

## CONDUCT RISK & CULTURAL FACTORS

### An area of increasing regulatory focus

A number of organisations have been rocked by high profile scandals over the last few years and these have resulted in large scale reputational damage and financial penalties totalling billions, that in turn have affected both employees and the wider economy. Examples include:

- lone rogue traders and systemic bad practices at major banks;
- software 'cheating' and substandard component issues at automotive manufacturers;
- child abuse cover-ups at public service and local authority entities;
- fatal accidents and environmental catastrophes in the petroleum industry;
- food contamination at major grocery chains;
- manufacturing irregularities and Anti-Bribery contraventions in pharmaceuticals.

### ***Cultural factors***

The root causes of why these scandals occurred have been researched and the existence of Employee Silence in the culture, (as opposed to Employee Voice), has been found to be one of the major contributory factors. Where Silence is present, the propensity for conduct risk of any type increases.

The research defines one aspect of Employee Silence as the deliberate withholding of work related information from persons who are perceived to be capable of effecting change or redress (Pinder & Harlos, 2001). Conduct risk flourishes in such a culture.

Conversely Employee Voice encompasses all forms of behaviours where employees feel they can challenge, be transparent and open and voice their opinions (and have them heard). (Greenberg & Edwards, 2009). Even the lone rogue trader would find it more difficult in such an environment.

### ***Regulatory pressures***

Regulators are increasingly looking for evidence about the culture of an organisation (FCA, FDA, Ofgem, Ofcom, CAA, NAO). For example, the FCA's Senior Managers Regime and the work currently going on with culture and corporate governance through the FRA, means culture is now a critical point of focus.

### ***Culture base line – the Silence/Voice Index (SVI)***

The Silence/Voice Index (SVI) has laser focus to identify locations, levels and types of Silence and Voice in organisational culture. This diagnostic, grounded in the construct of psychological safety, provides quantitative and qualitative evidence to highlight the specific leadership practices, group dynamics and impact of communications that are creating the cultural norms that lead to conduct risk.

### ***Creating a Culture of Voice***

As a result of the SVI's laser focus approach, organisations are using the data generated to target interventions and accelerate the pace of culture change.