# Towards a Socio-Behavioural Model of People Risk Management in Banks

13

B. Ashok | Shomi Srivastava

## 13.1. Introduction

Basel Committee on Banking Supervision defines Operational Risk in the capital framework "as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events" (BCBS, 2021). People risk is a subset of operational risk in banks. Reserve Bank of India (RBI, 2021) lists internal and external frauds with certain activity examples. Internal fraud is defined thus "Losses due to acts of a type intended to defraud, misappropriate property or circumvent regulations, the law or company policy, excluding diversity/discrimination events, which involves at least one internal party". This definition takes into account the 'loss events' and not the people behind such events. The current discourse on risk management tends to be people-neutral and narrow in its methods. The regulators' emphasise on the importance of developing a 'risk culture' within the organisations. "Organizational culture represents the collective values, beliefs and principles of organizational members" (Ravasi and Schultz, 2006) and Allaire and Firsirotu,1984). No meaningful discussion on organisational culture, therefore, is possible by limiting the explorations to the people-neutral risk models in vogue.

This chapter discusses the socio–behavioural factors influencing culture by drawing from the contemporary scholarship on behavioural drivers of misconduct. The inferences are examined in the context of people risk and culture. The chapter tries to explore the possibilities of developing a conceptual framework informed by the socio-behavioural dynamics of people risk. The chapter thus aims to participate in the ongoing debate on People Risk Management in banks.

## 13.2. Conduct Risk, Misconduct and People Risk: Understanding the Concepts

BCBS's definition of Operational Risk (*op.cit.*) could be paraphrased, by placing people at its nucleus, as 'the risk of loss resulting from inadequacy and failure of people'. This explanation would, perhaps, help us to place the concept of 'people-risk' in relation to 'misconduct'.

'Conduct Risk' is a new addition to the risk lexicon. It nonetheless leaves an open ended question as to what constitutes, and are the causes of, such a risk. Though there is no universal definition of conduct risk, there appears to be a general consensus to explain it as "any action of a regulated firm *or individual* (emphasis by the authors) that leads to customer detriment or has an adverse effect on market stability or effective competition". The Five Conduct Questions (5CQ) programme of the Financial Conduct Authority (FCA), UK (FCA, 2020) and its periodical reports certainly help us to understand the framework of conduct risk in financial sector at large.

FCA report for 2019-20 on the 5CQ programme (FCA, 2020) *inter alia* speaks about 'Culture, Safety and Leadership' as key priority areas to be addressed. Our discussions on People Risk need to draw considerably from this discourse as misconduct of individuals constitute or lead to misconduct on the part of the organisations.

Misconduct is not a new concept for organisations. Though the term has not been defined in any of the statutes in India, many courts have cited the definitions from 'Stroud's Judicial Dictionary', 'Black's Law Dictionary' and other texts like 'P. Ramanatha Aiyar's Law Lexicon' etc. The judgment of Allahabad High Court (2007) in Dhirendra Singh Vs The Collector, Kanpur Dehat, for example, cites the following:

"Misconduct' has been defined in Black's Law Dictionary, Sixth Edition at page 999 : "A transgression of some established and definite rule of action a forbidden act, a dereliction from duty, unlawful behavior, wilful in character, improper or wrong behavior, its synonyms are misdemeanor, misdeed, misbehavior, delinquency, impropriety, mismanagement, offence, but not negligence or carelessness.""

"P. Ramanatha Aiyar's Law Lexicon, Reprint Edition 1987 at page 821 defines 'misconduct' thus: "The term misconduct implies a wrongful intention, and not a mere error of judgment.""

"...definition of misconduct in Stroud's Judicial Dictionary .... runs as under:

"Misconduct means, misconduct arising from ill motive; act of negligence, errors of judgment, or innocent mistake, do not constitute such misconduct.""

In personnel management terminology misconduct however has quite a narrow explanation, which could be delineated on these lines: 'Employee misconduct is a deliberate violation of a written or implied employee policy'.

Both these explanations are *post-facto* approaches where the objective apparently is to address misconduct through a quasi-judicial disciplinary process.

In the context of People Risk management, nonetheless, the whole focus is on addressing possible occurrence of individual misconduct within organisations. Stephanie Chaly et al (2017) offers a clear definition of misconduct from the perspective of risk management, highlighting the "potential for behaviours" that are "illegal, unethical, or contrary to a firm's stated beliefs, values, policies and procedures." The focus here shifts from *post-facto* to *ex-ante*. While illegality of misconduct gets, in retrospect, addressed through the disciplinary process, the potential for unethical behaviour continues to be a cause of concern.

### *Definition of People Risk*

Blacker and McConnel (2015) explain people risk as misdeeds or mistakes of people resulting in "considerable financial loss to the firm". Their reference to people include both internal and external people. Loss, in their view, is not just financial but also includes "loss of corporate reputation" etc., Nevertheless, they offer a crisp definition of People Risk by explicating the BCBS 's definition of Operational Risk for the "subset of People Risk as *the risk of loss due to the decisions and non-decisions of people inside and outside of the organisation*".

Loss events due to the misdeeds of internal people, technically, get identified and recorded as instances of misconduct as per the disciplinary framework within organisations. People-risk and Misconduct Risk are therefore used synonymously in this chapter.

## 13.3. Socio-behavioural Approach to Misconduct Risk

When it comes to behavioural factors behind People Risk, the focus is on the individual who commits misconduct. What could be the psychological and sociological underpinnings of such a delinquent and unethical behaviour?

Gino (2015) highlights the "gap between the decisions people actually make versus the decisions they believe they should make" and refers to the transdisciplinary approach— from social psychology and philosophy to management and neuroscience — to understand the behaviour of people inconsistent with "their own" ethical standards or moral principles.

Merete Wedell-Wedellsborg (2019) puts forward three psychological dynamics that lead to unethical behaviour, such as: 1. Omnipotence: Characterised by a sense of aggrandisement and entitlement leading to the belief that the "rules of decent behaviour don't apply to them". 2. Cultural numbness- Marked by insensitivity towards and gradual acceptance of deviant behaviour of others. 3. Justified neglect- when people do not question unethical behaviours and seek short-term rewards one could expect by being close to the powers that be.

## 13.4. Is Individual Unethical Behaviour a Personality Construct?

Could it be that people risk is a personality disposition? When we characterize people risk as a personality construct, it emphasizes that irrespective of circumstances, people with certain types of personality are risky to organizations. The advocates of the view called risky people as "bad apples." A literature review leads us to certain personality traits like self-monitoring, Machiavellianism, psychopathy etc. as risky personality traits. Machiavellianism (Mach) is a personality trait marked by one's drive to gain power by distrusting, manipulating and seeking control over others. (Dahling, Whitaker, & Levy, 2009: 219). Employees high in Mach are "quite disruptive to the effective functioning of organizations" (Dahling et al., 2009; Kessler, Bandelli, Spector, Borman, Nelson, & Penney, 2010; KishGephart, Harrison, & Treviño, 2010; O'Boyle, Forsyth, Banks, & McDaniel, 2012). Extant research for instance observes that empoloyees with Mach trait are "more likely to steal" (Fehr, Samson, & Paulhus, 1992; Harrell & Hartnagel, 1976), "economically opportunistic" "less cooperative (Sakalaki, Richardson, & Thepaut, 2007), and "have lower job satisfaction and higher turnover" (Fehr et al., 1992; Wilson, Near, & Miller, 1996). There are certain meta-analyses establishing the relationship between high Mach traits and "unethical and counterproductive work behaviors" (Kish-Gephart et al., 2010; O'Boyle et al., 2012). At the same, another personality construct known as self-monitoring has been observed as having positive correlation with people risk. As Gangestad and Snyder (2000) observed, expressive control may be an essential component in "illicit social activities" like lying, hidden intentions, or false representation of oneself etc., Further, Rauthmann (2011) found that the "protective and acquisitive aspects of self-monitoring are both related to the so-called Dark Triad— Narcissism, Psychopathy and Machiavellianism (Paulhus & Williams, 2002)—a group of traits that have in common a tendency to manipulate and exploit others for the pursuit of selfish gains". In addition to this, Lee and Ashton (2005) observed the substantial relationship between "Honesty-Humility" and "each of the Dark Triad traits, with correlations ranging from .53 (Machiavellianism) to .72 (psychopathy)". Lee, Ashton, Wiltshire, Bourdage, Visser, and Gallucci (2012) also "demonstrated that the core variance of the Dark Triad variables can be accounted for by low Honesty-Humility".

## 13.5. Cognition- Motivation Model of Unethical Behavior in Organizations

Fiske and Taylor (1991) introduce the term "cognitive miser" to deal with automaticity in people attribution or behaviour. People don't want to take trouble to collect information, analyse information (to think). Categorization and stereotypic association are relatively automatic, more so than lay people think.

Later, motivation component is also added to explain people misconduct in organizations. According to motivation model, these acts (agent) and attributions (target) are less automatic than people all thought. A variety of motivation can intervene at surprisingly early stages in the process. People are cognitive misers but motivated tacticians, using pragmatic strategies. So people do not have to engage in automatic, implicit prejudice, if sufficiently motivated. People for, impressions by a continuum of processes, moderated by information and motivation.

The cognition- motivation synthesis predicts ordinary people-risk related behaviour. For risky people behaviour in organizations, we must be careful not to equate "cognitive" with inevitable, and motivation with "controllable."

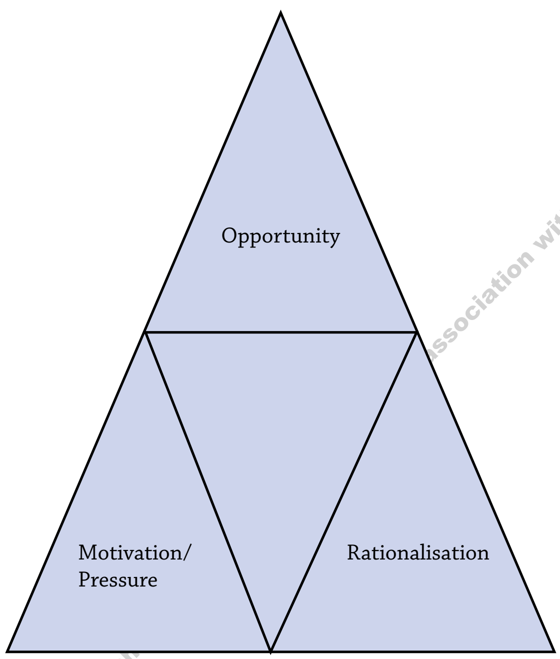
While examining how 'unintended thought and social motivation create casual prejudice' Fiske (2004) argues against blaming unethical behaviour on a few 'bad apples' and asks not to ignore motivation. Unethical behaviour "depends on both motivation and cognition". Gino (2015) discusses situational and social forces as antecedents to unethical behaviour.

## 13.6. Towards a Socio-behavioural Exegesis of Misconduct

Though the model was put forward seventy years back, Cressey's Hypothesis (1953) which is also known as 'the fraud triangle' continues to be relevant to explain misconduct. Donald Cressey's training in sociology which lead to his interest in criminology and penology gave us this insightful model which enables us to examine fraudulent behaviour by people in organisations. The triangle considers three dimensions of fraudulent behaviour, which are: 1. Motivation or pressure; 2. Opportunity and 3. Rationalisation. (Figure: 13.1.)

**FIGURE 13.1**

**Cressey's Fraud Triangle**




*Source:* Cressey (1953).

Pressure is the motivation behind committing a fraud which could be personal financial pressures, pressure from the superiors or the combined effect of both. The pressure leads to the individual looking for opportunities within the organisation which could be either intended or unintended (Perhaps due to some failed process or systems, we can infer now, in the light of the discussions on Operational Risk). The last element of the triangle, the fraudulent individual trying to rationalise the act of fraud is complex phenomenon with its socio-behavioural roots. The fraudulent person might not consider him or her as a criminal. They would, rather, try to justify the act of fraud by explaining the situation as they perceive it.

The enduring importance of the fraud triangle, however, is not free from criticism. Albrecht (2009) questions its 'one dimensional psychological analysis of the initial perpetrator of fraud'. Donegan and Ganon (2008) challenges its 'limiting effect on fraud research' as the model ignores other factors that contribute to fraud. Trompeter, Carpenter, Desai, Jones and Riley (2013) criticises the model as it assumes single individual acts alone while ignoring group dynamics.

While examining the relevancy of Cressey's hypothesis in the context of financial crimes Huber (2017) observes how the many-sided and interrelated nature of fraud and other financial crimes makes it hard to arrive at an "unidimensional causal theory". Cieslewicz (2012); Morales, Gendron and Guénin-Paracini (2014); and Lokanan (2016) also highlight the need for expanding the fraud model by incorporating social, cultural and economic dimensions. Free, Macintosh and Stein (2007) argue to include organisational factors as well.

Huber (2017) expands the discussion by suggesting certain definite factors of relevance in the context of financial frauds, which are:

- Personal factors including individual psychological factors
- Organisational factors; including internal controls, organisational hierarchy and 'tone at the top'
- Legal/ Regulatory environment of the organisation
- Economic regime
- Political regime
- Cultural dimensions
- Sociological factors

Though it is difficult to find an universal definition of financial crime, statutes like the Financial Services and Markets Act 2000, UK categorises it as (Section 1H):

"any kind of criminal conduct relating to money or to financial services or markets, including any offence involving-

(a) fraud or dishonesty; or

(b) misconduct in, or misuse of information relating to, a financial market; or

(c) handling the proceeds of crime; or

(d) the financing of terrorism;"

Financial crime may not be exactly interchangeable with white collar crime, corporate crime, occupational crime etc., However, it wouldn't be difficult to list a range of criminal offences under the term, like:

- Fraud (Corporate/ Banking/ Insurance/ Securities/ Intellectual Property frauds)
- Cyber crimes
- Money Laundering/ Terrorist Financing etc.
- Bribery/ Corruption
- Market abuse/ insider trading etc., etc.,

Though the discussions on people risk management in banks do acknowledge the importance of understanding the above offences, the current discourse needs to be expanded by including the socio behavioural dynamics of misconduct.

Sudhir Chella Rajan (Rajan, 2020) in his 'deeply informed' book, as Arjun Appadurai rightly observes in its blurb, "brings the sweep of history and transdisciplinary wisdom to bear on corruption, one of the perennial puzzles of human sociality". Rajan (p.73) puts forward the need for a sociological view of corruption "because focusing only on the individual criminal would result in being oblivious to entirely different orders and patterns of corruption."

While addressing the issue of misconduct risk / people risk the being faced by banks in recurring instances of financial crimes like corruption, such a transdisciplinary approach is essential lest we tend to reduce the whole construct to statistically observable variables and respond to it through narrow financial remedies like additional capital charge etc.,

As discussed earlier, the basic unit of consideration in the discussion on people risk being the individual who commit misconduct, it wouldn't be out of place to recall Marx's conception of human nature that "the essence of man is no abstraction inherent in each single individual. In its reality, it is the ensemble of the social relations." (Marx, 1845). In our context, the social relations within organisations need to be analysed and understood to make sense of the abstraction inherent in individual misconduct.

## 13.7. Social and Interpersonal Dynamics of Unethical Behaviour and the Role of Organisations

Organizational members are, often, really not aware of being unethical to their organization. Gino & Bazerman (2009) suggested that when people's risky behaviour change slowly or steadily from right to wrong side of the code of conduct, it is difficult to interpret or recognize the risky behaviour of an employee, rather than abrupt swing from conduct to misconduct. Ariely & Jones (2012) suggested that it is a reason- the slow shift- the first dis-honest act is most important to prevent so that it doesn't change from an un-intentional risky behaviour to habitual risky behaviour. There should be a deterrent penalty for the first un-intentional risky behaviour as deterrent penalty goes deep in the mind of employees.

As regards organizational risky behaviour, according to Cialdini, Kallgren, & Reno (1991), social norms play an important role with mediation of social context. People take a clue from others behaviour or actions in relation to their behaviour in organization and in society. Gino et al. (2009) coined a term "contagious effect." Risky behaviour spreads like a contagion.

Empirical evidence have suggested the strong correlation between people-risk (unethical behaviour) and goals (target setting) within the organization (Moore & Gino, 2013). Research indicates that imposing targets on people increased incidents of risky behaviour (Schweitzer, Ordonex, & Douma, 2004; Shah, Friedman, & Krugnanski, 2002).

Williams (2020) emphasises on the role of organisational culture by observing that "illicit and unethical behavior is rarely the result of an isolated 'bad apple.' It's more often the symptom of a rotten culture. And rotten cultures don't appear overnight—nor for that matter do positive, inclusive ones, where people feel empowered and accountable to upholding the values of the organization. Culture is created—intentionally or otherwise—by the structures, incentives, and behavioural norms that shape our working lives."

When it comes to culture, Williams (2020, p.3) encourages "everyone to look beyond their own lens of expertise." He acknowledges that the "Fed couldn't do its work without the deep knowledge of economists, lawyers, and statisticians." At the same time he concludes that "the solutions to challenges related to a firm's culture are unlikely to be found if we keep our focus narrowly trained on our own specialties. We have so much to learn from experts in psychology, ethics, and management."

**FIGURE 13.2**

**IRM's Risk Culture Framework**


*Source*: IRM (2012).

Institute of Risk Management (IRM, 2012) illustrates multiple interactions that lead to risk culture in organisations. The framework explains that "at the lowest level, each individual's personal predisposition to risk contributes to their ethical stance, how they behave and make decisions. Group behaviours and the underlying organisational culture also influence risk culture." (Figure: 13.2)

While the framework attempts to simplify the interactions and the interventions one could think of in respect of them, it also makes it clear how complex it would be to develop risk culture in organisations.

## 13.8. FSB Toolkit

The tool kit for firms and supervisors for 'Strengthening Governance Framework to Mitigate Misconduct Risk' (FSB, 2018) brought out by Financial Stability Board (UK) is of immense conceptual and practical importance in the context our discussions on People Risk Management.

The toolkit, though not envisaged as a recommendation for any particular approach, needs to be discussed in detail, especially since the body of work was used by us to seek empirical responses from a number of middle to senior level bankers in India.

The toolkit addresses three broad themes, which are:

1. Mitigating cultural drivers of misconduct; (Tools 1 to 7)
2. Strengthening individual responsibility and accountability (Tools 8 to 12); and
3. Addressing the rolling bad apples phenomenon (Tools 13 to 19).

Under each of the themes, the 'tools' are offered for 'Firms' as well as 'National Authorities', indicating clearly that firm level interventions should also be supported by national authorities to develop meaningful misconduct risk mitigation strategies.

The following Tables (Tables 13.1 to 13.3) list all of the 19 tools under the three themes.

While explaining the cultural drivers of misconduct, FSB document (p.8) lists the "influential elements of culture" as follows:

- "The leadership of a firm, which sets the organisation's direction and the tone from the top and thus, through role modelling, influences the behaviour of staff;"

**TABLE 13.1**
**Tools for Mitigating Cultural Drivers of Misconduct**

| *Theme/Tools* | *"Mitigating cultural drivers of misconduct"* |
|---|---|
| | *"Firms"* |
| "Tool-1" | "Senior leadership of the firm articulate desired cultural features that mitigate the risk of misconduct." |
| "Tool-2" | "Identify significant cultural drivers of misconduct by reviewing a broad set of information and using multidisciplinary techniques." |
| "Tool-3" | "Act to shift behavioural norms to mitigate cultural drivers of misconduct" |
| | *"National Authorities"* |
| "Tool-4" | "Build a supervisory programme focused on culture to mitigate the risk of misconduct." |
| "Tool-5" | "Use a risk-based approach to prioritise for review the firms or groups of firms that display significant cultural drivers of misconduct." |
| "Tool-6" | "Use a broad range of information and techniques to assess the cultural drivers of misconduct at firms." |
| "Tool-7" | "Engage firms' leadership with respect to observations on culture and misconduct." |

**TABLE 13.2**
**Tools for Strengthening Individual Responsibility and Accountability**

| *Theme/ Tools* | *"Strengthening individual responsibility and accountability"* |
|---|---|
| | *"Firms and/or National Authorities"* |
| "Tool-8" | "Identify key responsibilities, including mitigation of the risk of misconduct, and assign them." |
| "Tool-9" | "Hold individuals accountable" |
| "Tool-10" | "Assess the suitability of individuals assigned key responsibilities." |
| | *"National Authorities"* |
| "Tool-11" | "Develop and monitor a responsibility and accountability framework." |
| "Tool-12" | "Coordinate with other authorities" |

**TABLE 13.3**
**Tools for Addressing the Rolling Bad Apples Phenomenon**

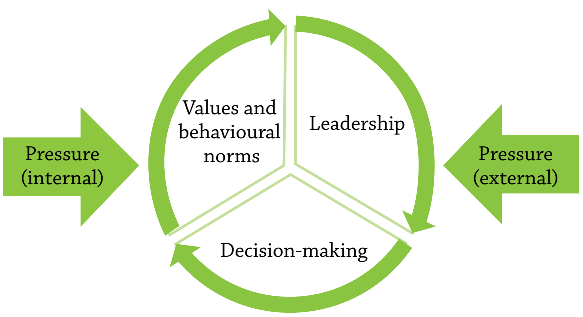
| *Theme/Tools* | *Addressing the rolling bad apples phenomenon* |
|---|---|
| | *Firms* |
| "Tool-13" | "Communicate conduct expectations early and consistently in recruitment and hiring processes." |
| "Tool-14" | "Enhance interviewing techniques." |
| "Tool-15" | "Leverage multiple sources of available information before hiring." |
| "Tool-16" | "Reassess employee conduct regularly." |
| "Tool-17" | "Conduct "exit reviews"" |
| | *"National Authorities"* |
| "Tool-18" | "Supervise firms' practices for screening prospective employees and monitoring current employees." |
| "Tool-19" | "Promote compliance with legal or regulatory requirements regarding conduct-related information about applicable employees, where these exist." |

- "The decision-making process, including how decisions are made, challenged and communicated;" and
- "The values and behavioural norms of the firm, which collectively reflect and support the firm's purpose and its activities."

"Pressures that contribute to the occurrence of misconduct" influencing Risk Culture are given in Figure 13.3.

**FIGURE 13.3**

**Elements of Culture (FSB, 2018)**




Further to the above model, FSB document tabulates the key cultural drivers of misconduct as under (Table13. 4):

## 13.9. Perception Analysis – Qualitative Responses from Bank Executives

An exploratory survey in conversational mode through semi structured one-to-one interviews among a number of bank executives, primarily from the Public Sector Banks in India. The firm level tools (Upto Tool No.17) and the Key Cultural Drivers of Misconduct as elucidated in the FSB document were used for the exploratory survey. The target group were bank executives from Scale –IV (Chief Manager) and above, up to the level of GMs and CGMs. Given the sensitive nature of the issues being discussed and the obvious reluctance from the target group to put their views in black and white by way of responding to a questionnaire, we employed

**TABLE 13.4**

**Key Cultural Drivers of Misconduct**

| *Leadership* | *Decision-making* | *Values and behavioural norms* |
|---|---|---|
| • "Lack of accountability for misconduct"<br>• "Lack of attention, skills and knowledge regarding misconduct risk"<br>• "Domineering leadership style"<br>• "Mismatch between leaders' words and actions (e.g. not leading by example)"<br>• ""Tone from the middle" inconsistent with the tone from the top"<br>• "Mindset/ambition that does not take account of all relevant stakeholders, including customers, markets and society"<br>• "Failure to resolve staff engagement issues"<br>• "Lack of will to cooperate or to share information" | • "Failure to resolve competing priorities"<br>• "Lack of challenge and debate"<br>• "Confusion regarding strategy or risk appetite"<br>• 'Weak connections between leadership levels"<br>• "Poor communication"<br>• "Decision-making dominated by the business lines"<br>• "Lack of diversity and inclusion, resulting in "groupthink"" | • "Normalisation of misconduct"<br>• "Lack of psychological safety within the firm"<br>• "Reluctance to accept bad news<br>• Limited adverse consequences for misconduct"<br>• "Ineffective identification of, and response to, errors"<br>• "Lack of transparency upwards" |

the one-on-one interview method for our analysis. The process was spread over almost a year and the qualitative responses from about 120 bank executives were obtained. The interviews were exclusively based on the firm level tools suggested by FSB and the key cultural drivers identified in the tool kit.

Our inferences based on inductive reasoning drawn from the exploratory conversations are tabulated below (Table 13.5A and 13.5B)

**TABLE 13.5 A**

**Survey Results and Inference: Firm Level Tool Kit**

| *Theme/ Tools* | *"Mitigating cultural drivers of misconduct"* | *Whether identified as relevant/ important in their organisational context* | *Specific and significant observations* | *Inductive inferences of the authors* |
|---|---|---|---|---|
| "Tool-1" | "Senior leadership of the firm articulate desired cultural features that mitigate the risk of misconduct." | Identified by majority of interviewees as extremely important. | ---- | The senior level respondents were observed to be more in favour of this. They however were not sure as to how this could be achieved. |
| "Tool-2" | "Identify significant cultural drivers of misconduct by reviewing a broad set of information and using multidisciplinary techniques." | Most of the interviewees did not respond. | Not clear about the idea. May be relevant for Risk Management function. | May be a reflection of the organisational knowledge/capabilities, which tend to treat the issues of people and culture as secondary. |
| "Tool-3" | "Act to shift behavioural norms to mitigate cultural drivers of misconduct" | Very important. | Banks need to communicate behavioural norms, which are quite different from the employee code of conduct.<br><br>Behavioural expectations must be positively worded. | Though the importance of this tool has been universally identified, the respondents were quite clear about the absence of any such 'behavioural expectations' document within their organisations. |
| | "Strengthening individual responsibility and accountability" | | | |
| "Tool-8" | Identify key responsibilities, including mitigation of the risk of misconduct, and assign them. | Very important. | KRAs need to be redesigned. | The specifics of the tools need to be discussed and understood better. |
| "Tool-9" | "Hold individuals accountable" | Extremely relevant and important | The term 'accountability' has a negative connotation in banks. | The negativity attached to the term 'accountability' appears to be universal among the respondents. This needs to be addressed in right earnest by the top leadership. |
| "Tool-10" | "Assess the suitability of individuals assigned key responsibilities." | Highly important | ---- | The respondents by and large are sceptical about the practical application of the idea. It appears that the job-family concept existing in the banks needs to be re-visited. |
| | "Addressing the rolling bad apples phenomenon" | | | |

| *Theme/ Tools* | *"Mitigating cultural drivers of misconduct"* | *Whether identified as relevant/ important in their organisation-al context* | *Specific and significant observations* | *Inductive inferences of the authors* |
|---|---|---|---|---|
| "Tool-13" | "Communicate conduct expectations early and consistently in recruitment and hiring processes." | Important. | The recruitment process of PSBs (through IBPS) does not currently enable this. | Highlights the need for shifting the existing generic recruitment to a more skill based talent hiring process. |
| "Tool-14" | "Enhance interviewing techniques." | Important | -- Do -- | Supplements the inference on Tool-13. |
| "Tool-15" | "Leverage multiple sources of available information before hiring." | Important | Not possible with the current system of recruitment | -- do -- |
| "Tool-16" | "Reassess employee conduct regularly." | Very important | Need to move away from the conventional appraisal system. | Highlights the need for re-visiting the existing PMS and HR policy of banks in the context of business strategy, risk & talent. |
| "Tool-17" | "Conduct "exit reviews"" | Important. It is already in practice through Exit Interviews | May be the Exit Review formats need to be revised to capture relevant information | Supplements the inference on Tool-16. |

**TABLE 13.5 B**

**Survey Results and Inference: Key Cultural Drivers of Misconduct**

| | *Leadership* | *Whether identified as relevant/ important in their organisational context* | *Specific and significant observations* | *Inductive inferences of the authors* |
|---|---|---|---|---|
| | "Lack of accountability for misconduct" | Not significant/ relevant | ---- | The existing system of Disciplinary Action within the organisations and the vigilance oversight through CVOs ensure accountability and address misconduct |
| | "Lack of attention, skills and knowledge regarding misconduct risk" | Relevant | ---- | People risk management as a strategic imperative needs to be embedded in all aspects of business |
| | "Domineering leadership style" | Extremely important. | Many people have landed in trouble because of this. | This view has been universally spread across most of the respondents. The issue of having 'bullying bosses' need to be seriously looked into by the top management. Introduction of Behavioural Expectations as discussed under Tool-3 is relevant here as well. |
| | "Mismatch between leaders' words and actions (e.g. not leading by example) " | Relevant | ---- | Supplements above inference |
| | "Tone from the middle" inconsistent with the tone from the top | Very important. | ---- | Supplements above inference |
| | "Mindset/ambition that does not take account of all relevant stakeholders, including customers, markets and society" | Extremely relevant and important | People by and large are not oriented towards this. | Supplements above inference |

| | *Leadership* | *Whether identified as relevant/ important in their organisational context* | *Specific and significant observations* | *Inductive inferences of the authors* |
|---|---|---|---|---|
| | "Failure to resolve staff engagement issues" | Highly important | ---- | Supplements above inference |
| | "Lack of will to cooperate or to share information" | Not significant | ---- | Supplements above inference |
| | Decision-making | | | |
| | "Failure to resolve competing priorities" | No significant response | -- Do -- | Supplements above inference |
| | "Lack of challenge and debate" | Important | Leaders need to be open minded to listen to other perspectives. | Supplements above inference |
| | "Confusion regarding strategy or risk appetite" | No significant response Important | Not clear | Supplements above inference |
| | "Weak connections between leadership levels" | No significant response | ---- | Introduction of Behavioural Expectations as discussed under Tool-3 is relevant here as well. |
| | "Poor communication" | No significant response | ---- | Supplements above inference |
| | "Decision-making dominated by the business lines" | Important | ---- | Business lines and Talent/ HR are perceived to be working in silos. This however could be a shared opinion, rather than an objective information. Nonetheless, communication channels between all verticals need to be strengthened. |
| | "Lack of diversity and inclusion, resulting in "groupthink"" | No significant response | ---- | As above |
| | Values and behavioural norms | | | |
| | "Normalisation of misconduct" | No significant response | ---- | May not be applicable in most of the cases. The presence of vigilance oversight, as already discussed, is quite significant in Indian PSBs. |
| | "Lack of psychological safety within the firm" | No significant response | --- | This needs to be addressed on top priority by HR and Top management. Quite a lot of anecdotal evidences are being cited by bank officers. |
| | "Reluctance to accept bad news" | Important | This appears to be the case with non-acceptance of fresh slippages (NPAs) | Quite universal response. Top management needs to address this effectively. |
| | "Limited adverse consequences for misconduct" | Not relevant | ---- | Already discussed. |
| | "Ineffective identification of, and response to, errors" | No significant response | ---- | As above |
| | "Lack of transparency upwards" | No significant response | ---- | Introduction of Behavioural Expectations as discussed under Tool-3 is relevant here as well. |

### *General Comments on the Inferences from the Analysis*

While most the interviewees could identify almost all of the tools as relevant at their firm level, the cultural drivers other than Leadership (Decision Making and Values & Behavioural Norms) did not receive significant responses. While it would be difficult to arrive at definite conclusions from such lack of responses, it appears clear that the concepts of people risk management, organisational culture and risk culture need to be disseminated more effectively within banks.

The critical observations on the inadequacy of the current hiring process of PSBs appear to be quite significant in the context of effective people-risk mitigation strategies.

Though the term 'bullying' was not used by any of the respondents, the observation on 'Domineering Leadership Style' as having adverse effects on the careers of many appears to be quite significant. This needs to be addressed by leaders in all seriousness in the interest of organisational and risk culture.

As regards tool no:2, which suggests to "identify significant cultural drivers of misconduct by reviewing a broad set of information and using multidisciplinary techniques", the interviewees were quite agnostic in their responses, so much so that a number of responses expressed their inability to comprehend the same. Similar response has been observed in all levels of leadership hierarchy who were interviewed by us.

We have observed defensiveness in public responses while conducting the survey. This calls for a more structured and designed research to elicit more objective responses.

## 13.10. Towards a Conceptual Framework for People-risk Analytics

Williams (2020, p.3) exhorts bankers and regulators "to learn from experts in psychology, ethics, and management" lest the "solutions to challenges related to a firm's culture", most likely, won't be found. Fiske (2004) concludes her examination of knowledge in the context of ethical behaviour thus:

"It's too soon to take practical lessons from neuroscience, except to admit that cognition, affect, and motivation do not separate in any tidy fashion, and all must be addressed in any interventions designed to encourage ordinary ethical behaviour. Constructive cognition can result only from the availability of appropriate information, ethical motivation can result from incentives or values, and adaptive affect results from the right combination of each. All these factors are knowable and controllable by policy-makers and managers, to encourage more ethical ordinary behaviour."

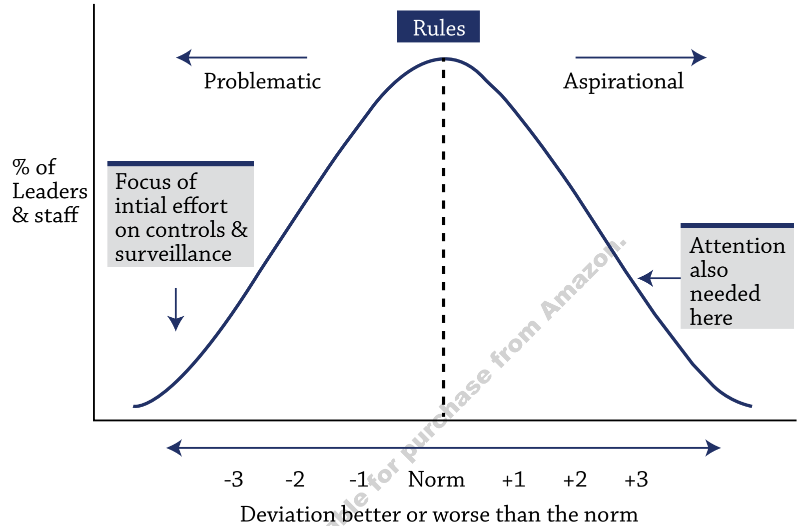
The key words here are 'knowable and controllable factors' which the policy makers and managers could use to encourage ethical behaviour. Let us try to understand this in the backdrop of the profoundly insightful words of Bertrand Russel quoted by Rajan (p.74) which goes as "what we cannot think we cannot think, therefore we also cannot say what we cannot think". Unless we expand our discourse by drawing from other branches of knowledge, our thoughts would get narrow and we cannot articulate what we cannot think.

The Actor Network Theory (ANT) which has its roots in Science and Technology Studies, in its simplified explanation, posits that 'for any actor to act, many others must act as well'. How the theory has been gaining traction among scholars interested organisational and communication studies is examined by Bencherki (2017). The possibilities of expanding our discussion on the multiple interactions summing up to organisational and risk culture (Figure:2) grow manifold with ANT. Rajan (2020) brilliantly draws from Bruno Latour, the original proponent of ANT, in examining the sociology of corruption.

Inter relatedness of enquiry, therefore, acquires greater significance in developing a conceptual framework for analysing people risk. Ontology, epistemology and methodology as we know offer an all-encompassing perspective on enquiry. The people-neutral discourse on risk management, however, has been driven by methodology which forms only a part of the knowledge continuum.

**FIGURE 13.4**

**Behaviour Curve (FCA, 2019)**




It is quite inspiring to note that some of the models of epistemology like hermeneutics, have been used by scholars to examine financial crimes and ethical issues. Hermeneutics is the study of interpretation, having its roots in exegesis of biblical texts. Hans-Georg Gadamer, the twentieth century German philosopher (1900-2002) developed the idea of philosophical hermeneutics in his 'Truth and Method' (1975). Gadamer speaks about "the impossibility of reducing truth to a set of research methods and the need for people's openness to dialogue with others" (Hovey, Rodriguez and Jordan, 2020). Gadamer's dialogical hermeneutics could be explained in the light of the examination of dialogics by Fairhurst and Putnam (2004). They explain it thus: "A dialogic perspective focuses on both "little d" and "big D" discourse, 'd'centering on language-in-use and 'D' spotlighting enduring systems of thought, feeling, and action that structure the way organizational members make sense of and act in their social worlds".

Howsoever abstract the theories of hermeneutics and dialogic hermeneutics appear to be, solid explorations rooted in real instances of financial crimes and fraud have been made by many scholars. Dion (2019), for example, explores the 'Gadamerian perspective on financial crimes'. Similarly, Hawkins and Schedlitzki (2019) conduct a "dialogic exploration of ethics in leadership through an ethno-narrative re-reading of the Enron case".

Dion (op. cit) explores the hermeneutics of silence and cites the "narrative strategy of silence" or the "no-wordness attitude" of business organisations. "The code of ethics" of Credit Suisse (Switzerland), for instance, though includes provision on "legal compliance", which they even defined it as an "ethical value", does not, however, "seem to grasp the nature of human values and their ethical import. Moreover, its code of ethics does not address insider trading, fraud, money laundering and corruption". The ramifications of this 'narrative strategy of silence' could be observed in the series of scandals involving the bank in the recent years.

The narrative strategy of silence or no-wordness attitude could as well be examined in the back drop of the 'behavioural curve' developed by FCA (2019). "The normal distribution curve depicts the range of individual behaviour from good to poor. The shape of the curve and the mid-point line are presented for discussion purposes only. The curve is not intended to reflect any observations on the actual proportions of people on one side of the curve or the other, ie we do not suggest that only 50% of people exhibit good behaviour. The dotted vertical line represents generally accepted rules such as social mores, corporate policies & procedures, the FCA handbook and company law" (Figure: 13.4).

The narrative strategy of silence could be used to do a what if analysis of the behaviour curve. If the dotted vertical curve in the middle is not there? i.e. How would the curve look like had there been a no-wordness attitude within the organisation in respect of code of ethics or behavioural expectations? In all probability, the shape we would get might be like an amorphous cloud, which would lead us nowhere.

## 13.11. Conclusion

As discussed under the inferences from the exploratory survey conducted based on the FSB tool kit, most the interviewees identified almost all of the tools as relevant at their firm level. The cultural drivers other than Leadership (Decision Making and Values & Behavioural Norms), however, did not receive significant responses. Does it not point to the organisational ineffectiveness in disseminating the concepts of people risk management, organisational culture and risk culture effectively within banks?

The critical view on the current hiring process of PSBs, in our opinion, is reminiscent of the elephant in the room metaphor. Doesn't it?

The identification of 'Domineering Leadership Style' as having adverse effects on the careers of many appears to be quite significant. This needs to be addressed by leaders in all seriousness in the interest of organisational and risk culture.

The history of misconduct, perhaps, may date many millennia back and not much may have changed ever since, except that the complexities of misconduct/ fraud have increased manifold.

As Gadamer spoke about "the impossibility of reducing truth to a set of research methods", if we want to get an all-encompassing grasp on the ever increasing complexities of people risk, we need to develop an analytical model which draws from sociology, psychology, philosophy, epistemology, neuro sciences, system theory etc to supplement the existing statistical models.

## *Scope for Future Research*

The exploratory survey based on the FSB tool kit could be conducted in a more methodical using structured data points including factors relevant in the context of banks in India. Methodologies like Participant Observation (PO) could be considered while designing the research so that limitations of receiving defensive responses corresponding to normative behaviour could be overcome.



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