

Cultural change at Crown Melbourne

EXPERT OPINION

Prepared for the Royal Commission into the Casino Operator and Licence (VIC)

By Elizabeth Arzadon M.Psychol (Org). B.Sc.(Psych)(Hons), MAPS

June 2021

TABLE OF CONTENTS

	<i>Executive summary</i>	3
1	<i>Context</i>	4
1.1	Report background	4
1.2	My qualifications	4
1.3	What I was asked to consider	4
2	<i>Introduction</i>	4-6
2.1	Definitions	4-5
2.2	Basis for observations	5
2.3	Limitations	5-6
3	<i>Regulator-institution dynamics</i>	6-12
3.1	Expected dynamics	6-7
3.2	Observed dynamics	7-11
3.3	Improving the dynamic	11-12
4	<i>Achieving cultural change</i>	12-20
4.1	General approach for embarking on culture change	12-16
4.2	Actions required to achieve culture change	16-19
4.3	Time needed for culture change	20
5	<i>Assessment of Crown's potential for change</i>	21-23
5.1	Current evidence of change readiness	21-22
5.2	Potential barriers to overcome	22-23
6	<i>Conclusion</i>	24-25
6.1	Summary of key questions and responses	24-25
6.2	Concluding opinion	25
	<i>End notes</i>	26
	<i>Annexures</i>	27-35
I	List of materials reviewed	27
II	List of relevant background reading	28
III	Instructions	29-35

EXECUTIVE SUMMARY

This report sets out my professional opinion on matters related to corporate culture, in support of the Royal Commission into Crown Casino. Specifically, it provides my response to three questions (see Section 1.3) related to Crown's relationship with the Victorian Commission for Gambling and Liquor Regulator (VCGLR), as well as the process and timeframe for culture change to occur.

Drawing on a set of briefing materials provided to me by the Solicitors Assisting the Royal Commission (see Annexure I), along with as my existing expertise, I observe that the relationship between Crown and the VCGLR is particularly critical given the risk-based supervision model adopted by the VCGLR, in an environment of extremely high inherent risk. I note that the relationship has recently become fractured and unconstructive, and that trust and respect needs to be repaired to prevent erosion of transparency between Crown and the VCGLR, and subsequent negative impacts on the VCGLR's ability to evaluate and influence Crown moving forward. I also suggest the current dynamic is relatively new, and that the previous relationship may have been problematic in different way: that is, based on a common purpose that inappropriately emphasised minimum compliance to avoid impeding the primary objective of financial and/or resource management objectives on both sides.

On the topic of culture change, the report outlines an approach starting with diagnosis of critical 'from-to' shifts required, building leadership engagement to direct the effort, and then moving to implementation of change across the broader organisation. I describe four categories of action that must be a part of any culture change plan, including communicating a compelling need for change, role modelling, capability building, and reinforcing with formal systems.

Next, the report considers the time required to change culture. I suggest that immediate changes are necessary, but not sufficient. Although unavoidable given the situation Crown is in, the type of actions required to achieve immediate change can have unintended and problematic side effects. Over the longer-term Crown will need to build a culture that is self-correcting – that is, one characterised by a compelling purpose, psychological safety, personal ownership, and external orientation.

Finally, I draw some observations about Crown's readiness for change. I believe Crown *can* change, but the road ahead is long. Moreover, so far there is limited evidence that Crown's leaders appreciate the fundamental transformation required across the entire organisation, the sacrifices and work needed to incorporate rather than add compliance to the company's purpose, and the role they will personally need to play to successfully deliver a new, sustainable future for the organisation.

1. CONTEXT

1.1 | Report Background

This report was prepared in response to instructions from Solicitors Assisting the Royal Commission into the Casino Operator and Licence (see Annexure III). The request is part of a current engagement with Corrs Chambers Westgarth to assist the Commission as an expert in corporate culture and any related matters. I have had several discussions with Corrs on the general topic of culture, target state culture, and culture assessment, with reference to a subset of the documents reviewed in preparation of this report. I have also provided background reading on the theory of culture and its impact on conduct and management of risk.

1.2 | My qualifications

I am an expert on corporate culture and its influence on conduct and risk outcomes, Registered Psychologist, and Managing Director of Kiel Advisory Group. My formal qualifications include a Master of Psychology (Organisational) and Bachelor of Science (Hons)(Psych), and Membership of the Australian Psychologist Society (MAPS). My experience as a practitioner includes 20 years as a strategy and independent adviser diagnosing culture and designing change programs with a range of organisations. In addition to corporations, I also work with Australian and international financial sector regulators to develop their culture supervision methodologies, and conduct entity-level and industry-wide assessments of corporate governance and behavioural risk. This year I co-authored two publications: *'Auditing Risk Culture – A Practical Guide'* for the Institute of Internal Audit, and *'Culture Audit in Financial Services'* (edited by Roger Miles and published by Kogan-Page).

1.3 | What I was asked to consider

The key questions I was asked to consider are:

- I. *Having regard to Mr Bryant's statement, the Final China Report and the VCGLR decision, what does Crown's relationship with the regulator suggest from a culture perspective? What sort of relationship would you expect an organisation to have with the regulator? Can the relationship between Crown and the regulator be 'fixed'? Are there any impediments to doing so?*
- II. *How can culture be changed? What analysis, deep dives or structural changes are necessary or desirable?*
- III. *How long does it take to effect cultural change?*

2. INTRODUCTION

2.1 | Definitions

This report reflects definitions that form the basis of my professional work. They are widely accepted in the organisational psychology, financial regulation, and risk culture expert community.

Culture is defined as systemically reinforced behavioural norms and mindsets that help or hinder various business outcomes.

Culture change is defined as a transformation in the behavioural norms, mindsets and system reinforcers of an organisation, including a change in outcomes.

Dynamics are the pattern of behavioural norms and mindsets that characterise interactions between two groups.

Behavioural norms are observable actions, decisions, and discussions that are considered typical for a particular group.

Mindsets are beliefs, values and assumptions that help organisational members make sense of their environment.

Formal mechanisms are documented policies, processes, procedures and systems that influence behavioural norms and mindsets.

Informal mechanisms are symbolic actions on the part of leaders, corporate stories, shared interpretations of history, and ‘water cooler’ conversations that help organisational members understand group norms.

The report also applies references several relevant culture-related frameworks:

Edgar Schein’s ‘Iceberg’ Model of culture describes multiple levels of culture, from observable elements (above the waterline) to less observable elements (below the waterline).

Cohen & Kotters’ Change Readiness Framework which identifies 8 factors that indicate an organisation is ready to successfully change: establish a sense of urgency; build building teams; get the vision right; communicate for buy-in; enable action; create short-term wins; don’t let up; make it stick.

McKinsey & Company’s Influence Model which provides a model for organisational behaviour change based on four mandatory action categories: communicating a compelling need for change; role modelling; capability building; reinforcing via formal systems.

2.2 | Basis for observations

The opinions shared in this report constitute my professional opinion only. They have been informed by the following:

- I. Materials listed in Annexure I
- II. Reading listed in Annexure II
- III. Academic knowledge of theory, research and commentary on organisational culture assessment and change
- IV. Practitioner experience of the influence of culture on conduct and risk management in regulated environments.

2.3 | Limitations

Several factors may limit the extent to which conclusions should be solely relied upon:

- **Reliance on secondary sources.** This report has utilised a rich set of information, but I am reluctant to draw definitive conclusions without access to primary source data specifically related to the issue of culture.
- **Time.** This report was prepared in less than 10 working days to ensure it could be utilised in a practical manner as part of the Commissioner’s inquiries. It therefore had to be scoped appropriately and may omit certain explanations and context.
- **Inexperience in the casino sector.** Although there are reasonable parallels between the risks in financial services institutions and casinos, including the regulatory context, it is possible I

have missed or misinterpreted key factors related to the casino sector in my analysis and conclusions.

3. REGULATOR-INSTITUTION DYNAMICS

3.1 | Expected dynamics

Patterns of habitual behaviour, or norms, exist *between* organisations and their established external stakeholders just as they do between organisational participants *within* an organisation. This is because organisations are individual groups that exist within a broader system of groups, which then have their own cultures – for example, at industry, political or national levels.

The norms that characterise interactions between organisational players within a particular system develop for the same reasons as norms within organisations: that is, due to formal and informal factors that reinforce certain behaviours and responses. Over time, assumptions, beliefs and mindsets form in both parties, often in a self-perpetuating manner¹, solidifying conscious and unconscious interaction patterns. Sometimes these patterns are constructive and efficient; other times they create problematic misperceptions, blindspots and misunderstandings.

For entities that are regulated, supervisory agencies are a critical player in the broader industry culture. There are some clear benefits for both institutions and regulators in achieving an effective dynamic, which are discussed in more detail shortly. Despite this, a range of contextual factors often impede the relationship. The particular supervision model adopted by an agency is one factor that tends to influence regulatory-institution dynamics; in turn, desirable versus undesirable dynamics also impact the effectiveness of certain regulatory models more than others.

As discussed in the Bergin Report, two contrasting casino supervisory models have been favoured at various times due to historical, political and jurisdictional factors. The first, referred to as the ‘New Jersey’ model, was recommended by Sir Lawrence Street when casinos were first legalised in Australia twenty-eight years ago. This model is characterised by extremely high levels of prescriptive guidance and intrusive supervision, with control and enforcement as key priorities. Underlying this model is the fundamental belief that the gambling industry represents such a high level of inherent risk to the integrity and good conduct of industry participants, that the highest levels of supervisory intensity are critical for avoiding bad outcomes including criminal infiltration, loss of control, and abuse of community welfare. In contrast, the model employed by the VCGLR is generally described (for example, in the Casino Modernisation Review report²) as ‘risk-based’. This approach, utilised by modern regulators in a range of sectors including financial services and health care, places a high degree of reliance on the integrity of internal control processes within supervised entities, preserving limited regulatory resources to examine issues of highest risk.

It is most relevant to discuss the cultural implications arising from the risk-based supervisory model given this is the approach adopted by the VCGLR, which I turn to next. However, the intent behind the model underpinning the original NSW Casino Act, which is based on extensive research into successes and failures of casino regulation in other jurisdictions, also has critical ramifications: specifically, the extraordinary level of inherent risk occurring in the casino sector (which high levels of control were originally intended to mitigate) do not disappear with a different supervision model³. Rather, the nature of this inherent risk must be factored into whichever alternative model of supervision is adopted.

Regardless of the sector, risk-based supervision models create particular requirements for the dynamic between supervisors and institutions. Unlike more intrusive approaches that directly access and control entities, risk-based regulators rely heavily on a culture of transparency, responsiveness and collaboration with supervised institutions in order to form an accurate view of the highest risks within the entity, on which all of its activities are then based. These outcomes are far more likely if the dynamic between institution and regulator is based on three mutually reinforcing characteristics:

- I. Aligned purpose –which ensures both parties have a clearly articulated and agreed goal of acting in the best interests of the sector and its key stakeholders
- II. Substantiated trust – which ensures both parties discuss issues honestly and transparently, give and respond to challenge constructively, and address issues in a fair and reliable manner
- III. Two-way respect – which supports diversity of perspective, ensuring both parties genuinely listen to each other, and give consideration to the others’ perspective when making decisions, and invest effort in finding solutions that meet the legitimate goals of both parties

Importantly, it should be noted that in practice, differentiating genuine and appropriate alignment, trust and respect, from regulatory capture, can be difficult. This is partly why the characteristics above highlight the concepts of *substantiated* trust (rather than ‘blind’ trust) and *two-way* respect.

However the nature of aligned purpose is perhaps most critical: alignment around a purpose that does not centre on the best interests of all industry stakeholders can be very damaging, even if (or perhaps *especially* if) there is adequate trust and respect between the parties. Detailed understanding of drivers, behaviours and outcomes from the dynamic, as well as the individual cultural norms within the regulator and institution, are often required to tell the difference.

In summary:

- The casino industry is known to pose an extremely high level of inherent conduct and control risk
- The dynamic between institutions and regulators is especially critical for regulators adopting a risk-based supervision model to ensure effective identification (and subsequent control of) key risks
- The VCGLR, by virtue of adopting a risk-based model of supervision in relation to its regulation of Crown Melbourne, set itself an extremely high requirement in terms of the required dynamic with that institution
- To support effective outcomes, the dynamic needs to exhibit an appropriate aligned purpose, substantiated trust, and two-way respect.

3.2 | Observed dynamics

A systemic approach to describing cultural norms, including those between two parties, involves observations on three interconnected dimensions:

- I. Behavioural norms
- II. Drivers
- III. Outcomes


The following section explains my observation of the dynamic between the VCGLR and Crown including my conclusion that escalating tension between the VCGLR and Crown is likely to have

developed over the past two to three years, before which a far less challenging relationship had existed, and that each of these stages has implications for Crown’s current and future culture.

Current and historical behavioural norms

By early 2021, it appears the dynamic between the VCGLR and Crown had clearly entered a period of de-stabilisation. The table below sets out behaviours observed in the interactions that suggest a distinctly weakened alignment on purpose, trust and respect.

Table A: Behavioural norms characterising the *current* dynamic between Crown and VCGLR

Dimension	Observed degree	Illustration	Impact
Aligned purpose	Low	Explicit resistance to perceived goals of VCGLR illustrated by a letter from Crown’s lawyers in 2018 stating: “...the whole episode of the detention and conviction of Crown Group staff does not warrant any regulatory action...it is appropriate in all instances for the VCGLR to close its investigation on the basis that no disciplinary or other action is warranted.” – <i>Witness statement of Tim Bryant</i>	 Weakened dynamic characterised by misaligned purpose, mistrust and lack of respect
Trust	Low	Multiple examples of Crown redacting large portions of information provided to the VCGLR – <i>Witness statement of Tim Bryant</i>	
Respect	Low	View that Crown ‘took a more robust approach to making disclosures for the class action than it did to comply with the section 26 notices issued by the VCGLR.’ – <i>Witness statement of Tim Bryant</i>	

Before exploring the drivers for this dynamic, it is useful to consider the pattern of norms that preceded this period. Although limited direct evidence is available, there is sufficient information on the nature of interactions even up to 2018 to conclude that a more relaxed dynamic existed between the two groups historically. Table B illustrates cultural characteristics observed in accounts of interactions from before 2018.

Table B: Behavioural norms characterising the *historical* dynamic between Crown and VCGLR

Dimension	Observed degree	Illustration	Impact
Aligned purpose	High	The decision to include statements in the Casino Agreement in Victoria that 'impose an obligation on Crown to use its best endeavours to conduct the business ...[in a manner that]...promotes tourism, economic development in Victoria, and in a manner that is not detrimental to the interests of Crown Melbourne. - <i>Bergin Report, Sec 2.1</i>	<p>More relaxed dynamic characterised by a restricted agreed scope for the VCGLR as the basis for alignment on purpose, trust and mutual respect.</p>
Trust	High	Description of Crown by the VCGLR in as 'a corporate citizen who enjoys...a degree of self-regulation as a result of the reforms that occurred in 2004.' – <i>Crown Melbourne Ltd – Disciplinary action inquiry – Reasons for decision.</i>	
Respect	High	Stance of Mr Peter Cohen, previous Commissioner of the VCGLR (and therefore likely to influenced the regulator's culture even for some period following the end of his tenure in 2010), arguing for a 'voluntary' model of regulation in NSW, in order to avoid 'unnecessary regulatory interference which constrains innovation and competition (for international and interstate players) whilst costing the States more to regulate than necessary. – <i>Bergin Report, Sec 5.1</i>	

Drivers of current and historical dynamic

As noted above, norms develop because certain behaviours are repeatedly reinforced by formal and informal factors in the environment. Over time, these responses become automatic, underpinned by assumptions and beliefs learned directly and vicariously.

It is difficult to provide a definitive assessment of cultural root causes without speaking directly to organisational participants themselves and examining a more comprehensive dataset, but it is

possible to highlight some of the factors that are likely to have played a role, based on my experience observing and assessing organisational culture for nearly twenty years.

In this vein, it is highly likely that the formal and informal environment shaping behavioural norms in Crown and VCGLR has shifted, driving a commensurate change in the dynamic between the two groups. The types of factors, apparently precipitated primarily by the VCGLR, that may have led to this shift include:

- Formal mechanisms – examples such as:
 - **Re-consideration of the co-regulatory model** for mitigating risk attached to junkets
 - **Increased financial penalties** by the VCGLR over the past year
 - **Increased use of s26s** to enforce production of information since the China Arrests
- Informal factors – examples such as:
 - **Less flexibility** in timeframes afforded to Crown in responding to requests for information in the past 6 months
 - **Less acceptance** of liberal redaction of information in documents provided to the VCGLR in the past 6 months
 - **Less openness** to Crown's attempts to negotiate the VCGLR's scope of authority after the China Arrests

Outcomes from historical and current dynamic

It is tempting (and logical) to assume that increased intensity of VCGLR's supervision will result in improved oversight, control and eventually conduct on Crown's part. However as described above, the 'side-effect' of closer supervision, unless very carefully navigated, can easily lead to unintended consequences that paradoxically *decrease* the effectiveness of regulatory intervention. In fact, the ultimate outcomes from these two contrasting sets of dynamics may not (yet) be very different.

The historical relationship between VCGLR and Crown, while apparently more 'constructive', was also characterised by narrowly defined scope, low challenge and high levels of trust. This dynamic is likely to have contributed to a range of sub-optimal outcomes:

- criminal infiltration into Crown's Southbank and Riverbank accounts in 2014;
- the sentencing and fining of 16 Crown employees located in China in June 2017;
- the establishment of multiple inquiries into Crown, and suspension of its license in NSW;
- a fine of \$1 million imposed on Crown by the VCGLR.

The current dynamic between VCGR and Crown, although more demanding of high standards than in the past, and characterised by more explicit expectations, has also resulted in decreased trust and respect, impeding a range of outcomes for the VCGLR (and ultimately Crown):

- uncooperative attitude towards the VCGLR's inquiry into the China Arrests undermining efficiency and effectiveness of the process– as per *Witness Statement of Tim Bryant*
- defensive initial response to Royal Commissions, including delayed assessment of cultural root causes in preference to gathering evidence of 'culture governance' – *observed in the DDT Phase 1 report and related materials*
- poor role modelling by the chair of the board (as perceived by the VCGLR) in 'backtracking' on her agreement to cooperate with the VCGLR in December 2020 y January 2021 - *Crown Melbourne Ltd – Disciplinary action inquiry – Reasons for decision*

Crown’s culture arises from a system of influences both within and outside its organisational ‘walls’. If Crown’s culture needs to change, all of these systemic influences must be considered: new behaviour is unlikely to stick if substantial elements of the original environment remain unchanged. Unfortunately, it is also possible to replace one set of problematic environmental factors with another, sometimes addressing the original issues, but creating new ones in its place. Hence the next section focuses on how the dynamic between the VCGLR and Crown might be improved to avoid a cure that is worse than the original illness.

3.3 | Improving the dynamic

Individual behavioural change is difficult; group behaviour change (ie, ‘culture change’) multiplies this challenge by introducing additional individual and interactional responses to the equation. It is not possible to predict exactly how groups will respond to change stimuli, but some general principles and patterns are common. A more comprehensive discussion of the process and requirements for achieving broad-based cultural change are dealt with in the next section of the report. On the more specific issue of the VCGLR – Crown cultural dynamic, the discussion below outlines a set of key success factors, and barriers that would need to be overcome, to develop norms that more effectively reinforce optimal outcomes.

Key success factors

- I. **Clarity on a more appropriate joint purpose** –objectively, it seems clear that the joint purpose of the VCGLR and Crown should be centred on ensuring a safe environment for entertainment; instead, this purpose seems to have been overwhelmed by a common goal of meeting respective obligations in a cost-effective and defensible manner. The joint benefits of Crown’s financial performance for some of VCGLR’s stakeholders (e.g., the Victorian government) should also be acknowledged. Unless these issues are openly discussed and addressed, the natural consequence (an emphasis on minimum compliance rather than genuine management of risk) is likely to continue.
- II. **Perceived competence** –significant deficiencies have been identified and are on the public record in relation to the supervision and risk management capabilities respectively of the VCGLR (for example, in the Victorian Auditor-General’s audit of the VCGLR in 2017 and 2019) and Crown (for example, in the Bergin Report). Addressing these will be critical to achieving well-founded respect between these organisations, and the subsequent upholding of boundaries, confidence and control that come with such competence.
- III. **Aligned incentives** – ultimately, individuals are motivated to pursue outcomes they perceive to be rewarding. A perception that individuals may be pursuing different goals undermines collective outcomes and trust. In the case of VCGLR and Crown, a key factor in repairing the dynamic will involve clear incentives for both sides, to achieve sound collective outcomes.

Although this may seem like a short list, **genuine** attention to these factors will be very difficult to achieve, requiring considerable energy, time and resources on both sides.

Barriers to overcome

- I. **Unstable leadership direction on either side** – changing the dynamic between two groups relies on compelling, consistent and authentic buy-in and direction from the respective leadership of each group. Assuming this can be achieved at the commencement of a change period, a practical pitfall that often scuttles progress is a change in this leadership, disrupting the vision for change which is usually most genuine in those who lived through precipitating

lesson. Disruption is inevitable given individuals leave roles for many professional and personal reasons. Thus, careful management of the risk this poses to change is critical.

- II. **Impact of external influences** – even on the specific topic of the dynamic between the VCGLR and Crown, a range of stakeholders exist: government, employees, community and professional groups. Understandably, most of these stakeholders will emphasise their own expectations and interests, using various forms of influence to achieve their own aims, without necessarily appreciating the complexities, trade-offs and goals underpinning decisions made by the VCGLR and Crown during this period. Given the setbacks, tensions and mistakes that are almost unavoidable with any cultural change journey, avoiding external influences will require discipline and clarity of purpose.
- III. **Unrealistic time frames** – the time required to achieve cultural change can be a controversial issue, and is dealt with in more detail in Section 4.3 of this report. However it is also worth highlighting as a key barrier to the specific issue of improving the VCGLR-Crown dynamic. Internally and externally, many will feel that change should occur quickly. This pressure will be felt keenly by those tasked with achieving progress. Whilst it is both possible and desirable to demonstrate examples of symbolic action quickly, the definition of culture relates to *systemic norms*, implying consistency of reinforcement and demonstration. Hence, it is simply not possible to conclude a change in culture until sufficient time has elapsed to test these outcomes. The danger that must be avoided for the VCGLR and Crown is to resist focusing on actions that can provide surface-level ‘evidence’ of change in order to meet expectations of progress, rather than those that would actually deal with *real* change which are likely to be messier, less quantifiable and less consistent in demonstrating success.

There are obvious benefits in establishing an effective dynamic between regulators and institutions; for the VCGLR and Crown, achieving this dynamic is arguably:

- more challenging than in other sectors, given casinos’ inherently high degree of vulnerability to criminal infiltration and abuse;
- more critical, given the risk-based supervisory model adopted by the VCGLR (and other Australian casino regulators); and
- more difficult to assess, given surface-level similarities of ‘constructive interactions’ with ineffective dynamics such as regulatory capture.

Successful navigation of the adjustment period will be critical to achieving better conduct and risk outcomes for Crown.

4. ACHIEVING CULTURAL CHANGE

4.1 | General approach for embarking on cultural change

Culture involves systemically self-reinforcing behavioural norms, underpinned by shared mindsets, that define a group. This definition gives rise to several characteristics of culture change:

- Change requires the establishment of a new system.
- Although culture is influenced by external factors, it cannot be imposed or sustained from outside.
- Because culture is a systemic phenomenon, change is rarely linear in progression.

With these issues in mind, this section provides a summary of the goals, process and requirements for organisations embarking on culture change. Without any evidence to the contrary, I suggest that all of these principles should apply to the culture change process at Crown.

Goals

In most corporate contexts, the ultimate goal of cultural change is to change a specific set of outcomes. Although this seems like common sense, in the *practice* of culture change activities, this fundamental goal is often lost. In the context of this report, the ultimate goal for Crown's cultural change is presumably:

- ① *Proven effective management of all key risks within the appetite set by the board, including those related to ethical, reputational, regulatory and conduct risk.*

A set of sub-goals should be subsumed under this ultimate goal. These sub-goals can be defined by considering what is really necessary to achieve a 'new' culture – that is, a new set of systemically self-reinforcing behavioural norms, underpinned by shared mindsets that define the group. Hence, the general sub-goals for any cultural change, are likely to centre on:

- ② *Demonstrated critical behavioural norms at all levels of the organisation that reinforce achievement of the ultimate goal*
- ③ *Shared mindsets, values and beliefs at all levels of the organisation that reinforce the critical behavioural norms in (2)*
- ④ *A robust set of formal mechanisms that explicitly and implicitly reinforce the mindsets and behavioural norms in (2) and (3)*
- ⑤ *An established set of informal mechanisms that explicitly and implicitly reinforce the mindsets and behavioural norms in (2) and (3)*

In the context of Crown's cultural change, articulating the **specific** behavioural norms and mindsets that need to be established, and the formal and informal mechanisms required to underpin them, requires a diagnostic process, as described in the next section.

Process

The general process for embarking on cultural change sounds deceptively simple. Figure i outlines the basic steps.

Figure i



Stage 1 (Diagnose) requires the following:

- Define the **current state culture** including key behavioural norms, shared mindsets, formal and informal root causes that exist within key organisational sub-groups
- Define the **future state culture** (including all elements in the above bullet point) necessary to reinforce desired outcomes
- Determine **critical shifts required** –that is, what should be retained and what needs to change in order to achieve a change in outcomes

This stage requires an analysis of fundamental root causes underlying the current state, the creation of a vision for the future, and a gap analysis between the two. Agreeing on a desired future state, and the culture and behaviours needed to deliver it, can be challenging. However it is usually the current state analysis that is most difficult. A robust process for assessing current state culture involves gathering and triangulating a range of data about the organisation’s day-to-day reality for people in different subgroups, including fact-based and perception-based information. This information is then assessed to identify characteristic behavioural norms and mindsets (perceptions, attitudes, beliefs, values) that help or hinder various business outcomes, as well as the formal and informal mechanisms that systemically reinforce them. Considering direct information from multiple organisational members is especially important to avoid ‘projecting’ assumptions from an outside analyst about the root causes of observable behaviour, which can lead to inaccurate or non-representative conclusions. It is important for those involved in this process to focus not only on arriving at an accurate and evidence-based assessment of the current culture, but delivering this assessment to organisational leaders in a constructive and supportive way that allows them to absorb, accept and internalise it. Effective feedback of this nature is *kind with the truth*.

This stage does not seem to have been undertaken by Crown thus far, particularly since findings are not yet available from the culture assessment process currently being undertaken by Deloitte.

Stage 2 (Design) requires the following series of steps:

- **Engaging key leaders** to drive the change, including gaining buy-in to the personal behavioural shifts required to role model and support cultural transformation at lower levels of the organisation
- **Identifying the actions** needed to support change, including formal steps (e.g., process, system, policy changes) and informal steps (e.g., symbolic actions, informal communication, etc), prioritised according to impact and difficulty
- Creating a **documented change plan** that sets out accountabilities, responsibilities, timeline, monitoring mechanisms and success measures

The most important step in this stage is the first one: genuine engagement of leaders, who must authentically recognise their role in the current culture, and commit to the changes necessary for leading the organisation in a different way. Building the capability and motivation to behave and lead differently is usually difficult for leadership teams. In almost all cases special attention must be paid to the process for achieving cultural change *within the leadership team*, before broader organisation can really begin. Unfortunately, many cultural change programs skip this step and start identifying actions and plans, without really doing the work required to adequately ensure *real* buy-in from those accountable for the outcome of culture change efforts.

The Chair has stated that the *‘ILGA Inquiry was a difficult but necessary process to enable the Board, Management, and the organisation more broadly to understand and reflect on the issues canvassed and the findings made. It has enabled a process to refresh the Board with an independent ‘cast of mind’. The Board has had an opportunity to truly reflect on past shortcomings and is determined to carry out ‘root and branch’ reform of the organisation.’* However, this statement is still far from

specifying the **exact nature** of individual leadership behaviour change required to drive transformation across the organisation, by the Chair or any other leaders within the organisation, and I haven't see this type of specific commentary anywhere in the materials reviewed. Hence, as a deliberate set of activities, this stage does not seem to have been adequately completed by Crown thus far.

Stage 3 (Implementation) requires the following series of steps:

- **Implement actions** as per the plan, paying attention to the staging of actions to achieve early momentum, as well as sustained cultural change
- Regularly **monitor progress and address unexpected side effects** by collecting and responding candidly to diverse feedback (from external as well as internal sources) and objective facts
- **Assess against goals**, including the development of natural self-correction mechanisms that represent genuine embedding of new outcomes, behaviours and mindsets

One of the most important characteristics to highlight about Stage 3 is that real cultural change requires a collection of inter-related shifts in individual and group behaviour, and progress will not be linear. A plan that sets out a series of formal process and policy changes, and assumes a change in outcomes will occur after their completion is very problematic: at best, it is unlikely to reflect the full breadth of actions required to support a new cultural reality ; at worst it encourages a focus on actions that may do little to achieve real change, and can therefore impede progress.

This stage appears to have been partially attempted by Crown with the series of actions outlined in the Cultural Uplift Program. However, as discussed further in Section 5 of this report, the nature of actions developed so far is restricted, focusing mainly on generic, high-level structural changes. Without completion of Stage 1 and 2 the overall effectiveness of cultural progress is likely to be limited.

Requirements

The process above sets out the steps needed to achieve change; this section identifies some critical pre-conditions for organisations to achieve success with the process.

Compelling reason for change. Undertaking the change process with discipline and integrity is often more difficult than it sounds, especially given the fact that most organisations undertaking cultural transformation are trying to juggle the necessary activities alongside other critical business objectives required to sustain its survival. This is one reason that having a 'burning platform' (ie, the clear understanding that cultural change is necessary for the corporation's survival) is one of the key scenarios in which cultural transformation has a better chance of success.

Understanding of the current state. It is difficult to overstate the importance of *honestly* and comprehensively analysing the current state culture. In particular, this includes leaders accurately understanding reality of staff at all levels, their own role in shaping this reality, and the influence of other formal and informal drivers within and outside their control. It is only through a valid and reliable knowledge of the current state and its impact on the outcomes of interest, that required changes can be identified.

Effective feedback loop. Even the most earnest attempts to enact culture change can trigger unexpected effects. Change owners need to expect mistakes, problematic side-effects, and unmet goals as the organisation builds capability in the new areas required to achieve different outcomes. Of course, whilst inevitable, these setbacks must be addressed and overcome constructively – they

should not be an excuse for lack of ultimate progress. Thus, giving, receiving, considering and responding to feedback is a critical requirement for the test-adjust-re-test pattern of culture change implementation.

Capable resources. Few organisational leaders would embark on an IT transformation program without engaging a team of IT specialists, and yet many attempt to drive culture change programs with little support aside from a generalist HR lead and an external consulting team made up of early career business graduates. Anyone who has tried to change their own eating or exercise habits knows that behavioural change is difficult. Leading an entire organisation through the behaviour change required for cultural transformation is exponentially more difficult. Success is far more likely when there is investment in appropriate guidance, objective analysis, empirically-based techniques and leadership coaching, at a level commensurate to the task.

Staying power. As discussed elsewhere in this report, culture change is difficult and takes time. Sustaining focus and motivation through inevitable periods of ambiguity and setback requires collective resilience. Successful change programs put in place a variety of internal and external mechanisms to support sustainable progress – for example, public commitment to sub-goals, celebration of successes, codification of learning, and regular injection of external ideas and perspective.

Based on the materials reviewed for this report, and considering the very early stage of Crown's culture change process, only the first of these five requirements seems close to being met: with its license to operate suspended and/or at risk in multiple jurisdictions, there is clearly a need for change. The Deloitte culture assessment project is currently in progress but has not delivered any findings regarding the current state issues yet. Despite the appointment of two executives into roles with culture responsibilities, the technical qualifications of neither show deep culture change expertise: Mr Nick Weeks is a lawyer by background, and Mr Tony Weston is a generalist HR professional. In addition, the 12-month nature of Mr Weeks employment, and history of short-term project style employment seen in Mr Weston's career background suggest they may not be expected to stay for the term required to see through observable culture change. Whether key stakeholders within Crown genuinely appreciate that this change must involve sustained effort to enact fundamental cultural transformation is difficult to determine.

4.2 | Actions required to achieve embedded change

In order to develop a set of actions, it is useful to consider three dimensions:

- I. **Leadership and broader change.** Leadership change is necessary, but not sufficient, to achieve culture change. Leaders play a crucial role as role models and supporters of change, and it is very difficult (if not impossible) to make significant progress with culture change effort without at least some behavioural change in leaders. However, even if leaders display a genuine desire for change and begin to shift their personal mindsets and behaviour, there are many reasons why broader organisational change may be resisted, especially at middle and lower levels where tangible change is often critical. Specific steps are therefore needed to reinforce behaviour change at both leadership and non-leadership levels.
- II. **Formal and informal levers.** Culture change involves adjustments to both the formal and informal (or 'social') elements of an organisational system. Changes to formal policies, systems and processes may be costly and time consuming, but are generally easier to plan, control and measure. Changes to the informal elements of the organisation including symbolic actions, interpretations of critical events, peer role modelling, hallway

conversations and corporate stories are more difficult to plan for and manage, but can be powerful levers that cost very little. Ultimately, both play a role in achieving change.

- III. **Short- and longer-term actions.** Initial momentum is critical for change programs. For change leaders, early wins provide feedback and energy to continue; for staff, they show the result of personal risk and effort in providing feedback and learning new skills; for external stakeholders, they bolster confidence in an organisation's commitment to change. However, the most effective steps to drive sustained cultural change often need time to implement. It would be an obvious mistake to overlook high impact changes just because they need time to roll out. Change programs therefore need to incorporate actions that span multiple timeframes.

Keeping these dimensions of change design in mind, the following is an established framework⁴ for designing culture change action plans. It is based on the idea that to achieve embedded systemic change, employees at all levels need:

- I. To understand the personal benefits of new behaviours
- II. To see leaders role modelling the new behaviours
- III. Have the skills to demonstrate new behaviours
- IV. Be supported by a formal environment that reinforces new behaviours

This approach does not prescribe the exact actions that need to be taken. Rather it sets out the *types* of actions that need to be designed, allowing flexibility in exactly what and how they are designed. However, it does posit that a combination of actions across all four categories must occur before consistent, sustained behaviour is likely. Each of the categories is described in more detail below.

Communicate personal benefits of change

This category of actions includes (i) development, and (ii) delivery of a communication program to engage staff in the reasons for change, segmented by employee group (for example by level, division, geography, etc). Individuals need to see what is in it personally for them to change their day-to-day behaviour. Understanding the detailed reasons why individual staff members may be motivated (or resistant) to change, requires a very tailored communication approach. This differs from the typical 'broad-brush' change communications which can lack relevance, invoke cynicism, and therefore do little to inspire staff to invest effort in changing their behaviour.

The types of actions that might be included in this category include:

- Change vision workshops, with leaders and staff across the organisation
- Focus groups to identify barriers to change
- 'Objection' clinics to generate ideas and solutions
- Development of segmented change 'stories'
- Use of visual reminders that capture key elements of the rationale for change
- Embedding of the rationale into regular written and verbal leadership communication

Role modeling

Human behaviour is guided not only by individual motivators, but also social cues about what is expected, acceptable, preferable and admired. People pick up these cues by observing others (often unconsciously). The behaviour of certain people will have a disproportionate influence on what others' perceive to be the 'way things are done': specifically formal and informal leaders. Formal leaders are those with positional authority. Importantly, it is a leaders actions, not just their words,

that set expectations for what is acceptable. Informal leaders influence peers because they are respected or admired, even though they do not necessarily have positional authority. These individuals can be powerful change agents – or create problematic resistance to change – depending on their degree of buy-in. It is therefore especially important to identify and engage peer influencers early in a cultural change process.

The types of actions that might be included in this category include:

- ‘Holding up the mirror’ workshops with leaders to identify personal behaviour change that is critical to support a shift in organisational behaviour
- Finding opportunities for symbolic actions to reinforce change – that is, decisions in ‘moments that matter’ that signal leadership commitment to staff
- Targeted engagement of peer influencers via 1:1 and small group change agent sessions
- Embedding of coaches to provide leaders with real-time feedback and mentoring on their role modeling
- Installation of feedback mechanisms such as skip meetings and reverse mentoring to understand the impact of attempts at role modelling on staff

Skill building

This category of actions address the fact that even if staff *want* to change their behaviour, they may not have the capability to do so – at least effectively. Setting expectations for staff to engage in new behaviour without adequate capability building can have a range of downsides including the introduction of additional risks and issues, lack of confidence and disengagement in the change process, and ultimately change resistance. In addition to considering *individual* skill requirements, leaders should also conduct an assessment of *organisational* skills needed to support the desired culture as different strategies may be developed to address collective weaknesses.

The types of actions that might be included in this category include:

- Individual capability needs assessments conducted on key employee segments required to demonstrate new behaviours
- Organisational capability strategy planning, identifying whether gaps will be acquired, built or ‘leased’
- Soft skill development programs to support new behaviours
- Technical training to address operational knowledge and skill gaps
- Peer feedback and coaching systems to support new behaviours

Formal system changes

This category of actions are designed to ensure that formal processes, policies and procedures make it easy for staff to engage in new behaviour. In many cases, existing behaviours developed because they were the natural consequence of systems being designed a certain way. Unless these systems are re-designed to support different behaviours, it may be very difficult to shift existing habits. Importantly, humans often respond to systems in unconscious and sometimes apparently ‘irrational’ ways, so care should be taken to test and observe the impact of system changes on behaviour: sometimes effects can be counter-intuitive.

The types of actions that may be included in this category include:

- Performance management metrics and targets
- Financial and non-financial incentives

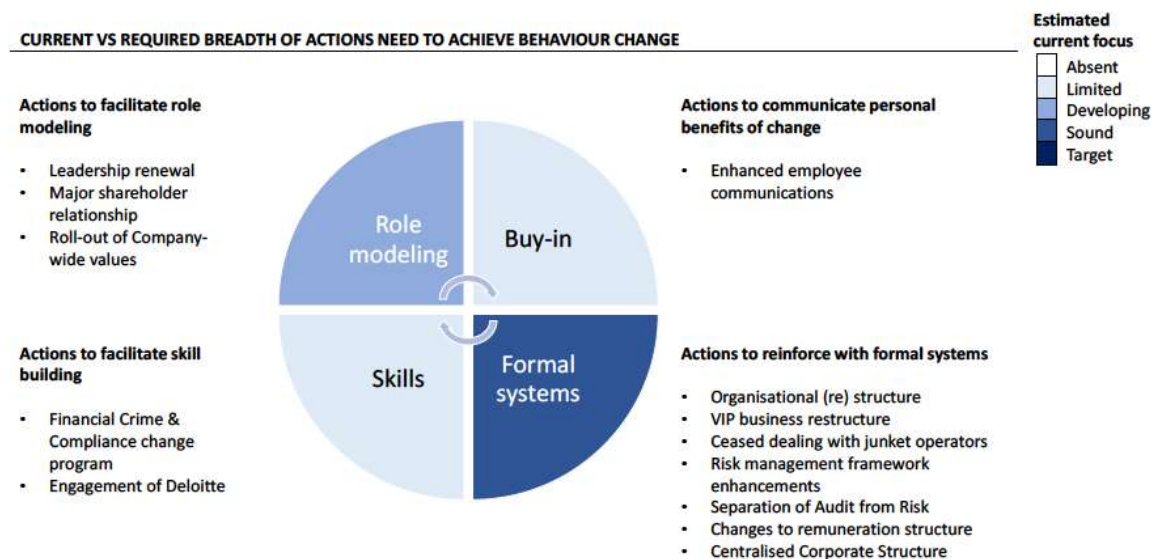
- Standard operating procedures
- Product and service design
- Consequence frameworks and operational procedures
- Reporting relationships, role design, and accountability matrices
- Governance structures and reporting requirements

Considering the materials reviewed for this report in relation to the culture change framework above, it appears that the vast majority of Crown's change efforts to date have focused on *formal system changes*. There appear to be significantly fewer actions designed to:

- address ways of building buy-in to change across the organisation – particularly at lower levels, and with consideration for reported 'permafrost' at middle management levels
- foster leadership role modeling at supervisory levels and within pockets of organisational power - which is the level and nature of influence that often exerts the most impact on day-to-day behaviour in organisational settings
- build the skills needs to engage in new behaviours, which may not be as obvious as learning a new set of value statements or compliance processes- for example, how to meet revenue-related objectives without relying on behaviours that may no longer be considered appropriate

Figure ii illustrates the focus of culture change actions currently underway at Crown, and hence some of the gaps in relation to the categories of necessary action set out above.

Figure ii



Actions cited by Mr Nick Weeks 7 June 2021 as 'Progress of Remediation Plan'

These gaps may be due to the uncompleted status of Deloitte's cultural assessment project. When delivered, this project should include identification of the root causes underpinning shortcomings, and articulation of a target state. This information will provide critical insight to inform the design of further actions. Whether due to this timing issue or other reasons, it does not appear that the actions developed by Crown so far provide a sufficiently comprehensive and robust roadmap for achieving systemic culture change.

4.3 | Time required to demonstrate change

As alluded to above, it may be helpful to consider culture change as a multi-stage process. There are a variety of frameworks and models that can be used to describe organisational culture change. For the purpose of this report, a simple delineation that is both practical and relevant to the context of regulatory intervention, separates the process into two parts:

- I. Immediate changes that remove primary **causes** of problem behaviour – these changes are generally compliance-oriented actions that implement and communicate:
 - a. increased control mechanisms for preventing and detecting misbehaviour
 - b. increased severity of penalties for misbehaviour
 - c. elimination of incentives (wherever possible) for misbehaviour

- II. Longer term changes that underpin the ability to **self-correct and sustain** desired behaviour – these are generally actions that have a secondary impact on problematic behaviour by improving norms related to its identification, appropriate evaluation, and respond/improvement such as:
 - a. improved sense of corporate purpose
 - b. psychological safety
 - c. personal ownership
 - d. external orientation.

The distinction between these two stages is important because ‘mandated’ change generally carries an obligation to address certain behaviour immediately. Although there may be recognition that long term culture change takes time, it is rarely appropriate to allow business operations to continue unless there is confidence explicit misconduct has ceased and will not re-emerge. The actions taken to enforce necessary behavioural control immediately often have unintended side effects that can negatively impact the development of behaviours required for the second stage. It is a positive sign that Crown recognises the importance of building psychological safety, and the issue is specifically reflected in the objectives set out by the Chair in relation to the Cultural Uplift Program. However, awareness and framing of this issue is probably tied closely to observations arising prior to this year. Additional and new challenges on this front are likely to emerge in the future. This is because many organisations facing enforced change successfully address the first stage of behaviour improvement using fear-based strategies such as strict penalties and intensive control-tightening. They then face new cultural hurdles that impede long term change– for example reluctance to admit mistakes, or avoidance of formal accountability for key risks. Regardless of Crown’s consciousness regarding psychological safety, taking into consideration the entire context of Crown’s cultural change requirement, it is likely that a two-stage process will be the most realistic and likely approach.

Based on my direct experience, understanding of relevant research, and observation of culture change successes and failures, I would expect Crown to require the following timeframe to demonstrate change at each of the stages above:

- For immediate change in the cause of problem behaviour – less than 6 months
- For embedding of a culture that is self-sustaining –3-5 years

5. OBSERVATIONS REGARDING CROWN'S POTENTIAL FOR CHANGE

5.1 | Observed examples of change readiness

With reference to Cohen & Kotter's change readiness factors, the following are some positive observations regarding Crown's apparent readiness to change:

Sense of urgency.

There are several factors that should help generate a sense of urgency for Crown to act on its deficiencies, including shortcomings in its culture. A range of influential external stakeholders have explicitly communicated the need for Crown to address its culture weaknesses. There is a very real possibility that Crown's license to operate in multiple jurisdictions may be lost unless it makes rapid progress in remediating its conduct and reputation. These factors provide a sound rationale for immediate change. However, the extent to which these factors readily translated into a sense of genuine urgency is less clear.

On one hand, in a Board paper on 7 December 2020, the now prior CEO Ken Barton stated "A **longer term area of focus is around Crown's culture.**" At this point, Mr Barton's clearly felt comfortable expressing a view that did not seem to suggest culture change was an immediate priority. The decision to delay assessment of culture in favour of a review of 'governance mechanisms' related to culture could also be interpreted as a lack of urgency for getting into the task of examining culture quickly.

On the other hand, there is also evidence this mindset may have shifted. This year, the Chair of the Board has made statements and decisions that reflect an immediate focus on culture, including approving core responsibilities with a culture focus in several new executive appointments including the Chief Executive Officer, Chief People and Culture Officer, and Executive General Manager, Transformation and Remediation. Ms Coonan has also taken a number of steps to understand establish a more direct line of sight into the issue of culture.

Although it may have taken a little longer than expected, senior level urgency on the issue of culture does seem to be developing.

Create short term wins.

Although it is too soon to evaluate a change in outcomes so far, Crown have taken quick steps to demonstrate action. Some of these short-term actions include:

- Leadership changes including (among others) the appointment of a new Chief Executive Officer, Chief People and Culture Officer and Chief Risk Officer
- Suspension of junket operations
- The decision to phasing out of smoking across all properties
- The ceasing of all political donations
- Investment in additional resources and controls related to the Crown's AML/CTF program, including the appointment of a new Group Chief Compliance & Financial Crime Officer
- Appointment of several consulting firms including Deloitte and PwC to provide advice and input on various remediation efforts

These actions do demonstrate movement towards change, and therefore could be considered 'early wins'. However, care should be taken not to overstate the impact of these steps at this stage. There appears to be a belief that providing resources is a demonstration of commitment, as captured by

Nick Week's statement that *'I developed confidence that I was joining a company that was committed to the steps required to properly address the weaknesses that existed in the business...I've noticed it through a range of discussions and interactions and through the willingness of the Company to **direct resources** to the execution of Crown's reform agenda.'* Ms Coonan also stated *'The purpose and importance of culture in Crown's reform program [is] reinforced by the **engagement of Deloitte** to carry out an organisational review.* While commitment of resources is a necessary first step, there are many more actions beyond this initial step necessary to embed a change in behavioural norms and mindsets. It will take time to determine whether this initial commitment translates into the capability, sustained focus, and widespread behavioural change necessary to demonstrate cultural transformation.

5.2 | Observed examples of barriers to change

In addition to the positive signs above, I have also observed several factors (in line with Cohen & Kotter's change readiness framework) that may inhibit Crown's cultural change progress.

Getting the vision right.

The remaining and new leaders within Crown may have a genuine desire to remediate past problems. However, in my opinion there seems to be a misunderstanding in relation to the cultural target: it is not a *compliance* culture that Crown needs, but a *purpose-driven culture* that fundamentally reconciles the corporation's multiple objectives. Ms Coonan, in her statement to the Commission on 28 April 2021, states three objectives for embarking on the culture uplift program, two related to compliance and the other to 'speaking up'. The two compliance-related objectives include (i) *To have all of Crown's employees delivering our services in a way **that does not compromise risk and compliance** in delivering outstanding customer experiences;* (ii) *To create in our organisation Crown's standard of compliance as a source of pride **equivalent** to our approach to customer service'.* Similarly, the new CEO, Mr Steve McCann states that *'...achieving the transformation...[requires]...senior management consistently live and breath the values and purpose of the organisation and demonstrate full accountability and a **culture of strict compliance.**'*

The nuanced difference between adding more focus on compliance to avoid failures, rather than considering a deeper question about what needs to change in order to strive for good conduct in the course of pursuing other objectives, does not seem clear in the statements above. To illustrate, I have not seen any suggestion that Crown's current purpose, 'together we create memorable experiences' should be re-considered to incorporate the concept of 'care' or 'safety' for example. Similarly, there seems to be little focus on the strategic implications of this new era of conduct and compliance: for example, how the business will achieve high financial performance without the benefit of revenue generated via junket operations.

This vision of what true cultural change means is a crucial starting point. Without recognition, acceptance and embedding of this vision into Crown's strategy, operations and capability, progress is likely to be short term, and possibly unsustainable.

Communicate for buy-in.

Crown is facing public censure, uncertainty about its future, and significant strategic and operational challenges. In addition, its formal and informal leadership structure has been disrupted, and the outward response to investigations gives the impression of defensiveness and protectionism. It is understandable that staff are expressing cynicism, disengagement and a lack of psychological safety.

Additionally, the organisation's leaders have themselves identified 'permafrost' within the middle management layers, a characteristic strongly associated with resistance to change.

Further, against this generally problematic backdrop there is evidence that current communication about the cultural change expected by senior leaders may also lack resonance for staff. As discussed in the section above on 'Getting the vision right', poor compliance is often the result of conflicting priorities, poor clarity about requirements, and genuine organisational blindspots. Simply telling staff they need to 'improve compliance' overlooks the root cause, sources and complexity of existing risk management shortcomings. This interpretation seems to be given weight by the comments of Ms Victoria Whittaker to the Commission on 9 June, 2021, when she states *"The other thing I've been quite surprised by is a really strong commitment to compliance. So people expressing that they are very aware of what has come through the ILGA Inquiry, and for those at lower levels of the organisation, somewhat hurt by it because they feel that they have followed the rules..."*

Perhaps with good intentions, it appears a fairly generic and top-down communication strategy has been embarked upon, rather than one designed to gain widespread understanding and buy-in to *the need for change*. Unless this is addressed, cultural change will be difficult to progress.

Enable action.

So far, there is limited evidence that Crown has focused its efforts on detailed analysis and design of actions to genuinely enable cultural transformation. This would require a detailed understanding of the current reality for staff on the ground, developing a compelling change vision, removing barriers to change, and incentivising new behaviour. Instead, effort has been focused on high-level and generic actions that can be implemented quickly: assessment of culture 'governance' mechanisms, structural changes, symbolic board decisions, obvious resource investment, and compliance-oriented actions. Although there is merit in short-term wins, they only represent a very small portion of necessary action.

Further, early comments by Mr McCann do not signal an understanding of the work required to achieve embedded, organisation-wide culture change. In his statement to the Commission dated 15 June 2021, he says: *"Based on my current knowledge of the challenges facing Crown I am confident these can be addressed relatively quickly over the course of several months. This by no means is intended to understate ongoing challenge of implementing reforms and complying with regulatory undertakings. In my experience however, the adage that culture starts at the top is very true....The cultural overhaul is already underway at Crown under the guidance of the current Chairman. Pending my own probity clearance, I will work very closely with the Chairman to continue that journey."* This statement could be taken to suggest that the new CEO believes the good intention of leaders will naturally produce cultural change throughout the organisation. In my experience however, good leadership intentions are only the initial component of culture change; the bigger hurdle is how to gain and apply insight into the way organisational systems may be driving unintended behavioural norms, dismantling them (in the course of managing business-as-usual requirements), and then rebuilding the environment to reinforce new behaviours. This is not a process that take months but rather years of sustained, competent persistence.

6. CONCLUSION

6.1 | Summary of key questions and responses

Having regard to Mr Bryant's statement, the Final China Report and the VCGLR decision, what does Crown's relationship with the regulator suggest from a culture perspective?

- The current dynamic has deteriorated as the VCGLR's primary objective appears to have shifted towards a more pronounced prioritisation of enforcement activities (compared to general supervision), leading to decreased trust and respect between the two organisations
- Historically, the relationship is likely to have been aligned around a purpose centred on meeting compliance requirements without disrupting financial performance, leading to higher levels of trust and respect, but within a narrowly defined relationship
- Both historically and today, these dynamics led to decreased oversight and control by the VCGLR, and ultimately Crown.

What sort of relationship would you expect an organisation to have with the regulator?

- In all cases, appropriate aligned purpose, substantiated trust and mutual, competence-based respect improves a regulator's access to transparent information, effective decision making and influence.
- The dynamic between Crown and the VCGLR is especially critical due to the extremely high level of inherent risk in the sector, and the risk-based supervision model adopted by the VCGLR

Can the relationship between Crown and the regulator be 'fixed'?

Yes

Are there any impediments to doing so?

Likely risks include leadership transition, unhelpful external influences, and unrealistic timeframes.

How can culture be changed?

- The systemic reinforcers (formal and informal) of current mindsets and behaviours must be replaced with new ones.
- Actions need to cover four categories: communicating the personal benefits of change; role modelling; capability building; and reinforcing via formal systems
- Change can only be concluded when new outcome are consistently delivered, underpinned by new behavioural norms and mindsets.

What analysis, deep dives or structural changes are necessary or desirable?

- A thorough analysis of the current state behaviours, mindsets and systemic reinforcers must be conducted, including 'deep dive' understanding of reality for staff at all levels, and in key segment groups
- Staff in various segments must be engaged to develop a change vision that is relevant and compelling for all
- Actions need to address the gap between the current state (including systemic root causes of behaviours and mindsets) and desired state

How long does it take to effect cultural change?

- For immediate change in the cause of problem behaviour – less than 6 months
- For embedding of a culture that is self-sustaining –3-5 years

6.2 | Concluding opinion

Based on my consideration of the materials reviewed for this report, technical grounding in social and organisational psychology, and experience in the field of corporate culture, risk and governance, my summation of Crown’s cultural challenges is that:

- I. Crown’s corporate culture developed due to the powerful effect of reinforcers within both the internal and external environment, flowing from an aligned strategy of meeting formal obligations without disrupting the primary objective of financial management and outcomes. This financially-focused strategy was enforced by the dominating leadership style of Mr James Packer, generally accepted, and possibly mirrored by external stakeholders including the VCGLR. This set the tone for staff at management and frontline levels. Over time, the underlying beliefs, assumptions and values implicit in this approach laid a foundation for the development of euphemistic language, use of technical ‘loopholes’, normalisation of deviance, and eventually outright misconduct, rationalised as appropriate pursuit of financial performance.
- II. Apparently ‘clever’ solutions were developed and encouraged in an era with different industry, legal and community expectations and knowledge of conduct, risk management and corporate governance. A clear example of this was the strategy of using junkets to facilitate the provision of credit to players – a way to grow the business more quickly, whilst avoiding the legal, credit and debt-collection risks of doing so directly. This decision was made at a time when stakeholders may have been genuinely unaware of the cultural and conduct risk attached to such a strategy: that is, Crown’s decreased ability to identify, evaluate and control conduct risk in a model which placed an intermediary between itself and the end-user of its services. Unfortunately, we have seen how this principal-agent problem creates conduct issues in the financial services and insurance sector, but these lessons are relatively recent.
- III. System-level oversight was fatally flawed due to an inappropriately designed supervision strategy that was not commensurate with the extremely high degree of cultural risk inherent in the sector. Likely contributors to this regulatory outcome include cognitive blind-spots, skewed incentives, weak capability and insufficient resourcing ultimately arising from a focus on narrowly defined set of stakeholder priorities and interests, specifically financially-oriented ones.

Crown needs to transform its culture to perform sustainably in the future, meeting the expectations of all its stakeholders. This will require new thinking about Crown’s purpose, strategy, operations and financial model, and solutions that can somehow deliver financial results *within* a frame of good conduct – not simply without breaking the law. I expect the road ahead to be long.

End Notes

1 For example, due to social phenomena such as Pygmalion Effect

2 *Casino Modernisation Review*, by Peter Cohen, 2016, p16

3 For further examination of this issue, please refer to discussion of the Street Report in Chapter 1.3 of The Bergin Report

4 For example, referred to as the 'Influence Model' by McKinsey & Company – see *The Psychology of Change Management*, McKinsey Quarterly June 2003, and also adapted and applied in various organisations including NatWest Group and HSBC.

ANNEXURE I – List of materials reviewed

#	Document title	Date
1.	Bergin Volume 1 – Inquiry under section 143	1 February 2021
2.	Bergin Volume 2 – Inquiry under section 143	1 February 2021
3.	Statement of Jane Halton dated 28 April 2021	28 April 2021
4.	Witness Statement of Toni Korsansos dated 27 April 2021 (RFS-Crown-002)	27 April 2021
5.	Crown Culture Phase 1 Report Draft v1.0	29 January 2021
6.	2. Submission – Victoria Whitaker – CRL VIC – Signed VW – Witnessed	19 April 2021
7.	Witness statement of Tim Bryant – 15 April 2021	15 April 2021
8.	Final China investigation report	19 February 2021
9.	20210427 – Crown Melbourne Ltd – Disciplinary action inquiry – Reasons for decision	27 April 2021
10.	Witness statement of Steve McCann – 15 June 2021	15 June 2021
11.	Witness statement of Nick Weeks -7 June, 2021	7 June 2021
12.	Executive Contract of Tony Weston	5 March 2021
13.	Culture Reform Project Update – Crown Resorts Limited Memorandum to Board of Directors	21 May 2021
14.	People and Culture Program – Crown Resorts Limited Memorandum to Board of Directors	7 December 2020
15.	Witness statement of Helen Coonan – 28 April 2021	28 April 2021
16.	Transcript of Proceedings in the Matter of a Royal Commission into the Casino Operators and Licence, Melbourne Victoria, 9 June 2021	9 June 2021

ANNEXURE II – List of reading

#	Document title	Date
1.	<i>Corporate Culture Survival Guide</i> by Edgar Schein	2009
2.	<i>The Heart of Change Field Guide</i> by Dan Cohen & John Kotter	2005
3.	<i>Organisational Culture and Leadership</i> by Edgar Schein	2010
4.	<i>Toxic Corporate Culture: Assessing Organisational Processes of Deviancy</i> by Benjamin van Rooji and Adam Fine in Administrative Science	2018
5.	<i>The Economics of Why Companies Don't Fix Their Toxic Cultures</i> by Kevin Stiroh in the Harvard Business Review	2018
6.	<i>Just Culture</i> by Sidney Dekker	2012
7.	<i>Misbehaviour in Organisations</i> by Yoav Vardi and Ely Weitz	2016
8.	<i>The Psychology of Change Management</i> by Emily Lawson and Colin Price in McKinsey Quarterly	2003

ANNEXURE III – INSTRUCTIONS

Draft instructions to culture expert, Elizabeth Arzadon

1. We set out below a note containing background, instructions, questions and an index of documents to support the note.
2. All of the documents, and particularly documents at tabs 8 and 9, are highly confidential. We expect that the documents at tabs 8 and 9 may be the subject of non-publication orders in the future.

Background

NSW Inquiry

3. In August 2019, the Hon Patricia Bergin SC was appointed by the Independent Liquor and Gaming Authority to conduct an inquiry under section 143 of the *Casino Control Act 1992* (NSW).¹ Among other things, Her Honour was asked inquire into and review whether Crown Sydney Gaming Pty Limited, as the Licensee, was a suitable person to give effect to the Barangaroo restricted gaming licence and whether Crown Resorts Ltd was a suitable person to be a close associate of the Licensee.
4. Prior to the Bergin Inquiry, on and from 27 July 2019, various Australian media outlets had broadcast and published material which alleged Crown:²
 - a. engaged in money-laundering;
 - b. breached gambling laws; and
 - c. partnered with junket operators with links to drug traffickers, money launders, human traffickers and organised crime groups.
5. These allegations followed events including:
 - a. criminal infiltration into Crown's Southbank and Riverbank accounts in 2014;³
 - b. the Chinese Government's crackdown on the promotion of gambling in February 2015 and the arrest of employees of a South Korean casino group for promotion of illegal gambling in June 2015;⁴
 - c. a series of raids carried out on the homes of Crown staff in mainland China on 13 - 14 October 2016⁵ and the arrest of 19 Crown employees between 13 – 24 October 2016;
 - d. the sentencing and fining of 16 of the 19 employees in June 2017;⁶ and
 - e. the VCGLR's investigation into the detention of the Crown staff.
6. On 1 February 2021, the report in relation to the Bergin Inquiry was published.
7. Among other things, the Hon Patricia Bergin SC made the following findings:⁷

The stark realities that flow from the findings of the veracity of the Media Allegations may be shortly stated as: (i) in the period 2014 to 2019 Crown facilitated money laundering through the Southbank and Riverbank accounts unchecked and unchanged in the face of warnings from its bankers; (ii) in the period 2014 to 2016 Crown disregarded the welfare of its China-based staff putting them at risk of detention by

¹ Bergin Volume 1, p. i [Tab 1].

² Bergin Volume 2, p. 336 [9] [Tab 2].

³ Bergin Volume 1, p. 181, [183] [Tab 1].

⁴ Bergin Volume 2, p. 408 [30] [Tab 2]

⁵ Bergin Volume 1, p. 291 [271] [Tab 1].

⁶ Bergin Volume 1, p. 291 – 292 [273] [Tab 1].

⁷ Bergin Volume 2, p. 543 [9] [Tab 2].

pursuing an aggressive sales policy and failing to escalate risks through the appropriate corporate risk management structures; and (iii) in the period 2012 to 2020 Crown entered into and/or continued commercial relationships with Junket operators who had links to Triads and other organised crime groups.

Victorian Commission

8. As set out in the engagement letter dated 19 April 2021, the Royal Commission into the Casino Operator and Licence was constituted by terms of referenced dated 22 February 2021, as amended on 25 February 2021.
9. The Royal Commission has required several parties to respond to notices to produce statements. Key parts of those statements are extracted below, and copies of those statements are included in the hyperlinked index accompanying these instructions.

Statements filed by directors of Crown

10. In a witness statement provided to the Commission, Ms Jane Halton, director of Crown Resorts Ltd since May 2018 and Chair of the board's Risk Management Committee since December 2019, gave the following answers to question 34:⁸

34 What deficiencies in Crown Resorts' or Crown Melbourne's risk management framework, systems or processes contributed to the failures identified in the conclusions in the Bergin Report?

186. A number of specific failures including in reporting, escalation, skill, knowledge, culture, appropriate diligence and care and lack of questioning are reported in the Bergin report. In some instances these go to the operation of the risk management framework.

187. Successful implementation of any risk strategy requires a range of policies and actions which are mutually reinforcing. These include a culture of disclosure, analysis and compliance.

188. In respect of the failure to report matters such as indicia of money laundering, the realised risk from a single point of control where that person chose not to pass on information resulted in the Board not having the information necessary to make decisions. This illustrates the need to have sufficient skilled resources to effectively implement policies and escalate risks, standardised and regular reporting which no officer or small group of officers can choose to bypass or withhold without identification or sanction and a direct line of reporting to the board for the second line of defence to enable proper oversight.

189. Similarly, blurred lines of reporting and accountability, particularly when this involves people who are outside the mandated lines of control and accountability, meant that the stated policies and procedures were not effectively operationalised. As this occurred without the knowledge of the Board the consequence was reliance on assurances that were not well founded.

190. While not a function of the risk management framework, its systems or processes, the report highlights a number of cultural issues. The identification and reporting of problems were not always welcomed as an opportunity to learn and in turn improve risk management strategies, procedures or practises, and can impede its effective implementation.

11. In a witness statement provided to the Commission, Ms Antonia Korsanos, director of Crown Resorts Ltd since 23 May 2018,⁹ gave the following answers to question 44:¹⁰

⁸ Statement of Ms Jane Halton dated 28 April 2021, pages 24 – 25 [Tab 3]

⁹ Ms Antonia Korsanos (non-executive director of Crown Resorts Limited) was formerly the Chief Financial Officer (2009 – 2018) and Company Secretary (2011 – 2018) of Aristocrat Leisure Limited. Her Board and Board committee memberships with Crown are: Chair of Crown Melbourne Limited; Chair of the Audit and Corporate Governance Committee; Chair of the People, Remuneration and Nomination Committee; Member of the Responsible Gaming Committee; Member of the Risk Management Committee; Member of the Safety and Sustainability Committee.

¹⁰ Witness statement of Ms Antonia Korsanos, pages 21 – 22 [Tab 4].

44. What deficiencies in Crown Resorts' corporate governance framework contributed to

the failures identified in the conclusions in the Bergin Report?

108. *In my view, deficiencies in how the corporate governance framework operated were caused by the following:*

- (a) *confused and blurred reporting lines;*
- (b) *poor culture underpinned by a drive for profits;*
- (c) *organisational structures that created silos and compromised compliance and escalation of risks to the board;*
- (d) *lack of capability and insufficient resourcing in support of risk management and compliance;*
and
- (e) *deficiencies in the risk management framework.*

109. *Taking the three areas that the Bergin Inquiry focussed on (China arrests, anti-money laundering, junkets), I believe the causes of failure across each tie back to what I have summarised above.*

China Arrests

110. *Risk was not escalated to the Board. This was influenced by the blurring of reporting lines and leadership that ignored formal reporting lines. Management were influenced by a commercially driven culture over risk management and compliance at a level beyond acceptable risk in line with maintaining the safety of employees and gaming regulatory requirements. The VIP business operated in its own silo separate from the rest of the business. I don't believe the risk appetite for Crown's operations in China was appropriately set or monitored.*

Anti-Money Laundering

111. *The risk associated with cash deposited into the Southbank and Riverbank bank accounts was either not understood or not recognised. The reporting structure did not support the risk management framework as operations and compliance functions were combined under the same leadership. This would have created conflict between compliance and commercial outcomes. Based on the evidence provided at the Bergin Inquiry, management did not disclose to the board the underlying concerns relating to these bank accounts when raised by the banks. I believe this was either driven by a culture focused on profits and maintaining the status quo or a lack of understanding, both are a concern. There was also a lack of capability and resources across the risk and AML functions, hence an inability to understand and identify the risk.*

Junkets

112. *The issues with junkets related to: influence via the VIP team which was operating in a silo; blurred reporting lines; decision making influenced by a culture focussed on delivering returns over an acceptable level of risk and compliance.*

113. *The board's decision to permanently cease dealing with junkets announced on 17 November 2020, was significant and aligned with the company's risk appetite.*

Deloitte culture review and interview with CEO

12. In September – October 2020, Deloitte Risk Advisory was engaged by Crown to provide an assessment of the maturity of the existing approach to organisational culture, conduct a current state of Crown's organisational culture (including risk culture), establish the target state culture, assess the gaps between the target state and current state organisational culture, and prepare a roadmap on how to close the gaps (known as Project Darwin). Project Darwin was to be conducted in four phases.

13. On 29 January 2021, Deloitte provided its draft report in relation to phase 1 of Project Darwin.¹¹
14. Ms Victoria Whitaker of Deloitte has provided a statement to the Commission in respect of Project Darwin. Ms Whitaker's statement identifies that Deloitte conducted interviews for phase 1 of, among others, Ken Barton, Chief Executive Officer of Crown from January 2020 to February 2021.¹² According to Ms Whitaker, in December 2020, Mr Barton identified the following cultural deficiencies and problems:

71. Mr Barton reflected that the Bergin inquiry showed that there are examples where people have not investigated and solved underlying issues, when things that have gone wrong. That there is a culture that is reactive to risk – and of people raising things once but not continue to raise risks.

72. There are perceptions people didn't hold others to account when things had gone wrong.

73. There may be issues with siloed focus across properties and business units. Particularly given there is no Group Head of People and Culture in place (at time of meeting).

74. There may be fear around speaking up and communicating bad news, potentially due to adverse consequences. And lack of clarity of who to go to when something goes wrong.

75. There may be times when team members find it hard to say no to customers, where maybe they haven't broken a law but it doesn't fit within community expectations.

76. There are perceptions that management may be focused on performance, growth etc as opposed to base compliance and the effect of these obligations

77. There is a need for more board involvement and direction on culture. The Board has expressed a desire for extra visibility as they don't have confidence people are raising issues and want to be able to ask the question of how do we know people are appropriately weighting obligations, raising issues, addressing them etc.

78. Mr Barton expressed a desire to focus on the VIP Business when asked about examining sub-cultures, with a view they may have a focus on revenue generation and sales.

VCGLR investigations in relation to the China Arrests

15. In July 2017, the VCGLR commenced an investigation into the circumstances that led to the imprisonment of employees of Crown from October 2016 to August 2017 in the People's Republic of China.
16. Timothy Bryant, a Team Leader (Investigations) in the Compliance Division of the VCGLR, has provided a statement to the Commission. Among other things, Mr Bryant's statement explains the scope of the VCGLR's investigation and the timing of and various steps taken in the course of the investigation.¹³
17. The VCGLR's investigation resulted in the VCGLR:
 - a. providing a draft report to Crown for its comments in May 2019;¹⁴

¹¹ Crown Culture Phase 1 Report Draft v1,0, [Tab 5].

¹² Witness statement of Ms Victoria Whittaker [Tab 6]. Mr Barton was previously Crown's Chief Financial Officer from March 2010 to June 2020 and Crown's CEO and managing director from January and March 2020, respectively. He was also CEO of Crown Digital (commencing in February 2017) and sat on the Crown Melbourne Limited, Burswood Limited and Crown Resorts Foundation Boards. Mr Barton resigned in February 2021 from his role as CEO.

¹³ Witness Statement of Tim Bryant – 15 April 2021 [Tab 7].

¹⁴ Witness Statement of Tim Bryant – 15 April 2021 [20] [Tab 7].

- b. providing a final confidential report to the Minister for Consumer Affairs, Gaming and Liquor Regulation on 19 February 2021 (**Final China Report**).¹⁵
18. A copy of the Final China Report has been produced to the Commission. The VCGLR has provided its consent for the Commission to provide a redacted copy of the Final China Report to Crown. A copy of the Final China Report is at Tab 8.
19. Mr Bryant's statement identifies a number of matters which he considers evidence the extent of Crown's co-operation with the VCGLR in the course of the investigation. In paragraph 138 of his statement, Mr Bryant states:

In summary, Crown's attitude to the VCGLR during the China Arrests Investigation is highlighted by the following:

- (a) *At the outset of the investigation, Crown failed to provide a transparent account of the China arrests.*
...
- (b) *In my view, Crown was not forthcoming in its disclosure of information relevant to the China Arrests Investigation. Crown's responses to s 26 notices issued by the VCGLR were often delayed or incomplete. ...*
- (c) *Crown's disclosure of information to the VCGLR appeared to be significantly influenced by what occurred in the course of the class action. I was frustrated that Crown appeared to take a more robust approach to making disclosures for the class action than it did to comply with section 26 notices issued by the VCGLR. ...*
- (d) *Crown executives and employees who were interviewed by the VCGLR did not display the level of candour I expected of them during the interviews.*
- (e) *Disclosure of documents subject to LPP in the class action approximately two and a half years after the VCGLR commenced its investigation evidenced that Crown had more awareness about the nature of the crackdown in China and the potential risk to its employees than it represented to the VCGLR during the China Arrests Investigation.*
- (f) *At the NSW Inquiry, there was a clear shift in Crown's position which was apparent from concessions it made that were not offered to VCGLR at any point prior to the NSW Inquiry. Had Crown taken this approach from the outset, it would not have been necessary to undertake the protracted and resource intensive investigation that the China Arrests Investigation became. In my view, had Crown been prepared to acknowledge its shortcomings in relation to the China detentions at an earlier stage, it could have taken steps to address those shortcomings and improve its level of compliance several years ago.*

VCGLR inquiry in relation to disciplinary action

20. On 2 October 2020, the VCGLR issued a notice to Crown Melbourne under section 20(2) of the *Casino Control Act 1991* (Vic) requiring Crown to show cause why disciplinary action should not be taken on the basis that Crown failed to implement clause 2.5.1 of the Junket and Premium Player Arrangement Internal Control Statement in respect of four named junket entities, thereby constituting a breach of section 121(4) of the *Casino Control Act*.
21. On 27 April 2021, the VCGLR handed down its decision.¹⁶ The VCGLR determined that Crown failed to comply with its regulatory obligations during relevant periods, namely, obligations that required Crown to implement a robust process to consider the ongoing probity of junket entities, and grounds for disciplinary action exist. The VCGLR determined to impose a fine of \$1 million and take other actions.
22. Towards the end of the decision, the VCGLR raised an additional matter which it considered "relevant to the nature of the regulatory relationship that the [VCGLR] considers ought to exist between Crown and the [VCGLR]."¹⁷

¹⁵ Witness Statement of Tim Bryant – 15 April 2021 [136] [Tab 7].

¹⁶ 20210427 – Crown Melbourne Ltd – Disciplinary action inquiry – Reasons for decision, [Tab 9].

¹⁷ 20210427 – Crown Melbourne Ltd – Disciplinary action inquiry – Reasons for decision, [265] [Tab 9].

23. The matter concerned a presentation given to the Commission in December 2020 by Ms Coonan and Mr Xavier Walsh, CEO of Crown Melbourne since 9 December 2020. At the time of the presentation, Ms Coonan and Mr Walsh were the most senior executives at Crown. The VCGLR decision records that, whilst at the presentation had Crown indicated a desire to work collaboratively with the VCGLR, the approach taken by Crown at the show cause hearing in January 2021 was “at odds” with Crown’s statements made during the presentation in December 2020.¹⁸
24. The VCGLR stated in its decision:

270. The Commission considers it highly regrettable that, so soon after being given a presentation which included these specific statements from Ms Coonan and Mr Walsh, at the hearing before the Commission on 21 January 2021 (and in the written submissions that were produced on 5 February 2021), Crown would take an approach that was so clearly at odds with the matters that had been expressed at the meeting on 17 December 2020.

271. The Commission had been hopeful, following the presentations from Ms Coonan and Mr Walsh, that a more co-operative approach would in fact be taken to regulation, commensurate with Crown's privileged position as both the sole holder of a casino licence in Victoria and also, as a corporate citizen who enjoys (specifically insofar as the matters referred to in these confidential reasons are concerned) a degree of self-regulation as a result of the reforms that occurred in 2004.

272. The Commission considers this matter to have been Crown's first opportunity to have demonstrated, by its deeds, that it had altered its previous approach to regulatory matters.

273. Regrettably, the Commission's experience has been that there has not, in fact, been any alteration in Crown's approach.

Instructions

25. You are requested to prepare a written report providing your opinions on the questions set out below. In providing your opinions, please set out your reasoning and provide references to any relevant literature. Please also identify any assumptions you have made or facts or materials you have relied upon to form your opinions.

Questions

26. Having regard to Mr Bryant’s statement, the Final China Report and the VCGLR decision, what does Crown’s relationship with the regulator suggest from a culture perspective? What sort of relationship would you expect an organisation to have with the regulator? Can the relationship between Crown and the regulator be ‘fixed’? Are there any impediments to doing so?
27. How can culture be changed? What analysis, deep dives or structural changes are necessary or desirable?
28. How long does it take to effect cultural change?

¹⁸ 20210427 – Crown Melbourne Ltd – Disciplinary action inquiry – Reasons for decision, [266 – 270] [Tab 9].

Index of documents

Tab	Document title	Date	Document ID
1.	Bergin Volume 1 – Inquiry under section 143	1 February 2021	COM.0005.0001.0001
2.	Bergin Volume 2 – Inquiry under section 143	1 February 2021	COM.0005.0001.0334
3.	Statement of Jane Halton dated 28 April 2021	28 April 2021	CRW.998.001.0152
4.	Witness Statement of Toni Korsansos dated 27 April 2021 (RFS-Crown-002)	27 April 2021	CRW.998.001.0104
5.	Crown Culture Phase 1 Report Draft v1.0	29 January 2021	DTT.008.0005.0873
6.	2. Submission – Victoria Whitaker – CRL VIC – Signed VW - Witnessed	19 April 2021	DTT.0000.0005.0009
7.	Witness statement of Tim Bryant – 15 April 2021	15 April 2021	VCG.9999.0001.0002
8.	Final China investigation report	19 February 2021	VCG.0001.0001.0001
9.	20210427 – Crown Melbourne Ltd – Disciplinary action inquiry – Reasons for decision	27 April 2021	VCG.0001.0002.6984