

Crisis, behaviour and culture

WEBINAR

Prof. Dr. Femke de Vries



Program

10 min	Understanding behaviour
15 min	Behaviour during crisis situations
15 min	Practical advice for leaders
20 min	Q&A

UNDERSTANDING BEHAVIOUR



Group attribution



“She is really not qualified for this job, just like the rest”

Lack of social feedback



“My input won’t have an impact anyway so why bother”

Ingroup favouritism



“My team does everything right. The other teams are messing up”

Error management



“I’m afraid to ask questions because I’m not allowed to make mistakes”

Social norms



“We do not escalate around here, it is not in our culture”

Diffusion of responsibility



“There are a lot of people working on this. I’m not the one responsible, they are”



Fast

Automatic,
intuitive, effortless

2x2

The colour of grass
Daily commute to work

Slow

Reflective,
deliberate, analytical

24x17

Planning a trip abroad



Daniel Kahneman

The psychologist who won the Nobel prize in economics

**You design a decent
process, and people still
don't act as you expected**



We see a movement from a traditional focus on processes and structure to focus on behaviour and culture

The Economist

Policymakers around the world are embracing behavioural science

THE WALL STREET JOURNAL.

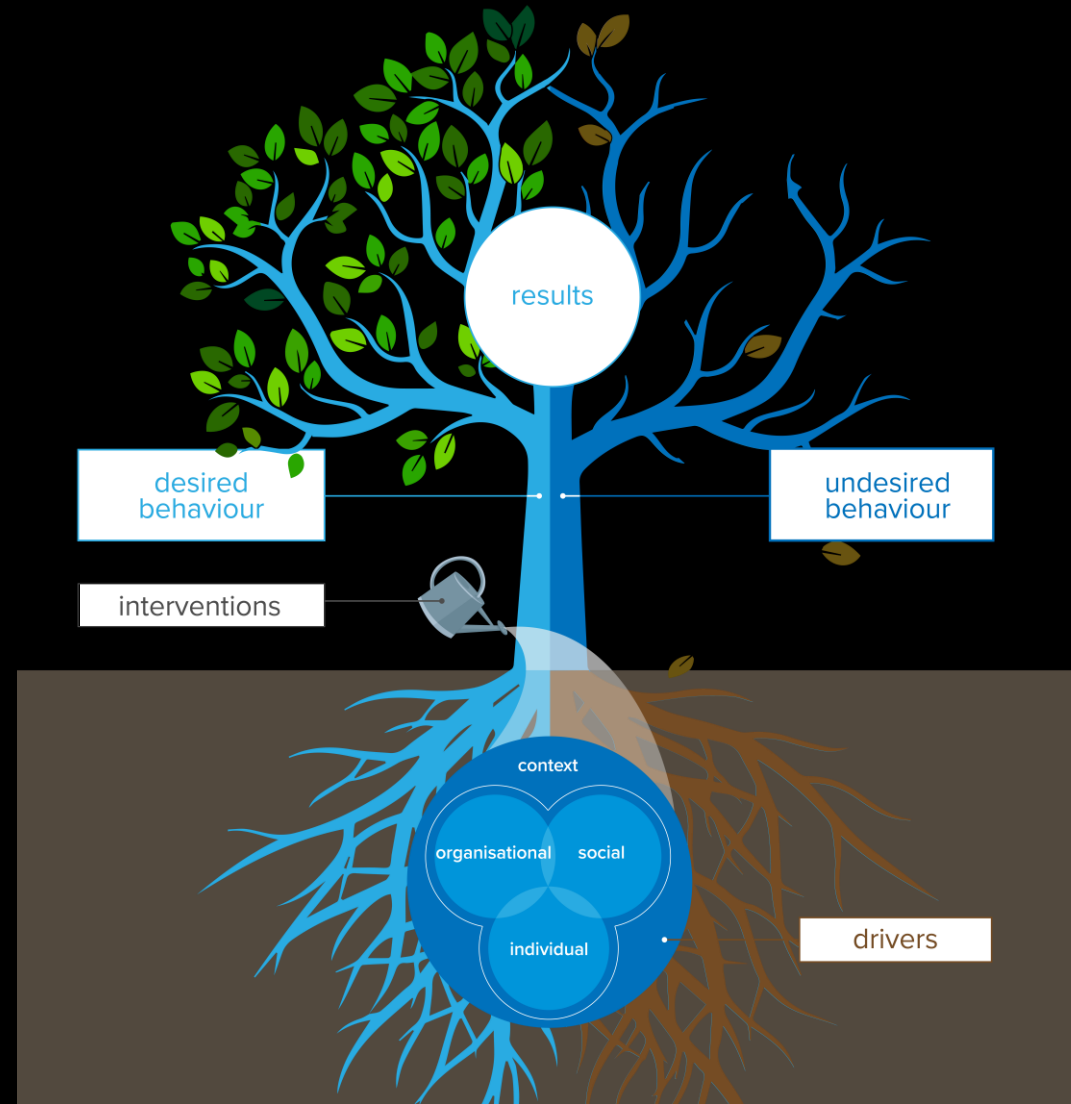
RISK & COMPLIANCE JOURNAL.

**Companies Try Nudging Their
Way to Better Ethics**

Forbes

In a Crisis,
Organizational
Culture Matters

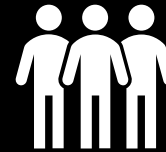
Need for a thorough understanding of why behaviour takes place



In practice, behavioural risk is driven by various drivers such as:



Narrow focus on (singular) KPI's



Colleagues that subconsciously show us
“how things are done around here”



Strong focus on measurable goals



Limited countervailing power

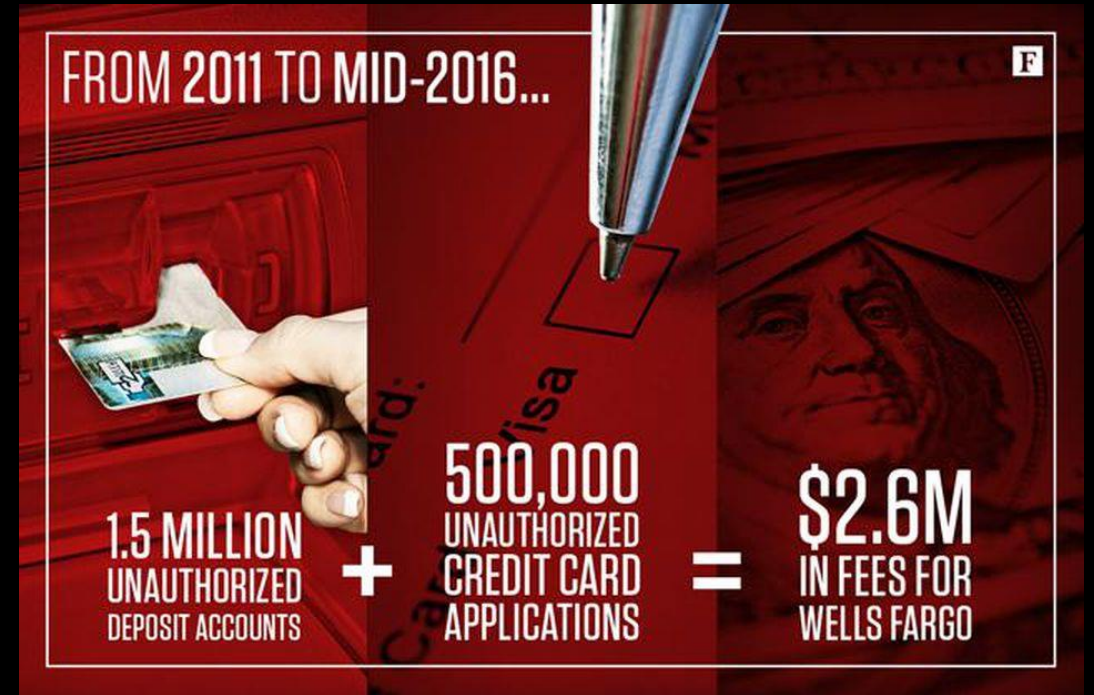
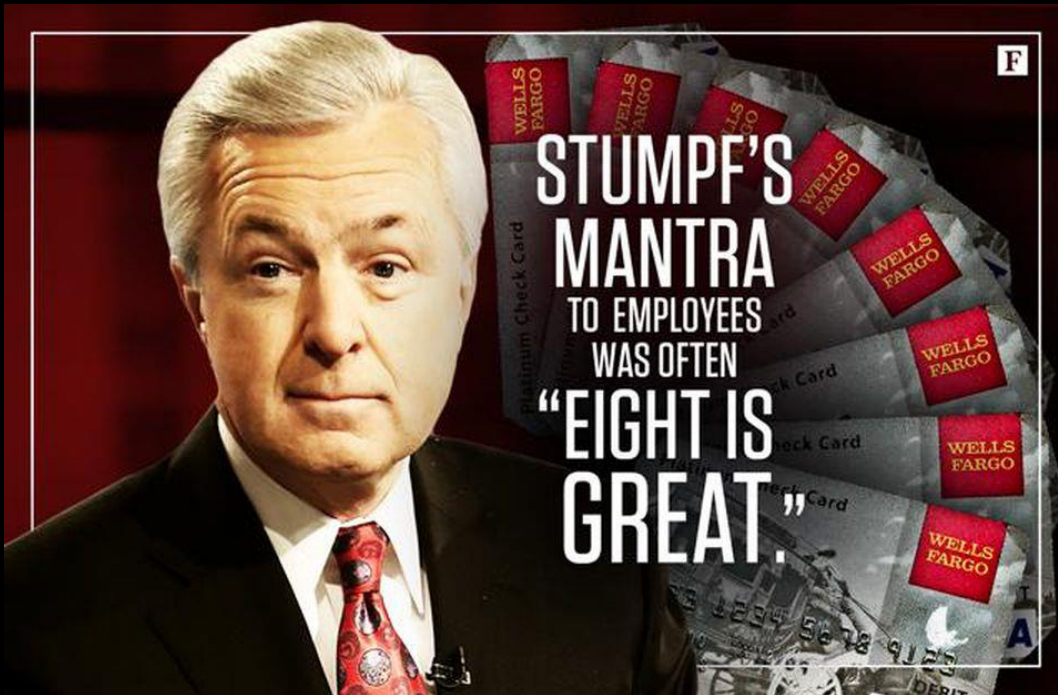


Unclear strategy leading to insecurity



Limiting individual beliefs

Example: narrow focus on a KPI



But even when we understand behaviour, it can be difficult to address behaviour in practice

Cost vs. benefit analysis

“Addressing this issue will probably cause a negative atmosphere and it’s not that big of a deal. I’ll let it slide this time”

Projection of thoughts & feelings

“I don’t like being told what to do so others won’t like it either”

Doubting your own expertise

“Behaviour and culture is not my specific expertise, someone else should probably focus on that”

Crisis situations work as catalyst of behaviour due to e.g economic pressure, uncertainty and working from home

Paying for the Covid-19 pandemic will be painful

Interest rates will not stay low forever; spending cuts and higher taxes will be needed

WILLEM BUITER [+ Add to myFT](#)



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Willem Buiter MAY 15 2020

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Working from home has a long history - be careful what you wish for not wanting to go back to the office

Jeff Sparrow



Viruses and volatility – how uncertainty impacts on our health

Trader turned neuroscientist John Coates on why economic crises are also medical ones





BEHAVIOUR DURING CRISIS SITUATIONS



Which (behavioural) challenges and barriers do we see during crisis time?

"Obviously, we have other things on our mind right now than risk and compliance?"

"My family situation really needs all my attention; work is not my main priority right now."

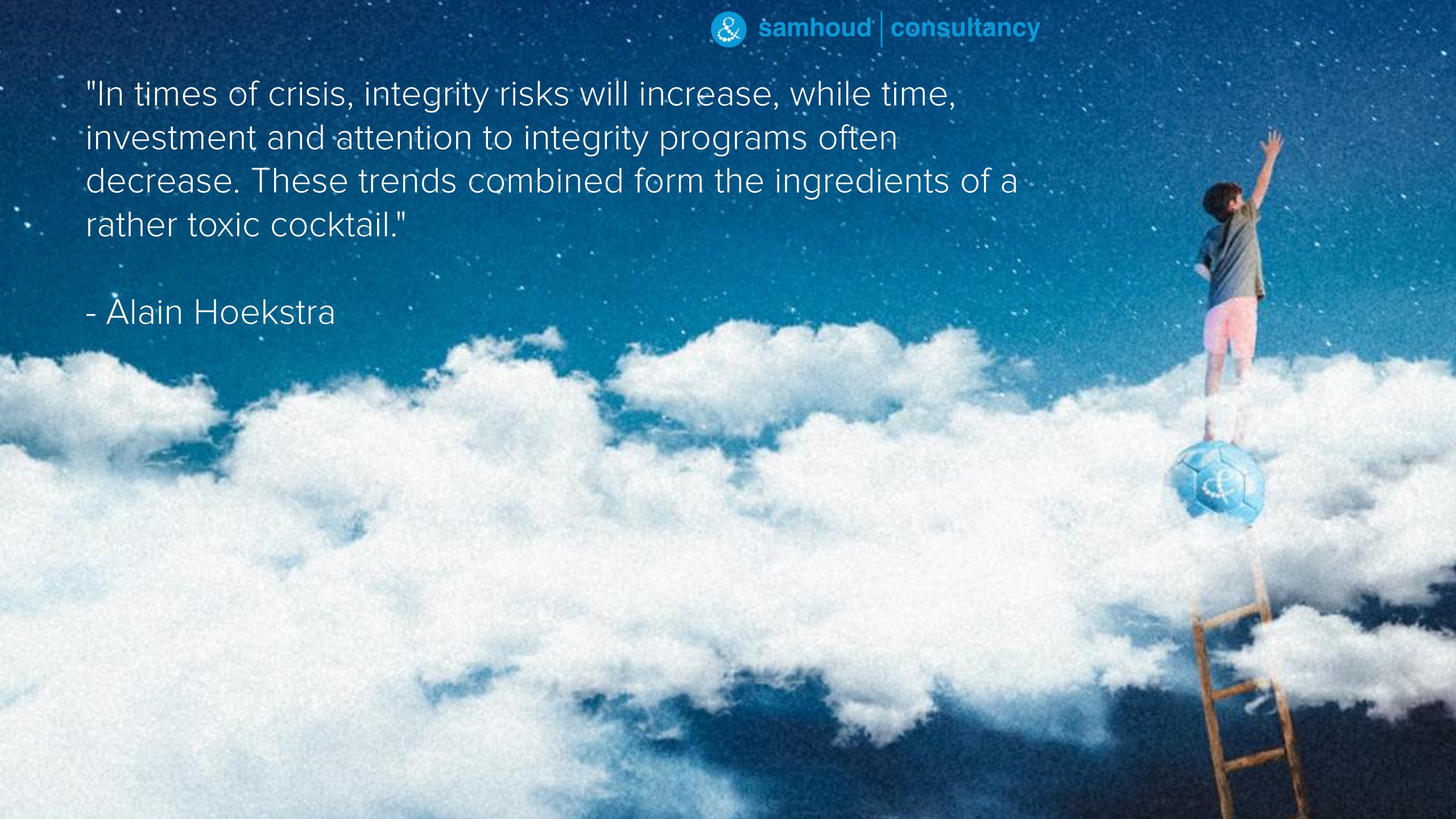
"My manager is so busy managing a crisis right now, that I am not going to interrupt by calling him with questions."

"We have to make a quick decision right now, so I will keep my opinion to myself"

"I have no idea what my team members are doing right now."

"In times of crisis, integrity risks will increase, while time, investment and attention to integrity programs often decrease. These trends combined form the ingredients of a rather toxic cocktail."

- Alain Hoekstra



Crisis impacts...

Decision-making

Employees

Leaders

Integrity and risk functions



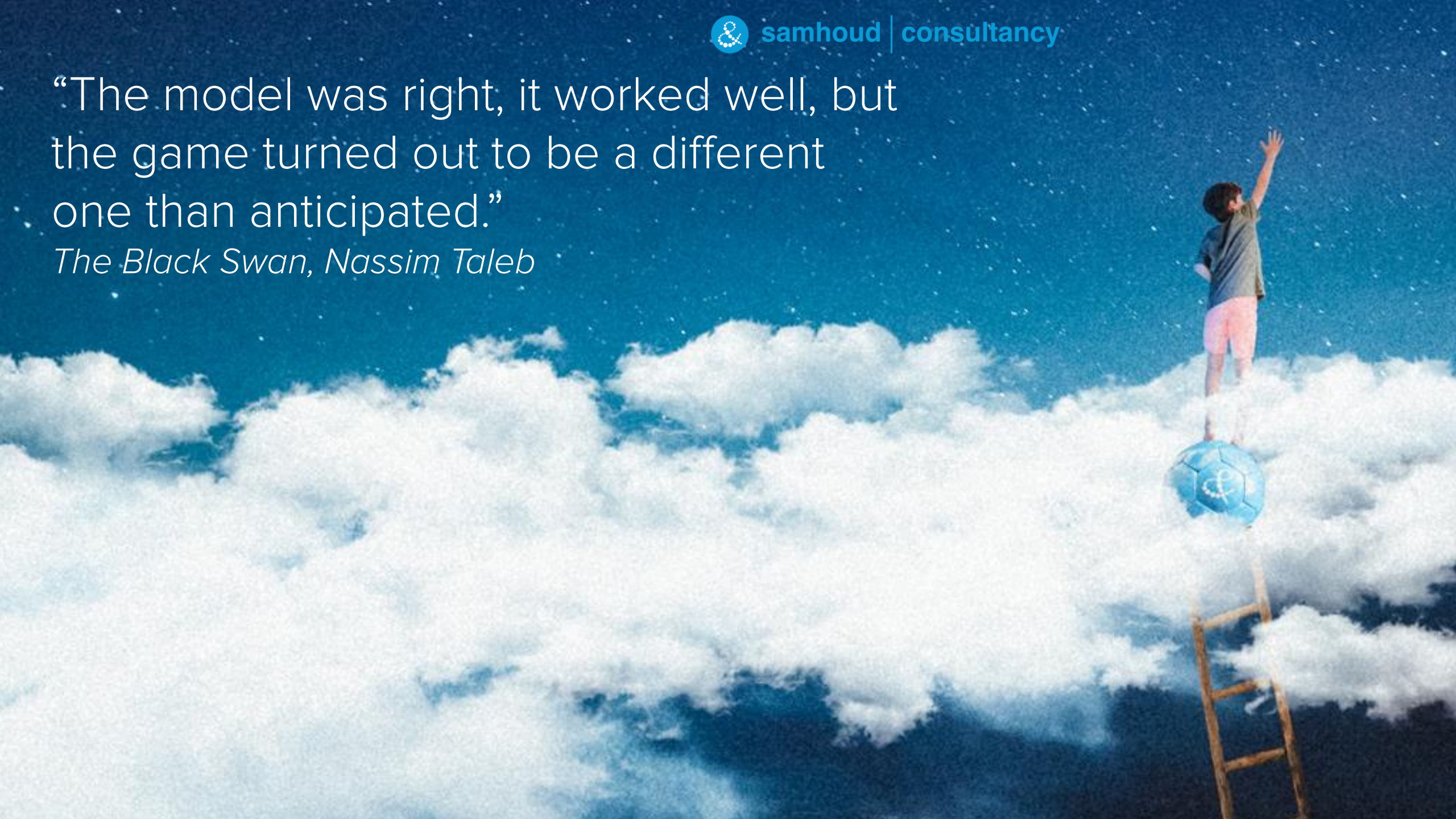
1. The impact of crisis on decision-making (1/3)

- High pressure and limited time ('hot state decision making')
- More prone to make risky decisions, with an increased focus on short-term impact ('present bias')
- 'Cognitive strain'
- Working from home:
 - No more 'social cues'
 - Fewer dissenting opinions



“The model was right, it worked well, but the game turned out to be a different one than anticipated.”

The Black Swan, Nassim Taleb



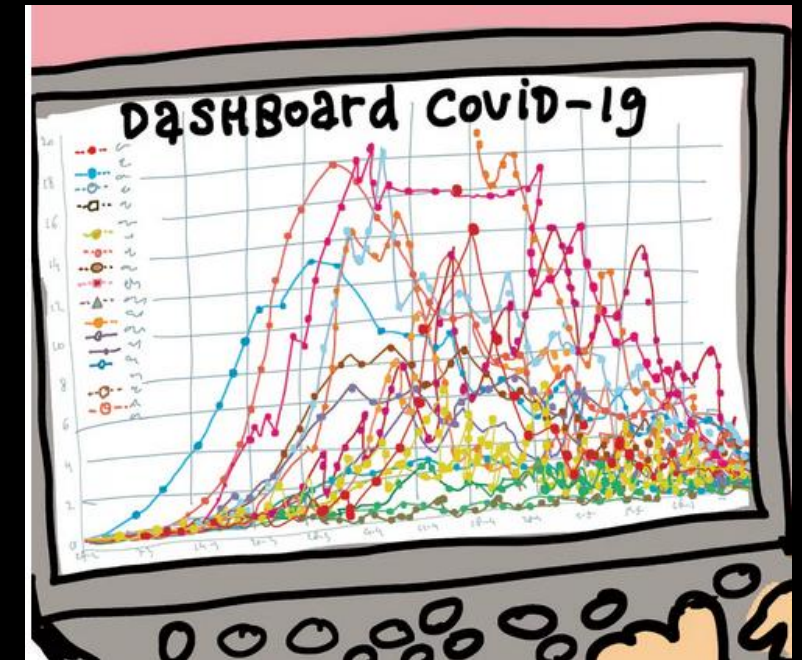
1. The impact of crisis on decision-making (2/3)

- Increased economic pressure, stress and insecurity. Reduced focus on other interests
- It gets harder to recognize “what doing right” is
- Increased risk that ethical norms disappear (*ethical fading*) and (risky) decisions get justified (*moral justification*)



1. The impact of crisis on decision-making (3/3)

- The tendency to gather as much information as possible to tackle uncertainties
- "Illusion of control"
- Overestimating known risks and underestimating unknown risks
 - Recent information is weighted more heavily
 - Static instead of dynamic insight into risks
- Dashboards as an important part of steering information, but not enough to represent complex reality



*“If culture is the way things are done around here,
what happens when there is no ‘here’ anymore.”*

from Conduct, culture and Covid-19, Financial Conduct Authority



- Increased psychological distance between employees:
 - Risk of in- and outgroup thinking
 - Less identification with organisational values and more with own social environment
 - Reduced sense of personal accountability
- Less frequent (informal) moments of contact/less social cues



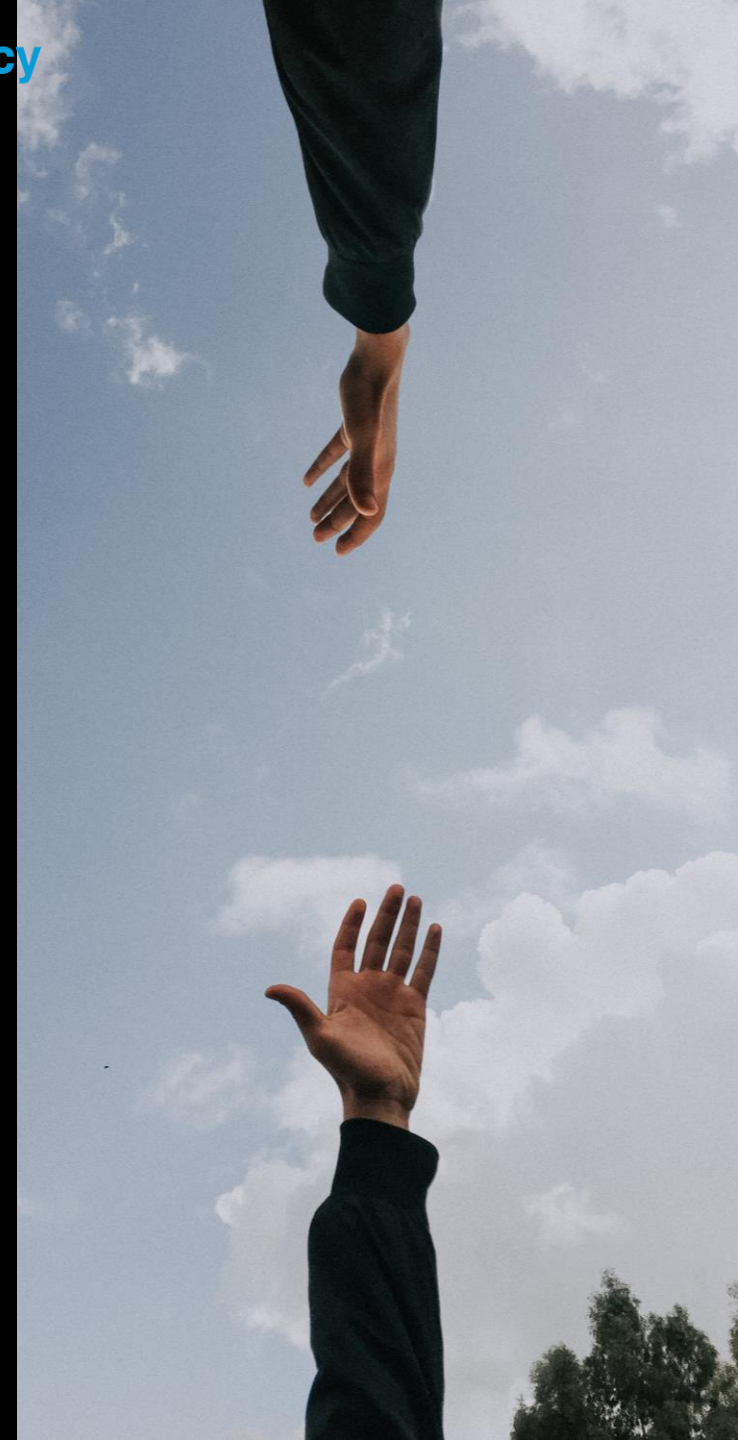
2. The impact of crisis on employees (2/2)

- Increased insecurity about the job/set goals
 - Not discussing mistakes openly/ afraid to report sickness (“speak up”) > increased feeling of solidarity
 - Feelings of injustice (especially in cases of certain groups being treated differently + uncertainty)



3. The impact of crisis on leaders

- Psychological and physical distance between leaders and employees increases
- Tendency to do “something” in order to keep things under control (*action bias*)
- Rely on a small group of trusted employees
- Increased tendency for directive leadership > effect on psychological distance



When leaders set the stage by reminding people of the uncertainty that lies ahead, they help people feel more free to speak up with crazy ideas and failures alike.

Normalizing uncertainty makes it easier for everyone to talk about it.

Amy Edmondson
Professor of Leadership at Harvard Business School.



4. The impact of crisis on safety, integrity and risk functions (1/2)

- Crisis leads to new risks but monitoring and monitoring tools don't adapt accordingly
- Enlarged physical and psychological distance between risk-functions and other employees > impact on accountability



4. The impact of crisis on safety, integrity and risk functions (2/2)

- Increased feeling of solidarity with colleagues> it becomes more difficult to address integrity issues
- Toning down the relevance of own job or rules
- Risk of (regulatory) forbearance



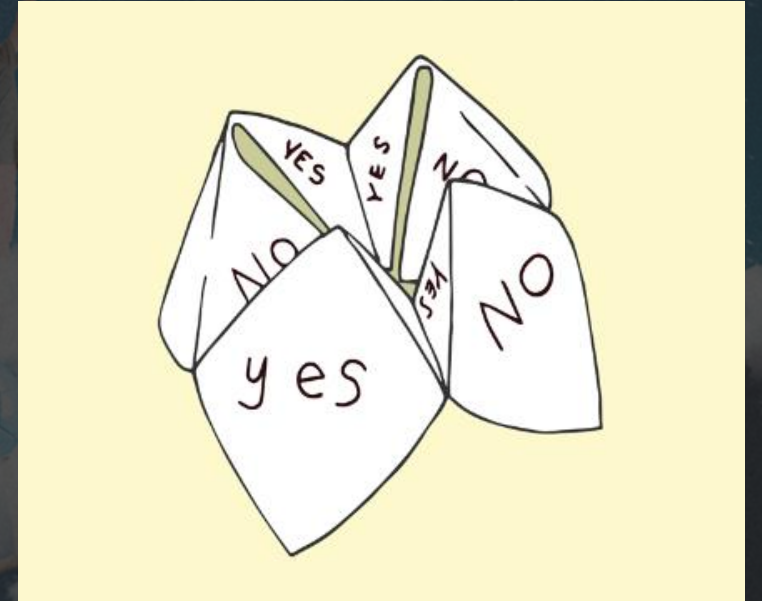


PRACTICAL ADVICE FOR LEADERS



Practical advice: decision making

- Organize countervailing power
- Point out a 'digital' devils advocate
- Articulate opposing views and opinions, create enough space for discussion
- Develop different scenario's and perform a pre-mortem
- Use dashboards wisely



Practical advice: in relation to employee management

- Create psychological safety
- Emphasize shared goals
- Take a critical look at targets

Example of psychological safety scan

Rate the questions on a scale from 1-7

1. People at this organization are able to bring up problems and tough issues.
2. I feel safe to take a risk in this organization.
3. It is difficult to ask other members of this organization for help.
4. No one at this organization would deliberately act in a way that undermines my efforts.
5. Working with members of this organization, my unique skills and talents are valued and utilized.
6. If I make a mistake at this organization, it is often held against me.
7. People at this organization sometimes reject others for being different.

Practical advice: in relation to leaders

- Take enough time to reflect
- Encourage ownership + psychological safety
- Delegate responsibility
- Don't be afraid to share uncertainties



Practical advice: in relation to risk and compliance

- Renew risk analysis (take into account behavioural risk in crisis)
- Adapt monitoring
- Emphasize shared goals
- Make risk/compliance more visible (e.g. personal message from compliance department)



“As a leader, you have the ability to say what the team is feeling.”





**Solving strategic challenges
through the behaviour of people**