Measurement of culture in financial services firms

How can you manage what you do not measure?
Measuring culture in financial services firms – the regulatory perspective

Measuring culture is now an essential organisational capability in financial services firms. It is not an optional extra. If you cannot measure cultural alignment, you cannot hope to measure or manage conduct risk.

With customer confidence still on the recovery, restoring trust in the industry to its former level is still some way off. Nevertheless the FCA is steadfast on achieving this and its recent publication of the FCA’s 2016/17 business plan saw firms’ ‘culture and governance’ as one of their top seven priorities.
TO DEVELOP

- ethical leadership where the right tone is set from the top
- a culture of accountability at all levels and to ensure senior individuals are fully accountable for defined business activities and material risks

TO PROACTIVELY IDENTIFY

- risks in their strategies, business models and cultures that might prevent delivering good market and consumer outcomes
- ways to address those risks using appropriate systems and controls
- appropriate use of and response to whistleblowing intelligence

TO ENSURE

- drivers of culture (strategies, business models, systems and controls) align to values and support good outcomes
- behaviours fall within an established risk appetite through use of appropriate incentives
- the creation of a culture that supports the long-term interests of the firm, its customers and market integrity

TO DEMONSTRATE

- principles of good conduct towards customers and markets are incorporated and embedded throughout their business, producing better consumer outcomes and market behaviour

The FCA will be looking at firms:
Culture can be tangible and can be measured

Good culture doesn’t have to be an accident of people or circumstances – it can be actively managed, analysed and measured.
Measurement of individual judgments and behaviours provides good insight into the culture of a business. Without tangible measurement it is virtually impossible to assess where you are on the cultural journey, let alone effectively manage or change culture. Being able to understand and demonstrate your firm’s cultural alignment to its values really is critical in this evolving regulatory environment.

The key to success in measuring culture is to observe how each of the elements of your ‘cultural web’ manifests itself within different areas of the business. Many current methods focus on repurposing or re-interpreting data already available (e.g., complaints data and customer feedback). Whilst these are good as calibration, calling them ‘culture’ is missing the point. Observing behaviours in the normal course of business is critical to truly understanding culture and this underpins our approach. Objectivity and robustness is added through calibration with different tools.

There are five key stages to culture assessment:

1. **Define the values**
2. **Plan the assessment**
3. **Capture and evaluate the evidence**
4. **Aggregate, analyse and report the findings**
5. **Take decisions and actions to improve cultural alignment**

This practical approach helps a firm to objectively assess the cultural alignment in its business and how well the espoused values are embedded in everyday behaviours. This then allows the firm to see where practical measures may be needed to improve cultural alignment with its values, including identifying and dismantling barriers and subcultures within the organisation.

Outputs enable senior management to analyse and understand how drivers of culture are impacting different areas of the business. Dashboards provide tangible evidence of measurement and on-going monitoring, and can be used to track change over time.
Understanding culture - the cultural web

Culture is a combination of formal and informal elements. Our approach to measuring it considers the informal, interrelated aspects that constitute what scholars, Johnson and Scholes describe as the cultural web that depicts a paradigm of the working environment.
CULTURAL ASSESSMENT FRAMEWORK

Events and people that are discussed internally and externally. This is inclusive of the recipient’s reaction, sponsorship or dismissal following shared information.

Core beliefs
The beliefs and assumptions are the paradigm by which every other aspect of the cultural web is viewed.

Control systems
The way that the organisation is monitored and controlled eg financial, quality, measurement and reward systems.

Symbols
The tangible and intangible visual representations of a firm. These include logos, office layout procedures and dress code.

Organisation structures
Roles and responsibilities as outlined in the structure chart guide decision making, delegation and communication flow.

Rituals and routines
The day-to-day behaviour and actions of people toward their work, each other and those outside work.

Power structures
The key influencers within the company and the way decision making is conducted.

Stories
The stories and narratives that are told inside and outside the company.

Events and people that are discussed internally and externally. This is inclusive of the recipient’s reaction, sponsorship or dismissal following shared information.
Measurement of culture in action

What cannot be measured cannot be managed and culture is no exception. For culture to become more than just a concept or an ideal, it must be capable of meaningful, tangible measurement.

There are five key stages to the process:

1. Define
   - Define the cultural values that the organisation strives to uphold, and identify the key drivers that influence cultural alignment.
   - Define norms and behaviours which indicate either positive or negative alignment with cultural values.
   - Align these to your overarching strategic vision.

2. Plan
   - Plan the depth and breadth of your assessment and select the appropriate tools. We use a combination of document review surveys, focus groups and, critically, observation of behaviours.
   - Identify where you will have an opportunity to observe the organisational culture in action, acknowledging behaviours will not be the same across the entire business.

3. Capture and evaluate
   - Build up a repository of examples of indicators around the cultural web which demonstrate positive or negative alignment to cultural values.
   - Use each element of your approach (eg document review, observations, etc) to calibrate findings from the others.

4. Aggregate, analyse and report
   - Draw information together to understand your existing culture by reference to alignment with the values.
   - Where behaviours are misaligned to the cultural values, seek to identify barriers, subcultures or apathy.
   - Distil your evaluation into a display which is meaningful and conveys the results in a way that is simple to understand.
   - Direction of travel is just as important as proximity to the destination.

5. Decisions and actions
   - Decide actions to drive better cultural alignment with values and bridge any gaps.
   - Identify the drivers that will help you create effective change (eg leadership, people management strategy).
   - Re-evaluate to observe changes over time and to test whether cultural change programs are having real impact.
   - Reaffirm that values are still relevant, current and aligned with the strategy.
1. Define

Every firm will have a culture – whether or not that culture is one that senior management wants to foster needs to be understood. Before a firm can begin to assess whether its culture is positively aligned to its actual or desired values, those values must be defined and well understood.

Identify the core values that the firm strives to uphold. These will be unique to each firm but should represent the key attributes the business wishes to display and be known for. These are typically single words or short phrases, for example:

<table>
<thead>
<tr>
<th>Collaboration</th>
<th>Leadership</th>
<th>Respect</th>
</tr>
</thead>
<tbody>
<tr>
<td>Example negative behavioural indicators</td>
<td>Example positive behavioural indicators</td>
<td></td>
</tr>
</tbody>
</table>

### Control systems
- Sales incentives or performance management drive inappropriate behaviour
- People fear management
- Management make decisions with ‘my way or the highway’ mentality
- Decision making frameworks/governance arrangements effectively circumvented

### Organisational structures
- Teams or business units operate in silos
- Largely based on who knows who rather than capability
- Fixed meetings at every level (from executive team downwards), often leading to meeting overload
- Unclear allocation of responsibilities
- No root cause analysis of identified issues

### Power structures
- Challenge is absent, discouraged or ignored
- Decision making inappropriately favours the interests of the firm or individuals over its customers
- Dictatorial rule with no evidence of adequate consultation
- Information is power, released on need-to-know basis

### Rituals and routines
- Unpredictable
- Fear and self-interest drives behaviour
- High staff turnover

### Symbols
- Senior people and their ‘mates’ have special things (eg cars, offices, perks)
- Public humiliation stories
- Failure to deal with poor performance

### Stories
- Significant work won
- How the ‘boss’ treats people
- Arguments and significant disputes

Having identified the cultural values that the firm strives to uphold, determine behaviours that would indicate positive or negative alignment with these values. List some examples in relation to each area of the cultural web to be used as a reference tool. This list is certainly not exhaustive but will act as a guide during the assessment process, whilst the formal indicators of culture may be more easily identifiable – the informal indicators are equally, if not more, important.
2. Plan

Before undertaking a cultural assessment, it is important to decide on the approach which will yield the greatest insight. Some methods rely solely or predominantly on surveys or focus groups, but this ignores the fact that people are likely to alter their behaviour or responses when they know they are being observed, specifically in relation to how well they uphold the firm’s cultural values. Observation should form part of any measurement plan and it will be most powerful when it is conducted as part of other routine business activities.

<table>
<thead>
<tr>
<th>Approach to discovery and measurement - toolkit</th>
<th>What is it?</th>
<th>Why do we do this?</th>
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</thead>
<tbody>
<tr>
<td>Observation &amp; shadowing</td>
<td>An observation of the practices within the organisation which identifies how people practically live and breathe the culture</td>
<td>• Observation enables the team to cross-check the real life behaviors against the discursive aspects from focus groups • This activity provides the ‘what really happens’ answer to the team</td>
</tr>
<tr>
<td>Document review</td>
<td>A review of key business documents to identify cultural themes through the use of language, metaphors, corporate stories, success stories etc.</td>
<td>• This enables the team to understand how leadership has interpreted the culture and values of the organisation • Acts as a means to identify the level of alignment between the other areas of research as part of the review</td>
</tr>
<tr>
<td>Cultural dynamics survey</td>
<td>A survey to understand the organisational and cultural dynamics of the business.</td>
<td>• This provides a quantitative assessment of the organisational culture – which can be mapped and charted visually • Enables the team to source opinions from a wide range of individuals – and yet also allows for analysis by particular groups of employees • Effective way of understanding where the organisation is on its cultural evolution</td>
</tr>
<tr>
<td>Focus Groups &amp; 1-2-1s</td>
<td>Professionally and independently facilitated sessions where employees can share their views on the corporate culture, values and norms</td>
<td>• This open and personal forum gives people the freedom to express their feelings honestly and without judgment • Can be used to calibrate findings from other activities • This provides depth of understanding to other quantitative data</td>
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</tbody>
</table>
3. Capture and evaluate

Whether you are analysing culture as part of a diagnostic exercise or as an on-going aspect of your normal business activities, record and collate all the observed behavioural indicators. Using the framework defined at the first stage, consider whether what you are seeing demonstrates positive or negative alignment with the firm’s values across each area of the cultural web.

We have discussed the importance of deploying the right suite of tools, and set out below how each of the various activities plays a part in compiling your analysis.

This work is open to unintentional bias and must be led by a trusted and independent individual with a breadth of knowledge across the firm and depth of experience in applying the techniques.

Observation & shadowing
- Observe all aspects of the cultural web in action. Ideally you would do this whilst also conducting other activity, such as compliance monitoring or internal audit activity rather than assessing culture directly. Opportunities for observation are endless – including meetings, committees, training sessions.

Document review
- Financial services firms produce huge volumes of documentation. Although these may not be specifically relevant to culture, what do they say about control systems and organisational frameworks? What does the language and content tell you about culture in the area of the business you are working in? Do these documents reflect what actually happens in practice?

Cultural dynamics survey
- If you are trying to undertake a broad cultural assessment across a large number of people (eg as part of a diagnostic exercise) you may decide to use a cultural dynamics survey to overlay on your other findings and to start to identify subcultures.

Focus Groups and 1-2-1s
- Feedback and calibration of your results is critical. We use focus groups and one-to-one sessions to allow people to speak openly about culture, to validate or get a new perspective on testing results.
4. Aggregate, analyse, report

Culture is not one dimensional and neither should be your MI. Based on your evaluation of each cultural value across different business areas, you will be able to populate a dashboard which shows trends and sub-cultures across the business. You can update each area as and when it is reassessed to keep the picture current. Noting the direction of travel – improvement or deterioration – is just as important as the absolute results.

There are numerous models you could use to evaluate the results from cultural assessment and monitoring. It’s important that you cross reference your culture assessment with other data you collect, particularly conduct MI.

Multi-dimensional culture analytics
Tangible data on culture can be reported in a multitude of ways for various different forums, including the board.
CULTURAL ASSESSMENT FRAMEWORK

Organisational structures
- Control systems
- Rituals and routines
- Symbols
- Power structures

Rituals and routines
- Stories

Stories
- Symbols
- Control systems
- Power structures
- Organisational structures

Free text comments from cultural dynamics survey

We try to keep our heads down
Customers are number one
We can use this opportunity to learn
No one values my contribution
Our leadership are very approachable

Integrate and calibrate with conduct MI

<table>
<thead>
<tr>
<th>Positive alignment</th>
<th>Negative alignment</th>
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</thead>
<tbody>
<tr>
<td>Complain rates</td>
<td>Customer satisfaction scores</td>
</tr>
<tr>
<td>Sales volumes</td>
<td>Net promoter scores</td>
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<tr>
<td>Compliance and internal audit reports</td>
<td>Breaches and near misses</td>
</tr>
<tr>
<td>Product usage</td>
<td>Financial crime monitoring</td>
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<tr>
<td>Whistleblowing</td>
<td>Staff turnover</td>
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<tr>
<td></td>
<td>Customer retention</td>
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<td></td>
<td>Sales trends</td>
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5. Decisions and actions

The dashboards and supporting evidence will highlight where and how to focus effort on changing behaviours to drive better cultural alignment with the firm’s values. The data may, for example, demonstrate the firm has a problem with middle management in certain business areas or it might show that whilst senior managers are demonstrating positive behaviours, reward schemes at a lower level are acting counter to the firm’s values. In those two situations, the required action would be different – you must draw on the different drivers to influence the right behaviours for change.

Equipped with this insight into behaviour and cultural drivers the firm can agree appropriate actions. Future re-assessment in those areas where change has been implemented will highlight whether those actions have had the desired effect.

The formal aspects of your organisation’s culture are structural in nature and are the drivers to maintaining and changing it. You can use the formal drivers to influence and change culture in your organisation.
How we can help

Grant Thornton is one of the world’s leading organisations of independent advisory, tax and assurance firms. We help dynamic organisations unlock their potential for growth by providing meaningful, forward looking advice.

Our underlying purpose is to build a vibrant economy, based on trust and integrity in markets, sustainable growth in dynamic businesses and communities where businesses and people thrive.

Before embarking on your culture journey, we can help you establish which area of your culture framework requires most attention.

There are many structured tools to assess, change and measure culture. The more we understand about your needs the better our culture experts can assess exactly which tools to use to help you achieve your goals. So whether it is business transformation, a merger, assurance or an internal audit of all or part of your culture, we can help.

Measuring Culture – your challenges

• The desire to gain a better understanding of the culture within an organisation, including strata and subcultures
• Transformation of culture from a nebulous concept to something which is tangible, reportable and manageable
• Measurement of the progress against cultural change objectives

How Grant Thornton can assist you

• Bridging the expectation gap between senior leaders and frontline staff – culture diagnostic to determine whether the culture the Board hopes to promote is actually being lived on a daily basis
• Provision of tangible analysis and MI on culture to the Board and other senior stakeholders
• Recommending KPIs and advice on structuring regular culture assessment as part of conduct risk management

Managing Culture – our other Culture offerings

• Culture Transformation – Transforming the whole organisation toward an aspirational culture
• Cultural Alignment – Maintaining culture through M&A or outsourcing activities and realigning subsets of the organisation
• Culture Audit – assurance over culture programs from an internal audit perspective