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Once again: Transformations

Summary Last months' newsletter on transformations lead to a significant number of reactions. A common thread in these reactions concerned the topic of *how* to ensure ownership of the transformation, *how* to engage different groups and *how* to motivate staff in the face of contradictory expectations. This newsletter takes a leaf from general risk management which also has had to deal with similar issues of motivation and ownership amidst contradictory expectations. The way out has been proven to consist of a clear set of first principles and two simple behavioural rules: acknowledging the complexity of contradictory expectations and avoiding all pretence.

Dear reader,
Risk management is a complex discipline. Some people believe that the mathematics, the modelling and the jargon account for the complexity, but that is not so. Other banking disciplines use equally mystifying jargon and have equally abstruse models and mathematics. They are, however, simple in their principal objective: to grasp market share, to grow the business, to make bigger profits or to provide great service. This drives all their decisions and actions. The real complexity in risk management stems from the fact that it lacks such a one-dimensional principle to work from. It is supposed to be a business enabler but at the same time must identify weak spots; it should both assist in correctly pricing products in everyday circumstances as well as account for extreme situations; it must act as an independent function as well as gain full acceptance in the business. These objectives are at odds with each other. This the dualism lies at the heart of the complexity of risk management. It is the complexity of contradictory expectations.

Dealing with complexity
The way risk management has dealt with these contradictory expectations has varied over the years. Broadly speaking, it has evolved from a purely serving role at the outset to an analysis unit in its own right and from there onwards became ever more subsumed into the business line; up until the recent credit crisis. Since then, risk management is re-establishing itself as a semi-independent unit, with many risk managers even wary of the word 'semi'. To stay focused through such changes and to find a proper position in the post credit-crisis world (in other words, to transform) what was needed was a crystal clear concept of first principles of the discipline. Many focused risk functions who had this notion sailed though just fine. Some risk functions, however, struggled to find their place again after the storm. Notably the new fangled risk types, such as Enterprise Risk or Operational Risk, suffered from such lack of foundation. Contrary to what might be expected, namely that as new disciplines they would be best positioned to grasp new developments, their role became marginalised in many firms during and after the crisis. These risk disciplines lacked a clear set of first principles and thus were not in a position to fall back on them when they had to deal with change and conflicting expectations.

The link to transformation programmes
Transformation programmes usually exhibit a large set of contradictory expectations and often have a weak foundation. People are expected to adopt all sorts of new procedures, organisational structures or support systems and somehow embrace a new set of behaviours. An example may help here: e.g. the decision to adopt a strict market segmentation approach for retail banking

instead of ad-hoc sales, in due course supported by a new organisation, roles, systems support and rules to guide the process. That new set of behaviours, required for the new setting, however, is likely to be sub-optimal in the *existing* environment where no rules have yet been set, no market data is available yet, adequate support not available and most of all, where clients have come to expect, and continue to expect, a purely personal approach. So at the same time, there is a constant pull to stick to existing habits to meet current expectations. Such contradictory expectations are the real complexity of transformation programmes and a major obstacle to full ownership, engagement, and motivation.

Ownership, engagement and motivation

In order to 'sell' transformation programmes, it is common to mix upbeat marketing stories with stern warnings for non-cooperation to get keep the process moving. Both sentiments are often coupled with the pretence[1] that the change is fully determined, the outcome beneficial for all and that full participation is enforceable. This pretence is a serious obstacle to sincere engagement. It effectively cuts off the transformation programme from major issues facing the day-to-day business. Substituting these pretences with an explicit acknowledgment of the complexity of the change and the contradictory expectations during the transformation is a much more fruitful way to achieve general ownership, active engagement and motivated staff. Such acknowledgement is, of course, not enough: it needs to be coupled with an adequate set of first principles from which to derive appropriate actions.

The need for first principles

These first principles should allow a short cut out of the contradictory expectations facing the day-to-day business. Going back to our example of introducing strict market segmentation for retail banking, such first principles for the sales force could be:

- The standard rates are now fixed, the standard product list is now leading.
- The rates will be reset periodically, the product list will continue to be developed.
- *Rate* requests which are at variance with the developed standards are rejected.
- *Product* requests which are at variance with the developed standards are brought to the attention of the project team for consideration, and the client is kept informed.

Conclusion

Ensuring ownership of the transformation, engaging different groups and motivating staff in the face of contradictory expectations all start with the explicit acknowledgment of the complexity - i.e., the contradictory expectations - inherent in the change. It can be overcome by stipulating a clear set of first principles, with which to tackle day-to-day issues. Any pretence that the transformation will deliver its benefits prior to completion is harmful and should be avoided at all costs.

[1] Such pretence by management is infectious and invites reciprocal behaviour. As per the stale joke told of the communist work ethic: 'We pretend to work, and they pretend to pay us'. Here the equivalent would be: 'They pretend the transformation is a success, and we pretend to carry it out.'