

Impact of managerial behaviours on risk management

Management Behaviour

This study examined the impact of how managers deal with rules and regulations on measurable business outcomes. In the banking industry, compliance regulations at the branch level are essential, but how the manager enforces these – either emphasising the rules and strict compliance or emphasising initiative and thinking about the meaning of the rules – seems to make a difference. This study showed that those managers who managed through the Achievement Style and created a culture of ‘thinking’ outperformed (in terms of risk management and profitability) those who managed through the Conventional Style and encouraged a culture of conformity.

Inquiry

Is there a relationship between how a manager behaves (management style) and performance in the financial services industry? Where risk management is a key contributor to profitability at the branch/business unit level, does the managerial style and thinking styles of the individual manager make a difference?

Research Opportunity

The opportunity to research this issue arose during the first phase of a major development intervention with a leading nation-wide retail bank. As this involves actual client data, proprietary to that organisation, certain details must be omitted to maintain confidentiality.

As the first phase of this programme involved a management development workshop for all managers, and a culture survey of all branches, we were presented with extensive data that could be used for research purposes. When one of the senior executives expressed an interest in the relationship between management styles and culture at the branch level and risk management (quality of lending) a research model was designed to measure this.

Conventional vs. Achievement

Is effective risk management achieved through emphasising compliance and strict adherence to rules and procedures or is it better achieved through encouraging people to think and use their initiative (within prescribed guidelines)?

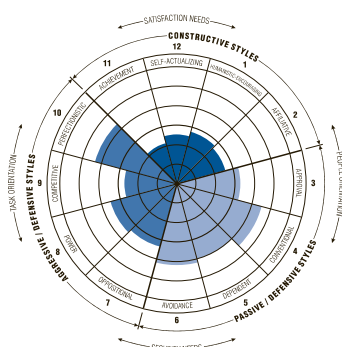
In terms of the behaviours measured by Human Synergistics, is Conventional or Achievement the desirable style? For Human Synergistics this was a real opportunity to relate the theory to hard, bottom-line measures.

Research Design

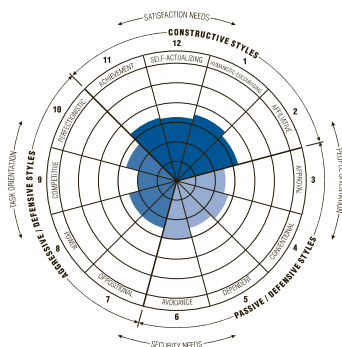
This situation offered a unique opportunity to design a research project, where most other intervening factors could be held relatively constant. Since all branches operated under the same policy guidelines, then it is more likely that differences will occur because of local risk management related actions. This situation also allowed us to focus on those managers who had been in the branch long enough to have impacted on the branch risk profile, rather than simply inheriting an earlier manager's good work.

Linking human endeavor to organisational performance

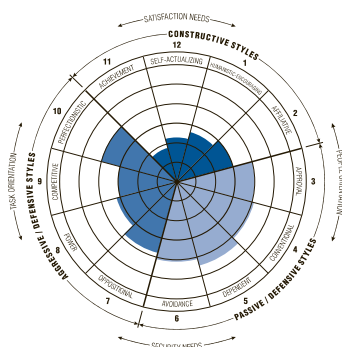
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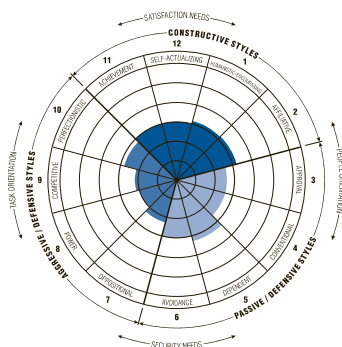
Inferior risk management



Superior risk management



Inferior risk management



Superior risk management

The Human Synergistics Life Styles Inventory (LSI) was used as the measure of managerial behaviours/management styles and the Human Synergistics Organisational Culture Inventory (OCI) was used to measure branch culture. The measures of risk management were twofold:

- Formal risk ratings as used by Head Office (eg proportion of accounts in default), and
- A less objective measure, where Head Office Risk Department managers and each Branch Manager's Area Manager were asked to rate each branch on the question "Taking all factors into account (local economy), how effectively is this branch managing its risk profile?"

2. Culture:

The cultures of those branches rated highly on risk management were more likely to encourage staff to behave in constructive ways, focusing on where their effort could make a difference, supporting each other and solving problems in creative ways. The cultures of those rating lower in risk management were more likely to encourage staff to behave in ways that increased their own sense of security, following rules, avoiding responsibility and 'never making a mistake'. Below are the average culture profiles for the lower and upper quartiles on risk quality.

Results

I. Managerial Behaviours/Style:

The profiles below show the average management styles profiles for the upper and lower quartiles in risk management ratings. Those managers whose branches were rated better in risk management were described as being generally more constructive and significantly higher in Achievement and lower in Conventional than those managers whose performance was at the lower end of the scale.

In essence effective risk management seemed to be related to following guidelines but using one's own initiative throughout the process and using the analytical skills that form part of achievement thinking. Those managers who relied upon the conventional thinking process of relying totally on rules and procedures were more likely to accept a proposal that met the textbook criteria, but failed to identify other factors that might impact on the loan quality.



Auckland
 10 York Street
 PO Box 37-483
 Telephone 09 309 9010
 Facsimile 09 379 2263

Wellington
 1 Willeston Street
 PO Box 27-327
 Telephone 04 470 7700
 Facsimile 04 470 7711

Sydney
 8 Windmill Street
 Millers Point NSW 2000
 Telephone 02 9271 5900
 Facsimile 02 9247 6310

Melbourne
 470 Collins Street
 Melbourne, VIC 3000
 Telephone 03 9675 0100
 Facsimile 03 9629 3095