Quantifying corporate culture with respect to customer-oriented business practices

Tatsuo Tanaka

22 January 2025

lakyara vol.395

Nomura Research Institute, Ltd.

Executive Summary

Tatsuo Tanaka
Expert Strategist
Financial Market & Digital
Business Research Department

Japan's Financial Services Agency (FSA) has highlighted the critical role of corporate culture in fostering customer-oriented practices within financial institutions. To align with stakeholder expectations and demands, financial institutions must assess and quantify their corporate culture. Achieving this requires the adoption of quantitative tools that provide a clear, objective understanding of their organizational culture, enabling them to identify and address gaps in their customer-centric approach effectively.

Company culture has become a focal point of Japan's FSA

Japan's FSA issued a set of Principles for Customer-Oriented Business Conduct several years ago. The second of these Principles directs financial institutions to pursue their customers' best interests by possessing a high degree of expertise, upholding scrupulous professional ethics, dealing with customers fairly and in good faith and endeavoring to embed such a way of doing business into their corporate culture. In a recently released interim progress report on improving financial institutions' internal audits, the FSA emphasized corporate culture's importance in mitigating conduct risk. The report stated that given the difficulty of mitigating conduct risk through conventional means such as policies, controls and technology, financial institutions' senior management must build a corporate culture that shapes employees' behavior and meets stakeholders' needs and demands. Corporate culture has become a key focal point of the FSA.

Quantifying corporate culture in relation to customer-oriented business practices

We believe corporate culture must be rendered visible to enable financial institutions to gauge how well their culture fosters customer-oriented business practices and meets stakeholders' needs and demands. One way to quantify corporate culture is employee surveys that measure employee loyalty and/or engagement. While such surveys are good for quantifying corporate culture in general, they cannot quantify culture in terms of customer-oriented business practices in particular.

For example, surveys of general corporate culture often ask employees if they feel they are compensated commensurately with their job performance. Given such

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questions, employees may score high on loyalty or engagement even if they are sales-oriented (e.g., they earn commissions by pushing high-fee products unsuitable for the customer) instead of customer-oriented. To quantify the extent to which a corporate culture embodies customer-oriented business practices in the true sense of the term, a survey would have to ask questions that are aligned with all seven of the FSA's Principles for Customer-Oriented Business Conduct and, if possible, also incorporate feedback from FSA examinations. We have developed such a quantification tool, the Customer-oriented Conduct Management Methodology[1] (CoCMM).

NOTE

1) The CoCMM is a methodology for analyzing data collected through questionnaire surveys of employees. It was developed in consultation with attorneys and others with expertise in customer-oriented business practices.

Customer orientation is positively correlated with customer loyalty and revenue

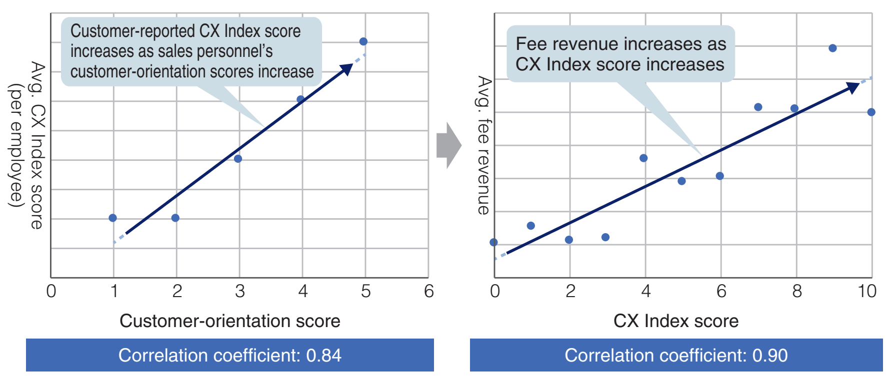
The preferred way to measure customer orientation is to calculate averages of employees' responses to questions derived from the seven Principles for Customer-Oriented Business Conduct. Customer-orientation scores calculated on an employee-by-employee basis can distinguish customer-oriented employees from non-customer-oriented employees. Averages calculated on a question-by-question basis, by contrast, can distinguish between a highly customer-oriented culture and a culture lacking customer orientation.

Our Customer Experience Management Methodology[2] (CXMM) calculates CX Index[3] scores as a metric of customer loyalty. CX Index scores are strongly correlated with company revenues (correlation coefficient ≥ 0.7), meaning that revenues tend to increase as the company's CX Index score increases. CX Index scores are also strongly correlated with customer orientation as measured by our CoCMM (see graphs). In other words, when employees become more customer-

2) The CXMM is a methodology for analyzing data collected through questionnaire surveys of customers.

3) The CXMM's customer loyalty index is made up of three subindices that measure customers' propensity to purchase, recommend and continue to patronize.

Correlation among customer-orientation scores, CX Index scores and revenues



Source: NRI

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oriented, the company's CX Index score and revenues both tend to increase. Conversely, the CoCMM can identify companies whose corporate culture in terms of customer-oriented business practices is having a negative impact on revenues.

How CoCMM works

The CoCMM has several features for quantifying corporate culture with respect to customer-oriented business practices. First, its questionnaire queries employees about definitions, behavior and verification, all of which are on regulators' radar also. Specifically, the CoCMM first asks employees questions to determine whether their organization has defined how they should conduct themselves. Next, it ascertains whether employees are conducting themselves accordingly. Lastly, it checks whether anyone verifies employees' compliance.

Second, the questions are presented to employees in three sets: sales-orientation questions first, customer-orientation questions next and a dilemma question last. The questions are sequenced in this order to get a better read on employees who often have a perfunctory attitude toward self-assessments. An employee who scores high on the sales-orientation questions should not score well on the customer-orientation questions because the two orientations are incongruent with each other, Any employee who got high scores on both sets of orientation questions likely lied about one of the orientations. The dilemma question incorporates both sales orientation and customer orientation into a single question, in response to which employees can choose only one answer, either sales-oriented or customer-oriented. They cannot select both. Even if an employee selects a customer-oriented response to the dilemma question, the high score from previous sales-orientation questions would lower the employee's final customer-orientation score.

Third, employees to whom dilemma questions were posed are presented with scenario questions based on their dilemma question responses. The scenario questions shed light on whether an employee's chosen (i.e., sales-oriented or customer-oriented) response to the dilemma question was a reflection of the employee's own self or the employee's superior(s)/organization. When one financial institution analyzed data on its employees' dilemma question responses, it found that the employees' customer-orientation scores differed by department/branch. Using scenario question response data, the financial institution was able to distinguish between departments/branches where employees' customer

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orientation or lack thereof was influenced by their superiors/organization and departments/branches where it was not. Additionally, the financial institution determined that major differences in customer orientation among departments/branches was due to a lack of verification of whether employees' customer orientation was being evaluated.

In such cases, the appropriate corrective action is not to change the frequency or content of activities to promote customer-oriented business practices but to assign headquarters staff to verifying whether department/branches are evaluating employees' customer orientation.

By obtaining a clear understanding of their corporate culture and logically identifying gaps in their customer orientation, financial institutions can take targeted steps to enhance their customer-oriented business practices.

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Inquiries to : Financial Market & Digital Business Research Department
Nomura Research Institute, Ltd.
Otemachi Financial City Grand Cube,
1-9-2 Otemachi, Chiyoda-ku, Tokyo 100-0004, Japan
E-mail : kyara@nri.co.jp

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