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people risk and incentives

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people - the biggest risk

- At the heart of operational risk is people, and their compliance to what is needed to ensure operational risk is kept to a minimum
- If it is 'compliance' we need are we going about dealing with our people in the wrong way?
- Do we really want 'compliant' people?

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who is a compliant person?

Someone who behaves like this:

- I try to be who my boss wants me to be.
- I am afraid to rock the boat.
- It is hard for me to know what I want.
- I avoid speaking my mind.
- I find it easier to go along with what someone wants not what I want.
- It is hard for me to express my feelings when they are different from someone else's.
- It is difficult for me to say No.
- I avoid getting angry.
- It is hard for me to take any initiative.
- I try to be nice rather than expressing how I really feel.
- I want everyone to get along.

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Didn't that behaviour contribute to the recent banking crisis?

how do we engage people?

Lets look at some recent research on something you would think would engage someone fully... being diagnosed with Arthritis:

- Initial compliance with an exercise regime was high because of loyalty to the physiotherapist
- continued compliance was more complex based on factors such as:
 - ability to accommodate exercises within everyday life
 - perceived severity of symptoms
 - attitudes towards arthritis
 - The perception that the exercises actually worked!

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- Non compliance with exercise regimes are quite common
- From the patient's perspective, decisions about whether or not to comply are rational
- In fact we can all believe we are acting rationally when we are not finding logical answers to our irrational behaviour

This study suggests that when dealing with people we need to understand reasons for non-compliance

So what about the issue of incentives to gain compliance?

extrinsic and intrinsic motivation

The majority of research into what will engage people in changing their behaviour started in the '70's

Employers concentrated on extrinsic motivators and compensation programmes became the norm

However by the 90's it was obvious that giving 'rewards' for compliance wasn't working...particularly in the long term

Recent research has concentrated much more on Intrinsic motivators to ensure long term change in behaviour

extrinsic motivation...the problems

- The effects of 'direct price' vs psychological acceptance
- 'Crowding out'
- The issue of 'how much' and for 'how long'?
- 'Funnel' focus on the incentivised behaviour
- Temporary compliance

intrinsic motivation

- The key findings show to change behaviour long term organisations have to concentrate on:
 - Meaningfulness
 - Choice
 - Competence
 - Progress
- **Plus** the need to concentrate on ‘middle ranks’ where people are ‘somewhat’ engaged

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start by looking at culture

Or “How things are done around here”

- No doubt you have all looked at this ‘rationally’ but it is the emotionality of the culture that always has the greatest effect on engagement
- We all know culture comes from the top of the organisation based on ‘what they do’ NOT ‘what they say they do’
- So clarity and consistency of the culture, both looking ‘up’ the organisation as well as ‘down’ is important to see what aspects of the operational risk approach gains engagement and what aspects do not.

‘discretionary effort’

- We all have a degree of ‘discretionary effort’ that we **choose** to use
- If the culture is one of ‘command and control’ it is likely extrinsic rewards will be the order of the day
- If the culture is one of ‘engagement’ then intrinsic rewards will be present
- ‘WIIFM’ for the staff?
- Am ‘I’ engaged both logically and emotionally and does the extra effort ‘feel’ worth while?

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so... to finish

- The development of a culture that engages people, -‘command and control’ only leads to a reactionary approach rather than a proactive one
- Flexibility needs to be built into processes so that people have a chance to question, alter and build an approach to operational risk that the majority will buy into
- Creating meaningfulness, choice of action, competence and progress in a role gives the greatest chance of gaining the engagement needed

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my view?

The key is to move from a 'compliance' culture to one of 'engagement' where we create an environment where people want to protect the organisation because they want to... not because they have to.

thank you for listening!