# 3 of 24 things on the Control Officer's mind

## Chief Control Officer Forum, London 18th April 2023

ARMSTRONG WOLFE™

# 1. What's in a name?
# 2. Can you measure culture?
# 3. Emerging technologies

**Reference:**
https://www.armstrongwolfe.com/pov/armstrong-wolfe-24-things-on-the-ccos-mind/

## 1. What's in a name?

a. Within the continued evolution of controls and 1st line risk management, some banks are renaming their control function, risk management. Most say it would make sense to call it operational risk, but as this has its own established 2nd line brand and positioning, this option is (presently with its embedded association) null and void.

b. Non-Financial Risk is an alternative functional title. Armstrong Wolfe has discussed this with its community for 18 - 24 months and it was the focus of the February 2023 London COO Summit, with this titling clearly becoming increasingly embedded within the industry's narrative. An alternative could also be strategic risk, but risk management is currently the preferred choice.

c. The banks that have renamed this function have noted that it appears to be positively changing the nature/feel of the relationship between (previously named) the controls team (now named risk managment) and the business, delivering a heightened level of respect for the counsel/recommendations/direction they offer.

d. The change of title shifts the emphasis and perception of the function onto a commercial footing. This further impacts the confidence of those within the retitled function, and influences the ability to hire good people: do you want to be a control officer or risk manager?

e. What's in a name, you may ask? Why does a title change potentially make such a difference? Some may scoff at this point and suggest those that care are being pedantic, but names and titles are an incredibly important part of identity, and attributed responsibilities and purpose. There can be no doubt that titles carry deep personal, cultural, and career connotations.

f. Once the change is bedded in, there is also an acknowledgement that it will change the technical and behavioural competencies of the people required to be an in-business risk manager as the role continues to expand beyond controls.

**It was acknowledged an innovative culture is broader than the usual measures of corporate innovation**

## 2. Can you measure culture?

The discussion on the measurement of culture and/or attempts do so, was varied, candid and inconclusive. Well-known data points include:

- Number of employee referrals
- Productivity of the employees
- Employee turnover
- Pulse surveys
- Training participation and completion
- Timeliness

Therein followed a request for Armstrong Wolfe to aggregate member methodologies and/or data points for reference. It was noted that the FMSB was working on the same and that Armstrong Wolfe would contact Ted Macdonald (FMSB) to validate if an Armstrong Wolfe aligned exercise would add value on and above what the FMSB will be providing.

Once stepping beyond the known data points of measurement, the debate focused on determining what items, aspects, and areas fell outside hard data resourcefulness, such as behaviours, decision- making, the right to challenge, and so on. This leapt the conversation into technology and how technological innovation and evolving AI capabilities may ('will definitely in time' some commented) be able to move the dial to complement established data sources and provide representative and qualified insights into a company's culture.

Within the measurement of any culture there are varied approaches and considerations; a fair representation of pulse indicators being:

- Innovation
- Integrity
- Quality
- Respect
- Teamwork
- Purpose

These pillars sound good, are grandiose as an aspirational grouping, and are the obvious foundations stones of a positively engaged culture, but how do you measure each as a component part and influencing factor of output?

It was acknowledged an innovative culture is broader than the usual measures of corporate innovation. Moreover, culture correlates with business outcomes, including operational efficiency, risk-taking, earnings management, executive compensation design, firm value, and deal making, and that the culture-performance link is more pronounced in bad times. Finally, in an industry known for turbulence, corporate culture is undoubtedly challenged and/or shaped by major corporate events, such as mergers and acquisitions.

## The measurement of culture

> *"We measure and assess a firm's culture against four drivers of culture: purpose, people, leadership, and governance. This covers a wide range of areas - to list but a few it could include significant business model restructures, the approach to remuneration, speak-up culture, Board and ExCo composition, diversity, succession planning, the application of the SMCR, the effectiveness of a firm's controls environment or its governance structures.*
>
> *We have a range of tools available to us to address the issues that we identify. These range from using our supervisory influence on requiring independent oversight, to withholding permissions or taking Enforcement action. We use these powers proportionately and based on which we think is most effective to tackle the issue.*
>
> *But the FCA is not prescriptive about culture. We know that cultures are unique to firms and sectors."*
>
> (**Sheldon Mills,** Executive Director, Consumers and Competition September 2021)

Herein lies the conundrum, the regulatory imperative to measure culture and to be able to demonstrate how you are doing so and to what outcome. Seeking to meet a principle-based regulation on something that in part is a subjective and qualitative assessment adds a complexity that leant itself to a roundtable conclusion.

Whilst all understood the business criticality of getting culture right, they had limited available tools to measure it. The industry is falling short of desired outcomes by being hamstrung by a present lack of tools to deliver quantification.

The root to this solution is technology, and it is seen only as a matter of time before technology will be able to provide data to help define, shape, and drive cultural change. At this stage, however, for many you sense demonstrating you are doing your best with limited data is sufficient and an unspoken industry refrain.

In the interim, new avenues are being explored. Some have employed meta-analyses of employee online behaviour, such as the frequency and idiomatic patterns of email exchanges, as contributing inputs to measuring an organisation's culture.

At the London February COO Summit, culture was investigated in a non-financial risk context. Harry Toukalas (CEO, Galaxy Sciences: https://www.galaxysciences.com/team.php), outlined the advancements and usage of their technology in this context, and was able to point to case studies that underpin the viability of their technologies. Progress is being made.

All rely on the timeless employee survey. The argument is that employee surveys are essential to growing a company culture and championing employee retention and satisfaction. With surveys you can get to the source of potential organisational issues by hearing the problems directly from the employees.

The discussion referenced frameworks that aim to measure the construct of culture itself, relying on quantitative or qualitative measures, or a combination of both. Qualitative measures consist of controlled interviews with an organisation's leadership and employees as well as employee, customer, and other stakeholder surveys and focus groups.

**The counter argument is as follows:**

- » Are employee surveys truly accurate? Unfortunately, evidence suggests the short answer is no. Employee engagement surveys tend not to give an accurate reflection of what's going on in the workplace.
- » Much like annual performance reviews, annual employee engagement surveys are problematic. Responses tend to have recency bias, where employees focus on what's happened lately instead of having a more holistic perspective. And that can distort engagement data.
- » Employee surveys, not properly handled, can increase employee mistrust. If employees don't see some sort of result or at least acknowledgement of their answers, they can end up feeling less valued by their employers - the opposite of one of the intended results.

## 3. Emerging technologies

The debate moved seamlessly into the established and emerging capabilities of technology and behavioural analytics. Behavioural analytics studies people's reactions and behaviour patterns in particular situations. The ability to mine large amounts of data to study how users act offers long-reaching business benefits and risk reduction opportunities. This sits on the technological horizon, where plausible has moved to probable and is in sight of becoming a product and the tool sought.

The application of behavioural analytics is theoretically perfectly aligned to cultural measurement, with the opportunity to study a mass of people, eg your employee population, and acquire large amounts of useful data. Additionally, behavioural analytics is particularly important any time a product or service has many people doing numerous things where there are both opportunities to improve outcomes and to reduce risks.

Kathy Brunner, CEO of Acumen Analytics, refers to research that the global behaviour analytics market is projected to reach $2.2 billion by 2026, from $427.3 million, at a compound annual growth rate of 32% from 2022 to 2026: mind-blowing figures of capital are anticipated to be invested. There's little doubt that more organisations will consider using behavioural analytics to grow revenue, improve experiences, and reduce risks. The measurement of culture is a natural targeted beneficiary of the evolution of behavioural analytics.

## Where can we help?

In a market sector expanding exponentially, determining the art of the possible within technology, navigating the myriad of technological options, is a time-consuming and costly endeavour.

Aggregating this effort, bringing together evaluations of technological options, being able to investigate a solution embedded with a positive referral from a peer, would be a valuable contribution to the COO and Control Officer community's ability to procure technologies more efficiently.

With the input and support of iCOOC membership, Armstrong Wolfe agreed to set a COO Technological Summit. Referrals to technology partners is the principal request to the membership, for solutions that have been successfully procured and would come with a positive reference.

The initial event will be technologies related to controls, surveillance, conduct and cultural assessment.

Referrals can be made to **w.parry@armstrongwolfe.com**

# There's little doubt that more organisations will consider using behavioural analytics to grow revenue

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