**A study on conduct and culture in UK listed banks**

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**Abstract**

This paper reports findings from investor engagement into conduct and culture programmes at UK listed banks. The research spanned two whole years between 2014 and 2015. Conduct and culture was found to encompass six behavioural 'domains': simplification of the business, corporate purpose, organisational culture, focus and engagement by the chair of the board, staff in the business, and customer experience. Baselines were designed to capture where banks are in relation to the six domains. Pressure was put on banks below the baseline to improve. Findings were personally presented to the UK Banking Standards Board, and a report sent to banks to share good practice. We found that structures banks put in place can help improve conduct and culture, but they are not nearly enough. Far more critical to performance than structure is the ‘doing’ of conduct and culture. Where a board put the department most apt to handle the design and delivery of conduct and culture in charge, there was more focus on the grassroots level of the business and greater progress. When boards sought to control culture ‘from the top’ they tended to focus on structure and made far less progress. Conduct and culture was a highly metricised area. Metrics formed management information coming to the board, but there are contradictions and ambiguities with many of the metrics and few are decision useful. Banks have some way to go in solving the ambiguities with metrics about conduct and culture.

Key words: banks, conduct, culture, metrics, measures, investment management, pension funds.

**One: Introduction**

A few banks make up a substantial part of what is a relatively large banking sector within the UK economy. The centrality of the banking industry to all our daily lives means that a few major banks can pose a systemic risk. An event can spread among them and drag down the whole financial sector and real economy.

One systemic risk is conduct, the banking term for behaviour – the doing of banking. In the last few years there have been a succession of very serious conduct issues in banking; including market rigging, misselling products, giving misleading impressions, and failing to have proper controls to prevent financial crime. Banks have paid more than £200bn in fines and damages worldwide as a result of inappropriate conduct (Conduct Costs Project, 2016), leading misconduct risk to rapidly rise up the hierarchy of key financial risks when investing in banks. Misconduct has cost UK banks £26.5bn (Conduct Costs Project, 2016).

With public trust in the banking sector now low, the focus on conduct and culture has sharpened considerably (Banking Standards Board, 2016). Banks are under pressure from the Banking Standards Board, Financial Conduct Authority, Prudential Regulatory Authority, and Financial Reporting Council to improve conduct and culture. But while regulators can regulate structure, even help to create the right behavioural environment, they cannot directly regulate conduct, or behaviour, per se. That means it’s up to non-regulators such as member associations and those with a vested interest to keep the pressure on banks and to maintain focus on conduct and culture. The UK Stewardship Code aims to energise the vested interests of major shareholders in support of these ends by encouraging large investors to reach out to companies in the form of engagement to help improve long-term risk-adjusted returns for end customers.

This study concerns the meetings one large, long-term investor held with officers and directors of UK banks to discuss their conduct and culture programmes during 2014 and 2015. Meeting with officers and directors of banks was considered the right approach because the decisions banks are making on conduct and culture remain largely obscured from public view. Major shareholders are fortunate in the UK to have good access to company boards so can fill information gaps in this way.[[1]](#footnote-1)

The investor in this study is a pension fund, one of the largest in the country by membership, with more than one million members. The pension fund invests in equities mostly via a diversified equity index, meaning it invests in all the large listed banks. The pension fund will continue to hold each bank all the time each remains in the index. This continuous holding period creates a very long-term time horizon and motivates the pension fund to expend a great deal of effort on engaging and working alongside companies to try to improve risk-adjusted returns where doing so is cost effective and accretive financially for members.

A key reason for meeting with the officers and directors was to gain the confidence that our investments in the banking sector are being appropriately managed by companies. Another reason was to reduce systemic and systematic risk by encouraging banks to work together, to share good practice and to facilitate an improvement in integrity, conduct and competence to lift the performance of all banks in the sector. The pension fund recognises that it’s not the only shareholder meeting to discuss conduct and culture, but its approach of wanting to see the whole industry succeed is different.

Positive change was further encouraged by feeding back results in the form of a report to the Banking Standards Board as well as each bank. The pension fund believes that sharing good practice is good for UK financial services and the investments that members have with it.

The study found that conduct and culture in 2014 and 2015 encompassed six different behavioural 'domains'. Each of these has its own findings. Expert interviewees thought these domains were key to improving conduct and culture. The domains are:

1. Simplification of the business
2. Corporate purpose
3. Organisational culture
4. Focus and engagement by the chair of the board
5. Staff in the business
6. Customer experience

Baselines were developed to capture where banks are in relation to these six domains. Explanations were derived for why banks were where they were in relation to each baseline. Pressure was put on those below the baseline, and particularly in the lower quartile to improve conduct and culture. The pension fund also gathered a large number of metrics used to measure conduct and culture change, with the aim of assessing their value relevance.

Of the six domains identified, the following three; corporate purpose, organisational culture, and staff in the business, were the heart of conduct and culture. Two domains, simplification and customer experience, were more peripheral. The other domain, focus and engagement by the chair of the board, was between the two.

A second overall finding is that greater improvement in culture was made when not set from the top. This finding contrasts with the recommendation of the UK Corporate Governance Code that a key role for the board is to establish the culture, values and ethics by setting “the correct ‘tone from the top’”. A board can set values, mission, and purpose, but people together constitute the culture. Culture is an outcome. Culture is interpersonal, and embedded by people doing banking day-by-day, which comes from a myriad of interrelationships and interactions at a grassroots level. To get to the heart of culture and provide the shift that banks and regulators desire, much more effort needs to be expended at the grassroots level where interactions, intent and action occur. Culture change was more innovative and dynamic when strategy and implementation was ‘driven’ from within the business and not from the top. The vital role for the chair and the whole board is focus, engagement, appraisal, and trained questions about the culture programme designed and delivered by the department most apt to handle it. From a culture perspective, the board should not ‘set the tone from the top’. As a myriad of people interactions constitute culture, we are in danger of reductionism to believe that a board can simply set it. Culture is a slow-moving constitution and the evidence from this study is one of years of effort for slight improvement.

The third overall finding is that conduct and culture was highly metricised, but there are contradictions and ambiguities with many of the metrics. The contradictions and ambiguities present in many of the metrics posed difficulties about which to give attention to, and how. For example, one typical metric was the number of personal conduct cases per 1,000 staff. Is a falling number of personal conduct cases good as this could indicate improving conduct, or bad as this could indicate a culture in which situations are not being dealt with at an early stage? Banks making the largest improvements in conduct and culture were those grappling most with, and solving, the ambiguities with metrics. For example, less ambiguous whistleblowing metrics were based on service, and included availability of different channels to whistleblow through, response times, resolution, and feedback from users. Metrics and measures represented a key source of management information about conduct and culture.

The study makes the following three contributions to knowledge in the subject area:

First, the paper reports new and recent research into how small groups of people – officers, directors, and managers – are designing and delivering conduct and culture programmes at UK listed banks. The project, spanning two whole years between 2014 and 2015, represents a rare insight into an industry-wide attempt to improve intent, motives, action, and outcomes.

Second, how conduct and culture is done is far more critical to performance than the structure that surrounds it. Structure can help improve conduct and culture, but is not nearly enough because conduct and culture is about people in the workplace, their actions, and interactions. Far more critical to performance than structure is the ‘doing’ of conduct and culture. ‘Doing’ conduct and culture rests on the right people giving attention to how other people will of their own accord behave and act in line with a central purpose. Where a board put the department most apt to handle the design and delivery of conduct and culture in charge, there was more focus on the grassroots level of the business and more progress. When boards ‘set the tone from the top’ they tended to focus on structure and had made less progress. This contribution helps to explain the second overall finding that from a conduct and culture perspective banks perform better when the board doesn’t set culture.

Third, the research gives a picture of bank conduct and culture just as the Banking Standards Board was about to start work. The Banking Standards Board has used the results to establish an initial benchmark on conduct and culture. Since the research took place just prior to the creation of the UK Banking Standards Board, the effectiveness of the Banking Standards Board itself could be investigated by looking at how much movement there has been from the snapshot taken by this study and a second snapshot taken in the future. This presents an opportunity to determine the effectiveness of a new type of government encouraged, industry-led but non-law making regulator.

The next section of the paper discusses the sample and data collection. Section three reports the findings, and the final section concludes.

**Two: Research methods**

The aim of the research was to build a picture from the ground-up. A grounded approach is an empirical method that allows a researcher to adopt a broad view on a subject that is not well understood and to derive theory based upon observation (Barker, 1998). Grounded methods do not detail data collection techniques. Rather, they provide analytical procedures that help the investigator organise and reduce the already collected data to manageable proportions and to ground out frameworks through development, refinement and interrelations (Charmaz, 2000, p510). It’s up to researchers to collect good data and provide confidence that reliable sample selection and data collection methods have been undertaken (Charmaz, 2000; Glaser, 1992).

**Sample and data**

The investigative population was small, medium, and large UK listed banks. This list is quite short as British banking is highly consolidated. We met all the banks, but also broadened out the meetings to include organisations in the unlisted banking sector as well as member associations. The pension fund does not have holdings in credit unions or building societies, but a wider inquiry among a broader set of key stakeholders was thought appropriate to help better understand the listed banking sector. These extra meetings included, but were not limited to, the Building Societies Association, Association of Financial Mutuals, Nationwide, Community Development Finance Association, and British Bankers’ Association. The pension fund also participated in policy debates at a regulatory and government level where additional information was gained.

During 2014 and 2015 the pension fund met with managers, senior executives and members of the board of directors at each of the major UK listed banks. Responsibility for the design and delivery may rest in one of several areas within a bank, and it often took a couple of meetings to connect with the right people. The pension fund met each bank found to be struggling most with conduct and culture up to five times, and each bank more successfully implementing up to three times. Altogether, 30 meetings were held. The final sample of 30 compares favourably with other studies based on interviews in the financial services sector, including the 16 of Barker (1998), 11 of Hendry et al (2006), and 27 of Holland and Doran (1998).

**Method**

The data collection method involved face-to-face semi-structured meeting interviews. Semi-structured interviews have the advantage of being able to explore open-end and wide-ranging questions on pre-determined issues (Barker, 1998). Initial semi-structured interview questions were constructed. Some change to the question areas was made during the first two interviews. Each new interview embodied the revisions suggested from the previous. By the third meeting, no further amendments were made to the broad question areas. Parker and Roffey (1997) suggest that the emergence of an appropriate question set is especially appropriate for dimensions of accounting and finance where there is relatively little existing literature.

A hard copy letter or email addressed to the company secretary was used to request a meeting. At non-executive level we met the chairperson, remuneration committee chair, and directors responsible for risk, internal control, ethics and conduct. At executive level we met the company secretary, investor relations director, director of human resources, and director of change and culture. We also met various managers and advisers. The different locations of responsibility was also found by Montagnon (2016) in relation to business ethics and sustainability.

**Meetings**

Most meetings were held at the banks. The same two representatives of the pension fund were common to all interviews. Detailed notes were taken based on a pre-agreed template. Notes of the pension fund representatives attending each meeting were cross-checked, and some areas scored. Early on in the interviews we tested for inter-rater reliability between the two pension fund meeting representatives (Strauss and Corbin, 1998). They are of different gender and nationality but had experience of working together. Their scores had good correspondence and a high reliability score, or Cronbach’s Alpha. The broad questions we covered at the meetings were grouped according to the following areas:

* Strategy – broad questions asked included what is the conduct and culture strategy, how was the strategy arrived at, was it informed by external advisers or developed in-house, why is the strategy right for the company, how is the strategy implemented, and what metrics and measures are used to identify the outcomes of the strategy?
* Scope – broad questions asked from a conduct and culture perspective included what business the bank has chosen not to do, what business the bank has chosen to do, what is the approach to growth and retrenchment of the business, and what are going to be the future entry and exit decisions from lines of business, why and when?
* Design and delivery – broad questions included who designs the conduct and culture policy, why is the policy designed the way it is, how is the policy delivered, how do staff at different levels across the company contribute to the conduct and culture programme, how do their results feed back and lead to further change?
* Governance process – broad questions asked included where in the business was the governance of conduct and culture owned, is the process top-down, bottom-up, and how does the information and learning flow?

We did not expect the findings to fit the structure we were using to group the questions – strategy, scope, design, delivery, and governance, and they did not. Meeting notes were written onto a template. The template helped to:

* Identify common themes and differences.
* Develop a baseline from which we can measure conduct and culture change at banks.
* Gather examples of what was working well and what was not.
* Understand what excellent, medium, and poor looks like.
* Collect metrics and measures, as well as identify whether the metrics banks use to measure conduct and culture change are moving, and in which direction.

**Data analysis**

Following Hendry et al (2006), attention was paid both to the content and the contexts of the interviews. We looked for repetitions, themes and cross-interview commonalities. These indicate theoretical saturation in areas, and give confidence that emerging frameworks are grounded in the data and capture underlying processes rather than individual company policies. A five-step analytical process was used that followed Charmaz (2000). This involved coding and cataloguing, comparative methods, memo writing to construct conceptual analyses, sampling to refine emerging theoretical ideas and links, and integration of the data into the constructed framework.

**Three: Results**

This section reports findings from engagement into corporate conduct and culture in publicly listed banks that are at the heart of Britain’s corporate system. We document key findings important to scholarship, policy, and practice.

We found that conduct and culture in 2014 and 2015 encompassed six behavioural 'domains' that expert interviewees thought were key to improving conduct and culture. Baselines were developed to capture where banks are in relation to these six domains. These domains are:

1. Simplification of the business
2. Corporate purpose
3. Organisational culture
4. Focus and engagement by the chair of the board
5. Staff in the business
6. Customer experience

Each of these is now discussed in more detail.

**Simplification of the business**

Experts told us that over the past two decades an acquisitive and growth orientated culture slowly inculcated the whole banking business. Banks became calibrated around one theme – expansion. Business stretched across markets and jurisdictions. Regional businesses were sometimes run as autonomous fiefdoms from the rest of the business. Boards had no metrics or measures to inform how quality was changing as each business stretched. When retrenchment or exit occurred, little regard was paid to the sociology and economics of the exit on customers and businesses resident in the region or market.

Banks also stretched across products. Several of the medium size banks were run entirely on a product basis, with each bank’s products trying to cover much of the waterfront of potential customer interest. Some retail banks had up to 250 different financial products. Customer relationships that spanned multiple products within different divisions in a bank were often not picked up, leading to an often inconsistent experience from the customer perspective. The primary unit of measurement was the product and its volume, rather than the customer. Retail banks lost their understanding of where the money is made and who they serve.

All the bank staff we met emphasised how they were currently simplifying their business. They placed the activity within conduct and culture change, stating how essential this is to making banks more manageable and governable. The process of simplification has involved them asking:

* + Is this a market or jurisdiction we want to be in?
  + Is this a product or financial instrument we want to deliver or transact in?

We found the narrowing of product lines, markets, and jurisdictions to be a highly transactional activity. Implementation was straightforward and achievement virtually certain. Boards were quick to point to this type of simplification as an illustration of a concrete change in conduct and culture. However, much of the simplification involved trimming the riskier tails of conduct and culture by exiting high litigation risk areas rather than improving culture organically. Emerging from simplification was a more customer centric and culturally contained business.

There can be several financial reasons for simplification, for example, high capital requirements on riskier lines of business, but when looked at solely from a conduct and culture perspective, the difference between good and poor simplification seemed to be the intent rather than just the behaviour of simplification. Good simplification followed a holistic analysis of impacts on stakeholders. If the overall impact on stakeholders was negative, despite the commercial merits, simplification did not just happen. Having grown the business and expanded, good simplification was sensitive to exit. In some cases there was no exit from a line of business even though commercial measures suggested the line of business should be exited. Poor simplification was less considered – the only apparent basis was commercial.

Some experts we met believed that simplification should not be linked to conduct and culture change. They pointed out that the simplification taking place has nothing to do with the sort of long-term conduct and cultural change needed to take risk down to levels that used to prevail in the industry. Banks were simply ‘right-sizing’ their business to the prevailing economic-regulatory situation and conveniently labelling this as conduct and culture change. Sceptics believed that today’s simplification is the appropriate profit maximising response to prior over-expansion and would have happened regardless of any government and regulatory push to improve conduct and culture.

The baseline, or average, we evidenced for simplification of the business was twofold. There was a narrowing of product lines, markets and jurisdictions. All were motivated by shifting away from doing high potential litigation risk business. The second was a reorientation around the customer as the appropriate unit of measurement instead of the product and volume. At upper quartile banks, simplification was just one of a portfolio of initiatives. Even when commercial measures suggested a line of business should be exited, they were at times choosing not to if doing so may lead to consumer or stakeholder detriment. A more holistic analysis supported decisions. Lower quartile banks emphasised simplification. At lower quartile banks there was significant focus on simplification based on commercial grounds alone. Boards appeared to have little unity or vision about how else to shift the dial on conduct and culture. Simplification was the common denominator that boards could coalesce around and agree on.

**Corporate purpose**

The second, and philosophically challenging area, concerned the potential impact of corporate purpose on conduct and culture. Corporate purpose was a term used to mean a concise articulation of a corporation’s reason for existing. One viewpoint stressed during the course of the research by a significant minority of experts not working at public listed banks was that corporate purpose provides a compass bearing for conduct and culture. Over time, corporate purpose at listed banks has become blurred, and stopped serving as a touchstone for conduct and culture. The experts who held this view believed they were making a vitally important point. Conduct and culture are consequences of various antecedents, one being corporate purpose, and this must first be addressed if conduct and culture are to be improved.

The viewpoint continued that the corporate purpose of the traditional bank model was easily explained and clearly understood. Over time some banks took the traditional bank model of making an economic return from the spread between loan rates and deposit rates and leveraged it using the wholesale markets to borrow more so they could lend more. By taking more risk, the quantum of interest income and size of profit grew. Other banks diversified their business, establishing new lines of non-interest revenue based around fee income, trading income, and venture income. As non-interest income came to dominate, the traditional banking function was de-emphasised. Corporate purpose was not refreshed in line with a more extensive, non-interest income based business. Taking risk became the common thread also running through the diversified banking corporation. How much risk to take in both banking models depended on board targets for risk appetite and revenue. Conduct and culture started to calibrate around risk taking – where more risk equated to more money. The viewpoint continued that a highly financialised culture started to develop.

The viewpoint concluded that unless corporate purpose is sufficiently clear to all who work in a bank, conduct and culture will lack direction and heading. Listed banks need to return to clarity of corporate purpose so conduct and culture can head in an appropriate direction.

If a blurring of purpose has been the result of competition among banks, regulators may wish to consider why the forces of competition work differently, and at times counter productively, within the banking sector compared to other sectors.

There is an interesting read across to our experience when engaging with companies outside of the banking sector. Very often a one-to-one meeting will start with a one or two slide introduction on the company’s core purpose, what customer problem are they in business to try to solve, the product or service they provide. For example, large pharmaceutical companies talk about their purpose being to provide essential medicines. They would often also discuss their social responsibility on ensuring access to medicines. Not one engagement in this research started with a listed bank mentioning corporate purpose.

There was further confirming evidence of the experts’ strong viewpoint on corporate purpose. When asked what the bank’s purpose was, different people at the same bank would often give quite different responses. Oftentimes, taking risk, serving customers, returns for shareholders, and profit were mentioned, but these are outcomes of a purpose, not a purpose per se.

Might evidence that banks struggle to articulate one corporate purpose, while large, multinational companies in other sectors do not, provide some support to the strong views some experts had about the need for a clear corporate purpose in the listed banking sector?

The baseline we evidenced for the ability to define corporate purpose was that in 2014 and 2015, officers, directors and managers at UK listed banks could not singularly define the purpose of the company they worked for or directed. Staff at upper quartile banks were more consistent in their definitions about corporate purpose and there was some similarity of word use within definitions. We did not statistically test for the consistency of word use. We doubt there was significance. At lower quartile banks, officers, directors and managers gave wide ranging of definitions, most of which were action related such as taking risk, making returns for shareholders, and generating profit. There was far less consistency of word use.

**Organisational culture**

There was general agreement that with effort and long-term commitment, organisational culture was amenable to change. Activity at the sample of banks to improve culture was most focused on company structure, including new board level roles on culture, an expanded role for the Group Chief Risk Officer, a higher compliance headcount, specific roles within human resources, balanced scorecard remuneration, and a dramatic reduction in volume based remuneration incentives. The purpose of several of these structures was often to contain and constrain existing culture, while the aim of others was to positively shift culture.

One viewpoint stressed by many experts was that structure alone is not enough to shift culture. Culture is embedded by people doing banking day-by-day, which comes from a myriad of inter-relationships and interactions at a grassroots level, which themselves are often based on deeply-held assumptions, values and learned patterns of behaviour. The viewpoint continued that to get to the heart of culture and provide the shift that banks and regulators desire, much more effort needs to be expended at the grassroots level where inter-relationships, interactions, intent and action occur.

Culture is mentioned in the preface to the UK Corporate Governance Code but not within the Code itself (FRC, 2014). The preface mentions that a task for the board is to set the ‘tone from the top’ by establishing the culture, values and ethics of the company. This leads to an understandable propensity for boards to ‘own’ conduct and culture, but our research raises some difficult questions for boards because when culture was sought to be controlled from the board, outcomes appeared inferior. Ultimately the board is located at arm’s-length, and charged with looking beyond day-to-day issues, while culture is interpersonal, close-knit, and day-by-day. The success stories we encountered featured departments, in particular the human resources department, acting free from the formality of the board. Culture change was more innovative and dynamic when strategy and implementation was ‘driven’ from within the business. While responsibility for culture may ultimately have to be owned by the board, in the sense that a culture work programme is likely to need sign-off at board level, might bank conduct and culture improve more if boards are not the driving force? Our findings suggest that the vital role for the chair and the whole board is focus, engagement, appraisal, and trained questions based on management information about the culture programme designed and delivered by the department most apt to handle it. A board can set mission, values, and purpose, but there is a danger of reductionism to believe a board can control culture from the top. Culture is a slow moving constitution and the evidence from this study is one of years of effort for slight shifts.

The people we discussed culture with at banks were mostly late career white British men and women of relatively senior working age. On first impression there was almost no diversity other than gender, but as the meetings evolved, significant diversity of thought and an interesting collage of views became apparent. It was striking to see so few young or non-Anglo Saxon origin professionals appointed to run conduct and culture programmes within banks. Among late-career leaders of conduct and culture we encountered thoughtfulness, deliberation, and mindfulness, while among mid-career and younger professionals we encountered high energy, enthusiasm, and dynamic, implementation and delivery orientated culture programmes. Our result suggests that a board wishing to positively shift culture should not follow the usual route of identifying a skill gap, creating a vacancy, and appointing a late-career, senior leader to develop.

The officers, directors, and managers we met generally agreed that a single organisational culture is the ideal goal because this is lowest risk from a misconduct perspective. Views then differed about the likelihood of achieving this goal. Small and medium size banks believed a single culture was achievable and their work reflected this. Large, international banks were generally unsure about the achievement of a single culture, citing the possible existence of multiple cultures, however most thought that the best course of action is to continue as if one organisational culture is achievable even if it isn’t.

The remaining large, international bank thought one culture was neither achievable nor something to aspire to. The board had concluded that the current cultural variation in the workplace was more difficult to positively influence than the alternative of containing the existing culture by establishing top-down procedures and controls for managers and staff to conform to. Most of the conformance effort was placed on cascades of top down communication and interactive modules for management and staff to read, complete, and implement. The remaining effort was placed on designing and implementing an appropriate internal control environment.

Nowadays, boards use consultants less than they used to, but with culture we found relatively high use of external advisers and consultants. Banks that made least use of advisers were those that had undergone an in-house ‘soul’ searching process to appraise where, culturally, the bank currently is at, and where it wants to be. Among these banks we found a more progressive and whole-company approach to culture. The alternative to not taking an in-house and organic route to identifying and finding solutions to culture problems was to take greater input from advisers and consultants. A small minority of banks arranged for us to meet their adviser because that was the most effective way to hear about what was happening at the bank. Through banks introducing us to their advisers it became clear that the ideas and opinions of a very narrow pool of advisers circulate the boardroom of several major banks. In the last few years one individual adviser alone had shaped culture at three UK listed banks, plus other large overseas listed banks with a substantial UK presence. It was difficult to see how this concentration of influence from such a narrow pool of people within very large banks in the UK can be beneficial for the sector.

Our baseline for organisational culture took into account where in the business work on culture was occurring most, its mix, embeddedness, the ideas and pipeline of future work, and in-house or externally delegated approaches. The baseline we evidenced was one of greater focus on structure. Almost half of the focus on structure was designed to contain and constrain culture. Baseline banks took moderate input from external advisers in strategy, implementation, or measurement. Emphasis was put on measuring conformance, for example, the proportion of staff attending seminars and teach-ins, completion of on-line modules, the proportion of total remuneration based on ethics and integrity. Metrics used measured outputs rather than culture outcomes such as common understandings, meanings, beliefs, and interpretations. There was a limited pipeline of ideas and future work. Upper quartile banks made less use of advisers and there was far more focus at the grassroots level. There was a strong portfolio of ideas and pipeline of future work. There were attempts to directly measure cultural shifts in the understandings, meanings, beliefs, and interpretations of staff. Lower quartile banks made substantial use of external advisers, put a strong focus on structure, had an unengaged chair of the board, and were seemingly overwhelmed about where to begin work on culture. Metrics and measures focused on the control environment.

**Focus and engagement by the chair of the board**

We always tried to organise a meeting with the chair of the board in order to understand how focused and engaged the chairperson was. All the chairpersons we met fully supported the creation of the UK Banking Standards Board, and talked about their contribution in helping to establish it. Their approval of the incoming Chair of the Banking Standards Board was important.

When left to talk freely and openly about conduct and culture, chairpersons less engaged on conduct and culture described structure – in particular the control environment established by the board and the governance process. A typical meeting would involve the chair of the board and a dispassionate, seemingly rehearsed, conversation about structure. Oftentimes the conversation revealed little about intent, motivation, choice, decision, and action. One didn’t gain much of a grasp about whether conduct or culture was moving, in which direction, or why.

So much more insightful was dialogue with chairpersons who were fully engaged on conduct and culture. Behavioural progress on conduct and culture was strongly associated with focus and engagement by the chair of the board. Conversations would flow from which group of people are motivating other people, and where attention is paid and not paid, through what actions are being fostered and inculcated throughout the bank, to how outcomes of a particular programme of work are being measured.

Overall, the boards of banks where the chairperson was more formal and dispassionate when describing conduct and culture tended to focus on structure and the board was more likely to be involved in the design of conduct and culture. The boards of banks where the chairperson was more engaged and talked easily about conduct and culture were not trying to set conduct and culture. They were receiving management information on a wide range of action across the bank, appraising that information, and constructively engaging with the department charged with programme design and delivery.

The baseline, or average, we encountered for the focus and engagement by the chair of the board was a dispassionate conversation about structure. At upper quartile banks the chair of the board spoke unprompted with knowledge, acumen, and passion about conduct and culture change, its delivery and performance, and spoke with equal ease about structure and behaviour. At lower quartile banks, the chair of the board was unavailable. There was little sense that conduct and culture was a focus for the bank.

**Staff in the business**

Staff were a focus for they were viewed as the front line of conduct and culture, as well as key touch points for customer experience. The banks we met wanted staff to have greater competence, professionalism, integrity, diversity of thought, and ability to break through existing ways of doing. Patel’s (2014) interviews with professional bodies reports similar results. One part of delivering on that intent was to recruit people who’d taken and passed appropriate exams, who were members of a relevant professional body, and who had different skill sets. Some banks were purposefully hiring from outside the financial services sector to bring in new types of people and personality, particularly within areas such as human resources, conduct and culture, and business development. Those who’d joined conduct and culture programmes from outside the sector had many ideas they were hoping to take forward. The other part of delivering on the intent was to raise competency among current staff and signal that aiming higher is part of what professionalism and performing effectively now means.

Many staff metrics were being used to track the recruitment and professionalisation of staff. Professionalisation involved continuing workshops, seminars, training programmes, refresher courses, and exams. Metrics included the number of refresher courses carried out, training programmes completed, memberships of professional organisations, exams taken and passed, and an overall average for the professionalisation of staff.

With assurance of confidentially and a more honest and open environment within banks, staff were also being encouraged to speak up about moral and ethical issues, the work environment, colleagues, grudges, likes, and dislikes. Personal conduct and whistleblowing cases were on the rise.

Several board members were uneasy, nervous even, about whether a step too far had been taken towards honesty. The problem for the directors was not with making a virtue out of honesty, rather it was the potential distraction to the business from making honesty such a large focus. This was one of the paradoxes of a more open culture.

Many of the staff metrics were difficult to evaluate. For example, the number of whistleblowing calls per 1,000 staff is a typical metric, but is a falling number of whistleblowing calls good as this could indicate improving conduct, or bad as this could indicate a culture in which staff no longer feel able to speak-up? All banks were pondering the ambiguity apparent in the metric. A research problem for banks was that these contradictions were present in many of the metrics in use. The puzzles posed by some metrics highlights gaps in current knowledge within the sample of banks. Service metrics were generally a less ambiguous type of measure and starting to be used more.

Another research problem for banks was that people together constitute the conduct and culture, so should banks try to directly measure staff in the business, conduct and culture, or both staff and conduct and culture? The sector as a whole was short on ideas of how to measure conduct and culture, so all the banks we met were mostly producing metrics that measure staff in the business. The banks were good at measuring staff outputs in relation to conduct and culture, for example number of exams taken, but very few had moved on to measure outcomes about staff in the business, for example adoption of a common culture, or similarity in interpretation of language. Banks more focused at the grassroots level of conduct and culture were at a more advanced level in the development of outcome metrics.

New technology is shaping how and where staff collaborate, communicate, decide, and act, as well as when, where and how they do their jobs. With remote working patterns, a fast pace of technological change, new communication media, and secure electronic opportunities and threats, some experts believed that new technology, through changing the way staff do banking, is making conduct and culture more complex to manage and embed, as well as less static than it once was.

The baseline we evidenced for the average bank was a major focus on staff in the business as the unit of analysis, from recruitment and professionalism, through whistleblowing and personal conduct cases, to values alignment tests and employee engagement surveys. The staff unit of analysis was the most metricised domain of conduct and culture. Baseline banks were measuring staff outputs but were struggling to understand how to measure staff outcomes in relation to conduct and culture. Upper quartile banks were more advanced with developing metrics to directly measure staff outcomes and some direct tests for conduct and culture were in development. Lower quartile banks were more reluctant to discuss whistleblowing, personal conduct, complaints, and other staff metrics. They were at an earlier stage of introducing an open and honest environment. The difference between staff outputs and outcomes in relation to conduct and culture seemed not to be recognised.

**Customer experience**

There was general agreement that customer experience was a relatively straightforward way to develop an understanding about part of conduct and culture to do with outcomes. The calibration of business around customers was general to all the banks and most had similar programmes of work and measurement techniques. There were many ideas of ways to measure customer experience and outcomes, making customer experience another highly metricised domain. The focus on measuring customer experience was most apparent on the retail side of banks.

The corporate and investment banking divisions remained more focused on ‘products’, ‘deals’ and ‘transactions’. Balanced scorecards that rated individual performance on integrity, conduct, and ethics were in use. This meant conduct and culture influenced remuneration at the margins. A small number of corporate and investment banking divisions were starting to focus on what ‘deals’ and ‘transactions’ get done, and how. This was a very new approach. In the few banks starting to do this we observed strong leadership with a belief that this was the appropriate path to take. It was unclear whether the board of directors would stay the journey on the disruptive change this was creating within the investment bank.

Outside of the corporate and investment banking divisions, not all of the customer experience metrics in use had come about because of a focus on conduct and culture. The ‘treating customers fairly’ principles of the FCA are now a decade old and require, for example, customer complaints to be recorded and reported to the FCA. Banks had, however, gone far further with analysis of complaints than required by the FCA. The regulatory definition of a complaint is something not resolved within 24 hours of a customer raising it. Banks were also measuring what customer issues are resolved within 24 hours, and how. They had developed metrics to track what, when, and how complaints were resolved, as well as unresolved complaints. The best banks from a conduct and culture perspective were using content analysis to help identify whether unresolved complaints are of a similar type, and whether they point to areas of common weakness. Root cause analysis was a survey and interview technique used by some banks to indicate common causes and highlight areas of below average conduct and culture. One bank had started using content analysis of the electronic transcripts of voice calls to appraise the interaction of staff and customers from a conduct and culture perspective. Metrics based on qualitative information were often less ambiguous but generally more time consuming and resource intensive to produce.

All banks were using ‘field’ based metrics, including net promoter scores from customer surveys as well as feedback from mystery shoppers sent to branches or call centres to purchase or inquire about particular product or service offerings. Here the aim was to measure customer satisfaction with service and conduct.

The final set of metrics attempted to measure change in the level of customer trust. Only a small number of banks were trying to do this. One approach was to employ an external company to create a trust index based on a survey of external perceptions. More personal interaction with customers, including face-to-face time, catch-ups and other interactions may lead customers to trust banks more. One bank was measuring levels of personal interaction. Two banks were interested in measuring whether customer risk appetite responds to improved levels of trust. They thought improving trust may possibly be evidenced by shifts in savings from cash based saving and investment products to risk-based saving and investment products. This followed the concept that low trust customers may be less adventurous, financially, whereas high trust may be more adventurous (Cox, 2008). Customer inertia was expected to stop low trust customers switching to another bank. Experts stressed how important trust was because many customers may be under-risking themselves due to low trust.

The baseline evidenced for customer experience was that major parts of the business were being calibrated around customer experience. Customer experience was seen as one means of measuring some conduct and culture outcomes. Many similar metrics were being used. Balanced scorecards within corporate and investment banking divisions were bringing integrity, conduct, and ethics into remuneration at the margins. The reward system was downside focused. 100% remuneration was awarded for personal integrity, conduct, and ethics in line with expectations, with less than 100% awarded for lower than expectations. No upside was applied for exceeding expectations. Upper quartile banks were starting to change what, and how, deals and transactions are done within corporate and investment banking. Outside of corporate and investment banking, content analysis was being used. Levels of customer trust were tracked via customer risk appetite, savings rates, and shifts from cash based saving and investment products to riskier saving and investment products. Lower quartile banks had not made inroads into corporate and investment banking. There was, as yet, no focus on root cause analysis, content analysis, trust indices, or face-to-face time, catch-ups and other interactions.

**Four: Conclusion and recommendations**

This paper has reported new research into how small groups of people – officers, directors, and managers – are guiding the governance, design, and delivery of conduct and culture programmes at UK listed banks. The method involved some thirty face-to-face semi-structured meeting interviews. A pre-agreed template was used to score and write detailed notes. From many repetitions, themes and cross-interview commonalities, a rich set of findings evolved.

The domains were simplification of the business, corporate purpose, organisational culture, focus and engagement by the chair of the board, staff in the business, and customer experience. The following three; corporate purpose, organisational culture, and staff in the business, were the heart of conduct and culture. Two domains; simplification, and customer experience, were more peripheral. The other domain, focus and engagement by the chair of the board, was between the two.

People together constitute the culture. To get to the heart of culture and provide the shift that banks and regulators desire, much more effort needs to be expended at the grassroots level where interrelationships, interactions, intent and action occur. Banks focused on the grassroots level of the business had taken a much greater step forward in improving conduct and culture than banks focused on structure. Structure can help improve conduct and culture, but is not nearly enough. We found greater emphasis on structure when conduct and culture was set from the top, and greater emphasis on grassroots when conduct and culture was ‘driven’ from within the business.

Improving conduct and culture requires sustained commitment, but in our meetings we didn’t hear from banks that their effort on conduct and culture was locked-in, and long-term. Board refreshment, change in chief executive, chair, or other key person could halt the positive momentum evident. At the end of the study some of these concerns materialised. One bank changed chief executive. The board was reportedly in part concerned about the damage on the profitability of the investment bank from the conduct and culture programme (Guardian, 2015). Staff working on conduct and culture in the retail bank were applying for corporate governance and analytical positions in the asset management industry. Furthermore, when we came to send our report to those who contributed many had moved to another organisation or an altogether different role. Banking organisations need to sustain the effort if conduct and culture is to improve over the long-term. The Banking Standards Board or Financial Reporting Council could help banks to sustain their effort by encouraging them to publicly set out their commitment and the strength of the long-term policy lock to a conduct and culture programme.

Oftentimes when we talk to companies in other sectors we’re told that our approach is interesting and helpful, yet not one bank mentioned this. Are some banks too large to listen? The Banking Standards Board could help to nudge banks into listening to outside views by holding a regular stakeholder conference that formally puts findings and perspectives of stakeholders to banks.

If the origin of a deterioration in conduct and culture at banks was an outcome of competition, this raises significant questions about regulatory approach, which explicitly incorporates encouraging competition.

We checked our results against corporate governance and sustainability ranking from third part service providers by looking at each bank’s corporate governance rank as reported by two leading UK corporate governance rating agencies. Our results rank banks differently (Manifest, 2016). This suggests that a focus on doing conduct and culture contributes a different perspective to that based on more available public information for corporate governance. The only overlap was that the bank lowest in rank on key corporate governance indicators was also most often in the lowest quartile of our six behavioural domains (Manifest, 2016). Statistically, this result could easily be from chance alone and would not be significant if tested.

Future research could measure the effectiveness of the Banking Standards Board itself by investigating how much movement there has been from the snapshot taken by this study and a second snapshot taken in the future. This could provide new and interesting insight into the effectiveness of a new type of government encouraged, industry-led but non-law making regulator. Future research could also investigate metrics that more clearly and unambiguously measure conduct and culture outcomes.

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1. While operating within disclosure restrictions about material information. [↑](#footnote-ref-1)