[Introduction]
With the rapid behavior changing disruption of recent years, and the ongoing stream of corporate governance failures. ACCA has been digging deep into how interconnected risks such as climate change and geopolitical issues are influencing the way we approach risk management. This podcast series will look at what risk culture means and to what extent risk and accountancy professionals understand its impact on performance.

[Rachael Johnson]
Welcome to our latest episode, exploring the changing attitudes and approaches to risk today. I'm delighted to be joined by David Gross and Sandro Borie. To talk about the rising focus on behavioral indicators and insights. Both of you have been very supportive on our risk culture, industry specific series. And this afternoon, I'd like to talk about how we empower our members to actually put all of that into practice, through our sector communities and regional roundtables, we have learned so much about how accountancy professionals worldwide are looking at behaviors more, and doing so from different angles. And also doing so because they think that this is something they can measure, monitor and influence. So I'll start by asking you both, why you think investing in behavioural Insights is so crucial today. Sandro, let's start with you.

[Sandro Borie]
I got onto the ground cycle of President of the Chartered Institute of Internal Auditors and very simply, I've been involved in a profession that is fixated with human beings behaving logically, doing the right thing all the time when history tells us the exact different. So I think it's crucial that whether we're talking to accountants, internal auditors, external auditors, or business leaders that we really make behavioral science mainstream, in terms of what we do. So that's why I'm here today.

[David Gros]
Yeah, build on what Sandra said. So I'm David Gross and I will admit that I am actually a qualified accountant from way back when, but not for a long time. And over the last 30 years, I've been working principally in banking in many traditional roles of audit risk, etc. But much more recently focused on behavioral risk as a specific discipline. So, you know, why focus on behavioral insights? Well, from my view, if you're in business, you're in the business of behavior. It's the fundamental risk that underpins everything else. Businesses, a series of decisions made either at the individual level or at the group level. That's what business is so much more thoughtfully, and scientifically, understanding what it is that's driving human beings and the decision making would seem of fundamental importance. There is obviously an overemphasis on simplistic way should we say of looking at human decision making as rational human beings who make decisions through risk and reward, etc. And we need a much more thoughtful, nuanced and complete view of the drivers of behavior. So yeah, that's what put me in the space of wanting to understand human behavior and decision making.

[Sandro Borie]
I didn't know you were an accountant. David you kept that quiet?

[David Gros]
Indeed, it's a secret. Are you one as well subject?

[Sandro Borie]
No, I'm not.

[Rachael Johnson]
Well, it's always great to talk about the role of accountancy professionals in these things in terms of raising risk awareness and informing better decision making, indeed, but I think what I've learned throughout the whole series on risk cultures, and again, you know, this is across different industries, is there's never seems to be a real 'right' answer about where it

should sit. So we talked to members who are working in more ethics roles, and so they were looking at it from that perspective, David came in to talk to our CROs and heads of risk and we talked with the risk leaders about this. I've also talked to some members around the world who have said, well, actually, it all started in more of the HR department. So it'd be really great to get your thoughts about where this really should sit and why.

[Sandro Borie]
As a starter for 10. For me, Rachael is I actually think it should sit everywhere. So first of all, let's give it a label, what are we talking about? We're talking about a behavioural insights business unit. I'm a great believer that behavioral insights should be accompanying any process of change. So first line, if you're looking at a business acquisition, the launch of a new product, there should be some form of behavioural insights capability. Secondly, because analyzing behavior means talking truth to power, there should be some guardian on how truth is spoken to power. So I believe that there should be a strong second line capability. And ultimately, the role of the internal auditor is to try and understand whether risk is being appropriately managed or not, what we're talking about behavioral risk here. So I do believe that the internal auditor should have a massive role to play in overseeing the way the framework manages behavioral risk. That's my Nirvana response. But I'm sure David would be a lot more pragmatic than me.

[David Gros]
No, I think I echo what you say there Sandro, I think we can actually take it up a level and remember, the behavioural insights isn't just for internal staff and risk management perspectives. There's a huge amount there, and probably the most advanced and progressed areas in the industry around understanding client engagement, understanding marketing. Companies, like Google have a huge amount of resource they put in this space. That's a huge amount of their expertise. So to a certain extent, you can say, well, behavioral insight capability covers both wherever there are human beings, of course, so there's the client engagement perspective, and the employee engagement perspective. But if we focus on the employee engagement perspective, there is a realistic answer, and an idealistic answer. And the realistic answer is wherever you can get a toehold. It's so important that we have a much more thoughtful approach to looking at human behavior. But wherever there can be a toehold and sometimes that's in the third line audit, sometimes it's in the second line risk or compliance. Sometimes it's in HR. Sometimes it's more aligned to the business. But I think it's just important to get some capability moving. That's the realistic answer. The idealistic answer is in a really as close to the business and to strategic decision making as is possible and practicable. And obviously, again, in an idealistic world, it'd be great to have a capability, some SMEs, who understand both the client engagement perspective and the staff engagement perspective,. It's important really, that we think about how best to get sponsorship to create the team and get the toehold and then maybe work towards the more idealistic solution over over a longer term.

[Rachael Johnson]
Indeed, getting that buy in is something you touched on in the chapter you wrote for our risk cultures and banking report, David. So it'd be great to enlighten our members from all sectors really around the world about what the remit of set roles and team should be.

[David Gros]
It depends where we position the department, I guess. So again, there's obviously a whole world of client engagement marketing side, which I'll leave to one side for the purposes of conversation, which would be part of an overall remit. But from an internal staff perspective, I would say the first thing there is to have a remit to properly understand on an ongoing basis, the behavioral landscape, within the firm, what does it look like? on an ongoing basis? Where are the outliers, where are there developing trends, outliers can be to the negative, which we should focus on? And that can be to the positive, there can be exemplars and you know, what can we identify and learn from those. And then I think if you build from that, you say, okay, you've got your finger on the pulse of what's going on inside the firm. If there are areas of interest, having

the capability having the SMEs, you can then do deep dive work to properly unpeel, what's going on. And from there, there's just actually a myriad of different types of things that these departments can look at. To give a couple of examples. You could have a remit to make sure you understand the internal processes in the firm, whether that's existing processes, or new processes. Are they usable by a human being? Are they fit for purpose? Or are they absolutely full of sludge? That's really important to understand, because if they're full of sludge, human beings will probably do one or two things, which is either A: give up or B: go around the edge of the process. So kind of understanding processes from from a behavioral perspective is key. And another example could be something like using the expertise to look at the dynamics of governance meetings, not the content, not the agenda, but actually what's going on inside those meetings. How does groupthink work? How dominant is the chair? Are all voices heard? Is there good behavioral dynamics in the meeting, which likely will lead to better decision making? So there are a number of things there I'm in danger. I'm sure there are other areas of potential remit. You could you could add to that.

[Sandro Borie]
I would say just one more point I would make David I think it should be crucial to the remits, that whatever is delivered is delivered in a business friendly language. In other words, it's totally irrelevant to the day to day running of the business and the circumstances of the business. To me, it's important that Behavioural Insights units don't only employ behavioral scientists but also employ people who understand the business so okay, you're telling me that my business dilemma is being dragged driven by psychological unsafety. But what do you want me to do about it? Which I know is the billion dollar question, how do you want me to make this business safe? So we can talk openly and we can collaborate openly? What practical steps can I take? In the context of my business? That for me is absolutely crucial?

[Rachael Johnson]
Yes, I mean, one thing that we're learning also, and this is, again, across all industries, is all of our members who are looking at behaviors, they seem to be now at a sort of a crossroads about okay, well, we've been looking at this, we've been linking it with data. But what are we trying to achieve here? And how do we prove that it adds value? I think that would be really great for our audience to hear your thoughts on proving the benefits of this.

[David Gros]
Yeah, that's literally the million dollar question, or probably a billion dollar question, or a multi billion dollar question. To give a slightly evasive answer. To start with, I think the first important thing we should say is the very nature of what we're looking at human behavior. And decision making is a very complex situation. It's not linear. And it's therefore quite hard to prove, one for one linear cause and effects. So we need to bear that in mind. But that said, back to my Google example, Google do nothing but A B testing all the time on us, I don't know if you're aware of that. They run multiple versions of things. They're constantly doing A B testing, to see what works and what doesn't work. And then when they see what something works, they continue to plow that particular furrow. So it's a bit of an idealistic answer. But you know, ultimately, the best way to look at behavioral interventions and what's helping create value or what's helping prevent losses is actually to run A B tests. Now, that probably scares a lot of the audience, totally, because, again, well, we don't have the ability to do that, or we don't have the buy in from management to kind of do experimental work, which of course, would be a tragedy if that was the answer. Because really, how are you going to properly learn if you don't do it in a little bit more of a scientifically rigorous way. It's very, very hard to get that direct cause and effects otherwise. But I think if I give you a couple other examples, which are perhaps a little bit less purist. In the world in which I work, which is in banking, if you looked at what currently happens, if you looked at something like surveillance as an example, hundreds of millions, if not across the industry, billions of pounds are spent on surveillance, looking for the 1% egregious outliers, to try and prove something to themselves and to regulators and to cap something. But who's actually assessed the cost efficiency of that in a scientific way? And the answer is nobody has, we're required to do it through regulators and through our own processes. Surely, a much more effective way of doing things would be to not spend such huge amounts of money and huge amounts

of money on technology and resources and look at a much more focused SME team looking at genuinely what's driving human behavior. And looking through the telescope the other way around, trying to understand whether if we implement vast surveillance systems, we might be capturing the 1%. outlier, but we might be degrading the behavior of the 99% as a counterpoint to that. So there are all sorts of things we need to look at, which aren't currently looked at in day to day decision making. And it's quite interesting when people bring in a behavioral lens, people will go, well prove it. And then they never prove what the benefit is of what they currently do themselves. And I think a lot of the work around the behavioral space actually is cost efficient, cost effective, relatively few people, not necessarily technology intense, and liable to get much more bang for the buck than perhaps more traditional approaches.

[Sandro Borie]
I think it's easier to prove the concept in a large organization. The reason I say that is you can have pilots interventions on many segments of a business. So for example, if I'm looking at a large international bank, and I'm looking for example, at employee engagement, how can I get more employee engagement? How can I reduce attrition, I can try certain interventions in a particular country on a particular product or in a particular country on a particular product that allows me to start proving that my intervention is generating different outcomes. So I think that's certainly to be recommended, given this type of initiative. But Rachael, let me come on to climate change. Are we going to wait for the planet to be destroyed? To prove that we need an intervention? There's something intuitively sound about this that ultimately we are seeing banks going bust occasionally, we're seeing businesses going bust occasionally we're seeing large arbitration, we're seeing very real business problems. What have we got to lose by trying this science in a modest way?

[David Gros]
Yeah, and actually, Rechael if you don't mind, they're just going to chip back in on this one as well. I think another really interesting angle, which people don't tend to focus on on proving the business value of this, and how does it link into performance and P&L, etc. There is quite a lot of research in this space. And interestingly enough, there is a lot of focus in this area now from investors, asset managers, research houses, because they see and they perceive that it's a source of alpha and it's something that should be investigated. So as an example, JP Morgan have issued some research looking at the human capital factor, and how that impacts equity performance and outperformance. And not only that there are actually exchange traded funds constructed based on this human capital factor as a selection criteria if you like, you'll be unsurprised to hear since I raised it, that it shows significant outperformance compared to benchmarks. So, if the, if you'd like; rather cautious listener to this podcast is thinking, Well, I'm still not sure about this. Be very aware and cautious. And curious if you like and think about how the money people who do investments and now picking up on let's call it culture, let's call it behavioral risk, let's call it human capital as a driver of performance. And then they're not going to do that if they don't think it's a genuine driver of performance. So you know, there is quite a lot of information out there now showing how this leads to stock out performance, resilience, company outperformance, let alone the risk management from an internal side.

[Rachael Johnson]
I mean, we've talked before about it really is about what's driving behaviors and and how certain behaviors lead to specific outcomes. And then you establish what habits need to be broken, what necessary change needs to take place, whether it's mindset changes needed to meet your net zero obligations or transition, and what carrots need to be embedded. So to end today, what are the barriers? What could we leave the audience with it, they could really help make this happen.

[Sandro Borie]
I hate to be cynical, so I'm going to be constructively cynical. When I first got into the world of work. I was discouraged from talking about my feelings and talking about the fact that I maybe wanted to use a therapist. Now it's mainstream, we do talk about feelings and therapists. But if you reflect on why we were scared to talk about our feelings, it was because it

represented a failure on our part or the perception of the failure. Behavioral science provides a real insight into people's fragilities, businesses tend to be run on the back of power on the back of strong people. So therefore, to be at the top of an organization, and to be linked with some form of fragility is perceived as not being good for one's profile. So there is a big obstacle that we need to overcome, in that people are not easily going to welcome this discussion of fragility. So we need to find some levers. And I would argue that the levers that we need to look for are the regulatory framework. So let me give you some examples. Example number one, the UK code of corporate governance says the role of a board is to measure culture. Well, let's hold boards to account tell me Mr. or Madam board, how are you measuring culture? Secondly, the current draft IIA code for internal auditors says that you must have a tactical plan for engaging and auditing the organizational culture of an organization, including its risk culture. Well, let's make sure that we hold our internal audit functions to account. So a bit of regulatory pressure, I think, will help us make strides on this subject. I don't know what you think, David?

[David Gros]
Yeah, definitely, we need pressure from multiple angles. And the regulatory side is one and as I mentioned earlier on, I think the money managers will start to influence behavior as well when they do asset allocation, which will be good to your question, Rachael, about, you know, what's blocking it, and what can we try and do to unblock it? I mean, that really is quite a fascinating topic to refer to what Sandro said earlier on. Isn't it fascinating that year after year, decade after decade, we have these blow ups. And last year, we have banks that disappear. SVB, Credit Suisse obviously taken over by UBS, much of it driven by behavior and behavioral risks, not what I'd call traditional risk management. So it's an existential risk. It's an existential risk to the future of your firm. And therefore you think my goodness me, everybody already must be focusing on this. And then we look at it we see not as much as we'd like. And that really is quite a challenge. So I would echo what Sandro said about there's this thing about showing truth to power reflecting people things which are uncomfortable, which we need to get over. Because obviously, it's absolutely critical. I think one related problem is this is sort of framing of the topic. People frame some things as deeply technical areas where they recognize they need to build expertise, and they need resource and money and spending. So as an example, many organizations might look at something like cybersecurity nowadays, and go, Wow, that's a deeply technical area. And we need to invest a lot of money and we need expertise. And the senior people in the board will go absolutely, we need to do that. I don't really understand that topic. But I need resource and expertise in that area. And it's sort of framed in that way. And then we look at human behavior. And it's somehow allowed to be framed in a completely different way, as if it's some sort of soft topic that kind of doesn't really fit in that category. And we kind of make it up as we go along. That's obviously fundamentally wrong. Understanding the drivers of the behaviors of an individual is a deeply scientific enterprise, from a biological, neuroscience, endocrinology perspective. And then you say, how does that person interact with multiple other people, again, deeply scientific, from an organizational psychology, from behavioral science, from an evolutionary perspective, etc. So we've got to somehow stop allowing ourselves to framing this topic as something soft and fluffy and kind of esoteric, versus deeply technical and scientific. It is, and it needs to be reframed in that way. And I think something else that kind of gets in the way, which is sort of linked, is unlike other topics, human behavior relates to us personally, we are all humans. And therefore we infer amongst ourselves a level of expertise, because we've lived for 20, 30, 40, 50, 60 years. And obviously, if you're a senior executive, not only have you lived that period of time, but you're also very, very successful. And therefore intuitively, you infer upon yourself this great expertise in human behavior, because you are one and you've lived it. And that overconfidence gets in the way. Because that overconfidence gets people thinking down the tracks of what drives human behavior in a very simplistic way. It is sticks and carrots, it is reward and money and it is punishment, missing the vast bit in the middle, which is actually what drives human behavior, which might be neither of those two things I've mentioned. So there's the framing. There's the overconfidence. And I think there's also this thing around the sort of innate complexity of the topic, which makes people queasy. Human beings, like linear solutions, they like pull a lever, A and B happens. Now, unfortunately, when you're talking about human behavior, it's a deeply complex system, which requires a much more explorative and test and learn sort of approach, which, again, sets people and management and companies are a little bit

on the back foot, because they go, I'm not sure I want to do that kind of more exploratory way, please sell me a linear solution, even though that linear solution is basically nonsense. So there are always sort of things that militate against it. For the listeners, I guess, in this podcast, the key thing is to try and recognize it and tackle it head on, and show that mirror back to management or those who are a little bit more cautious in this space. And talk about the framing and talk about the overconfidence and talk about the complex systems and try and get people to really open up about this topic, and move away from the rather more simplistic linear, and unfortunately, wrong approaches which aren't going to get us to where we need to get to.

[Rachael Johnson]
As always, it was great to meet up with you both and I think in this discussion, you have really helped build the case for how behaviors are behind every risk and need to be considered in all decision making. So on behalf of ACCA I thank you, David and Sandro for your insights. And to all of you out there who are listening. goodbye until next time.

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