# OLIVER WYMAN

POINT OF VIEW

# A PROACTIVE AND PRAGMATIC APPROACH TO MANAGING BANK CULTURE

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Culture and conduct in banking have been focus areas for senior leaders, Boards of Directors, the media, investors, and regulators for many years. The desire to maximize long-term economic value creation, meet customer needs responsibly, and promote constructive regulatory relations has led many banks to focus on culture. And yet, at times, it feels like the industry has made little to no progress. In many ways we are facing similar issues today as we did years ago – despite significant industry discussions and soul searching by senior leadership teams.

A significant challenge with addressing culture is that it is both incredibly familiar and completely invisible. As a result, while the leaders of many financial institutions recognize that the industry overall needs to improve, they are often incapable of distinguishing how their own culture should be adjusted. And even institutions with a strong overall culture can have pockets of weakness that are all but invisible to the leadership team.

*Culture is comprised of not only visible behaviors, but also of unspoken rules, ideas, norms, and subconscious beliefs – it can be difficult to observe and extremely difficult to measure and manage*

Because culture comprises not only visible behaviors, but also of unspoken rules, ideas, norms, and subconscious beliefs, it can be difficult to observe and extremely difficult to measure and manage. But this should not be a reason to not address it. In our experience, working with industry leaders, the most successful companies take an impartial and scientific approach to gathering and analyzing verifiable facts about their cultures, and follow-up with targeted interventions in areas that require attention. An effective culture review and change-effort must also take into account the multi-layered and complex nature of culture, addressing the more obvious elements as well as deeply embedded beliefs.

This paper is meant for CEOs, CROs, CHROs and others in senior leadership roles tasked with understanding, measuring and articulating their culture. In it, we share what we have learned from our extensive work with organizations in financial services and other industries. We offer a proactive and pragmatic approach to assessing and managing culture, addressing questions such as: How do enterprise culture and risk culture differ? How does culture relate to conduct? How can culture be measured and managed, and who is accountable for it?

## CULTURE – THE NEED TO TAKE A CLOSER LOOK

First, what is culture? We define it as the implicit rules, ideas and norms that sustain a company's core values and create the (often) unspoken framework for behaviors, decision making, and business practices. For example, a company's culture may be described as one that fosters innovation, promotes diversity of thought, is customer-oriented, or is sales focused. Risk culture is the subset of culture that governs how a company and its employees manage the risks associated with strategy, operations, and technology. It includes risk awareness, understanding, position taking, and risk mitigation. Both culture and risk culture are essential for a company's success – especially in financial services where risk is the fundamental business of the organization and is an integral and inseparable element of overall culture.
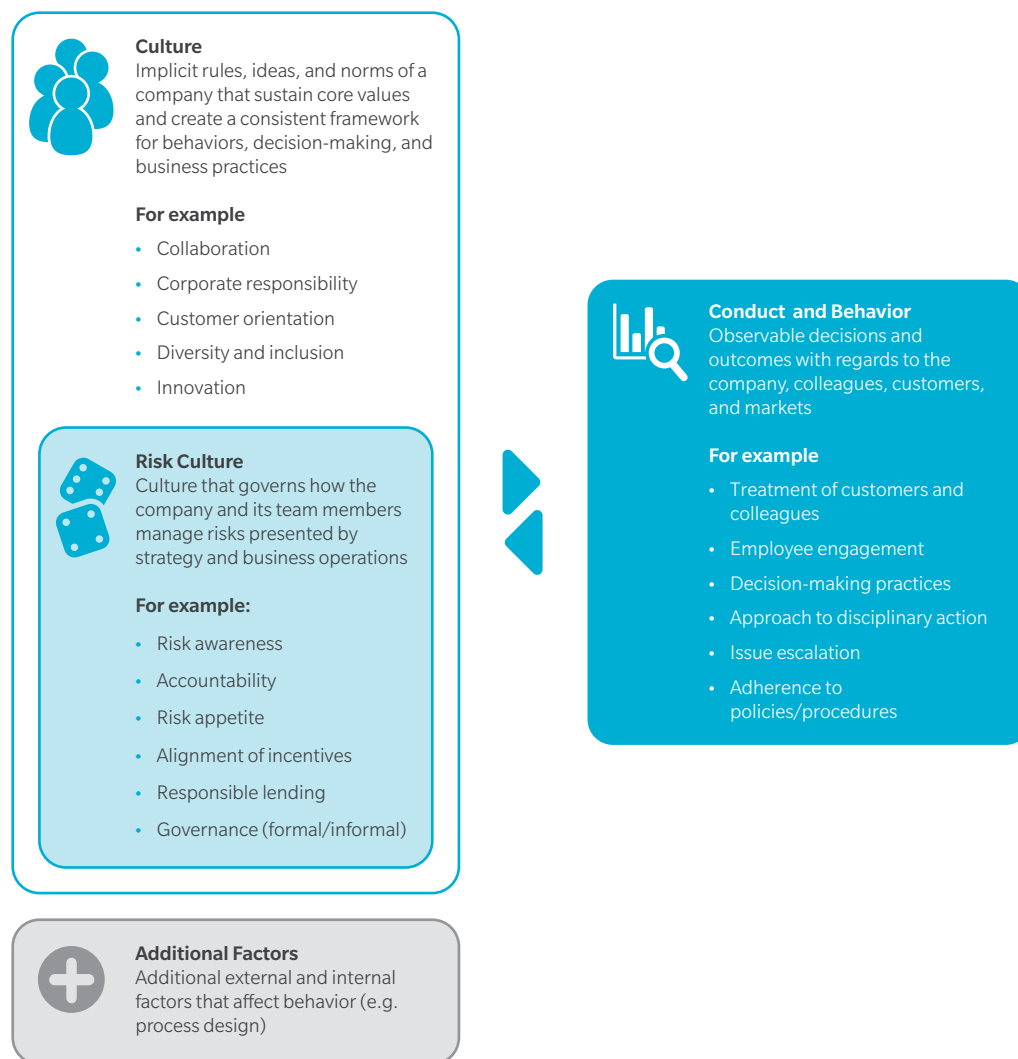
Recent focus by media, regulators, boards and investors on conduct risk has led many institutions to struggle with defining, understanding and differentiating between culture

and conduct. In our view, conduct is a direct outcome and the only visible indicator of culture. While structural elements (such as policies, processes, compensation, etc.) influence conduct, it is culture and a shared understanding "of how things really work around here" that have the greater impact on the day-to-day decisions and behaviors of employees.

Because of this direct link between culture and conduct, culture has come under the spotlight – increasingly institutions need to be able to explain how their desired culture is defined, and demonstrate that it is truly lived by employees.

*Conduct is a direct outcome and the only visible indicator of culture*

### Exhibit 1: Culture and risk culture influence conduct and behavior, and vice-versa

**Culture**
Implicit rules, ideas, and norms of a company that sustain core values and create a consistent framework for behaviors, decision-making, and business practices

**For example**
- Collaboration
- Corporate responsibility
- Customer orientation
- Diversity and inclusion
- Innovation

**Risk Culture**
Culture that governs how the company and its team members manage risks presented by strategy and business operations

**For example:**
- Risk awareness
- Accountability
- Risk appetite
- Alignment of incentives
- Responsible lending
- Governance (formal/informal)

**Conduct and Behavior**
Observable decisions and outcomes with regards to the company, colleagues, customers, and markets

**For example**
- Treatment of customers and colleagues
- Employee engagement
- Decision-making practices
- Approach to disciplinary action
- Issue escalation
- Adherence to policies/procedures

**Additional Factors**
Additional external and internal factors that affect behavior (e.g. process design)

*Risk Culture is an integral part of overall culture in a financial institution, and as such, is best viewed and assessed as part of a broader culture program*

Unfortunately, this is not easy, for several reasons:

- Culture is intangible and manifests itself in people's beliefs
- Root causes of cultural dysfunction are difficult to isolate
- Several subcultures may coexist in one organization
- It is not always clear who owns culture and cultural change

Despite the challenges, we believe that there is a rational, pragmatic, and reliable way to assess and manage culture.

## Exhibit 2: Example components of a structural assessment (not exhaustive list)

**Leadership**
Articulation and communication of vision, purpose, strategy
•
Modeling behavior

- **Tone:** Is tone of communication in line with culture goals?
- **Content:** Is content meaningful and in line with values?
- **Cadence:** Is communication frequent enough to establish values and norms?
- **Application:** How are the vision, values and communication from senior leadership being implemented in the frontline? Are they being 'operationalized' in line with the intent of the messages?
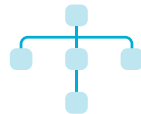
**Organization**
Roles, responsibilities, and decision rights
•
Reporting lines, decision making, and escalation mechanisms

- **Committees and oversight:** Does the governance structure support or hinder escalation and reinforcement of values?
- **Escalation and reporting lines:** Are escalation and reporting lines clear? Are there competing interests?
- **Effectiveness of three-lines-of-defense:** Does the first line understand its role? Is there evidence of independence and challenge by second line?

**People**
Hiring and training
•
Target setting and compensation

- **Hiring:** Do hiring processes encourage hiring of individuals aligned with culture and values?
- **Training:** Do training materials emphasize integrity, compliance, and risk management?
- **Compensation:** Do incentive structures promote cultural values?

**Policies & processes**
Policies, procedures, and controls
•
Systems and processes

- **Policies:** Are policies easily understood? Can they be easily found and referenced by employees? Do policies emphasize and enable key elements of risk culture?
- **Controls/escalation:** Are the number and type of controls appropriate in all areas? Are there areas where controls overlap and create confusion?
- **Monitoring:** How is controls monitoring currently linked to culture governance and management?

# A PRAGMATIC APPROACH TO ASSESSMENT

Our approach is to focus on the conduct and behavior that arise from culture, measuring factors such as employee engagement, adherence to policies, interactions with customers, and issue escalation. To do this, the assessment involves a review of both behavioral and structural elements.

Behavioral-based assessments include activities such as bank-wide engagement surveys, behavioral and psychological profiling, and focus group interviews in order to evaluate demonstrations of culture in action. These tools enable assessment of strengths and weaknesses and help identify variations across functions, geographies, divisions, and levels of seniority. They also point to potential mechanisms or barriers to change. Are teams truly profitable, or are they engaged in overly risky practices? Are risk considerations truly factored into decision making or simply treated as a tick-the-box exercise? Behavior-based assessments can help provide the answers.

Any attempt to change behaviors will be quickly undermined if structural elements still enable or drive the wrong behaviors. As such, a behavioral review must be accompanied by a review of structural elements such as systems, organization, policies, processes and governance.

*Any attempt to change behaviors will be quickly undermined if structural elements still enable or drive the wrong behaviors*

We encourage banks to carry out a structural review to understand whether leadership, organization, people-related mechanisms, policies, and processes are aligned to the desired culture.

The results of the behavioral and structural assessments can help focus remediation efforts. Should the bank be building the foundations for long-term cultural improvements over time, or does it have an acute cultural problem that needs to be fixed immediately? The answer could be a combination. The analysis also pinpoints any differences in cultures and whether these subcultures are acceptable (e.g., differences in business models between retail and commercial banking) or unintended consequences of structural elements (e.g., differences in leadership across branches or regions).

# TAKING ACTION

Once behavioral and structural issues are understood, the question is how to best address them. The biggest challenges tend to come in three areas:

**I.   Who owns the culture – and who is in charge of it?**

While ultimately a company's culture is owned by the CEO, and accountability for living a company's desired culture rests with all employees, managing it tends to be the responsibility of various leaders across the business. Initiatives designed to improve and maintain culture need to be overseen by individuals dedicated to implementing changes and driving the initiative forward. While various approaches can work, the most appropriate approach to mobilizing a culture program will depend on the institution's level of maturity, as well as its governance structure, size, and organizational structure.

One large financial institution, for example, put culture and conduct in the hands of a cross-functional committee of business unit leaders led by the CEO and supported by the Human Resource and Compliance departments. This approach has the advantage of involving stakeholders from the program's inception, and encouraging them to act as owners and supporters of remediation efforts.

Another bank created a multi-tier governance structure with dedicated committees at board, executive, and head-of-business/head-of-department levels. The board level committee provides oversight. The executive level committee is responsible for monitoring culture using relevant metrics and driving remediation of issues. The Culture Execution team, consisting of leaders from each business group and department, is tasked with overall program management and ensuring that culture initiatives are properly implemented. Although the Culture Execution team is responsible for various culture initiatives, the company recognizes that the accountability for culture itself is still owned by employees.

Regardless of the governance structure, the success of a culture program depends on having senior-level executives who remain involved and provide active sponsorship for initiatives. And ultimately, it requires ownership and buy-in from the CEO.
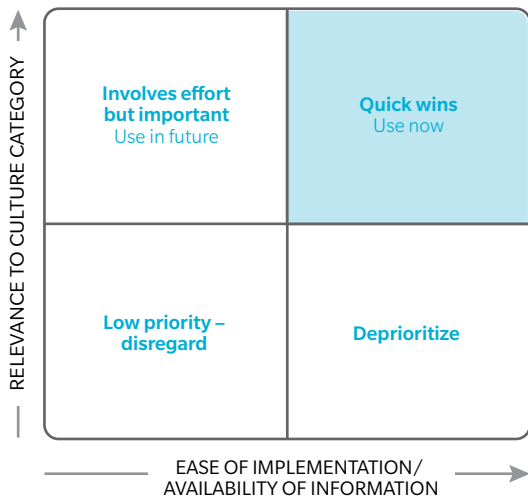
*There is no standard set of culture metrics, and companies will need to select what makes sense for them, based on institutional values, strategic goals, and risk appetite*

## II.  Monitoring and measurement

There is no standard set of culture metrics, and companies will need to select what makes sense for them, based on institutional values, strategic goals, and risk appetite. The mix should include traditional control indicators (for example, compliance breaches), backward-looking risk indicators (such as error rates), and forward-looking indicators (such as social media trends). Many banks are starting to design innovative solutions in this space, for example, sophisticated text analytics on internal and external communications, as well as sentiment analysis on company mentions in the press and on social media.

Given that culture touches all aspects of the business, it can be difficult to identify which metrics are most useful and meaningful. And to achieve the right balance between having enough indicators to provide a holistic view while not having so many that the dashboard becomes overwhelming and overly-complex to understand. To design a dashboard that is effective, we developed criteria for shortlisting metrics and apply a framework to balance relevance and ease of implementation.

Exhibit 3: Oliver Wyman metrics selection process

SHORTLISTING FRAMEWORK



RELEVANCE TO CULTURE CATEGORY ↑

**Involves effort but important**
Use in future

**Quick wins**
Use now

**Low priority – disregard**

**Deprioritize**

EASE OF IMPLEMENTATION/
AVAILABILITY OF INFORMATION →

SHORTLISTING CRITERIA

| | | |
|---|---|---|
| 1 | Availability | Use existing metrics where possible |
| 2 | Ease of understanding | Select metrics that are easy to comprehend |
| 3 | Relevance | Use metrics that are more pertinent and can holistically explain a culture category |
| 4 | Coverage | Limit to 3-5 metrics for each cultural category to avoid overwhelming audience |
| 5 | Scope/ granularity | Use metrics that are applicable across lines of business and can be tracked accordingly |
| 6 | Type of indicator | Mix of leading and lagging indicators to inform decision making |
| 7 | Frequency | Preference for metrics that are tracked more frequently (e.g., monthly vs annually) |

Once metrics are selected, it is necessary to consider what ranges to monitor for. What is desired? What is acceptable? What cannot be tolerated? These ranges can be based on existing limits or policies, minimum regulatory requirements, and senior management tolerances and expectations.

This process is similar to calibrating a risk appetite. But whereas risk appetite metrics articulate only the boundary for risk taking (for example, credit risk limits), culture metrics need to go further and describe the desired behaviors around everyday decision making (for example, expected quality of underwriting). We see the risk culture component of the dashboard as a mechanism for ensuring that the organization is well equipped for operating within its risk appetite, but separate and different from the risk appetite itself.

Trend analysis is an important element of calibrating and understanding the metrics. In fact, many metric numbers may only be meaningful when compared over time or across businesses/geographies/teams (for instance: defining an "acceptable" level of staff turnover). We find that many clients need to pilot their dashboard for a period of time to ensure that they have the right set of metrics and have calibrated them appropriately.
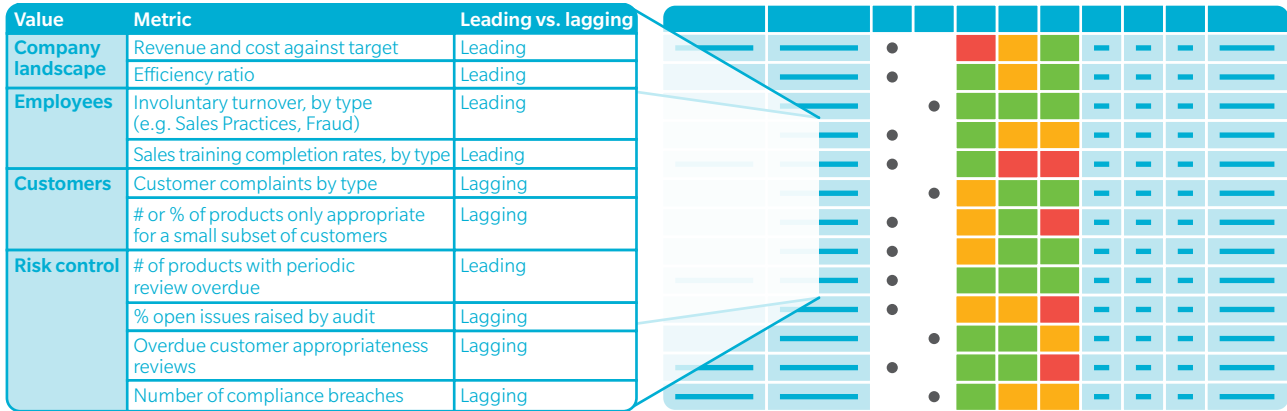
## Exhibit 4: Culture dashboard illustration and design principles

**1** Direct link to firm values and risk appetite framework

**2** Displays trends over time for each indicator

**3** Provides granular results across different lines of business

**4** Shows individual indicator RAG status

| Value | Metric | Leading vs. lagging |
|-------|--------|---------------------|
| **Company landscape** | Revenue and cost against target | Leading |
| | Efficiency ratio | Leading |
| **Employees** | Involuntary turnover, by type (e.g. Sales Practices, Fraud) | Leading |
| | Sales training completion rates, by type | Leading |
| **Customers** | Customer complaints by type | Lagging |
| | # or % of products only appropriate for a small subset of customers | Lagging |
| **Risk control** | # of products with periodic review overdue | Leading |
| | % open issues raised by audit | Lagging |
| | Overdue customer appropriateness reviews | Lagging |
| | Number of compliance breaches | Lagging |

**5** Includes granular data and targets

**6** Uses both leading & lagging indicators

**7** Provides value adding commentary

METRICS — DASHBOARD

A number of important lessons should be kept in mind when designing the culture dashboard:

- Cultural metrics should clearly tie back to the stated values of the company and the desired objectives of leadership. This has the dual benefits of enabling a company to demonstrate that it upholds the desired culture, and also set standards for what is expected and desired across each dimension e.g., employee engagement, customer satisfaction, escalation behaviors.

- Many cultural metrics and key performance indicators (KPIs) already exist in the organization. The real value of the dashboard is in bringing them all together and telling a holistic story. For instance, in most banks, there is a review of customer complaints, a management of sales goals and a monitoring of staff turnover rates; however, all too often, these are viewed in isolation, across multiple functional silos. Only when brought together might these indicate more systemic cultural issues.

- Any one metric on the dashboard does not necessarily indicate existence or absence of culture or conduct issues. However, taken in its entirety and over time, the dashboard may show a deterioration of culture or the existence of a subculture that requires further investigation.

- The dashboard should be used to identify positive trends and culture bright spots. In fact, when compared over time and across businesses/geographies, the dashboards will enable management to understand where and how the culture is healthy and aligned to desired values. These positive beacons should also be investigated to understand how they can be replicated elsewhere.

### III. Tackling unwanted subcultures

Inevitably a company will discover cultural deviations in specific departments, geographies, or employee cohorts. Sometimes deviations are evidence of unwanted subcultures that require remediation. But some differences are necessary – for example, the cultural differences between the corporate and retail bank. Culture cannot be treated as a one-size-fits-all solution that can be blindly enforced across the organization. It is important to understand the root causes of deviations and respond accordingly. For example, one may ask:

- What is the average tenure of the team? Have employees received sufficient training and onboarding to understand expectations? How much training is required based on the complexity of the business unit and the sophistication of the client?
- Is the nature of the business creating a natural tension between conflicting goals? For example, are customer-centricity and deal-turnaround in conflict with risk management processes?
- What can be done to reduce the tension? Does the business or department have the tools to succeed?

As part of the culture enhancement process, it is also important to recognize that not all unwanted cultural deviations are caused by people. The business environment, technology, competitive landscape, processes and other structural drivers can all be factors leading to cultural deviation and must be analyzed and refined accordingly.

## CONCLUSION

The desire to maximize long-term economic value creation, meet customer needs responsibly, and promote constructive regulatory relations has led to increased focus on culture. Banks have learned that culture – including risk culture – defines an institution's beliefs and norms. It permeates all business activities and shapes conduct. The first step in managing culture effectively is to understand how it manifests itself in the behaviors of individual employees and how structural elements either reinforce or hinder desired behaviors.

To rebuild trust, and ensure long term sustainability, each institution will need to take a hard look at its own culture and conduct – no matter how familiar, comfortable and positive that culture may feel. Senior leadership teams need to ensure they are monitoring the right indicators for warning signs, mobilize remediation efforts to tackle culture issues effectively, and make real progress in this vital realm.

Oliver Wyman is a global leader in management consulting that combines deep industry knowledge with specialized expertise in strategy, operations, risk management, and organization transformation.

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