

MEASURING CONDUCT AND CULTURE

A HOW-TO GUIDE FOR EXECUTIVES

APRIL 2018

AUTHORS

Elizabeth St-Onge

Ege Gürdeniz

Elena Belov



INTRODUCTION

Senior executives across many industries are now focused on measuring, managing, and reporting on conduct and culture. While some organizations have been building these capabilities for years, the well-known misconduct scandals from Hollywood and Silicon Valley to Wall Street and Washington, D.C. have fueled the recent urgency and increased focus on the topic of culture assessment.

For many organizations, conduct and culture measurement is still in its infancy. Given the elusive and abstract nature of “conduct and culture,” progress in measurement has been limited, but as boards, regulators, shareholders and the general public require companies to be much more proactive and transparent in this space, effective measurement is becoming a must-have.

The first challenge is to define and agree on terminology. Conduct and culture are intricately linked concepts. **Culture** represents the invisible belief systems, values, norms and preferences of the individuals that form an organization. **Conduct** represents the tangible manifestation of culture through the actions, behaviors and decisions of these individuals. As a result, the collective culture of individuals within an organization can be observed and measured through their conduct. This connection from an abstract notion to a measurable quantity represents the foundation of the ideas presented in this document. For simplicity, we refer to “conduct and culture measurement and reporting” as “culture measurement” through the document.

In this first installment of our series on culture measurement, we present a methodology that organizations can use to measure culture through metrics that link back to the fundamental principles of the company. Throughout this document, we will discuss questions that executives across compliance, human resources, risk and legal functions as well as the lines of business have been tackling recently:

- Why should we measure culture?
- Where should we start when measuring culture?
- How can we find meaningful metrics that provide useful and actionable information?
- What are the challenges we should prepare for?
- What tangible steps can we take now to move forward?

In future installments of the culture measurement series, we will focus on the operating model needed to efficiently and effectively extract valuable and actionable insights from the identified metrics, and discuss culture and conduct risk in the context of artificial intelligence and machine learning.

WHY MEASURE CULTURE?

Culture is a complex and abstract concept that is difficult to assess, as measurement requires observable and objective elements. There is no scientific unit or universal methodology for measuring the culture of a group of individuals. In addition, there is no empirically right or wrong culture: two organizations in the same industry could justifiably have different cultures without either one being “better.” So it is not a surprise that many companies are struggling with this concept, and in most cases, getting frustrated with metrics and reports that do not provide meaningful or actionable insights.

While measuring culture is a challenging task, it is also a necessity. Leadership’s ability to confidently and objectively state that the conduct of individuals across the organization is in line with their strategy, core principles and desired goals requires a set of indicators that can support their statements. To maintain a healthy culture and detect conduct issues before they become a significant problem, management needs to be able to observe and track behavior through meaningful and objective metrics. This is especially true for larger organizations that span numerous geographies and business lines, and can host a myriad of “sub-cultures” that differ significantly.

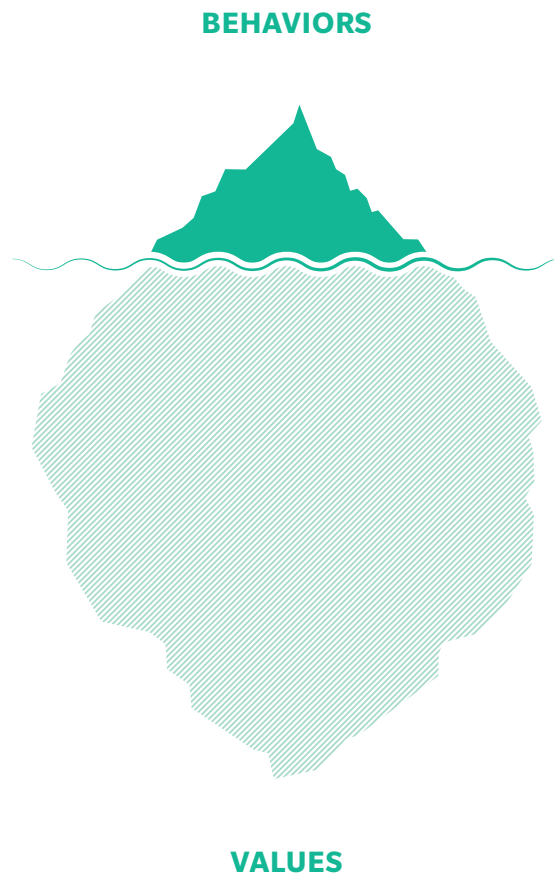
Culture also needs to be measured and monitored because it is not a constant; culture can and should evolve over time and be influenced by a number of factors including company strategy, hiring, growth, acquisitions and external drivers such as evolving customer needs and technology advancements. Without effective measurement, leadership cannot determine if this evolution is progressing in a desirable direction.

WHERE TO START?

Since the abstract nature of culture is the root of the challenge in terms of measurement, the goal is to find tangible and direct manifestations of culture that can be observed and measured. Making this connection from an abstract notion to a measurable quantity represents the core objective of effective culture measurement.

Values are the invisible building blocks of culture. They are the unconscious norms, guiding principles, expectations and unspoken rules that represent what is important to the individuals in an organization, which in return, lead to **behaviors** that can be observed and measured through specific metrics. In essence, starting with the values provides a fundamental anchoring point that gives meaning to any metric produced at the end. One of the most commonly observed pitfalls is the use of metrics that do not directly link back to the core values of a company. In fact, we see many organizations starting with long lists of metrics without having a clear sense of what needs to be measured. In such situations, deriving meaningful insights from numbers becomes challenging. The approach we present in the following section will help organizations methodically and thoughtfully go through an exercise that allows them to derive metrics from core values.

Exhibit 1: Behaviors are the manifestation of values



ESTABLISHING THE LINKAGE BETWEEN VALUES AND METRICS

Deriving metrics from company values is a multi-step process that requires organizations to look inward and answer some challenging questions. The first step is clearly establishing the organization's fundamental purpose, objectives and aspirations – the vision for the organization.

Once the vision is established, the process involves articulating the **values** each employee needs to live up to in order to achieve the stated vision, identifying the **stakeholders** the organization strives to serve by living up to these values (such as customers, employees, shareholders, regulators, local communities, etc.), defining the desired **outcomes** for each group, and articulating the **behaviors** required to realize this vision. The articulation of behaviors provides the observable and tangible elements that can be measured through various **metrics**.

A highly simplified example of this process is shown in Exhibit 2 as an illustration. However, in reality, the exercise is more challenging and complex, and the output more nuanced and intricate, which we discuss in the next section.

Exhibit 2: The Path to Meaningful Metrics

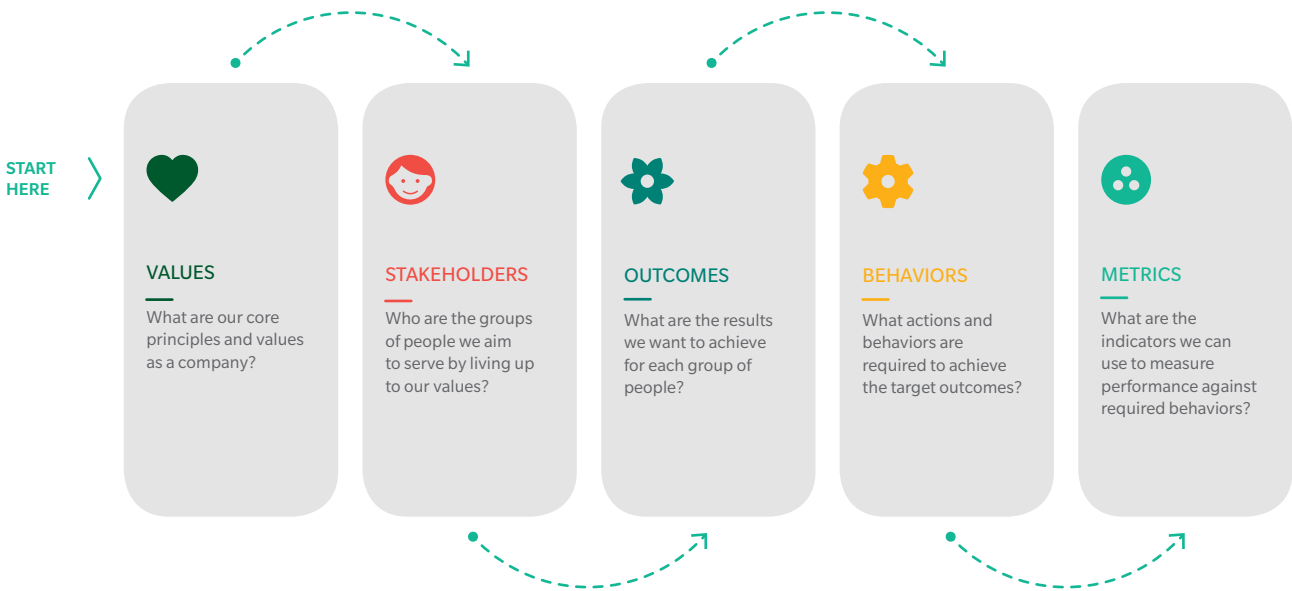
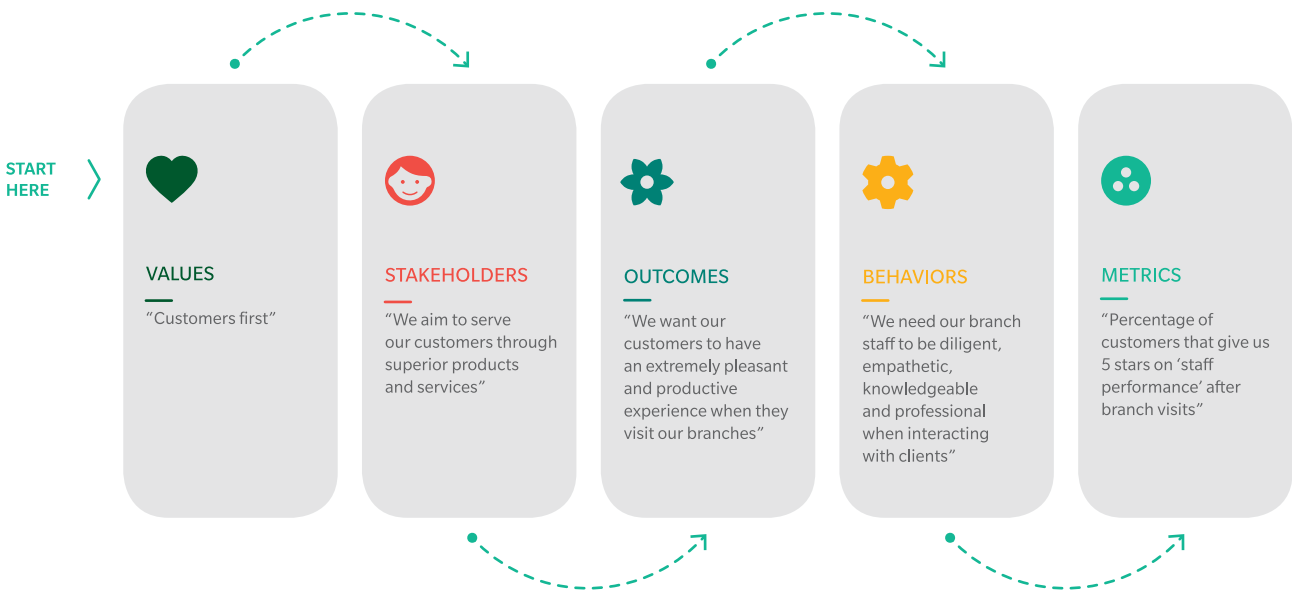


Exhibit 3: Example illustrating the Path to Meaningful Metrics

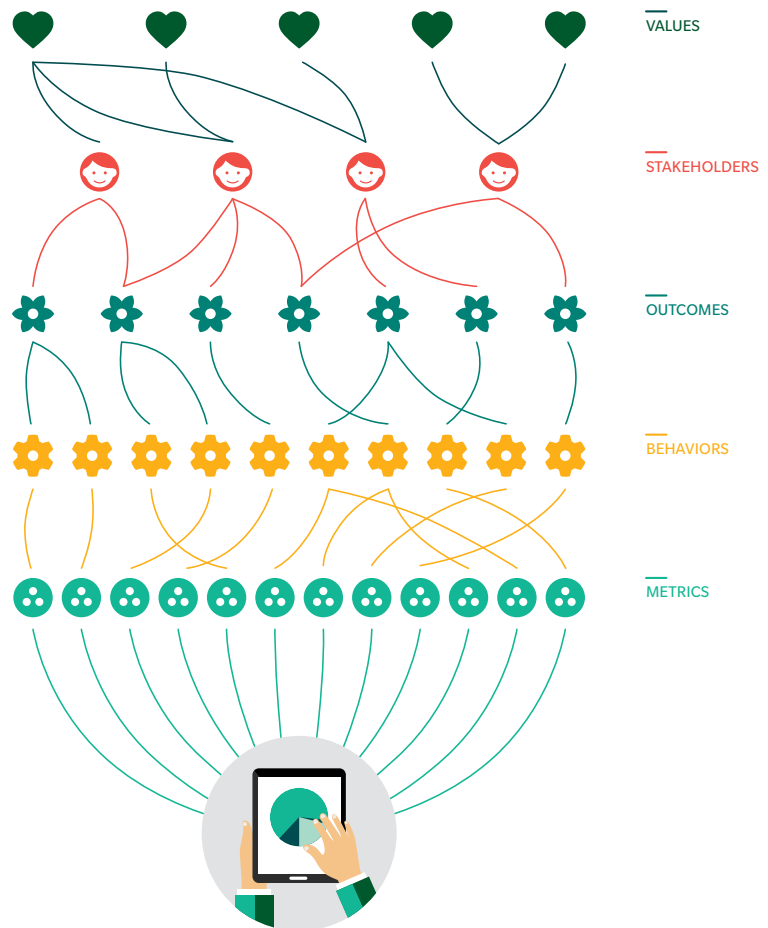


A CHALLENGING PATH

Unlike the simple, single lane example provided in the previous section, organizations in reality will have multiple core values that aim to serve multiple groups of people which then lead to multiple outcomes and an even greater number of desired behaviors. The result will be a complex web of individual paths from values to metrics, which we refer to as the **“Value-Metric Map”** as illustrated in Exhibit 4.

The direct linkages established from metrics to values in this map will allow management and the board to determine whether they are truly living up to their core values. But first, there are a number of challenges associated with this exercise that must be addressed to establish a robust Value-Metric Map:

Exhibit 4: The Value-Metric Map



CHALLENGE 1

Articulating company values in terms of outcomes

In recent years, many companies have made great progress in agreeing on and clearly articulating their core values. This has been a more challenging task for large, multi-geography and multi-industry organizations where values might differ depending on the specific part of the organization, but good progress has been made nonetheless. The next and bigger challenge is articulating these values in terms of real outcomes and expectations.

Values are usually quite high level and may not be meaningful to employees in terms of “what is specifically expected of me in my job to live up to this value?” Many companies have not previously gone through this values-to-expectations translation exercise and will need the most support in this area. In particular, thinking through the large number of outcomes a value can represent, agreeing on the most desired ones, and forming the logical linkages will require significant effort.

CHALLENGE 2

Enterprise applicability

Successfully creating a “Value-Metric Map” requires a collaborative group of stakeholders that span the organization’s various functions such as Risk, Compliance, Legal and HR, as well as the various geographies and lines of business in order to make sure the right elements are being captured and articulated. Defining outcomes and metrics that are meaningful across the enterprise is a key benefit of the cross functional group. It is critical to identify indicators that can be used for measurement across the enterprise, allowing for drill-down, roll-up and meaningful comparison along different dimensions (e.g., geography, function, line of business). These enterprise-wide metrics can then be supplemented with more specific metrics that can capture the idiosyncrasies of different parts of the organization (e.g., line of business or geography-specific metrics).

Getting to a meaningful set of metrics is a highly iterative and collaborative process that cannot happen in a silo or overnight. As a result, the organizational engagement and collaboration aspects of the process are key success factors that need to be driven by a dedicated team that will bring together the various stakeholders, create a collaborative environment and help drive alignment.

CHALLENGE 3

The right amount of metrics

Since companies generally have multiple values that will likely lead to a large number of required behaviors, the mapping exercise can easily result in an unmanageable number of metrics. It is a good exercise to go through the process and come up with a long list or “inventory” of potential metrics. However, once the long list is identified, a methodical prioritization exercise must be followed to identify the most relevant and crucial ones based on a number of factors such as data availability and quality, ease of understanding, calculation frequency, applicability across the organization and overall relevance to the organization’s definition of “conduct”. The aim of this exercise should be to identify a manageable number of metrics that will serve as a starting point. The short list of metrics can then be refined and iterated based on further analysis and input from stakeholders.

CHALLENGE 4

Finding the data

The output of the “Value-Metric Map” exercise is a set of metrics that will allow the organization to measure and monitor the health of the company culture. However, consolidating the data that fuel the metrics is a significant challenge. Some data will be readily available, but a large portion will not be captured or will exist in disparate systems and in different formats with varying history and quality. As a result, the mapping exercise must be accompanied by a data exploration and analysis effort to make sure that the data needed for the desired metrics are available or can be readily collected.

CHALLENGE 5

Differentiating between conduct and misconduct

When firms start down the culture and conduct measurement path, many focus their efforts on misconduct: **intentional** actions that are clear breaches of policies. However, culture and conduct reporting should also include negative outcomes driven by **unintentional** behavior and unintended consequences such as flawed product design that does not meet customer needs. Furthermore, to provide a truly comprehensive and balanced view of company culture and conduct, the scope of measurement should cover positive conduct and associated indicators such as employee volunteer hours, employee satisfaction survey results, sustainability efforts and social impact investments.

WHAT TO DO NOW?

One topic we will explore in future installments of the culture measurement series is what to do once you have gone through the Value-Metric Map creation exercise, identified the desired metrics and collected the data. More specifically, we are going to talk about the Operating Model that is required to effectively and efficiently maintain and monitor, and then extract valuable and actionable insights from, the defined metrics.

In the meantime, there are a number of tangible steps organizations can take to start moving in the right direction:

- **Get executive buy-in:** Establish culture measurement as an executive-mandated top priority for the organization
- **Mobilize a culture measurement team:** Create a team that will lead the “Value-Metric Mapping” exercise and drive cross-enterprise collaboration – this team can also form the core of the operating model
- **Put together a working group:** Identify a diverse and cross-functional group of stakeholders that will meet regularly to drive effort forward
- **Begin Value-Metric Map exercise:** Start the journey following the methodology described in this document
- **Launch data discovery effort:** Begin identifying data needs and understanding where the data is, and in what shape

ABOUT THE AUTHORS

Elizabeth St-Onge

Partner in the Partner, Corporate and Institutional Banking and DTA Practices
elizabeth.st-ong@oliverwyman.com

Ege Gürdeniz

Principal in the Digital, Technology & Analytics and Finance & Risk Practices
ege.gurdeniz@oliverwyman.com

Elena Belov

Partner in the Finance & Risk and Organizational Effectiveness Practices
elena.belov@oliverwyman.com

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.

For more information please contact the marketing department by email at info-FS@oliverwyman.com or by phone at one of the following locations:

AMERICAS

+1 212 541 8100

EMEA

+44 20 7333 8333

ASIA PACIFIC

+65 6510 9700

www.oliverwyman.com

Copyright © 2018 Oliver Wyman

All rights reserved. This report may not be reproduced or redistributed, in whole or in part, without the written permission of Oliver Wyman and Oliver Wyman accepts no liability whatsoever for the actions of third parties in this respect.

The information and opinions in this report were prepared by Oliver Wyman. This report is not investment advice and should not be relied on for such advice or as a substitute for consultation with professional accountants, tax, legal or financial advisors. Oliver Wyman has made every effort to use reliable, up-to-date and comprehensive information and analysis, but all information is provided without warranty of any kind, express or implied. Oliver Wyman disclaims any responsibility to update the information or conclusions in this report. Oliver Wyman accepts no liability for any loss arising from any action taken or refrained from as a result of information contained in this report or any reports or sources of information referred to herein, or for any consequential, special or similar damages even if advised of the possibility of such damages. The report is not an offer to buy or sell securities or a solicitation of an offer to buy or sell securities. This report may not be sold without the written consent of Oliver Wyman.