

Methods for  
supervising  
behaviour and  
culture





# Methods for supervising behaviour and culture

Partly due to the economic crisis, we know that behaviour and culture are of great influence on the results of a business or organisation. Perhaps not in the immediate future, but certainly in the longer term. This is why DNB has launched initiatives in recent years to give a significant boost to positive behaviour and culture. By identifying and tackling ineffective behaviour and an unhealthy corporate culture early on, the regulator can help institutions steer clear of major financial risks.

To support its supervision of behaviour and culture, DNB held roughly 30 surveys among banks, insurance companies and pension funds of varying sizes between May 2011 and December 2012. The focus was on the senior levels of each organisation: the executive and supervisory boards and the boards of pension funds. The key subjects were leadership, decision-making and communication. Attention was also directed at group dynamics, behavioural patterns and mindset at board level.

Prompted by a wish to share its knowledge and to present itself as a transparent regulator, DNB has compiled this brochure for the financial sector and for other regulators. It describes the methods DNB has used to monitor behaviour and culture to date. It broadly outlines DNB's view of behaviour and culture, the assessment framework it applies and the tools it uses in its investigations. It also explains how the regulator arrives at an appraisal and

what criteria it uses to assess institutions. A number of (non-exhaustive) question lists have been formulated per issue for use in investigations. These may help you in scrutinising the quality of behaviour and culture within your own organisation. Finally, the brochure lists examples of good and bad practices, which DNB has distilled from its own investigations.

## **Assessment framework**

DNB neither assumes nor expects a precisely defined corporate culture. Each organisation operates within its own context and develops its own framework, including patterns and practices. Through its supervision, DNB identifies aspects of behaviour and culture – both visible and invisible – that are or could be detrimental to business operations and hence to the performance of these financial institutions. If it is found that these aspects are causing undesirable risks, they are addressed. Behaviour and culture are more difficult to observe and less tangible than the financial or organisational aspects of an institution. One could liken the behaviour and culture of an organisation to an iceberg, of which only the tip is visible. The rest is submerged. DNB uses the iceberg metaphor to examine behaviour and culture, dividing it into three layers: behaviour, group dynamics and behavioural patterns, and mindset.



**Behaviour**



**Group dynamics and behavioural patterns**



**Mindset**

*Behaviour* is the visible portion of the iceberg, given that it can be directly observed. But the tip of iceberg doesn't tell you what is concealed underneath. What is not visible to the eye are the motives underlying certain forms of behaviour: group dynamics, behavioural patterns and mindset. Influencing behaviour requires insight into, and an understanding of, underlying motives. Group dynamics refers to interaction between people. Does the corporate atmosphere encourage them to call each other to account regarding unwanted behaviour? Is there evidence of cooperation or competition, even, perhaps, mutual resentment? Individuals and groups also devise solution-led repertoires for a wide variety of situations. Solutions that are used frequently often lead to certain behavioural *patterns*.

At an even deeper level lies mindset: deeply-embedded convictions and values that often direct and influence group dynamics and behaviour. They indicate how employees should interpret experiences and can often be recognised in the way in which someone performs their role. An individual's mindset defines how he or she sees his/her professional world.

#### *Key question*

In supervising behaviour and culture, DNB looks mainly at decision-making, leadership and communication. The key question that is asked is whether these aspects of the organisation contribute to its results and/or goals and to sound and controlled business operations and/or whether they help to reduce its risk profile (ultimately improving its performance). The first in answering this key question is to scrutinise the three layers of the iceberg: behaviour, group dynamics and behavioural patterns, and mindset. In doing so, DNB investigates whether there are any alarm signals (red flags) and/or actual or potential behaviour-related risks. If there are, then the regulator will do all it can to influence existing behaviour and culture so as to minimise these risks. DNB will be using this approach to look more closely at behaviour and culture than it has done in the past. DNB's policy vision 'Seven elements of ethical culture'<sup>1</sup> targeted primarily the visible layer, i.e. behaviour. These seven elements will also be of value in assisting the current method, through their use as critical touchstones. The various layers of the iceberg are described in more detail below.

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<sup>1</sup> *The 'Seven elements of ethical culture: a policy vision and strategy for examining behaviour and culture in financial institutions 2010-2014, see [http://www.toezicht.dnb.nl/binaries/dnb\\_tcm50-211979.pdf](http://www.toezicht.dnb.nl/binaries/dnb_tcm50-211979.pdf)*

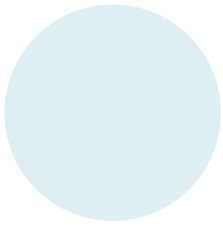
## The genuine leader is always on call



*A great leader's courage to fulfill his vision comes from passion, not position (John Maxwell)*

*Leadership is an act, not a position (Hugh O'Doherty)*

*Management is doing things right; leadership is doing the right things (Peter Drucker)*



## *Level 1: behaviour*

### *A. Leadership*

#### *Definition*

On the one hand, leadership is about influencing other persons with a view to creating understanding and reaching agreement about what needs to be done, and how. It is also about promoting individual and group efforts to achieve common goals.

#### *Touchstones*

- **Negotiability:** the degree to which the leader creates scope to discuss decisions, alternative views, mistakes and taboos. It is also about encouraging positive criticism of second and third line management layers;
- **Role modelling:** being aware and showing evidence of personal integrity, i.e. upholding standards and values, preventing conflicts of interest (or their semblance), saying what you do and doing what you say. But also communicating your organisation's goals;
- **Feasibility:** setting realistic targets and incentives for encouraging ethical behaviour.

#### *Specific questions*

- What styles of leadership are visible within the board? Which ones are effective and which are less so (e.g. in realising the strategic goals)? (elements: exemplary behaviour, negotiability);
- What scope does the chairman / board/ board members give to others on the board to express their views? (elements: negotiability, exemplary behaviour);
- Does the board organise any countervailing arguments and if so, does it involve 2nd or 3rd-line key functions in key decision-making processes and the evaluation of these processes in a timely and adequate way? (elements: negotiability, feasibility);
- To what extent do board members call each other and external parties to account if agreements are not met or targets are not realised? And what role does the chairman fulfil in this respect? (elements: exemplary behaviour, negotiability and feasibility);
- Does the board as a whole show evidence of exemplary behaviour? (element: exemplary behaviour);
- When and how does the board give attention to self-reflection? (elements: role modelling, negotiability).

*Good & bad practices: leadership*

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**Role of the chairman: process-based management.**

The chairman manages the process that is used to reach substantive decisions and charts the route to get there. He actively involves participants in the discussion, follows through with questions, summarises, separates key and subsidiary issues, sets out criteria for weighing up arguments, identifies differences and similarities, and considers whether an issue is ready for decision-making.

**Role of the chairman: determining content and course.**

The chairman plays a dominant role in substantive decisions and the course to be taken. The other board members provide little or no countervailing arguments; they generally follow the chairman's lead.

**Negotiability and exemplary behaviour.** The board creates moments at which it evaluates its own performance. The board is open to (and invites) critical feedback from the environment.

**Negotiability and exemplary behaviour.** The board engages in little or no (self) evaluation, or only at formally required times. The board is fully confident of its own capabilities and is not inclined to ask for feedback or to reflect on it.

**High level of involvement.** Everyone takes part in the meeting. Individual board members show an interest, even if an agenda item is being discussed in which they have no direct stake. Board members invite each other to actively participate.

**Lack of participation.** During the meeting, board members are often engaged on other things, such as using their smartphone, or holding one-to-one conversations with other individuals (bad practice: decision-making). The leader fails to intervene (bad practice: leadership). Those who are not saying anything are not encouraged to participate.

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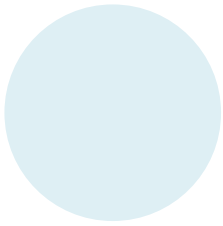




*Wise men say, and not without reason, that whoever wished to foresee the future must consult the past  
(Machiavelli, Italian statesman and philosopher (1446-1507))*

*Even the right decision is wrong if it is made too late (Lee Iacocca, 'father' of the Ford Mustang and CEO of  
Chrysler (b. 1924))*

*Risk comes from not knowing what you're doing (Warren Buffett, US entrepreneur and investor (b. 1930))*



## B. Decision-making

### *Definition*

The process of coming to a substantiated decision, of choosing between various options.

### *Touchstones*

- Balance: identifying and visibly weighing up all relevant interests through a proper preparation of the decision-making and the timely performance of adequate risk analyses;
- Consistency: formulating clear core values and goals, then making fundamental choices in (strategic) decision-making processes and taking consistent action in line with these values, goals and choices.

### *Specific questions*

- To what degree is the decision or decision-making process X in line with the core values, goals and fundamental choices of the organisation? Does the board regularly take time out to consider the way in which it arrives at decisions? (elements: consistency, balance);
- Has the board ever allowed opportunities to escape or adjusted its targets because they didn't fit in with the strategy/policy/core values? (element: consistency);
- What interests and risks of decision-making process X have been identified and discussed? And which have not been discussed? (element: balance);
- How have relevant interests and risks been given a place in the decision-making process? How does the board ensure that all the relevant information is gathered, or at least brought into the discussion? (elements: balance, consistency);
- Which individuals have had a vote in the decision-making process and which votes were ultimately decisive and why? (elements: balance, consistency). During decision-making processes, how is attention given to forming opinions and judgements and to arriving at the ultimate decision? (elements: balance and consistency);
- When reaching decisions, does the board base itself on accurate and reliable information? And during the decision-making process, is a clear distinction made between assumptions and facts? (element: balance).

*Good & bad practices: decision-making*

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**Acting in accordance with goals and choices.** The board has a clear (shared) view of the company's key priorities. This is reflected in, among other things, the composition of the agenda (throughout the year) and in the prioritisation, discussion and processing of those agenda items.

**Ad hoc actions.** A long-term vision, goals and (policy) choices have not been drawn up or made explicit. As a result, an assessment framework is lacking and decisions appear to be taken on an ad hoc basis.

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**Preparation of decision-making.** Preparatory memos are compiled, containing risk analyses, suggested solutions and clear decision-making points for the board.

**Preparation of decision-making.** No preparatory memos have been drawn up, or else they are very sketchy and do not, for example, include a problem analysis, suggested solutions or milestones for the board.

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**Recording decision-making.** The minutes are a business-like reflection of the meeting, clearly indicating what considerations the board weighed up for each decision.

**Recording decision-making.** The minutes are detailed and provide a literal and detailed account of the meeting. Or else they are extremely sketchy and provide no insight into the considerations that underlie the decision.

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**Balanced decision-making.** Following a detailed risk analysis, the board explicitly and transparently outlines what considerations it has weighed up on the basis of which criteria, and why its assessment is balanced.

**No balanced decision-making.** The considerations used to arrive at decisions and the risks that have been identified are neither explicitly discussed nor made transparent. It is not possible to assess how balanced the board's decision-making process has been.

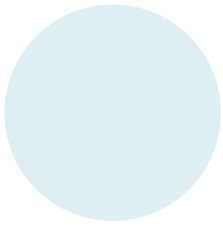
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*The most important thing in communication is to hear what isn't being said (Peter Drucker)*

*Everything that is said should be true, but not everything that is true should be said (Lao Tse)*

*Two monologues do not make a dialogue (Communications consultant)*



## C. Communication

### *Definition*

The direct or indirect exchange of information (for example by letter or telephone) between people who are aware of each other's presence. The information is provided, received and interpreted both consciously and unconsciously.

### *Touchstones*

- **Negotiability:** the degree to which the leader creates scope to discuss decisions, alternative views, mistakes and taboos. Also encouraging a positive critical attitude in employees in general and from 2nd and 3rd line functions in particular;
- **Transparency:** the degree to which the goals and fundamental choices of the organisation are recorded and communicated to relevant stakeholders, accessible communication with stakeholders and the degree to which the organisation makes visible its (consistent) actions.

### *Specific questions*

- What is the quality of the communication within the board? For example, are there formal points of coordination and consensus, is there daily consultation? (element: transparency);
- To what extent is the board/are the board members kept accurately and promptly informed so that they can make the best possible contribution to discussions and decision-making processes during formal meetings? (elements: negotiability, transparency);
- How are the results of informal consultations included in formal consultation moments? (elements: transparency, negotiability);
- To what extent does the board communicate transparently about fundamental choices and the organisation's goals and their realisation with the various stakeholders? (element: transparency);
- Do experience, seniority and hierarchy play a role in communication within the board, and if so, how is this expressed? (elements: negotiability, transparency). Are agreements made about the way in which board members communicate with different stakeholders? (element: transparency);
- Are (key) decisions recorded and communicated within the organisation? (element: transparency).

**Making the message communicable.** Some boards specifically make time to consider how a message should be communicated (in terms of form and substance).

**Unclear message.** The message is softened, packaged or postponed (many sectors are involved and what is good for one may not be acceptable to another).

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**Balance between formal and informal communication.** There is a balance between formal consultations (such as meetings) and informal communication (such as preliminary discussions).

**Information asymmetry.** All decisions taken during formal consultations have already been discussed and agreed in advance, albeit not with all stakeholders. Small group discussions are held which are not accessible to the rest of the board/directors. Information asymmetry may result.

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**One-to-ones.** One-to-one discussions do not lead to an information backlog among individual board members. These meetings are designed to be workable and effective and board members are aware that they are there both to impart as well as to gather information.

**One-to-ones.** Due to the infrequency of meetings, board members do not see each other regularly. During busy times, this is compensated by a large number of one-to-ones, if board members happen to be in the vicinity. This means that the degree to which each individual is up-to-date differs substantially.

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**Independent thinkers.** Interviews with board members show that many are independent thinkers. They are capable of throwing light on issues from many (often unexpected) angles and entering into a critical and constructive dialogue with their fellow board members.

**Dependent thinkers.** Interviews with board members show that some of them allow themselves to be strongly led by others in their judgements.

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**Clear communication.** Board members' use of language contributes to a constructive and transparent approach to cooperation. Board members are capable of separating personal and professional interests.

**Unclear communication.** Board members tend to respond emotionally and have difficulty formulating messages in a fully thought-through, relativised, clear and succinct way. They also find it difficult to channel the discussion effectively when a pertinent topic arises.

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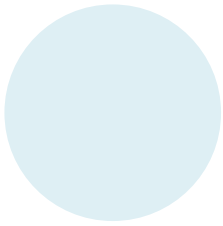




*Teamwork is indispensable: it allows you to shift the responsibility to someone else  
(from 100 Teamversnellers, Guy Peeters)*

*Man is the only animal that creates group dynamics (Alessandro Martins)*

*First, I did nothing; second, they did it all (anonymous)*



## *Level 2: Group dynamics and patterns of behaviour*

### *Definition*

Group dynamics refers to the interaction between different positions or forces within a group, interrelationships between individuals in a group or patterns within group behaviour which affect the overall group result.

### *Touchstones*

- Cohesion: the degree to which the members of a group feel themselves drawn to the group and want to remain in it; in other words, the level of cohesion. This is influenced by whether the group members respect and are pursuing the same norms and values. The size and status of the group is also an important factor. Finally, the frequency of contact between the group members also plays a role.
- Interpersonal relations: professional and collegial relationships, within which there may be a degree of harmony or tension.

### *Specific questions*

- Does the board see itself as a cohesive group? Is there a high degree of coordination? Does the group always reach consensus quickly, or not?
- Does the board address the need for diversity within the group? Is it a heterogeneous or a homogenous group? What differences are there between board members (background, age, gender, faith, etc.)? How does this affect the way the group operates?
- What characterises board members as individuals? How does the board ensure that everyone's views are heard?
- Do different (sub)groups play a role in the discussion? What formal and informal roles are visible within the board?
- What characterises the group dynamics within the board? Is there internal competition or is there an effort to achieve harmony? Where does the board stand as a group in developing towards an efficient and effectively collaborating body?

*Good & bad practices: Group dynamics*

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**Self-reflection and feedback.** Individual board members regularly call each other to account regarding behaviour and reflect on what is going well and what needs improving. The fact that feedback is a permanent part of mutual cooperation between board members is also visible to outsiders.

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**Diversity.** Board members acknowledge each other's individual contribution and qualities, and consciously make use of them to benefit the issues being discussed.

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**Balance between managing and supervisory boards.** There is a good relationship between the managing and supervisory boards, which is reflected in a healthy balance between discussing and imparting/gathering information.

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**Oppressive practices.** Each board member sits in the same place at every meeting and is consulted in exactly the same order at key decision moments during board meetings. As a result, there is a risk that the last board member who is asked for input has little new to add.

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**Group-think.** There is a feeling of invulnerability within the board. There are few doubts about the course the organisation is charting or its actions, leading to insufficient attention for risks in general. Where risks are acknowledged, their significance is underestimated.

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**Status.** The value attached to the input of individual board members is determined by their seniority and the importance of their portfolio.

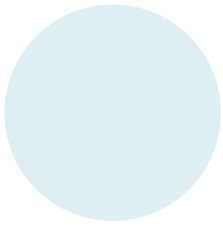
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*I have a dream... (Martin Luther King)*

*Every disadvantage has its advantage (Johan Cruijff)*

*People that focus on worries have no time for targets. People that focus on targets have not time for worries.  
(anonymous)*



### *Level 3: Mindset*

#### *Definition*

The combination of values, convictions and attitudes which are regarded as important, either individually or collectively and which are reflected in the board's behaviour and culture.

#### *Touchstones*

- Values: what a group or individual regards as important.
- Convictions: implicit assumptions that give direction to behaviour and indicate how people should think, feel and interpret experiences. Convictions are important in understanding the world and how to act accordingly in it; they are small-scale theories of reality.
- Attitude: position or stance with regard to something, someone or a complex or norms and values, etc. Attitude is made up of a cognitive component (knowledge), an evaluative component (judgement) and an action-based component (willingness to act accordingly).

#### *Specific questions*

- What, according to the board members, characterises a good banker/insurer/pension fund manager?
- What makes board members proud of their organisation?
- What events in their professional career do they regard as having been formative for them and how do they carry these important lessons with them in exercising their present roles?
- What do board members consider to be important values in their work?

### *Good & bad practices*

During its examinations, DNB to some extent also paid attention to the mindset of board members and pension fund managers. Contrary to the previous subjects, mindset is rather difficult to translate into good & bad practices. It is clear, however, that deep-rooted convictions have a large influence on the actual behaviour and group dynamics shown. For DNB it is important to be able to determine whether institutions are aware of this, that they identify the underlying convictions and organise a critical dialogue to challenge them. In addition, the supervisor considers it relevant that once a strategy and corresponding core values have been laid down, these can in fact be propagated, as the values, convictions and attitude of board members strengthen them. Without labeling what is a good or a bad mindset, here are some examples:

- I am able to make an independent well thought-through assesment of the risks I can or cannot take.
- I acknowledge the changes that are required in my organisation/the sector;
- I am able to change my behaviour and prepared to do so, no matter how experienced I am.



## Examination methods

DNB uses six different methods to increase the reliability of the examination results. These should be seen in conjunction with each other. The six examination methods are:

1. Desk research
2. Self-assessments
3. Survey
4. Interviews
5. Observations during planned meetings
6. Other observations made during time spent with in the organisation

### *1. Desk research*

DNB requests specific information and studies it to gain a picture of the organisation's goals, what measures have been taken to monitor behaviour and culture and the outcomes of those measures, leadership development, rewards for good behaviour, employee satisfaction, social climate, HR position, etc.

### *2. Self-assessments*

Prior to the examination, DNB asks one or two key officials to complete a self-assessment (questionnaire). The questions relate to their perception of leadership, decision-making, communication, group dynamics and mindset.

### *3. Survey*

DNB distributes a survey among a broad group of respondents. By means of 30 statements, it gathers information on leadership, decision-making, communication, group dynamics and mindset.

### *4. Interviews*

The conducting of semi-structured interviews is the most interactive examination method used by DNB.

During these interviews, key players are asked specifically targeted questions about their perception of behaviour and culture at the top of the organisation. These may take the form of interviews with managing board members, one or more supervisory board members, a number of senior directors and representatives of second and third-line functions (Risk, Compliance, HR, Audit).

*5. Observations during planned meetings*

DNB attends one or two meetings to observe behaviour and culture within the board. These observations are needed in order to interpret what has been observed, discussed and heard during the interviews.

*6. Other observations made during time spent with the organisation*

DNB also performs observations which provide information about behaviour and culture elsewhere in the organisation. These can include observations made while walking through the building, having lunch in the staff canteen or chatting over the drinks dispenser. These observations can be used to illustrate and corroborate its findings.



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