g., 'my supervisor' for the group level) but also the properties of an organisation (i.e., policies, procedures and practices). Distinguishing the properties of an organisation in which climate perceptions belong along with the relative priorities in which they exist.

In 2009, Zohar published an article reflecting on the achievements he and his co-researchers had made in validating safety climate as a robust leading indicator as well as acknowledging future directions. In this article, he discusses how "much of the work in the safety climate field has focused on methodological rather than conceptual issues" (Zohar, 2009 p. 1517). Zohar (2009) noted that most studies focus on measurement issues and as a result, there are more than 20 empirically tested safety climate scales for manufacturing industries. Such ambiguity is also found in Verbeke et al.'s (1998) study of the general organisational climate where 32 different definitions were identified. This led Zohar (2009 p. 1517) to attest "the time has come to re-focus our attention on theoretical and conceptual issues" with hopes that such re-focus would lead to the emergence of a more developed climate theory. Zohar (2009) presented several conceptual attributes of the climate construct to help reduce conceptual ambiguity. These are reviewed in the next section.

2.3.2 Conceptual attributes

Zohar (2009, p.3) discusses that a key attribute of organisational climate is it involves "employee perceptions regarding selected characteristics or features of their organisational environment". However, there are a variety of perception-based constructs in organisational psychology research such as employee engagement and motivation. As such, climate perceptions must be distinguished from other types of organisational perceptions (Huang et al., 2006, 2007). Distinguishing climate perceptions from other types of organisational perceptions is important for the matter of accuracy (Guion, 1973). The construct validity of a measure of perception of a climate construct is related to the accuracy of those perceptions, or in other words, the accuracy of identifying an objective measure of the reality being perceived (Guion, 1973). For example, in the safety climate literature, there are three conceptual attributes of the climate construct that have been distinguished, thus qualifying organisational perceptions as climate perceptions (Zohar, 2009). These conceptual attributes are relative priorities, alignment of espousal – enactments and internal consistency and provide the structure for the current research study's sub-questions.

2.3.2.1 Relative Priorities

The concept of relative priorities is fundamental throughout the organisational climate literature (Greenhalgh, Macfarlane, Bate & Kyriakidou, 2004; Ostroff & Schulte, 2014; Klein & Sorra, 1996; Schneider, Salvaggo & Subirats, 2002). Relative priority is an attribute of the organisational environment informing employee role behaviours that are expected, valued, and supported within the banking sector. Climate perceptions are aimed at uncovering the kinds of behaviours that get rewarded and supported but the assessment of behaviours can be challenging due to the complexity of the organisational environment (Zohar, 2009). Therefore, climate perceptions ought to relate to the relative priorities among the policies, procedures, and practices in an organisation. Identifying the relative priorities among the policies, procedures and practices becomes a higher-level analysis where patterns are recognised. Once patterns are recognised employees will have a more comprehensive perspective of the behaviours likely to be supported and rewarded (Zohar, 2009). These patterns form the conceptual attribute of relative priority. Relative priorities occur within any organisation where there will be tasks competing with each other for priority. It is the task, over time, situations, and people, being focused on consistently, sometimes at the expense of other tasks, that will be perceived as most important. Sometimes leaders and others might focus on a certain task domain more than others without awareness they are doing so, and these are all cues that employees receive that steer their behaviour in a certain way that leads to prioritising or deprioritising a strategic focus.

2.3.2.2 Alignment between espoused and enacted priorities

The next attribute of the climate construct is the alignment between espoused and enacted priorities. This attribute refers to the extent of alignment or misalignment between words and deeds on behalf of managers at different levels of the organisational hierarchy (Argyris, 1997; Simons, 2002). For example, there could be an espousal that risk and its management are issues of high priority but then risk and its management are compromised under competing demands such as pressure to make a profit resulting in a gap between enacted and espoused priorities. The alignment between enacted and espoused priorities is an important attribute of climate perceptions because it is only the enacted policies that provide reliable information regarding the kinds of behaviour likely to be rewarded and supported (Eakin, 1992; Zohar, 2000, 2003, 2009). Daily conflicts, such as those seen with competing demands, means there sometimes is a gap between what is said and done. This applies to organisations and individuals, and when there is a discrepancy between what a manager says and does, the gap can be is particularly prominent. Such discrepancies, when relating to a strategic focus, indicate to employees its relative importance.

2.3.2.3 Internal Consistency

Internal consistency among relevant policies, procedures, and practices as an attribute of the organisational environment informing employee risk-related role behaviours that are expected valued and supported within APRA regulated companies. The conceptual attribute of internal consistency reflects climate as a multilevel construct (Zohar & Luria, 2005). This is due to policies, procedures and practices all sitting at different levels within the organisational hierarchy. Policies, according to a multilevel interpretation, set strategic goals, whereas procedures provide guidelines for actions related to these goals. Then practices relate to the implementation of policies and procedures at the group level. At the organisational level, senior managers set the policy and establish procedures and at a lower hierarchal level or the group level, are the supervisors who turn these policies and procedures into situation specific actions (Zohar, 2000; 2003; Zohar & Luria, 2005). It is expected at the group level, that supervisory practices will entail discretion due to procedures not covering every situation, incompatible procedures stemming from conflicts between competing demands and the group's interpersonal dynamics. Such supervisory discretion, when relating to a strategic focus will inform employees' climate perceptions of its relative importance. These conceptual attributes of the climate construct distinguish climate perceptions from other organisational perceptions. This is important for measuring aspects of the organisational environment to improve construct validity in that the correct phenomenon is measured. The conceptual attributes of the climate construct provide reliable information as to the relative priorities in the work environment and the situations they exist. In the context of this research project, the conceptual attributes help identify the cues in the work environment that indicate the relative importance of risk and its management in the banking sector. Table 2.1 displays the conceptual attributes along with descriptions and examples.

Table 2.1

The conceptual attributes of the climate construct

Attribute	Description	Example
Relative priorities	Nature of relationships between elements of an organisation	Priority of facet specific climate compared to other competing priorities
Alignment between espousal – enactments	Discrepancies between managers' words and deeds	Espoused priorities might differ from enacted priorities
Internal consistencies	Potential inconsistencies nested among policies, procedures, and practices	Supervisor discretion in policy implementation

2.3.3 Contextualisation

Zohar (2009) and Schneider (1980) both stress the importance of contextualisation of any climate constructs is to reduce conceptual ambiguity and increase construct clarity and validity. These authors are seminal researchers in the field of organisational climate who have contributed to their strategically focused climate construct in ways of contextualising to aid conceptual development. Contextualisation refers to the conceptual development of a climate construct. In the words of Zohar (2009, p.1517), "the time has come to re-focus our attention on theoretical and conceptual issues with hopes that such re-focus would lead to the emergence of a better developed climate theory".

For safety climate, the conceptual development centred around the identification of relative priorities or situations presenting competing operational demands involving safety (Zohar & Luria, 2005; Zohar, 2008). Such situations included safety vs. speed, flow, schedules and profitability. The safety literature suggests measures of a strategic climate should include items that refer to these situations because such situations offer the clearest indication of priorities at the workplace (Zohar & Luria, 2005; Zohar & Luria, 2005; Zohar, 1980; Zohar, 2008). The inclusion of these items improves measurement sensitivity (Vu & De Cieri, 2015).

Service climate is a strategically focused construct where early research involved qualitative research to aid its conceptualisation. Early research focused on developing a survey for measuring service climate (Schneider, Parkington & Buxton, 1980). This research shows there was a body of work conducted to determine themes and industry specific terminology for service climate. This is evidenced by the methodology where 30 interviews were conducted to orient the researchers to a range of issues salient to the respondents as well as shaping the wording of questions for the service climate survey. This contextualisation in the early development of the service climate construct acknowledged the importance of conceptual development to aid the investigation and measurement of strategically focused climates.

For service climate, the conceptual development centred around orienting the wording of the survey to the issues salient to the respondents (Schneider et al., 1980). This context driven approach to developing climate definitions and measures has been evident in research conducted by seminal authors for decades (Schneider et al., 1980; Schneider et al., 2017; Zohar & Luria, 2005). Other strategically focused climates, such as the risk climate construct, would benefit from similar conceptual development.

2.4 RISK CLIMATE

2.4.1 Risk climate research

Risk climate as a construct is in its infancy. It is a relatively new outcome-focused climate construct that is not yet mature in its conceptual and methodological development. While there has been some significant progress in developing a framework for investigating risk climate more work is required for further developing risk climate theory. The progress in developing a framework for investigating risk climate involved Sheedy et al., (2017) who pioneered research into risk climate within financial institutions. Their research defined a facet-specific climate construct, presented a framework for investigating risk climate, and developed a validated scale for measuring it at both the individual and group levels of analysis. The paper authored by Sheedy et al., (2017) provided the first academic study of a new strategic-focused climate construct based on the relative priority given to risk management. Risk climate is the shared perceptions among employees of the relative priority given to risk management, including perceptions of the risk-related practices and behaviours that are expected, valued, and supported (Sheedy et al., 2017).

Sheedy et al., (2017) presented a four-factor model of risk climate based on published case studies, the industry literature on risk climate, and interviews with subject matter experts (senior risk managers, regulators, and consultants). The four-factor model of risk climate included: Valued, Proactive, Manager and Avoidance. This four-factor model included 18 items which formed a survey they used on a sample of 9995 employees from 114 business units. The items are presented in Table 2.1. This four-factor model with its respective items forms the investigative framework developed for researching risk climate, however, there were limitations and areas for future research. These areas pointed to the need for theory-driven research to aid further conceptual development of the risk climate construct and its investigative framework. The next section presents opportunities for further conceptual development and methodological improvements in future risk climate research.

Table 2.1

Four-factor model with items

Factor		Item
Valued	The items measure the degree to which risk management and risk managers were valued and respected throughout the organisation.	• The value of risk management has been embraced throughout the organisation • Risk managers have authority and status in this organisation • Risk management is a genuine high priority in this organisation • It is clear that risk management is really valued in this organisation
Avoidance	The items capture a tendency within the work group to ignore or avoid employees' questions about risk taking and acceptable risk.	• Senior leaders don't want to hear about bad news • Questions about risk and warning signals are sometimes ignored • Sometimes it is unclear where the boundaries of acceptable risk-taking lie • The behaviour of those who

		breach risk policy is typically excused if they are a top performer • Breaches of risk policy often get "swept under the carpet" (hidden or ignored) • The importance of risk management frameworks, policies or processes are criticised or downplayed by staff
Proactive	Items measure practices to actively address risk management.	• Staff are encouraged to identify potential risks • For us, analysing risk events (including a near miss) is very useful • We have useful discussions about how risk management can be improved • Consideration of risk is a routine part of all key decision making • Risk incidents, issues, and concerns are rapidly escalated
Manager	Items measure managers' encouragement and role modelling of appropriate risk management.	• My manager encourages us to ensure that risk is appropriately considered • When it comes to managing risk, my manager is an excellent role model of desirable behaviour • My manager welcomes input from staff who highlight potential risks

2.4.2 Review and critique

In this section, opportunities for improvements to the investigative framework for risk climate will be addressed. Namely, the opportunities for development related to the conceptual development of risk climate as well as methodological improvements. The conceptual development relates to the concept of relative importance of risk and its management, and the methodological improvements relate to measuring risk climate. Both of which are important to the study of risk climate.

There is a need to address the conceptual issues in climate research. Zohar (2009) states that there are several conceptual issues associated with safety climate and presenting these issues will hopefully not only reduce conceptual ambiguity but stimulate a shift from practical to more theoretical issues, leading to the emergence of better developed safety-climate theory. Zohar (2009) raises the importance of being able to distinguish a strategic focus from other priorities in the work environment. He says that a key attribute of climate is that it is made up of the shared perceptions of employees of selected features of the organisational environment and that identifying the other features of an environment helps ensure the phenomena being studied are the selected phenomena.

As noted previously, Sheedy et al (2017, p. 114) acknowledge "the generation of items for our scale was not theory-driven but based on a bottom-up approach. While this scale offers a basis for further exploration, there is a need for further conceptual development, which could result in other dimensions not identified here." The risk climate research conducted by Sheedy et al., (2017) does not refer to situations presenting competing demands or give a clear indication of priorities in the workplace. Whilst Sheedy et al., (2017) refer to relative priorities in the definition of risk climate they do not address what those relative priorities are. Identifying relative priorities that exist in a risk climate would aid the conceptual development of the four-factor model presented in Table 2.1 which forms the measurement tool and investigative framework. An example taken from Table 2.1 of the items developed for the survey to investigate risk climate is "My manager encourages us to ensure that risk is appropriately considered". This item does not indicate the context in which the manager encourages risk to be appropriately considered such as the situation in which competing priorities might exist. This is also indicative for all the items making up each of the four factors where the items do not capture situations presenting competing operational demands. The four-factor model as a measurement tool could be improved as it does not give a clear indication of priorities in the work environment.

The current state of the four-factor model creates conceptual ambiguity. Incorporating relative priorities into the investigative framework would aid theory development of strategically focused climate constructs (Schneider et al., 2017; Sheedy et al., 2017; Zohar, 2009). There is a need for theory driven conceptual development of the risk climate construct which is a method similar to the development of early safety climate scales and the early service climate survey. Thus, there is a research gap in risk climate research to further develop the risk climate construct such as when Schneider and Zohar developed their service and safety climate constructs, respectively, using thematic analysis. This allowed for the contextualisation of the climate construct before quantitative investigation and measurement. Furthermore, Schneider (1992) made the argument for the recommendation of qualitative procedures in the studies of other kinds of climate. While the investigative framework into risk climate (Sheedy et al., 2017) made a significant contribution to the field it is argued the research into risk climate should have started with a thematic analysis to contextualise the construct. This qualitative research would assist with construct clarity. Construct clarity is important for researchers to have more confidence that they are studying the phenomena they planned to study (Suddaby, 2010). The conceptual ambiguity existing in the current risk climate research introduces the possibility that researchers using the investigative framework to measure risk climate might not measure the phenomena they intended to measure. Additionally, the priorities should be discriminated as per the level they exist (Zohar, 2008).

Sheedy has used multiple levels of manager behaviour across the four factors of risk climate in financial institutions. The use of many organisational levels to refer to manager behaviour weakens measurement sensitivity as the 'manager' organisational levels may be varying such as supervisor for one item or factor but referring to senior management for another item or factor. Researchers said referent points for each source of perception measured to be identified (Klein et al., 2001; Schneider et al., 2017). There are two items relating to managers but these do not differentiate between senior managers and direct managers as per multilevel research (Kozlowski et al., 2000; Ostroff et al., 2002; Zohar, 2005). Thus, the items in the current risk climate research should be worded as per the "referent shift" issue discussed in Section 2.2.5, as well as discriminate the level of the situation competing operational demands are presented.

This research is aimed at identifying cues in the work environment employees use to interpret the relative importance of risk and its management so future researchers can contextualise the risk climate construct which will aid conceptual and methodological development. Identifying cues in the work environment in the banking sector will reveal relative priorities and the situations in which these competing demands exist. This will aid future researchers to further develop the risk climate construct as per the organisational climate literature recommendations and adherence to presenting situations where priorities exist.

2.4.3 Further development

This research study entails a strategically focused climate, which is a climate for something, and that climate is risk climate. Risk climate is the relative importance of risk and its management within the banking sector. This research study seeks to identify what else in the work environment risk might also be important as compared to risk and its management. While there has been some significant progress in developing an investigative framework by means of survey items and factors much more work is required for augmenting risk climate theory. Published research (Sheedy, Griffin & Barbour, 2017) specified the need for further conceptual development of the risk climate construct. Further conceptual development to capture situations that give employees clues about the true priorities of management is imperative for strategically focused climates (Ehrhart, Schneider & Macey, 2013). Supporting this view is academic research into facet specific organisational climates (i.e. service, justice, safety) that has long been accepted as a valuable area for research (Bakker, Albrecht & Leiter, 2011; Barbera et al., 2014; Ehrhart, Schneider & Macy, 2013; Jimmieson, Tucker, White et al., 2016; Liao & Chuang, 2007; Lytle, Hom & Mokwa, 1998; Salanova, Agut & Perio, 2005; Schneider, 1975, 2017; Zohar, 1980, 2014). Risk climate is a facet specific construct that would benefit from further exploration. The risk climate construct requires conceptual development through research to improve construct clarity and contextualise the risk climate. A focus on relative priorities is according to the very definition of risk climate in financial institutions and the associated measurement tools should capture the relative priorities relevant to the context of the banking sector.

Further conceptualising the risk climate concept can be achieved through a deep understanding of the context in which it exists. As previous authors (Schneider et al., 2017; Sheedy et al., 2017; Zohar, 2008, 2009) have identified conceptualising the climate construct required understanding it as an attribute of the work environment. Janes & Jones (1978) discussed how the perceptions that are measured become organisational attributes and importantly noted that the accuracy of these perceptions of organisational climate is established by determining their relationships to objective measures. Early research conceptualised climate from a wide range of organisational attributes and became over-inclusive and ambiguous (Schneider et al., 2000). Such research contributes to the need to further develop the risk climate construct. Conceptual ambiguity has been highlighted as an issue in the safety climate literature with several review papers identifying more than 50 different variables or conceptual themes (Guldenmund, 2000). Zohar (2009) states that such a situation implies conceptual ambiguity and the need for greater effort directed at theoretical issues. To utilise climate to facilitate change in the banking sector to balance profit motive and customer care, qualitative research needs is required to identify the relative priorities and context specific situations.

2.5 SUMMARY AND IMPLICATIONS

Organisational climate is a phenomenon resulting from the shared perceptions of the relative priority given to the policies, procedures, and practices organisational members experience in their workplace, as well as the behaviours they see being rewarded, supported, and expected. This research is interested in strategically focused climates. Strategically focussed climates, such as risk climate, might help facilitate performance improvements through the climate – behaviour relationship. The facilitation of behaviour change is necessary to help mitigate the risk of misconduct so that profit is not prioritised at the expense of customer care. The risk climate research provided a good foundation but needs refinement. This research will utilise safety climate to introduce a conceptual framework to aid the contextualisation of the risk climate construct.

Chapter 3: Research Design

3.1 INTRODUCTION

Chapter 2 explored the need for further conceptual development of the risk climate construct within APRA regulated institutions. It was argued that the theoretical framework of risk climate provide a useful lens through which facilitating behavioural change so that banking staff can balance profit motive with customer care can be understood.

This chapter articulates the conceptual framework, research design and methodology utilised to answer the overarching research aim of contextualising the risk climate construct. The research philosophy is discussed in Section 3.2 and the selection of a qualitative method of enquiry is justified. Section 3.3 also identifies the sampling strategy and frame, describes participant demographics, and justifies the validity and reliability of the research methodology. Section 3.4 discusses the data collection protocols and methods and provides evidence of the adherence to Queensland University of Technology (QUT) Human Research Ethics Committee guidelines. Section 3.5 discusses the analysis performed on the data collected.

3.2 RESEARCH PHILOSOPHY

Ontology refers to assumptions about the nature of reality (Moon & Blackman, 2017; Saunders, Lewis & Thornhill, 2016). This research has adopted a critical realist ontology (Alvesson & Skoldberg, 2017) which suggests that there is a real world that exists independently from our perceptions, theories and constructions while accepting that our understanding of this world is inevitably a construction from our own perspectives and standpoint (Maxwell, 2012). There is an emphasis on the role of interpretivism in that human are separate from physical phenomena because they create meanings (Saunders, Lewis & Thornhill, 2016). The Heightening your Awareness of your Research Philosophy (HARP) tool by Bristol and Saunders (2014) is a reflexive tool that has been designed to help explore research philosophy. The HARP tool indicated the research philosophy for this research was interpretivism and critical realism. This supported the conceptual approach to this research.

Epistemology concerns assumptions about knowledge, what constitutes acceptable, valid and legitimate knowledge, and how we communicate knowledge to others (Moon & Blackman, 2017; Saunders, Lewis & Thornhill, 2016). This research epistemology is social constructionism. Social constructionism puts forward that reality is constructed through social interaction in which social actors create partially shared meanings and realities (Moon & Blackman, 2017). This perspective aligns with the theoretical approach underlying organisational climate. Organisational climate theorists view the climate construct as a shared phenomenon created through the interactions between employees within a workplace setting (Barbera & Schneider, 2014; Bowen & Ostroff, 2004; Burke, Cohen & Doveh, 2014; Drexler, 1977; Klein, Chon, Smith & Sorra, 200; Kozlowski & Klein, 2000; Schneider et al., 2017; Schneider et al., 2002; Smith-Crowe).

A synthesis of the literature on organisational climate's nomological network is illustrated in the conceptual framework represented in Figure 3.1. The theoretical frame for this research is the conceptual attributes of the climate construct. Risk climate is the shared perception among employees of the relative priority given to risk management including perceptions of risk-related practises and behaviours that are expected valued and supported shared. The attributes of organisational climate informing these perceptions include relative priorities, alignment between espousals and enactments and consistency among policies and procedures. An additional attribute is symbolic interactionism and leadership. This final attribute acts as an antecedent to climate. The outcome of climate, or the dependent variable, would be behaviour. Then behaviour will produce results, either negative or positive. This conceptual framework will be used to examine the perceptions, opinions and experiences of subject matter experts with senior management experience in APRA regulated institutions relating to the importance of risk and its management. Specifically, the perceptions, opinions and experiences relating to relative priorities, espousal–enactment gaps and internal inconsistencies nestled among policies, procedures and practices.

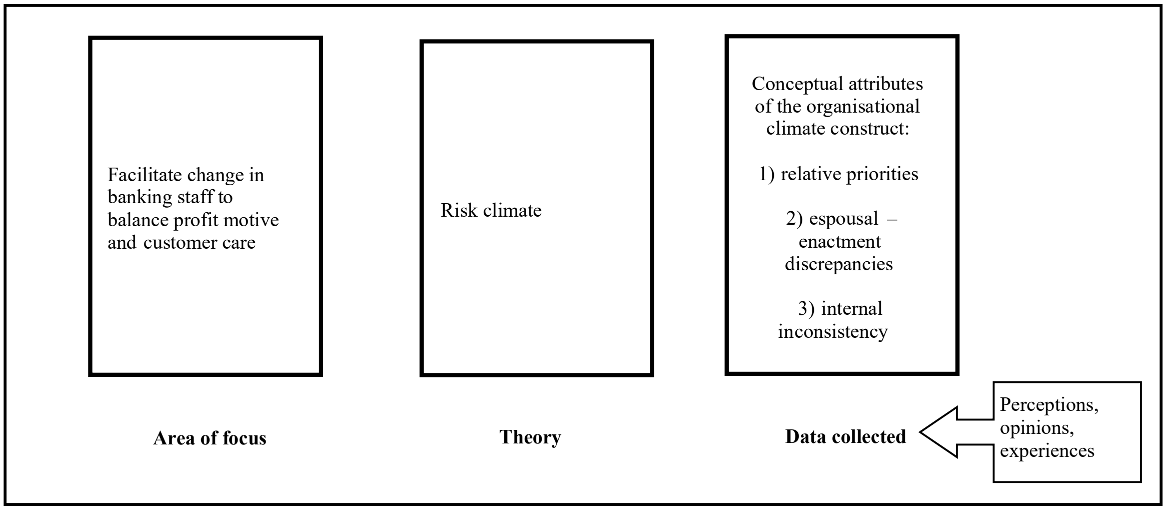

Figure 3.1 Conceptual framework

As depicted in the conceptual model for the research design the focus of this research is the conceptual attributes of the climate construct whilst the theory related to the nomological network of the climate construct, and the data collected was perceptions, opinions and experiences from subject matter experts (SME). The conceptual framework will be used to examine what situational attributes employees use to interpret the importance of risk and its management through understanding perceptions, opinions, and experiences of what is expected and rewarded within the workplace environment. Employees use cues in the work environment to inform their perceptions about the relative priority given to risk and its management. The conceptual framework allows for exploring attributes of the organisational environment informing employee perceptions of risk-related role behaviour within the banking sector.

The area of focus for the research was investigating how banking staff perceive the tensions in balancing profit motive with customer care. The risk climate construct is in its early stages of theoretical development, and further research is needed to improve construct clarity. This research addresses this need by contextualising the risk climate construct to aid the banking sector's journey. Improving construct clarity is important for researchers to have more confidence that they are studying the phenomena they planned to study. The risk climate construct was contextualised through qualitative research using semi-structured interviews where the researcher examined the conceptual attributes of the climate construct in situation specific contexts.

3.3 RESEARCH DESIGN

Although risk climate in the banking sector has been investigated quantitatively using surveys to assess the perceived importance of risk and its management (Sheedy et al., 2017) there has been little research understanding the conceptual attributes of the climate construct. The research on the conceptual attributes of the climate construct should inform the wording of the survey items (Guion, 1973; Schneider, 1980; Zohar, 2009). Seminal researchers in the field of organisational psychology used qualitative research to help with the discriminant validity of climate constructs such as service and safety (James, 1973; Schneider, 1978; Zohar, 1980). Construct clarity is a well-known issue within organisational climate research (Chan, 1998; Edmundson & McManus, 2007; James, 1973). The use of qualitative research in this research is appropriate in the view of the need to contextualise facet-specific climate constructs if discriminant validity is to be achieved in later quantitative research and measurement. Qualitative research is often associated with an interpretive philosophy because researchers need to make sense of the subjects and socially construed meanings expressed about the phenomenon being studied (Denzin & Lincoln, 2011; Saunders, Lewis & Thornhill, 2016). This research fits within an interpretive approach to theory development. The understanding of how reality is socially constructed was fundamental to the research design as well as guiding the conduct of the interview.

The purpose of this research design is exploratory. An exploratory study is a valuable means to ask open questions to discover what is happening and gain insights about a topic of interest (Saunders, Lewis & Thornhill, 2016). This research aims to contextualise the risk climate construct. The reason for contextualising the risk climate construct is risk climate is to investigate how banking staff balance the competing priorities within their work environment, namely profit motive and customer care. Figure 3.2 outlines the research questions that drive this research.

Research questions	Objectives
What are the cues in the workplace that employees use to interpret the importance of risk and its management in the banking sector? 1) What are the tasks or demands that compete with risk and its management for priority? 2) What espousal – enactment gaps exist regarding the perceived importance of risk and its management? 3) What internal inconsistencies exist among risk policies and procedures implementation?	***Identify*** the specific priorities existing with the work environment of the banking sector ***Apply*** organisational climate as the theoretical lens to the identified priorities ***Critically examine*** SME's perceptions of priorities within the banking sector

Figure 3.2 Research questions

3.4 SAMPLING STRATEGY

The research questions and objectives required a purposive snowballing sampling strategy (Creswell, Hanson, Clark & Plano, 2007). The judgement of the researcher was used to select participants that best enabled the researcher to answer the research question and reach the research aim. This practice fits with a purposive sampling strategy (Saunders et al., 2016). A sampling frame of subject matter experts with management experience within an APRA regulated institutions. Targeting subject matter experts with management experience in APRA regulated institutions provided information about the perceptions and experiences relating to risk and its management within the banking sector. The sample included participants who had or are working in roles such as CRO, CFO, Audit, People and Culture, General Counsel and more.

All participants had experience working in a management position for an APRA regulated institution. This criterion used to select participants was employed as the researcher required individuals who could talk about their own experience within APRA regulated companies from an organisational point of view. The experiences the researcher was seeking to find out more about had to be APRA regulated companies as these companies are authorised deposit-taking institutions, thus the population within the company would have experience dealing with customers relating to exchange of money. There were 12 subject matter experts (see Tables 3.1 and 3.2) who were recruited from a pool of respondents who volunteered to be part of the research after being identified as a member of the desired population. This practice fits with a snowballing sampling strategy (Saunders et al., 2016). The researcher identified potential participants within their professional network who met the criteria or knew someone who met the criteria of having experience in a management capacity within an APRA regulated company. The researcher contacted four cases in the population and those four cases identified new cases and so forth until the research reached saturation, as per recommended practice for business and management research (Saunders et al., 2016). According to Osbourne and Grant-Smith (2021) saturation in research with a hard-to-reach participant pool is used to determine how large a sample would need to be to be valid. Data saturation is reached when the additional data collected provides little new information (Saunders et al., 2016) and in research where the aim is to understand commonalities within a fairly homogenous group, 12 in-depth interviews should suffice (Saunders et al., 2016).

Table 3.1

Sample characteristics

	C-Suite	**Manager of Managers**	**Manager of Others**	**Total managers**
Female	1	1	3	5
Male	2	5	0	7
Total	**3**	**6**	**3**	**12**

Table 3.2

Area of expertise

Pseudonym	Area of expertise
Sam	Risk
Macy	Assurance
Ven	Financial advice
Carl	People Culture
Rin	Corporate Finance
Jerry	Obligations
Gina	Risk and Compliance
Jen	Safety
Aigen	General Counsel
Effy	Company Secretary
Reg	State Manager
Terry	Risk and Legal

3.5 DATA COLLECTION

Data was collected using semi-structured internet-mediated interviews. Semi-structured interviews can be viewed as a construction of knowledge (Kvale, 1996) which allows for an inductive style of research centred on individual meaning (Corbin & Strauss, 2008). The research questions asked during data collection started with "What" which is appropriate when exploring and clarifying understanding of an issue, problem or phenomenon such as the conceptual attributes of risk climate in the banking sector. The data collection method was semi-structured interviews consisting of the research questions derived from theory namely the work of Schneider (1980), Sheedy et al., (2017) and Zohar (2011). The semi-structured interviews were in-depth with the researcher having some key questions that covered a list of themes. The research questions and themes covered in the interviews were drawn from the conceptual framework. The researcher asked questions that were in line with the basic thrust of social constructionism where the researcher begins with something that is self-evident to the participant only to prick a hole in this self-evidence to provide an experience of realisation (Alvesson & Skoldberg, 2017). Many participants report that participating in in-depth interviews is a positive experience (Morse, 2003). In this research, the participants described the interview as taking the time and space to talk about the important issue of risk and its management as a positive experience.

The research interview as a semi-structured interview was a purposeful conversation between the researcher and the participant where rapport was established early in the interview and the dialogue was respectful and attentive. These methods are interested in understanding the interviewee's experiences and their worldview and how that might shape knowledge and meaning (Osbourne & Grant-Smith, 2021). To ensure the appropriate use of different types of questions, the researcher developed an interview protocol that guided the conduct of the interview (Saunders et al., 2016). The interviews employed an interview guide that contained a list of topics and questions to explore attributes relating to risk and its management in the workplace. The exploration of conceptual attributes relating to risk and its management is directly connected to the research aim of contextualising the risk climate construct. The contextualisation of the risk climate construct is based on the data gathered from the interviews. Minor changes were made to the interview guide following pilot interviews to include additional questions that further probed the cues in the workplace that employees use to interpret the importance of risk and its management in the banking sector. As is common in qualitative research, the researcher used probing questions and prompts to obtain rich data (Creswell, 2013). The researcher tested understanding by summarising responses provided by the interviewee and allowed the participant to either confirm the understanding is accurate or if further clarification is necessary (Saunders et al., 2016). The benefits associated with semi-structured interviews are they allow for in-depth analysis and validity checks (Osbourne & Grant-Smith, 2021).

These in-depth interviews occurred on an internet-mediated basis via the software platform Zoom. Interviews conducted using mobile and computing technologies via the internet are collectively referred to as electronic interviews (Saunders et al., 2016). The approach to the recording of the data was to use the voice recording function of the software platform Zoom. These interviews were conducted using the video call feature of the software platform and were audio recorded and then transcribed into text using the audio transcription software Trint. Transcripts were thoroughly checked for any inaccuracies to increase the validity of the findings (Bell et al., 2013). Before the interviews commenced, all participants signed a consent form to adhere to QUT Human Ethics Committee guidelines (QUT, 2014). The interview protocols were discussed with each participant to provide the rules that guide the implementation of the interviews (Creswell, 2013). The duration of each interview was approximately one hour. Data collection was completed over five consecutive months. The data collection commenced in March 2020 and was completed in July 2020. Interview notes were completed to capture the participant's behaviour and any other important data that cannot be captured by the voice recorder.

3.6 ETHICS

Ethics approval for this project (No. 2000000008) was granted. The information sheet, the consent form and follow-up email correspondence with the respondents ensured informed consent was given by participants (Cohen et al., 2011). This study is considered a low risk research study as interviews were conducted with consenting subject matter experts working for APRA regulated companies who were asked questions relating to their work experiences. Participants were working professionals able to make an informed voluntary decision about whether to participate. They were provided with information regarding the study prior to the study to provide informed consent. Participation in the study is voluntary, and participants could withdraw their consent at any time. The research questions were appropriate for the participant's professional work experience, and required limited, if any, preparation. The topic and questions within this study did not directly relate to the Australian Royal Commission into Banking, and so were not expected to raise any discomfort for participants, nor ask about potentially illegal behaviour or misconduct. The main foreseeable discomfort for participants was expected to come from the inconvenience of participating in an hour-long interview on a conceptually complex topic.

All data captured was stored in a secure location and participant pseudonyms were used to ensure a high standard of compliance with the QUT Human Research Ethics Committee guidelines (QUT, 2014). Pseudonyms were developed from aspects of the participants name as well as a reference to their area of specialisation to ensure that context was preserved. The field notes were detailed and non-judgemental (Creswell, 2013). Participants were reassured the information they shared was confidential.

3.7 DATA ANALYSIS

Thematic analysis is a method for identifying, analysing, and reporting patterns or themes within data (Braun & Clarke, 2006). Thematic analysis involves a researcher coding their qualitative data to identify themes or patterns for further analysis, related to their research question. The thematic analysis helped the researcher comprehend and integrate data that was drawn from different transcripts and notes. The thematic analysis also helped the researcher identify key themes from the data set for further exploration and produce thematic description of these data along with drawing and verifying conclusions. The data analysis occurred in four phases: becoming familiar with the data; coding the data; identifying themes; refining themes, and finally the results were used to address the research questions (Saunders et al., 2016).

After the researcher familiarised themselves with the data, the researcher began coding the data. Coding was used to categorise data with similar meanings (Saunders et al., 2016). The generation of initial codes was using a theory driven coding framework based on Zohar (2011) description of the conceptual attributes of the climate construct. This deductive approach to coding allowed for a predefined list of codes to be created as a coding framework was used as a starting point for the data analysis known as splitting the data (Linneberg & Korsgaard, 2019; Nowell et al., 2017). The coding of the research was also developed directly from the data. This form of approach to coding is called inductive coding where the researcher developed codes from the data by using phrases or terms used by the participants themselves (Linneberg & Korsgaard, 2019). The types of first cycle coding undertaken include descriptive coding and attribute coding (Linneberg & Korsgaard, 2019). The first cycle coding was used to create an overview of the data and set up the second cycle coding where exploration of patterns of similarities and differences occurs (Braun & Clarke, 2006; Linneberg & Korsgaard, 2019). Categorisation a second cycle coding method was used to combine first-cycle codes into theoretically informed categories and themes with the data collected from respondents (Linneberg & Korsgaard, 2019).

This research used diagramming to make sense of the connections between themes and further interrogate the data (Nowell et al., 2017). This form of coding assists with moving from coding to analysis where coding and interpretation are not two distinct phases but interrelated processes that coevolve yet have different characteristics (Linneberg & Korsgaard, 2019). Particularly, while the coding process enabled the emergence of patterns, a level of insight was required for the patterns to be determined. If the researcher simply reports codes and themes that appeared in the transcripts then the results will only offer descriptive accounts with little depth. The researcher immersed themselves in the data to progress from organised patterns to interpretation to theorise the significance of those patterns and their meanings in relation to the literature (Braun & Clarke, 2006). In this research, the researcher referred to their reflexive journal to get a better sense of interpreting the findings and conclusions in a credible matter (Nowell, 2019).

3.8 SUMMARY

This chapter discussed the importance of utilising a critical realist ontology and qualitative research methodology to effectively achieve the research aim of providing a qualitative study to contextualise the risk climate construct to aid the banking sector change journey.

Chapter 4: Findings

4.1 INTRODUCTION

The findings presented in this chapter will aid future conceptual development of the risk climate construct by identifying the relative priorities within the banking and the situations in which these priorities exist. The findings are presented as answers to the research questions with the identified themes scaffolding the chapter. These themes provide content that can be used to contextualise the investigative framework for the risk climate construct. Such contextualisation aids the conceptual development of the risk climate construct by reducing conceptual ambiguity through the identification of cues in the work environment that employees use to interpret the importance of risk and its management in the banking sector. These cues will distinguish risk as a strategic focus separate from other priorities in the work environment. Future researchers can then apply these distinctions to the investigative framework such as the risk climate survey developed by Sheedy et al. (2017).

The participants were asked questions regarding attributes in their work environment that, in the climate literature, inform employees' perceptions of what is important in the banking sector. While the attributes are informed by the literature, the content and context of the attributes must be informed by the experiences and perceptions of the participants. Table 3.3 displays the emergent data structure that emerged during the analysis. The content that forms the child nodes are risk and the importance of the customer, the tension between cost centres and profit centres, discrepancies in financial product development, discrepancies in customer care, discretion in enacting policy and discretion in providing products.

The subsequent section (4.2) presents the findings of for research question one "What are the tasks or demands that compete with risk and its management for priority?". The major theme, as informed by the literature, was relative priority. The identification of subthemes provided the priorities in competition with risk and its management for importance, as well as an overview of the understanding among participants as to what is risk and its management are. This is presented in relation to two themes raised in the interviews: risk and the importance of the customer, and tensions between cost centres and profit centres.

Table 3.3

Emergent data structure

Parent node	Child node	Participant
Relative priorities	Risk and the importance of the customer	"Taking care of the customer's financial position while creating a sustainable business" (Rin, CFO)
	Tension between cost and profit centres	"Cost centres will be deprioritised in favour for a task that generates profit" (Reg, State Manager)
Alignment of espousal – enactments	Discrepancies in financial product development	"The erosion of the customer as a priority begins when the board starts to put pressure on executive management and the project teams, who are delivering a new product, as to why the project is not delivering to time and costs" (Gina, Middle Manager Quality Assurance)
	Discrepancies in customer care	"Caring for the customer and giving the best value to the customer is only enacted up to the point where the customer walks in the door" (Sam, CRO)
Internal consistency	Discretion in enacting policy	"Lower management, when lacking understanding about the policy they are implementing, seem to revert to what they have always done – which is profit (Jen, Safety)
	Discretion in providing financial products	"Taking shortcuts to get the deal done" (Carl, People and Culture)

The identification of subthemes provided the priorities in competition with risk and its management for importance, as well as an overview of the understanding among participants as to what is risk and its management are. This is presented in relation to two themes raised in the interviews: risk and the importance of the customer, and tensions between cost centres and profit centres.

The next section (4.3) of this chapter presents the findings for the second research question "What espousal – enactment gaps exist regarding the perceived importance of risk and its management?" This section's major theme, espoused priorities–enacted priorities, was informed by the literature, and the associated subthemes of discrepancies in financial products and discrepancies in customer care. Finally, in section 4.4, the findings of the third research question, "What internal inconsistencies exist among risk policies and procedures implementation?" are presented. Its primary theme is internal inconsistencies. The associated subthemes were discretion enacting policy and discretion providing products. These themes present the priorities that exist in the banking sector and the context in which they occur. These findings can directly inform future researchers of priorities that could be embedded in the investigative framework as well as provide a deep understanding of the context specific situations such priorities exist.

4.2 RELATIVE PRIORITIES IN THE BANKING SECTOR

Risk climate is a facet specific climate construct which encompasses a strategic focus involving the relative importance of risk and its management in the banking sector. The term "relative importance" refers to the notion that priorities exist within the work environment in relation to other priorities. When measuring a facet of organisational climate, the priorities of that facet should be included in the measurement tool (Schneider et al., 2017). Relative priorities are a conceptual attribute of the climate construct. Climate perceptions are aimed at revealing the behaviour that is rewarded and supported in an organisation (Diefendorff & Seaton, 2015; Zohar, 2008; 2009;). Perceptions of the relationships between and among components of the work environment within the banking sector provide a way to identify the true importance of risk and its management.

Within any work environment, there will be tasks competing with other tasks for priority (Zohar & Luria, 2009). It is the task, over time, situations, and people, being focused on consistently, sometimes at the expense of other tasks, that will be perceived as most important. In risk climate research, competing task domains are not known, nor are the situations where tensions arise. Identifying these aspects will help future researchers to conceptualise the risk climate construct. Conceptualisation of the risk climate construct requires understanding the competing task demands of the relative priority attribute. The participants were asked to provide accounts of when risk and its management compete with other task demands for priority and what these other task domains are. The findings that emerged from the data were explored within the themes of risk and the importance of the customer and tensions between cost centres and profit centres.

4.2.1 Risk and the importance of the customer

The essence of risk climate is that there is a shared understanding of the importance of risk and its management (Sheedy et al., 2017). If a shared understanding does not exist, then a risk climate is absent or weak. When seeking to understand the relative priorities existing within the banking sector, it was apparent that forming an understanding of risk and its management was required. While the responses were varied among participants, the responses built a picture of what risk and its management looked like in the banking sector. The need for a work environment supporting risk and its management came from the Banking Royal Commission where the outcomes found that there was a need to manage the risk of misconduct by introducing actions for balancing profit and customer. This was supported by a participant who explained *"risk and its management in banking sector is rocks to slow the stream (of being profit focussed) by having mandatory tasks to ensure there is consideration of the customer"* (Gina, Risk & Compliance). For example, undertaking a risk assessment to ensure a financial product is tied to the customer. This view captures the concept of implementing policies and procedures to manage the tension that exists between being profit focussed and caring for the customer.

Further anecdotes from participants regarding placing the customer at the centre of business suggest financial institutions are unique in that the service provided is related to taking care of the financial position of their customers. Risk management in the banking sector is about *"understanding consequences of actions taken and understanding the appropriate appetite for risk"* (Rin, CFO). Risk and its management involve making an assessment of the customer's propensity to default and deciding to lend to them. There will be specific desirable risk behaviours relating to taking actions appropriate to the appetite for risk associated with looking after their customers' financial position while creating a sustainable business. In this context, risk and its management in the banking sector were declared as *"just the way things are done"* (Rin, CFO) so that risk actions were embedded in the everyday. Risk and its management would be *"the quality of the job an individual is doing and recognising a task will not be complete until it is fully finished"* (Rin, CFO). This would mean there is no such thing as a shortcut when performing tasks typical to a financial institution such as lodging a transaction. Risk and its management in the banking sector would be the lodgement of a transaction by doing all parts appropriately within the context of what a transaction requires. This would be from a risk management perspective, a customer value perspective, a meeting financial requirements perspective and a compliance perspective. In short, it is understood as *"doing the whole package of work"* (Rin, CFO).

Risk management was seen as having a *"conscious awareness of how an individual's actions benefit not only themselves but benefit their customers"* (Macy, Compliance Manager). Similarly, risk management could be *"ensuring the frontline interacting with customers are doing the right thing by the customer"* (Carl, GM People & Culture) as well as *"taking care of the customer's financial position while creating a sustainable business"* (Rin, CFO). Risk was discerned to be the *"application of accountability in the right areas"* (Jerry, Obligations) and being *"concerned about the public perception of the bank's reputation" (Reg, State Manager)*. The elements of risk management are multifaceted. Where you have an institution taking deposits then there is a deeper element which is that prudential aspect to business and making sure complying with APRA and still ASIC licence obligations and making sure the bank is looking after its financial wellbeing as well as the *"customer's personal financial position which spreads across to loans as lending is one area there has been a greater regulatory focus in more recent times*" (Effy, Company Secretary).

A work environment that supports and values quality and process when lodging every transaction would be needed for employees to interpret risk and its management as important. A strong risk climate would be established if there was a shared understanding of risk and its management, and its importance (Ehrhart, Schneider & Macey, 2013). The importance of risk and its management would have to be given priority across situations for there to be a high-risk climate (Barbera et al., 2014).

Declaring the importance of the customer was a theme throughout the interviews. The theme of customer care was often straddled with reference to complying with regulations that have come into effect recently. A monitoring overtone was also implied with statements such as *“ensuring their employees interacting with customers are doing the right thing”* (Carl, GM People & Culture). The uniqueness of risk in financial institutions is the fiduciary duty of looking after their customer’s financial wellbeing. In financial institutions there is an incentive to build greater relationships with their customers. While this incorporates the idea of *“getting more of the customer’s wallet but understanding it is also about taking care of the customer in the process”* (Rin, CFO). This was the nearest account to risk behaviour involving the customer and profit. The responses generally espoused values without much attention paid to the behaviour required for enactment. There is an increasing amount of legislation governing the relationship between customers and institutions. In terms of the risk climate–risk behaviour relationship, a strong risk climate that supports and values the customer while being compliant and making money would be needed.

There was a theme coming through that risk and its management has to do with placing the customer at the centre of the work environment in the banking sector. There also appeared to be a focus on risk as an enforcement to prioritising the customer. While there was a shared understanding that risk and its management were about *“placing the customer at the centre”* – this understanding was implicit. The explicit importance of risk and its management were not shared across participants. There needs to be a shared understanding of the importance of risk and its management for there to be a risk climate (Sheedy et al., 2017).

The purpose of risk and its management is to ensure the banking sector moves away from being too profit focussed and moves towards putting the customer at the centre of business. Multiple tasks exist within and between elements of the work environment of the banking sector. Tasks such as completing an audit, writing a loan, keeping costs low and positive reviews from customers, will naturally compete with one another for priority. If a task is rewarded, implicitly or explicitly, and/or given attention by those in managerial/leadership positions, then an employee will decipher that task as important and consider it a priority (Ostroff & Schulte, 2014; Schneider, Salvaggo & Subirats, 2002). When employees share the perception that a single element, or task domain, will get rewarded or supported, such as a manager focusing on the revenue a product will generate over the value created for the customer, there will be a low-risk climate. In the banking sector, there are competing priorities that will need to be managed if the customer will continue to be placed at the centre of business.

Financial institutions, specifically those regulated APRA, have gone through significant changes since the Banking Royal Commission. Banks are and have been transitioning to an organisational-wide use of the balanced scorecard as a way of adopting a more balanced approach to elements existing within a financial institution. The balanced scorecard is an instrument that financial institutions have moved towards since the Sedgwick Remuneration Review tried to address culturally that banks cannot reward solely on performance (Sedgwick, 2014). The elements of the balanced scorecard were similar across participants with some differentiation in the naming conventions of the elements and the element's inclusions. These general elements were named across participants as "people", "profit", "customer" and "risk". The customer element referred to customer satisfaction whereas the risk element is included as a mandatory gate opener for scorecards. If an employee does not hit the risk measure, then they do not open any bonus potential and the intent behind this is *"balancing the scorecard, so it is not just productivity based"* (Ven, Financial Services). In the banking sector, a risk measure could be a demonstration of abiding by the governing regulatory framework.

The balanced scorecard approach is meant to balance the elements existing within a financial institution. At the core of climate is that you obtain a stronger behavioural outcome if there is a shared understanding of what is important (Schneider et al., 2017). The balanced scorecard is trying to achieve balanced outcomes by signalling what is important. In safety climate terms, production is important but not at the expense of safety (Zohar, 1980). In risk climate perhaps risk is espoused in the balanced scorecard and then enacted by supervisors. The espoused element in the balanced scorecard that speaks to risk and its management is difficult to ascertain as there is not a discrete explicit behaviour such as safety or customer service but the act/behaviour of balancing the elements of the scorecard. Perhaps risk and its management is the act of considering all four quadrants in every action, and if one quadrant is having priority, this is a conscious explicit decision whose consequences have been thought through. The participants were able to discuss balancing priorities at a macro scorecard level, but this was about considering each quadrant separately not wholistically. Further, there was an inability to articulate what the behaviours look like at micro behavioural level.

4.2.2 Tensions between cost centres and profit centres

Competing task demands appeared to occur between cost centres[10] and profit centres[11]. The view among participants was that tasks occurring within cost centres are a source of tension for tasks occurring within profit centres. For a cost centre these tasks include audits and risk assessments whereas for a profit centre they would include tasks associated with making a product sale. Tensions also exist at the individual level, for example, an individual working in a role where there is an encounter with clients, such as a lender in the branch network, would need to ensure that any financial products they sell (i.e., home loans, insurance, transaction accounts) fits the needs of the customer. Similarly, a tension would exist for an employee working as a branch manager, where they would need to be coaching and monitoring staff to meet quotas (i.e., loans) whilst being compliant and socially responsible (i.e., regulators, reputation). As raised in earlier sections, the participants described there being many tasks with demands that occur continuously during a day working in the banking sector. These tasks can be categorised to include managing people (i.e., what does the individual employee do, their development and how they contribute to a team); customer (i.e., customer satisfaction and net promotor score); risk and compliance (i.e., targets that were role dependent) and then also profit (i.e., financial target). These categories are spread across cost centres and profit centres. There will be competition that exists between cost centres and centres that generate revenue. That is *"profit competes for priority with non-essential services that do not contribute directly to profit"* (Terry, Risk) and the view that *"cost centres will be deprioritised in favour for a task that generates a profit"* (Reg, State Manager).

[10] A cost centre is a part of an organisation to which costs may be charged for accounting purposes.
[11] A profit centre is a part of an organisation with assignable revenues and costs and ascertainable profitability.

This view of cost centres within the banking sector is a source for profit motivation. The profit motive is the intent to achieve a monetary gain in business activities and was raised namely by the investment bankers in the participant pool but also represented the views of the other participants. The view of a cost centre is unique to the banking sector because *"there is a need for banks and their role in the economy* (Reg, State Manager) which is along the lines of *"too big to fail"* (Effy, Company Secretary).

Many of the participants spoke about their concern of the compliance regime having a negative effect on the business such as *"how much time and resources is being spent on compliance activities that could be better spent with the trader analysing the markets and forecasting better returns"* (Effy, Company Secretary). This implicitly circles the tension existing among competing priorities of revenue and cost. A few things come into play with one participant speaking about if the bank is going to spend money on risk and compliance advice or legal advice *then "would the bank be better off spending money on internal departments existing within a financial institution or an external provider of choice"* (Aigen, General Council). The investment bankers held the view that external risk and compliance advice was preferred over the internal department's provision of advice. This feeds into the tension between cost centres and revenue centres in that the tasks cost centres are involved, such as risk and compliance, are not respected or the value is not known or understood. This view of the cost centre, within the financial sector, drives underinvestment in systems: *"When times are bad such as when the economy is going through a period of where companies are hurting or there is a crisis, a financial institution might start slipping back into old habits when times require consideration of what must be done to rebuild the balance sheet, this is where financial drivers might re-emerge"* (Effy, Company Secretary).

In times of economic crisis financial institutions cut back on non-essential services. During times such as the Global Financial Crisis, financial institutions were seen to cut back on anything that was not income producing. Restructuring or downsizing internal audit functions to reduce expense is an example of how cost savings are found in the banking sector and *"priorities are revealed under pressure"* (Macy, Middle Manager Assurance & Risk). Some of this pressure comes from balancing the tension between stakeholder needs. There are three stakeholders in any financial institution, the customer, the shareholder, and the people who constitute the organisation. As company secretary Effy notes, *"The drivers for underinvestment non-profit producing departments are also driven by shareholders"*. Investor shareholder lobby groups with the agenda of banks paying dividends because investors rely on them for their income might drive placing less of a priority on risk and its management. These outcomes are not necessarily driven by the bank's intended priorities. Many banks have shareholders. Shareholders rely on dividends as income when banks such as when AMP did not pay they paid half of their 50% of profits is in dividends the shareholder lobby groups get up on arms asking for more money. *"When an economy is going through bad times makes more sense to hold onto the capital and investor system so that they can be there when things improve"* (Terry, Risk & Legal).

In summary, relative priorities occur across competing task demands in the work environment. These competing task demands are customer, profit, risk and compliance, and people which are reflected in the balanced scorecard. While it is espoused that the balanced scorecard balances the elements, to ensure the customer receives priority, it was found that there were patterns indicative of profit given priority when under pressure. These patterns form climate perceptions that inform employees of the behaviour that is expected and rewarded (Zohar, 2009). Given that risk and its management compete with profit it follows that risk policies can be construed in terms of the relative priorities of customer and other profit goals.

4.3 ESPOUSED – ENACTED PRIORITIES IN THE BANKING SECTOR

Organisational climate refers to the shared perceptions among employees with regard to its fundamental properties (Reichers & Schneider, 1990). These fundamental properties are policies, procedures and practices. The banking sector will have multiple goals, such as represented on the balanced scorecard, thus senior management must develop policies for these key elements. There is a difference between the formally espoused policies and the tacitly enacted practices. The alignment between espoused and enacted priorities is a conceptual attribute of the climate construct which is being explored to assist future conceptual development of the risk climate construct.

Leader behaviour is an influencing factor towards employees' risk-related role behaviour. The signals and cues sent from leaders set the tone for the entire organisation by communicating priorities (Kozlowski & Doherty, 1989; Schein, 1990). Leaders give attention to the tasks they view as important. This informs employees' climate perceptions of the relative importance of risk and its management. If a leader espouses that the organisation values risk activities relating to managing the risk of misconduct but does not enact these espousals, then there will be misalignment. The situation triggering the compromise between words and deeds reveals to employees any discrepancy between espoused and enacted priorities (Moraru & Babut, 2011). It is the enacted priorities that inform employees' climate perceptions of what is important, and this influences the subsequent employee behaviour (Zohar, 2008). This section explores the situations there has been a divergence between espousals and enactments. To become aware of when misalignment between espousals and enactments are most salient, participants were asked to provide responses relating to experiences in APRA regulated companies relating to discrepancies between managers' words and actions at different levels of the organisation and distinctions between espoused and enacted action plans (Argris & Schon, 1996). The findings are explored within the theme of discrepancies relating to financial product development and customer care.

4.3.1 Discrepancies in financial product development

From an organisational perspective, or senior management perspective, the most salient observation across responses was the gap that exists, at times, between what the financial institution, espouses are their values and what the institution enacts, organisationally, as their values. When asked about the enactment of these values, participants mostly raised revenue related experiences, particularly when discussing discrepancies between what has been espoused and what is being enacted. The provision and implementation of financial products are revenue related activities. Products in the banking sector are how financial institutions create revenue and make profits for its shareholders. Before the Banking Royal Commission, the banking sector also had the provision of financial services as a means of creating revenue. The provision of financial services was a source for the activities relating to misconduct in the banking sector such as conflicts of interest, not acting in the best interest of the customer and bad advice. While these areas were addressed in the recommendations, made during the Banking Royal Commission, to abolish financial services, which was acknowledged by the participants, the fact that financial products still exist was explicitly mentioned by ten of the twelve participants interviewed. Specifically, the participants mentioned situations involving the development and implementation of financial products when describing their experiences relating to the misalignment of espousals and enactments made at the organisational level within the banking sector.

The data from the interviews revealed the product categories for retail banks comprise of home loans, various accounts, personal loans, various insurances, and credit cards. This list is not exhaustive and there are variations within each product category. There are also other product categories and services existing within investment banking streams, albeit, also regulated by APRA, and *"retail is the bottom of the pyramid whereas investment banking is at the top"* (Effy, General Secretary). Retail and investment banking have products to offer consumers, with investment banking being more complex than the vanilla products offered by retail banking. But ultimately *"a loan is still a loan and bank accounts are still bank accounts – it might be a different market adds an additional layer of complexity, but, ultimately, the mechanics of the product remain the same"* (Terry, General Counsel & CRO). Banking products are targeted at a specific segment of the community, such as, for example, first homeowners. Banking products, as part of their development, require signoff from executives or decision makers prior to being approved and released.

Where a new product has been developed but risk measures mean it must be tied to a customer objective before it can be signed off. In some of the cases, provided by participants, the product would be intended to be tied to one or more of the bank's strategic objectives, usually a customer objective. This intent was not always achieved during the product development process because other tasks were prioritised as more important, albeit, at times, implicitly. Macy (Risk & Assurance) said

> *convergence of espousals could occur when a new product has been developed (and was ready for signoff) the executive (who is the responsible for signoff) asks the question whether the risk and*

compliance requirements had been completed as well as ensuring the product achieves the objective of providing value to the customer.

However, where there could be divergence of espousals is when

the erosion of the customer as a priority begins when the board starts to put pressure on executive management and the project teams, who are delivering a new product, as to why the project is not delivering to time and costs. (Gina, Middle Manager Quality Assurance)

This pressure erodes the customer as a priority when risk and compliance is avoided. As an example, a high-profile project within a financial institution implementing a core banking system or implementing a new sales channel highlights – *"risk and compliance can be a hindrance when timelines are tight, or unrealistic, when budgets are not being met, or revenue is not sufficient, and when resources must be allocated but are scarce"* (Macy, Middle Manager Assurance & Risk) then risk and compliance comes in at the last minute and demands all these things and the manager deprioritises risk tasks for revenue related tasks.

4.3.2 Discrepancies in customer care

Further to the development and implementation of financial products, it was found, across participants, that banking products are developed, at times by project teams, such as, for example, a home loan with an introductory discounted interest rate. A home loan is a financial product that raises questions about the value given to the customer, versus the profits given to shareholders. There is an ongoing practice of new customers who sign on for a mortgage attracting a lower rate than the customer who has loyally remained with the same bank. The existing customer ends up paying a ridiculous amount of interest while the new customer always receives the discount because the most recent mortgages will be more discounted than the year before. In this example, the misalignment between espoused priorities and enacted priorities begins to attract new customers. As explained by a participant *"banking is one of the worst industries in terms of values and cultures"* (Sam, CRO). The participants described the issue of existing customers being charged more than newer customers as a major problem across the banking system in Australia.

The banking system supports a practice called the "back book". The back book is *"the most profitable book for bankers because is refers to the loans that have been generated several years ago"* (Jen, Safety). The reason older loans are the most profitable is because they are not discounted, that is, the existing customers are not offered, for example, reduced rates. This action, the participants explained, clearly demonstrates the disconnect between what is being said and what is practiced, in that the banks value newer clients more than their existing clients. The espousal of *"caring for the customer and giving the best value to the customer is only enacted up to the point where the customer walks in the door"* (Sam, CRO). If the system, at the macro level, is set up a certain way, then every micro component in the organisation will follow. What an organisation values at a higher level, in extension every other key performance indicator, every other objective is linked.

In the safety climate literature, safety as a priority is eroded because the senior manager does not consider safety when setting production speed and schedule (Zohar & Polachek, 2014; Zohar & Luria, 2005; Zohar, 2002). When safety is eroded as a priority, there will be a low safety climate (Zohar & Luria, 2003, 2005). Likewise, when risk and its management are avoided, the customer as a priority is eroded. When the customer as a priority is eroded, there will be a low-risk climate. The deprioritisation of risk and its management, as seen in the instance of an executive failing to ensure a newly developed product was tied to the bank's customer objective shows that while the balanced scorecard is trying to achieve balanced outcomes by signalling what is important, the handling of the development and implementation of products was found to be indicative of what is prioritised and deemed as important. Time constraints and allocation of finite resources create a vacuum in which pressure is reduced and discomfort alleviated by elevating one task over others in terms of priority. The pressure from boards around the need to make a profit begins to drive a wedge, or misalignment, between what has been espoused as a priority and what is enacted as a priority. The alignment between enacted and espoused priorities is an important attribute of climate perceptions because it is only the enacted policies that provide reliable information regarding the kinds of behaviour likely to be rewarded and supported (Zohar, 2003).

In the example above, where there was an espoused policy to check every product developed is tied to the customer objective, it is only the enacted practices that inform employee climate perceptions. The view of a participant was *"if the banking sector enacted the espoused value of providing best value to the customer, then there would not be many products being signed off"* (Sam, CRO). This view reflects the perception held by the participants that the banking sector still has a way to go even once the risk of misconduct has been managed and the Banking Royal Commission's recommendations have been finalised. Participants were consistent in their responses that there is a *"lack of individual awareness regarding actions and behaviours that might be in misalignment with what has been said, and at times banks would not see a tsunami coming"* (Sam, CRO). A lack of awareness was also cited to explain instances, regarding an individual within a financial institution, where there might be gaps between what is said and done. When there is a lack of conscious thought about what is important and what is done to demonstrate its importance. The participants perceived misalignment as unintentional. Instead, more so because of a lack of awareness from the individual and the broader components within an organisation. People are not intentionally disregarding the rules, and this *"differs from unintentionally not following them"* (Aigen, Group General Counsel). The connotation being the Banking Royal Commission investigated misconduct, rather conduct, or more specifically, the type of conduct that is desired in the banking sector. Thus, identifying situational features which trigger discrepancies between espoused priorities and enacted priorities, whether they are intentional or unintentional will be helpful for the conceptual development of the risk climate construct.

4.4 INTERNAL INCONSISTENCIES

Organisational climate arises from enacted policies and procedures that are unambiguous and stable (Reichers & Schneider, 1990; Zohar, 2003). The internal inconsistencies among relevant policies, procedures and practices are a conceptual attribute of the climate construct. These inconsistencies exist in the work environment and inform employees' climate perceptions of the relative importance of risk and its management. In turn, risk climate informs employee's risk-related role behaviours that are expected, valued, and supported within the banking sector. Whereas the previous attribute referred to discrepancies between leaders' words and actions, or organisational espousals and enactments, this attribute refers to potential inconsistencies nested among organisational policies, procedures, and practices. Inconsistencies across the organisational hierarchy are likely to arise from supervisory discretion in policy implementation (Zohar, 2005; 2008). Supervisory discretion comes from sources such as direct management roles entailing a certain level of discretion regarding the prioritisation of competing demands procedures and the implementation of policies and procedures at the group level (Zohar & Luria, 2005; Zohar, 2008, 2009). These potential inconsistencies indicate to employees the relative importance of risk and its management. The internal inconsistencies confront employees who then make sense of the information by construing discrete policies and procedures as patterns indicative of the priorities in their immediate workplace (Zohar & Luria, 2005). The proceeding discussions are about inconsistencies among risk management policies, procedures, and practices. Participants were asked about their general experience with policies, procedures, and practices relating to the implementation of risk and its management. Identifying the context of this attribute within the banking sector will assist future researchers to conceptually develop the risk climate construct. The theme for this attribute is discretion which relates to true priorities being revealed through inconsistencies between policies and procedures relating to risk and its management and the implementation of these policies and procedures at lower levels of the organisation. The situations revealed through the interviews included the complexity of the policy framework and the provision of products by branch employees.

4.4.1 Discretion in enacting policy

In the banking sector, most banks are organised around the branch network as the delivery system. The branch network can be a physical structure or operate digitally. The branch network could also be known as the frontline, or where the pinch point is (Effy, Company Secretary). In other descriptions, the branch network is where the *"point of risk"* exists (Ven, Financial Advice). From a climate literature perspective, the point of risk would be the group level of an organisation, where there is a direct manager. This supervisory level manager must implement the policies and procedures written at the organisational level. However, organisations can create rules and policies that seem logically inconsistent and contradictory (Zohar, 2009). From a levels of analysis perspective, it is also possible to identify inconsistencies across the organisational hierarchy (Zohar, 2000; 2003; Zohar & Luria, 2005). Inconsistencies across the organisational hierarchy are likely to arise from supervisory discretion in policy implementation (Zohar, 2009). This discretion can arise for different reasons, namely policies not covering every situation but also because of the complexity of the policy framework. The latter was found as a reason for supervisory discretion in the banking sector. As raised by Sam (CRO) *"it is not possible to know the policies and procedures as there is at minimum 500 pages of polices and multiple that by 20 for the procedures"*. This complexity can make it difficult to enact the intention of the organisational policies when dealing with customers at the front line.

The enaction of policies at the group level, or point of risk, is referred to as practices. The multilevel model of organisational climate suggests that a strong climate is indicative of the clarity of policies and procedures as guidelines for action (Zohar & Luria, 2010). A strong organisational climate, or in this case, a strong risk climate, would mean there is a shared understanding of the policies and procedures as guidelines for action, or practices. Policies, at the organisational level, set the limits of permissible interpretations during their implementation in individual groups and direct managers are supposed to execute polices rather than redefine them (Zohar & Luria, 2010). When this occurs, there will be a positive relationship between organisational and group climates (Zohar & Luria, 2005, 2020). In the banking sector, there appeared to be internal inconsistencies between the organisational policies and procedures and the practices implemented at the branch level. A reason for this inconsistency, as raised by the participants, is the complex nature of the policy framework as well as the sheer volume of information. The participant's view was that "*branch employees will need a law degree and 10 years' experience to understand policies within financial institutions"* (Aigen, General Counsel). The volume and complexity of the policy framework can create situations where local management will use their discretion when implementing policies thus creating internal inconsistencies between policy, procedures and practices.

Internal inconsistencies appear to occur when there has been inadequate training and induction. For example, *"when [lower management] lack understanding about the policy they are implementing, [they] seem to revert to what they have* *always done which is profit"* (Jen, Safety). The induction and training programs in the banking sector were described as *"being one of the lesser quality training or induction courses around"* (Jerry, Obligations). In the banking sector *"training and induction course are usually short, and the topics covered are generally the pain points for directors. Meaning, the "events that can send directors to jail are covered, and not much else"* (Jerry, Obligations). In the banking sector, the branch network is where the most interaction with customers occur. In the branch network, there are *"people in the frontline providing and selling products that have been developed by corporate yet the training and induction surrounding the provision and selling of products almost does not exist"* (Gina, Risk & Compliance). There has been the introduction of a key component of risk management which is a document called the Risk Appetite Statement which *"sets the parameters on what the organisation should be doing and what they shouldn't be doing from the risk management perspective"* (Rin, CFO). Even though customer facing activities is where the point of risk exists, it is *"very unlikely for any branch worker to have seen a risk appetite statement, let alone understand it"* (Sam, CRO). At the organisational level, there is a customer policy requiring employees to do a plan for what customer a financial product is for and then provide the product to that customer type. Terry (Risk & Legal) said *"we have to do a plan for pitching a certain product to a certain customer type"* and Rin (CRO) spoke about the *"know your customer policy"*. These espoused policies are occurring at the organisational level which Jerry (Obligations) questioned *"how is this information communicated to the branches?"* This makes internally consistent interpretation of organisational policies into actionable practices unlikely, in climate terms, there would not be a positive relationship between climate at the organisational level and climate at the group level (Zohar & Luria, 2010). Internal inconsistencies could exist because employees are not trained in the policies and procedures to ensure limited discretion when implementing them.

4.4.2 Discretion in the provision of products by branch employees

In the banking sector, employees in branches provide and sell products to customers. The provision of products is how a financial institution makes revenue. Since the Banking Royal Commission, employees are no longer renumerated for product sales. This is a policy in financial institutions within the banking sector. In terms of implementing this policy, there is room for discretion, as *"employees might* *not be able to be financially rewarded for selling product, but they are still performance managed for not selling products"* (Carl, People & Culture). They are performance managed for not selling products because a financial institution *"still needs to be a financially sustainable business"* (Rin, CFO). This generates situations where supervisory discretion arises due to the customer policy not covering the situation where an employee does not make sales, but the supervisor does not have a set process in place to respond to the behaviour, such as remuneration or performance management procedures. The supervisor must coach and guide the low performing employee to improve sales. This might cause internal inconsistencies through differing practices across branches as well as the lack of alignment between the organisational policy and local implementation. The competing task demands of customer care and profit can be seen in such situations as organisational policies to manage the risk of misconduct are not implemented locally in a manner that is consistent with the organisational policy. Thus, inconsistencies across the organisational hierarchy are likely to arise from supervisory discretion in policy implementation (Zohar, 2009).

Policies are set by upper management and implemented by lower management. As different roles require differing levels of authorisation and decision making, there will be discretion built into the policies, procedures, and practices (Zohar & Luria, 2010; Zohar, 2009). Discretion can be used improperly when it comes to managing risk, but the level of oversight and regulation has significantly reduced the scope for discretion to be used improperly (Zohar & Luria, 2010; Zohar, 2009). In earlier times leaving it up to the individual manager to take values and apply them to a non-prescriptive scenario increased the scope of something improper to possibly occur which is what has been seen in the misconduct addressed by the Banking Royal Commission. It is now known that bank staff would previously bend rules for certain customer situations such as *"short cutting the requirement to have the customer sign every sheet of a home loan contract to get the deal done"* (Carl, People & Culture).

Another account shared by Carl (People & Culture) concerned shortcuts occurring for certain customer situations such as a customer who is flying out for an international holiday and the bank employee forging the customer's initials because the bank's internal systems failed by losing the documentation. The contract needed to be re-signed but the employee did not want to disturb the customer's holiday. The employee decided to manage the failings of the bank's ability to digitally support staff servicing the customer by recreating signed document. In hindsight, this behaviour would be termed misconduct for shortcutting a compliance procedure but at the time it was a common practice. This practice over time would have informed the employee's perceptions of the importance of risk and its management relative to the sale of a financial product (i.e., writing a home loan). Finally, a situation where discretion was used in implementing policy erred on the side of questionable but was done in the essence of looking after the customers' needs involved structuring a customer's loan for a longer period than optimal so that the customer could afford the loan when doing so meant the customer (who was elderly) would not be able to pay off the loan in her lifetime.

The banking sector has expanded their risk and compliance functions (Carl, GM People & Culture). This signals a shift in the priority placed on abiding with policy consistently across situations. Employees will perceive signals from both senior management regarding policies and their direct manager regarding how these practices are operationalised in their immediate work environment (Zohar, 2009). It is the implementation of risk policy that signals to employees the importance of risk and its management and bank have a rich history of internal inconsistencies in the implementation of risk policy. Inconsistencies between practices implementing policies across product categories, customer types, or costs indicate the relative importance of risk and its management. Discretion in implementation can be very useful, but it can also be harmful. There are context specific situations where internal inconsistencies among policies, procedures and practices exist. The internal inconsistency stems from supervisory discretion in situations such as implementing policies with little to no training, as well as the sheer volume and complexity of the policy framework causing ambiguity in implementing organisational policies at the local level.

4.5 SUMMARY

Overall, the findings identify relative priorities in the banking sector and the situations in which they exist. The focus of the thesis was initially risk climate. Over the course of the interviews, what emerged was that all participants when discussing risk, identified that the major competing priorities were profit maximisation and customer care. The management of risk was a means to institutionally increase the importance of customer care. Across the 3 major themes (relative priorities, alignment of espousal enactments, and internal consistency) and the 6 sub-themes (risk and the importance of customer, tension between cost and profit centres, discrepancies in financial product development, discrepancies in customer care, discretion in enacting policy, and discretion in providing financial products) the fundamental tension in priorities was between profit maximisation and customer care. This thesis started with the premise of contextualisation for risk climate, but based on the data, a focus on developing a customer care climate shows more utility, as the fundamental tension is between customer care and profit. The development of customer climate as a facet specific climate construct that encompasses a strategic focus on the relative importance of customer care in the banking sector.

Chapter 5: Conclusion

5.1 INTRODUCTION

The Banking Royal Commission highlighted remuneration, culture, and governance (Casson, 2019b; Hayne, 2019) as the keys to change and ensuring appropriate conduct because misconduct was deemed to be a result of cultural deficiencies, not just a few bad actors (Hayne, 2019). To date, the industry has focused its efforts on risk culture as a way to manage the risk of misconduct.

This thesis began with an overview of the Banking Royal Commission to gain an understanding of the cases and context in which the Banking Royal Commission took place. From this, it was understood that the banking sector was focused on creating a risk culture as a response to the misconduct that had occurred in the sector. Based on the literature, this thesis argued that the construct of organisational culture might not be the most appropriate theoretical construct to address the issues the banking. This reasoning was based on the fact that organisational climate has characteristics such as its focus on the immediate and visible aspects of the organisation (Ehrhart, Schneider & Macey, 2013). The immediacy and visibility of climate make it easier to observe and measure than culture (Barbera & Schneider, 2014). This micro focus and closer proximity to behaviour (Ehrhart, Schneider & Macey, 2013; Ostroff, Kinicki, & Muhammad, 2013; Zohar, 2008) may mean that employing a climate-based approach could assist in balancing the tension between the competing demands of profit and the customer care.

In this thesis, I began with the argument that risk culture may not be the most suitable construct to manage change, and that instead organisational climate may be a more suitable theoretical approach to help the banking sector manage change. I began with the aim of developing a better understanding of risk climate via contextualisation of the construct. However, over the course of the interviews, what emerged was that all participants when discussing risk, identified that the major competing priorities were profit maximisation and customer care. The management of risk was seen in most instances as an institutional means to increase the importance of customer care. I argue that organisational climate is a suitable theoretical approach to help the banking sector manage change, but that customer care climate rather than risk climate may be the best means to do so. This chapter discusses the implications of this research. First, I present the theoretical and conceptual contributions. Second, I outline the theoretical and conceptual contributions.

5.2 THEORETICAL AND CONCEPTUAL CONTRIBUTION

This research has identified organisational climate as a theoretical approach to help the banking sector facilitate change in banking staff to balance profit motive with customer care. The qualities in which climate was chosen as the theoretical framework include, but not limited to, measurement, change and its relationship with behaviour. These qualities in a theoretical framework are what the banking sector needs to manage the risk of misconduct. The research problem is facilitating behaviour change in banking staff so they can balance profit with customer care. The research aimed to identify cues in the work environment that employees use to interpret the relative importance of risk and its management in the banking sector to assist future researchers to contextualise the risk climate construct and aid the conceptual development of the risk climate construct. The overall research question guiding this research study was "What are the cues in the work environment that employees use to interpret the importance of risk and its management in the banking sector?".

Employees use cues and signals in the work environment to inform their climate perceptions. Climate perceptions are aimed at revealing the behaviour that is rewarded, supported and expected. The climate literature discusses these cues and signals as being higher level attributes within the work environment (Zohar, 2009). These attributes are made up of the relationships between and among elements of the work environment which are policies, procedures and practices. These conceptual attributes help inform employee perceptions of the kind of behaviours likely to be rewarded and supported. There are three conceptual attributes of the climate construct that have distinctions qualifying organisational perceptions as climate perceptions. The conceptual attributes are relative priorities, alignment of espousal – enactments and internal consistency. The qualification of perceptions as climate perceptions is important for the accuracy of any phenomenon being measured (Guion, 1973; James & Jones, 1998). Thus, the research should inform the wording of the survey items (Schneider, 1980).

The conceptual development of the climate construct can be aided by the evaluation of espoused versus enacted priorities which requires assessing the situational demands contributing to misalignment (Zohar, 2009). This conceptual development can come from understanding the situational features of the conceptual attribute 'misalignment between espoused and enacted priorities.' If managers act inconsistently with their espoused priorities when circumstances change, this might signify a lesser climate because finite resources might be reallocated to, for example, key customers or products. Such situations create for employees a discrepancy between enacted and espoused priorities, which, in turn, help to inform employees' overall climate perceptions (Zohar & Polachek, 2014; Zohar & Luria, 2003; Zohar, 2008; 2009). In terms of contextualising the risk climate construct, specifically the four-factor model (Sheedy et al., 2017) which includes the factor "avoidance" with six items presented in Table 2.1. The misalignment between espousals and enactments relating to financial product development and implementation is similar to the factor avoidance, however, based on the literature regarding conceptual considerations, this factor has the opportunity to be conceptually developed by clearly stating the level of the organisation the analysis will occur as well as specific context about situations where there has been a discrepancy between espoused priorities and enacted priorities. For example, signing off products to meet customer objectives as an indication of risk and its management. An example of a contextualised survey item would be: "Top management in this company do not consider customer care when developing financial products".

Likewise, the conceptual development of the climate construct can be aided by adopting a level-of-analysis perspective to identify inconsistencies across the organisational hierarchy (Zohar, 2009). These context specific situations provide information for the future researcher to develop the risk climate construct further conceptually. In terms of contextualising the risk climate construct, specifically, the four-factor model (Sheedy et al., 2017) which includes the factor 'Manager' with three items presented in Table 2.1. The internal inconsistencies among policies, procedures and practices relating to the complexity of the policy framework could aid further conceptual development of the 'Manager' factor. Incorporating the internal inconsistencies relating to local implementation of the risk appetite statement and/or the local provision of products to customers into the wording of one or more of the items will better reflect the work environment of the banking sector. An example of a contextualised item would be: My manager ensures customers are cared for when pressure builds up.

Another way to contextualise the risk climate construct is to add a customer factor. However, this leads us to consider whether the banking sector is trying to create a risk culture or create a culture of customer care. Again, it is emphasised that behavioural change is best approached using the theoretical construct of organisational climate for reasons outlined throughout this thesis. The exploration of the conceptualisation of a construct for customer care is worthy of further research and investigation.

5.3 PRACTICAL CONTRIBUTION

The implications for the banking sector revolve around the prominence of customer care. While the customer was identified during the Banking Royal Commission as a key stakeholder, the notion of customer care was not distinguished. Instead, the focus centred on risk management and creating a risk culture. Based on the findings, the themes highlighted that risk was not the prevalent issue. This was evident in the themes identified through the thematic analysis, highlighting the customer as a central topic of discussion amongst participants. Rather, the participants consistently discussed situations where there were compromises relating to the care of the customer. The Banking Royal Commission focused heavily on risk culture as a response to managing the risk of misconduct (Hayne, 2019). Risk culture was highlighted as a factor in the Global Financial Crisis with cases such as HIH Insurance, which failed in 2001, as an example of poor risk culture in Australia (APRA, 2016). In this case, the identification of a weak organisational culture coupled with a poor attitude towards risk management was seen as the cause of the insurer’s downfall.

Since then, the banking sector has focused on creating a culture of risk management (Kumar, 2023; Hargovan, 2019). Organisational climate perceptions were identified by asking research questions based on these conceptual attributes. From this information about risk climate in the banking sector can be discerned. Because a risk climate can vary in strength, there are indicators as to a weak climate or strong climate. A main indicator of a strong climate is consensus among group members (Bowen & Ostroff, 2004; Klein, Buhl Conn, Smith & Sorra, 2001). Consensus results when there is agreement among employees (Bowen & Ostroff, 2004). The lack of consensus among participants when it came to articulating risk and its importance indicates that there is a weak risk climate in the banking sector.

It is the conclusion of this thesis that the banking sector should focus more strongly on customer care rather than simply risk management. By focusing more strongly on customer care, the banking sector will be able to better mitigate the risk of misconduct. It was found throughout the analysis of participant responses that failure to ensure the customer was cared for as a priority was central to the formation of a profit centric culture. Meaning customer care might be a precursor to risk climate. Failure to recognise the importance of the customer will perpetuate the tension that exists between the profit motive and customer care which was at the heart of the Banking Royal Commission.

5.4 CONCLUSION

The theoretical construct of organisational climate was explored as having utility to assist the banking sector to manage the risk of misconduct. The practical need in the banking sector was operationalised as the research problem of how the banking sector can drive behavioural change to assist managers and staff to balance profit motive with customer care. This thesis then explored the risk climate construct as the theoretical construct to help drive this change. As risk climate construct was a relatively new climate construct there was a need for further conceptual development. This thesis lent upon the decades of research conducted by Zohar to cast a lens upon how to develop the risk climate construct further conceptually. This led to the exploration of the banking sector using the conceptual attributes of the climate construct identified by Zohar (2009) which were crafted from over thirty years of research. These conceptual attributes are relative priorities; misalignment of espousals and enactments; and internal inconsistencies.

Using these conceptual attributes as the basis for the research questions, twelve subject matter experts were interviewed to explore situations in which relative priorities exist. The reason for this exploration is that gaining this information will enable the contextualisation of the risk climate construct which was identified as benefiting from further conceptual development (Sheedy et al., 2017). Further conceptual development would improve construct clarity and measurement sensitivity which is important to the phenomenon of organisational climate to reduce conceptual ambiguity. Reducing conceptual ambiguity is necessary for the climate-behaviour relationship (Zohar, 2000, 2008). The climate-behaviour relationship is beneficial for the research problem of driving behavioural change to better balance profit motive with customer care.

This research study drew its methodological approach from organisational climate fields of research (Schneider, Wheeler & Cox, 1992; Schneider, 1975; Zohar, 1980). This research study adopts a critical realist paradigm as part of its research methodology and is a qualitative study. This exploration led to the identification of context specific situations led by research questions based on the conceptual attributes of the climate construct (Zohar, 2009). This research was used to generate ideas for contextualising the investigative framework by offering examples of context driven items for the measurement survey. Further to this, the findings pointed to customer care as being prominent in the banking sector's change towards managing the risk of misconduct. This was evidenced by the emergent data structure highlighting the prominence of the theme of the customer throughout participants' responses.

There were aspects of the research design worth noting. The fact that the interviews were limited to very senior informants of the banking sector is both a strength and a weakness. The strength of having very senior informants is the picture they built of the tension between customer care and profit motivation. The weakness of having very senior informants is we do not have picture of the view of the tension between customer care and profit motivation from a branch perspective. This could be a possible direction for future research.

The value this research offers is the context risk data exploring the banking sector in the wake of the Banking Royal Commission. This research identified a suitable theoretical construct to assist the banking sector to manage the risk of misconduct by balancing the priorities of customer care and profit motives. Further research into customer care would benefit both the banking sector and the risk climate field of research. Such research would further aid understanding of how the banking sector can manage the risk of misconduct in years to come.

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