GOVERNANCE AND CULTURE REFORM
FEDERAL RESERVE BANK *of* NEW YORK

JUNE 21, 2017

WORKSHOP ON CULTURE MEASUREMENT AND ASSESSMENT

EXECUTIVE SUMMARY

The New York Fed hosted a workshop for industry practitioners on June 21. The agenda and discussion focused on measuring and assessing culture and behavior within and across financial firms.

The workshop explored directors' interest in cultural data points and benchmarking, the need for outside perspectives, and ways for firms to build and exchange best practices. Approximately 100 participants attended, including human resources professionals, compliance officers, and other senior managers.

Key areas of discussion included:

- **How board members assess their firms' culture** and, in particular, the metrics, tools, and approaches that help to identify issues and hold management accountable.
- **The benefits of industrywide benchmarking**, as demonstrated by the work of the U.K. Banking Standards Board (BSB).
- **The benefits and challenges of collecting data across multiple silos** within a firm and from outside clients and customers. This discussion also included ways to integrate and analyze data to highlight emerging patterns and behaviors.
- **The key role of the performance management** and how incentives can take greater account of behavioral elements in performance.

PANEL 1: WHAT DO BANK BOARD MEMBERS WANT TO KNOW ABOUT CULTURE?

Panelists:
- Betsy Duke, Vice Chair, Board of Directors, Wells Fargo
- Franz Humer, Director, Board of Directors, Citigroup
- David Viniar, Director, Board of Directors, Goldman Sachs
- Mary Francis, CBE, Director, Board of Directors, Barclays

Moderator: Robert Kaplan, President and Chief Executive Officer, Federal Reserve Bank of Dallas

Main Discussion Points

- Boards of directors aim to independently assess whether management is setting the right tone and hold management accountable for any gaps between the firms' values and the actual business practices. The board should see some evidence that the management team is grappling with difficult issues and consequences. Available methods include meeting with many levels of employees, receiving third party assessments, and conducting 360 reviews of the CEO and top leadership.

- Directors should guard against overly optimistic self-assessments (the type that easily asserts that problems at a peer institution could not happen here) and important information buried in the copious metrics and data contained in most board packets.
- Behavioral metrics can play a role in helping boards understand their firms' cultures. Organizations like the BSB can provide outside benchmarking data against which to measure the culture within one's own firm.
- Boards may find it very useful to import practices and lessons from other industries.
- Further, a board's own culture matters; it needs independent voices, diverse perspectives, and opportunity for debate.

PRESENTATION: WHAT CAN INDUSTRY-WIDE BENCHMARKING SURVEYS TELL US?

Presenter: Mikael Down, Director of Policy and Analysis, U.K. Banking Standards Board

Summary

What is the BSB?

- The BSB was established after the 2015 LIBOR scandal, which revealed a number of deeply-rooted cultural issues in the UK banking industry. A Parliamentary inquiry directed the industry to take ownership of its own cultural reform and restore public trust.
- In response to this Parliamentary directive, the industry formed BSB to promote cultural reform in the UK banking sector. The BSB is funded entirely by member firms (many of which are global financial groups headquartered outside of the UK) and is not for profit. It is governed by an independent board, composed mostly of non-practitioners.

Assessment Framework

- The BSB conducts an annual benchmarking survey that assesses nine characteristics associated with a trustworthy organizational culture:
  - **Honesty** – speaking and acting truthfully and ethically;
  - **Respect** – showing due regard, care and consideration for colleagues, customers and community;
  - **Openness** – being open to internal challenge and external review, and to sharing ideas and good practices;
  - **Accountability** – being willing to accept responsibility;
  - **Competence** – having the knowledge and skills to do the job well;
  - **Reliability** – consistently meeting internal and external commitments;
  - **Responsiveness** – an ability to adapt and innovate;
  - **Personal and Organizational Resilience** – the capacity to recover quickly from difficulties and shocks; and,
  - **Shared Purpose** – a fundamental purpose that is shared across the organization.
- These elements do not intend to prescribe culture or impose a one-size-fits-all framework. Rather, the approach outlines qualities that should be universally desirable, while recognizing that each organization will apply and demonstrate them differently.

Survey Methodology and Output

- The survey contains 36 questions with responses scored from 'strongly disagree' to 'strongly agree,' and an additional opportunity to describe the firm in three words.
- The BSB worked with experts to design the framing of the questions. Small wording changes can have a significant impact on the validity of responses.
- In order to benchmark the survey, the BSB worked with firms to map similar cohorts of employees across 14 categories of activities (business lines and functions) in order to pair like with like. Thus, an investment banking division can be compared to investment banking divisions at other member banks, and a sales and trading sub-division can further be compared to sales and trading sub-divisions.
- The BSB used sampling to avoid sending the survey to all staff and to further differentiate the activity from engagement surveys, which emphasize complete response. The goal is merely to get a statistically valid representative sample.
- The BSB also conducted qualitative assessment work at member banks to complement the survey results. This consisted of a series of interviews and focus groups through which themes were drawn and further color added to the survey results.
- Individual firm results are delivered to the Boards and CEOs of each firm. They do not include firm-specific recommendations. Firms decide how to share results internally.

Industry Themes from Topline Results of the 2016 Annual Culture Review

- There is a perceived gap between a firm's values and business practices. Fourteen percent of respondents observed a conflict between stated values and business practices. A further 21 percent were unsure whether business values and practices aligned.
- Another finding addressed perceptions of accountability versus blame. For example, over a quarter of employees reported that they would worry about negative personal consequences if they raised concerns.
- Over a quarter of survey participants reported negative impact on their health and well-being because of their work. Studies show that when employees feel unreasonable levels of pressure, they are more likely to make mistakes or engage in misconduct.

Next Steps

- In addition to its annual survey of member firms in the UK, the BSB is looking to pilot the survey outside of the UK for member firms that have offices in other countries. In future years, the survey may also include non-bank financial firms and other corporations.

PANEL 2: MEASURING CULTURE: DATA, DASHBOARDS, AND OTHER TOOLS

Panelists:

- Jonathan Harvey, Group Head of Talent and Culture, Barclays
- PJ Dearden, Chief Culture and Conduct Officer, JP Morgan Chase
- Emma Bredin, Head of Enterprise Risk Compliance, Citigroup

Moderator: Stuart Mackintosh, Executive Director, The Group of Thirty

Key Points

- **Management has ownership over a firm's culture,** but many groups facilitate the process of assessing the culture and reporting out on problems and challenges. Many firms have recently established **culture and conduct committees** or groups that meet regularly to review metrics and guide assessment efforts. Providing these groups with the proper infrastructure, processes and defined roles and responsibilities is essential for success.
- **Measurement and metrics are best used as a starting point to spur further analysis and probing**. Conducting a root cause analysis will go beyond metrics and thresholds to explain the underlying issue.
- Firms have developed **dashboards that bring a variety of metrics** from across their organizations into one place. Data sources include internal quantitative information on compliance violations, completed trainings, audit results, surveillance metrics, policy violations; external metrics like customer complaints, stakeholder perceptions, and client surveys; and qualitative data based on employee viewpoints.
- More frequent surveys are not necessarily a good thing. Long-term trends are more important than quarterly changes.
- Collecting and aggregating the data is still a manual and time consuming process. In the future, behavioral technology and machine learning may be employed predictively and to find trends humans cannot.

PANEL 3: ENHANCING INDIVIDUAL PERFORMANCE MANAGEMENT REVIEWS

Panelists:

- Peg Sullivan, Global Head of Talent Management, Morgan Stanley
- Lisa Masters, SVP Leadership Development, Bank of America
- Mark Musi, Chief Compliance and Ethics Officer, Bank of New York Mellon

Moderator: Michael Strine, First Vice President, Federal Reserve Bank of New York

Key Points:

- **Performance management is a powerful way to influence a firm's culture.** A number of firms have adopted a formal rating system for the "how" component of an employee's performance (i.e., evaluating the methods used to achieve a performance goal) alongside the "what" component (i.e., contributing to their group's financial performance).
- The panel considered a broad range of HR techniques, which included the following:
  - Add risk goals to performance plans so that employees are rated on risk behaviors.
  - Include control functions in evaluating material risk takers.
  - Delay compensation decisions so that all the relevant information is gathered.
- From a compliance perspective, firms can **pay more attention to the low hanging fruit that may indicate the level of respect or disrespect for corporate policies**.
- Easy-to-access indicators of conduct can lead to **more real-time discussions on behavior,** not just at year end.

Remarks: Col. (Ret.) Steven W. Rotkoff, United States Army, Director, University of Foreign Military & Culture Studies Leadership

Summary:

Factors in Bad Decisions and Poor Decision-Making Cultures

- Good decisions are not just the result of the right incentives and the right information. They also require the right decision-making behaviors and processes.
- There are a variety of tools that can be employed to improve decision-making:
    - Solicit input from multiple strata of an organization's hierarchy, including through anonymous feedback channels. Organizations need to figure out ways to impart the perspectives by co-locating understanding.
    - Reduce the size of group discussions to give participants greater opportunity to speak (and perhaps reduce any fear of speaking publicly).
    - Do not assume processes will always work. Proactively envision failure and consider why that failure might occur.
    - Fight against group think. Organizations all lie to themselves and come to accept certain narratives as truths. They must combat this by challenging their members to identify comfortable falsehoods and reject them.

Discussion: Lessons Learned and Next Steps

Facilitator: Susan Ochs, Senior Fellow, New America Foundation

Summary:

- **Participants agreed that data is necessary but not sufficient.** Supplementing hard data with interviews, focus groups, dialogue and external benchmarking can greatly enhance an organization's ability to manage and strengthen its culture.
- Financial incentives are not the only drivers of culture and conduct. Employees change how they behave based on a variety of formal and informal, explicit and implicit pressures.
- It is important to build a positive culture of stewardship. This requires a two-way flow of information about culture and conduct.
- Progress requires alignment between a board, senior management, and lower-level management. Employees take their cues mainly from their direct managers ("tone from above").

Next Steps

- Several participants recommended either participation in the BSB's benchmarking survey, or the creation of a similar U.S. organization. One noted that it would be helpful to include non-banks in the effort, and to collaborate with other corporations that have experience building strong cultures.
- Participants also discussed the importance of sharing "lessons learned" and developing best practices as an industry.