

'Messages from the Engine Room' 5 Conduct Questions

Industry Feedback for 2019/20
Wholesale Banking Supervision

September 2020

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Introduction

We are pleased to release this report on our 2019/20 engagement work for the 5 Conduct Questions Programme. Due to prioritising Covid-19 work, we are publishing later in the year than usual.

The coronavirus pandemic has created new risks, and heightened existing ones, across customers, markets and competition. Almost overnight, operating models shifted dramatically to working predominantly from home. Despite the heavy toll on staff from bereavement, self-isolation and lockdown, Business Continuity Planning and the wide availability of computers, connectivity and well-organised communication and organisational links quickly enabled the financial services industry to continue to function.

The scale of these operational changes creates new conduct risk challenges with most staff unused to working remotely for a prolonged period without the immediacy of their peers, support infrastructure and attendant oversight. Technical infrastructure was stretched to enable trading, settlement, reporting and basic surveillance. Oversight may not yet be sufficiently robust for an extended period of operation in this sort of environment. Employee's emotional wellbeing came under immediate strain and may increase and be demonstrated in different ways over time as some return to the office, some stay at home and split teams suffer loss of cohesion and perhaps shared goodwill.

The highly stressed market conditions also meant that some well-known and generally well-managed conduct risks became more acute, as traded markets sometimes operated in unexpected ways or sophisticated clients became newly vulnerable. We aimed to respond quickly, particularly where we saw the risk that emerging conflicts of interest were not promptly identified or appropriately managed.

This report notes that staff were more skilled at identifying conduct risk in hindsight than in a rapidly unfolding situation. Training staff to identify conduct risk as situations emerge or changes to infrastructure evolve would be helpful. We also note in this report that staff already felt underused in identifying and managing conduct risks in the office. They are now well placed to assist, as subject matter experts in understanding their individual home environments.

We have seen some but not all firms launch proactive initiatives to identify the changing shape of conduct risk and to directly focus staff attention on this. It is important that firms take adequate steps to stay up to date or ahead of conduct risks as they evolve. It is encouraging to see that many firms are actively choosing to be part of the solution by engaging with their customers and problem-solving collaboratively.

Conduct and culture will remain a key focus of our engagement activity.

The 5 Conduct Questions

1. What proactive steps do you take as a firm to identify the conduct risks inherent within your business?
2. How do you encourage the individuals who work in front, middle, back office, control and support functions to feel and be responsible for managing the conduct of their business?
3. What support (broadly defined) does the firm put in place to enable those who work for it to improve the conduct of their business or function?
4. How does the Board and ExCo (or appropriate senior management) gain oversight of the conduct of business within their organisation and, equally importantly, how does the Board or ExCo consider the conduct implications of the strategic decisions that they make?
5. Has the firm assessed whether there are any other activities that it undertakes that could undermine strategies put in place to improve conduct?

Executive summary

Wholesale banks have been investing substantial time, effort and financial resources in developing and delivering global change programmes to improve conduct risk management and, ultimately, culture. The FCA introduced the 5 Conduct Questions (5CQ) to assist in this effort. A fair question to ask now is how effective have firms been at embedding the desired changes among staff. This was the focus of some of our engagement this past year.

In 2019, we hosted Conduct Roundtable sessions with 18 wholesale banks. Each was represented by a group of 10 staff at a 'Vice President' (VP) level of seniority or similar. This typically reflected about 10 years of industry experience, possibly including some direct responsibility for the performance of their unit but not necessarily team management. We came to refer to this group as 'the Engine Room', acknowledging their importance to firms. This group is pivotal in revenue generation, control, support infrastructure and other key areas and its members are often seen as emerging leaders for the firm.

Each of the sessions included completing a short, written survey and a 90-minute discussion of organisational, operational, regulatory and personal topics. These subjects all connect firmly to conduct and culture and have a direct bearing on the risk of poor conduct events happening. Written survey responses go some way toward adding to our store of knowledge, while freewheeling conversation provided further insight on how conduct risk was embedding within firms and across the sector. We note that some generously positive responses given in the written survey were quickly challenged during discussion where participants aired a wide range of views.

We are grateful for the contribution of the Roundtable participants and this report is addressed, in part, to this group and their colleagues. As usual, this report remains relevant to Boards, Executive Management, staff at all levels, clients and other stakeholders in the financial services sector.

Identification of conduct risk remains weak

Firms have a clear regulatory obligation to identify, assess and manage risks that could harm their customers, markets or competition. Conduct risk has risen in profile over the past decade as one of the most serious risks a firm can face, driving substantial efforts to address it.

We saw a generally positive impact of the training rolled out over the past few years. There has been a significant improvement in awareness and engagement with the conduct agenda by the larger wholesale banks that we supervise in the UK. However, this work remains incomplete, as the depth of understanding and the ability to identify conduct risk in day-to-day working life remains unacceptably weak.

Roundtable participants understood topic areas such as conflicts of interest, material non-public information, suitability, fairness to customers, diversity and inclusion and non-financial misconduct, but we saw a worrying lack of awareness or depth in the wider range of conduct issues. Deeper, wider topics might include: enabling client misbehaviour, failure to train or be trained, glossing over 'Know Your Client' gaps, new risks arising from automation (robots or artificial intelligence), the impact of Libor transition or, more recently, new risks arising as a result of so many if not all staff working from home. Some firms seemed to latch on to one or two areas of conduct risk to the exclusion of all others. It is important to ensure that the wider context of conduct risk does not become obscured or lost.

These firms can make further progress by promoting a more comprehensive 'front of mind' understanding of conduct risk and improving the ability to identify new sources of conduct risk as they emerge. Better identification skills also need to be accompanied by good mitigation decisions, especially under time and other pressures.

Firms have taken good steps to make training in conduct risk topics engaging through face-to-face training and using real-life scenarios from their work. However, almost all Roundtable participants said staff had little subsequent engagement on the topic either in discussion among themselves or through invitations to help identify and assess conduct risk in their own units or contribute to a wider firm effort.

Because of this lack of understanding and impaired ability to identify conduct risks, firm's overall exposure to adverse conduct outcomes has not reduced as much as it could.

Remuneration and performance assessments

It is encouraging that many firms have taken steps to ensure the contribution of personal conduct and behaviour in achieving objectives is a prominent factor along with what is achieved. However, some firms have taken insufficient steps to ensure substantive feedback discussions with staff, keep future-oriented records, analyse trends and develop a governance feedback loop. Leading firms are making good use of trend data on staff performance around behaviour, for example, by noting common shortfalls in behaviour expectations. This can enable them to fine-tune training and to help promote selected cultural and behavioural aspirations.

Roundtable participants considered excellent conduct and behaviour to be a key part

of everyone's role and responsibilities and a significant criterion for promotion. They spoke strongly about the importance of getting focused and constructive feedback, including about their own conduct, especially at this pivotal stage in their careers.

Staff consistently felt that outstanding behaviour was worthy of quick, recognition, not necessarily monetary, and not a key factor for determining a year-end bonus. Conversely, bad behaviour was expected to attract immediate and possibly dire consequences. They were uncomfortable that some promotions still seemed to be awarded solely on what was delivered, as peers might describe the promoted individual's behaviour as far from perfect. For some, this called actual promotion criteria and decision-making into question.

Culture, Safety and Leadership

The importance of culture

Culture can be defined as the habitual mindsets and behaviours that characterise an organisation. Drivers of culture that we focus on include Purpose, Leadership, Governance and People policies. A firm typically has several different cultures active across various businesses, professional disciplines, diversity segments and geographic regions. There was lively engagement on this topic and evidence that participants clearly understood its importance. They expressed an earnest appetite for progress and looked to their immediate line managers for cultural leadership. They also expressed disappointment at having to deal with persistent pockets of resistance to cultural change which they often attributed to differences between regions, business areas or professional disciplines.

Speaking-up is sometimes still unsafe

How easily staff can safely challenge day-to-day business decision-making exposes the health of the corporate culture or environment. We are pleased to see clear official whistleblowing and other escalation channels in place as this is an important regulatory requirement. However, participants described them as largely unused and reserved for the most serious cases. We saw a persistent and significant lack of psychological safety in day-to-day speak up and challenge. Firms need to address this.

The need for strong middle management

Participants were generally positive about their line managers, top management and CEOs. They greatly appreciated the direct support from their managers especially when speaking up about issues. They said the impact when this support is lacking is deeply problematic. They described areas of disappointment in their management teams as exceptions rather than endemic. One common reason for disappointment was having to deal with an unhelpful number of layers of management or decision-makers. Some middle managers were seen to have difficulty in cascading organisational purpose, values and strategic objectives down the line. There was strong demand for consistent solid performance from immediate line managers as individuals and as a joined-up group at the firm.

Purpose, Principles and Values

Staff need clarity on purpose, principles & values

A firm's purpose sits at the heart of its business model, strategy and culture and can play a fundamental role in reducing potential harm to consumers and markets. Participants approached this topic with enthusiasm but were confused about the distinctions between terms such as purpose, principles, values, mission statements, mottos and short-term goals.

Staff were often unclear about their firm's corporate purpose statements and how their own roles and responsibilities contribute to that purpose. Staff were emphatic that better understanding of the purpose and how their roles fit into it would be very helpful. Improving clarity is essential, as these concepts often feature in important conversations both internally and externally with clients and other stakeholders.

Participants made it clear that alignment of a personal sense of purpose and core values with those of the firm was also very important, but rarely discussed. Lack of alignment may result in unhealthy culture, perhaps manifesting as a lack of commitment and, as a consequence, lead to adverse behavioural outcomes.

Tone from within

In the earlier stages of change efforts around conduct and culture, we underlined the importance of 'Tone from the Top'. Board Chair, CEOs and Global Business Heads are hugely influential in terms of what they say and do - or don't. The contagion impact, both positive and negative, has been comprehensively covered in academic and commercial commentary. Over time, this mantra has evolved to reflect the influence of one's immediate line manager. This gave rise to the label 'Tone from Above'. The G30 noted this change last year in its report titled Banking Conduct & Culture, A Permanent Mindset Change.

The tone from the CEO, policies and procedures and regulatory rules, among others, are clearly meant to influence individual behaviours across the entire firm. We introduce 'Tone from within' as an important new operative phrase to consider when issues of conduct arise. This represents one's individual mindset, preferences, beliefs, habits and pre-dispositions. It is one thing to have an idea about how your CEO or line manager might respond in a situation, it is another to be clear about how you might respond on your own and why. Whether stated directly or not, the development of Tone from Within via training, self-reflection and self-challenge is a precursor to wider corporate change.

Our direct engagement with Engine Room staff, their peers and their colleagues has helped them to nurture a stronger sense of understanding and belief in their individual capabilities to contribute to conduct risk management within their teams but also firm-wide. The exercise to broaden the base of our engagement should positively impact behaviour and conduct outcomes.

Some Thoughts for Consideration

Many issues were raised during the conduct roundtable sessions that warranted follow-up. Some of these are best addressed by staff directly, some by line managers and some by executives.

Here are some key points worth considering.

1. Have staff had sufficient training to be able to identify conduct risk in their day-to-day roles beyond general awareness?
2. Does the firm's overall framework for identifying and mitigating conduct risk reflect adequate, bottom-up exercises to understand those risks?
3. Do staff understand how their own roles and responsibilities can potentially create conduct risk or harm for the customers, the firm or markets?
4. Are messages from the top, including corporate purpose and values, translated in a meaningful way to the specific roles and responsibilities, targets and objectives at the individual and unit level across the firm?
5. Is enough being done to support line managers in their efforts to enable their teams to perform at their best?

Next steps

Culture and governance is one of our priority areas and a key consideration in our Approach to Supervision. We want to encourage open discussion on this broad topic and initiatives to address it. Our aim is for such engagement to support sustainable cultural transformations in financial services and better outcomes for businesses, consumers and markets.

Firms have clear regulatory obligations around culture and conduct as discussed in this report. It is important that infrastructure and training initiatives go beyond policy and process and mere adherence in order to make it clear to staff why such obligations matter. Poor culture and conduct can lead to harm. While avoidance of harm can be thought of as a regulatory imperative, these broad improvement initiatives are clearly good for business.

We will continue our supervision of conduct including our outreach efforts across industry and the academic community. This may include hosting further Roundtable sessions that may influence and inspire more innovative thinking and action. We welcome face-to-face engagement with a wide range of wholesale financial services firms of all sizes.

1 The conduct roundtables

The 5 Conduct Questions programme (5CQ) was designed to assess and support the numerous conduct and culture change programmes already planned or underway in the banking sector. We met with Chairs and CEOs of firms to get initial support and buy-in to a collaborative approach for the sector. If firms were to candidly tell us what worked well and what didn't, we would collate and publish this information for everyone's benefit. We then embarked on what has become a productive, longer-term initiative currently in its fourth year.

In the first 3 years, our engagement with firms centred around a forum created to receive progress reports and deliver feedback - the Annual Conduct Meeting (ACM). ACMs typically involved top management executives at the firm. Over this period, we broadened our engagement with firms to include Global Business and Support Services Heads. We reported on our findings to industry in our annual reports and provided some confidential feedback to each participating firm. While staff will have completed conduct training programmes, participated in surveys and attended Town Hall meetings on conduct and culture, they may not have known about this 5CQ initiative in the background.

By year 4, how well these change initiatives were embedding was becoming a primary question. Some firms had launched internal reviews, audits or engaged consultants to provide a peer review. To get further insight, we invited groups of ten employees from each firm to visit the FCA, one firm at a time, and share with us their views on purpose, conduct, culture and related topics.

5 Conduct Question Programme Evolution

Year 1	Chair & CEO	Buy-in and resourcing	<p>"Tone from the top"</p> <p>"Tone from above"</p> <p>"Tone from within"</p>
Year 2	CEO & Executives	Engagement, design and scaling	
Year 3	Global Business & Support Unit Heads	Full business leadership action on FCA feedback	
Year 4	VP Layer (10 years industry experience) 'The Engine Way'	Are conduct messages embedding as desired?	

Our main objective for this horizontal exercise was to assess how well staff understood conduct risk and their ability to identify and manage it in their day-to-day work. We also wanted to observe how staff absorbed management messages about purpose, principles and values, conduct and culture and the healthiness of speak up culture. And we wanted to assess how conduct and behaviour was progressing as part of individual performance assessments. These features all play an important supportive role in conduct risk management.

Conduct roundtable participants were generally made up of staff at the same level of seniority, with about 10 years of industry experience, including at least 2 years at their current firm. We sought a reasonably diverse group of individuals representing a variety of businesses and functions front-to-back. Participants completed an anonymous short-answer survey followed by an open and free-wheeling discussion.

We present here our findings from the survey results and our ensuing discussions with the roundtable participants. The results mostly reflect the participants' comments as we understood them. Some individuals might recognise their own input here but this report is otherwise anonymous. A few survey questions also asked for numerical rankings and we report on these where relevant.

The Behaviour Curve

For the benefit of new readers, we briefly mention here our description of the Behaviour Curve from [last year's report](#). Imagine a distribution curve or a line depicting the range of individual behaviour from bad (on the left) to good (on the right). The key point is that regulators are interested in behaviour across the whole curve, not just the bad or left part of it.

We also introduced the term 'Behaviour at Risk' to emphasise the point that conduct risk is dynamic, arising anywhere in the firm at any time and the overall risk level can rise and fall quickly. It is one thing to have awareness training of what conduct risk is about. It is quite another to take a very close look at your own unit and activity and to consider how conduct risk might come from anywhere in the organisation and affect your unit. Conduct risk is not something that reduces simply because a firm has introduced an approach to assessing and managing it.

Our review, observations and emerging best practice

In the following sections, we provide summaries of what we heard during discussions or learned from survey responses. We also give some of our thoughts on this and list emerging points of best practice or suggestions made by participants directly in the Roundtable sessions.

2 Identifying conduct risk

Why this is relevant

Adverse outcomes from poor conduct and the scale of harm to clients and markets, the resulting punitive fines and negative press are all highly visible. Good conduct can create and sustain competitive advantage rather than just reduce the risk of rule breaches. An active approach to identifying conduct risk is an essential first step for firms, given that a risk that has not been identified cannot be managed or reduced.

Firms have a clear obligation to develop and maintain fit and proper infrastructure, policy and processes designed to identify and manage conduct risk. All firms have generally made significant investment in training and development and senior management have been highly engaged in promoting key messages to staff. Conduct risk is a primary regulatory focus and was naturally a key topic in our roundtable sessions.

What we heard in roundtable discussions

When describing the effectiveness of conduct-related programmes, only 29% of participants rated them 'very good', although few assigned a 'bad' score.

A common complaint about training design was that it was not tailored to specific units which greatly undermined the value of the time spent.

Participants generally identified at least a few of the following areas of conduct risk: material non-public information, conflicts of interest, treating customers fairly, suitability, diversity & inclusion and personal misbehaviour (non-financial misconduct).

Over 95% of respondents self-scored their ability to identify conduct risk as high or very high. While most could spontaneously describe one or two of these risk categories, many could not go further. So this self-assessment was rather generous from our point of view.

Staff at only a few firms, and especially those individuals in front-office trading roles, could confidently go into further depth beyond the basic list above. They described risks involving asymmetrical information, LIBOR transition or simply poor execution of key steps in an approval process.

For one-third of respondents, conduct was rarely a topic of discussion around their desk except immediately following training, a town hall event or perhaps new catastrophes in the news.

Staff felt reasonably well-trained in conduct risk. But only a handful out of about 180 participants said they had been asked to contribute to bottom-up risk identification in their own unit or for the wider benefit of the firm.

Some staff described weak processes, unclear policies or cumbersome IT infrastructure as undermining enthusiasm to perform. This, in itself, generated conduct risk but staff felt this risk was under-appreciated by management.

Conduct risk in some firms seemed to focus almost exclusively on well-being and personal misbehavior at the expense of all other conduct risks.

Participants agreed that significant 'risk expertise' was not a requirement for being able to contribute to identification of conduct risk.

Second line functions felt that they could influence the front line when needed, noting that communication channels could nevertheless be improved as could the effort by others to understand central concerns such as the limitations of aggregate corporate risk appetite.

Some staff said conduct as not at all relevant for their second line units. This was illustrated by quotes such as: 'I'm not in a client facing role so conduct risk isn't my problem.' Some felt conduct risks did not really apply to the IT function or e-trading platforms.

A small minority of participants felt that conduct was a compliance problem and it was the responsibility of that unit to build the catalogue of conduct risks or Risk and Control Self-Assessment (RCSA) infrastructure

What we think

Our Roundtable discussions and survey responses reflect positive early results from the training given by the large wholesale banking firms. Compared to 3-5 years ago, there has been a significant improvement in awareness of conduct risk and its importance.

Ability to identify conduct risk

While the increased awareness is positive, the modest skill level and opportunities for staff engagement in **conduct risk identification** remains a concern and a key focus point for the future. It is now important to deepen and widen the understanding of conduct. Attention is needed on improving the skill to identify conduct issues in one's more immediate surroundings and the ability to identify issues that arise in day-to-day work. Staff that had participated in exercises to self-discover conduct risks in their units were seen as more able to explore conduct risk topics. Firms take a risk when placing unquestioned reliance on old, possibly stale lists of possible risks prepared by staff (or third parties) with perhaps inadequate familiarity with a specific business or operational unit.

Considering wider conduct risks

A second concern is that the range of front-of-mind conduct risks needs to be wide. General awareness training has not achieved this and emphasis on one topic or another may have an unintended narrowing effect. Meanwhile, we highly applaud the effort of firms to raise the profile of non-financial misconduct. It is not a new risk that has burst into view because of sudden growth in scale. It has done so because of collective efforts to raise the profile of a risk that has been hiding in plain sight or simply tolerated when it should not be. We remain mindful that new risks are emerging all the time with Libor transition being a good example.

Increasing conduct-focused discussions

A third concern is the irregularity of day-to-day discussion of conduct topics around the desk. While very common for some, especially transaction-oriented, front office units, many others said that discussion almost never occurred. This was especially so for non-client-facing or second line units. Conduct risk is not static. It can and does happen at any time, at any stage of a process or product lifecycle and needs to be addressed at source. We are concerned that conduct as a topic rarely happens except when prompted by an actual event or recent training.

Some support and IT units and e-platform specialists stated that conduct risk did not apply to them. This was particularly unsettling given our own commentary as well as heavy press coverage on 'conduct of the machine' and the ethics issues related to Artificial Intelligence or robot applications.

Conduct risk is a very broad concept and we saw that most employees are still at early stages of moving from awareness or recognition (seen in the rear-view mirror) into an ability to identify a wide variety of conduct risks (seen through the front windshield). A firm's ability to manage conduct risk may improve significantly if staff are helped to become more alert to new and existing risks and more proactive in escalating these. We have noted the risk of continuing to rely on gap analyses against a long list of historical risks stored on some spreadsheet.

As we noted in previous reports, executives can benefit from staff knowledge by supporting business-led, bottom-up exercises to assess the potential for conduct risk and harm. Also, re-prioritising improvements of inefficient processes may significantly improve job satisfaction and thereby reduce the risk of conduct breaches by staff in critical support functions.

Emerging best practice

Some positive examples that we heard about include:

1. Staff clearly appreciate that CEOs and other business heads had stepped up to lead and actively participate in conduct and culture initiatives.
2. While most firms now offer conduct training that includes scenarios, role playing or dilemmas that had been faced by the firm, these were now being tailored directly for both business and support units. The training sessions could also include time for self-reflection as change and development at the individual level is an ultimate objective.
3. Some firms are providing more upfront training to new arrivals before they take up line roles.
4. Some firms have started or are expanding their effort to identify conduct risk as a dynamic exercise unit by unit. They have also developed new channels to discuss conduct risk issues more widely across the firm.
5. Some staff have taken the individual initiative to escalate new conduct risks for inclusion in central catalogues.
6. Some units have established conduct as a standing agenda item for their regular team meetings.

3 Remuneration as a key driver

Why this is relevant

Remuneration is one of the most influential drivers of behaviour and, if pay systems are badly structured, they can encourage or create harmful consequences. Firms have an obligation to follow the FCA's Systems and Controls regarding Remuneration. The design, management and outcomes from remuneration, promotion and related performance assessment processes are emotive. They can cause significant ill feeling, resentment or anger if misunderstood, which itself leads to an increased risk of poor behaviour.

Here, we summarise the results of our information request to firms on how they include conduct and behaviour in their staff performance assessments. We then give a summary of our Roundtable discussions on the issue. The two pictures align but not fully.

The impact of performance assessments

We examined how banks are beginning to link performance assessments - including personal behaviour - with decisions about remuneration and promotion. For example, larger wholesale banks have begun to incorporate separate ratings for 'what' annual results have been achieved and 'how' they have been achieved in terms of personal behaviour and conduct. Many firms said that conduct now formed up to 50% of performance appraisals. This would represent a significant change.

We wanted to explore how strongly the appraisal process and remuneration decisions were linked and the impact for good or poor behaviour. We asked 18 of the larger wholesale banks for information, and most also subsequently participated in the Conduct Roundtables. We specifically requested:

- a. statistics on the number of staff where remuneration was affected plus or minus 10% as a direct result of conduct and behaviour ratings or assessments and
- b. copies of records related to a sample of the assessment process where a significant remuneration change had occurred and any follow-on reporting including to executive or board level

Observations

The quality of the information provided differed widely. Many firms had to piece information together from disparate systems. Most firms provided supplementary information about their process, data capture and analysis of assessment results. The weakest response simply provided statements declaring that dedicated and high-quality processes were in place but provided no corroborating evidence.

The number of staff captured in this exercise totalled 55,004. It was reported to us that 5,287 staff had received a remuneration increase of 10% or more specifically due to their conduct and behaviour or 'How' rating. This number is significantly overstated as:

- a. some firms applied very liberal criteria for inclusion in the uplift results, and
- b. not all firms normalised their underlying results for changes in the staff bonus pool in 2018 versus 2017 (significant changes should be neutralised as a starting point)

As presented, about 9.8% of staff received a remuneration uplift. The impact reduces to 5% of the population when the results are normalised for the bonus pool increase in the second year.

Similarly, it was reported that 750 staff had their remuneration reduced by 10% or more because of conduct, which would include personal misbehaviour, policy or process breaches, limit violations or other factors. This represented 1.4% of the population.

We noted significant differences in firms' approaches and level of sophistication in deciding final remuneration outcomes. Most firms have implemented some form of new infrastructure but at least 5 firms undermine their process by making totally ad hoc, isolated remuneration decisions. While firms often cited systems and data access as common constraints, some are making increasingly good use of what they are learning.

The Learning Organisation as a reference point

The hallmarks of a learning organisation include forward thinking about current performance and how it could improve. This directly affects what it might measure, how it could use the data it collects and, importantly, the priority it gives to various initiatives that might emerge.

We created the scale below to reflect the cumulative degree of value-add based on how a firm handled the assessment and remuneration data it collected. The criteria in each row attract progressively more points for using the data collected to good effect. On this scale 5 points reflects the highest level of value-add. Only two firms collected the full score. We would caveat the results of this analysis as it reflects a limited and narrow data sample.

Organisational Learning Analysis

Value points	Score criteria (5 is best, 1 is worst)	Firms
5	forward analysis considered, training considered, board feedback evidenced	2
4	weighted impact of how vs what, data kept, backward analysis done	2
3	conduct measured, actively considered in a scorecard approach, data kept	2
2	conduct scored but value lost in single unweighted ad hoc final score	7
1	no conduct score, data not kept, no back-check possible	5

So far 6 out of 18 firms are already demonstrating a proactive, higher value-added approach to measurement and using the data in a manner indicative of a learning organisation as we have simply defined it for this exercise.

The link between exemplary levels of positive behaviour and remuneration uplift reflects a weak heartbeat, but it is a heartbeat nonetheless. This picture is not improved when it becomes clear that many firms are not or are not yet easily able to aggregate data in a way that can be used for management purposes.

As a whole, firms reported that behaviour is having a significant impact on remuneration. During the subsequent Conduct Roundtable discussions, staff suggested that:

- a. exemplary performance is more likely to be rewarded with small awards or recognition on the spot rather than an upward impact on salary during the annual performance assessment process suggesting that the corporate surveys overstated the impact, or were at least optimistic.
- b. bad behaviour had an immediate, sometimes dire impact and
- c. behaviour was expected to have a very significant influence on promotion decisions and staff displayed concern or annoyance when those exhibiting poor behaviour were still being promoted.

Roundtable Discussion

What we heard during roundtable discussions

We asked participants if they felt that their personal conduct was adequately addressed in performance assessment discussions. We also asked them what impact, if any, their conduct or behaviour had on pay or promotion.

Some groups said that the character of their year-end discussions had significantly changed for the better as a result of the additional emphasis on behavioural feedback.

Some noted that while behavioural feedback was being provided during the year, little or no specific discussion had taken place as part of the year-end assessment.

However, many described the actual discussion experience on conduct as perfunctory.

Some firms referred explicitly to its principles in the annual performance assessment process and participants noted the difficulty of trying to think of practical examples of feedback for each principle for every staff member as part of this process. They described the effort as potentially counter-productive if time to consider other thoughtful feedback is lost.

While 78% of respondents scored their conduct as being adequately assessed only 55% thought that the impact of their conduct on their remuneration was fair.

Participants consistently noted the difficulty in rewarding good or exemplary conduct as part of a year-end salary review or bonus programme. They cited the problems of calibrating behaviour to a bonus amount, the difficulty of comparing one person to another, the relative importance or impact for one particular role or unit versus another, and so on.

Participants consistently stated that exemplary behaviour could and should be recognised as quickly as possible via public recognition, small prizes or awards (eg gift vouchers). Only a few could see their behaviour resulting in increased annual remuneration.

Staff generally understood promotion criteria but not the rationale for promoting some specific individuals so decisions could sometimes be better explained.

Participants were categorical that conduct and behaviour should figure consistently and prominently in promotion decisions and it was disheartening when there was evidence of sub-standard behaviour among those promoted.

Only 15% of respondents felt strongly that promotion criteria were very clear at their firm. The process at many firms was described as too opaque.

What we think

Significant strides have been taken in elevating 'how' versus 'what' but closer scrutiny reveals that this welcome progress is at an early stage and much remains to be done.

While 'how' versus 'what' was often presented by firms as a 50:50 balance for individual performance assessments, the impact on remuneration of exemplary or even good behaviour was minimal. This may reflect lack of demand as much as the difficulty of creating a scale for behaviour. It also aligns with the clear preference expressed in the Roundtables for other forms of appreciation or recognition.

Weak practice was displayed by some firms that seemed to make remuneration decisions on a completely ad hoc basis. This was despite the internal emphasis on the importance of the feedback process and the creation of, for example, a new scorecard for use within the firm.

Roundtable participants were keen to have regular and well-considered feedback, particularly at this stage of their careers. This was encouraging and of course it deserves to be supported.

The range and depth of discussions varies significantly both by firm and by managers within a firm. Feedback was often given during the year as well as at year-end. While not consistent or uniform across the sector, this is a very welcome change compared to previous practices where 'what' represented almost all of a performance assessment.

One key element is the need for a manager to be balanced on areas for praise versus areas for improvement. Assessments that are wholly positive or wholly negative in content or tone are equally unsatisfactory, both reflecting a lost opportunity to support career progression.

Discussions delivered in a formulaic assessment approach were less appealing than simple heart-to-heart exchanges on how an individual could improve.

This topic is of primary importance for influencing culture and conduct. We applaud the initial start but would expect firms to further develop both the follow-through on the assessment process as well trying to ensure better quality discussions on conduct and behaviour.

Remuneration and its potential impact on conduct remains a major focus of attention for all firms. The conduct and behaviour component of performance assessments needs to be meaningful, which may require regular review and attention. Progressive learning organisations are actively using behavioural performance data to inform their staff's future training and career path development.

Staff have come to appreciate the importance of being alert to conduct and behaviour for their own career success, as well as that of the firm. Line managers that invest in providing thoughtful and balanced feedback both during the year and at formal assessment points play a key role in building and sustaining healthy cultures. Staff welcome fast recognition of exemplary behaviour. Maximum transparency about promotion decisions has become a clear staff expectation.

Emerging best practice

Our survey found that higher value-add elements for effective organisational learning around conduct and behaviour in performance assessments include:

1. carefully conducting assessments including peer review
2. formally weighting conduct (the how) versus other factors (the what) for impact
3. actively collecting and analysing the data generated across the whole firm
4. analysing data and reporting any trends at board level
5. using the benefit of all this analysis in future assessment planning, and ensuring a feedback loop for management that includes training and career development

Some positive examples that we heard about from Roundtable participants include:

6. most firms seek feedback on 'how' as a key component of annual performance assessments some firms are providing conduct feedback on the spot or during the year rather than waiting solely for year-end assessment
7. some firms seek to prompt discussion using an agenda or a pre-designed grid, but care is needed to ensure that they maintain flexibility
8. leading firms are demonstrating attributes of a learning organisation by collecting data related to 'how', analysing trends, refining approaches and reviewing results at board level
9. most firms consider good conduct and behaviour to be an essential criterion for promotion
10. quick but moderate recognition of excellent performance is becoming an established pattern rather than year-end bonus or salary impacts

4 Culture, Safety and Leadership

Why this is relevant

Culture can be defined as the habitual mindsets and behaviours that characterise an organisation. It is at the heart of how we authorise and supervise firms, as well as where we may look for improvement. Healthy culture supports efforts to act with good intent, so reducing the risk of harm. The approach to conduct, speaking up and psychological safety as well as leadership are each very important features of creating and maintaining a healthy culture.

The healthiness of the environment for speaking up is crucial to the development of a positive culture. Firms are required to comply with a specific regulatory regime on Whistleblowing, maintaining a clear and accessible process with independent oversight. Weakness in speaking up or unresponsiveness to matters raised rapidly erodes health and is an unacceptable risk. Cultivating psychological safety is vital for a healthy speak up environment, and leadership undoubtedly plays a key part in facilitating this.

Leadership can be described as a disposition to lead rather than a formal leadership position. Staff at any level can demonstrate principled, leadership behaviour or take decisions that inspire others. Consistently leading by example and adopting a personable, approachable style contributes positively to psychological safety which in turn supports a positive culture. These elements all serve to reduce the risk of negative outcomes from unwanted conduct and behaviour.

Culture

What we heard during roundtable discussions

We asked participants how they would describe the culture of their firm. Overall, participants identified many positive features but also some faults.

Participants described their culture variously as: collaborative, entrepreneurial, friendly, professional, collegial, flexible, supportive, approachable, safe, fair, open and socially responsible. But they also described it as: bureaucratic, slow, siloed, blame culture, not transparent and hampered by managers or colleagues who did not demonstrate accountability.

Most firms described how there had been a significant evolution of culture and attitude over the past few years. Across the board, participants acknowledged how important this was, particularly given their firms' multi-cultural staff base or wide geographic footprint.

Imbalances in IT infrastructure investment between front and back office was often mentioned as undermining culture. It was highlighted as a source of conduct risk because dealing with inefficient or ineffective systems leads to frustration and eventual lack of commitment to quality.

Participants noted how cultural considerations are often described as of higher importance for millennials. They felt this prioritising of culture was not actually unique to this generation, just that they were perhaps more prepared to be vocal about it.

A few firms noted that staff who had been in role for 10-20 years or more (ie not necessarily just older) may find it harder to buy-in to a cultural shift.

Collaboration within the firms was described as improved or improving.

Some staff in middle office functions said that the culture had evolved to more of a partnership model with the front office without negative implications for the independence of controls.

Another positive observation was that diversity and inclusion have improved, particularly in the UK. Some staff with multi-country experience noticed the significant benefits of diversity and inclusion in those locations where it was evidently stronger, compared to others around the world where it was not.

But some participants also felt that cultural differences outside of the firm with clients or other stakeholders can pose difficulties.

Wellbeing is now seen as a far more prominent consideration among employees (and employers). Although, in general, participants said flexibility has improved with current working from home and other options, work/life balance was still described as a concern and a reason for junior staff leaving.

What we think

We found comments about positive cultural shift over the past few years encouraging. Aggressive behaviour was being toned down as unacceptable and the protection of high performers from any challenge was now being addressed. However, there are still differences in management style which can hinder new culture initiatives from being consistently applied. A fundamentally supportive manager might undermine this stance with a blasé attitude on some transgressions or fail to appreciate the importance of a speak up topic.

More recently, culture has evolved to take account of broader factors rather than just focusing on shareholders' needs. This is leading towards a closer alignment of shareholder, client and employee interests as well as other stakeholders.

Participants raised concerns about cultural differences with clients. Firms may need to address this by training their staff on how to deal with difficult clients but also support a staff member's good behaviour in the individual circumstances. This could also serve to positively influence wider industry as well as the firm itself.

To promote a good culture some firms have designed specific award programmes to highlight and reward 'culture carriers', a term now commonly used to describe individuals displaying exemplary attitude and behaviour. We note in the Remuneration section that the idea of direct financial reward for demonstrating good culture was not common among participants, but they firmly acknowledged the effectiveness of softer benefits in encouraging good behaviour.

It was evident that firm-wide culture is clearly shaped by those individuals who actively promote high standards in their day-to-day working lives. To have an impact on culture, staff can actively engage in various initiatives and demonstrate leadership by consistently providing feedback, breaking silos, considering culture in other parts of the firm, and in other firms as well, with the intention of promoting best practice. Regular displays of humanity, civility and diplomacy are helpful.

For line managers, having the right culture in a business or service unit can be very beneficial to achieving goals while reducing conduct risk. To enable good culture, astute managers consider what their team needs for top performance, individually and as a unit. It is clearly beneficial when line managers lead by example.

Safety, Speak Up and Listen Up

What we heard during roundtable discussions

Participants spoke with detailed knowledge of the speak up channels available at their firm and how to access them. Only a few had felt the need to access channels beyond speaking to their direct line manager.

The main issue that emerged in our discussion was the lack of psychological safety for speaking-up day-to-day. For some, speaking up seemed completely natural and well embedded within the organisation. For others, a fear of consequences, shyness and insecurity still prevailed.

Only 44% of respondents felt strongly that staff at all levels were always able to raise concerns.

Participants described higher levels of anxiety in dealing with challenging cases that are of borderline significance (should I, shouldn't I?), cross functional units (do I fully understand the issue or drivers?) and sometimes the channel itself (can I really trust HR, a direct manager or a 3rd party channel?).

Some mentioned that the subject matter alone can add pressure. They said it might be easier to highlight the inappropriate behaviour of a colleague than challenge a business decision with immediate revenue implications. The reverse was true for other staff.

Live or real-time issues where quick reaction is required were also described as hard to navigate.

Many groups pointed out that junior staff may find it harder to speak up, take longer to feel comfortable in doing so and often worried that their concerns were not valid. Participants described various helpful initiatives including tailored training on how to speak-up, mentoring and buddying. It was also noted that it may be easier for junior people to escalate issues as a group rather than individually.

The motivation for speaking up also matters. One group described that where speaking-up is embedded in the culture, the motivation is more likely to be driven by the desire to do the right thing rather than escalate with the intention of shifting responsibility to the line manager or to another unit.

Participants consistently emphasised the role of their direct line manager in establishing the degree of psychological safety necessary for a healthy speak up environment and had empathy and concern for colleagues who did not have sufficiently supportive managers.

They said it was helpful to have easy access to Compliance staff, but more often at the pre-escalation stage (eg checking what is the right thing to do) rather than as an ultimate escalation channel of choice.

Contacting Human Resources or triggering a Whistleblowing event were considered by many to be more radical or 'nuclear' options and an unappealing if not dangerous prospect.

What we think

The overall health check on speak up gets a pass for basic infrastructure, but not with flying colours for overall healthiness in the day-to-day environment. Participants displayed a very wide range of opinion and experience. We found that speaking up varies significantly between firms as well as between different parts of the same firm.

Participants described day-to-day issues as more of a challenge than more serious cases of misbehaviour or policy breaches that justified using a Whistleblowing channel. This is worrying because day-to-day activity generates a steady flow of debatable alternatives that are best discussed, understood and resolved quickly.

Most participants preferred to speak directly with their line manager even though other channels were widely available and easily accessible. In such instances, the psychological safety of speaking-up depends on an individual manager and may leave employees exposed to bias, subjective judgement or even retaliation. It is vital that managers have a willingness to actively listen and hear what others are trying to say, follow up and be supportive.

Staff may need more guidance in navigating borderline or cross-functional cases. Different approaches to speaking-up in a firm may be due to cultural differences between regions or simple differences in perspective and priorities between front and back office or specialist units. Firms need to address the difficulty and perceived risks in challenging across unit or functional lines. For example, a difficult judgement on a complex trade might involve the technical complexity of using one or more valuation models and the possible implications for local laws, capital treatment or revenue recognition for different stakeholders. This would mix specialist expertise in law, calculation methodology, accounting rules, regulatory capital rules and compliance with a host of internal policies.

Addressing cross-functional cases may be straightforward in a formal and documented process, such as a New Product Approval Process. However, it is likely to be more difficult in cases that fall outside of such processes. It may be useful to establish visible discussion channels and provide more positive examples of speaking up or collaborative engagement in such situations. This could also evolve into targeted training for cross-functional issues.

In some cases, employees who would not normally hesitate to speak-up may become less inclined to do so. Some participants said this was especially the case with promotions, whether it was their own or others. Lack of clarity around promotion criteria and an ambiguous or subjective promotion process may have an impact on employee attitudes toward speaking up.

Reluctance to speak up may be further exacerbated when there is a culture of perfectionism. A display of zero tolerance for mistakes or errors creates a very unhealthy environment and discourages speaking up.

Staff who champion open collegial challenge and discussions are increasingly recognised as team players vital for healthy conduct and culture. In organisations with good speak up culture, line managers play a central part by ensuring that a speaker is not ignored, the messages come across as intended and speakers are updated on progress.

Finally, it was clear that staff need assurance that escalated points are being listened to. An absence of action or of regular updates is likely to discourage future escalation.

Leadership (incl. Line Management, Tone from the Top and from Above)

What we heard during roundtable discussions

We asked participants if management at their firm lead by example. The answer was largely yes.

Participants consistently raised the point that they are more likely to connect and feel motivated when senior management is more visible and messages are immediately relevant.

CEO messages were most welcome when further tailored to specific regions or business units. If staff see messages as not very relevant to the audience or local subsidiary, they said they were less inclined to pay attention.

Participants regularly stated that Tone from the Top or Tone from Above was very clear when presented by the CEO or top managers. However, messages did not always reach the target audience as intended, especially for the large firms headquartered outside the UK.

Some participants suggested that middle management were currently less confident in delivering consistent messages about a firm's strategy/direction or in promoting the firm's values and principles.

CEO message content was said to have varied significantly when cascaded by middle management. Discrepancies were usually discovered later and were a source of confusion and annoyance.

Line manager skill or leadership style varied widely. Participants commented on how significant the negative impact of weaker managers can be on an organisation.

What we think

We certainly took note of the consistency of comment about CEO messages and Tone from the Top which often seemed to fail to reach the target audience either consistently or correctly.

When senior management is more remote, it increasingly falls to the middle management layers to deliver key messages. Some feedback indicated that middle management is somewhat less efficient or lacked confidence in delivering messages about the firm's strategy or direction or in promoting the firm's values and principles. Content was often inconsistent. Senior executives might consider this when devising their communication strategy.

It was clear that the role of middle management is hugely important, reflecting the significant influence they have on and the support they provide for the 'engine room'. Staff usually listen carefully to their immediate line managers. They are acutely aware that managers observe their day to day behaviour and inform, if not decide, compensation and promotions. It is important to note that perceived weakness in the middle management layers appeared to be scattered or infrequent rather than endemic.

Participants identified that middle management needs to display good leadership to exercise their influence effectively and appropriately. Management style and consistency is important. Training may address differences in management style and the impact various style can have. Although there is inevitably a wide variety of management styles in any large organisation, it should not affect the objectivity of the staff appraisal/promotion process. Given the rapid pace of change, individual managers may need to adapt to cultural norms that differ markedly from their own earlier work experience.

Senior management's engagement with employees and the availability of feedback channels is very important. Staff do appreciate regular employee surveys and Town Hall sessions that address issues they have raised. However, value is quickly eroded if employees cannot see regular evidence that their feedback is being heard and acted on.

Striving to set an example and doing so repeatedly, at all levels not just managerial, can be hugely impactful on culture.

Emerging best practice

Culture, psychological safety and leadership all interconnect to contribute to the overall health of the working environment. We would characterise our findings as a need for continuing focus for many of the participant firms.

Some positive examples that we heard about include:

- 1.** Firms have widely prioritised culture as a management focus for improving conduct. In many if not most firms, CEOs, executives and managers have generally become more visible as leaders of culture and more proactive in ensuring all levels in the firm have a psychologically safe environment.
- 2.** Staff at lower levels also becoming more proactive in driving good culture. They generally recognise the importance of supporting healthy challenge as part of day-to-day activity and actively seek support from line management to ensure they have it.
- 3.** Some staff took the step of offering to partner with their line manager to address and resolve a specific problem rather than just escalating the matter or withdrawing it.
- 4.** Some firms are appointing conduct ambassadors. Formally appointed, trained and supported individuals for such roles are proving to be more effective than volunteers.
- 5.** Some firms have also designed awards to highlight positive culture initiatives and highlight culture carriers.
- 6.** Some firms actively participate in industry initiatives to improve culture such as FCA Culture Sprints.
- 7.** Some firms have reframed 'zero tolerance' language as zero tolerance for 'unmanaged' risks or risks 'beyond set limits'.

8. Most firms are now gradually formally assessing how goals are achieved, as well as what is achieved.
9. Some firms have set up support groups for newer staff who may not feel comfortable raising day-to-day challenges or speaking up on more serious matters. One firm introduced a new committee which gathers issues raised by junior staff and then escalates them to senior management.
10. Some firms assign a formal buddy to all new employees, partly to ensure a speak up voice is heard and understood. Often a buddy can be from a different unit rather than the adjacent desk.
11. Some firms provide specific training on listening skills to ensure that when messages are raised as a challenge or speak up point, managers remain alert to the sensitivities that may apply for an individual to step forward.
12. Good leadership practices in some firms include open informal access to senior management, managers carefully considering the wellbeing of the team as a whole, effective cross-unit cooperation and extra care by middle management when cascading CEO messages.

5 Purpose, Principles and Values

Why this is Relevant

A firm's purpose is central to its business model, strategy and culture. It provides an overarching focal point for what the firm seeks to achieve. The power of a corporate purpose statement increases dramatically if it is meaningful, well understood and actively applied by staff as the backdrop for day-to-day business activity. Personal purpose also has a direct bearing on how individuals assess the potential risk of harm and whether it's acceptable to take a particular risk. Corporate principles and values underpin how a firm wants to conduct its affairs. These aspirational statements can provide context when addressing matters where it is hard to decide which is the right decision where avoiding harm is a key objective.

Corporate Purpose

What we heard during roundtable discussions

About 90% of respondents said that their firm's corporate purpose was clear or very clear. However, a different story emerged during discussions.

Most groups could remember some aspect of the corporate purpose promoted by their firm but often not very well. Even though their recollection was patchy, we noted that confidence and enthusiasm for expounding on the topic was very high.

The most common elements mentioned by nearly every group were: client focus, sustainability, and social or community contribution for which there was earnest enthusiasm.

Staff believed that an understanding of corporate purpose and how individual roles and responsibilities fit into the wider picture was very helpful, energising and motivating for them.

Staff at a number of firms admitted they had 'no idea' what the firm's corporate purpose was. They struggled to make sense of what the implied or desired purpose might be based on statements of principle, values or general mission statements as this was all they had to go on.

Staff generally emphasised how a clear and shared purpose had been helpful in bridging the gap with offices in faraway countries, or head office.

Some described their involvement in exercises to 'discover' the firm's purpose and how thoroughly energising this was.

They also noted that some statements target a larger social purpose and, while this is commendable, it may require extra effort to ensure that staff really understand the firm-specific context.

Some participants described corporate purpose as being mainly about avoiding personal misbehaviour.

Many referred to principles, values and corporate mottos as a purpose.

What we think

In our roundtable discussions, we often started by asking participants about corporate purpose. Although most thought their firm's corporate purpose was clear, in many cases they could not clearly explain it or, without realising it, started describing the promoted purpose statements of a firm other than their own.

There was apparent confusion between the concepts of Purpose, Principles and Values. Heartfelt statements by a CEO of highly desired behaviour e.g. 'customers first' which is a laudable statement, was mistaken as the de facto corporate purpose rather than as a standard of behaviour to emulate.

Discussion also showed confusion between corporate purpose and short-to-medium term business goals. Purpose was sometimes expressed as the goals of the firm's regional business model or geographic footprint.

There is clearly a gap to be addressed where staff expressed frustration at being unable to make clear links between the purpose of their firm and their own roles and responsibilities.

The discussion about purpose sometimes became one about personal behaviour, as though better behaviour was the firm's main objective. While this is a widely-shared and worthy goal it is perhaps better described as an important aspect of the firm's culture rather than its corporate purpose.

While it may have been a limited exercise, the initiative of one firm to engage staff in a series of sessions to explore and develop a purpose statement that would serve the firm is exemplary. It is one thing to have a statement crafted by public relations experts and corporate strategists and quite another to build it inclusive of bottom-up discussions with staff.

We were pleased to note that some felt the purpose of a firm could evolve as the firm matured. This was emotively expressed by participants for one firm which was in the middle of significant organisational change.

Comments during the sessions showed a growing sense of legitimacy of the importance of the wider stakeholder community. Participants felt that, while shareholder value remained important, the interests of other stakeholders deserved to be elevated to a similar level.

We heard that clarity of a corporate purpose statement is important to staff. The purpose itself needs to be distinguishable from corporate goals or operating principles. Employees also keenly want the purpose to be relevant to individual day-to-day roles and responsibilities.

Participants felt that managers' ability to explain the contribution of various business units to wider corporate purpose was helpful and can serve to manage some of the challenges that staff face day-to-day. While for some it may be a small thing, making a connection between big-picture statements of purpose and day-to-day activity can enable a greater sense of personal ownership and responsibility for outcomes with which you are associated. It can help in addressing problems by fostering a more sustained effort toward their resolution, perhaps by way of a more innovative solution.

Personal purpose

What we heard during roundtable discussions

We asked participants to describe their own personal sense of purpose and whether it aligned with their firm's corporate purpose as they understood it.

Participants said the subject of personal purpose and its alignment with corporate purpose was the most notable and interesting question in the survey.

93% of them felt a sense of personal purpose or a clear set of personal values was important or very important. Aligning personal purpose or values with those of the firm was considered equally important.

All participants deemed alignment with corporate purpose as essential. Misalignment was highlighted as a reason for losing staff.

Staff described how it was important to have high standards in both their personal and business life. This was often expressed as being socially responsible, maintaining high ethical standards and ensuring a healthy work-life balance.

Some noted that alignment of personal and corporate values was more important than alignment of purpose.

What we think

This topic generated particularly engaged discussion. Participants clearly demonstrated that the sense of purpose and alignment with corporate purpose have an important role to play in how positively individuals approach their roles and responsibilities. It also underpinned the rationale for wanting to be part of the organisation they worked for, or a decision to leave a previous firm.

Many participants were making their first-ever effort to explain a personal sense of purpose, despite their strength of conviction regarding its importance. They often used corporate language, borrowing from their job description, the firm's stated purpose or principles and values language from its website.

Participants understood that self-reflection would be needed to better understand and clarify their own sense of purpose or key values. Assessing alignment may then require the firm to better explain what lies behind its statement of purpose.

We would characterise wide-ranging self-reflection and, most importantly, seeking to understand and challenge what you discover as a key aspect of adult human development. It helps to look closely at influences that may pull you off the track on which you think you firmly reside. The insight gained is helpful for performance as a team member, as a leader, and a key skill for progressing to increasingly senior corporate leadership roles. Some commented that this may be a helpful area for training support.

A few participants said that they could get on in their role without demonstrating full alignment of purpose or principles. They drew on a sense of detachment or very strong self-identity as a starting point but it was also important that corporate activity did not openly violate their values.

A personal sense of purpose can of course take many shapes. This emerged as a potentially important and useful dimension of diversity that to-date has been relatively

unexplored. For example, participants discussed whether commitment to community-focused sustainability should always supersede corporate commitments to serve client needs, or if a commitment to public transparency should always supersede client confidentiality. The level of challenge that these issues could create could potentially contribute to diverse and healthy debate.

Principles & values

What we heard during roundtable discussions

When we asked participants to identify the key principles and values espoused by their firm.

They provided a wide range of descriptors including: "fairness (externally and internally), togetherness, good ethical behaviour, doing the right thing, respect, integrity, excellence, stewardship, challenge, proactive, service integrity, challenge, collaboration, transparency, excellence, professionalism, diversity, accountability, curiosity, deliver together, teamwork, honour, client focus for responsible, sustainable performance"

Participants in some firms gave more than a dozen principles that were promoted internally. They generally observed that this was far too many to be practical. Another firm had recently reduced the number of principles from 5 to 3, which staff had greeted with some relief.

Staff across many firms were often unconvinced by the authenticity of stated values and principles. They described the statements or word choices as seeming somewhat historic, tired and less relevant and in need of a fundamental refresh.

The lists of principles were described as overlapping heavily between firms.

Participants said that applying abstract principles and doing the right thing was much easier in a training session than in real life where facts were less clear and pressure can be high. It was described as 'actually quite challenging'.

Some firms described values as something one needed to 'comply with' rather than as an attitude or aspirational point.

Integrity was described as a hard principle to demonstrate day-to-day, partly because it is difficult to do so but more because it is not well understood as a concept. It is also the most commonly stated value across industry in general, not just banking.

What we think

Here again there seemed to be much room for improvement at the individual and corporate level. The discussion also reflected a mix of corporate vision, mission and values statements. Some staff may not fully understand individual principles and had not explored how they could arise in day-to-day business.

It was clear that promoted principles and values can have a strong influence on staff, both positive and negative. Nearly all participants scored having personal purpose and values, along with alignment with corporate purpose and values, as very important.

The discussion showed that principles and values provide a strong foundation for what we referred to earlier as Tone from Within. The comment about needing merely to comply with a principle was worrying in that it suggests there may be little or no need for a sense of belief or aspiration. This would not engender trust.

Some staff had actively considered the alignment of their personal and corporate principles as a factor for joining, remaining with or leaving an organisation. However, they did not see the importance of principles and values as differentiating factors or as a competitive advantage. They observed that most firms looked similar.

As a side point, it was also evident that participants were not very aware of their competitors and how they compare or contrast with each other on business models, purpose, principles and values.

Emerging best practice for Purpose, Principles and Values

A well-crafted statement of purpose and aspirational values to which staff feel personal commitment can play a fundamental role in reducing potential harm to consumers and markets. Line managers are well-placed to provide clarity on how the firm's principles and values apply to their respective units and to their employees' overall responsibilities.

Some positive examples that we heard about include:

1. Firms have generally been trying to make purpose statements more meaningful, concise and appealing to a wide range of stakeholders. Several firms have done or plan a substantial reworking of their corporate purpose and values statements.
2. Some firms have directly engaged staff in developing an overall corporate purpose statement and how it is adopted in their own organisational unit exploring 'Tone from Within.' Staff responded with great enthusiasm.
3. Some line managers have convened team-level discussions to ensure that staff understand how their roles and responsibilities fit into the wider corporate purpose.
4. Some firms have taken steps to clarify the distinction between terms such as purpose, principles, values, corporate goals and mottos.
5. Some firms have refreshed or reduced the number of their principles and staff welcomed this.
6. Individual purpose was described during the Roundtables as an emerging and potentially important dimension of diversity, that has not yet been tapped.
7. Staff emphatically declared that a sense of alignment between a personal sense of purpose and that of the firm is essential for supporting a healthy culture and well-being.
8. Some staff had taken the time individually to consider their own values carefully and relied on this as a foundation for speaking up.
9. Some line managers had stepped in to identify and correct root causes of misalignment typically manifesting as disillusionment with one's role.

The FCA has prepared a collection of short topical essays in a Discussion Paper: "[Transforming culture in financial services: Driving purposeful cultures](#)" which is now available on the FCA website.

6 Further Resources

FCA Publications

FCA Business Plan. Financial Conduct Authority website, 2019.

FCA Mission. Financial Conduct Authority website, 2018.

Our Approach to Supervision. Financial Conduct Authority website, 2018.

Megan Butler: Women and Equalities Committee Report on Sexual Harassment in the Workplace. Financial Conduct Authority website, 2018.

Transforming culture in financial services: Driving purposeful cultures. Discussion Paper DP20/1, FCA Culture Conference. Financial Conduct Authority website, 2020.

Behaviour and Compliance in Organisations. Occasional Paper 24, Financial Conduct Authority website, Dec 2016.

From advert to action: behavioural insights into the advertising of financial products. Financial Conduct Authority Occasional Paper 26. April 2017

Articles from Other Sources

Conduct Risk in Market Transactions Statement of Good Practice for FICC Market Participants, FICC Markets Standards Board, 2019.

Purpose and Performance. a blueprint for better business, 2015.

The Social Responsibility of Business, TedX, London Business School, A. Edmans, 2015.

Principles for Purposeful Business, British Academy, 2020.

The Future of the Corporation, British Academy, 2019.

Purpose with the power to transform your organisation. The Boston Consulting Group, 2017.

Thinking clearly about your company's purpose, Harvard Business Review. Sept 2016.

Purpose is good, shared purpose is better, Harvard Business Review. March 2013.

Your company's purpose is not its vision, mission or values, Harvard Business Review. Sept 2014.

Banking Conduct & Culture: A Permanent Mindset Change. Group of Thirty, 2018.

Mary Crossan, Bill Furlong, Jeffrey Gandz, and Gerard Seijts. *Addressing Culture and its Associated Risks in Financial Institutions - A Character-Infused Approach*. Global Risk Institute, 2018.

Books

Mary Crossan, Gerard Seijts and Jeffrey Gandz. *Developing Leadership Character*. Routledge Taylor & Francis Group, 2015.

Amy Edmondson. *The Fearless Organisation*. John Wiley & Sons, 2018.

Colin Mayer, *Firm Commitment*, Oxford University Press, 2013.

