Moving from reflex to reflection
A look back at the developments in banks' behaviour and culture since 2015.
January 2023
Introduction

De Nederlandsche Bank (DNB) began supervising behaviour and culture in 2011. This was in response to a large number of incidents at banks, which showed that effective operational management requires more than just solid financial figures and ratios. Internationally, too, there are many examples where ineffective behaviour has been shown to be a major root cause of other persistent problems in financial institutions, in areas such as internal operational management, risk management and governance. Consequently, the behaviour of managing and supervisory directors and key officers affects the institution’s overall risk profile, integrity and financial performance. DNB is not the only supervisor that has become more attentive to behaviour and culture. Other supervisory authorities and the financial institutions themselves have also begun to take this topic more seriously. Besides our supervision, higher expectations in society, fuelled by greater demands from multiple stakeholders and sustainability requirements, are also an important driver for the increased focus on behaviour and culture.

In 2015, we shared the results of some 50 examinations of behaviour and culture in the financial sector up to that time. The question often asked is what the state of behaviour and culture is now, eight years later. In this article, we provide a round-up of common behaviour patterns and developments in behaviour and culture that we found at banks in the period from 2015 to the present. We have chosen to focus on a single sector in this article because of the specific challenges and developments in the banking sector in recent years. In future publications, we will also address other sectors, such as pension funds.

This round-up is based on examinations of behaviour and culture at 19 unique Dutch and foreign banks headquartered in the euro area. Our supervision of behaviour and culture is risk-based: in most cases, behaviour and culture risks or concerns provided the immediate trigger for an examination. We have been closely engaged with some banks for several years in a row. Nine of the banks examined are non-Dutch. The banks covered are mainly those that have significant influence on or pose major risks to financial stability. They include retail and wholesale banks, as well as combinations of both.

The examinations were always focused on a particular group – rather than individuals – within the banks. This was usually the executive or supervisory board, although sometimes we looked more deeply within the organisation, for example at commercial teams, middle management or control functions. Because of this scope, the results presented here are not only pertinent for executive and supervisory boards, but for other groups as well.

In this article, we describe common threads and patterns we as supervisors have identified at several banks. What constitutes effective behaviour always depends on the specific context in which an organisation operates: there is no one-size-fits-all approach that works for all banks. As mentioned above, banks do face many of the same challenges: this may be one reason why we identified the same patterns at many of the banks we examined. The results may therefore also be relevant to other banks and financial institutions. With this article we hope to provide financial institutions with tools to make progress in the area of behaviour and culture, to avoid the pitfalls experienced by others, and consequently contribute to public confidence in a stable financial sector.

1 We had issued a number of publications in 2015, based on our experiences up to that time, including a brochure entitled “Behaviour and culture in the Dutch financial sector”. These publications – which can be found on our website – also provide an extensive and detailed description of the methodology we use to study behaviour and culture.

2 Our methodology combines scientific insights into behaviour and change management with behavioural and governance rules and standards rooted in the European and Dutch supervisory approach. Since 2014, these examinations have also been conducted at European level among foreign institutions based in Europe, and our methodology has been incorporated in the European Single Supervisory Mechanism (SSM).
Summary of key patterns and conclusions

Compared to the 2010-2015 period, banks’ behaviour and culture now receive more systematic attention, and tangible improvements can be observed. The subject is on the agenda of executive and supervisory boards, and some banks have set up departments to monitor and actively influence the institution’s culture and behaviour. We also see greater use being made of insights from behavioural sciences in culture transformations. The quality of the decision-making process has improved, through enhanced process agreements and through more varied participation in decision-making. At several banks, more role model behaviour is being shown at the top and is perceived as such by employees. These boards also engage in more reflection and actively work on group dynamics. Moreover, at the banks where we conducted multiple examinations over time, we observed more reflection on persistent behaviour patterns and their impact on the organisation, as well as deliberate efforts to change this behaviour: people are moving from reflex to reflection.

That being said, banks still have key attention points to contend with. Reflecting on one’s own behaviour and on collaboration within the group often is not a permanent feature, and is not sufficiently embedded in daily practice. The lack of self-reflection in many boards seems to be linked to a strong short-term action reflex, focused on quick actions and fixes, resulting in too little role model behaviour aimed at reinforcing lasting change. Communication at the top is predominantly focused on content, and does not invite dialogue on behaviour and collaboration. We have also observed a lack of group cohesion at a number of banks, and where this is the case, it is accompanied by conflict, status differences and subgroups on the board. Differences of opinion and feelings are not discussed or explored and cause growing frustration and tension. Where we observed such conflicts, senior management had great difficulty in handling them, which limited the team’s effectiveness. We also see that supervisory boards are sometimes too closely involved in a bank’s operations or pay too little attention to group dynamics in the executive board.

These behavioural patterns have a predominantly adverse effect on decision-making processes, as well as on the institutions’ ability to deal with change. In such cases, decision-making focuses too narrowly on addressing symptoms rather than on acquiring a deeper understanding of the issues at hand, and there is a lack of awareness of potential pitfalls and risks of groupthink affecting decision-making. This is interlinked with limited critical dialogue and room for input from the control functions and the SB. We have observed this to an even higher degree within banks that have an optimistic perception of their own risk culture (roughly half of the banks we examined). In addition, at many banks that display these behavioural patterns, we have noticed that the approach to change is not sufficiently tailored to the type of change (behavioural or otherwise) required.

There may be several causes behind the persistence of these patterns. In this article, we discuss several possible barriers to changing these persistent behavioural patterns. It is possible that the lack of reflection is such a persistent pattern because reflection requires active attention, space and time, which managing and supervisory directors often experience to be in short supply. Reflecting effectively is also frequently hampered when a bank is simultaneously faced with both change aimed at transforming behaviour, as well as change aimed at fixing specific issues. These persistent behaviour patterns can only be changed by devoting deliberate attention to them and acknowledging that change requires perseverance. Lasting change in behaviour and culture also requires an understanding of the root causes of obstructive behaviour patterns. To encourage that understanding, in this article we also offer inspiring examples of what executive boards are doing in practice to move from a short-term action reflex to reflection, and whose approach to change is effective.

Lastly, the article includes some questions that managing and supervisory directors can use to reflect on the findings. In addition, we share lessons that we have learned as supervisors of governance, behaviour and culture in recent years.
Key patterns explained

Below, we discuss the behaviour patterns that are positive or, by contrast, obstructive. For this, we use the five parts of the iceberg model: decision-making, leadership, communication, group dynamics and mindset.\(^3\) We then discuss the capacity for change.

Decision-making

A positive pattern is that the majority of the banks examined have made deliberate efforts to improve the quality of their decision-making process in recent years. Banks’ executive boards spend more time preparing for decision-making, have a meeting frequency that better suits their roles and responsibilities and have adapted the process of decision-making. The latter may include better and more timely information sharing, the use of executive summaries, explicit recording of the opinions of representatives of control functions and clear risk analyses. We also see banks explicitly testing decisions against the vision and strategy, which helps ensure the consistency of decisions.

At half of the banks, the quality of the executive board’s decision-making process and the role of the supervisory board are an issue. They see the decision-making process as time-consuming, complex and overly detailed, or it is unclearly structured. The way the decision-making process is organised also makes it difficult for representatives of second-line control functions or the supervisory board to challenge decisions. They are involved at too late a stage and too little time is scheduled for critical dialogue with them, partly due to the crowded agendas of the supervisory board and the executive board. Effective challenge from the supervisory board is further hampered by a focus on operational or tactical matters, little time for in-depth discussions, and inadequate quality of meeting information. In general, the executive board often has too little time for more strategic issues, as tactical and operational decisions are escalated to the executive board, whereas they are more suited for resolution at lower levels.

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\(^3\) Described in our book entitled Supervision of Behaviour and Culture: Foundations, practice & future developments (2015) and based on the three-layer model of culture developed in 1980 by Edgar Schein. For this we use the metaphor of an iceberg, part of which is visible above water, while a larger part is under water. In terms of behaviour, the visible part is how people behave, take decisions, lead and communicate with each other. The part that is below the surface – and therefore less visible – is how they interact with each other (group dynamics), and what assumptions, beliefs and values determine their actions (mindset). It is these group dynamics and mindset that explain why people behave as they do. In our examinations and mitigation processes, we make connections between these different layers of the iceberg.
On the other hand, a positive point at some banks is that the executive board delegates certain decisions to middle management more often, so this management tier feels more involved in key issues and is able to influence them. This greater involvement of middle management may be associated with the recent rise of the executive committee (ExCo), which is used by half of the banks studied.

The extent to which stakeholders are involved is mixed, as is the challenging of decisions. At about half of the banks studied, we found that stakeholders such as the internal control functions were not sufficiently involved. In addition to the aforementioned causes in the decision-making process, this is also related to the degree of stakeholder appreciation, either substantively or because of the relationship. It is likely that the degree of stakeholder involvement corresponds with the importance attached to challenge and the degree to which it is encouraged. With regard to challenge we observe a mixed picture as well. A critical dialogue with the internal control functions and other relevant stakeholders is encouraged at a number of banks, whereas at others the business departments are still somewhat resistant to it.

Encouraging challenge and critical dialogue
In the institutions where critical dialogue is encouraged, participants with different perspectives or interests are actively involved and encouraged to participate in the meetings. Participation is high. Chairpersons encourage participants to speak up. They create a climate in which there is mutual respect, where people listen carefully to each other and in which there is space for different and divergent opinions. Critical questions are encouraged, and objections are not met with a defensive reaction.

At many banks, people have limited awareness of pitfalls that can impede effective decision-making. One pitfall is that some managing directors attach great importance to consensus and unanimity. This manifests, for example, in numerous concessions in terms of the quality and coherence of the original proposal, and a lengthy decision-making process. Additionally, as consensus becomes an end in itself, the risk of tunnel vision, circular reasoning, and peer pressure increases. Our examinations show that people are rarely aware of such pitfalls. Incidentally, consensus can be valuable as long as the resulting compromise is of high quality and room for dissent remains.

Leadership
On the positive side, employees at around half of the banks examined perceive their senior management as role models. The following qualities are attributed to these executive boards and CEOs: an inspiring and clear vision of the future of the organisation, subject matter expertise, active involvement, honesty, openness, respect for employees, predictable behaviour and an absence of arbitrary conduct. Commitment by the executive board to the organisation's values and visible action in accordance with these values are also cited as important characteristics, as is senior management speaking with one voice to the organisation. At these banks, senior management often actively tries to assist the management tiers below, for example by providing leadership programmes and/or adopting a more open and collaborative style of leadership. These institutions recognise the key role of managers in achieving organisational transformation.

At nearly all of the banks examined, the executive board is well aware of the importance of role model behaviour, even if employees feel that the senior management does not always demonstrate it.

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4 The ExCo model is generally intended to improve the quality of the decision-making process through the participation of both C-level executives and senior managers, giving it a broader perspective and making decisions more practicable. We have not yet been able to ascertain during this period whether the banks using this model were able to achieve this objective. This partly depends on the specific organisation and the operation of the model.
Positive role model behaviour through active engagement

At a bank suffering from numerous backlogs in the processing of files, the CRO worked at the weekend to help clear them. This was highly appreciated by the employees. Not only were they made to feel supported, but it reinforced their feeling that the senior management was approachable and understood the issues in the organisation.

At another bank, a senior manager was in charge of a new team tasked with terminating certain customer relationships. This was to be done according to a strict process where internal departments also had an important role in providing information. This did not always go smoothly and ran into quite a lot of resistance. The senior manager gave his people the necessary leeway within certain parameters, while still pointing the way forward in the organisation and, where necessary, bringing his authority to bear if his employees were unable to reach agreement with other departments.

At the other half of the banks, employees see little positive role model behaviour at the top.

The reasons for this differ. In a number of cases, people do not hold each other to account, nor do they provide each other with sufficient feedback. Responsibility for mistakes is not visibly taken. Employees also sometimes feel that different rules apply to the board than to themselves, for example in the area of compliance or in the application of with adverse salary consequences as part of organisational restructuring.

Additionally, top management does not always display the behaviour it expects from its employees; sometimes, it rewards behaviours and results that are not in line with what it claims to find important – without being necessarily aware of doing so.

Supervisory boards often struggle with their role in relation to the executive board.

For example, they are overly operationally involved, reactive, or focused on output. In some organisations, the supervisory board’s involvement in the operations or strategy is so extensive that the supervisory and executive boards function as a ‘1.5-tier board’. Within the organisations concerned, this may lead to a perception that the supervisory board is usurping the place of the executive board and thereby potentially undermining the position of the executive board as a role model. Of course, in exceptional situations, such as in times of crisis or significant understaffing of the executive board, it may be necessary for a supervisory board to be more prominent and take an active role in steering the organisation.

Too little positive role model behaviour

Senior managers at a bank were spared the negative consequences of a reorganisation that were borne by the workforce as a whole. In the organisation concerned, this was seen as double standards and it undermined trust in the management.

At a bank where mutual accountability was deemed very important, the senior management always wrapped criticism in seemingly positive messages. This created uncertainty among those who received the criticism and made it difficult to give feedback to senior management. Also, senior management never asked for feedback on its own performance. This shows a lack of positive role model behaviour.

At a bank where risk management was high on the agenda, it was only commercial successes that were rewarded with close attention from the top; business that was blocked on grounds of sound risk management did not receive explicit management attention, prompting employees to infer that commercial success was more important than good risk management.
Conflicts and subgroups at senior management level also lead to inappropriate role model behaviour in a number of organisations. These are visible to the rest of the organisation and cause the tiers below the executive board to become divided along the lines of the conflict or the subgroups. An example from our examinations involves the CRO and a business unit manager being in conflict; accordingly, their respective team members sought little contact with each other. At the banks where such situations occurred, the inappropriate role model behaviour of the senior management caused unrest, loss of trust in the senior management and a lack of collaboration within the organisation.

At half of the banks, the senior managing directors do not take time to reflect with sufficient regularity. They relied on their short-term action reflex: a focus on quick fixes and short-term results. The reflex is to jump to conclusions when shortcomings are identified rather than investigating the root causes. There is often a lack of overview; there is too little regular reflection on the effect and coherence of actions.

Little reflection on collaboration

At one bank, there were weekly Monday morning team meetings at which cases were discussed in detail. But there was no reflection on the cooperation between the front office and back office within the teams or between the different disciplines. There were nevertheless many frustrations about the cooperation, which only came to the surface in the corridors and at the coffee machine. That cost a lot of energy and resulted in awkward cooperation.

A supervisory board took on many tasks that the executive board believed were within its remit. The supervisory board did not share the reasons for this with the executive board, nor was there any reflection on the cooperation between the executive board and the supervisory board. This led to friction between the executive board and the supervisory board, especially as there were signs that the organisation believed the supervisory board was usurping the role of the executive board.

A number of executive and supervisory boards organise special awaydays, where they discuss behaviour, culture and strategy under the guidance of an external coach. These can nevertheless appear to be isolated events, if people end up having difficulty embedding and integrating what they have learnt into their day-to-day practice of substantive decision-making.

Where reflection does take place, it usually happens within the team, and not very often between, for example, executive and supervisory boards, or the business and control functions. Although these parties often have implicit expectations of each other, these are not sufficiently discussed and evaluated, which may lead to disappointment on both sides. There are positive exceptions to this at some banks, which regularly organise sessions bringing together various parties to enable them to get to know each other better and to discuss where collaboration could be improved on the basis of case studies.

It is notable that in all cases where there is little positive role model behaviour, there is also little structural (self-)reflection; one may thus infer that the two are related. The senior management of the banks in question often attributes the root causes of the issues at hand to external factors or to the inexperience of certain members of the executive or supervisory board. This often coincides with a lack of reflection skills and self-knowledge: the executive board does not reflect enough on how to improve its own behaviour, or denies even playing a role in the problems and their solution. The executive board thus positions itself outside the required change. Where there is no reflection on the executive board’s own behaviour, it is also difficult – if not impossible – to set a positive example for employees. Employees will then be more inclined to think: “they don’t do it themselves, so why should we?” Also, such executive boards will often not become aware of the detrimental effects of certain behaviour on the organisation, because they do not reflect on their own conduct and therefore cannot change it.
Communication

At some of the banks, there is constructive and open substantive communication between senior management and employees. Such open communication is characterised by approachability from the top and reciprocity – the willingness to listen to feedback and take dissent seriously. Our studies show that this constructive communication makes employees feel freer to speak up, voice dissent and give each other and senior management feedback about substantive issues.

Constructive communication contributes to willingness to change

At a bank where there was widespread dissatisfaction about a change process that was already underway, the executive board took the time to listen to the employees and request their input in dialogue sessions. When employees were able to vent their frustrations and put forward their ideas, they felt they were being taken seriously, the relationship between the executive board and the employees improved and the willingness to change increased.

At most banks, there is little room for the relational and socio-emotional aspects in communication. This means there is no dialogue about collaboration, dilemmas, uncertainties or underlying feelings. Many managing directors believe that discussing these topics is not appropriate in a professional context. The rationale for is that exploring underlying feelings is sometimes equated with the uninhibited expression of emotions. Underlying feelings are important source of information, which is why it may be worthwhile investigating what makes people feel affected or insecure, for example. This can prevent unspoken frustrations from growing and leading to conflicts. Giving and asking for feedback on behaviour in a constructive way also contributes to this and is an area for improvement at many banks.

Group dynamics

In slightly less than half of the banks studied, senior management works actively on group dynamics. The executive boards of these banks do this by regularly organising team sessions in which team development, mutual relationships and collaboration are explicitly on the agenda. They also sometimes make explicit agreements on how members ought to act towards each other.

Respect and mutual trust are very important in creating constructive group dynamics at senior management level. This seems obvious but turns out to be far from ubiquitous. An active focus on team development can contribute to that respect and trust. In a number of cases, formulating joint objectives also has had a positive effect on mutual trust, whereas at some banks mutual trust at the top has also strengthened the sense of shared responsibility.

A small number of banks use diversity to positively influence group dynamics. In those cases, diversity mainly pertains to the expertise and professional background of managing and supervisory directors. In addition, the positive influence of diversity in terms of age, cultural background and gender is occasionally mentioned. The banks in question experience diversity as difficult in the team-building phase, because groups in that stage do not yet have a shared understanding of roles and tasks, and are still searching for an effective leadership style. People find it more difficult to achieve results in a heterogeneous group due to occasionally very disparate views on matters. The fact that diversity is mentioned at just a few banks may mean that other banks and possibly DNB are not devoting sufficient attention to this factor.

5 Group dynamics concern the processes that take place in a group, how the group members relate to each other, how remote or close the group members are, how safe the group is, who has influence (and on whom), etc.
Over half of the banks examined have low group cohesion. Managing directors feel little connection with each other, share little information, knowledge and insights with each other, and consequently miss out on opportunities for cooperation and synergy. Reasons include not seeing the importance of increased group cohesion, or lacking the vocabulary and skills for a meaningful discussion on the subject. Finally, a lack of cohesion is sometimes caused by an unspoken, deep-seated conflict – and fear of its escalation. Our studies show that a lack of group cohesion is associated with the formation of subgroups whose members do experience cohesion amongst themselves. It is not clear whether the lack of group cohesion leads to subgroups or vice versa, but it is clear that they are mutually reinforcing phenomena.

Status differences within and between groups at the top of banks seem to accompany the formation of subgroups. These differences may also cause some group members to feel that they do not belong to either the group or subgroup. Status differences are caused by members of the executive or supervisory board holding different positions from each other, with some positions (in the perception of the organisation and group members) being valued more highly than others. The less valued positions, in turn, are able to only make smaller and less effective contributions. One example is status differences between the business and control functions. There is rarely any discussion on how to deal with such status differences, as a result of which tensions grow within the executive board and/or with the supervisory board, at the expense of cohesion and effectiveness.

The senior management of almost a third of the banks appears to have difficulty in handling differences of opinion or conflicts within the executive board or between the executive board and the supervisory board. Conflicts are often rooted in deeply held, clashing beliefs about issues of importance to the organisation’s senior management, such as its vision, strategy, leadership and risk appetite. We see that disagreements on these matters lead to tensions, but instead of addressing the tensions and feelings about the collaboration and looking for underlying convictions, people focus on the surface content of disagreements and fight each other on those. The underlying feelings and tensions remain below the surface, and are vented elsewhere in the organisation or emerge in the form of resistance and opposition during other discussions.

Status differences lead to reduced input from certain members of the group

In an institution managed by an executive committee and an executive board, the non-statutory directors of the executive committee felt that their status was lower and that they were valued less, both in decision-making within the management and in communication to the organisation and to external parties. They also participated little, if at all, during the discussions in the full board and they did not feel invited to participate. As a result, their input into the overall group was smaller, less often solicited and valued less. This negatively impacted the effectiveness of the entire management. The management only started to operate more as a collective when discussing these differences in positions and their significance.

We have also seen that senior management of some banks is very conflict-averse and seeks to maintain good relations at all costs. They avoid discussing key issues that could lead to friction. In some cases this is a reaction to serious conflict in the past. This also pertains to a fear of losing the commitment of key figures in the organisation, for example to a proposed change project or strategic change of direction.

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6 Group cohesion is an important criterion when looking at group dynamics. It relates to the extent to which the members of a group feel connected to each other and want to be part of the group.
Supervisory boards tend to pay little attention to group dynamics in their ongoing monitoring. Our examinations show that the underlying group dynamics within the executive board and between the executive and the supervisory directors are largely neglected in the supervisory board’s performance of its duties, particularly in the banks where conflicts and/or problems exist. This can be caused by various factors, such as lack of expertise and experience in monitoring group dynamics, too little insight into the dynamics due to limited interaction with the executive board, or a lack of time.

Supervisory boards also tend to intervene too late in the event of a conflict within the executive board. Where they do intervene, they try to resolve such conflicts by replacing one or two people, without looking at the rest of the group composition, the development of the executive board and the underlying group patterns. Consequently, the rest of the executive board feels more or less exonerated from playing a role in the conflict, while in fact everyone plays a role, be it actively or passively, if only by taking a side or by doing nothing. Since the supervisory board does not discuss these dynamics and merely replaces one or two managing directors (and the successors are often faced with overly high expectations), the problems are repeated in most cases, as certain reflexes in terms of group dynamics persist.

We also sometimes see supervisory boards themselves becoming part of the conflict by taking sides with certain directors and forming subgroups. This makes effective intervention virtually impossible without assistance from outsiders. These outsiders can help supervisory boards look at their own role in the conflict.

**Mindset**

The final part of the iceberg model for behaviour and culture examinations is the mindset of the executive and supervisory boards. At a number of banks, the mission, vision, strategy and core values are upheld so strongly that they are a source of intrinsic motivation and serve to deepen the relationships at senior management level and in the rest of the organisation. This helps to strengthen the willingness to change within the context of organisational changes, as people care about the organisation and want to contribute. It is a foundation on which the organisation can build, but it can also come under pressure if the organisation's vision and strategy undergo significant changes. This could lead to a loss of shared identity, and management and staff feeling "rudderless".

Half of the banks studied have an overly positive perception of the risk culture. While most of these organisations display awareness of the importance of a healthy risk culture and effective risk management, in practice risk culture often lacks follow-through, as well as robust reality checks. This means, for example, that the second line is involved too late in the process, and thus cannot provide any meaningful input; in other cases, the second line is put too much in an enabler role, and is expected to facilitate business, even when that business is difficult to reconcile with the risk appetite. This is based on the idea that the second line is there to facilitate the first line, instead of seeing the second line as an independent party that adds value by identifying unacceptable risks and challenging the business, departments, even at the expense of the direct commercial result. We have also seen on multiple occasions that the second line experiences less appreciation and status than the first line, both at board level and in the tiers below. This means that the second line has to work much harder to get its views and opinions heard than the business managers.

At the majority of the banks examined, a strong desire to achieve results quickly stems from a short-term action reflex. In such cases, we observe an emphasis on taking action quickly, and completing it in the short term. The focus is on viewing problems as isolated instances, rather than on taking into account the context, the factors that shape it, and interconnectedness with other issues elsewhere in the organisation. This can stimulate tunnel vision, as the focus is primarily on symptoms of issues. It is especially of import that institutions adopt a long-term view in order to adopt sustainable, lasting solutions for the key issues they face. By doing so, one can create effective execution power. We have asked several banks to conduct a thorough root cause analysis of certain problems before presenting an action plan, in order to avoid an undue focus on symptoms. Discovering the root causes of complex problems can be challenging, but it is crucial that executive
boards always make sure they are solving the real problem. The reflex to implement solutions too quickly is reinforced when the organisation feels under more pressure from the supervisory authority or from other stakeholders. This also requires that we reflect on this, given our role as supervisory authority.

Often, banks that have previously lived through a crisis in which the executive board had to place great emphasis on crisis management still operate in survival mode. For example, we saw an executive board still driven by a mindset based on the existence of a burning platform or an emergency situation. Within such organisations we observe a strong focus on command & control and quantifiable information, as well as limited ability to effectuate change. This is because survival mode leaves little room for innovation, long-term strategy, learning and reflecting on whether one is still doing the right things. There is a fear of repeating past mistakes, which could have an inhibiting effect.

Overly positive perception of risk culture
At one bank, the senior management thought they were “invincible” in terms of risk management. The willingness to look for potential improvements was minimal, because it was assumed that improvements were not possible.

Capacity for change
The various levels of the iceberg are expressed in the way organisations are able to adapt to a continuously changing world, to anticipate developments, and to change where necessary. Banks that fail to adapt or anticipate these changing conditions in a timely manner are more likely to be exposed to greater risks, creating prudential and integrity risks. Capacity for change is part of our examinations, which is why we devote a separate section to it here.

All the banks examined recognise and acknowledge the importance of adequate capacity for change, because change is a constant theme in both their surroundings and the organisation. We also see that banks intend to design the changes well and proactively dedicate attention to leadership development, employee engagement, effective project management and linking change to the bank's values and strategy. Old habits are hard to break, however, and there is still a lot of room for improvement.

The change narrative at a number of banks is not clear enough. What is the ultimate objective, what does the bank want to achieve with the changes and why is that good for the bank, the customers and the employees? Why do we need to change and what will the organisation look like when the goal is reached? Often, many of the ingredients of the change narrative are present, but banks cannot explain in an appealing way how the change will contribute to the organisation's mission and strategy.

Our examinations reveal that a number of banks lack an effective change strategy. The strategy is sometimes too abstract and instrumental, does not match the type of change, or hinders the implementation and behavioural change. A value such as customer-centricity is not sufficiently translated into precisely how employees should change their behaviour towards the customer. Furthermore, the change strategy is often ill-suited to the type of change in question. A mechanical, blueprint approach is then adopted in which everything is planned in detail and managed on a project basis, and the change is "rolled out" on a top-down basis through the organisation. This can work well for process improvements, but is unsuitable for behavioural or cultural changes, because these require room to experiment, make mistakes and learn, as well as room to gather feedback on what employees and middle management encounter when implementing the changes. If there is little focus on learning and development, past mistakes could be repeated, posing a risk to the organisation’s operational management and development. Specifically, we see that key strategic objectives are not achieved, or culture programmes are not successfully implemented.
Room for reflection and learning is lacking in most change projects. Often, the reason for this is the combination of the perceived workload and the often ambitious change goals. A few banks are positive exceptions to this, in that they regularly organise sessions between different departments in which employees discuss the way of working together. These sessions also make it easier for people to speak to each other as part of their day-to-day work.

Inspiring example of a bank with an appealing approach to change that matches the intended behavioural change

A bank with a societal mission wanted to improve integrity checks when accepting customers, as well as encourage employees to assume individual responsibility when performing these checks. An approach was chosen that stimulated this desired behaviour with both structural and behavioural interventions:

- There was a clear rationale for tightening the integrity checks, namely that only sound clients contributed to the bank’s mission and core business. This increased the sense of urgency among the employees.
- Tools and resources were developed to make checks on customers easier for employees.
- The self-managing teams were given joint quality and quantity targets, for example to help each other with backlogs, and were made responsible for how they would achieve these. Working in small teams ensured social control and made it easy to actually ask each other for help.
- In a training course, the employees learned how best to approach each other with criticism. Team leaders were also on hand to coach the employees and make adjustments where necessary.
- Problems and issues that employees encountered were discussed at the weekly meetings and employees were complimented on this. The resulting lessons were shared with the entire department.
Interplay between behavioural patterns and risks

The five components of the iceberg model can pose risks in themselves, ultimately impacting a bank’s internal operations, governance, integrity and financial performance. They can also reinforce or weaken each other, and the deeper layers of the iceberg often explain visible behaviour such as decision-making, leadership and communication. This is demonstrated by the following examples.

Ineffective collaboration due to deep-seated disagreement

At two banks, our examinations initially appeared to reveal similar patterns. In both cases, the trigger for the examination was ineffective collaboration at senior management level. This manifested itself in similar visible patterns of behaviour, namely slow decision-making, failure to take appropriate action on integrity failings we had identified, and insufficient involvement of the second line in key decisions. Similar patterns were also evident in group dynamics: there were subgroups and adversarial relationships among managing directors, and between managing and supervisory directors.

In terms of mindset, the root cause of the thorny relations turned out to be a fundamental difference of opinion at senior management level about the identity of the organisation and, by association, about the role of the second line, the intended leadership and the risk culture. Those involved had strong opinions on this. People with the same preferences sought support from each other and formed subgroups, whereas people with different preferences were increasingly seen as the opponents. Instead of talking about the deeper beliefs and values of everyone involved, they started clashing, for example on whether a certain project should be started, or who was considered suitable for a certain position. The organisation and operational management consequently suffered, as the conflict was divisive and delayed decision-making on many issues, leading to uncertainty and a certain degree of paralysis. As a result, important strategic decisions were not taken or were delayed, which in turn posed risks to the bank’s profitability and financial position.
The similarities ended here. The most important difference with regard to mindset was that at one bank the conflict was about the bank’s raison d’être, and thus the importance of the business versus that of the control functions. At the other bank, this was not an issue. Rather, the conflict was mainly about what type of leadership/leaders would best fit the future strategy: loyal leaders with a long track record or newcomers with a fresh outlook. This difference in underlying mindsets was key to determining the appropriate approach to the conflict, for example the question of which parties felt threatened, which parties needed to engage in dialogue, and which underlying values seemed to clash with one other.

Short-term action reflex leading to different behaviour patterns at banks

An example that we have seen in many of the banks examined concerns a strong focus on quick solutions resulting from an action reflex. In many of these organisations, the senior management sent an implicit message to the organisation that it should find its own solutions to problems rather than referring them to senior management. Presenting problems to management was seen as a lack of competence. This led to a reluctance or even fear among employees to discuss with management problems that they were unable to solve themselves. Also, where differences of opinion occurred, for example between the front and back office or the first and second line, people waited too long before escalating, believing that it would not be appreciated. Because of the strong short-term action reflex no time was taken to reflect, and it was not clear what obstacles employees experienced in their daily practice, or what the root causes of problems were. Mistakes were repeated and suboptimal solutions were devised. Senior management also received overly positive reports, which prevented timely adjustments. In this way, prudential risks could not be resolved in time and problems persisted.

An important difference was that in some organisations the strong short-term action reflex led to inertia, as the actions piled up and worked against each other. In other organisations, solutions were implemented, but they tackled symptoms rather than causes and gave rise to an unjustified sense of being in control. Another key difference is that at some banks the action reflex arose from the executive board’s strong belief in its own abilities (“can-do”, belief in its own strength and invincibility), whereas at other banks there was more of a conviction that every problem has a solution (“fix-it”, the belief that everything can be engineered). The first is about self-image, whereas the second is about a world view. The difference in orientation (inward and outward) between these concepts matters to the approach to behavioural change, including with regard to who should be involved in the change, and who is well positioned to play the role of a sounding board.
Development through the years at banks which had been subjected to multiple examinations

At a number of the banks examined, we have carried out several examinations over the past seven years, with different themes, scope and focus. Our long-standing involvement with these banks stems from ongoing concerns and risks in various areas, whether on integrity, business model, governance, behaviour or culture. We looked at a combination of executive effectiveness, capacity for change, risk culture and integrity climate within the same banks - both at the senior management level and deeper within the organisation. This has given us an insight into patterns within various groups, as well as into the developments in behaviour and culture over the years. Below we expound on two cases, which contain both positive developments and persisting patterns in the current period compared to the past.

Context, observations and recommendations for both banks

Both banks described below have been in a constant state of change in recent years, with successive amendments in structure, strategy and leadership, both at senior and middle management level. Both banks have also faced a challenging digital and cultural change agenda. In addition, there were issues pertaining to customer integrity.

At both banks we initially observed a lack of self-reflection and little learning-oriented attitude, neither at the senior management level nor lower down the organisation. Underlying this, we found a strongly result-oriented mindset and a belief that the causes of problems were outside one’s own sphere of influence. The latter was not conducive to a learning attitude. We also saw an ineffective leadership style characterised by a short-term action reflex in parts of both banks, which meant certain teams did not experience the psychological safety to make mistakes and learn. Communication was only content-based, aimed at persuasion and left little room for discussing behaviour, underlying feelings about the collaboration and feedback. Changes piled up and were not completed.

We recommended that both banks focus more on role model behaviour on the part of senior management and on encouraging feedback from employees by working to improve the group climate. Another recommendation was to have employees engage in peer-level dialogue on what the changes to organisational structure demanded of them, in terms of behaviour or behavioural change. Lastly, we pointed out the importance of better examining the causes of problems and not rushing to solutions, in order to avoid addressing only the symptoms.
Developments at Bank A

On a positive note, in recent years, there has been a growing awareness of the importance of role model behaviour and, partly because of this, active efforts had been made to improve the group climate at senior management level, as well as deeper within the organisation. Specifically, ample emphasis has been placed on how leadership can contribute to a safer group climate. Reflection sessions have also been held, focusing on the functioning and role of the executive and supervisory boards in the event of problems, with the aim of improving the group dynamics at the top.

In the areas of learning, reflection/self-reflection and evaluation points of attention remain. The organisation's capacity for reflection showed room for improvement, under the pressure from a high workload, the emphasis on targets, and the associated tendency to take swift action without really understanding the underlying problems. In addition, we observed people feeling misunderstood by the outside world, particularly by the supervisory authority. Such a mindset can impede critical self-reflection. This does not take anything away from the fact that as the supervisory authority, we must always explain clearly what we are doing and why, and reflect on our role and the relationship with the institution.

Developments at Bank B

A positive development at Bank B has been the growing awareness of the negative consequences an action reflex can have. This bank has been trying to shift from the action reflex to more reflection on the root causes of issues. The bank has been working actively on improving group dynamics at senior management level as well as deeper within the organisation, with the aim of creating a safe context for voicing issues and doubts. The focus on leadership has grown, and the executive board has increasingly begun acting as a role model. Diversity has been receiving greater attention, and there is a greater focus than in the past on employee coaching and strategic personnel planning.

A clearly recurring pattern at this bank have been the task- and content-oriented communication and leadership style, the strong focus on the short term, and a focus on the rational side of work. Relatively little attention has been devoted to how people collaborate, how they correct each other, and to the extent to which they feel free to request feedback or assistance. This results in little space for discussing underlying feelings about the collaboration, the quality of relationships and issues arising in the work, which has continued to lead to frustrations and tensions within the organisation. We have also observed this pattern in change initiatives: a blueprint-approach is often adopted, based on the belief that change is a fully plannable, linear process with a clear beginning and a clear end. We have observed little acknowledgement of the fact that change also requires room to learn, and thus to make mistakes. The executive board tends to focus on explaining why a certain change initiative is needed; limited attention is paid to providing direction, and sounding the organisation on the obstacles they encounter along the way.
Reflection

Sustainable change in behaviour and culture requires a long-term approach and an understanding of the root causes of obstructive behaviour patterns. The improvements and positive developments we have seen at banks show that behaviour and culture can be changed (see the box text opposite). It is crucial to investigate the cause of recurrent problematic behaviour patterns if effective behavioural change is to be achieved. There are no quick fixes in this regard – it takes perseverance and commitment to achieve real behavioural change in daily practice. As in sports and music practice, it requires high-quality and frequent practice.

It is possible that lack of reflection is such a persistent pattern due to the high investment of time and attention that effective reflection requires. Given the full calendars of many executive and supervisory boards, this step is unlikely to be taken easily, and may even feel counterintuitive. Practicing reflection as a group requires mutual trust and a safe climate, where group members feel free to display vulnerability, without compromising on candour. The high demands of directorship require directors to be able to recognise latent conflicts within the group, to connect thinking to feeling, and to bring theory and practice together. This requires a high level of competence, courage and self-awareness. This is precisely why it is important to practice reflection regularly, and to give the board the opportunity to develop itself to this level. We acknowledge that practicing reflection can be all the more difficult when an organisation is simultaneously facing the need for sustainable behavioural change, and the acute need for fixing urgent shortcomings. Such a combination can give rise to dilemmas and can trigger the action-reflex. Under such circumstances, it becomes even more important to create structural space for practicing reflection.

Inspiring examples of banks moving from reflex to reflection

We found that executive boards wishing to turn their strong action reflex into more reflection opt for a combination of the following measures:

• They work to develop trust and safety within the team by providing regular opportunities for discussing collaboration, examining the associated assumptions (e.g. how to deal with each other’s mistakes) and developing a shared view of what they want to achieve with the cooperation.

• They develop language, rules and a form of reflection on their own behaviour and the functioning of the group; for example, they apply a particular theoretical concept against which behaviour and underlying motives can be examined and discussed in a way that is safe for everyone. This is often done jointly with an external coach.

• In addition to organising awaydays, they ensure that reflection becomes a regular part of day-to-day practice (reflection in action), for example by reflecting on the way decisions were made after important meetings or asking themselves how the board’s behaviour is perpetuating certain problems and what the board could do differently.

• They request feedback from others around them, such as the senior management, supervisory board and sometimes also employees. This feedback in turn serves as input for their joint sessions.

• They regularly consider the question: “What problem are we solving here?” “Is this a symptom or a root cause?” “And do we really have a clear picture of what is causing that problem?” “Does this problem occur elsewhere in the organisation; are there any connections?” “And what factors affect this problem?”
As our examinations show, there are different root causes underlying the observed lack of reflection; for this reason, no “one size fits all” approach exists. That is why it is important to continue the dialogue on this subject, particularly as everyone recognises the importance of greater reflection and contemplation. In the first place, this dialogue should take place within the organisation itself and, where possible, also between the organisation and the supervisory authority.

Given the scope of our examinations, the reflection questions presented below can be applied broadly, to both banks and other financial institutions, and can help executive and supervisory boards, commercial teams, management teams and control officers to shift from a strong action reflex to more effective reflection:

- Which of the risky patterns described in the summary and the rest of this article are recognisable in your organisation and to what extent are they discussed in your organisation?
- How many times in the past year has your organisation explicitly discussed the collaboration and dynamics in your own team?
- How much time is set aside each week – and with whom – for self-reflection, and for retrospective reviews aimed at learning?
- How do you ensure that others can benefit from the insights resulting from these reflections?
- When was the last time the management requested or received feedback on its own leadership and from whom?
- What efforts are made to show positive role model behaviour? How is that perceived in the organisation and to what extent do perceptions match the efforts made?
- What are the most important beliefs within your own team about good leadership within your organisation?
- To what extent do people in your own organisation and your own team believe that people can change their behaviour, and are you aware of what is needed for them to do so? Are there examples of successful behavioural change in your organisation?

The most important lessons we have learned as a supervisory authority in recent years cannot go unmentioned:

- Our examinations are tailored to the individual institutions and their specific context; comparisons between organisations are therefore only possible to a certain extent. It is important to keep an eye on nuanced differences, particularly when it comes to dealing with behavioural changes.
- An open dialogue between the institution and the supervisory authority is sometimes at odds with the need to give off clear supervisory messages, and is sometimes at the expense of institutions’ willingness to acknowledge and address the identified risks.
- Where our supervision has multiple objectives, some being more short-term (solving acute problems) and others more long-term (behavioural change), we need to make this clear to the institutions in order to prevent our supervision from being perceived as contradictory.
- It is possible that supervisory authorities reinforce risky patterns, such as the short-term action reflex and the lack of reflection, for example due to their detailed questions and the nature of the measures banks are required to take.
This article will hopefully provide you with tools for further reflection and dialogue.

We also want to use this opportunity to share some lessons as a supervisory authority – see the separate box. We will incorporate these lessons into our supervision in order to improve it further. We will also continue to reflect on our role and relationship with the institutions we supervise to achieve sustainable behavioural change.