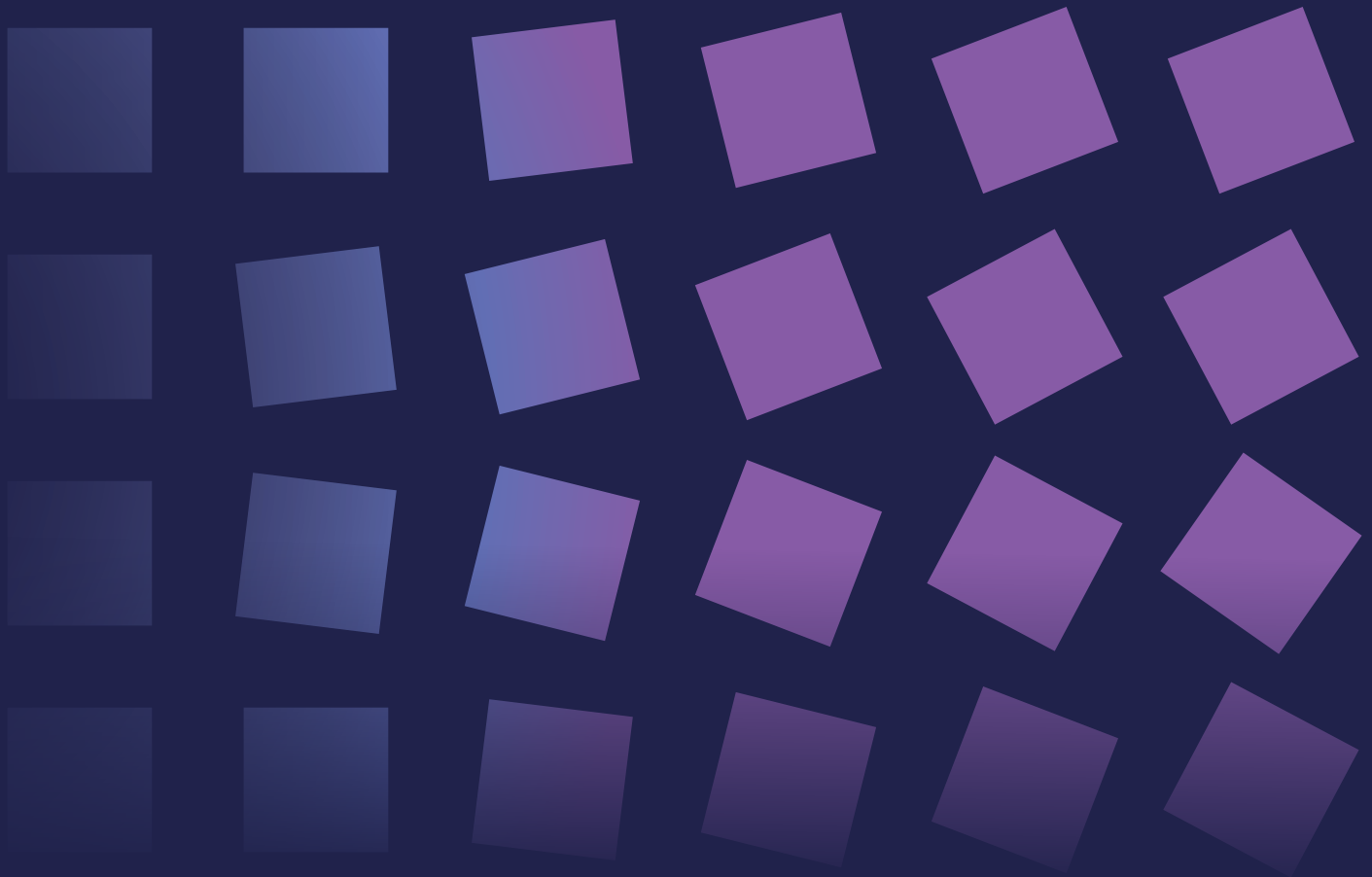


# Activating purpose in financial services



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Redesigning Financial Services is an independent think tank founded by the Institute for Customer Insight at the University of St. Gallen (HSG), the Institute for Technology and Innovation Management at the Federal Institute of Technology (ETH), and EY. The RFS mission is to accelerate the structural transformation in the financial services industry in the interests of the customer.

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# Editorial

Disruption can be painful. Multiple industry examples remind us of how painful the process can be — from Uber disrupting the taxi business to Airbnb shaking up the hotel industry. This pressure is rising fast, affecting sectors previously insulated from disruption, like financial services. But disruption is not a one-time event. It is a continuous pressure to innovate in the face of constant change. And although most managers are aware of the urgency of disruption, few have uncovered the secrets to creating high-engagement cultures that are open to change and innovation.

The purpose of our recently launched think tank **Redesigning Financial Services (RFS)** is to accelerate the structural transformation in the financial services sector, but in the interests of the end-client. To this end, much of our work is typically centered around the structural drivers of change, and less on the „soft factors“ relevant to actually managing the change. It is in this context that several of our stakeholders have requested that we expand our focus to how leaders manage cultures facing disruption, how they create climates of innovation, and how they engage employees in the transformational process. In response, we have developed an additional building block in our RFS framework called „Activating purpose in financial services“.

We hope you enjoy reading this contribution to the dialogue, and invite you to join us in building a cross-industry ecosystem dedicated to improving the way financial services are delivered to clients in the future.

Yours Sincerely,



**Prof. Dr. Ernst Mohr**

President of the Board of Directors  
Redesigning Financial Services,  
Institute for Customer Insight,  
University of St. Gallen



**Robert Ruttmann**

Founder of Redesigning  
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# Purpose as a catalyst for cultural innovation

Robert Ruttman & Luting Ye

Across all societies, banking has historically been one of the sectors most immune to disruption.

The reasons for this age-old resilience are clear: banks enjoy a near monopoly on supplying credit to the economy, they remain the gateways to the biggest payment networks, and their special regulatory status largely insulates them from too much competition. Moreover, consumers have historically been very slow to switch financial services providers, even in the face of high fees and in cases of unsatisfactory

service. Together, these factors have shielded banks from any structural disruption. Until now.

A digital tornado is reshaping the banking and financial services industry as we know it. FinTech - which is shorthand for "financial technology" - is at the center of this tornado, and refers to a new wave of companies changing the way consumers make payments, send money, borrow, lend, and invest. These Fintech operators are putting the customer experience at the center of their business models, with the goal of providing banking services that are secure, frictionless, immediate and significantly cheaper than existing offerings. Together, these new challengers are

redefining the direction, shape and pace of innovation in nearly every sector of banking.

Finance has not faced this level of disruption before. JP Morgan CEO Jamie Dimon has even pointed out: "Silicon Valley is coming. There are hundreds of startups with a lot of brains and money working on various alternatives to traditional banking." And although incumbent banks have recognized the urgency to adapt their business models, the accelerating tempo of the innovation cycle means that a financial institution's long-term success is predicated on the ability to deploy new technologies quickly and adjust existing business models early - neither of which has historically been a core competence of incumbent banks.

## Ignore culture at your peril

Nonetheless, most banks have now realized the need to innovate and keep innovating, especially if they want to thrive in the evolving financial services ecosystem of the future. In fact, most incumbents have approved big technology budgets, established accelerator programs, and nearly all have appointed chief digital officers. So the urgency to innovate is clear. However, the majority of incumbents have, until very recently, neglected an important factor governing the success of their innovation efforts — the culture within their organizations.

Indeed, evidence is growing that the inability to consider operating culture as a catalyst (or hindrance) to innovation may already be hurting innovation projects. For example, according to Business Insider, just **17%** of the

industry majority have managed to launch five or more digitally driven products since the start of their innovation efforts, and only **16%** have implemented five or more digital mid- or back-office solutions. This data suggests that a bank's recognition of the urgency to innovate is not necessarily enough to successfully transform a business model.

And the costs of neglecting culture can be significant – from failing at innovation projects to making it more difficult to attract, retain and inspire top talent to ending up with a culture that is slave to antiquated internal processes and inhibitive to innovation. With these large costs, it is unsurprising that establishing a culture of innovation is the second biggest challenge cited among European incumbents, according to a new survey released by ACI Worldwide, a payments company (see **Chart 1**).

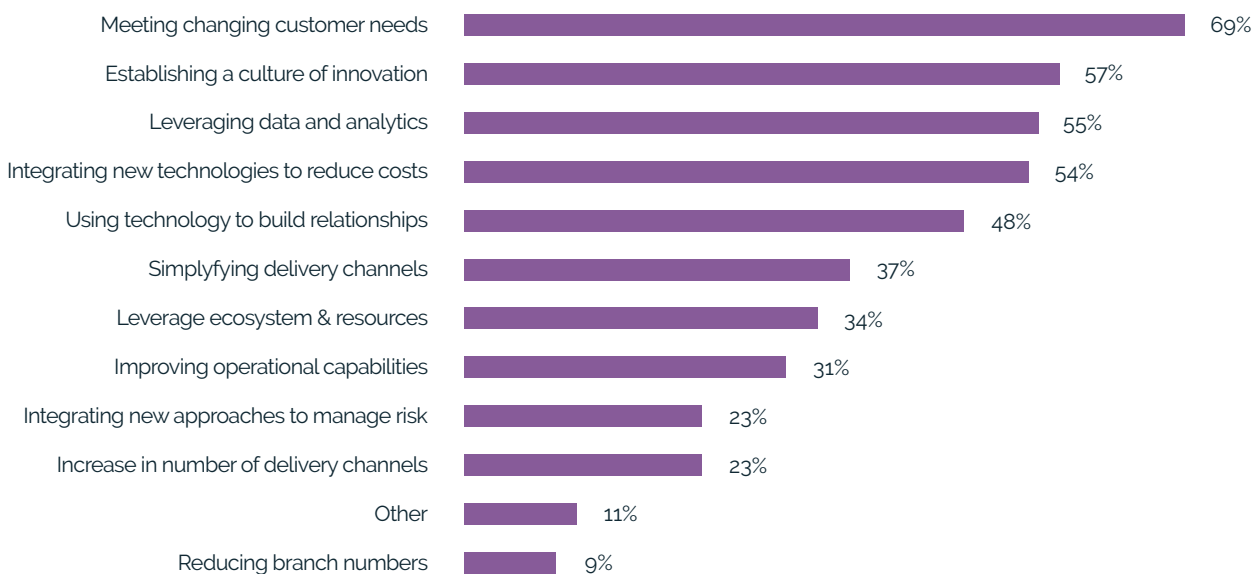
# 17%

Of the industry majority have managed to launch five or more digitally driven products since the start of their innovation efforts

# 16%

Of the industry majority have implemented five or more digital mid- or back-office solutions

**Chart 1. Biggest changes for banks in EMEA region**



Source: [www.magnacartacomms.com](http://www.magnacartacomms.com)

## Culture eats strategy for breakfast

It's said that Peter Drucker, world-renowned business management guru, once famously commented, "Culture eats strategy for breakfast." But culture is difficult to measure, even though its effects can be clearly felt in an organization. For financial institutions looking to become more adaptive and innovative in the face of disruption, cultural change is often the most challenging part of the transformation. Indeed, building a culture open to innovation often demands new behaviors from managers (and employees), many of which are antithetical to existing corporate cultures in the financial services sector, which historically have been fixated on operational excellence and efficiency.

To mitigate these antiquated internal processes, many banks are instituting what is called an "agile" approach to revamping their internal culture. This generally means deploying small, cross-functional, project-specific teams, and then disbanding team members once their designated project is complete. Employees then move on to another project, with another team. This approach can be applied in various ways, meaning different banks may employ different agile strategies. For example, Citi Fintech hired non-traditional talents like designers, forming diverse teams that work together in a very iterative way. In fact, failure is even celebrated with Prosecco, so long as something is learned. Other banks employ different versions.

## Banking on purpose for cultural innovation

But beyond adopting new (agile) design processes, banks are also deploying other strategies to affect cultural change. For instance, some are introducing incentive structures to reward innovative behavior while others are establishing non-traditional work environments that inspire creativity. Many financial institutions are also recognising the power of compelling purpose to reshape cultural environments in a way that they inspire innovation, change and progress. To this end, more banks today are reframing their purpose to reflect the evolving demands of society, industry and employees.

But what is purpose exactly? Indeed, the word purpose itself is certainly not new, so it is unsurprising that no universally accepted definition exists. For instance, the Oxford Dictionary defines purpose as "the reason for which something is done or created or for which something exists," while EY's Beacon Institute describes corporate purpose as „an aspirational reason for being that is grounded in humanity and inspires a call to action."<sup>1</sup> The Purposeful Company Report—written by a consortium of academics studying purpose in businesses—defines the purpose of a company as "its reason for being."<sup>2</sup>

<sup>1</sup> The state of the debate on purpose in business, 2016, [http://www.ey.com/Publication/vwLUAssets/ey-the-state-of-the-debate-on-purpose-in-business/\\$FILE/ey-the-state-of-the-debate-on-purpose-in-business.pdf](http://www.ey.com/Publication/vwLUAssets/ey-the-state-of-the-debate-on-purpose-in-business/$FILE/ey-the-state-of-the-debate-on-purpose-in-business.pdf)

<sup>2</sup> The Purposeful Company Interim Report, May 2016

In today's fast-moving business context, "purpose" is increasingly seen as a combination of culture, leadership, strategy, and value creation required for 21st-century firms to thrive in the face of disruption. In fact, a growing number of CEOs are using the term to speak directly to the contribution a company's work makes to society – and how purpose can serve as a point of orientation to navigate change and complexity. For example, CEOs like Unilever's Paul Poleman, or EY's Mark Weinberger, or Barclays' Anthony Jenkins all speak openly about the role purpose can play in priming cultures for innovation and agility.

Sir Anthony Jenkins, former CEO of Barclays, has even said that banks must put purpose and values at the heart of all they do if they are to drive high performance for their customers, colleagues, shareholders and society. But some banks have clearer purpose statements than others. For example, while Goldman Sachs' purpose is „to provide superior financial return for our shareholders," others have a broader mandate that focuses not just on shareholders but also clients, like Vanguard's purpose „to take a stand for investors, to treat them fairly, and to give them the best chance for investment success."

The Vanguard example shows that it makes good business sense to guide an organization according to a clear purpose. In fact, in 2016, Vanguard attracted more investor assets (USD 317 billion) than the whole industry together, and is on course to become the world's largest manager of assets by the end of 2019, according to our estimate (see chart 2). Another strong purpose is that of Triodos: „our mission is to use the money entrusted to us by savers and investors to work for positive social, environmental and cultural change."

In order for purpose to be a catalyst for cultural change and innovation, it needs to be activated in all aspects of the business, including recruitment, products and services, technology, performance to deliver on purpose, evaluation systems, customers and suppliers. This is important because the performance of leaders are often measured by short-term metrics, which makes it all the more critical that the development of an organization's purpose engages and is supported by customers, employees, institutional stakeholders and others who have an interest in the company's long-term success. In this way, purpose can serve as a vital point of orientation to navigate an increasingly complex world.



**ROBERT RUTTMANN**  
**Founder of Redesigning Financial Services, University of St. Gallen**

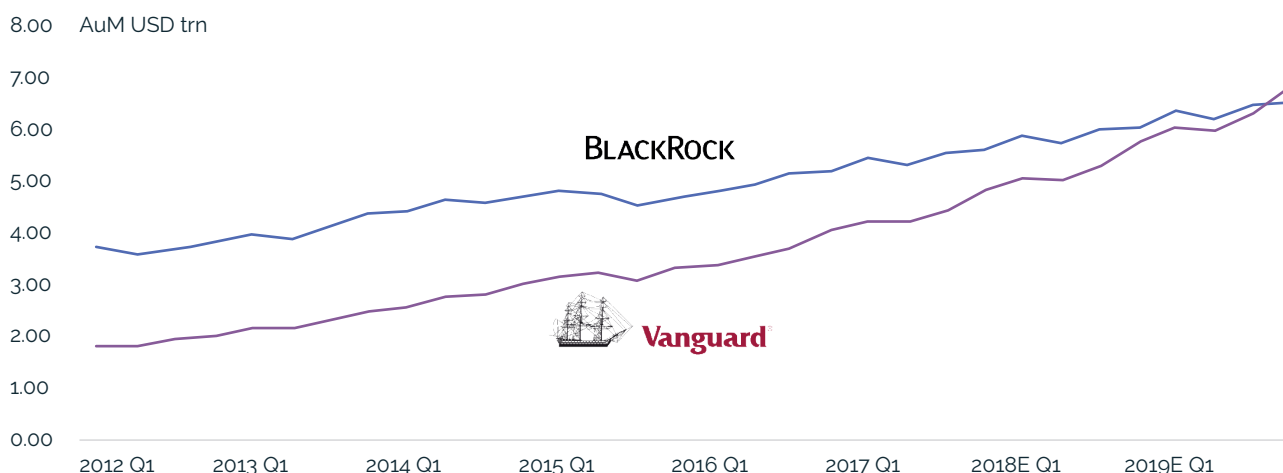
Robert Ruttmann serves as the Head of Customer Insight on Financial Services at Institute for Customer Insight, University of St. Gallen, and is the founder of the think tank "Redesigning Financial Services". Previously, Robert spent over 10 years in the financial services industry in Switzerland.



**LUTING YE**  
**Project Lead at Redesigning Financial Services, University of St. Gallen**

Luting Ye has a banking background and serves as a project lead at the think tank Redesigning Financial Services.

**Chart 2. Vanguard is set to overtake Blackrock in 2019 Q4**



Source: Morningstar, Company reports, RFS estimate





# How can purpose reveal a path through disruption?

EY Beacon Institute

Less than a decade ago, executives rarely spoke of “purpose,” and when they did it was typically focused on maximizing shareholder value.

Today a company's declaration that it has a purpose beyond profit is eagerly trumpeted in response to growing demands:



From employees for work that is meaningful



From customers for brands that inspire



From society for companies to be responsible

This change is also driven by an increase in global uncertainty and volatility, which has triggered widespread unease among the C-suite as they witness backlashes by people feeling left behind, whose identities and jobs feel insecure, and whose faith in institutions has all but vanished.

“Automation, digitalization and ongoing economic and political volatility are inspiring a great searching of the corporate soul, says Valerie Keller, EY Beacon Institute Global Leader. A new idea – and ideal – of successful business in the 21st century is emerging: purposeful business.”

It is relatively easy for a company to adopt the rhetoric of a feel-good purpose that articulates an aspirational reason for being. But actually living, breathing and effectively demonstrating a commitment to that purpose is an infinitely larger task. Yet it is an effort that can pay off substantially in our disrupted world.

## How business leaders see purpose

To gain new insight into how purpose can help navigate these volatile, uncertain conditions, EY Beacon Institute surveyed 1,470 business leaders from a wide range of industries around the world. The research revealed how best-in-class purposeful companies are using their purpose as a beacon to navigate turbulent times – as well as how they are embedding their purpose in decisions and daily actions throughout their organizations.

The research yielded some interesting findings:

### Not all purposes are created equal

While almost all leaders (95%) say their organization has a purpose, this can mean different things. For some, it means serving a single stakeholder group, whether it be shareholders, employees or customers. The research revealed a significant new group that defines purpose as something greater: a human-centered, socially engaged conception of purpose that seeks to create value for a broad set of stakeholders. EY labels this definition as capital P "Purpose."

### Purpose helps companies navigate today's volatile world

Two-thirds of executives (66%) are profoundly rethinking their purpose as a result of the current volatile world, and most of those (52%) are moving towards a capital P Purpose. This is beneficial, as 73% of business leaders say that having a well-integrated Purpose will help their company navigate disruption.

More specifically, EY's research shows that Purpose drives value where business leaders say it's most needed to succeed in a disrupted environment:

- Agility to innovate in times of disruption
- Ability to drive transformational change
- Strong links between values, visions, strategy and decision-making
- Clarity and understanding of the organization's long-term goals
- Risk awareness, management and mitigation

In addition, purpose is an enabler to overcome the pitfalls in strategy execution. "Already a few years ago, research showed that approximately 70% of employees who are asked to pick the company's strategy out of several choices got it wrong. In today's fast changing world with dynamic strategies, a well-defined purpose can support bridging this execution gap by inspiring and guiding the employees," says Reto Isenegger, EY Advisory Global Strategy & Customer practice leader.

### Having a Purpose doesn't necessarily make you Purposeful

The right kind of Purpose (with a capital P) is important, but this must be integrated into an organization to fully unlock value. A best-in-class group of "Purposeful companies" stood out in the research for both articulating a Purpose and for making significant progress in driving this into their corporate DNA.

# 66%

Of executives are profoundly rethinking their purpose as a result of the current volatile world

# 73%

Of business leaders say that having a well-integrated Purpose will help their company navigate disruption

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97%

Of Purposeful companies see a good or great deal of incremental value from their Purpose

56%

Of companies say their Purpose is only "somewhat" integrated

These are the companies that are realizing the greatest benefit from Purpose. In fact, **97%** of Purposeful companies see a good or great deal of incremental value from their Purpose, compared to only **56%** of companies who say their Purpose is only "somewhat" integrated.

**Integrating Purpose brings benefits, but just talking about Purpose – without action – exposes a company to risk**

The survey found that Purpose drives value in both the short- and long-term. However, if Purpose is merely words that are not matched by deeds, a gap can emerge between what stakeholders expect of the firm and its reality. In these instances companies can face negative reputational risk and loss of trust.

**Purposeful companies provide insight on how to turn purpose rhetoric into business reality**

EY's research identified four distinct phases that best-in-class companies typically cross on their journey to becoming Purposeful. These companies:

**1** Clearly articulate a purpose that responds to the needs of their stakeholders and is grounded in what an organization does

**2** Embed purpose into their strategy and operations, and align their decision-making with that purpose

**3** Constantly evaluate where they are in their journey and what needs to change

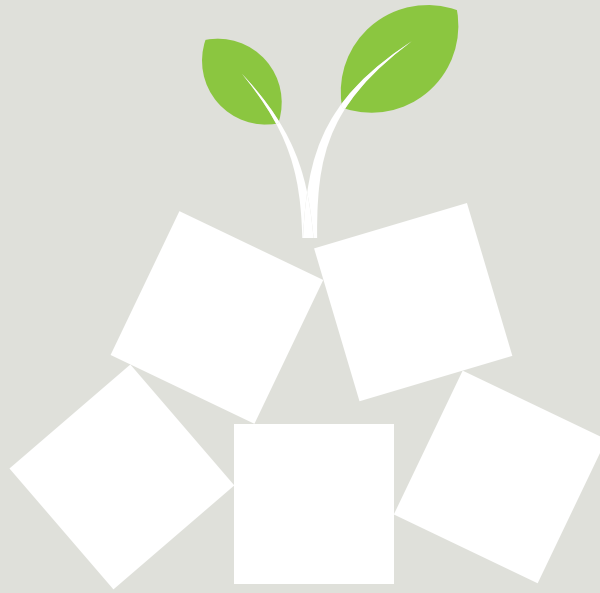
**4** Accelerate the journey by placing purpose at the center of their culture and ensuring it is owned by their people at all levels

In an age where organizations are being destabilized by seismic technological, economic and political shifts, a commitment to becoming Purposeful is not something management boards can afford to move to the back burner. On the contrary, the imperatives become greater and more urgent. As the rapid pace of change makes it harder to foresee the future, a framework that provides meaning and long-term vision to empower the organization to navigate the unknown becomes one of the most important strategic levers.

As Valerie Keller notes: "All the disruption geopolitically, economically and technologically is a catalyst for a new evolution in business. Those most able to thrive in this new world are focused on their impact on the humans they touch – the customers, the employees and the wider society."

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For more information about EY Beacon Institute, or to read the full report ("How can purpose reveal a path through disruption?"), visit [www.ey.com/beacon](http://www.ey.com/beacon)



# Thriving in an age of disruption – the power of a compelling purpose

Dr. John Izzo

“The soft overcomes the hard,  
everyone knows it but few live by it.”

Lao Tzu

There is an old story about a man whose horse and wagon were stuck trying to cross a small river.

A philosopher came along and asked him, “Have you discovered the meaning of life?” The man looked at him with incredulity and said, “I don’t have time for riddles, can’t you see I’m stuck in the mud?!”

Many businesses today feel they are stuck in the mud of almost unrelenting change. They wonder if a having new focus on Purpose is perhaps the correct lever to move forwards. To many executives, the idea of using purpose seems soft- and about as silly as the philosopher asking “Have you discovered the meaning of life?”

## The Age of Disruption

We live in an Age of Disruption. The nature of disruption is often rooted in emergent technologies that can render seemingly stable businesses irrelevant in a short period of time. Take the example of streaming technology, which decimated the DVD movie and CD music businesses almost overnight. Or new Amazon’s delivery model, which quickly ripped apart the traditional brick and mortar retail world, and today provides a vast array of products that far exceed its initial foray into books.

Technological change has also disrupted the delivery of financial services. Traditional mutual fund companies have lost market share to low-cost ETFs and “robo” advisors, whose performance is as shown to match or exceed human counterparts. New competitors are also on the horizon and they may be upstarts from outside the financial sector. The CEO of one of my large banking clients recently told his leaders, “I am not worried about the other banks, I know what they are doing. What keeps me up at night are the Googles, the telecommunication companies, and many people who are going to realize that in the age of the smart phone you don’t need all this infrastructure to manage money or transactions.”

50%

of millennials are highly motivated to work for companies whose values align with purpose

40%

of global consumers now prioritize the social impact of a company in their choice of purchase

## The Purpose Revolution – A Disruption of Values

Alongside the competitive and technological disruption runs a parallel disruptive force in the form of changing values. We call this value disruption **The Purpose Revolution**, an emerging global desire among employees, customers, and investors for their working, buying, and investing to provide purpose and leverage social good. Studies by global players like Globe Scan show that as many as **50%** of millennials are highly motivated to work for companies whose values align with purpose<sup>1</sup> and over **40%** of global consumers now prioritize the social impact of a company in their choice of purchase<sup>2</sup>. Investors, while coming to the purpose party more slowly, are showing a strong trend towards seeing ethical and sustainable business as the right place to invest and have been burned by high profile scandals at places like BP, VW, and Wells Fargo that have decimated shareholder value.

Financial services firms often find themselves at the epicenter of a growing disillusionment with business, exasperated by the financial crisis where this sector bore the brunt of the public's blame. Studies show that many young talented professionals are increasingly attracted towards purpose-driven enterprises and away from ones primarily driven by profits. In fact, research shows that while half of millennials would take a pay cut to work for a company whose values they believe in<sup>3</sup>, over three-quarters of them believe the company they work for is mostly focused on the growing profit than on the interests of their customers<sup>4</sup>.

## How Purpose Can Help Your Company Navigate Disruption

**1** But why does purpose matter in an age of change? Well, there are really three reasons why it matters a great deal. The first is because having purpose will help you attract and keep the best talent. As importantly, when you model your purpose, those people will work harder for your success. Research has shown that people who see their job as a form of service are more committed, work harder and perform better than those who simply see their job as a way to make money or as a career step to something else<sup>5</sup>.

**2** Second, purpose becomes a magnet for customer loyalty in an age of commoditization, where companies must successfully brand themselves to differentiate their goods from the competition. In this age of disruption, consumers are able to choose cheaper goods, thanks to technological advancements, global distribution networks and vertically integrated industries in manufacturing. Yet there are companies like Seventh Generation, Patagonia, Ben & Jerry's, and countless small local financial institutions that have demonstrated the ability to win much higher customer loyalty by connecting to their customers' desire to buy from companies they believe in. Many of these companies have shown clearly that having "connection to their purpose" drives and retains customer loyalty, even when their competitors offer similar products at meaningful discounts.

<sup>1</sup> *How Millennials Want to Work and Live*. Gallup, 2016.

<sup>2</sup> *Five Human Aspirations and the Future of Brands*. GlobeScan, 2015.

<sup>3</sup> *How Millennials Want to Work and Live*. Gallup, 2016.

<sup>4</sup> *Project ROI*. Babson College, 2015.

<sup>5</sup> *The Ultimate Software 2016 National Study on Satisfaction at Work*. Ultimate Software, 2016

**3** Finally, purpose is often what keeps team members engaged in driving and thriving in changing atmosphere. I advised Qantas Airlines as they navigated a major financial crisis as well as a large competitive challenge. The company worked hard to connect their employees to the true purpose of the airline to “exemplify the Australian spirit.” Drawing in large part on that pride, the company raised their Net Promoter scores by **60%** even while cutting 5,000 jobs! Purpose is often what keeps people working hard and fighting for your business in the toughest times.

## Closing the Purpose Gap

But in this new world of social good, there is a gap in terms of the expectations of customers and employees. In business, “gap” means opportunity—if people want something and companies are not delivering it, then those companies who close the gap between people’s expectations and delivery will succeed.

Most companies are currently failing at providing purpose to their employees, customers, and investors. Those who provide purpose are usually sub-optimizing its potential impact. Research has shown that almost **70%** of employees say the company they work for is mostly interested in profits and serving its own needs rather than society or customers. Compare this stat to the **86%** of employees who “believe it’s important that their own employer is responsible to society and the environment, with over half (**55%**) feeling it is very important,” and **60%** who want their work to have purpose<sup>6</sup>—it’s obvious to see a meaningful gap has been created.

Customers experience the same gap with only **16%** saying that they have any significant confidence that the

companies they are buying from are “good”<sup>7</sup>. In fact, consumers globally say they wouldn’t care if about **70%** of the world’s brands, even ones they buy from, disappeared<sup>8</sup>. But winners in the Purpose Revolution will help customers connect to their story of purpose and leverage a new loyalty based not merely on product or price.

## Can Purpose Save Your Company?

Let’s return to the opening story. Most companies today, especially in financial services, are about to enter unparalleled disruption. We may feel stuck in the mud but just pushing harder probably won’t get you where you need to go. But asking: What is the meaning of your enterprise, and How can you connect your employees, customers and investors to that purpose just might just be the kind of “soft” thing that “overcomes the hard” that Lao Tzu meant.



**DR. JOHN IZZO**

### Bestselling author & Business Visionary

John Izzo is the bestselling author of eight books including *Awakening Corporate Soul*, *Values Shift* and the forthcoming *Purpose Revolution*. He has advised over 600 companies across the globe and spoken to over one million people. His clients include RBC, Manulife, Ford, SAPA, and Qantas Airlines.

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**70%**

Employees say the company they work for is mostly interested in profits and serving its own needs rather than society or customers

**86%**

Employees who believe it’s important that their own employer is responsible to society and the environment

**16%**

Customers saying that they have any significant confidence that the companies they are buying from are “good”

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<sup>6</sup> *Project ROI*. Babson College, 2015.

<sup>7</sup> *Five Human Aspirations and the Future of Brands*. GlobeScan, 2015.

<sup>8</sup> *Five Human Aspirations and the Future of Brands*. GlobeScan, 2015.



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