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MEASURING CONDUCT AND CULTURE

FROM METRICS TO MEANINGFUL INSIGHTS

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EXECUTIVE SUMMARY

As we close the decade since the 2008-09 global financial crisis, the emphasis on culture and conduct in banking has never been higher. Financial and reputational consequences of misconduct and cultural failures at banks have placed increased responsibility on boards and senior management to demonstrate effective measurement, management and oversight of conduct and culture. As a result, developing management and board-level reporting on culture and conduct risk has become a major focus area for many organizations.

Culture represents the composite of an organization's values, practices, and norms, and as such, it is difficult to measure – although not impossible. Whether consciously or not, the culture of an organization influence employees' behavior by encouraging them to act in accordance with their perception of what behaviors are rewarded and which ones are penalized by the organization. Conduct is hence a manifestation of culture and can be measured based on the observable actions and decisions of individuals and groups within the institution.

Although many organizations today have commenced some form of culture and conduct reporting, most are narrowly focused on misconduct, and continue to struggle with using multiple lenses to develop a holistic view of the culture at their organizations.

In the absence of meaningful measurement, senior leaders are unable to discern how their organization's culture may be different from the desired culture and needs to shift accordingly to align with their values and strategy. **Culture must be steered by design, otherwise it naturally evolves to suit the surrounding context.**

In the previous installment of our series on culture and conduct measurement, we presented a Value-Metrics mapping methodology for organizations to identify meaningful metrics based on their alignment to the fundamental principles of the company. However, from our experience, having the right metrics is necessary but not sufficient for organizations to derive meaning and realize the right insights. Therefore, in this paper, we discuss what metrics to focus on, how to monitor them and how to look for meaning in the data to generate true insights, including:

1. **Look Forward, Not Just Backwards:** Leading metrics serve as early warning signals that can help identify areas that require further attention or investigation and increase an organization's ability to respond to potential issues before they become problems. These also point to positive movements and beacons of success.

2. **Focus On Culture As Well As Conduct:** Indicators of culture, such as diversity, morale, and trust, can help organizations understand how employees feel and treat others, and when viewed in conjunction with conduct metrics, can be a powerful tool to proactively identify issues and problem areas.

3. **Determine When and How to Act:** Developing a methodology to designate a monitoring approach to each metric (and metric composites) and identifying the accompanying investigation and escalation processes, can help detect anomalous behaviors and initiate action.

4. **Collaborate to Create:** Instituting a collaborative report creation process—that is led by a focused team and leverages subject matter expertise from lines of business and corporate functions—is key to creating a "big picture" narrative that is both insightful and actionable.

5. **In Data We Trust:** A meaningful report requires developing capabilities that facilitate consistent and reliable data collection, data exploration and analysis, and dashboard automation.

6. **Governance As the Engine For Change:** Assigning governance responsibilities and developing clear processes to facilitate holistic end-to-end oversight helps drive action and prompt change through reporting.

Exhibit 1 summarizes the key success factors presented in this report.

Exhibit 1: Developing a path for meaningful reporting

	Current state Illustrative example	**Future vision**
	Work backwards to build each component	
1 Look Forwards Not Just Backwards	• Most metrics used are lagging indicators	• Metrics include a mix of both leading and lagging indicators
2 Focus On Culture As Well As Conduct	• Most metrics focus on avoiding conduct risk and value destruction	• Metrics include a mix of both misconduct and positive organizational culture indicators
3 Determine When And How to Act	• Most metrics are monitored based on period-over-period trends, with some preliminary thresholds established for a small number of metrics • Monitoring and escalation processes have not been clearly defined, documented or socialized	• A clear methodology exists for designating a monitoring approach to metrics • Application of monitoring methodology results in calibrated thresholds for metrics where appropriate • Investigation and escalation processes are well defined and documented
4 Collaborate To Create	• Narratives are collected individually from subject matter experts (SMEs) • A central forum to establish an overarching narrative does not exist • Roles and responsibilities are unclear • Timelines cannot be enforced due to lack of accountability	• Close organizational collaboration exists between the central Conduct Measurement Team and subject matter experts to create a consistent narrative and actionable insights • Roles and responsibilities are clearly communicated • Timelines are strictly enforced and adhered to
5 In Data We Trust	• Data is mostly available at an aggregate level • Data definitions are inconsistent across metrics • Data is gathered separately from multiple sources and teams, and is consolidated manually • Dashboard/report data is loaded manually	• Reliable and granular data is available for each metric • Data definitions are standardized across metrics • Data from various sources is automatically consolidated in a central repository • Dashboard is automatically populated using data from the the central repository
6 Governance As The Engine For Change	• Governance processes are disparate and rely mostly on other existing organizational processes • Cultural goals and objectives are unclear	• A formalized governing body provides holistic end-to-end oversight of conduct and culture • Cultural goals and objectives are reviewed periodically • Cultural improvement initiatives are developed and prioritized to align with company values

Recap of our first paper in the Conduct and Culture series

MEASURING CONDUCT AND CULTURE: A HOW-TO GUIDE

For many organizations, conduct and culture measurement is a work-in-progress. Given the elusive and abstract nature of "conduct and culture," successful measurement can be difficult, but as boards, regulators, shareholders and the public require companies to be much more proactive and transparent in this space, effective measurement is becoming a necessity.

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. Exhibit 2 provides a highly simplified illustration of a methodology that organizations can use to measure conduct and culture through metrics that link back to the fundamental principles of the company.

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 expected behaviors provides the observable and tangible elements that can be measured through various **metrics**.

Organizations will have multiple core values that aim to serve numerous groups of people which then lead to several 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." The direct linkages established from metrics to values in this map will help management and the board to determine whether they are truly living up to their core values. For further details on how organizations can develop meaningful metrics, please refer to Oliver Wyman publication, "Measuring Conduct and Culture: A How-to Guide for executives (April 2018)."

Exhibit 2: The path to meaningful metrics

Source: Oliver Wyman publication, "Measuring Conduct and Culture: A How-to Guide for Executives (April 2018)."

DEFINING MEANINGFUL INSIGHTS

Before we begin our discussion of key success factors for organizations to create meaningful insights through reporting, we must first define and agree on what "meaningful" entails.

Meaningful reporting is:

- **Relevant:** Includes both negative and positive information for developing a comprehensive understanding the cultural pulse—the state of conduct and culture—of an organization.
- **Perceptive:** Connects the dots between multiple sources of information to present a view that causes the audience to re-examine and challenge their understanding.
- **Timely:** Enables diagnosis of cultural issues at an appropriate time, ideally before issues occur or escalate.
- **Action-oriented:** Defines required action (when appropriate), or provides indication that no action is needed.

The remainder of this paper assumes that a starting list of metrics has been identified through the Value-Metrics mapping exercise and focuses on how to further build on this starting list of metrics to create meaningful insights. For further details on the Value-Metrics mapping exercise, please refer to page 5.

KEY SUCCESS FACTORS

KEY SUCCESS FACTOR #1
LOOK FORWARDS, NOT JUST BACKWARDS

Due to the large focus on misconduct during early stages of reporting, metrics often consist of ***lagging*** indicators that confirm previously identified or reported cases of misconduct. Lagging indicators can be effective for:

- Measuring misconduct trends over time, allowing identification of root causes and lessons learned.
- Taking systematic action in response to increases in specific types of misconduct.
- Identifying "conduct hot spots" by comparing metric results across the organization.

Although useful, lagging indicators only allow for post-mortem analysis of issues detection and remediation. A key characteristic of meaningful reporting is that it enables diagnosis and investigation of conduct and cultural issues at the most opportune time, ideally before misconduct occurs. Therefore, as organizational reporting processes mature and become more established, ***leading*** indicators can help to adopt a more proactive approach to culture measurement and enable more timely detection of potential hot spots as well as the deterioration of the alignment between values and behaviors. Leading metrics serve as early warning signals to help identify areas that require further attention or investigation for both systematic and individual issues.

Exhibit 3 uses sample metrics to show the different opportunities for detecting and preventing misconduct depending on the type of metric used. While a lagging metric focuses mostly on ex-post-incident reporting, a leading metric serves as an ex-ante indicator of potential issues or areas that may be identified as problems in the future. Thus, including leading metrics leads to more meaningful insights by giving an organization's custodian greater ability to address issues in a timely manner.

Furthermore, a comparison of leading metrics across different areas can help identify beacons of success where positive manifestations of culture can be observed and learned from, resulting in a more comprehensive understanding of an organization's culture. Hence, both leading and lagging metrics will be needed.

Exhibit 3: Differentiating between lagging and leading indicators

Lagging Metric

Metrics on **confirmed** cases of misconduct that have **been identified or reported** by stakeholders

Leading Metric

Metrics related to employee conduct and business outcomes that may serve as **early warning signals** to help identify **areas for further investigation** for both systematic and individual issues

Sample Metrics

Number of misconduct incidents related to sales practices	Number of complaints and allegations related to misconduct	Salesperson performance above the norm	Rate of employee turnover
Confirms misconduct issues	Identifies **potential** misconduct issues	Identifies behavioral anomalies that could be related to **organizational issues, or conduct/culture more specifically**	Identifies **potential** organizational issues that **could be indicate cultural or behavioral breakdowns**

Increasing ability to respond to potential issues before they become problems

KEY SUCCESS FACTOR #2
FOCUS ON CULTURE, AS WELL AS CONDUCT

When organizations begin their culture measurement journey, many focus their efforts on conduct. The selected metrics often target the typical conduct hot spots that are under most regulatory scrutiny, such as sales practices and market abuse, and aim to capture negative actions that can lead to value destruction for an organization. However, to provide a truly comprehensive and balanced view of a company's cultural pulse, the scope of measurement should also cover indicators of culture, such as metrics related to diversity, morale, engagement, and trust, that are indicative of how the organization is living up to its values and of how an average employee in the organization feels and treats others. Clarity of expectations as well as positive attitudes and associations with an organization makes a compelling case for employees acting in accordance of organizational values.

Exhibit 4 provides an overview of conduct and culture measurement focus areas observed in the industry, ranging from pure misconduct metrics to indicators of positive organizational culture. Organizations that lie on the value creation end of this continuum are often more mature in their conduct and culture journey.

Exhibit 4: Conduct and culture measurement focus areas observed in the industry

Focus on misconduct and **avoiding value destruction**

Ethical treatment of customers	Dealing responsibly with customers, and having effective policies and processes to guide conduct towards customers
Ethical treatment of colleagues	Acting with integrity and honesty with regards to colleagues, and having effective policies to guide workplace conduct
Integrity in the market	Acting in a manner that enables fair and safe operation of the markets, and maintaining investor confidence
Customer and quality focus	Adopting a customer-first mindset and focusing on quality and excellence in areas of service that bring value to customers
Collaboration and trust	Focusing on interdependence vs. independence, and fostering trust in leadership and between teams
Diverse board and workforce	Striving for diversity along multiple dimensions in addition to gender (e.g. ethnicity, age, career experiences) across the organization
Performance orientation and cost consciousness	Setting high expectations for performance and levels of accountability; making a commitment to efficiency and disciplined financial management
Appreciation and recognition	Ensuring that employees are aware that they are valued and feel recognized and rewarded for their work
Agility, innovation, and growth	Encouraging innovation, creation and change in the organization
Positive spirit and morale	Striving for high levels of workforce engagement and pride in the organization

Focus on fostering a culture that **enables value creation**

It should also come as no surprise that cultural metrics (towards the lower end of the graphic) are often leading in nature. Thus, increasing the scope of measurement allows for more timely detection of potential issues. In addition to increasing the scope of the metrics assessed, it is also important to combine various indicators to understand the correlation between metrics and identify potential issues. For example, metrics related to customer complaints, employee allegation and employee turnover can be more powerful at identifying potential issues and problem areas when looked at side-by-side. Additionally, looking at similar metrics with varying severities can help organizations understand whether there are serious issues or simply an increase in awareness and reporting. Exhibit 5 shows an example of nested metrics with increasing severity as you move from left to right.

The view in Exhibit 5 can help understand the proportion of customer complaints that were substantiated and were sufficiently severe to result in disciplinary actions, or worse, termination of employees. It can also help understand the strength of internal controls and investigation processes. Underlying messages and key takeaways can then be stitched together into a cohesive narrative and presented to the board and senior management to provide insights and prompt action.

Exhibit 5: Nested view of selected customer complaints and consequences

	Customer complaints alleging misconduct	Resulting in **internal investigations**	Resulting in **disciplinary actions** for employees	Resulting in **termination** of employees
Aggregate number	**110**	**82**	**33**	**16**
Percentage of customer complaints alleging misconduct	–	75%	30%	15%

KEY SUCCESS FACTOR #3
DETERMINE WHEN AND HOW TO ACT

A good set of metrics is incomplete without an accompanying approach to distill the information provided into an action. During the early stages of reporting, organizations often report metrics based on period-over-period changes and trends due to the limited historical data availability, data reliability issues, and the lack of internal alignment on acceptable levels for the metrics. Although a trend-based monitoring approach may be most intuitive and useful in some cases, in others, it may lead to a false alarm or fail to capture deviations from the norm. Exhibit 6 provides an illustrative example of how small period-over-period changes in a metric may encourage inaction due to a false sense of security and prevent further investigation and escalation of a problem area.

When banks think of alternate monitoring approaches, often, the words "threshold" or "range" comes to mind. Calibrating historical-data-based thresholds or ranges seem like a daunting task when data availability and reliability is already under question, and organizational pressures to generate a timely report are high. To circumvent such situations, resorting to trend-based monitoring seems like a good compromise for most organizations. However, the use of historical-data based thresholds or ranges is just one of many approaches for monitoring metrics, and it may not be the right approach for all metrics. Developing a robust methodology for monitoring metrics is the key to guiding action through reporting.

Exhibit 6: Illustrative example of action driven by different monitoring approaches

Metric: Allegations of unauthorized accounts/services

	Q1	Q2	Q3	Q4
Number of allegations	53	52	55	56
Approach 1: Monitor period-over-period change	–	Change = 2% NO ACTION	Change = 6% NO ACTION	Change = 2% NO ACTION
Approach 2: Monitor against thresholds/ ranges (Threshold > 54)	Below threshold NO ACTION	Below threshold NO ACTION	Above threshold INVESTIGATE	Above threshold INVESTIGATE

Considering inherent characteristics of metrics and the conduct and culture information they provide is usually a good starting point for developing a monitoring methodology. Exhibit 7 provides some factors for consideration when developing a monitoring approach based on the type of metric.

Organizations should designate a monitoring approach to each metric (or set of metrics) that can intelligently detect anomalies and issues and build the supporting investigation and escalation processes to drive change. Furthermore, a well-socialized and documented methodology also comes with the added benefit of avoiding organizational hurdles of debating and aligning on a monitoring approach every time a new metric is introduced.

Exhibit 7: Key considerations for selecting a monitoring approach for metrics

	Key considerations	Monitoring approaches	Sample metric types
A	Does the metric capture an incident with high severity/impact and low frequency of occurrence?	Review all instances	• Misconduct litigation incidents • Regulatory findings
B	Does peer comparison provide valuable insights for this metric and is this information available?	Benchmark against peers and set ranking targets	• Sentiments across social media • Brand surveys and reputational ratings
C	Is historical movement representative of normative bounds for this metric and is there reliable historical data available for this metric?	Monitor relative to historical movements	• Sales practices complaints • Terminations for cause
D	Are there existing internal/strategic targets that exist for this metric?	Monitor relative to internal targets	• Philanthropic investments • Diversity and inclusion goals
E	Is there an expectation for the metric to increase or decrease over time due to specific initiatives that have been implemented to drive change?	Monitor period-over-period trend	• Employee morale *(to track response to work life balance initiative)*

- Root cause analysis must be conducted for all metrics, regardless of selected approach
- In some cases, a combination of monitoring approaches may be used

KEY SUCCESS FACTOR#4
COLLABORATE TO CREATE

Metrics are tools that have the potential to provide useful information. Similarly, a monitoring approach is a mechanism for initiating action. However, even with the right tools and mechanisms in place, there is strong human component to culture measurement that is essential for putting all the pieces together to generate insights.

Instituting a collaborative and interactive analysis and dialogue process—that is led by a culture and conduct measurement team and leverages subject matter expertise from lines of business (LOB) and corporate functions—is imperative for creating meaningful insights. The role of the central culture and conduct measurement team should consist of:

- Coordinating the creation of regular reporting to governing bodies across LOBs.
- Analyzing metric results and trends across LOBs and delivering a "big picture" narrative for the board and senior management.
- Identifying potential areas requiring additional assessment or analysis.
- Pointing out the "bright spots" and positive trends.
- Coordinating the escalation and resolution of any conduct issues identified.
- Working with senior management on any initiatives needed to realign culture or address conduct risk concerns.
- Assessing the value and effectiveness of the insights and improving the methodology and reporting as needed.

To facilitate the central team's role, a working group consisting of subject matter experts and the culture and conduct measurement team should be created that meets on regular basis to discuss how individual metrics are related and whether there are any meaningful correlations that exist between the metrics. Having access to granular information such as splits by business units, products and geographies, can enhance the working group's ability to arrive at the right hypotheses and conclusions. Stitching both the positive and negative information presented by metrics against the backdrop of organizational and LOB context can lead to a 'big picture' narrative for the board and senior management, that is comprehensive, insightful and actionable.

KEY SUCCESS FACTOR #5
IN DATA WE TRUST

A report is only as good as the data it is built on. Developing capabilities that facilitate consistent and reliable data collection, data exploration and analysis, and dashboard automation are key for developing meaningful reporting, including:

- Establishing a consistent and reliable data collection process that consolidates data from multiple systems to create a standardized dataset for relevant and timely reporting.
- Developing tools that enable teams to minimize manual steps in reporting and maximize value-add activities such as data exploration and analysis can help build an insightful narrative.
- Building an automated dashboard that allows enhanced data visualization and "drill-downs" can optimize users' abilities to extract insights from the underlying data to guide future actions.
- Considering the use of 'big data' to look for patterns and differences so large data sets can be used to assess trends and patterns that are signals to potential issues.

As shown in Exhibit 8, developing these capabilities requires an end-to-end understanding of the various underlying components that need to come together to establish the overall architecture. Once a catalogue of underlying components is developed, a sequenced and incremental approach can be followed to build, pilot, and enhance reporting.

Exhibit 8: Overview of data capabilities for meaningful reporting

SOURCE SYSTEMS	RAW DATA LAYER	STANDARDIZED DATA LAYER	ANALYTICAL LAYER	USER INTERFACE
Underlying data for metrics is captured in **disparate source systems** across functions and LOBs	Data is **aggregated** across source systems into a raw database	Raw data is cleansed and standardized to create a "**production-ready**" **dataset** for conduct and culture reporting	Various **data views** are created to facilitate root cause exploration and analysis for building the narrative	A "**self-service**" **reporting dashboard** provides flexibility to create dynamic views of the data with few clicks of a button

Consistent and reliable data collection

Consistent and reliable data collection

Dashboard automation

KEY SUCCESS FACTOR #6
GOVERNANCE AS THE ENGINE FOR CHANGE

To put the reporting and insights into action companies must also provide holistic end-to-end oversight and accountability of favorable and unfavorable cultural developments and ensure a consistent approach to culture and conduct management across the organization.

Various governance approaches can be observed across the industry—that range from expanding the mandate of existing management-level committees to cover cultural governance topics—to establishing dedicated management-level and board sub-committees focused entirely on governing culture and conduct.

Regardless of the specific governance approach selected by an organization, clear governance processes should be formalized and socialized across the organization and address critical considerations such as:

- What are the mandates of the HR, Risk, Compliance, Legal, and business areas?
- Who can see the information—particularly information around misconduct?
- What is the organization legally required and allowed to do in response to the information presented?
- As issues arise, when should HR and Legal be brought in?

Reporting on the trends and risks is not enough if there is no ownership at the most senior levels of the organization. As such, organizations must also ensure that the recipients of the information (for example, senior management and the board) understand how and why they must manage their organization's culture by design.

CONCLUSION

Few banks today have defined a clear model for measuring and proactively addressing the areas of greatest conduct and culture risk. As the emphasis on conduct and culture grows in the industry and the level of engagement from boards and senior management increases, organizations are presented with the challenge and opportunity of thinking about the multi-year journey ahead to successively evolve reporting and enhance culture measurement.

Each success factor discussed in this paper presents an operating model component that is required to effectively and efficiently maintain and monitor, and then extract valuable and actionable insights from a list of metrics. Adding more leading indicators and increasing the scope of cultural measurement can significantly enhance the relevance and timeliness of reporting. Similarly, developing a methodology to monitor metrics, organizing a collaborative report creation process, launching supporting data initiatives and establishing governance mechanisms, are essential precursors to extracting insights and guiding future action. Setting up a culture and conduct measurement team with the right combination of skill sets is the catalyst to ensure that measurement and reporting are optimized to reduce organizational conduct and culture risk. Through the team's dedicated support and focus, gaps in capabilities can be identified to establish a clear path forward to meaningful reporting.

In future installments of the culture measurement series, we will discuss the potential for new sources of conduct and culture risk from recent developments—for instance from increased adoption of artificial intelligence and machine learning to the transition away from LIBOR.

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